CBSE Class 12 Business Studies Question Paper 2004 with Solution PDF-Set 66/1/2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 100**

General Instructions

(i) Please check that this question paper contains 7 printed pages.

(ii) Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.

(iii) Please check that this question paper contains 25 questions.

(iv) Please write down the serial number of the question before attempting it.

(v) Answers to questions carrying **2–3** marks should not exceed **30–40** words.

(vi) Answers to questions carrying **4–5** marks should not exceed **60–80** words.

(vii) Answers to questions carrying **6** marks should not exceed **100** words.

(viii) Attempt all parts of a question together.

1. What is meant by the societal concept of marketing ? [2 marks]

Solution:

Concept:

- The societal marketing concept extends consumer satisfaction to the long-term welfare of consumers and society.
- Marketing decisions should balance company profits, consumer needs and the interests of society.

Step 1: State the meaning The societal concept of marketing means that an organisation should identify the needs and wants of its target market and satisfy them more effectively than competitors, while preserving or improving the long-term well-being of consumers and society. Immediate customer satisfaction alone is therefore insufficient.

Step 2: Explain the social responsibility The firm must balance its profit objective with consumer satisfaction and social welfare. For example, an economical package that pleases buyers should also avoid unnecessary environmental damage. A business following this concept considers the effects of its products and marketing practices on health, resources and the environment rather than pursuing sales regardless of their consequences.

Step 3: Conclusion Thus, societal marketing seeks profitable customer satisfaction in a manner consistent with the long-term welfare of consumers and society.

Quick Tip to Solve: Remember the three interests to be balanced: company profits, consumer satisfaction and social welfare.

2. Explain, in brief, the term 'motivation' as an element of directing. [2 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to take action to accomplish desired goals.
- As an element of directing, it encourages employees to use their abilities willingly for organisational objectives.

Step 1: Define motivation Motivation means stimulating employees to act in the desired manner so that organisational goals can be achieved. It creates an inner drive or willingness to work; merely possessing the ability to perform a task does not ensure that a person will make the required effort.

Step 2: Relate needs to work behaviour A manager identifies employees' needs and uses suitable financial or non-financial incentives to encourage effort. For example, recognition of good performance can satisfy an employee's need for appreciation and encourage continued contribution. By connecting the satisfaction of individual needs with the achievement of organisational objectives, motivation directs employee effort towards the required work.

Step 3: Conclusion Motivation, therefore, is the directing process that stimulates employees to work willingly and energetically towards desired organisational goals.

Quick Tip to Solve: For a definition of motivation, link three ideas: stimulation, willingness to act and achievement of goals.

3. Differentiate between 'marketing' and 'selling' on the basis of :

(a) objective and

(b) process [2 marks]

Solution:

Concept:

- Marketing starts with customer needs and integrates activities to satisfy them profitably.
- Selling focuses on persuading buyers to purchase the products already offered by the firm.

Step 1: Identify the two bases The requested comparison concerns the objective of each activity and the nature of its process. Marketing has a customer-oriented outlook, whereas selling concentrates on converting the firm's existing products into sales.

Step 2: Present the differences

Basis	Marketing	Selling
Objective	Earn profits through customer satisfaction, by identifying and satisfying customer needs.	Earn profits through maximising sales volume, by persuading customers to buy existing products.
Process	An integrated process covering identification of needs, product planning, pricing, promotion and distribution. It begins before production and continues after the sale.	A part of the marketing process, concerned mainly with promotion and transfer of products from seller to buyer. It generally starts after production.

Step 3: Conclusion Marketing aims at profits through customer satisfaction using an integrated process; selling aims at profits through greater sales of existing products using persuasion and promotion.

Quick Tip to Solve: Use the exact bases asked: objective means the intended result; process means the activities and their scope.

4. Give any two examples of the impact on business organisations due to change in economic environment. [2 marks]

Solution:

Concept:

- The economic environment includes interest rates, income levels, inflation and other economic conditions affecting business.
- A change in an economic factor can alter demand, financing costs and business decisions.

Step 1: Explain the effect of a change in interest rates **Interest rates:** A fall in bank lending rates reduces the cost of borrowing for business enterprises. Firms may then find expansion or investment in machinery more affordable. It can also make consumer loans cheaper, increasing demand for products commonly purchased on credit, such as cars and household appliances.

Step 2: Explain the effect of a change in disposable income **Disposable income:** An increase in consumers' disposable income raises their purchasing power. Businesses selling goods such as

consumer durables may experience increased demand and may expand production or introduce additional products to serve it. Conversely, a fall in disposable income can reduce demand and lead firms to revise output and sales plans.

