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Step-by-step solutions, alternate methods & exam tips for Class 12 Business Studies

Chapter 8: Controlling

About this Chapter

Chapter 8 of Class 12 Business Studies, **Controlling**, is the final function of management in Henri Fayol's classical sequence. It is the process of ensuring that actual activities conform to planned activities – comparing performance with standards, identifying deviations and taking corrective action. The chapter covers the meaning, importance and limitations of controlling, its inseparable link with planning, and the five-step controlling process: setting performance standards, measuring actual performance, comparing actual against standards, analysing deviations using critical-point control and management by exception, and taking corrective action. Solutions for 2026-27 follow NCERT Reprint 2026-27.

Topics covered: Meaning & importance of controlling • Limitations of controlling • Planning–controlling relationship • Five-step process • Critical point control • Management by exception • Deviation analysis • Corrective action

Quick Formula Sheet

Five-step controlling process:

Set standards → Measure performance
→
Compare → Analyse deviations →
Take corrective action

Two key principles:

Critical Point Control •
Management by Exception

Deviation formula:

Deviation = Actual – Standard

Planning vs Controlling:

Planning = looking ahead
Controlling = looking back
(and forward)

Very Short Answer Type Questions

Q 8.1 State the meaning of controlling.

SOLUTION

Concept used. **Controlling** is the fifth and final function of management in Henri Fayol's classical scheme. It is the process of *ensuring that actual activities conform to planned activities*. Controlling closes the management loop – it tells the manager whether the plan has been executed and, if not, why and how to fix it.

Step 1. Definition. Controlling is the process of *measuring* current performance, *comparing* it with pre-set standards, *detecting* deviations, and *taking corrective action* so that organisational goals are achieved.

Step 2. What it does. It links plans on paper with action on the ground. Without controlling, plans remain hopes.

Step 3. Scope. Controlling is exercised at every level – from the CEO checking quarterly results, to the supervisor checking the day’s output against the day’s target.

Step 4. Goal-oriented. The purpose is not to find fault, but to keep operations on track toward the organisation’s goals.

Step 5. Continuous. It is not a one-shot exercise; it is built into every cycle of planning → doing → checking → acting.

Final Answer: Controlling is the management function of *ensuring that actual activities conform to planned activities*. It involves setting standards, measuring actual performance, comparing the two, analysing deviations and taking corrective action so that organisational goals are achieved.

Exam Tip

For a 1-mark VSA, write one crisp line: “Controlling is the process of ensuring that actual activities conform to planned activities.” – the NCERT’s own wording.

EXPERT’S SOLUTION : Aarav Sharma, M.Com, Delhi University

Quick reading. Controlling = checking whether the plan worked + fixing it if it didn’t.

Step 1. Compare actual vs planned.

Step 2. Find deviation.

Step 3. Take corrective action.

Final Answer: Controlling = ensuring actual activities conform to planned activities.

Q 8.2 Name the principle that a manager should consider while dealing with deviations effectively. State any one situation in which an organisation’s control system loses its effectiveness.

SOLUTION

Concept used. When deviations occur, a manager cannot personally investigate every single one – there is not enough time. Two well-known control principles guide the manager on *which* deviations to attend to and *how much* attention to spend on each: the **principle of critical point control** and the **principle of management by exception**. Together they ensure deviations are handled *effectively*.

Step 1. Principle of critical point control. The manager should focus on *key result areas* (KRAs) – the few activities that are critical to the organisation’s success. If these are under control, the rest will largely take care of themselves.

Step 2. Principle of management by exception. Also called *control by exception*. Only *significant* deviations – those that exceed a permitted range – are brought to the manager’s attention. Small, within-range deviations are ignored. *Example:* a $\pm 2\%$ tolerance on weekly output is acceptable; a deviation of -8% triggers an alert.

Step 3. Why it works. It saves managerial time and energy, allows full focus on the truly important problems, and prevents micromanagement that demotivates staff.

One situation where an organisation’s control system loses its effectiveness.

Step 1. When standards cannot be set in quantitative terms. Many results – such as managerial morale, employee satisfaction, brand goodwill or social responsibility – cannot be measured precisely. In the absence of clear, quantitative standards, the comparison step fails and controlling loses force.

Step 2. Other situations where controlling weakens: when the organisation has no control over external factors (government policy, competitor moves, natural calamities); when employees resist the control system; and when the cost of controlling exceeds the benefit (especially in small firms).

Final Answer: Principles guiding effective handling of deviations: **Critical Point Control** (focus on key result areas) and **Management by Exception** (only significant deviations reach the manager). **A situation in which control loses effectiveness:** when performance standards cannot be set in quantitative terms (qualitative areas like morale, brand image, goodwill) – without measurable standards, comparison and corrective action become subjective.

Exam Tip

Two-part question: name the principle *and* give a situation. Don’t lose half-marks by answering only one part. Memory hook: “Critical Point + Management by Exception”.

EXPERT'S SOLUTION : Priya Iyer, M.Com, Christ University Bangalore

Quick reading. Two famous principles + one weakness of control.

Step 1. Critical point control – focus on key areas.

Step 2. Management by exception – alert only on big deviations.

