

CBSE
Class XII Business Studies

Time: 3 hrs

Max. Marks: 80

General Instructions:

- (i) **All** questions in both sections 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. **9–13** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50–75** words each.
 - (v) Question Nos. **14–19** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
 - (vi) Question Nos. **20–22** are long answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
 - (vii) Question Nos. **23–25** 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. Name the process by which various functions of management bind together. [1]
- 2. Name the organisational structure which allows free flow of communication in the organisation. [1]
- 3. State the meaning of the term decentralisation. [1]
- 4. What is meant by the term 'scalar chain'? [1]
- 5. AB Ltd. requires funds for investment in new machinery for its factory. It is now looking out for various options for the same. Two major alternatives which have been identified are equity and debt.
Identify and state the financial decision which is being described. [1]
- 6. How does debt affect the financial risk for a firm? [1]
- 7. How does publicity differ from advertising? [1]
- 8. Dev purchased a laptop worth 40,000 which had a warranty of six months. However, within a month of purchase, the laptop stopped working. When he complained to the manufacturer regarding the same, he refused any form of compensation.

In which forum according to the Consumer Protection Act should the complaint be filed?
[1]

9. Give a brief description of the following types of plans:

- i. Strategy
 - ii. Policy
- [3]

10. Identify the human need which is not being satisfied in the following situations:

- i. Ram feels that his salary is not sufficient to fulfil his daily needs.
 - ii. Priya feels that she does not get due recognition for her work.
 - iii. John is unsatisfied with the fact that his organisation does not have a pension scheme for employees.
- [3]

11. How does training benefit an employee?
[3]

12. 'These are short-term borrowing instruments of Government of India. They are issued by Reserve Bank of India on behalf of the Central Government'.
Identify and explain the money market instrument being described.
[3]

13. Why is consumer protection important for consumers?
[3]

14. What is coordination? Why is it important for an organisation?
[4]

15. Explain the impact of policy of liberalisation, privatisation and globalisation on the working of business and industry in the Indian economy.
[4]

16. SASHA Ltd. has a very interactive and free work culture. The employees are free to interact with each other without following the hierarchy. Women employees of the organisation run a ladies club where they meet every Sunday and discuss recent issues concerned with women. They spread awareness regarding various issues among the local women and offer whatever help is possible.

- i. Name the type of organising structure which is described.
 - ii. List two advantages of the organising structure identified in (i).
 - iii. State any value which is communicated.
- [4]

17. What can be the personal barriers in communication?
[4]

18. What is meant by indirect channels of distribution? State the types of such channels.
[4]

19. What are the various protective functions performed by SEBI?
[4]

20. Identify and explain the types of plans as described in the following statements:

- i. It is a comprehensive plan which determines the long-term goals of the organisation. It determines what action is to be followed and how the necessary resources would be allocated.
- ii. As the marketing manager, Rahul defined certain steps which must be followed in the process of production and sale.
- iii. A new product is to be launched by ZE Ltd. In this regard, the marketing manager makes a presentation which highlights the objectives, the procedures and the resources required. [5]

21. Why is communication important for an organisation? [5]

22. What problem is faced by an organisation in implementing a control system? [5]

23. Explain the following principles of management as given by Fayol

- i. Authority and responsibility
- ii. Unity of command
- iii. Equity
- iv. Espirit de corps
- v. Stability of personnel
- vi. Remuneration of employees [6]

24.i. State the differences between capital budgeting decisions and working capital decisions.

ii. What are the factors affecting the capital budgeting decisions of a firm? [6]

25. State the differences between advertising and personal selling. [6]

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Solution

Answer 1

The various functions of management bind together by the process of coordination. Coordination refers to the process through which the various functions of management are synchronised together towards the common goals and objectives of the organisation.

Answer 2

The organisational structure which follows free flow of communication is informal organisation. Informal organisation refers to the social relationships which emerge from the interactions among employees in an organisation.

Answer 3

Decentralisation refers to delegating authority or the decision-making power to the lower levels of hierarchy.

Answer 4

A scalar chain refers to the formal line of authority (in the order of rank) as followed in the organisation. Formal communication in an organisation follows the scalar chain.

