

**CBSE**  
**Class XI Business Studies**

**Time: 3 hrs**

**Max. Marks: 90**

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**General Instructions:**

- i. All questions are compulsory.
  - ii. Marks for questions are indicated against each question.
  - iii. Question Nos. **1–8** are very short answer questions carrying **1** mark each. They are required to be answered in one sentence each.
  - iv. Question Nos. **9–14** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50–75** words each.
  - v. Question Nos. **15–18** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
  - vi. Question Nos. **19–23** are long answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
  - vii. Question Nos. **24–27** are long answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
  - viii. Answers should be brief and to the point, and the above word limits should be adhered to as far as possible.
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1. An activity which helps producers directly or indirectly in the distribution of goods to final consumers is known as [1]
  - a. Business
  - b. Commerce
  - c. Retail
  - d. All of the above
2. Which of the following is a statutory company? [1]
  - a. Bharat Heavy Electricals Ltd.
  - b. Telephone Services
  - c. Indian Airlines
  - d. Indian Institute of Technology
3. What is the payment mechanism specially attached to e-business called? [1]
4. Small-scale industries require less capital investment. Give reason. [1]
5. Under the lease agreement, who gets the right to use the asset for a specific period? [1]
  - a. Lessee
  - b. Lessor

- c. Both
- d. None

6. Which institution was established in 1995 to promote and foster the growth of small-scale units in India? [1]
- a. Central Bureau of Small Scale Industries
  - b. District Industrial Centres
  - c. Micro, Small and Medium Corporation
  - d. National Small Industries Corporation
7. Name the receipt issued by the commanding officer of the ship when the cargo is loaded on the ship. [1]
8. State the subsidies offered by the government to people of hilly and backward areas to maintain balanced regional growth and bring about development. [1]
9. Investment cannot be considered an objective of business. Why? [3]
10. The insured has taken a policy from two insurers. On suffering loss, Rs 1,00,000 as compensation needs to be given to the insured. Both insurers will equally distribute the amount among them, i.e. Rs 50,000 each, and compensate the insured. Which principle of insurance is being described here? [3]
11. In which form of business organisation, profits are not shared with anyone? [3]
12. Anita was interested in establishing a business after her studies. However, after a discussion with various friends, she received mixed reviews regarding setting up of traditional business and e-business. Help her in understanding the difference between them so that she gets a clear idea to choose the better one. [3]
13. Warehouses regulated by the government are used to store goods of various traders, manufacturers or of any individual after paying the required fees or charges.
- a. Which type of warehouse is mentioned here? [1]
  - b. State any one of its benefits and give a reason for the same. [2]
14. Kunal saw his father eagerly watching the news on TV. He asked his father why he was so focused on the news today. Kunal's father told him that the news was related to the stock market as he had invested in some shares. However, Kunal could not understand anything that his father explained about shares. Can you explain to Kunal what shares are? [3]

15. Rahul and his parents were travelling to their native place by road. Rahul saw various industries at regular intervals on their journey. Every time they passed an industry, Rahul's dad informed him about the industry and its products. Rahul had a question. He wanted to know whether industries are of different types. What would you have answered? [4]
16. Zeal Pvt. Ltd. always distributes its products to wholesalers rather than to individual retailers. They believe that wholesalers provide them better benefits as compared to others. Why? [4]
17. A business organisation undertakes a business and earns money for itself. However, it is also expected to fulfil the expectations of society. This is because everyone in society has some responsibilities towards it. In this context, state the areas where businesses fulfil their responsibility of social obligation. [4]
18. Transactions involving promotional activities, selling and distributing products refer to which type of e-commerce?  
a. Define the e-commerce mentioned above. [1]  
b. State its salient features. [3]
19. Fixed shop retailers are shops which have a permanent establishment to sell their products. One of their characteristics is that they need not move from place to place for product selling. In the same manner, specify the other characteristics of these retailers. [4]
20. Kohinoor Ltd. planned to acquire Maheshwari Ltd. However, on intense discussion between the Board of Directors of both companies, the maximum amount of votes had gone to the joint venture. What was the reason for this decision (benefits of joint venture)? [5]
21. The financial needs of a business can be categorised as fixed capital and working capital. Give the meaning of working capital and state its requirement for business. State any two factors affecting the working capital requirement of a firm. [5]
22. Babloo wanted to start up his own company. He shared his ideas with various well-known people. Many of them guided him to start a domestic business, while some of them favoured international business. He is now confused on which one would be better for him. Therefore, help him to understand the differences between both these businesses. [5]
23. Village and small-scale industries have always been considered an integral part of Indian industrial strategy. This has resulted in government initiatives to help small-scale industries. In this context, state various measures and agencies established by the government to assist and support small businesses. [5]