Step 3. Weakness: no quantitative standards ⇒ no real comparison.

Final Answer: Principles = Critical Point Control + Management by Exception.
Situation where control loses effectiveness = qualitative areas with no quantitative standards.

Q 8.3 State any one situation in which an organisation's control system loses its effectiveness.

SOLUTION

Concept used. The NCERT explicitly lists four **limitations of controlling**. Each limitation describes a situation in which the control system loses some or all of its effectiveness. The question asks for any *one* such situation.

Step 1. Difficulty in setting quantitative standards. Where performance cannot be measured in numbers – such as employee morale, motivation, organisational climate, brand image, job satisfaction or social responsibility – the comparison step becomes subjective and the control system loses its bite. *This is the most-tested limitation in CBSE.*

Step 2. Little control over external factors. The control system cannot control external factors like government policy, technological change, competitor moves, natural calamities or shifts in customer preferences. Where deviations are caused purely by such external factors, the system loses effectiveness.

Step 3. Resistance from employees. Employees may view control as an attempt to police them and may resist by working to rule, refusing to report problems, or fudging data. When data is unreliable, control breaks down.

Step 4. Costly affair. A control system involves expenditure on time, money and effort. In small organisations the cost of setting up and running a tight control system may exceed the benefit, making the system uneconomical.

Final Answer: One situation where an organisation's control system loses its effectiveness: **when performance standards cannot be set in quantitative terms** – for qualitative areas like employee morale, brand image or organisational climate, the manager has no measurable yardstick, the comparison step becomes subjective, and the entire control exercise loses force.

Exam Tip

Three other answers are equally correct for one mark: (i) external factors beyond control, (ii) employee resistance, (iii) cost exceeds benefit (small firms). Pick any one and stay with it.

EXPERT'S SOLUTION : Vivaan Mehta, M.Com, Symbiosis Pune

Quick reading. Four NCERT limitations – pick any one.

Step 1. Qualitative areas: no quantitative standard.

Step 2. External factors beyond control.

Step 3. Employee resistance.

Step 4. Cost > benefit (small firms).

Final Answer: No quantitative standards \Rightarrow control becomes subjective and loses effectiveness.

Q 8.4 Give any two standards that can be used by a company to evaluate the performance of its Finance & Accounting department.

SOLUTION

Concept used. **Performance standards** are the criteria against which actual performance is compared. They must be: (i) *specific* (defined precisely), (ii) *measurable* (preferably quantitative), and (iii) *relevant* (linked to the department's purpose). For a Finance & Accounting department, the standards must reflect the twin responsibilities of that department – *managing money* and *producing reliable financial information*.

Step 1. Standard 1 – Cost reduction percentage. The department's job includes controlling expenditure. A standard like “reduce operating cost by 5% over the previous year” measures whether the department is making the firm leaner.

Step 2. Standard 2 – Accuracy of financial reports. Measured as “zero material

misstatements in the audited accounts” or “no more than 1 error per 1,000 entries”. This standard captures the department’s job of producing reliable information.

Step 3. Other valid standards (for context).

- Time taken to close monthly accounts (e.g., 5 working days).
- Number of days within which all receivables are collected (debtor turnover).
- Compliance: zero penalties from tax authorities.
- Return on Investment (ROI) achieved by the department’s deployed funds.
- Variance from budgeted figures (e.g., $\pm 3\%$ allowed).

Final Answer: Two standards a company can use to evaluate its Finance & Accounting department: (i) **Cost reduction percentage** – e.g., reduce operating cost by 5% over the previous year; and (ii) **Accuracy of financial reports** – e.g., zero material misstatements / fewer than 1 error per 1,000 entries. (Other acceptable: time taken to close monthly accounts, ROI achieved, variance from budget.)

EXPERT’S SOLUTION : Aanya Kapoor, M.Com, BHU Varanasi

Quick reading. Two standards, both measurable, both linked to the finance function.

Step 1. Cost reduction % over previous year.

Step 2. Accuracy of reports / errors per 1,000 entries.

Final Answer: Cost reduction % + accuracy of financial reports.

Q 8.5 Which term is used to indicate the difference between standard performance and actual performance?

SOLUTION

Concept used. In the third step of the controlling process – *comparison* – the manager places actual performance side-by-side with the pre-set standard. Any gap between the two is called a **deviation**.

Step 1. Definition. A *deviation* is the gap between the standard set and the actual performance achieved. Formally:

$$\text{Deviation} = \text{Actual Performance} - \text{Standard Performance.}$$

Step 2. Types.

- *Positive deviation* – actual exceeds standard. Often welcome, but still worth analysing (Was the standard too soft? Can it be revised upward?).
- *Negative deviation* – actual falls short of standard. Triggers corrective action.

Step 3. What happens next. If the deviation lies within the permitted tolerance, no action is taken (*management by exception*). If it crosses the tolerance, the manager investigates the cause, designs a remedy, and implements it.

Final Answer: The term used for the difference between standard performance and actual performance is **Deviation**. Mathematically, $\text{Deviation} = \text{Actual Performance} - \text{Standard Performance}$. Positive deviations exceed the standard; negative deviations fall short.