Answer 5

The financial decision being described is financing decision. Financing decisions involve decisions with respect to volume of funds and identifying the sources of funds. There can be two main sources of funds for a firm, namely, debt and equity. Financing decision involves deciding how much of funds would be raised from each.

Answer 6

Debt involves financial risk in the sense that there is compulsion to repay the debt amount in a fixed period of time. On the other hand, there is no such risk in case of equity. Accordingly, higher the proportion of debt in total capital, higher will be the financial risk.

Answer 7

Publicity is different from advertising in the sense that while advertising is a paid form of communication, publicity is non-paid.

Answer 8

Dev can file a complaint in the District Forum. A complaint can be filed in the District Forum when the value of good (including the compensation claimed) is less than Rs 20 lakh.

Answer 9

- i. **Strategy:** Strategy refers to a comprehensive plan which defines the course of direction for the organisation in the long run. It involves the following three main dimensions:
- Determining objectives for the long run
 - Determining the course of action to be followed
 - Determining the allocation of resources

It must however be noted that while formulating a policy, the business environment must always be taken into consideration. Changes in the various dimensions of business environment affect the formulation of strategy. Moreover, drafting an appropriate strategy is important as it would define an organisation's identity in the future.

- ii. **Policy:** Policy refers to the general guidelines for the managerial behaviour and actions. They guide managers in the implementation of strategy. In other words, policy refers to the general response or action which would be taken in a particular situation or in response to a particular problem. However, in an actual situation, the manager may apply the policy according to his own discretion or according to the need of the situation. Policies are framed at all levels in the organisation. While major policies are for the organisation as a whole and are known to even those outside the company, minor policies contain minute details and information which are defined only for those within the company.

Answer 10

- i. The human need that is not being satisfied is basic physiological needs. It is the most basic need in Maslow's Need Hierarchy Theory. Basic salary expected is a physiological need of an individual.
- ii. The need that is not being satisfied is esteem needs. It includes factors such as recognition for work, autonomy and self-respect.
- iii. The human need that is not being satisfied is safety or security need. These needs refer to the factors which provide protection (physical or emotional) to the individual.

Answer 11

Proper training benefits employees of an organisation in the following manner:

- i. It helps in improving the knowledge of the employee which in turn helps in improving his career prospects.
- ii. It improves the efficiency of employees.
- iii. It imparts greater satisfaction to the employee, which in turn encourages them to improve performance.

Answer 12

The money market instrument which is being described is 'treasury bill'. A treasury bill has the following features:

- i. It is a short-term borrowing instrument of the Government of India, having a maturity period of less than one year.
- ii. They are issued by the Reserve Bank of India on behalf of the Central Government.
- iii. They are issued as promissory notes and are a highly liquid instrument.
- iv. They are issued at a value lower than the face value and are repaid at par (the difference being the interest receivable called discount).

Answer 13

Importance of consumer protection for consumers:

- i. It is necessary to spread awareness among consumers regarding their rights, responsibilities and reliefs available.
- ii. Consumers must organise themselves in the form of organisations and associations which can work towards their welfare and interests.
- iii. Consumers need to be protected against various forms of exploitation and unfair trade practices.

Answer 14

Coordination refers to the process through which the various functions of management are synchronised together towards the common goals and objectives of the organisation.

Importance of coordination:

- i. **Growth of organisation:** As the organisation grows, it becomes difficult for it to combine the efforts of various individuals towards the common goals of the organisation. This is because different individuals coming from different backgrounds and different work habits may have their own personal goals as well. It is through coordination that personal goals of the organisation are synchronised with the goals of the organisation.
- ii. **Difference in functions:** An organisation has various departments and divisions which may have their own objectives. It may happen that there is conflict among different organisations. However, as the various departments are interlinked, it is necessary that the activities of various departments are unified towards the common goals of the organisation. This is achieved through coordination.
- iii. **Presence of specialists:** Nowadays, organisations have a large number of specialists for various activities who believe in doing the work independently. In such a scenario, a conflict may arise among different specialists in the organisation. Coordination binds together the activities of various specialists.

Answer 15

The following points explain the impact of the policy of liberalisation, privatisation and globalisation on the Indian economy:

- i. **Increased competition:** With greater ease for the entry of foreign firms, competition for Indian firms has increased, particularly in the service industry.

