WB Board Class 12 Business Studies 2026 Question Paper with Solutions

Time Allowed :3 Hours	Maximum Marks :100	Total questions :24

General Instructions

Read the following instructions very carefully and strictly follow them:

1. The paper is divided into two sections – Section A (Compulsory) and Section B (Elective).
2. Section A is compulsory for all candidates and generally includes objective-type questions, short answer questions, and long answer questions from the prescribed syllabus.
3. In Section A, candidates are required to answer all questions. The questions will cover topics from ancient, medieval, and modern history as prescribed by the syllabus.
4. Section B consists of elective questions. Candidates are required to attempt questions from the chosen topic according to the provided options.
5. The questions in Section A will be in the form of multiple-choice, short answer, and essay-type questions.
6. Answers to all questions must be written in neat and legible handwriting. Candidates must adhere strictly to the word limit mentioned in the questions.
7. Use of unfair means or electronic devices during the examination is strictly prohibited.
8. Candidates must ensure that they write their answers in the correct format, following the instructions given for each section.

1. What is staffing?

Solution:

Definition:

Staffing is a fundamental function of management that involves filling and keeping filled the various positions in an organization with the right people at the right time. It is the process of recruiting, selecting, training, and developing human resources to achieve organizational goals effectively and efficiently.

Key Aspects of Staffing:

1. **Manpower Planning:** Assessing the human resource requirements of the organization in terms of quantity and quality.
2. **Recruitment:** Searching for prospective employees and stimulating them to apply for jobs in the organization.
3. **Selection:** Choosing the most suitable candidates from the pool of applicants through tests, interviews, and other evaluation methods.
4. **Placement and Orientation:** Putting the right person in the right job and introducing them to the organization's culture and policies.
5. **Training and Development:** Enhancing the skills, knowledge, and capabilities of employees for better performance and career growth.
6. **Performance Appraisal:** Evaluating employee performance and providing feedback for improvement.
7. **Promotion and Career Planning:** Providing opportunities for growth and advancement within the organization.
8. **Compensation:** Determining and providing appropriate salary, wages, and incentives to employees.

Importance of Staffing:

- Helps in discovering and obtaining competent personnel
- Ensures continuous growth and survival of the organization

- Improves job satisfaction and morale of employees
- Facilitates optimum utilization of human resources
- Contributes to achieving organizational goals efficiently

Nature of Staffing:

- **Universal function:** Required in all types of organizations
- **Continuous process:** Ongoing activity throughout organizational life
- **Human-centered:** Focuses on people as the most important resource
- **Managerial function:** Performed by all managers at all levels

Staffing vs. Human Resource Management:
While staffing is often used interchangeably with HRM, staffing is actually a part of HRM that specifically focuses on filling positions, whereas HRM includes broader aspects like industrial relations, welfare, and strategic planning.

Quick Tip

Staffing in Simple Words:

- Getting the right people for the right jobs at the right time
- Includes recruitment, selection, training, and development
- Essential for organizational success

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2. What is training?

Solution:
Definition:
Training is a systematic process of enhancing the skills, knowledge, abilities, and competencies of employees to perform specific jobs effectively. It is a short-term educational process aimed at improving employee performance in their current roles.

Key Features of Training:

1. **Systematic Process:** Planned and structured program, not random
2. **Skill Enhancement:** Focuses on developing specific job-related skills
3. **Short-term Duration:** Usually for a specific period with clear objectives
4. **Job-oriented:** Directly related to the current job requirements
5. **Performance Improvement:** Aimed at increasing efficiency and productivity
6. **Change in Behavior:** Brings positive changes in employee attitudes and behavior

Objectives of Training:

- To improve job knowledge and skills
- To increase productivity and quality of work
- To reduce accidents and errors
- To enhance employee morale and job satisfaction
- To prepare employees for higher responsibilities
- To keep employees updated with new technology and methods

Types of Training:

Type	Description
Induction Training	Given to new employees to familiarize them with organization
Job Training	Specific skills for particular job roles
Apprenticeship Training	Combination of on-the-job and classroom training
Internship Training	Training for students/professionals in real work environment
Refresher Training	For existing employees to update skills
Promotional Training	Preparing employees for higher positions
Remedial Training	For underperforming employees to improve

Training Methods:

- **On-the-job Methods:** Coaching, mentoring, job rotation, apprenticeship
- **Off-the-job Methods:** Lectures, conferences, case studies, role plays, simulations, e-learning

Benefits of Training:

- **For Employees:**
  - Better performance and job satisfaction
  - Career growth opportunities
  - Higher earning potential
  - Increased confidence
- **For Organization:**
  - Higher productivity and quality
  - Reduced wastage and accidents
  - Better adaptability to change
  - Improved employee retention
  - Competitive advantage

Training vs. Development:

- **Training:** Short-term, job-specific, current role focus
- **Development:** Long-term, career-oriented, future roles focus

Thus, training is an essential investment in human resources that benefits both employees and organizations.

Quick Tip

Training in Simple Words:

- Teaching employees how to do their jobs better
- Short-term, skill-focused, job-oriented
- Benefits: Better performance, fewer mistakes, higher satisfaction

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3. What is non-monetary incentive?

Solution:

Definition:

Non-monetary incentives are rewards and motivators that do not involve direct financial payment but are aimed at satisfying the psychological, emotional, and social needs of employees. These incentives focus on recognition, appreciation, job satisfaction, and personal growth rather than monetary gain.