Step 3: Conclusion Two examples are lower interest rates reducing financing costs and higher disposable income increasing demand. Both show how economic changes influence business operations and decisions.

Quick Tip to Solve: For each example, name an economic change and then state its direct consequence for the business.

5. Explain, in brief, 'management' as a group of people having managerial responsibility for an enterprise. [2 marks]

Solution:

Concept:

- As a group, management refers to the people entrusted with managerial authority and responsibility in an enterprise.
- These managers work at different levels and coordinate people and resources to achieve organisational objectives.

Step 1: Identify the people called management In this sense, management means the collective body of persons who carry out managerial functions and are responsible for the affairs of an enterprise. It includes managers at the top, middle and supervisory levels, rather than referring simply to the activities they perform.

Step 2: Explain their shared responsibility Top managers determine overall objectives and policies, middle managers translate them into departmental plans, and supervisory managers guide day-to-day work. Together they plan, organise, staff, direct and control the enterprise's activities. Although their authority and scope differ, they coordinate the efforts of employees and use organisational resources to secure the desired results. Thus, an expression such as "management decided to expand" refers to the responsible managerial personnel.

Step 3: Conclusion Management as a group is the body of managers at different levels who collectively bear responsibility for directing the enterprise towards its objectives.

Quick Tip to Solve: When management means people, identify the managers and their collective responsibility; distinguish this from management as a process.

6. Explain briefly any three techniques of sales promotion commonly used by marketeers to attract the customers towards the product. [3 marks]

Solution:

Concept:

- Sales promotion means short-term incentives, additional to the basic product offer, intended to encourage customers to buy promptly.
- Unlike general publicity, a sales-promotion technique gives a specific immediate benefit, such as a price saving, an extra article or a chance to try the product.

Step 1: Explain the price incentive **Rebate:** The seller offers a product at a special reduced price for a limited period, often to clear stocks or stimulate purchases. For example, a manufacturer may offer a stated reduction on the purchase price of a refrigerator during a festival sale. The customer gains a direct saving, which makes buying during the offer period more attractive than postponing the purchase.

Step 2: Explain incentives through quantity and trial **Quantity gift:** The buyer receives extra quantity of the same product without a proportionate increase in price, for example 20% extra shampoo in a pack at the usual price. The additional quantity increases the value received and encourages the buyer to select that brand.

Sampling: Small samples of a product are distributed free to prospective customers, especially when introducing a new product. A free sample of toothpaste lets a customer experience its taste and quality before purchasing a full pack. It reduces the hesitation associated with trying an unfamiliar brand and can convert a trial user into a regular buyer.

Step 3: Conclusion Rebate, quantity gift and sampling are three sales-promotion techniques. They attract customers respectively through a lower purchase price, extra quantity and a free opportunity to try the product.

Quick Tip to Solve: Name the incentive first, explain the benefit to the buyer, and add a short example to distinguish each technique.

7. "The post of supervisor should be abolished in the hierarchy of managers". Do you agree ? Give any three reasons in support of your answer. [3 marks]

Solution:

Concept:

- Supervision is the direct overseeing and guiding of workers at the operating level so that work is performed according to plans and instructions.
- The supervisor links management and workers and translates managerial decisions into day-to-day action; this role remains necessary even when workers are experienced.

Step 1: State the position and explain the communication link I do not agree that the post of supervisor should be abolished.

Link between management and workers: The supervisor communicates management's instruc-

tions, targets and policies to workers in a form they can understand. The supervisor also conveys workers' difficulties, grievances and suggestions to higher management. This two-way link reduces misunderstandings and helps management take decisions based on actual conditions at the workplace.

Step 2: Explain guidance and control at the workplace **Guidance and on-the-job training:** The supervisor remains in close contact with workers and demonstrates the correct methods of performing tasks. Workers can obtain immediate help when they face a difficulty. Such guidance improves their skills, reduces mistakes and helps new employees settle into their jobs.

Ensuring performance according to standards: By observing work continuously, the supervisor checks whether output, quality and use of resources conform to prescribed standards. Deviations can be detected and corrected promptly instead of remaining unnoticed until the final result. This helps prevent wastage and supports the timely achievement of organisational targets.

Step 3: Conclusion The supervisor's post should be retained because it provides a communication link, guides and trains workers, and checks performance at the operating level. These functions make supervision an essential part of directing.

Quick Tip to Solve: For an agree-or-disagree question, state your stand first, then support it with three distinct functions of the supervisor.

8. Explain briefly any three features of advertising. [3 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
- The defining features concern who pays for the message, how it reaches the audience, and whether the advertiser is identifiable.