Exam Tip

For 1 mark: just write “**Deviation**”. For 2–3 marks, add the formula and one type (positive / negative).

EXPERT'S SOLUTION : Karan Joshi, M.Com, BHU Varanasi

Quick reading. $\text{Actual} - \text{Standard} = \text{Deviation}$.

Step 1. Positive = exceeds.

Step 2. Negative = falls short.

Step 3. Within tolerance \Rightarrow ignore (MbE).

Final Answer: Deviation.

Short Answer Type Questions

Q 8.6 ‘Planning is looking ahead and controlling is looking back.’ Comment.

SOLUTION

Concept used. The statement is *partly true* but *incomplete*. Planning and controlling are NCERT’s **inseparable twins** of management. The popular saying captures only the directions of their gaze, not the truth that each one feeds into the other in both directions.

Step 1. Truth in the statement.

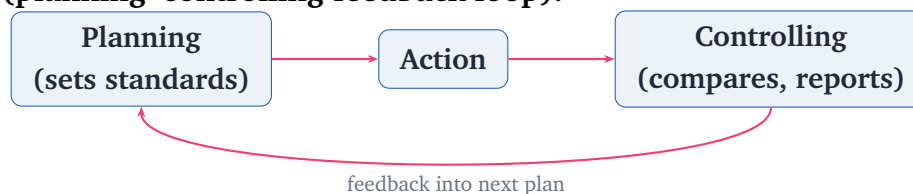
- *Planning is looking ahead.* It is a forward-looking exercise – the manager decides today what should be done tomorrow. Planning sets the goals and the roadmap to reach them.
- *Controlling is looking back.* The manager evaluates yesterday's actual performance against yesterday's standard. The comparison step is a *post-mortem* of what has already happened.

Step 2. Why the statement is incomplete. Controlling is *not only* looking back. By revealing why the deviation occurred, controlling also looks *forward*:

- The findings of controlling feed into the *next* round of planning – tighter budgets, better targets, revised methods.
- Controlling helps the manager forecast future deviations and prevent them by tweaking inputs in time.

Step 3. Two-way dependence.

- *Planning → Controlling:* Planning provides the standards against which controlling is exercised. *Without planning, controlling has nothing to measure against.*
- *Controlling → Planning:* Controlling produces information about deviations that becomes the input for the next planning cycle. *Without controlling, the best-laid plan may go astray.*

Diagram (planning–controlling feedback loop).

Final Answer: The statement is **partly true**. Planning is forward-looking and controlling *starts* by looking back at actual performance – so the visual metaphor is correct. However, controlling *also looks forward* because its findings (deviation reports, root causes) feed into the next planning cycle. Planning and controlling are *inseparable twins*: planning provides the standards for controlling, and controlling feeds information back into planning.

Exam Tip

For a 3-mark answer: state “partly true”, then write one line on the forward-looking nature of planning, one line on the backward look of controlling, and one line on the feedback loop.

EXPERT'S SOLUTION : Aarav Sharma, M.Com, Delhi University

Quick reading. The saying is half-right – controlling looks back *and* forward.

Step 1. Planning → standards.

Step 2. Action.

Step 3. Controlling → deviation → feedback into next plan.

Final Answer: Partly true: controlling does start with hindsight but ends with foresight; planning and controlling are inseparable twins.

Q 8.7 'An effort to control everything may end up in controlling nothing.' Explain.

SOLUTION

Concept used. The statement points to the **principle of critical point control** and its companion **management by exception**. If a manager tries to monitor every single activity in detail, three things go wrong – attention gets thinly spread, costs explode, and employees feel policed. Net effect: nothing gets controlled *well*.

Step 1. Why total control fails.

- *Limited managerial time.* A manager has perhaps eight focussed hours a day. Trying to inspect every activity dilutes attention, so even the truly important deviations get missed.
- *Information overload.* If hundreds of reports land daily, the manager cannot read them all; important signals get buried in noise.
- *High cost.* Each control point needs a measurement system, a reporter, a review meeting and a corrective action loop. Controlling everything is expensive.
- *Employee morale.* Constant surveillance demotivates staff and breeds resistance, which corrupts the data the system depends on.

Step 2. Solution – Critical Point Control. The manager identifies a small number of *key result areas* (KRAs) – those few activities on which the success of the whole organisation depends. Tight standards and close monitoring are reserved for these KRAs.

Step 3. Solution – Management by Exception. Within those KRAs, only deviations that exceed an agreed tolerance are flagged. The manager's attention is reserved for the "exceptional" problem. Routine, within-range deviations are ignored.

Step 4. Net effect. By concentrating effort on the few activities that truly matter, the manager actually controls *more*, not less.

Final Answer: The statement is *true*. Trying to monitor everything dilutes managerial attention, raises costs and demotivates staff – so nothing ends up being controlled well. The remedy is **Critical Point Control** (focus on key result areas) plus **Management by Exception** (alert the manager only on significant deviations). Together they let the manager control the few activities that matter *much better* than trying to control everything.

Exam Tip

This question is a guaranteed link to *Critical Point Control* and *Management by Exception*. Always name both principles in bold – examiners look for the names.