Key Features of Non-Monetary Incentives:

- **Non-financial:** No direct money involved
- **Psychological satisfaction:** Fulfill esteem, recognition, and belonging needs
- **Long-term motivation:** Often create lasting positive impact
- **Cost-effective:** Minimal financial burden on organization
- **Enhances job satisfaction:** Improves employee morale and loyalty

Types of Non-Monetary Incentives:

1. **Recognition and Appreciation:**
   - Employee of the month awards
   - Certificates of appreciation
   - Public praise in meetings or newsletters

- Thank-you notes from management

2. **Career Advancement Opportunities:**
   - Promotions and higher responsibilities
   - Opportunities for skill development and training
   - Clear career growth path

3. **Job Enrichment and Empowerment:**
   - Meaningful and challenging work
   - Autonomy and decision-making authority
   - Involvement in important projects

4. **Flexible Work Arrangements:**
   - Flexible working hours
   - Work-from-home options
   - Compressed work week

5. **Status and Position:**
   - Designations and titles
   - Better office space or facilities
   - Company car or driver (perquisites)

6. **Organizational Climate:**
   - Positive work culture
   - Supportive colleagues and management
   - Healthy work-life balance

7. **Employee Participation:**
   - Involvement in decision-making
   - Suggestion schemes
   - Participation in management committees

8. **Job Security:**
    - Stable employment
    - Long-term career with organization

Importance of Non-Monetary Incentives:

- Satisfy higher-level needs (esteem, self-actualization as per Maslow)
- Create emotional attachment to organization
- Motivate employees beyond financial limits
- Reduce employee turnover
- Complement monetary incentives for holistic motivation

Examples in Practice:

- Google's flexible work culture and innovation time (20
- Microsoft's recognition programs
- Tata Group's employee welfare and respect

Thus, non-monetary incentives are powerful tools for motivating employees by addressing their psychological and emotional needs.

> Quick Tip
>
> **Non-Monetary Incentives = Rewards without money**
>
> - Examples: Praise, recognition, promotion, flexible timings, job enrichment
> - Benefits: Cost-effective, long-lasting motivation, satisfies higher needs

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4. Write two features of communication.

Solution:

Communication is the process of exchanging information, ideas, thoughts, and feelings between people. Here are two important features of communication:

Feature 1: Two-way Process

- Communication is not a one-way flow of information; it involves both sender and receiver.
- The sender encodes and transmits the message, while the receiver decodes and provides feedback.
- Feedback is essential to confirm that the message has been understood as intended.
- Without feedback, communication is incomplete.
- Example: In a conversation, speaking (sending) and listening (receiving with responses) both occur.

Feature 2: Continuous and Dynamic Process

- Communication is an ongoing activity in organizations and personal life.
- It is not a one-time event but a continuous process that happens constantly.
- It is dynamic and adapts to changing situations, relationships, and contexts.
- As circumstances change, the content, style, and method of communication also evolve.
- Example: Daily interactions in an office, regular updates between managers and subordinates.

Additional Features (for reference):

- **Universal:** Needed in all organizations and human interactions
- **Goal-oriented:** Aimed at achieving understanding or desired outcomes
- **Verbal and Non-verbal:** Includes words, gestures, expressions, tone
- **Involves understanding:** True communication happens only when message is understood

Quick Tip

Two Key Features:

- **Two-way:** Requires sender, receiver, and feedback
- **Continuous:** Ongoing and dynamic process

Communication = Exchange of information with understanding.

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5. What is controlling?

Solution:

Definition:

Controlling is a fundamental function of management that involves monitoring organizational performance, comparing actual performance with predetermined standards, and taking corrective actions when necessary to ensure that goals are achieved efficiently and effectively.

Key Features of Controlling:

1. **Goal-oriented:** Controlling is directed towards achievement of organizational goals.
2. **Continuous Process:** It is an ongoing activity, not a one-time event.
3. **Pervasive Function:** Required at all levels and in all types of organizations.
4. **Both Forward and Backward Looking:** It evaluates past performance and suggests future improvements.
5. **Dynamic Process:** Adapts to changing circumstances and requirements.
6. **Action-oriented:** Focuses on taking corrective actions, not just identifying deviations.

Process of Controlling (Steps):

1. **Setting Performance Standards:**

- Establishing benchmarks or targets against which actual performance will be measured
- Standards should be clear, measurable, and achievable

2. **Measurement of Actual Performance:**
   - Collecting data on actual work done
   - Using various methods like reports, observations, samples
3. **Comparison of Actual Performance with Standards:**
   - Identifying deviations or gaps between actual and standard
   - Determining the extent and significance of deviations
4. **Analysis of Deviations:**
   - Identifying causes of deviations (controllable vs uncontrollable)
   - Understanding why performance fell short or exceeded
5. **Taking Corrective Action:**
   - If deviations are negative and significant, taking steps to correct
   - If standards were unrealistic, revising them
   - Reinforcing positive deviations

Importance of Controlling:

- Helps in achieving organizational goals
- Facilitates efficient utilization of resources
- Provides accurate feedback for decision making
- Improves employee motivation through clear standards
- Ensures order and discipline in organization
- Helps in coping with environmental changes

Types of Control:

Type	Timing
Feedforward Control	Before operations begin
Concurrent Control	During operations
Feedback Control	After operations are completed

Relationship with Other Functions:
Controlling is closely linked with planning. Plans provide the standards, and controlling ensures plans are implemented correctly. Without controlling, planning is meaningless; without planning, controlling has no basis.

