

CBSE
Class XII Business Studies
Delhi Board Paper Set 2 – 2013

Time: 3 hrs

Max. Marks: 90

Note:

- Please check that this question paper contains 12 printed pages.
- Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
- Please check that this question paper contains 30 questions.
- **Please write down the Serial Number of the question before attempting it.**
- 15 minutes time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the students will read the question paper only and will not write any answer on the answer-book during this period.

General Instructions:

- (i) All questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Questions No. **1 – 12** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
- (iv) Questions No. **13 – 18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
- (v) Questions No. **19 – 22** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
- (vi) Question number **23 – 26** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
- (vii) Question number **27 – 30** 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.

1. What is the primary objective of 'Financial Management'? **[1]**
2. State how 'Growth Prospectus' affects the working capital requirements of a company? **[1]**
3. What should be done while 'taking corrective action' in process of controlling, when especially in the important areas deviations go beyond the acceptable range? **[1]**
4. At which level of management does directing takes place? **[1]**

5. Why motivation is called a complex process? [1]
6. Define 'Recruitment'. [1]
7. Pragya bought an iron of a reputed brand for Rs 1,500 but it caused an electric shock while it was being used. Pragya wants to exercise her 'Right'. Identify the 'Right' under which she can be protected. [1]
8. Under three-tier machinery where can a legal heir or representative of a deceased consumer file a complaint where the compensation claim is Rs 25 lakhs. [1]
9. Distinguish between 'Selling Concept' and 'Marketing Concept' of Marketing Management Philosophies on the basis of 'main focus.' [1]
10. Why is 'Marketing' called a social process? [1]
11. State any one consequence of well performed 'allocative function' of financial market. [1]
12. Give the meaning of 'Capital Market'. [1]
13. Name and explain the principle of management according to which a manager should replace 'I' with We in all his conversations with workers. [3]
14. Explain 'Science-not Rule of Thumb' as a principle of Scientific Management. [3]
15. Explain 'Method' as one of the types of plans. [3]
16. Explain the following as features of Planning:
 - a. Planning focuses on achieving objectives and
 - b. Planning is a mental-exercise[3]
17. Ajay was appointed a marketing head of 'Alfa Enterprise' manufacturers of toothpaste and toothbrushes. His target sale was 2,000 units a month. Apart from thinking about various channels of distribution to achieve the target he himself started visiting schools in backward areas. He found that even after taking various steps and counselling, some school children had not started brushing their teeth. He investigated and found that they could not afford to buy toothbrush and toothpaste. So with due permission he started donating 200 toothbrushes and toothpastes every month to the school.
 - i. Identify the channel of distribution 'Ajay would adopt for distribution of toothpaste and toothbrushes and justify it by giving one reason.
 - ii. State any two values which Ajay wants to communicate to the society. [3]

18. 'Though branding adds to the cost, it provides several advantages to the Marketers'. In the light of the statement, state any three advantages of branding to Marketers. [3]
19. Distinguish between 'Delegation' and 'Decentralisation' on the basis of the following:
- Purpose;
 - Scope;
 - Status; and
 - Nature. [4]
20. What is meant by a 'long-term investment decision'? State any three factors which affect the long term investment decisions. [4]
21. State the steps in the organising process. [4]
22. Explain the concept of 'Consumer Protection' and any three points of its importance from the point of view of consumers. [4]
23. Explain any five characteristics of co-ordination. [5]
24. Nishant, the director of a garments company, is planning to manufacture bags for the utilization of waste material from one of his garment units. He has decided that this manufacturing unit will be set-up in a rural area of Orissa where people have very few job opportunities and labour is available at very low rates. He has also thought of giving equal opportunities to men and women. For this he wants four different heads for Sales, Account, Purchase and Production. He gives an advertisement and shortlists ten candidates per post after conducting different selection-tests.
- Identify and state the next three steps for choosing the best candidate out of the candidates short-listed.
 - Also identify two values which Nishant wants to communicate to the society by setting up this manufacturing unit. [5]
25. The court passed an order that all schools must have water purifier for the school children as:
- Society in general is more concerned about quality of life;
 - Innovative techniques are being developed to manufacture water purifier at competitive rates;
 - Incomes are rising and children at home are also drinking purified water. The Government is also showing positive attitude towards the water purifier business. Identify the different dimensions of business environment by quoting from the above details. [5]
26. Explain the various steps in the process of controlling. [5]

27. Explain any four functions of stock exchange.

OR

Explain the following money market instruments:

- a. Call Money
- b. Treasury Bill and
- c. Commercial Paper
- d. Certificate of Deposit

[6]

28. Explain the concept of personal selling and any four qualities of a good salesman.

OR

Explain any four factors which affect the determination of the price of a product

[6]

29. 'The barriers to effective communication exist in all organisations to a greater or lesser degree.' State any six measures to overcome these barriers.