Step 1: Explain payment and the mode of presentation **Paid form:** The advertiser pays the owner of the advertising medium for the space or time used to carry the message. For example, a company pays a newspaper for an advertisement or a television channel for a commercial. The payment distinguishes advertising from unpaid publicity, such as an independent news report about the business.

Impersonal presentation: Advertising does not involve direct face-to-face contact between the advertiser and an individual prospective customer. A message is transmitted through media such as newspapers, television, radio or the internet and can reach many people together. Because there is no immediate personal interaction, the message cannot ordinarily be adjusted on the spot to each individual's doubts.

Step 2: Identify the source of the message **Identified sponsor:** The person or organisation paying for and issuing the advertisement is identifiable. The advertisement carries the name, brand or other identification of its sponsor, so the audience knows whose product or idea is being promoted. For example, a branded detergent advertisement identifies the company or brand making the sales appeal. This separates advertising from a message whose promotional source is undisclosed.

Step 3: Conclusion The three features are paid form, impersonal presentation and identified sponsor.

Together, these describe advertising as a sponsored promotional message communicated through a medium to its audience.

Quick Tip to Solve: Remember the definition through three checks: payment, non-personal communication and an identifiable sponsor.

9. Enumerate any six common barriers to effective communication. [3 marks]

Solution:

Concept:

- Communication is effective when the receiver understands a message in the sense intended by the sender. A barrier distorts or obstructs this shared understanding.
- Barriers can arise from the language of the message, the mental state of the participants or the organisational system through which the message passes.

Step 1: Enumerate language and psychological barriers **1. Badly expressed message:** Inadequate vocabulary, poor sentence construction or omission of necessary details prevents the sender's meaning from being conveyed clearly.

2. Symbols with different meanings: A word, sign or expression may have more than one meaning, and the receiver may interpret it differently from the sender.

3. Premature evaluation: The receiver forms a judgement before listening to or reading the complete message; this prevents proper understanding of what is actually being communicated.

Step 2: Enumerate attention, status and organisational barriers **4. Lack of attention:** Preoccupation or failure to listen carefully causes the receiver to miss important parts of the message.

5. Status differences: Differences in rank can inhibit free communication. A subordinate may hesitate to report an unfavourable fact or express an opinion to a superior.

6. Complex organisational structure: A message passing through many levels takes more time and may be filtered or distorted at successive stages before it reaches the intended receiver.

Step 3: Conclusion Six common barriers are badly expressed messages, symbols with different meanings, premature evaluation, lack of attention, status differences and a complex organisational structure.

Quick Tip to Solve: Enumerate six distinct barriers; avoid counting two descriptions of the same obstacle as separate points.

10. State and explain any three points which highlight the nature of principles of management.

[3 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decisions and behaviour. They indicate how managers may organise and direct human effort towards organisational objectives.
- Their nature reflects the fact that management deals with people and changing business situations. They guide judgement rather than prescribe one unchanging action for every situation.

Step 1: Explain their role as general guidelines **General guidelines:** Management principles provide broad directions for solving organisational problems. They do not supply a ready-made solution to every problem, because real business situations involve many interacting factors. A manager must interpret the relevant principle in the light of the circumstances before deciding what to do. For example, division of work guides a manager towards specialisation, while the appropriate division still depends on the work and the employees available.

Step 2: Explain their flexibility **Flexible:** Management principles are not rigid rules. Managers can modify their application to suit the needs of the enterprise and the particular situation. The extent of delegation, for instance, may differ according to the competence of subordinates and the importance of the decision. Flexibility allows a principle to remain useful when organisational conditions change.

Step 3: Explain their wide applicability **Universal applicability:** Management principles apply to all kinds of organisations, whether business or non-business, small or large, and at different levels of management. Every such organisation needs coordinated effort towards objectives. However, the extent and manner of applying a principle can differ with the nature, size and circumstances of the organisation.

Step 4: Conclusion Three features of the nature of management principles are that they are general guidelines, flexible and universally applicable. Their application requires informed managerial judgement suited to the circumstances.

Quick Tip to Solve: For a question on nature, name each feature first and explain what it tells us about the way a management principle operates; do not substitute a list of Fayol's principles.

11. State any two developmental functions and any two regulatory functions of Securities and Exchange Board of India. (SEBI)

[4 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) develops and regulates the securities market and protects the interests of investors. Its developmental functions strengthen the market's institutions and participants.
- Its regulatory functions establish and enforce the framework within which stock exchanges and

securities-market intermediaries operate. Classifying the functions correctly is essential to answering this question.

Step 1: State two developmental functions **Training of intermediaries:** SEBI promotes the training of intermediaries operating in the securities market. Better knowledge of market procedures, responsibilities and professional practices improves their ability to provide services and contributes to the orderly development of the market.