Quick Tip

Controlling in Simple Words:

- Check performance vs standards
- Find gaps
- Fix problems

It ensures things happen as planned.

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6. 'Planning and controlling are complementary processes.'

Solution:
The statement "Planning and controlling are complementary processes" highlights the interdependent and mutually reinforcing relationship between these two essential functions of management.

Explanation of Complementarity:

1. **Planning Provides the Basis for Controlling:**
    - Planning establishes goals, objectives, and performance standards.

- Without plans, there are no standards against which to measure actual performance.
- Controlling uses these standards to evaluate whether activities are on track.
- Example: A sales target set in the plan becomes the benchmark for controlling sales performance.

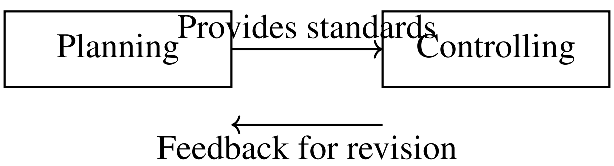
2. **Controlling Provides Feedback for Planning:**
   - Controlling reveals deviations and gaps between actual and planned performance.
   - This feedback helps in revising and improving future plans.
   - Without controlling, planners would not know if their plans were effective.
   - Example: If sales are consistently below target, future plans may need to be more realistic or include different strategies.

3. **Planning is Meaningless Without Controlling:**
   - Plans remain mere intentions if not implemented and monitored.
   - Controlling ensures that plans are actually carried out.
   - It helps identify obstacles and take corrective actions.

4. **Controlling is Blind Without Planning:**
   - Without predetermined standards, managers cannot determine what is correct or incorrect performance.
   - Controlling would have no direction or purpose without plans.

5. **Cyclical Relationship:**
   - Planning → Implementation → Controlling → Feedback → Revised Planning
   - This cycle continues, making both functions interdependent.

Illustration:



Points of Complementarity:

Planning	Controlling
Sets goals and standards	Measures performance against standards
Decides what to do	Ensures it is done
Future-oriented	Past and present-oriented
Provides basis for control	Provides feedback for planning
Without planning, control has no direction	Without control, planning is incomplete

Example:

- A company plans to produce 10,000 units per month (planning)
- At month end, actual production is 8,500 units (measurement)
- Controlling identifies the 1,500 unit shortfall
- Analysis reveals machine breakdowns as the cause
- Future plans include preventive maintenance schedules (revised planning based on control feedback)

Conclusion:
Planning and controlling are inseparable twins of management. They complement each other like two sides of the same coin. Effective management requires both functions to work in harmony—planning to set the direction and controlling to ensure the organization stays on course while providing insights for better future planning.

Quick Tip

Simple Relationship:

- **Planning = Setting the destination** (where to go)
- **Controlling = Checking if you're on the right path** (and adjusting)
- Both need each other to reach goals effectively

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7. What is controlling?

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Controlling is a fundamental function of management that involves monitoring organizational performance, comparing actual performance with predetermined standards, and taking corrective actions when necessary to ensure that goals are achieved efficiently and effectively.

Key Features of Controlling:

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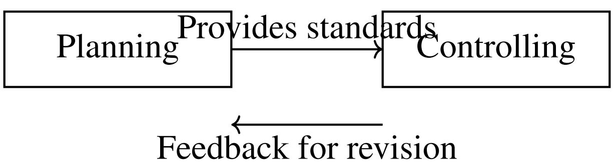

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9 Who are called 'Bulls'?

Solution:

Definition:

In stock market terminology, 'Bulls' are investors or traders who believe that the market or a particular stock will rise in value. They are optimistic about the future price movement and expect an upward trend.

Characteristics of Bulls:

- **Optimistic Outlook:** They expect prices to increase.
- **Buying Sentiment:** They purchase securities with the hope of selling them at higher prices in the future.
- **Confidence:** They have faith in the economy, company performance, or market conditions.
- **Long Position:** They typically take long positions (buy first, sell later).

Why the Name 'Bull'?

The term comes from how a bull attacks—by thrusting its horns upward into the air. This upward motion symbolizes rising prices and an optimistic market.

Bull Market:

When bulls dominate the market, it is called a "Bull Market"—a period of rising prices and investor confidence.

Example:

If a trader buys shares of Reliance Industries expecting the price to rise from 2,500 to 3,000, they are acting as a bull.

Quick Tip

Remember: Bulls push prices UP (like a bull's horns thrusting upward). They are optimistic buyers.

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10. Who are called 'Bears'?

Solution:

Definition:

In stock market terminology, 'Bears' are investors or traders who believe that the market or a particular stock will fall in value. They are pessimistic about future price movements and expect a downward trend.

Characteristics of Bears:

- **Pessimistic Outlook:** They expect prices to decrease.
- **Selling Sentiment:** They sell securities (often borrowing shares they don't own) with the hope of buying them back at lower prices in the future (short selling).
- **Caution:** They anticipate market declines or economic downturns.
- **Short Position:** They typically take short positions (sell first, buy later).

Why the Name 'Bear'?

The term comes from how a bear attacks—by swiping its paws downward. This downward motion symbolizes falling prices and a pessimistic market outlook.

Bear Market:

When bears dominate the market, it is called a "Bear Market"—a period of falling prices, pessimism, and often economic slowdown.

Example:

If a trader borrows and sells shares of HDFC Bank at 1,600 expecting the price to fall to 1,400 to buy them back at a lower price, they are acting as a bear.