OR

'The Supervisor performs a very important role in an organisation by performing multiple functions.' State any six such functions.

[6]

30. What is meant by 'Dividend Decision'? Explain any four factors which affect the dividend decision of a company.

OR

What is meant by 'Financial Planning'? Explain any five points which highlight its importance.

[6]

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Answer 1

The basic objective of financial management is to maximise the wealth of shareholders. Such financial decisions are taken wherein the anticipated benefits exceed the cost incurred, which in turn implies an improvement in the market value of shares. An increase in the market value of shares is gainful for shareholders.

Answer 2

Higher growth prospects imply higher production, sales and inputs. Accordingly, higher growth prospects for a company imply greater requirement of working capital and *vice versa*.

Answer 3

When deviations in important areas go beyond the acceptable range, immediate managerial attention is required. In this regard, a manager can train, educate and develop employees. This will lead to no or minimum level of deviations.

Answer 4

Directing takes place at all the levels of management, i.e. top-level management, middle-level management and lower-level management.

Answer 5

Motivation is a complex process because under this process a manager has to deal with different individuals who differ in terms of nature and thought process. Hence, a manager needs to apply different motivation techniques for different employees.

Answer 6

Recruitment is the process of searching for prospective candidates and convincing them to apply for job vacancies.

Answer 7

The right under which Pragma can be protected is the right to safety.

Answer 8

If the compensation claim is Rs 25 lakh, then the legal heir or representative of a deceased consumer can file a complaint with the state commission concerned.

Answer 9

Basis of Difference	Marketing	Selling
Main focus	Customer satisfaction	Maximising sales

Answer 10

Marketing is called a social process because nowadays organisations work according to the needs and desires of the target market. The organisation identifies what is required by target customers and accordingly work towards delivering the results in the most effective and efficient manner. In addition, other aspects of consumer well-being—ecological, ethical and social—are considered by the organisation.

Answer 11

Households get high returns on their investment if allocative function is well-performed.

Answer 12

A capital market is a market which deals in the trading medium and long-term securities which have a maturity period of at least one year. Some common instruments traded in the capital market are equity and preference shares, debentures, bonds, mutual funds and public deposits.

Answer 13

Esprit de corps is the principle which says that a manager should replace 'I' with 'We' in all his conversations with workers. According to this principle, the management must work towards promoting team spirit among employees. In other words, there must be unity in work. Employees must have a feeling of belongingness and mutual trust towards each other. Following this principle is specifically important for large organisations where team work is essential for the achievement of objectives. Working together as a team helps in building mutual understanding, which in turn helps in improving efficiency.

Answer 14

According to Taylor, instead of rule of thumb, scientific management practices should be followed. Under rule of thumb, a trial and error method is used wherein each manager handles a situation in his own manner as and when it arises. The best method of doing a task which would maximise efficiency should be developed. It would then replace the rule of thumb method. This would help in reducing the cost and improving efficiency.

Answer 15

Method refers to the prescribed ways of doing work with an objective. However, the methods may change from task to task. It is one of the steps of procedure. The selection of the proper method increases efficiency as it saves time, money and effort. Different methods can be adopted by the management to provide training to employees.

Answer 16

- a. **Planning focuses on achieving objectives:** Planning starts when an objective is set and proper planning gives boost to a well-organised and goal-oriented management. Plans ensure that the desired objective is attained economically and quickly. Managers must make sure that the plans made are purposeful, specific, realistic and clear and should adhere to the company's strategies, procedures and policies. For example, if a sales target is to be achieved, then the plans must be made in sync with this objective.
- b. **Planning is a mental exercise:** Planning is a mental activity in which the manager decides on the goals to be achieved and the actions through which they are to be accomplished. For planning, managers need to be involved in logical thinking.

Answer 17

- i. Ajay should go for the zero-level channel of distribution. This is because he can directly provide goods to schoolchildren and form a direct relation with them.
- ii. Values which Ajay wants to communicate to society:
 - a. Promotion of hygienic and healthy habits among school children
 - b. Fulfilment of social responsibility of business

Answer 18

Advantages of branding for marketers:

- i. Branding enables a business organisation to differentiate its product from that of its competitors. In this way, it enables a certain degree of control over the market.
- ii. It enables advertising of the product. Without branding, advertising cannot be done.
- iii. Good branding enables a firm to follow differential pricing. That is, it allows the firm to charge a different price than that charged by its competitors.