Research and publication of useful information: SEBI conducts research and publishes information useful to market participants. Such information improves understanding of the working of the securities market and supports its development by helping investors and intermediaries make better-informed decisions.

Step 2: State two regulatory functions **Registration and regulation of intermediaries:** SEBI registers and regulates securities-market intermediaries such as stock brokers, sub-brokers, merchant bankers and portfolio managers. Registration and regulation bring their market activities within a supervised framework and require them to comply with the applicable rules and standards.

Regulation of takeover bids: SEBI regulates takeover bids by companies. It lays down the framework governing the acquisition of shares and changes in corporate control so that takeover activity is conducted in an orderly and transparent manner, with the interests of shareholders taken into account.

Step 3: Conclusion Two developmental functions are training intermediaries and conducting research and publishing useful market information. Two regulatory functions are registering and regulating intermediaries and regulating takeover bids by companies.

Quick Tip to Solve: Keep the categories separate: training and research develop market capability, while registration and takeover rules regulate the conduct of market participants.

12. The directors of a company want to modernise its plants and machinery by making a public issue of shares. They wish to approach stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach stock exchange or a consultant for new public issue of shares and why ? Also advise about the different methods which the company may adopt for the new public issue of shares. [4 marks]

Solution:

Concept:

- The primary market, or new issue market, deals in securities issued for the first time. Funds raised through a fresh issue flow to the issuing company and may finance expansion or modernisation.
- The secondary market, including a stock exchange, enables investors to buy and sell existing securities. A sale between investors does not itself provide fresh capital to the company.

Step 1: Advise the directors about the appropriate market The company should approach a qualified new-issue consultant or merchant banker, as the finance manager suggests. The words “modernise its plants and machinery” and “new public issue of shares” show that the company needs fresh capital through the primary market. The consultant can advise on the issue, its documentation, pricing and

arrangements for subscription. The stock exchange principally provides a market for trading existing shares; approaching it to sell existing shares would not raise the required fresh funds for the company. Listing may be arranged for subsequent trading, but it does not replace organising the new issue.

Step 2: Explain the methods of issuing new securities

- **Offer through a prospectus:** The company invites the public to subscribe directly by issuing a prospectus containing the prescribed information about the company and the proposed issue. This is the ordinary method for the public issue envisaged here.
- **Offer for sale:** Securities are first sold to intermediaries, such as issuing houses or stockbrokers, who then offer them to the investing public. The intermediary undertakes the public distribution.
- **Private placement:** The company allots securities to selected investors, such as financial institutions or other identified investors, instead of inviting subscriptions from the general public. This is an alternative way of raising fresh share capital.
- **Rights issue:** An existing company offers new shares to its existing shareholders, usually in proportion to their present holdings, giving them the first opportunity to subscribe.
- **Electronic initial public offer:** Under an electronic issue arrangement, applications and bids are processed through the permitted electronic system with the help of registered intermediaries, facilitating public subscription.

Step 3: Conclusion The directors should accept the finance manager's advice and use a new-issue consultant for raising fresh share capital in the primary market. A prospectus-based public offer directly suits their proposal; the other primary-market methods offer alternative channels according to the company's circumstances.

Quick Tip to Solve: Ask who receives the money: a fresh issue funds the company, whereas stock-exchange trading normally transfers money between investors.

13. Which principle of management is violated if an employee is asked to receive orders from two superiors ? Explain the principle with a suitable example. [4 marks]

Solution:

Concept:

- Henri Fayol's principle of unity of command states that each employee should receive orders from, and be accountable to, only one superior for a particular activity.
- A clear reporting relationship prevents conflicting instructions, fixes responsibility and maintains discipline. Unity of command concerns the employee's superior, whereas unity of direction concerns one head and one plan for activities having the same objective.

Step 1: Identify the principle violated **Unity of command is violated.** The phrase "receive orders from two superiors" shows that the employee has more than one source of authority for the work. Fayol requires one immediate superior so that the employee knows whose instructions to follow and that superior can hold the employee responsible for performance. The issue is the reporting relationship, rather than the number of organisational departments.

Step 2: Explain the principle and its significance

- **One source of orders:** An employee should receive instructions for the activity through one immediate superior. Other managers should coordinate through that superior rather than issue competing direct commands.
- **Clear responsibility:** One reporting relationship makes it possible to identify who assigned the task, who must perform it and to whom the employee must explain the results.
- **Avoidance of conflict:** Two superiors may give incompatible instructions or assign different priorities. The employee cannot satisfy both at once, so dual command creates confusion, delay and possible disagreement between the managers.
- **Discipline and authority:** A clear chain of command prevents an employee from using one manager's instruction as an excuse for disobeying another. It protects the authority of the immediate superior and supports orderly work.