Bulls vs Bears - Comparison:

Aspect	Bulls	Bears
Outlook	Optimistic (prices will rise)	Pessimistic (prices will fall)
Action	Buy shares	Sell shares
Position	Long position	Short position
Market Phase	Bull Market (rising)	Bear Market (falling)
Symbol	Upward thrust of bull's horns	Downward swipe of bear's paw

Quick Tip

Remember: Bears pull prices DOWN (like a bear's paw swiping downward). They are pessimistic sellers.

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11. What is meant by 'Promotion'?

Solution:

Definition:

Promotion refers to the marketing activities undertaken by a business to inform, persuade, and remind customers about its products or services, with the ultimate goal of influencing their buying decisions and increasing sales.

Key Elements of Promotion:

- **Communication:** Promotion is a form of communication between the seller and potential buyers.
- **Information:** It provides information about product features, availability, prices, and benefits.

- **Persuasion:** It aims to convince customers to choose a particular product over competitors.
- **Reminder:** It keeps the brand and product in the minds of consumers.

Objectives of Promotion:

1. To create awareness about the product or brand
2. To stimulate demand and increase sales
3. To differentiate the product from competitors
4. To build and enhance brand image and loyalty
5. To inform customers about new products or offers
6. To attract new customers and retain existing ones

Promotion Mix (Tools of Promotion):

Tool	**Description**
Advertising	Paid form of non-personal communication through media
Sales Promotion	Short-term incentives to encourage purchase (discounts, coupons, contests)
Personal Selling	Direct face-to-face interaction with customers
Public Relations	Building good relations with public through favorable publicity
Direct Marketing	Communicating directly with target customers (email, SMS, catalogs)
Digital Marketing	Promotion through online platforms and social media

Importance of Promotion:

- Helps in introducing new products to the market
- Builds brand image and customer loyalty
- Provides information to customers for informed decisions
- Helps in facing competition effectively

- Stabilizes sales by creating consistent demand

Thus, promotion is a vital element of the marketing mix (4 Ps: Product, Price, Place, Promotion) that drives customer engagement and business growth.

> Quick Tip
>
> **Promotion = Informing + Persuading + Reminding customers**
>
> Tools: Advertising, Sales Promotion, Personal Selling, Public Relations

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12. What is advertisement?

Solution:

Definition:

Advertisement is any paid form of non-personal communication or promotion used by businesses, organizations, or individuals to inform, persuade, and remind target audiences about their products, services, ideas, or brands through various media channels.

Key Features of Advertisement:

1. **Paid Form:** Advertisers pay for the space or time used to convey their message.
2. **Non-personal:** It is directed at a mass audience, not a specific individual.
3. **Identified Sponsor:** The source of the message is clearly identified (the brand or company).
4. **Mass Media:** Uses channels like TV, radio, newspapers, magazines, billboards, internet, social media.
5. **Persuasive Communication:** Aims to influence consumer attitudes and behavior.

Objectives of Advertisement:

- **Inform:** Create awareness about new products, features, or uses
- **Persuade:** Convince customers to choose the advertised brand over competitors

- **Remind:** Keep the brand in customers' minds, especially for established products
- **Build Brand Image:** Create a positive perception and emotional connection

Types of Advertisement:

Basis	Types
Target Audience	Consumer advertising, Industrial advertising, Trade advertising
Geographic Coverage	Local, Regional, National, International advertising
Medium Used	Print (newspapers, magazines), Broadcast (TV, radio), Outdoor (billboards), D
Purpose	Product advertising, Institutional advertising, Public service advertising

Advantages of Advertisement:

- Reaches a large number of people simultaneously
- Builds brand recognition and recall
- Creates demand and stimulates sales
- Provides information to consumers
- Cost-effective per contact (reaches many at low per-person cost)

Limitations of Advertisement:

- Impersonal - cannot address individual needs
- High absolute cost (though low per contact)
- May be ignored or blocked by consumers
- Credibility issues with exaggerated claims

Example:
A 30-second TV commercial for Coca-Cola during the IPL, a full-page newspaper ad for a new smartphone, or a sponsored Instagram post by a fashion brand are all advertisements.

Quick Tip

Advertisement = Paid, Non-personal, Mass Communication

Purpose: Inform, Persuade, Remind

Examples: TV ads, newspaper ads, billboards, social media ads

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13. Write three features of controlling.

Solution:
Controlling is a fundamental function of management that involves monitoring performance, comparing it with standards, and taking corrective actions. Here are three important features of controlling:

Feature 1: Controlling is a Goal-Oriented Function

- Controlling is directed towards the achievement of organizational goals and objectives.
- It ensures that activities are performed according to plans and that resources are used efficiently to reach desired outcomes.
- Without clear goals, controlling would have no direction or purpose.
- Example: A company sets a sales target of 1 crore per month. Controlling monitors actual sales and ensures corrective action if sales fall short, keeping the organization focused on its goal.

Feature 2: Controlling is a Continuous Process

- Controlling is not a one-time activity but an ongoing, dynamic process.
- It operates at all levels of management and throughout the year.
- Managers continuously monitor performance, identify deviations, and take corrective actions as needed.
- Example: In a manufacturing unit, quality control checks are performed daily, not just at the end of the month.