- 24.** Surya and his friends decided to start their business. They all gathered at one place to discuss the pros and cons of doing a particular business. One of his friends recommended deciding which type of business would be profitable for them before starting anything else. However, Surya did not find this suggestion beneficial and thus dropped it. Try to explain to him why it is important to choose an appropriate form of organisation. Also examine the factors which determine the choice of form of organisation. [6]
- 25.** Every human being faces uncertainties and risks in day-to-day activities. Hence, insurance is necessary for all. It is a means of providing compensation against loss occurred due to natural or man-made factors. Under this context, explain the various principles of insurance along with suitable examples. [6]
- 26.** Suchitra and Company Pvt. Ltd. are interested in importing a machine from France. However, they are unaware of the procedure in this dealing. Please guide them with necessary details. [6]
- 27.** State various points of difference between equity shares and preference shares. [6]

**CBSE**  
**Class XI Business Studies**  
**Solution**

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**Answer 1**

An activity which helps producers directly or indirectly in the distribution of goods to the final consumer is referred to as commerce. In this way, products are delivered to customers, and thus, commerce is considered the backbone of the business industry.

**Answer 2**

Indian Airlines is a statutory company. It is an enterprise which is specially established by the central or state government or under a special Act of Parliament. It receives funds from the government and its powers, aims and limitations are decided by the government.

**Answer 3**

The payment mechanism specially attached to e-business is known as e-cash. It is a form of electronic money which allows funds to be transferred from one account to another account without the use of actual currency. It helps in purchasing items by various other means such as cheques, credit cards or by money order through a secure online transaction.

**Answer 4**

Small-scale industries require less capital investment because they use locally available less expensive resources. They produce simple products with less sophisticated machinery.

**Answer 5**

Under the lease agreement, the lessee gets the right to use the asset for a specific period. A lease agreement is a contractual agreement between the owner of the asset (lessor) and the other party (lessee) who is allowed to use the property for a specific period. The lessee pays some fixed amount to the lessor which is known as lease rent.

**Answer 6**

National Small Industries Corporation was established by the government in 1995 to promote and foster the growth of small-scale units in India. This enabled us to provide advanced technology to small-scale industries and created knowledge on technology upgradation.

**Answer 7**

The receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as mate's receipt. It specifies the goods exported, its description, date of shipment of goods, the ship's name, marks and numbers on the packages and the cargo's condition.

### Answer 8

Subsidies offered by the government from time to time to the people of hilly and backward areas:

- **Capital subsidy** helps people to invest in fixed assets of the organisations established in those areas.
- **Transport subsidy** provides a facility to people of a region to transport raw materials and finished products.

### Answer 9

Investment cannot be considered a business objective. It is an asset which will generate income and is the basic requirement of every business. The main objective of every business is to earn adequate amount of profit. Other objectives involve growing and expanding the activities so as to increase productivity and indulging in innovation of new schemes and products.

### Answer 10

The principle described in the given paragraph refers to the principle of contribution. Many a times a person takes more than one policy to cover the same risk which is known as double insurance. Thus, at the time of compensation, all the insurers will compensate the insured with the amount equal to the actual loss. The insured cannot claim the total loss amount separately from each insurer. Furthermore, if one insurer has paid the whole amount to the insured, then the remaining insurers will pay their part to the insurer who has compensated the insured for the loss.

### Answer 11

In a sole proprietorship form of business organisation, profits are not shared with anyone. This is because under a sole proprietorship form of business organisation, a single individual owns, manages and controls the business. Thus, a sole proprietor does not share the profits with anyone and enjoys the rewards alone.