Step 3: Illustrate the violation with an example Suppose a sales assistant's sales manager directs the assistant to visit a customer immediately, while the office manager independently orders the same assistant to remain in the office and prepare a stock statement at that time. The assistant cannot obey both instructions and may be blamed for whichever task remains undone. Under unity of command, the assistant should receive the final instruction from the designated immediate superior. The two managers should first coordinate priorities, and the immediate superior should then communicate the agreed task.

Step 4: Conclusion The principle is unity of command: one employee should receive orders from one immediate superior for the activity. Following it removes conflicting commands, clarifies accountability and maintains managerial authority and discipline.

Quick Tip to Solve: Link "one employee, one boss" to unity of command; link "one objective, one plan" to unity of direction.

14. "Delegation of authority is a process involving authority, responsibility and accountability." Explain the statement, in brief. [4 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to carry out an assigned task. It includes assigning responsibility, granting authority and creating accountability.
- Authority must be commensurate with responsibility. A manager can delegate authority, but cannot escape ultimate accountability to the superior for the delegated work.

Step 1: Assign responsibility for the task **Responsibility:** The superior first identifies the work to be done and assigns a definite duty to the subordinate. Responsibility is the subordinate's obligation to perform the assigned task properly and within the prescribed time. The task and expected results must be clear, so that the subordinate knows what performance is required. Responsibility arises from the superior-subordinate relationship and flows upward in the sense that the subordinate is responsible to the superior for the work.

Step 2: Grant the authority needed to perform it **Authority:** The superior gives the subordinate

the right to take decisions, issue instructions and use the resources needed to discharge the duty. Authority flows downward from the superior to the subordinate. Merely assigning work without giving adequate decision-making power is ineffective delegation: the employee would remain dependent on the superior for every action. Therefore the authority granted should match the responsibility assigned, within clearly stated limits.

Step 3: Establish accountability for the results **Accountability:** Once a task and the necessary authority have been accepted, the subordinate must answer to the superior for its proper performance. Accountability flows upward and requires the subordinate to explain the results achieved. It cannot be delegated away. Although the subordinate becomes accountable to the delegating manager, that manager remains ultimately accountable to the next higher superior for ensuring that the work is completed.

Step 4: Relate the three elements **An integrated process:** Responsibility specifies what must be done, authority provides the power to do it, and accountability requires an explanation of the outcome. For example, a sales manager may assign a sales target, permit a subordinate to allocate sales territories, and then review the results. All three elements are necessary for meaningful delegation and effective control.

Step 5: Conclusion Delegation therefore combines assignment of responsibility, transfer of sufficient authority and creation of accountability. The subordinate is answerable for the assigned work, while the superior retains ultimate accountability for it.

Quick Tip to Solve: Explain delegation in the order duty, power and answerability; remember that delegation never releases the superior from ultimate accountability.

15. Which method of wage payment — Time-rate or Piece-rate — would you adopt in each of the following situations ? Give reasons in support of your answer.

(i) Where quality is of supreme importance,

(ii) Where units of output can be measured,

(iii) Where job is standardised, and

(iv) Where there is no clear relationship between effort and output. [4 marks]

Solution:

Concept:

- Under the time-rate system, wages depend on the time worked at an agreed rate, irrespective of the number of units produced. It is suitable when careful work matters more than speed or individual output cannot be measured fairly.
- Under the piece-rate system, wages depend on the number of acceptable units produced at an agreed rate per unit. It suits measurable, standardised work where individual effort directly influences output.

Step 1: Choose time-rate for situation (i) **(i) Where quality is of supreme importance — Time-rate:** A worker is paid for the time devoted to the job and need not hurry merely to produce more pieces. This permits careful workmanship, attention to specifications and proper finishing. A piece-rate

incentive may encourage excessive speed and a sacrifice of quality to raise earnings. Time-rate is therefore the better choice when high-quality output is the chief requirement, with supervision used to maintain satisfactory performance.

Step 2: Choose piece-rate for situation (ii) **(ii) Where units of output can be measured — Piece-rate:** When each worker's acceptable output can be counted accurately, wages can be linked directly to the units produced. A fixed rate per unit provides an objective basis of payment and rewards higher productivity. An efficient worker can earn more by producing more acceptable pieces, while the employer can relate the wage cost to output. Accurate measurement makes this method practicable and fair.

Step 3: Choose piece-rate for situation (iii) **(iii) Where the job is standardised — Piece-rate:** Standardised jobs involve uniform operations and comparable units, allowing a reasonable rate per unit to be fixed. Since the nature of the task and its expected quality are consistent, workers can be rewarded according to the quantity of satisfactory work completed. This encourages efficiency and higher production. The units must meet the prescribed quality standard; defective production should not be encouraged by the payment system.