Feature 3: Controlling is Both a Forward-Looking and Backward-Looking Function

- **Backward-looking:** Controlling evaluates past performance by comparing actual results with planned standards.
- **Forward-looking:** The feedback from controlling helps in making future plans and preventing future deviations.
- It learns from the past to improve the future.
- Example: A company analyzes why production targets were missed last month (backward-looking) and uses this insight to set more realistic targets or improve processes for the coming months (forward-looking).

Additional Features (for reference):

- **Pervasive Function:** Required at all levels and in all types of organizations.
- **Action-Oriented:** Focuses on taking corrective actions, not just identifying problems.
- **Dynamic:** Adapts to changing business environment and circumstances.

Quick Tip

Three Features:

- **Goal-oriented:** Aims to achieve objectives
- **Continuous:** Ongoing, not one-time
- **Forward Backward-looking:** Evaluates past, improves future

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14. Discuss three importances of controlling.

Solution:
Controlling is essential for the effective functioning of any organization. Here are three important reasons why controlling is important:

Importance 1: Helps in Achieving Organizational Goals

- Controlling ensures that all activities are aligned with the predetermined goals and objectives of the organization.
- It monitors progress, identifies deviations, and takes corrective actions to keep the organization on track.
- Without controlling, efforts may become misdirected, and goals may remain unachieved.
- Example: A company with a goal of 20

Importance 2: Facilitates Efficient Utilization of Resources

- Controlling helps in ensuring that all resources—human, financial, material, and technological—are used optimally and without waste.
- By monitoring resource usage and comparing with standards, managers can identify areas of inefficiency and take corrective measures.
- This leads to cost reduction and improved productivity.
- Example: A manufacturing plant monitors raw material consumption per unit of output. If wastage increases beyond standard, controlling helps identify the cause (e.g., machine malfunction) and correct it, saving costs.

Importance 3: Provides Basis for Future Planning and Decision Making

- Controlling provides valuable feedback about what worked and what didn't.
- The information gathered through controlling helps managers make better decisions and formulate more realistic plans for the future.
- It creates a learning loop where past performance informs future strategy.
- Example: After reviewing quarterly performance, a company realizes that its new product launch failed due to inadequate advertising. This insight helps in planning a better marketing strategy for the next product launch.

Additional Importances (for reference):

- **Improves Employee Motivation:** Clear standards and feedback motivate employees to perform better.
- **Ensures Order and Discipline:** Creates a disciplined work environment through monitoring.
- **Facilitates Coordination:** Helps coordinate different departments toward common goals.
- **Helps in Coping with Change:** Enables quick response to environmental changes.

Quick Tip

Three Importances:

- **Goal achievement:** Keeps organization on track
- **Resource optimization:** Reduces waste, improves efficiency
- **Future planning:** Provides feedback for better decisions

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15. Explain the idea of 'Capital structure'.

Solution:

Definition:

Capital structure refers to the mix or composition of different sources of long-term funds that a company uses to finance its overall operations and growth. It represents the proportion of debt (borrowed funds) and equity (owner's funds) in the total capitalization of the firm.

Key Components of Capital Structure:

1. **Equity Capital:**
    - Funds contributed by owners/shareholders
    - Includes equity share capital, preference share capital, retained earnings
    - Features: Permanent capital, no fixed obligation to pay returns, shareholders have voting rights

2. **Debt Capital:**
    - Borrowed funds from various sources
    - Includes debentures, bonds, loans from financial institutions, term loans
    - Features: Fixed obligation to pay interest, repayment schedule, lenders have no voting rights

Factors Affecting Capital Structure:

Factor	**Description**
Cost of Capital	Debt is cheaper due to tax benefits, but equity is costlier
Risk	Higher debt increases financial risk (fixed obligations)
Control	Issuing more equity dilutes control of existing shareholders
Flexibility	Ability to raise funds in future
Trading on Equity	Using debt to increase returns to equity shareholders
Cash Flow	Ability to meet fixed interest payments
Tax Rate	Higher tax rates make debt more attractive (interest is tax deductible)

Theories of Capital Structure:

- **Net Income Approach:** Change in capital structure affects value of firm
- **Net Operating Income Approach:** Capital structure does not affect value
- **Modigliani-Miller Theory:** In perfect markets, capital structure is irrelevant
- **Trade-off Theory:** Balance between tax benefits of debt and bankruptcy costs
- **Pecking Order Theory:** Firms prefer internal funds, then debt, then equity

Optimal Capital Structure:
The optimal capital structure is the mix of debt and equity that maximizes the firm's value while minimizing its cost of capital. It balances risk and return.

Importance of Capital Structure:

- Affects profitability and financial risk

- Influences cost of capital
- Impacts shareholder wealth
- Determines financial flexibility
- Affects credit rating and borrowing capacity

Example:
If a company has total long-term funds of 10 crore, with 6 crore from equity and 4 crore from debt, its capital structure is 60

Quick Tip

Capital Structure = Mix of Debt and Equity

Debt is cheaper but risky; Equity is costlier but safe.

Goal: Find the right balance to maximize firm value.

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16. Give an idea of 'Working Capital'.

Solution:
Definition:
Working capital refers to the capital required for day-to-day operations of a business. It represents the difference between a company's current assets and current liabilities. It is also known as circulating capital or short-term capital.