### Answer 12

Difference between traditional and e-business:

Basis	e-Business	Traditional Business
Formation	Easy	Relatively difficult, because of many formalities
Setting-up cost	Low	High, because of requirement of physical facilities
Response time for meeting customers	Instant	Long, with no fixed time limit

### Answer 13

- a. The type of warehouse mentioned in the given paragraph is the public warehouse.
- b. One of the benefits of public warehousing includes flexibility. This is because these warehouses owned by the government can be used by either private parties or any member of the public by seeking a licence. This gives people the freedom to choose the warehouse according to their requirement and without spending a large amount. Also, these warehouses provide value-added services such as packaging and labelling.

### Answer 14

The capital of a company is divided into a number of parts each one of which is called a share. Shares are divided among members who can easily transfer them to anybody without anyone else's consent (except in a private company). If a member wants to withdraw from the membership of the company, then he needs to sell the parts/shares he owns of the company.

### Answer 15

Industries refer to economic activities involving processing and converting of raw materials into final products, either for the use of customers or to satisfy the needs of other industries for further production. Various types of industries are

- i. **Primary industries:** Activities related to extraction and production of natural resources or reproduction and development of living species are undertaken. Farming, mining, lumbering, hunting, fishing operations, breeding farms and poultry farms are examples of primary industries. These industries are classified into extractive industries and genetic industries.
- ii. **Secondary industries:** The final products of primary industries are processed and converted to final goods by secondary industries. Iron mining belongs to primary industries, whereas manufacturing of steel falls under secondary industries. Secondary industries are further classified as manufacturing industries and construction industries.
- iii. **Tertiary industries:** These industries act as a service provider for the primary and secondary industries and for trade-related activities. Examples of these industries are transport, banking, insurance, warehousing and advertising.

### Answer 16

Zeal Pvt. Ltd. always distributes its products to wholesalers because

1. **Facilitates large-scale production:** Wholesalers collect various small orders from retailers and pass them to manufacturers. This enables them to produce various goods on a large scale, thereby helping them to take advantage of economies of scale.
2. **Bearing risk:** Wholesalers purchase large quantities of goods from manufacturers and store them safely in warehouses. However, this process exposes them to various risks such as fall in prices, theft, fire and spoilage. Thus, they bear the risk and relieve producers of the same.

3. **Financial assistance:** Wholesalers generally make payment of products purchased by them in cash. This helps manufacturers not to block their capital in stocks thereby providing financial assistance.
4. **Expert advice:** As wholesalers are in direct contact with retailers and indirect contact with customers, they are able to provide vital information to manufacturers regarding the taste of customers, their preferences, market conditions and various competitive activities.

### Answer 17

Major areas of social responsibility of business:

1. **Responsibility towards shareholders/investors:** A business organisation has the responsibility to ensure that shareholders or investors get fair and regular returns on their investment. The organisation also needs to provide them with accurate and full information regarding its position and working.
2. **Responsibility towards workers/employees:** A business organisation is responsible towards its workers/employees. It should provide them fair opportunities for growth and development, safe working environment, fair compensation and benefits.
3. **Responsibility towards consumers:** A business organisation should take utmost care of its customers. It should make sure that good-quality goods are delivered to consumers. To keep customers satisfied, the organisation should handle consumer grievances effectively and quickly. Proper preventive measures need to be taken with respect to adulteration and poor service towards consumers.
4. **Responsibility towards the government and community:** An organisation needs to follow the rules and regulations of the nation and pay taxes on time. It should see that it is not harming the environment in any manner. This would help it to create a proper image in society.

### Answer 18

- a. The type of e-commerce mentioned in the given paragraph is B2C commerce. It refers to transactions taking place between business and its customers, and is also known as B2C transactions. These transactions involve promotional activities, selling and distribution of products and after sales service.
- b. Salient aspects of B2C commerce:
  - i. The main focus is to carry out transactions which involve selling and after sales service through the Internet.
  - ii. It promotes products online, i.e. companies sell their products and services online to customers.
  - iii. All the activities under B2C commerce are conducted at a much lower cost with high speed.