EXPERT'S SOLUTION : Priya Iyer; M.Com, Christ University Bangalore

Quick reading. Spread thin \Rightarrow no control. Concentrate on key points \Rightarrow real control.

Step 1. Total control is impossible (time, cost, morale).

Step 2. Critical Point Control = focus on KRAs.

Step 3. Management by Exception = act only on big deviations.

Final Answer: True – use Critical Point Control + Management by Exception to control only what matters.

Q 8.8 Explain how management audit serves as an effective technique of controlling.

SOLUTION

Concept used. **Management audit** is a *modern* technique of managerial control. It is the *systematic appraisal of the overall performance of the management of an organisation* – not just the accounts, but the planning, organising, staffing, directing and controlling functions taken together. It looks for inefficiencies and recommends improvements.

Step 1. Meaning. A management audit is a comprehensive, independent review of how well the management team is doing its job. It is conducted periodically by an internal committee or by external consultants.

Step 2. How it controls.

- *Identifies deficiencies* in current managerial performance – weak planning, slow decision-making, poor coordination, ineffective directing.
- *Improves coordination* by exposing inter-departmental gaps and duplications.
- *Ensures continuous self-improvement* – recommendations from each audit set fresh standards for the next period.
- *Updates managerial policies* in line with changing environments.
- *Helps managers achieve maximum efficiency* by benchmarking against the best practices in similar industries.

Step 3. Why it is effective.

- Covers *all* management functions, not just finance.
- Periodic and *forward-looking* – audit findings feed into the next plan.
- Independent – conducted by people not involved in day-to-day operations, so bias is minimised.

Step 4. Limitation. Standards for managerial performance are hard to define precisely, so a management audit can be more qualitative than quantitative. It works best when combined with traditional financial controls.

Final Answer: Management audit is a modern controlling technique. It is a systematic, independent appraisal of the *overall performance of the management* – planning, organising, staffing, directing and controlling. It identifies deficiencies, improves coordination, updates policies, and benchmarks performance against industry best practice. Because it covers *all* managerial functions and feeds findings back into the next planning cycle, it is an effective forward-looking control technique.

EXPERT'S SOLUTION : Vivaan Mehta, M.Com, Symbiosis Pune

Quick reading. Audit the managers themselves – find weaknesses, fix them, repeat.

Step 1. Independent, periodic appraisal of management.

Step 2. Covers all five functions.

Step 3. Findings → next planning cycle.

Final Answer: Management audit controls by appraising managerial performance and feeding the findings into the next planning cycle.

Q 8.9 Mr. Arfaaz had been heading the production department of Writewell Products Ltd., a firm manufacturing stationary items. The firm secured an export order that had to be completed on a priority basis and production targets were defined for all the employees. One of the workers, Mr. Bhanu Prasad, fell short of his daily production target by 10 units for two days consecutively. Mr. Arfaaz approached Ms. Vasundhara, the CEO of the Company, to file a complaint against Mr. Bhanu Prasad and requested her to terminate his services. Explain the principle of management control that Ms. Vasundhara should consider while taking her decision. (Hint: Management by exception).

SOLUTION

Concept used. The case is a textbook illustration of the **principle of management by exception**, sometimes called *control by exception*. The principle says that *only significant deviations – those that fall outside a permitted range – should be brought to the manager’s attention*. Small, within-tolerance deviations should be ignored.

Step 1. Diagnose the deviation. Mr. Bhanu Prasad fell short by 10 units a day for two days. Is this a *significant* deviation or a *routine* one? In a busy priority-export order, a 10-unit shortfall by one worker over two days is small relative to the total order quantity and may well lie within normal day-to-day fluctuation.

Step 2. Apply the principle. Management by exception requires Ms. Vasundhara to:

- *Check the tolerance limit.* Is the 10-unit shortfall inside the permitted \pm range, or outside?
- *If inside the tolerance:* ignore. Do not waste managerial time on it. Do not penalise the worker.
- *If outside the tolerance:* investigate the cause (illness, machine breakdown, raw-material shortage) before taking any action. Terminating services without a root-cause analysis is harsh and disproportionate.

Step 3. Benefits of the principle in this case.

- *Saves managerial time and energy* – the CEO does not have to act on every minor shortfall.
- *Focuses on big problems first* – like ensuring overall export-order completion.
- *Develops self-confidence in employees* – workers know that small, explainable shortfalls won’t end their careers.
- *Identifies critical problems clearly* – only the truly serious deviations rise to the top.

Step 4. Suggested action for Ms. Vasundhara.

- Do *not* terminate services. The shortfall is small and Mr. Bhanu Prasad deserves a fair investigation first.

- Ask the supervisor to check why the worker is short – machine, material, training or personal issue.
- Address the root cause; impose mild corrective action only if the worker is wilfully under-performing.

Final Answer: Ms. Vasundhara should apply the **Principle of Management by Exception**. This principle says that a manager should focus only on *significant deviations* that fall outside the permitted tolerance range; routine, small shortfalls (like Mr. Bhanu Prasad's 10-unit gap over two days) should not be escalated to the CEO and certainly should not lead to termination. She should refuse to act on the complaint, ask the supervisor to investigate the root cause, and reserve her own attention for the truly critical deviations that threaten the overall export order.

