
SAMPLE PAPER-3 (solved)
Business Studies
Class – XII

Time allowed: 3 hours

Maximum Marks: 80

General Instructions:

- (i) Answers to questions carrying **1** mark may be from **one word to one sentence**.
 - (ii) Answers to questions carrying **3** marks may be from **50 – 75** words.
 - (iii) Answers to questions carrying **4 – 5** marks may be about **150** words.
 - (iv) Answers to questions carrying **6** marks may be about **200** words.
 - (v) Attempt all parts of a question together Marks are given at the end of each question.
-

1. What is meant by Fayol's principle of 'Espirit de corps'?
 2. Managerial activities are performed in all types of organisations in all departments and at all levels. Which management character is highlighted here?
 3. Which type of personnel is recruited by management consultancy firms?
 4. Give any one characteristics of principles of management.
 5. Mention any one importance of controlling.
 6. Globalisation means integrating our economy with world economy. Do you agree?
 7. Which is the first step in the process of organising?
 8. Leader plays a key role in introducing required changes in the organisation. How?
 9. Explain the following rights of consumers:
 - (a) Right to be Heard
 - (b) Right to Consumer Education
 10. Explain the factors affecting the dividend decision.
-

-
11. How are shareholders likely to gain with a loan component in the capital employed? Explain with a suitable example.
 12. Vinod is working in an organisation. After every three months his manager transfers him from one department to another so that he may gain a broader understanding of all the departments of the organisation. Name and explain the method of training Vinod is undergoing.
 13. Explain the following as factors affecting financing decision:
 - (a) Cost
 - (b) Cash Flow Position of Business
 - (c) Level of fixed operating cost
 14. Explain importance of controlling (any four points).
 15. 'Coordination is the essence of management'. Explain this statement briefly.
 16. Explain in brief what is included in the 'Technological Environment' of Business.
 17. What is meant by 'Functional Structure' of an organisation? Explain any two of its advantages and two limitations.
 18. Describe in brief, Taylor's principles of :
 - (a) Co-operation, not individualism
 - (b) Science, not the rule of thumb
 19. What factors to be kept in mind while determining capital structure of a company.
 20. Explain briefly the qualities of a good leader.
 21. Distinguish between advertising and personal selling on any five bases.
 22. Explain any five points of importance of planning for a large business enterprise.
 23. Explain the following money market instruments:
 - (a) Certificate of deposit
 - (b) Call money
 24. Give the meaning of 'Directing' as a function of management and any four points of its importance.
 25. What is meant by marketing mix? Explain different elements of marketing mix.
-

SAMPLE PAPER-3 (solved)
Business Studies
Class – XII

Solution (Based on NCERT Book)

1. Management should promote a team spirit of unity and harmony among employees, according to Fayol.
 2. Management is all pervasive.
 3. Management consultancy firms helps the organisations to recruit technical, professional and managerial personnel.
 4. Management principles are universally applicable and flexible.
 5. Controlling helps in adaptability to environmental change.
 6. Yes, Globalisation plays important role in integrating our economy with world economy.
 7. Identification and division of work is the first step in the process of organising.
 8. Leader plays important role in inspiring the people to accept changes whole-heartedly.
 9. **Right to be Heard:** The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firms have set up their own consumer service and grievance cells. Many consumer organisations are also working towards this direction and helping consumers in redressal of their grievances.
- Right to Consumer Education:** The consumer has a right to acquire knowledge and to be a well-informed consumer throughout life. He should be aware about his rights and the reliefs available to him in case of a product or service falling short of his expectations.
10. **(a) Amount of Earnings:** Dividends are paid out of current and past earning. Therefore, arnings is a major determinant of the decision about dividend.
 - (b) Stability Earnings:** Other things remaining the same, a company having stable earning is in a better position to declare higher dividends. As against this, a company having unstable earnings is likely to pay smaller dividend.
 - (c) Stability of Dividends:** Companies generally follow a policy of stabilising dividend per share. The increase in dividends is generally made when there is confidence that their earning potential has gone up and not just the earnings of the current year.
-

-
11. With a loan component in the total capital, Shareholders can expect a higher rate of return on share capital. Interest paid on debt is a fixed charge and a deductible expense for computation of tax liability whereas dividends are paid out of after-tax profit. Increased use of debt, therefore, is likely to lower the over-all cost of capital of the firm provided that the cost of equity remains unaffected. Impact of a change in the debt-equity ratio upon the earning per share is dealt with in detail later in this chapter.