- iv. It also takes care of customers' requests and customises the product according to their requirements and provides delivery flexibility and payment options.
- v. It enables a business to remain in touch with customers round the clock or 24/7.

### Answer 19

Fixed-shop retailers are retailers who have a fixed place to sell their stock. They sell their products directly to consumers while being at the shop. They do not move from place to place to convince customers to buy from them.

Characteristics of fixed shop retailers:

- 1. They have **greater resources** which help them to operate at a large scale as compared to itinerant traders. However, sometimes they operate on a small scale too.
- 2. They deal in a **wide range of products** from durable to non-durable products.
- 3. They create **greater credibility** in the minds of consumers because of the various services offered by them such as home delivery, credit facility and guarantees for products.

### Answer 20

A joint venture is a business when two or more independent firms with a common goal and mutual benefit come together. They pool their capital, technology and expertise to achieve their set targets. Reasons (benefits) why the pool favour a joint venture are

- i. **Increase in resources:** In this type of business, as there are two or more firms, resources and capacity increase. This enables them to grow quickly and efficiently.
- ii. **Market expansion:** Entering a venture with firms of another region helps in the expansion of the market base. Also, advantage can be taken of the well-established distribution system of local firms.
- iii. **Innovation:** As two or more firms come together, it gives them access to new ideas and technology which help in the innovation of new products. These new products enable businesses to sustain in today's competitive market.
- iv. **Low cost of production:** When international organisations come together with firms in the host country, they are able to benefit from the low cost of raw materials and labour of the country. Thus, they are able to produce products of better quality at cheaper cost.
- v. **Goodwill:** When two businesses come together, they tend to profit from the goodwill already established by the other firm. This may give the joint venture an edge when entering a new market.

### Answer 21

Working capital refers to the funds essential for day-to-day functioning in a business. Generally, business involves production, distribution of goods and services in the market. So, the business requires working capital to undertake the following activities:

- Purchasing raw materials
- Payment of wages and salaries to employees and payment of rent
- Operating expenses such as electricity bill and telephone bills
- Handling distribution and selling expenses such as packaging and advertising

Factors affecting the working capital environment:

1. **Based on sale of goods:** A business which runs on credit requires more working capital compared to the one which sells products and services on a cash basis.
2. **Seasonal factors:** During the festival season, large funds are needed to build higher inventories. Hence, the requirement of working capital is more during these occasions.

## Answer 22

International business means the movement of capital, personnel, technology and intellectual property such as patent, know-how and copyrights across countries.

Differences between domestic and international businesses:

Basis	Domestic business	International business
Meaning	Business transactions which take place within the geographical boundaries of a country.	Business transactions which take place between two or more countries.
Degree of mobility factors of production	High mobility factor and hence can move freely from one place to another.	Low mobility factor, particularly mobility of labour is low.
Nature of market	Language, customs, tastes and preferences of consumers across markets are homogeneous.	Language, customs, tastes and preferences of consumers across markets are heterogeneous.
Business regulation and policies	Subject to rules, laws or policies of a country.	Subject to rules, laws or policies of many countries.
Use of currency	Payment made in domestic currency.	Payment made in foreign currency.

## Answer 23

Small-scale industries play a crucial role in the growth and development of the nation. Despite their contributions, two major areas which affect and slow down small businesses are finance and marketing. The government therefore has taken initiatives to get rid of these issues. They have established the following agencies to assist and support small businesses:

1. **National Bank for Agriculture and Rural Development (NABARD)** was established in 1982 with the intention of promoting integrated rural development which involves agriculture, small-scale industries and cottage and village industries.