Step 4: Choose time-rate for situation (iv) **(iv) Where effort and output have no clear relationship — Time-rate:** Output may depend mainly on machinery, teamwork or factors outside the individual worker's control. Payment per piece would then fail to reflect the worker's actual effort and could unfairly reduce earnings despite sincere work. Paying for the time worked gives a more suitable basis of remuneration in such circumstances, while diligence and quality can be monitored through supervision.

Step 5: Conclusion Adopt time-rate in situations (i) and (iv), and piece-rate in situations (ii) and (iii). The choice depends on whether quality and time devoted to work, or measurable individual output from standardised work, provide the better basis of payment.

Quick Tip to Solve: Link time-rate with careful or unmeasurable work, and piece-rate with countable, uniform output that responds to individual effort.

16. Explain, in brief, any five factors that should be taken into consideration while determining capital structure for a business. [5 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and owners' funds used to finance a business. Debt involves fixed interest and repayment obligations, whereas equity carries no compulsory dividend.
- A suitable capital structure balances the cost of finance and the return to shareholders against financial risk, while preserving the firm's ability to raise funds in future.

Step 1: Examine the firm's ability to service debt

- **Cash-flow position:** A firm expecting substantial and regular cash inflows can use more debt because it can meet interest and principal repayments when they fall due. With weak or uncertain cash flows, greater reliance on equity reduces the danger of default. Accounting profit alone is

insufficient: the business needs actual cash on the payment dates.

- **Stability of sales and earnings:** Stable sales usually make earnings more predictable, allowing fixed interest commitments to be accepted with greater confidence. A business with strongly fluctuating sales should use less debt because interest remains payable even in a poor trading period.

Step 2: Balance financing cost, control and future needs

- **Cost of finance and expected return:** Debt generally costs less than equity, and interest is deductible when computing taxable profits. Borrowing can improve the return to equity shareholders when the return earned on the borrowed funds exceeds their cost. Excessive debt, however, raises financial risk and may increase the cost of further finance.
- **Control considerations:** A fresh equity issue to outsiders can dilute the voting power of existing shareholders. If retaining their control is important, the firm may prefer debt, since lenders normally do not acquire shareholders' voting rights. This preference must still be weighed against the firm's repayment capacity.
- **Flexibility:** The financing mix should leave scope for obtaining additional funds when opportunities or emergencies arise. Using the entire borrowing capacity at present can make later borrowing difficult. A prudent firm keeps a reserve of debt capacity and avoids unnecessarily restrictive financing commitments.

Step 3: Conclusion Thus, cash-flow position, stability of sales and earnings, cost of finance and expected return, control considerations, and flexibility are five factors to consider. The firm should choose a mix that it can service comfortably while keeping finance economical and retaining room for future requirements.

Quick Tip to Solve: For each capital-structure factor, state its effect on the debt-equity choice; for example, uncertain cash flows favour a larger equity component.

17. "Both under-capitalisation and over-capitalisation are evils, but under-capitalisation is a lesser evil." Do you agree with this statement ? Give reasons. [5 marks]

Solution:

Concept:

- Over-capitalisation exists when a company's capital is excessive in relation to its earning capacity, so its earnings cannot provide a normal return on that capital. It does not merely mean holding surplus cash.
- Under-capitalisation exists when capital is low in relation to earning capacity, producing an exceptionally high rate of return on the stated capital. It does not merely mean a temporary shortage of working capital.

Step 1: Explain why both conditions are undesirable Yes, the statement is broadly correct, although sound capitalisation is preferable to either condition.

- **Effects of over-capitalisation:** A low earning rate depresses dividends and the market value of shares. The company may find it difficult to obtain fresh funds, maintain assets and meet fixed

financial commitments, particularly when it has substantial debt. Shareholders may consequently suffer loss of capital value.

- **Effects of under-capitalisation:** An unusually high reported earning rate can encourage speculation in shares and attract competitors. Workers may demand higher wages and consumers may suspect excessive prices; the company can face public criticism and pressure to distribute profits that ought to be retained. Thus, under-capitalisation also has harmful consequences.

Step 2: Explain why under-capitalisation is the lesser evil

- **Stronger earning position:** An under-capitalised concern generally earns more than a normal return on its stated capital. It therefore has a stronger base from which to pay dividends, build reserves and finance expansion. An over-capitalised concern must first improve insufficient earnings or reduce an excessive capital burden.
- **Less immediate danger to financial survival:** High earning capacity generally helps an under-capitalised company attract finance and meet obligations, subject to adequate cash flow. Over-capitalisation is associated with weak returns, falling investor confidence and potentially serious difficulty in servicing fixed charges. Its consequences for the company's continued operation are therefore usually more severe.
- **More manageable correction:** Where accumulated profits and reserves support it, an under-capitalised company can capitalise reserves by issuing bonus shares, bringing stated share capital closer to its earning capacity without requiring shareholders to accept a reduction of their paid-up capital. Correcting over-capitalisation may require capital reduction, reorganisation or restructuring of financial obligations, often involving losses or sacrifices by investors and creditors.