Example:

Company MM Limited	Company VK Limited
Share Capital 15 lakhs	Share Capital 6 Lakhs
Profit after tax 2.25 Lakhs	Loan @12% 9 Lakhs
Rate of Return on Share capital = $2.25/10 \times 100 = 22.5\%$	Profit after tax 1.55 Lakhs
	Rate of Return on Share capital = $1.55/4 \times 100 = 38.75\%$

12. Vinod is getting on the Job Training. The important techniques under this method are :
- Apprenticeship Programmes:** Apprenticeship programmes put the trainee under the guidance of a master worker. These are designed to acquire a higher level of skill. People seeking to enter skilled jobs, to become, for example, plumbers, electricians or iron-workers, are often required to undergo apprenticeship training. These apprentices are trainees who spend a prescribed amount of time working with an experienced guide, or trainer. A uniform period of training is offered to trainees, in which both fast and slow learn here, are placed together. Slow learners may require additional training.
- Job Rotation:** This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all parts of the business and how the organisation as a whole functions. The trainee gets fully involved in the departments operations and also gets a chance to test her own aptitude and ability.
- Internship Training:** It is a joint programme of training in which educational institutions and business firms cooperate. Selected candidates carry on regular studies for the prescribed period. They also work in some factory or office to acquire practical knowledge and skills.
-

-
13. **Cost:** The cost of raising funds through different sources are different. A prudent financial manager would normally opt for a source which is the cheapest.

Cash Flow Position of the Company: A stronger cash flow position may make debt financing more viable than funding through equity.

Fixed Operating Costs: If a business has high fixed operating costs (e.g., building rent, Insurance premium, Salaries, etc.), It must reduce fixed financing costs. Hence, lower debt financing is better. Similarly, if fixed operating cost is less, more of debt financing may be preferred.

14. Importance of controlling:

Accomplishing organisational goals: The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action. It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

Judging accuracy of standards: A good control system enables management to verify Whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.

Making efficient use of resources: By exercising control, a manager seeks to reduce Wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.

Improving employee motivation: A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.

15. Coordination is the essence of management: Coordination is the force that binds all the other functions of management. It is the common thread that runs through all activities such as purchase, production, sales, and finance to ensure continuity in the working of the organisation. Coordination is sometimes considered a separate function of management.

It is however, the essence of management, for achieving harmony among individual efforts towards the accomplishment of group goals. Each managerial function is an exercise contributing individually to coordination. Coordination is implicit and inherent in all

functions of an organisation. The process of coordinating the activities of an organisation begins at the planning stage itself. Top management plans for the entire organisation. According to these plans the organisational structure is developed and staffed. In order to ensure that these plans are executed according to plans directing is required. Any discrepancies between actual and realised activities are then taken care of at the stage of controlling. It is through the process of coordination that a manager ensures the orderly arrangement of individual and group efforts to ensure unity of action in the realisation of common objectives.

16. **Technological Environment:** Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. For example, recent technological, advances in computers and electronics have modified the ways in which companies advertise their products. It is common now to see CD-ROM's, computerized information kiosks, and Internet/ World Wide Web multimedia pages highlighting the virtues of products. Similarly, retailers have direct links with suppliers who replenish stocks when needed.

Manufacturers have flexible manufacturing systems. Airline companies have Internet and World Wide Web pages where customers can look for flight times, destinations and fares and book their tickets online. In addition, continuing innovations in different scientific and engineering fields such as lasers, robotics, biotechnology, food preservatives, medicine, telecommunication and synthetic fuels have provided numerous opportunities and threats for many different enterprises.

17. Grouping of jobs of similar nature under functional and organising these major functions as separate departments creates a functional structure. All departments report to a coordinating head. For example, in a manufacturing concern division of work into key functions will include production, purchase, marketing, accounts and personnel. These departments may be further divided into sections.

Advantages :

(a) It promotes control and coordination within a department because of similarity in the tasks being performed.

(b) It helps in increasing managerial and operational efficiency and this results in increased profit.

Limitations:

(a) A functional structure places less emphasis on overall enterprise objectives than the objectives pursued by a functional head. Such practices may lead to functional empires wherein the importance of a particular function may be overemphasised. Pursuing departmental interests at the cost of organisational interests can also hinder the interaction between two or more departments.