2. **The Rural Small Business Development Centre (RSBDC)** is a one of a kind institute by the World Association for Small and Medium Enterprises. It is sponsored by NABARD and works for the betterment of socially and economically disadvantaged individuals and groups and aims at promoting technical support in rural areas to current and prospective micro and small entrepreneurs.
3. **National Small Industries Corporation (NSIC)** was created in 1955 to encourage, assist and foster the growth of small business units in the country. It performs the following functions:
  - a. Supply machines on easy hire–purchase terms
  - b. Procure, supply and distribute indigenous and imported raw materials
  - c. Export products of small business units and develop export-worthiness
  - d. Mentoring and advisory services
  - e. Creating awareness on technological upgradation
  - f. Developing software technology parks and technology transfer centres
4. **Small Industries Development Bank of India (SIDBI)** was set up as an apex bank in 1989 to provide direct/indirect financial assistance to various small business organisations and to coordinate functions of other institutions.
5. **The National Commission for Enterprises in the Unorganised Sector (NCEUS)** was constituted in 2004 with the objectives of recommending measures to improve productivity, to generate employment, to enhance global competitiveness and to provide raw materials.
6. **Rural and Women Entrepreneurship Development (RWED)** was devised to promote a business environment which can boost institutional and human capacities and help women take entrepreneurial initiatives in rural areas.

Moreover, the government has launched various programmes for rural development with the intent of generating employment opportunities, developing rural areas and making rural people self-sufficient.

## **Answer 24**

Surya felt it is very important to choose an appropriate form of organisation. This was because there exists a variety of business organisations, and each form of business has its own advantages and disadvantages. In addition, the form of business organisation cannot be changed easily. So, due care should be taken to select the correct form of organisation.

Factors determining the choice of form of organisation:

- i. **Nature of business:** The type of business one wants to do is the most important factor in determining the form of business. If one wants to have direct personal contact with customers, then a sole proprietorship would be the best form. If one is willing to set up a large manufacturing unit, then a company form of business would be preferred. However, for providing professional services, a partnership form of business would be chosen.
- ii. **Cost and ease in setting up a business:** The most inexpensive way of starting a business is sole proprietorship. It has minimal legal formalities. For a partnership,

the cost of setting up is low along with less legal formalities due to limited scale of operations. However, forming a company is an expensive and lengthy process.

- iii. **Degree of control:** If one is interested in having the decision-making power in his/her hands, then a sole proprietorship would be preferred. However, if the owners are interested in sharing control for effective decision making, then they would go for a partnership form of business. In a company form of business, owners have to hire professional experts to manage the affairs of the company. Here, the management is completely separate from the ownership.
- iv. **Continuity:** In a sole proprietorship, continuity depends on the people and the events which take place such as death and insolvency. However, these do not affect continuity of other forms of business.
- v. **Capital consideration:** It is one of the important factors which help in determining the choice of the organisation. A sole proprietorship form of business requires minimum investment/capital. However, if one has adequate funds, then he can opt for a partnership form of business. However, huge financial resources are required for the company.

## Answer 25

Principles of insurance:

1. **Utmost good faith:** The contract of insurance is based on utmost good faith. According to this principle, both insurer and insured should have complete faith in each other and should disclose all the material facts to each other relating to the contract.  
*Example:* If the assured party hides any important material fact from the insurer, then the insurer can deny compensation to the assured party in case of misfortune to the assured party because of the hidden fact.
2. **Insurable Interest:** This principle states that the insured should have some kind of interest in the thing or person for which the insurance is taken. This is a necessary condition as without this it would become a fraudulent activity and not acceptable under law.  
*Example:* Insurance can be taken for a close family member such as spouse or child; however, taking insurance for an unknown person is not acceptable.
3. **Indemnity:** The insurer should compensate the insured for the entire loss so that there is no difference between the insurer's financial position before and after the loss. This principle is not applicable to life insurance because it is not possible to estimate the amount of loss incurred due to death of the person.  
*Example:* If an individual has taken a policy worth Rs 1 lakh but suffered a loss of Rs 75,000, then the insurance company will compensate Rs 75,000 only and not Rs 1 lakh.
4. **Subrogation:** This principle states that once the person claims the compensation for the loss, the ownership of that specific thing/property shifts to the insurer. This is because the insured has already received the amount for the loss, and thus, he is not allowed to sell the damaged property to make profit.

**Example:** A person who has damaged car parts in a car accident is entitled to receive compensation for those parts and the ownership of the damaged parts will be given to the insurer.