Step 3: Conclusion I agree that under-capitalisation is generally the lesser evil: its problems arise alongside relatively strong earnings and can usually be corrected more readily. Over-capitalisation reflects inadequate returns on the capital employed and may endanger financial stability. Nevertheless, a properly capitalised business should avoid both extremes.

Quick Tip to Solve: Compare capital with earning capacity, not merely with available cash: under-capitalisation means an abnormally high earning rate on stated capital.

18. Explain, in brief, any five ways in which Indian managers are responding to changes in business environment. [5 marks]

Solution:

Concept:

- The business environment includes economic policies, competition, technology and customers' expectations. Liberalisation and globalisation require managers to adapt their decisions to these changing conditions.
- A managerial response is an action taken by an enterprise to remain competitive. The following five responses describe changes in managerial practice rather than merely listing changes in the environment.

Step 1: Respond to customers and competition

- **Greater customer orientation:** Managers increasingly study customers' needs, preferences and purchasing power before deciding what to produce. They improve product variety, delivery and after-sales service because buyers can choose among more competing products. Customer satisfaction and retention receive greater attention than simply selling whatever the enterprise produces.
- **Greater emphasis on quality and cost efficiency:** Managers introduce quality control, improve work methods and reduce waste to offer reliable products at competitive prices. Competition from domestic and foreign firms makes protection from an inefficient production process less available, so enterprises must improve both quality and productivity.

Step 2: Strengthen the enterprise's capabilities

- **Adoption of modern technology and innovation:** Managers modernise equipment, introduce improved production techniques and develop new products. Investment in research and development helps the enterprise meet changing demand, improve performance and avoid becoming technologically obsolete.
- **Professional management and human-resource development:** Enterprises employ qualified managers, train existing employees and give greater attention to skills, motivation and performance. Better-informed and adaptable employees enable the organisation to use new technology and respond effectively to competition.
- **Restructuring and strategic collaboration:** Managers review their activities, concentrate resources on areas of strength and may enter joint ventures or other collaborations. Such arrangements can provide access to technology, finance, expertise and wider markets, helping Indian enterprises compete in a more open economy.

Step 3: Conclusion Indian managers are responding through customer orientation, quality and efficiency, technological innovation, professional management and employee development, and restructuring or collaboration. Each response changes the enterprise's practices so that it can meet the demands of a more competitive business environment.

Quick Tip to Solve: Write each response as a managerial action and explain how it helps the enterprise adapt; merely naming liberalisation or globalisation does not explain a response.

19. "Management and administration mean the same thing." Explain the view. [5 marks]

Solution:

Concept:

- Management is the process of planning, organising, staffing, directing and controlling organisational resources to achieve objectives efficiently and effectively.
- According to the view expressed in the question, administration and management are synonymous. They describe the same overall process of getting organisational work done through coordinated human effort.

Step 1: Explain the common nature and functions

- **Same basic purpose:** Both administration and management aim to achieve an organisation's

objectives by coordinating people and other resources. In either description, the executive must secure cooperation and ensure that activities contribute to the organisation's goals.

- **Same managerial functions:** Planning, organising, staffing, directing and controlling are involved in both. For example, the person described as an administrator must plan work, assign responsibilities and check results, just as a manager does. A change in the title does not change these essential functions.

Step 2: Show why a rigid separation is artificial

- **Policy and execution are interdependent:** It is sometimes said that administration makes policies while management executes them. In practice, executives participate in both. Experience gained during implementation affects future policy, and policy decisions must consider the practical difficulties of execution. They are connected parts of one process.
- **Both are present at every level:** Higher-level executives devote more attention to broad objectives and policies, while lower-level executives devote more attention to day-to-day operations. Nevertheless, all levels make decisions and implement decisions within their authority. The difference is one of emphasis and responsibility rather than two completely separate kinds of work.
- **Different usage does not establish different substance:** The word administration is commonly used for government and public institutions, while management is commonly used for business enterprises. These preferences concern terminology and the setting in which work is performed; both settings require organised effort and the same basic managerial process. Thus, the terms can be used interchangeably in this view.

Step 3: Conclusion The statement is supported by the view that administration and management are two names for the same integrated process. Their objectives and functions are fundamentally alike; differences in the time spent on policy and operations, or in the type of institution, do not create an absolute separation between them.