Types of Working Capital:

1. **Gross Working Capital:**
   - Total investment in current assets
   - Current assets include: cash, inventory, debtors, bills receivable, marketable securities, prepaid expenses
2. **Net Working Capital:**

- Current Assets minus Current Liabilities
- Current liabilities include: creditors, bills payable, outstanding expenses, short-term loans, bank overdraft
- Positive net working capital indicates ability to meet short-term obligations

Formula:

$$\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Components of Working Capital:

Current Assets	**Current Liabilities**
Cash in hand and at bank	Sundry creditors
Inventory (raw material, WIP, finished goods)	Bills payable
Sundry debtors (accounts receivable)	Outstanding expenses
Bills receivable	Short-term loans
Marketable securities	Bank overdraft
Prepaid expenses	Provision for taxation

Types Based on Time:

- **Permanent Working Capital:** Minimum level of current assets required to continue operations
- **Temporary/Variable Working Capital:** Additional working capital needed during peak seasons or special circumstances

Importance of Working Capital:

- Ensures smooth and uninterrupted operations
- Helps in maintaining liquidity and solvency
- Enables timely payment to creditors and employees
- Allows business to take advantage of opportunities

- Helps in maintaining good credit rating
- Protects business during emergencies

Factors Affecting Working Capital Requirements:

Factor	**Effect on Working Capital**
Nature of Business	Trading requires less, manufacturing requires more
Scale of Operations	Larger scale = higher working capital need
Business Cycle	Boom = more working capital, recession = less
Seasonal Factors	Peak season = higher working capital
Credit Policy	Liberal credit = more working capital
Production Cycle	Longer cycle = more working capital
Inflation	Rising prices = more working capital needed

Example:
A company has current assets of 50 lakh (cash 5 lakh, inventory 25 lakh, debtors 20 lakh) and current liabilities of 30 lakh (creditors 20 lakh, bank overdraft 10 lakh). Its net working capital is 20 lakh (50 - 30).
Thus, working capital is the lifeblood of a business that ensures its day-to-day survival and growth.

> Quick Tip
>
> **Working Capital = Current Assets - Current Liabilities**
> It's the money needed for daily operations—to pay salaries, buy raw materials, manage inventory, etc. Positive working capital means the business can meet its short-term obligations.

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17. Discuss the money market in brief.

Solution:
Definition:

The money market is a component of the financial market where short-term funds (usually up to one year) are borrowed and lent. It deals in highly liquid and safe financial instruments that are close substitutes for money.

Key Features of Money Market:

- **Short-term:** Maturity period up to one year
- **High Liquidity:** Instruments can be easily converted into cash
- **Low Risk:** Instruments are relatively safe with low default risk
- **No Physical Location:** It is a telephone, internet, and electronic network-based market
- **Participants:** Banks, financial institutions, corporations, mutual funds, RBI, and government

Money Market Instruments:

Instrument	Description
Treasury Bills (T-Bills)	Short-term borrowing by government (91 days, 182 days, 364 days)
Commercial Paper (CP)	Unsecured short-term promissory notes issued by corporations
Certificate of Deposit (CD)	Time deposit issued by banks with fixed maturity
Call Money	Loans repayable on demand, usually overnight between banks
Repurchase Agreements (Repos)	Sale of securities with agreement to repurchase at later date
Commercial Bills	Bills of exchange arising from trade transactions

Objectives/Functions:

- Provides short-term funds to borrowers
- Offers liquidity to investors
- Helps in implementing monetary policy (RBI uses money market operations)
- Maintains equilibrium between demand and supply of short-term funds

Regulator:

In India, the money market is regulated by the **Reserve Bank of India (RBI)**.

> Quick Tip
>
> **Money Market = Short-term funds (1 year)**
>
> Instruments: T-Bills, CP, CD, Call Money
>
> Regulator: RBI

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18. Briefly discuss capital market.

Solution:

Definition:

The capital market is a component of the financial market where medium-term and long-term funds (more than one year) are raised and traded. It deals in securities such as shares, debentures, bonds, and other long-term investments.

Key Features of Capital Market:

- **Long-term:** Maturity period more than one year
- **Less Liquidity:** Compared to money market, but still tradable
- **Higher Risk:** Instruments carry market risk, credit risk
- **Physical and Electronic Exchanges:** Has organized stock exchanges
- **Participants:** Individual investors, institutional investors, corporations, government, foreign investors

Capital Market Instruments:

Instrument	Description
Equity Shares	Ownership capital with voting rights
Preference Shares	Fixed dividend, priority over equity
Debentures/Bonds	Long-term debt instruments with fixed interest
Government Securities	Long-term borrowing by government (G-Secs)
Mutual Funds	Pooled investment in diversified portfolio
Derivatives	Futures, options, swaps for hedging and speculation

Structure of Capital Market:

1. **Primary Market (New Issues Market):**
    - Where new securities are issued for the first time
    - Methods: IPO, FPO, Rights Issue, Private Placement
2. **Secondary Market (Stock Market):**
    - Where existing securities are traded among investors
    - Provides liquidity to investors
    - Examples: BSE, NSE

Functions of Capital Market:

- Mobilizes long-term savings for investment
- Facilitates capital formation and economic growth
- Provides liquidity to investors through trading
- Helps in price discovery of securities
- Encourages foreign investment

Regulator:
In India, the capital market is regulated by the **Securities and Exchange Board of India (SEBI)**.

Quick Tip

Capital Market = Long-term funds (¿ 1 year)

Instruments: Shares, Debentures, Bonds

Regulator: SEBI

Parts: Primary Market (new issues) + Secondary Market (trading)

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19. Write three similarities between Bank and Depository.