5. **Contribution:** Many a times a person takes more than one policy to cover the same risk which is known as double insurance. Thus, at the time of compensation, all the insurers will compensate the insured with the amount equal to the actual loss. The insured cannot claim the total loss amount separately from each insurer. Furthermore, if one insurer has paid the whole amount to the insured, then the remaining insurers will pay their part to the insurer who has compensated the insured for the loss.

**Example:** The insured has taken a policy from three insurers. On suffering loss, Rs 90,000 as compensation needs to be given to the insured. All the insurers will equally distribute the amount among them, i.e. Rs 30,000 each, and compensate the insured.

6. **Mitigation:** This principle states that the insured should take care of the property after taking insurance also. He needs to be careful about the risk even after taking the insurance.

**Example:** *If a person has taken insurance for his vehicle, then he needs to take all possible measures to reduce any kind of damage to the vehicle.*

7. **Causa Proxima Principle:** The insured can be awarded compensation only for losses stated in the contract. Also, when there is more than one cause, the proximate cause, i.e. the cause that is forthright/direct is taken into consideration by the insurance company for compensation.

**Example:** *A person has taken fire insurance to insure goods in the case of fire at one location only. However, his goods are ruined by a fire at another location. The insurer would not be liable to pay the insured any compensation in such a case.*

## Answer 26

Procedure involved in importing machinery from France by Suchitra and Company Pvt. Ltd.:

1. **Trade enquiry:** It is a request by an importer to different exporters to provide information regarding the price and terms and conditions of goods. After receiving a trade enquiry, the exporter provides the details of goods such as quality, size, weight, price and terms and conditions in the quotation form which is known as *pro forma* invoice.
2. **Procurement of import license:** The exporter needs to have the IEC number as it has to be quoted in all import documents. For this, the company needs to contact the Directorate General of Foreign Trade (DGFT) or the relevant Regional Import Export Authority.
3. **Obtaining foreign exchange:** The importer requires the currency of the exporter's country to purchase goods. However, many nations usually accept the US dollar to conduct international transactions. In this regard, banks and many authorised dealers provide foreign exchange.

4. **Placing order or indent:** Import order or indent is placed by the importer to the exporter. This order contains details such as price, size, grade, quality of goods and instructions related to shipping, packing, port of shipment and destination.
5. **Obtaining letter of credit:** Letter of credit is obtained by the importer from its bank and then sent to the exporter. It ensures that there will be no non-payment risk from the importer's side.
6. **Arranging for finance:** This step involves arranging finance for the payment of imported goods which needs to be paid at the time of arrival of goods at the port. It is essential to make advance arrangement for finance to avoid penalties for imported goods which have not been cleared at the port.
7. **Receipt of shipment advice:** Shipment advice is sent by the exporter to the importer when the goods are loaded on the vessel. It contains various details such as invoice number, bill of lading/airways bill, name of vessel with date, port of export, description of goods and date of sailing vessel.
8. **Retirement of import documents:** The exporter prepares various documents according to the terms of contract and letter of credit when the goods are shipped. These documents are handed over to the banker for transmission and negotiation to the importer.
9. **Arrival of goods:** The ship in-charge informs the importing country about the arrival of goods and prepares a document containing the details of the imported goods known as import general manifest. This document helps in unloading of goods.
10. **Custom clearance and release of goods:** Custom clearance is a complex procedure as it involves many formalities. Thus, the importer hires a C&F agent who helps in clearing the goods from customs. Goods are released when they are cleared by customs.

## Answer 27

Differences between equity shares and preference shares:

Basis	Equity Shares	Preference Shares
Face Value	The face value is mostly low.	The face value is mostly high.
Dividend	After the dividend is paid to all its shareholders, the dividend is then paid to equity shareholders.	Preference shareholders receive the dividend prior to equity shareholders.
Right of Vote	Shareholders are entitled to all voting rights.	Shareholders are not given any rights in terms of voting. However, they do get the right to vote only after two years on non-payment of dividend.
Attraction	Shares attract bold and adventurous investors.	Shares attract cautious and conservative investors.

<b>Risk</b>	Equity shareholders are the primary risk takers of the company.	The risk for preference shareholders is minimal.
<b>Redemption</b>	Shares are never redeemed during the lifetime of the company.	Shares can be redeemed on expiry of the fixed term or at the company's disposal.