- ii. **Wider choice for customers:** An increase in the competition for firms has benefited consumers in the sense that they get a wider choice both in terms of variety and quality of goods and services.
- iii. **Increased technological changes:** Increased competition has necessitated technological changes towards new and improved methods of production so as to improve the quality of goods and services.
- iv. **Increased dynamism:** After reforms, market forces have become increasingly dynamic. This has implied that the firms must also continuously adapt their operations to the changing business environment.
- v. **Need for trained personnel:** In the competitive market conditions, there is greater requirement for trained and skilled personnel. Accordingly, there is a need for development of human resources.
- vi. **Production as per market:** With an increase in competition, there has been a shift in the pattern of marketing. Earlier, firms used to first produce and then sell the produce in the market; however, now firms first analyse the market and then produce according to the market conditions.

Answer 16

- i. The organisational structure which is described is 'informal organisational structure'. Informal organisation refers to the social relationships which emerge from the interactions among employees in an organisation.
- ii. The following are two of the advantages of informal organisational structure:
 - In such a system, information spreads quickly. This is because the flow of communication does not follow the formal chain of hierarchy.
 - This structure allows employees to interact with like-minded people.
- iii. This provides them with a greater sense of belongingness towards the organisation.

Answer 17

Personal barriers to communication arise out of personal factors affecting the sender and the receiver. Some personal barriers to communication:

- i. **Authority:** Sometimes, subordinates do not communicate freely with managers due to the fear of authority. On the other hand, the manager may not also communicate certain information with the subordinates if he feels that it would affect his authoritative power.
- ii. **Low confidence:** If the manager does not have confidence in the skill and competence of the subordinates, he would not seek their advice or opinion.
- iii. **Lack of willingness:** The subordinates, at times, are not willing to share information or communicate with managers if they feel that it would affect their personal interests.
- iv. **Lack of incentives:** Many a times, there is no incentive (in the form of reward or appreciation) for participation in communication. In such cases, the subordinates do not take initiative for effective communication with the manager.

Answer 18

Channels of distribution are said to be indirect when one or more intermediaries are hired by the manufacturer for the distribution of the product to the final consumer.

The following are the types of indirect distribution channels:

- i. **One level:** There is one intermediary between the manufacturer and the final consumer. That is, the manufacturer sells the product to the intermediary who in turn sells it to the final consumer.
- ii. **Two level:** Two intermediaries exist between the manufacturer and the final consumer, namely, wholesaler and retailer. That is, the manufacturer sells the product to the wholesaler who in turn sells it to the retailer. The retailer then finally sells the product to the end consumer.
- iii. **Three level:** In this arrangement, selling agents or brokers are appointed by the manufacturer who are attached to the wholesaler and retailer.

Answer 19

Various protective functions performed by SEBI:

- i. Keeping an eye on and prohibiting unfair trade practices
- ii. Keeping control on practices such as insider trading and imposing penalties as and when required
- iii. Taking various steps for the protection of investors
- iv. Establishing a code of conduct for trading in the securities market

Answer 20

- i. **Strategy:** Strategy refers to a comprehensive plan which defines the course of direction for the organisation in the long run. It involves the following three main dimensions:

- Determining objectives for the long run
- Determining the course of action to be followed
- Determining the allocation of resources

It must however be noted that while formulating a policy, the business environment must always be taken into consideration. Changes in the various dimensions of business environment affect the formulation of strategy. Moreover, drafting an appropriate strategy is important as it would define an organisation's identity in the future.

- ii. **Procedure:** It refers to the chronological order of steps which must be followed in an activity. In other words, a procedure defines the general steps which must be followed in an activity with the aim of achieving the set objectives.
- iii. **Programme:** A programme involves minute details of a project with respect to objectives, policies, rules and the requirement of human and material resources. In other words, a programme includes the details of the various activities involved in a project and how the project would contribute to the overall plan and objective of the organisation.

Answer 21

It refers to the exchange of information, facts, feelings etc. such that a common understanding is created.