Exam Tip

The hint in the question tells you the answer. Always name the principle in bold, define it in one line, and apply it to the facts of the case. Examiners reward case-application.

EXPERT'S SOLUTION : Aanya Kapoor, M.Com, BHU Varanasi

Quick reading. Small deviation by one worker \neq CEO problem. Apply MbE.

Step 1. Define management by exception.

Step 2. Apply: 10 units in 2 days is small; let the supervisor handle it.

Step 3. Reject the termination request; investigate first.

Final Answer: Management by Exception – ignore small deviations, focus on the big ones; do not terminate; investigate first.

Long Answer Type Questions

Q 8.10 Explain the various steps involved in the process of control.

SOLUTION

Concept used. The **controlling process** as laid out in NCERT is a *five-step cycle* that operationalises the definition of controlling – “ensuring that actual activities conform to planned activities”. Each step has a specific input and output, and the steps must be

done in sequence. The findings of Step 5 also feed back into the next planning cycle, making the process iterative.

Step 1. Step 1: Setting performance standards. Standards are the criteria against which actual performance will be measured. Good standards are:

- *Specific* – precisely defined.
- *Measurable* – expressed in quantitative terms wherever possible (units, rupees, hours, percentage).
- *Achievable* – challenging but realistic.
- *Time-bound* – linked to a deadline.

Some areas (morale, brand image) need qualitative standards. Standards are derived from the planning function.

Step 2. Step 2: Measurement of actual performance. Actual performance is captured in the same units as the standard. Methods include:

- Personal observation (factory floor, shop visit).
- Sample checking (every n^{th} unit).
- Statistical reports (daily, weekly, monthly).
- Ratio analysis, ROI, break-even analysis.
- Performance reports from subordinates.

Measurement must be reliable, timely and economical.

Step 3. Step 3: Comparing actual performance with standards. The actual figure is placed side-by-side with the standard. The gap is the *deviation*:

$$\text{Deviation} = \text{Actual} - \text{Standard.}$$

Deviations may be positive (actual exceeds standard) or negative (actual falls short). The comparison must be in the same unit and over the same period.

Step 4. Step 4: Analysing deviations. Not every deviation needs attention. Two principles guide the analysis:

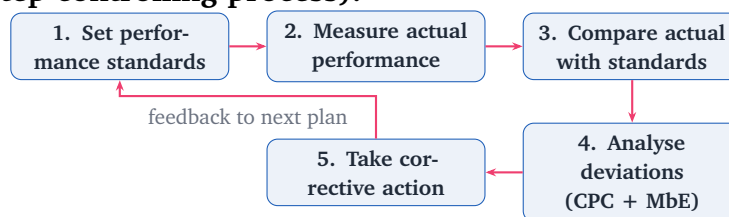
- *Critical Point Control* – focus on key result areas (KRAs).
- *Management by Exception* – escalate only deviations outside the tolerance range.

For deviations that do require attention, the manager investigates the *cause*: defective material, machine breakdown, lack of training, faulty standard, external disruption, employee de-motivation, etc.

Step 5. Step 5: Taking corrective action. The final step. If the deviation is within the acceptable range, no action is needed. If it goes beyond the acceptable range – especially in important areas – the manager designs and implements a remedy and verifies that it has restored performance:

- Replace faulty material; repair the machine.
- Re-train employees; redeploy supervisors; assign extra workers or sanction overtime for projects running behind schedule.
- Tighten the schedule; revise the budget.
- If the deviation cannot be corrected through managerial action, the *standard itself* may have to be revised.
- Lessons from corrective action feed back into the *next* planning cycle, closing the planning → controlling loop.

Diagram (five-step controlling process).



Final Answer: The controlling process is a **five-step cycle**: (1) Set performance standards → (2) Measure actual performance → (3) Compare actual with standards (deviation = actual – standard) → (4) Analyse deviations (critical point control + management by exception) → (5) Take corrective action. The findings of Step 5 also feed back into the next planning cycle, making the process a continuous loop.

Exam Tip

For a 6-mark long answer, write one paragraph per step (3–4 lines each) and draw the flow diagram. Examiners look for all five NCERT steps and the deviation formula.

EXPERT'S SOLUTION : Karan Joshi, M.Com, BHU Varanasi

Quick reading. Standards → Measure → Compare → Analyse → Correct (then feed back into the next plan).

Step 1. Standards from the plan.

Step 2. Measure actuals.

Step 3. Compare; find deviation.

Step 4. Apply CPC + MbE.

Step 5. Fix root cause; feed lessons back into the next plan.

Final Answer: Five-step loop: Set → Measure → Compare → Analyse → Correct (feeds back into next plan).

Q 8.11 Explain the techniques of managerial control.

SOLUTION

Concept used. **Techniques of managerial control** are the specific tools that managers use inside the five-step controlling process. NCERT divides them into two groups: *traditional* techniques (in use for many decades) and *modern* techniques (newer, more analytical tools).

Step 1. Traditional Techniques.