Answer 19

Basis of difference	Delegation	Decentralisation
Purpose	To reduce the burden of managers	To provide greater role to subordinates
Scope	Narrow	Wide
Status	Sharing authority to complete the work	Policy decision which is taken by the top management
Nature	Compulsory	Optional

Answer 20

Long-term investment decisions are also known as capital budgeting decisions. These refer to decisions regarding investment of funds in different assets so that the firm can earn maximum returns. Such decisions affect the earning capacity of the business in the long run; for example, a decision to purchase a new machine or land.

Factors which affect long-term investment decisions:

1. **Cash flows of the project:** When the organisation invests in any project, it leads to generation of cash flows and receipts. Before investing in any project, it is essential for the organisation to carefully analyse the expected cash flows from the project.
2. **Rate of return:** Organisation must analyse the rate of return of the project before making a long-term investment decision. Generally, investment should be made in a project which yields a higher rate of return.
3. **Investment criteria:** Before investing in a particular project, an organisation performs various calculations with regard to total amount of investment, expected rate of return, expected cash flows and interest rate.

Answer 21

Steps in the organising process:

- i. **Identification and Division of Work:** The first step in the process of organising is to identify the various activities in the organisation and to divide them according to plans. Division of work ensures that there is no duplication of work. In this way, it avoids the wastage of resources.
- ii. **Creation of Departments:** When the work is divided, activities which are similar are grouped together in departments. This grouping can be done on the basis of criteria such as regions and products. It promotes specialisation in work.
- iii. **Assigning Duties:** The third step is to assign and allocate work to different employees. It must be ensured that the work is assigned according to the skills and capabilities of employees. In other words, it must be ensured that the most suitable person is selected for the work.
- iv. **Establishing Relationships:** A proper hierarchical structure must be established. Every employee must be clear that from whom he would take orders and to whom he is reporting. Such clarity in working relationships help in smooth operations in the organisation.

Answer 22

Consumer protection refers to educating consumers regarding their rights and responsibilities along with the redressal of their grievances and complaints.

Importance of consumer protection from the point of view of consumers:

1. **Consumer Ignorance:** In India, consumers are unaware about their rights and available reliefs, so it becomes important to educate them about the same.

2. Consumer Exploitation: In India, consumer organisations and NGOs are few and not that powerful, implying the need of protecting consumers.

3. Unorganised Consumer Group: Sellers are engaged in exploitative and unfair trade practices to increase sales, implying the need for consumer protection.

Answer 23

Characteristics of coordination:

- i. **Integrates group efforts:** Coordination acts as a binding force in the organisation in the sense that it unifies the efforts of various individuals in the organisation towards the achievement of common goals and objectives of the organisation.
- ii. **Ensures unity of action:** Coordination unifies the actions of all employees in the organisation towards the accomplishment of a common organisational objective.
- iii. **Continuous process:** Coordination is a continuous process. Coordination begins from planning and continues till controlling. Then, it starts again with planning.
- iv. **All pervasive function:** Coordination is a pervasive function in the sense that every manager and management level performs this function to achieve the organisational goal.
- v. **Responsibility of all managers:** Coordination function has to be performed by every manager in the organisation. Top-level managers coordinate with the subordinates to ensure that policies of the organisation are properly implemented. The middle-level managers coordinate with top-level and lower level managers. The lower level managers coordinate with workers to see that work is done according to the plans.

Answer 24

- i. Next three steps for choosing the best candidate out of the short-listed candidates:
 1. **Personal Interview:** Tests are followed by a personal interview which includes one-to-one conversation of the candidate with the manager. Herein, the candidate is further judged for the suitability of the job. Moreover, the candidate may seek certain information about the organisation.
 2. **Background Checks:** After the individual clears the interview, the organisation may ask for references such as from previous employers or other known persons. The references are then used to cross check the information provided by the candidate. Moreover, these references may provide certain additional information about the candidate.
 3. **Selection Decision:** When the candidate clears the tests and interviews, the final selection is done.
- ii. Values which Nishant wants to communicate to society by setting up the manufacturing unit:

1. Providing employment opportunities in rural areas
2. Development of backward areas

Answer 25

- i. Society in general is more concerned about the quality of life**—Social environment implies the nature of the lifestyle, customs, literacy rates, traditions, social trends, educational levels and other characteristics of society. These factors have an impact on society in the long run. Any change in the social environment affects the supply of capital, labour and demand of the product.
- ii. Innovative techniques are being developed to manufacture water purifiers at competitive rates**—Technological environment the nature of technology available and used by the economy or production house falls under the technological dimension. Any new scientific improvements, new procedures or techniques for improving the quality of services and goods facilitate a firm's effectiveness and efficiency to survive in the competing world. Technological environment comprises the technological changes and improvements and may also get reflected in factors such as expenditure on research and development and rate of obsolescence.
- iii. Incomes are rising and children are drinking purified water at home. The government is also showing a positive attitude towards the water purifier business**—Economic environment economic factors such as unemployment rates, stock market indices, inflation rate and interest rate within which a business conducts and operates its working points to the general condition of the economy. Because these factors have a direct impact on the business, a businessman should scan the economic environment and take timely actions to deal with it.

Answer 26

Steps in the process of controlling:

- 1. Setting Standards:** The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets, production targets). It must be kept in mind that the set standards should facilitate easy comparison.
- 2. Measuring Actual Performance:** The next step in the controlling process is to measure the performance of various activities. For this, various techniques can be used such as personal observation and performance reports. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.

3. **Comparing Performance:** After the actual performance is measured, it is then compared with the pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.
4. **Analysing Deviation:** With the comparison of the actual performance with the set standards, the deviations in performance are identified. For analysing deviations, the following methods can be used:
 - **Critical Point Control:** *Rather than controlling all the activities in the management, only the key result areas (those that affect the entire organisation) should be focused on.*
 - **Management by Exception:** *Only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.*

Deviations should be identified and their causes must be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.

5. **Corrective Measures:** In case deviations are beyond the acceptable range, it becomes necessary to take corrective action. It must be ensured that the deviations do not occur again.

Answer 27

Functions of the stock exchange:

- i. **Provides Liquidity and Marketability:** The stock exchange provides a platform for the sale and purchase of existing securities. It thus facilitates the conversion of securities to cash as and when required. In addition, it renders liquidity to long-term securities and can be converted to medium-term and short-term securities.
- ii. **Determination of Prices:** A stock exchange acts as a link for the interaction of buyers and sellers. In other words, it helps in the interaction of demand and supply forces, and thereby helps in establishing the price of securities.
- iii. **Fair and Safe Market:** A stock exchange provides a safe and fair market for trading of securities. It functions according to a well-regulated legal framework.
- iv. **Facilitates Economic Growth:** By facilitating the sale and purchase of securities, the stock market helps in channelising the savings to most productive investment. This in turn promotes capital formation and economic growth.

OR

- i. **Call money:** Call money is a money market instrument which is used by commercial banks for interbank transactions. Commercial banks use call money for meeting their cash reserve requirements. In other words, through call money, commercial banks borrow from each other to fulfil any shortage of funds required to maintain CRR. Call money has a maturity period of less than fifteen days. Interest is paid on

the call money, which is called the call rate. This rate is highly variable, and it varies from day to day.

- ii. **Treasury bills:** A treasury bill or T-bill or zero-coupon bond is a short-term borrowing instrument of the Government of India. It is a promissory note having a maturity period of less than one year. T-bills are issued by the Reserve Bank of India on behalf of the central government. They are liquid instruments available for a minimum of Rs 25,000 and in multiples thereof. They are very low risk and offer an assured return.
- iii. **Commercial papers:** Commercial papers are short-term unsecured money market instruments introduced in India in 1990. They are promissory notes which are negotiable and transferable. They have a maturity period ranging from a minimum of 15 days to a maximum of one year. They are primarily used by large and creditworthy companies for bridge financing. In other words, they are used as an alternative to borrowings from banks and the capital market. On commercial paper, companies pay an interest rate lower than market rates.
- iv. **Certificates of deposit:** Certificates of deposit (CDs) are time deposits which are issued for a certain specific period of time (from one month to 5 years). They are negotiable. CDs are said to be a secured form of investment because they are issued by commercial banks and development financial institutions. For CDs, higher the deposit amount, higher is the interest rate offered. They are used to meet credit requirements during situations of tight liquidity.

Answer 28

Personal selling is a personal form of communication wherein a seller sells the product to customers directly. Under this form, there is a direct face to face conversation between the buyers and sellers to make a sale. This technique is more suitable when the target group is small.

Qualities of a good salesman:

- i. A salesman should have a pleasing personality so that he can create a good impression on customers.
- ii. A salesman should be friendly and cordial so that he can capture customers' attention while talking to them about the product.
- iii. He should have holistic knowledge about the product, so he can explain the features and qualities of the product to buyers.
- iv. He should have good communication skills to convince consumers who may not want to buy the product.