(b) It may lead to problems in coordination as information has to be exchanged across functionally differentiated departments.

18. Taylor's Principles :

Cooperation, Not Individualism: There should be complete cooperation between the labour and the management instead of individualism. This principle is an extension of principle of 'Harmony not discord'. Competition should be replaced by cooperation. Both should realise that they need each other. For this, management should not close its ears to any constructive suggestions made by the employees. They should be rewarded for their suggestions which results in substantial reduction in costs. They should be part of management and, if any important decisions are taken, workers should be taken into confidence.

Science not Rule of Thumb: Taylor pioneered the introduction of the method of scientific inquiry into the domain of management practice. We have already referred to the limitations of the rule of thumb approach of management. As different managers would follow their indigenous rules of thumb, it is but a statement of the obvious that all would not be equally effective. Taylor believed that there was only one best method to maximise efficiency. This method can be developed through study and analysis. The method so developed should substitute 'Rule of Thumb' throughout the organisation. Scientific method involved investigation of traditional methods through work-study, unifying the best practices and developing a standard method, which would be followed throughout the organisation.

19. Factors to be kept in mind:

Cash Flow Position: Size of projected cash flows must be considered before borrowing. Cash flows must not only cover fixed cash payment obligations but there must be sufficient buffer also. It must be kept in mind that a company has cash payment obligations for (i)

normal business operations; (ii) for investment in fixed assets; and (iii) for meeting the debt service commitments i.e., payment of interest and repayment of principal.

Interest Coverage Ratio (ICR): The interest coverage ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation. This may be calculated as follows:

$$\text{ICR} = \text{EBIT} / \text{Interest}$$

The higher the ratio, lower shall be the risk of company failing to meet its interest payment obligations. However, this ratio is not an adequate measure. A firm may have a high EBIT but low cash balance. Apart from interest, repayment obligations are also relevant.

Debt Service Coverage Ratio (DSCR): Debt Service Coverage Ratio takes care of the deficiencies referred to in the Interest Coverage Ratio (ICR). The cash profits generated by the operations are compared with the total cash required for the service of the debt and the preference share capital. It is calculated as follows:

$$\frac{\text{Profit after tax} + \text{Depreciation} + \text{Interest} + \text{Non Cash exp.}}{\text{Pref. Div} + \text{Interest} + \text{Repayment obligation}}$$

A higher DSCR indicates better ability to meet cash commitments and consequently, the company's potential to increase debt component in its capital structure.

20. Qualities of a good leader:

(i) *Physical features:* Physical features like height, weight, health, appearance determine the physical personality of an individual. It is believed that good physical features attract people. Health and endurance help a leader to work hard which inspires others to work with same tempo.

(ii) *Knowledge:* A good leader should have required knowledge and competence. Only such person can instruct subordinates correctly and influence them.

(iii) *Integrity:* A leader should possess high level of integrity and honesty. He should be a role model to others regarding the ethics and values.

(iv) *Initiative:* A leader should have courage and initiative. He should not wait for opportunities come to his way, rather he should grab the opportunity and use it to the advantage of organisation.

(v) *Communication skills:* A leader should be a good communicator. He should have the capacity to clearly explain his ideas and make the people to understand his ideas. He should be not only good speaker but a good listener, teacher, counsellor and persuader.

(vi) *Motivation skills*: A leader should be an effective motivator. He should understand the needs of people and motivate them through satisfying their needs.

(vii) *Self Confidence*: A leader should have high level of self confidence. He should not lose his confidence even in most difficult times. In fact, if the leader lacks self confidence, he can not provide confidence to his followers.

21. Difference between Advertising and Personal Selling:

Advertising	Personal Selling
1. Advertising is an impersonal form of communication.	1. Personal selling is a personal form of communication.
2. Advertising involves transmission of standardised messages, i.e., same message is sent to all the customers in a market segment.	2. In personal selling, the sales talk is adjusted keeping view customer's background and needs.
3. Advertising is inflexible as the message can't be adjusted to the needs of the buyer.	3. Personal selling is highly flexible. As the message can be adjusted.
4. It reaches masses, i.e., a large number of people can be approached.	4. Only a limited number of people can be contacted because of time and cost considerations.
5. In advertising the cost per person reached is very low.	5. The cost per person is quite high in the case of personal selling.
6. Advertising can cover the market in a short time.	6. Personal selling efforts take a lot of time to cover the entire market.