- *Personal observation.* The manager visits the shop floor or office and sees performance directly. Slow and subjective but irreplaceable for catching things data misses.
- *Statistical reports.* Numerical summaries – averages, percentages, ratios, trends, graphs – of performance for review.
- *Breakeven analysis.* A cost-volume-profit technique that shows the level of sales at which total cost equals total revenue. Helps the manager judge whether the firm is operating safely above the break-even point.

$$\text{BEP (units)} = \frac{\text{Fixed Cost}}{\text{Contribution per unit}}$$

- *Budgetary control.* Quantitative plans for the coming period (sales budget, production budget, cash budget, master budget) are prepared in advance. Actual is then compared against the budget, and variances are investigated.

Step 2. Modern Techniques.

- *Return on Investment (ROI).* The overall yardstick of profitability.

$$\text{ROI} = \frac{\text{Net Income (before interest and tax)}}{\text{Total Investment}} \times 100.$$

Comparing ROI across years, divisions or competitors reveals which units are value-creating.

- *Ratio analysis.* Liquidity, solvency, profitability and activity ratios summarise financial performance and flag deviations early.
- *Responsibility accounting.* The organisation is divided into *responsibility centres* – cost centres, revenue centres, profit centres, investment centres – and each centre head is held responsible for the costs/revenues controllable at that level.

- *Management audit*. Systematic appraisal of the overall performance of management itself (see previous question for detail).
- *PERT and CPM*. Network techniques used in project management to plan, schedule and control time and cost. PERT = Programme Evaluation & Review Technique (probabilistic); CPM = Critical Path Method (deterministic). Both identify the *critical path* – the longest chain of dependent activities that determines project duration.
- *Management Information System (MIS)*. A computer-based system that provides managers with timely, accurate, relevant information for decision-making and control.

Final Answer: Techniques of managerial control fall in two groups. **Traditional:** personal observation, statistical reports, breakeven analysis, budgetary control. **Modern:** return on investment (ROI), ratio analysis, responsibility accounting, management audit, PERT/CPM, and management information system (MIS). Each technique fits one or more steps of the five-step controlling process – standards, measurement, comparison or corrective action.

Exam Tip

A safe presentation: heading *Traditional* (4 items, one line each) followed by heading *Modern* (6 items, one line each). 10 named techniques + the BEP and ROI formulas usually covers a 6-mark answer.

EXPERT'S SOLUTION : Aarav Sharma, M.Com, Delhi University

Quick reading. Two buckets: 4 traditional + 6 modern.

Step 1. Traditional: observation, stats, BEP, budgets.

Step 2. Modern: ROI, ratios, responsibility accounting, audit, PERT/CPM, MIS.

Final Answer: Traditional (4) + Modern (6) = 10 named techniques across the controlling process.

Q 8.12 Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

SOLUTION

Concept used. The question has two parts: the *importance* of controlling (its benefits) and the *limitations / problems* (its weaknesses). NCERT lists five points of importance and four limitations.

Step 1. Importance of Controlling.

- *Accomplishing organisational goals.* Controlling measures progress against goals and triggers corrective action when progress falls short – directly ensuring that goals are achieved.
- *Judging accuracy of standards.* A good control system also tells the manager whether the standards themselves are realistic. Standards consistently exceeded or missed are revised.
- *Making efficient use of resources.* By comparing actual usage against planned usage, controlling helps reduce waste of materials, time, money and effort.
- *Improving employee motivation.* A fair control system that recognises good performance and provides feedback motivates employees. They know what is expected, how they are being measured and where they stand.
- *Ensuring order and discipline.* Controlling creates an atmosphere of discipline by holding everyone accountable to clear standards.
- *Facilitating coordination in action.* Each department's performance is checked against the master plan; deviations in one are corrected so they do not throw the others out of sync.

Step 2. Problems / Limitations of Controlling.

- *Difficulty in setting quantitative standards.* For areas like morale, brand image or social responsibility, precise standards cannot be set and the control system loses its bite.
- *Little control over external factors.* The control system cannot govern government policy, technological change, competitor moves or natural calamities. Deviations from these external causes are hard to correct.
- *Resistance from employees.* Employees may resent being constantly measured, fudge data, or work to rule – making the data the system depends on unreliable.
- *Costly affair.* The control system needs measurement, reporting, review and corrective infrastructure. In small organisations the cost may exceed the benefit.

Final Answer: Importance of controlling: (1) accomplishes goals, (2) judges accuracy of standards, (3) ensures efficient use of resources, (4) improves employee motivation, (5) ensures order and discipline, (6) facilitates coordination. **Problems/limitations:** (1) difficulty in setting quantitative standards, (2) little control over external factors, (3) employee resistance, (4) costly affair. A well-designed control system maximises the benefits while mitigating the limitations through clear, fair, cost-effective measurement.

EXPERT'S SOLUTION : Priya Iyer, M.Com, Christ University Bangalore

Quick reading. 6 benefits + 4 problems.

Step 1. Benefits: goals, standards check, efficiency, motivation, discipline, coordination.

Step 2. Problems: qualitative gap, external factors, resistance, cost.

Final Answer: Six benefits balanced against four limitations – design the system to maximise the first and mitigate the second.

Q 8.13 Discuss the relationship between planning and controlling.