Solution:

Both banks and depositories are financial institutions that play crucial roles in the financial system. Here are three similarities between them:

Similarity 1: Custodians of Value

- **Bank:** Banks act as custodians of money. Customers deposit their cash with banks for safekeeping.
- **Depository:** Depositories act as custodians of securities. Investors hold their shares, debentures, and other securities in electronic form with depositories.
- Both provide safe storage and protection of valuable assets (money in banks, securities in depositories).

Similarity 2: Facilitate Transfers

- **Bank:** Banks facilitate transfer of funds from one account to another through cheques, NEFT, RTGS, etc.
- **Depository:** Depositories facilitate transfer of securities from one account to another during buying and selling of shares through electronic settlement.
- Both enable smooth and efficient transfer of assets between parties.

Similarity 3: Maintain Accounts and Records

- **Bank:** Banks maintain savings accounts, current accounts, and fixed deposit accounts for customers with detailed transaction records.
- **Depository:** Depositories maintain demat accounts (beneficial owner accounts) for investors with detailed records of securities holdings and transactions.
- Both provide periodic statements (bank statements, holding statements) to account holders.

Additional Similarities (for reference):

- **Intermediaries:** Both work through intermediaries—banks have branches, depositories have Depository Participants (DPs)
- **Interest/Dividend:** Both facilitate receipt of returns—banks give interest on deposits, depositories facilitate receipt of dividends and bonus shares
- **Regulation:** Both are regulated by statutory authorities (banks by RBI, depositories by SEBI)

Quick Tip

Three Similarities:

- Both are custodians (bank = money, depository = securities)
- Both facilitate transfers (bank = funds, depository = shares)
- Both maintain accounts with transaction records

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20. State the main objectives of Bombay Stock Exchange.

Solution:
The Bombay Stock Exchange (BSE), established in 1875, is Asia's oldest stock exchange. Its main objectives are:

Objective 1: To Provide a Trading Platform

- To provide an efficient and transparent platform for trading in equities, derivatives, debt instruments, mutual funds, and other securities.
- To facilitate buying and selling of securities through a well-organized exchange mechanism.

Objective 2: To Ensure Investor Protection

- To protect the interests of investors by ensuring fair practices and transparency in trading.
- To educate and guide investors about market risks and opportunities.
- To maintain a strong regulatory framework for dispute resolution and grievance handling.

Objective 3: To Promote Liquidity and Price Discovery

- To provide liquidity to investors by enabling them to convert securities into cash easily.
- To facilitate fair price discovery of securities through continuous trading based on demand and supply.

Objective 4: To Maintain Market Integrity and Transparency

- To ensure that all trades are conducted in a fair, transparent, and orderly manner.
- To enforce listing requirements and disclosure norms for companies.
- To prevent fraudulent and unfair trade practices.

Objective 5: To Contribute to Economic Growth

- To mobilize savings and channel them into productive investments.
- To facilitate capital formation for companies and contribute to the overall economic development of the country.

Objective 6: To Promote Corporate Governance

- To encourage listed companies to follow good corporate governance practices.
- To ensure timely disclosure of material information to the public.

Additional Information:

- BSE is the first stock exchange in Asia and the fastest stock exchange in the world with a trading speed of 6 microseconds.
- It provides a platform for trading in equities, currencies, derivatives, and mutual funds.
- BSE indices include SENSEX (30 largest and most actively traded stocks).

Quick Tip

Main Objectives:

- Trading platform for securities
- Investor protection
- Liquidity and price discovery
- Market transparency and integrity
- Capital formation and economic growth

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21. Mention three mental qualities of a good salesman.

Solution:
A successful salesman requires a combination of various qualities. Here are three important mental qualities of a good salesman:

1. Self-Confidence

- A good salesman must have complete faith in himself, his abilities, and his product.
- Self-confidence helps in approaching customers boldly and handling objections effectively.

- Confident salespeople inspire trust and credibility in customers.
- Without confidence, even a well-prepared salesperson may fail to convince prospects.
- Example: A confident salesman can handle rejection positively and continue pursuing the next prospect without losing morale.

2. Patience and Perseverance

- Selling requires repeated efforts and the ability to handle delays, objections, and rejections.
- A patient salesman listens to customers carefully without interrupting.
- Perseverance means not giving up after initial failures and continuously following up with prospects.
- Many sales are closed after multiple follow-ups, requiring sustained mental effort.
- Example: A real estate agent may need to show properties many times before a client finally decides to buy.

3. Empathy and Understanding

- Empathy is the ability to understand and relate to the customer's needs, feelings, and perspectives.
- A good salesman puts himself in the customer's shoes to understand their problems and requirements.
- This helps in suggesting the most suitable products and building long-term relationships.
- Empathetic salespeople are trusted more and create loyal customers.
- Example: A medical representative understands a doctor's requirements and suggests medicines that genuinely help patients.

Additional Mental Qualities (for reference):

- **Optimism:** Positive attitude even in difficult situations

- **Alertness:** Quick thinking and adaptability to changing situations
- **Imagination:** Creative approach to problem-solving and presentation
- **Memory:** Remembering customer names, preferences, and past interactions
- **Enthusiasm:** Genuine interest and energy in selling

Quick Tip

Three Mental Qualities:

- **Self-Confidence:** Belief in self and product
- **Patience & Perseverance:** Handle rejection, keep trying
- **Empathy:** Understand customer needs and feelings

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22. Mention three importances of salesmanship from the view

Solution:
Salesmanship plays a crucial role in business success. Here are three importances of salesmanship from different viewpoints:

1. From the Viewpoint of Customers

- **Helps in Making Informed Decisions:** Salesmanship provides detailed information about products, their features, uses, and benefits, enabling customers to make intelligent purchase decisions.
- **Guidance and Advice:** Salespeople guide customers in selecting the right product according to their needs and budget.
- **Post-Purchase Satisfaction:** Good salesmanship ensures customers are satisfied with their purchases, leading to repeat buying.
- **Example:** A customer buying a laptop gets expert advice on specifications, warranty, and after-sales service from a knowledgeable salesperson.