22. Importance of planning:

(i) **Planning provides directions**: By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organisation has to do and what they must do to achieve those goals. Departments and individuals in the organisation are able to work in coordination. If there was no planning, employees would be working in different directions and the organisation would not be able to achieve its desired goals.

(ii) **Planning reduces the risks of uncertainty**: Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be

performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.

(iii) **Planning reduces overlapping and wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.

(iv) **Planning promotes innovative ideas:** Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

(v) **Planning facilitates decision making:** Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

23. Money Market Instruments:

Certificate of Deposit: Certificates of deposit (CD) are unsecured, negotiable, short-term instruments in bearer form, issued by commercial banks and development financial institutions. They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high. They help to mobilise a large amount of money for short periods.

Call Money: Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial banks have to maintain a minimum cash balance known as cash reserve ratio. The Reserve Bank of India changes the cash reserve ratio from time to time which in turn affects the amount of funds available to be given as loans by commercial banks. Call money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio. The interest rate paid on call money loans is known as the call rate. It is a highly volatile rate that varies from day-to-day and sometimes even from hour-to-hour. A rise in call money rates makes other

sources of finance such as commercial paper and certificates of deposit cheaper in comparison for banks raise funds from these sources.

24. Directing involves leading, influencing and motivating employees to perform the tasks assigned to them. This requires establishing an atmosphere that encourages employees to do their best. Motivation and leadership are two key components of direction. Directing also involves communicating effectively as well as supervising employees at work. Motivating workers means simply creating an environment that makes them want to work.

(i) Directing helps to initiate action by people in the organisation towards attainment of desired objectives.

For example, if a supervisor guides his subordinates and clarifies their doubts in performing a task, it will help the worker to achieve work targets given to him.

(ii) Directing integrates employees efforts in the organisation in such a way that every individual effort contributes to the organisational performance. Thus, it ensures that the individuals work for organisational goals.

(iii) Directing guides employees to fully realise their potential and capabilities by motivating and providing effective leadership. A good leader can always identify the potential of his employees and motivate them to extract work up to their full potential.

(iv) Directing facilitates introduction of needed changes in the organisation. Generally, people have a tendency to resist changes in the organisation. Effective directing through motivation, communication and leadership helps to reduce such resistance and develop required cooperation in introducing changes in the organisation. For example, if a manager wants to introduce new system of accounting, there may be initial resistance from accounting staff. But, if manager explains the purpose, provides training and motivates with additional rewards, the employees may accept change and cooperate with manager.

25. Marketing Mix is a set of marketing tools that the firm uses to pursue its marketing objectives in a target market. The variables or elements of marketing mix have been classified in to four categories, popularly known as four Ps of marketing viz., Product, Price, Place and Promotion.

Product: Product means goods or services or 'anything of value', which is offered to the market for sale. For example, Hindustan lever offers number of consumer products like toiletries (Close-Up toothpaste, Lifebuoy soap, etc.), detergent powder (Surf, Wheel), food

products (Refined Vegetable Oil); Tata offers Tata Steel, Trucks, Salt and a large number of other products; LG Electronics offers televisions, refrigerators, colour monitors for computers, etc; Amul offers a number of food products (Amul milk, ghee, butter, cheese, chocolates, etc.).

Price: Price is the amount of money customers have to pay to obtain the product. In case of most of the products, level of price affects the level of their demand. The marketers have not only to decide about the objectives of price setting but to analyse the factors determining the price and fix a price for the firm's products. Decisions have also to be taken in respect of discounts to customers, traders and credit terms, etc. so that customers perceive the price to be in line with the value of the product.

Place: Place or Physical Distribution include activities that make firm's products available to the target customers. Important decision areas in this respect include selection of dealers or intermediaries to reach the customers, providing support to the intermediaries (by way of discounts, promotional campaigns, etc.).

Promotion: Promotion of products and services include activities that communicate availability, features, merits, etc. of the products to the target customers and persuade them to buy it. Most marketing organisations, undertake various promotional activities and spend substantial amount of money on the promotion of their goods through using number of tools such as advertising, personal selling and sales promotion techniques (like price discounts, free samples, etc.).