SOLUTION

Concept used. NCERT calls planning and controlling the **inseparable twins of management**. They are distinct functions, yet so closely linked that one is meaningless without the other. The relationship runs in *both* directions and operates as a continuous feedback loop.

Step 1. Planning is the basis of controlling. The standards used in controlling come directly from the plan. Without a plan, the manager has nothing to measure actuals against. *No plan ⇒ no standards ⇒ no controlling.*

Step 2. Controlling is the end of planning. Planning is incomplete until results are checked. Controlling reveals whether the plan worked, and feeds that information back into the next round of planning. *No controlling ⇒ plans go astray.*

Step 3. Planning is prescriptive, controlling is evaluative.

- Planning prescribes what *should* be done.
- Controlling evaluates what *has been* done against that prescription.

Step 4. Both are pervasive and continuous.

- Planning happens at every level (CEO long-term plan, department annual plan, supervisor daily plan).
- Controlling also happens at every level (CEO reviews quarterly results, department head weekly, supervisor daily).
- Both functions are continuous – each cycle of action triggers fresh planning and fresh controlling.

Step 5. Planning is forward-looking, controlling is both backward and forward looking. Planning forecasts future activities. Controlling starts by looking back at what happened, but ends by looking forward – its findings feed into the *next* plan.

Step 6. Comparison table.

Basis	Planning	Controlling
Meaning	Deciding in advance what to do	Checking that what was decided is being done
Nature	Forward-looking	Backward + forward-looking
Function order	First function	Last function
Information needed	Forecasts and assumptions	Actual performance data
Output	Standards, goals, budgets	Deviation reports, corrective action
Free will	Can be done without controlling info	Cannot be done without a plan

Final Answer: Planning and controlling are the **inseparable twins of management**. *Planning provides the standards* that make controlling possible, and *controlling provides the feedback* that makes the next round of planning realistic. Without planning, controlling has nothing to measure; without controlling, the best-laid plan may go astray. They are distinct in nature (planning is prescriptive and forward-looking; controlling is evaluative and both backward and forward-looking) but operate as a continuous feedback loop at every level of the organisation.

Exam Tip

Always end this answer with the two NCERT one-liners: “Planning without controlling is wishful thinking; controlling without planning has nothing to measure.” Examiners remember these.

EXPERT'S SOLUTION : Vivaan Mehta, M.Com, Symbiosis Pune

Quick reading. Twins. Each meaningless without the other. Feedback loop.

Step 1. Plan → Standards.

Step 2. Act.

Step 3. Control → Deviation → Feedback.

Step 4. Next plan = better.

Final Answer: Inseparable twins – planning sets the standards, controlling closes the loop and feeds the next plan.

Q 8.14 A company 'M' limited is manufacturing mobile phones both for domestic Indian market as well as for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing. (a) Identify the benefits the company will derive from a good control system. (b) How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained? (c) Give the steps in the control process that the company should follow to remove the problems it is facing.

SOLUTION

Concept used. The three sub-parts map cleanly to NCERT theory: (a) importance of controlling, (b) the planning-controlling link, (c) the five-step controlling process. The context is a competitive mobile-phone market where deviations are showing up in sales and satisfaction targets.

Step 1. Part (a) – Benefits of a good control system for 'M' Ltd.

- *Accomplishing organisational goals.* A revamped system will measure progress on sales and customer-satisfaction targets and trigger corrective action when actual falls short.
- *Judging accuracy of standards.* The current sales targets may be out-of-date for a tougher market – the new system can flag and revise them.
- *Making efficient use of resources.* Tighter cost controls free funds for R&D and

competitive pricing.

- *Improving employee motivation.* Fair feedback on what each sales region contributes lifts motivation and channels effort.
- *Ensuring order and discipline.* Clear accountability for the sales and customer-service teams.
- *Facilitating coordination.* Marketing, production, R&D and customer-service can be synchronised against a single control dashboard.

Step 2. Part (b) – Planning–Controlling link in ‘M’ Ltd.

- *Planning sets standards.* The CEO sets quarterly sales, market-share and customer-satisfaction targets.
- *Controlling measures and compares.* The control system reads actual weekly sales, NPS (net promoter score) and complaint data, and compares them against the targets.
- *Feedback loop.* If sales are falling because the product line is technologically behind, the control system flags this; the next plan includes a faster R&D cycle and revised pricing.
- *Inseparable twins.* For ‘M’ Ltd., a plan without control is wishful thinking, and control without a plan has nothing to measure – the two must run together.

Step 3. Part (c) – Five steps ‘M’ Ltd. should follow.

- *Step 1: Set performance standards.* Quarterly sales targets (units, value), market-share targets (%), customer-satisfaction targets (NPS, complaints per 10,000 units), R&D cycle time (months per release), unit cost (rupees per handset).
- *Step 2: Measure actual performance.* Daily sales reports from distributors, weekly NPS, monthly complaints log, quarterly market-share study.
- *Step 3: Compare actual with standards.* For each KPI, compute $\text{Deviation} = \text{Actual} - \text{Standard}$.
- *Step 4: Analyse deviations.* Apply *critical point control*: focus on the few KPIs that drive business value (sales, share, satisfaction). Apply *management by exception*: dig deep only when deviations exceed the tolerance.
- *Step 5: Take corrective action.* Possible remedies: refresh product line, sharpen pricing, expand distribution, retrain customer-care staff, tighten R&D cycle, review supplier costs. Verify that each corrective action has actually closed its deviation, and carry the lessons into the next year’s plan – closing the planning → controlling loop.