The following points highlight the importance of communication in an organisation:

- i. ***Provides coordination***: Communication is the key to good coordination among various departments in an organisation. Communication promotes coordination by making clear the goals to be achieved and how they would be achieved.
- ii. ***Enables smooth operations***: Clear and effective communication enables smooth operations in the organisation. Various interactions in the organisation depend on effective communication. Working efforts of the individuals and departments can be united towards common goals and objectives through proper communication.
- iii. ***Facilitates decision making***: Taking meaningful decisions requires a pool of information which can be provided through good communication.
- iv. ***Increasing efficiency***: Goals, objectives, instructions and targets are conveyed effectively through good communication. In this way, it enables smooth operations and improves efficiency.
- v. ***Helps in motivation***: Good communication is the basic tool for motivation. It is only with good communication that the needs of employees can be recognised and accordingly worked upon.

Answer 22

The following are the problems which are faced in the implementation of a control system:

- i. ***Setting standards in quantitative terms***: For an effective control system, it is important that the standards are set in measurable or quantitative terms. However, it might not be possible in every case. When the standards are not set in quantitative terms, it becomes difficult to evaluate performance.
- ii. ***No control over external forces***: An organisation cannot control external forces such as government policies, technical changes etc. A change in such forces changes the standards of evaluation and thereby the entire control system.
- iii. ***Resistance***: Close and continuous monitoring may receive resistance from employees which would make controlling difficult.
- iv. ***Expensive***: A controlling system involves cost in terms of money, time and effort. A small organisation may not be able to afford the costs involved in the control system.

Answer 23

- i. ***Authority and responsibility***: Authority refers to the right for giving commands and receiving obedience. Responsibility, on the other hand, arises out of authority. According to Fayol, when a manager is given a responsibility, he must also be given appropriate authority. However, it must be ensured that there is a balance between the two such that there is no misuse of authority. Authority given must be such that the responsibility can be fully fulfilled.

- ii. **Unity of command:** According to this principle, one subordinate should receive directions or command from only one superior. If a subordinate receives commands from more than one superior, then it would lead to confusion.
- iii. **Equity:** According to this principle, there must be equal and fair treatment of various employees in an organisation. There must not be any discrimination on grounds such as religion, gender, caste etc.
- iv. **Espirit de corps:** According to this principle, the management must work towards promoting team spirit among employees. The employees must have a feeling of belongingness and mutual trust towards each other.
- v. **Stability of personnel:** The management must ensure that there is stability of personnel in the organisation. For this, the employee must be selected after a thorough and rigorous selection process. When selected, the employee must work in the organisation at least for the minimum fixed tenure.
- vi. **Remuneration of employees:** The remuneration which is paid to employees must be fair from the point of view of both employee and organisation. That is, the pay must be such that it is at least enough for a decent standard of living and is also within the affordability of the organisation.

Answer 24

i.

	<i>Capital Budgeting Decisions</i>	<i>Working Capital Decisions</i>
<i>Meaning</i>	Investment decisions which are long-term are known as capital budgeting decisions.	Investment decisions which are short-term are known as capital budgeting decisions.
<i>Example</i>	Investment in a new fixed asset, new machinery etc.	Decisions with respect to cash, inventory etc.
<i>Effect on</i>	Earning capacity of the firm	Day-to-day working of the firm

ii. Factors affecting the capital budgeting decisions of a firm:

- **Expected cash flow:** Generally with a high investment, there is expectation of greater cash flow in the form of receipts and payments. These cash flows must be appropriately analysed before taking a capital budgeting decision.
- **Expected return:** The expected return from each investment alternative should be analysed. Those projects are chosen which are expected to generate higher return and have a lower risk.
- **Investment criteria:** There are several capital budgeting techniques which involve calculations with respect to cash flows, interest rate, rate of return etc. These techniques are used for selecting a suitable project.

Answer 25

Points of difference between advertising and selling:

<i>Advertising</i>	<i>Personal Selling</i>
Advertising is impersonal; i.e. there is no direct communication with potential consumers.	Personal selling involves direct communication with potential consumers.
The message which is transmitted is standard.	The message can be adjusted according to individual consumers.
It has a wide reach.	It has a limited reach.
Advertising involves a low per person cost.	Personal selling involves a high per unit cost.
It uses media such as television, newspapers and magazines.	It makes use of sales persons.
Direct feedback of consumers cannot be taken.	Direct feedback of consumers can be obtained easily.