2. From the Viewpoint of Business Organizations

- **Increases Sales and Profits:** Effective salesmanship directly contributes to higher sales volume and revenue generation.
- **Creates Demand:** Salespeople can create and stimulate demand even for existing products through persuasive communication.
- **Builds Brand Image:** Personal interactions create positive brand perception and customer loyalty.
- **Market Feedback:** Salespeople collect valuable feedback about products, competitors, and market trends.
- **Example:** A company's sales team helps in expanding market share by convincing new retailers to stock their products.

3. From the Viewpoint of Society and Economy

- **Standard of Living:** By promoting new and better products, salesmanship improves the quality of life and standard of living.
- **Employment Generation:** The sales profession provides employment opportunities to millions of people.
- **Economic Growth:** Increased sales lead to higher production, which contributes to GDP growth.
- **Product Innovation:** Feedback from salespeople encourages companies to develop better products.
- **Example:** The growth of the automobile industry in India has been supported by a vast network of salespeople across the country.

Summary Table:

Viewpoint	Importance
Customers	Information, guidance, satisfaction
Business	Higher sales, brand building, feedback
Society	Better living standards, employment, economic growth

Quick Tip

Three Importances of Salesmanship:

- **For Customers:** Information and guidance
- **For Business:** Increased sales and brand loyalty
- **For Society:** Employment and better living standards

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23. Write the differences between Staff Recruitment and Staff Selection.

Solution:

Recruitment and Selection are two crucial steps in the staffing process. While they are closely related, they have distinct meanings and purposes. Here are the key differences:

Basis of Difference	**Recruitment**	**Selection**
Meaning	Recruitment is the process of searching for prospective candidates and encouraging them to apply for jobs in the organization.	Selection is the process of choosing the most suitable candidates from the pool of applicants.
Nature	Positive process that aims to attract as many candidates as possible.	Negative process that involves rejecting unsuitable candidates.
Objective	To create a large pool of applicants for selection.	To identify and select the best candidate for the job.
Sequence	Recruitment comes first, followed by selection.	Selection comes after recruitment.
Method — Uses techniques like advertising, campus visits, employment exchanges, etc.	Uses techniques like tests, interviews, reference checks, medical examinations, etc.	
Time Involved	Relatively less time-consuming process.	More time-consuming as it involves detailed evaluation.
Cost — Generally less expensive.	More expensive due to multiple assessment methods.	
Contract of Service	No contractual relationship is established at this stage.	Selection leads to employment contract and job offer.
Approach — Wide approach - aims to reach maximum potential candidates.	Narrow approach - focuses on evaluating and selecting from available candidates.	
Outcome — Creates an applicant pool.	Results in hiring of employees.	

Summary:

- **Recruitment:** ”Inviting applications” - positive, wide approach
- **Selection:** ”Choosing the best” - negative, narrow approach

Both are complementary and essential for effective staffing. Without recruitment, there is no pool for selection; without selection, recruitment efforts are wasted.

Quick Tip

Simple Difference:

- **Recruitment = Finding applicants** (positive, wide net)
- **Selection = Choosing the best** (negative, filtering)

Recruitment comes first, selection follows.

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24. Distinguish between ’On the job training method’ and ’Off the job training method’.

Solution:

Training methods are broadly classified into On-the-Job (OJT) and Off-the-Job methods. Here are the key differences:

Basis of Difference	**On-the-Job Training**	**Off-the-Job Training**
Meaning	Training provided to employees at their actual workplace while performing regular job duties.	Training provided away from the workplace, in a separate training environment.
Location — At the workplace (on the shop floor, office, or field).	Away from workplace (classrooms, training centers, institutes).	
While Working — Employee learns while doing regular work. Production continues during training.	Employee is away from regular work. Production may be affected.	
Methods — Coaching, mentoring, job rotation, apprenticeship, internship, demonstration.	Lectures, conferences, case studies, role plays, simulations, vestibule training, management games.	
Cost — Generally less expensive as no separate facilities required.	More expensive due to separate facilities, trainers, and materials.	
Time — Flexible timing; integrated with work schedule.	Fixed schedule; requires dedicated time away from work.	
Supervision — Direct supervision by senior or supervisor.	Indirect supervision by professional trainers.	
Practical Expo-	May use simulated or ar-	

Advantages and Disadvantages:

- **On-the-Job Training:**
  - + Practical experience, immediate application, cost-effective
  - - May disrupt work, risk of damage, no systematic theory
- **Off-the-Job Training:**
  - + Systematic learning, expert trainers, no work pressure
  - - Expensive, may not exactly match real job situation

Conclusion:
Both methods are important and often used in combination. On-the-job training provides practical skills, while off-the-job training provides theoretical knowledge and broader perspective.

Quick Tip

Simple Difference:

- **On-the-Job:** Learn while working (at workplace)
- **Off-the-Job:** Learn away from work (classroom/institute)

Best results come from combining both methods.