Final Answer: (a) Benefits = accomplishing goals, judging accuracy of standards, efficient resource use, improved motivation, order and discipline, coordination. (b) Planning provides standards (sales, share, satisfaction targets); controlling measures and compares; the feedback loop tightens the next plan – planning and controlling are inseparable twins. (c) Follow the five-step controlling process – (1) Set standards, (2) Measure performance, (3) Compare, (4) Analyse deviations using Critical Point Control + Management by Exception, (5) Take corrective action (product refresh, pricing, distribution, training) and feed lessons into the next plan.

Exam Tip

Case questions reward *application*. For each sub-part, name the NCERT concept first, then connect it to the facts (mobile phone market, new entrants, falling sales).

EXPERT'S SOLUTION : Aanya Kapoor, M.Com, BHU Varanasi

Quick reading. Three sub-parts: benefits, twins, five steps – all tied to 'M' Ltd.

Step 1. Benefits: 6 NCERT points adapted to mobile market.

Step 2. Twins: plan sets standards, control reports back.

Step 3. Five steps: set, measure, compare, analyse, correct (feed back into next plan).

Final Answer: Apply NCERT theory to mobile market: benefits + planning-controlling twins + five-step process to revamp.

Q 8.15 Mr Shantanu is a chief manager of a reputed company that manufactures garments. He called the production manager and instructed him to keep a constant and continuous check on all the activities related to his department so that everything goes as per the set plan. He also suggested him to keep a track of the performance of all the employees in the organisation so that targets are achieved effectively and efficiently. (a) Describe any two features of Controlling highlighted in the above situation. (Goal Oriented, continuous and pervasive – any 2). (b) Explain any four points of importance of Controlling.

SOLUTION

Concept used. Two-part case question. Part (a) asks the student to read between the lines and identify which **features of controlling** Mr Shantanu's instruction reflects. Part (b) is a textbook recall on the **importance of controlling**.

Step 1. Part (a) – Two features of controlling visible in the case.

- *Continuous.* “Keep a constant and continuous check on all the activities” – this is the literal definition of controlling as a *continuous* function. Controlling never stops; each cycle of action triggers a fresh comparison and corrective action.
- *Pervasive.* “Keep a track of the performance of all the employees in the organisation” – controlling is exercised at *every level* (top, middle, supervisory) and in *every department* (production, marketing, finance, HR). It is not confined to top management.
- *Goal-oriented.* “So that everything goes as per the set plan” and “so that targets are achieved effectively and efficiently” – this signals that controlling is directed at the achievement of *organisational goals*. (Any two of these three features may be written.)

Step 2. Part (b) – Any four points of importance of controlling.

- *Accomplishing organisational goals.* Controlling measures progress and triggers corrective action when actual falls short – directly ensuring goals are met. For the garment company, this means sales and production targets are actually delivered, not just printed in the plan.
- *Judging accuracy of standards.* A good control system also reveals whether the targets set for the production team are realistic. If month after month a particular target is missed across all workers, the standard itself may be wrong and needs revision.
- *Making efficient use of resources.* Tight controls on cloth wastage, machine downtime, overtime hours and inventory levels free up cash and reduce cost per garment – valuable in a price-competitive garment industry.
- *Improving employee motivation.* Fair feedback that recognises good performance and provides constructive correction lifts morale. Workers know what is expected, how they are being measured and where they stand.
- *Ensuring order and discipline.* A control system holds every employee accountable to clear, fair standards – creating a disciplined workplace.
- *Facilitating coordination in action.* Each department's performance is checked against the master plan, and deviations in one department are corrected before they pull the others out of sync.

Final Answer: (a) Two features of controlling visible in the case: (1) **Continuous** – “constant and continuous check” confirms the on-going nature of controlling; (2) **Pervasive** – “track of the performance of all the employees” confirms controlling operates at every level and in every department. (b) Four points of importance: (1) accomplishing organisational goals, (2) judging accuracy of standards, (3) making efficient use of resources, (4) improving employee motivation. (Other valid points: ensuring order and discipline; facilitating coordination in action.)

Exam Tip

Two-part case questions: always quote the trigger words from the case (“constant and continuous”, “all the employees”) alongside the feature name. The examiner is looking for that link.

EXPERT’S SOLUTION : *Karan Joshi, M.Com, BHU Varanasi*

Quick reading. (a) Continuous + Pervasive; (b) any 4 of 6 importance points.

Step 1. “Constant and continuous” → Continuous.

Step 2. “All employees” → Pervasive.

Step 3. Importance (4): goals, standards check, efficiency, motivation.

Final Answer: (a) Continuous + Pervasive (and Goal-Oriented if asked for a third).
(b) Goals + Standards + Efficiency + Motivation.

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