OR

Factors affecting the determination of the price of a product:

1. **Cost of Product:** Cost of the product is the most important factor determining the price. The cost of product can be of the following three types:
 - **Fixed cost:** These are costs which remain fixed irrespective of the level of output; for example, cost of machinery or land.
 - **Variable cost:** These are costs which vary in direct proportion with the level of output. As the level of output increases, the variable costs also increase and *vice versa*; for example, cost of labour and raw material.
 - **Semi-variable cost:** Similar to variable costs, these are costs which vary with the level of output but not in direct proportion; for example, commission paid to intermediaries.

A firm decides such a price for its product so that it can cover various costs and earn a profit.

2. **Demand for the Product:** Another important factor determining the price of a product is the elasticity of demand for the product. Price elasticity of demand implies how responsive the demand is to the changes in price.
 - **Elastic demand:** The demand is said to be price elastic if a given proportionate change in price leads to a more than proportionate change in demand. In such a case, charging a higher price by the firm would lead to a large fall in demand.
 - **Inelastic demand:** The demand is said to be price inelastic if a given proportionate change in price does not bring about any significant change in demand. In such a case, it is possible for a firm to charge a higher price. This is because even at higher price, the demand will not fall much.

So, goods generally having an elastic demand have a comparatively lower price than those which have an inelastic demand.

3. **Degree of Competition in the Market:** In case there is high competition in the market, it is not possible for a firm to charge a higher price. This is because if the firm charges a higher price, consumers would shift the demand to its competitors.
4. **Government Regulations:** At times, the government regulates the prices of certain commodities. For example, in the market for agricultural products such as wheat and rice, the government intervenes in price determination.

Answer 29

Measures to overcome communication barriers:

- i. The understanding level of the receiver must be kept in mind while providing information.
- ii. The language, tone and content of the information should be such that it does not harm the sentiments of the receiver.
- iii. While communicating, the receiver must be regularly prompted to respond so as to ensure that information is being understood.
- iv. The sender must ensure that the information provided is complete in all respects.

- v. Both sender and receiver must be clear with regard to the basic idea of communication.
- vi. The sender must also be a patient listener and invite response and communication from the receiver as well.

OR

Functions of a supervisor:

- i. A supervisor guides workers and provides support to them. He ensures that workers work with harmony and unity.
- ii. He serves as the link of communication between the manager and workers. While on one hand, he communicates the information and ideas of the management to workers, on the other hand, he communicates the problems of workers to managers. In other words, the management and workers communicate through the supervisor.
- iii. It is the responsibility of the supervisor to ensure that the work is carried out efficiently and smoothly and that the set targets are met.
- iv. The knowledge or skill as required by workers for various activities is provided by the supervisor.
- v. A supervisor facilitates optimum utilisation of resources by continuously monitoring the work of employees.
- vi. He provides regular feedback and suggestions so as to improve efficiency and performance of workers.

Answer 30

Dividend decisions involve decisions regarding how the company would distribute its profit or surplus. It can either distribute it to the equity shareholders in the form of dividends or keep it in the form of retained earnings. Dividend decisions aim at maximising the wealth of shareholders while at the same time considering the requirements of retained earnings for the company.

Factors affecting the dividend decision of a company:

- i. **Amount of Earning:** A firm decides the dividends to be paid on the basis of its earnings. If the company has high earnings, then it would be in a better position to pay high dividends. As against this, if a company has low earnings, it would pay low dividends.
- ii. **Stable Earnings:** A company with stable earnings can pay higher dividends to shareholders than a company which has unstable and uneven earnings.
- iii. **Stable Dividends:** Generally, companies try to stabilise their dividends such that there are not much fluctuations in the dividends they distribute. They opt for increasing the dividends only when there is a consistent increase in their earnings.
- iv. **Growth Prospects:** Companies with higher growth prospects prefer to retain a greater portion of their earnings for future reinvestment. Accordingly, they pay lesser dividends.

OR

Financial planning involves identifying the sources from where the funds can be obtained and ensuring that the required funds are available to the firm as and when needed.

Importance of financial planning in an organisation:

- i. Financial planning helps in forecasting the future. For instance, with the help of financial planning, it would be able to forecast whether the expansion would be beneficial in terms of sales and profits.
- ii. It would help in avoiding situations such as shortage or surplus of funds.
- iii. Proper financial planning promotes better coordination of production and sales.
- iv. By clearly defining the targets and policies, it helps in evaluating current performances.
- v. It helps the organisation to foresee and avoid the situation of shocks. In this manner, the manager is prepared to deal with such situations.