Quick Tip to Solve: To explain the synonym view, link common objectives and functions with the practical overlap of policy-making and implementation; do not present only a table of supposed differences.

20. Explain briefly the relationship between 'planning' and 'controlling'. [5 marks]

Solution:

Concept:

- Planning decides objectives in advance and specifies the course of action and standards for achieving them.
- Controlling measures actual performance against planned standards, identifies deviations and initiates corrective action. The two functions are interdependent.

Step 1: Explain how planning provides the basis of control

- **Planning supplies standards:** Plans translate objectives into targets such as expected output, cost, sales or completion dates. These targets become the standards against which actual performance is measured. Without plans, a manager has no clear basis for deciding whether performance is satisfactory.

- **Control gives meaning to plans:** Merely preparing a plan does not ensure its execution. Controlling checks whether activities follow the plan, locates deviations and prompts remedial measures. Thus, planning without controlling remains an exercise on paper, while controlling without planning has no direction.

Step 2: Explain how control improves subsequent planning

- **Control provides feedback:** By comparing actual results with targets, managers learn why a plan succeeded or failed. This information helps them revise unrealistic standards, improve methods and prepare more reliable future plans.
- **Both are forward-looking:** Planning looks ahead to determine future action. Controlling also looks ahead because corrective action prevents the recurrence of deviations and improves future performance; it cannot change work already completed.
- **Both also use the past:** Planning is guided by past experience, while controlling examines performance already achieved against standards already set. This backward-looking examination supports their forward-looking purpose. For example, a shortfall in monthly output may lead to immediate corrective action and a revised production plan.

Step 3: Conclusion Planning and controlling are inseparable, complementary functions. Planning establishes what should be achieved, and controlling checks achievement and feeds the results back into the next planning cycle.

Quick Tip to Solve: Link the two functions in a cycle: plans set standards, control compares results and corrects deviations, and feedback improves the next plan.

21(a). Explain, in brief, the following methods of training the workers :

(i) Apprenticeship programme

(ii) Vestibule training

(iii) Job-rotation and

(iv) Internship training [6 marks]

Solution:

Concept:

- Training is a systematic process of increasing the knowledge and practical skills required to perform a particular job efficiently.
- Different methods provide experience through supervised work, simulated working conditions, movement between jobs or a combination of classroom study and practical assignments.

Step 1: Explain apprenticeship and vestibule training

- **(i) Apprenticeship programme:** The trainee works under the guidance of a master worker or experienced employee for a prescribed period to learn a skilled trade. Practical work may be combined with related theoretical instruction. The trainee gradually acquires the knowledge, skill and accuracy required to work independently. This method is suitable for occupations needing a high degree of practical skill, such as electricians, plumbers and mechanics, and commonly extends

over a relatively long period.

- **(ii) Vestibule training:** Workers are trained away from the actual workplace in a separate training centre which reproduces the conditions of the workplace. Equipment and machinery similar to those used on the job are provided, and specialised instructors teach the workers. Trainees can practise without disrupting normal production or exposing expensive production equipment to avoidable errors. It is useful where many workers must learn to operate machinery safely and efficiently.

Step 2: Explain job-rotation and internship training

- **(iii) Job-rotation:** A trainee is moved systematically from one job or department to another for specified periods. At each assignment, the trainee learns the duties and methods under the guidance of the person responsible for that work. Such movement broadens experience, develops versatility and gives an understanding of how different activities are related. It also helps the organisation use employees flexibly instead of limiting them to a single task.
- **(iv) Internship training:** Educational institutions and business organisations cooperate to provide students with practical experience as part of their professional education. Students spend a prescribed period working in an organisation, applying classroom knowledge to actual situations under supervision. Thus, theoretical study and practical training are combined. For example, students of professional courses may complete practical assignments in a hospital, office or business organisation to understand the demands of their future work.

Step 3: Conclusion Apprenticeship develops a skilled trade under an expert; vestibule training uses a simulated workplace; job-rotation exposes the trainee to different jobs; and internship links institutional education with supervised practical experience.

Quick Tip to Solve: Remember each method by its distinctive setting: master worker, duplicate workplace, different jobs, and institution-business cooperation respectively.

OR

21(b). Differentiate between 'Training' and 'Development' on the basis of

(i) Purpose

(ii) Level of trainees involved

(iii) Scope of learning

(iv) Depth of knowledge imparted

(v) Initiative in learning and

(vi) Duration [6 marks]

Solution:

Concept:

- Training is a systematic process of improving an employee's knowledge and skills for performing a particular job efficiently. It concentrates on the requirements of the present assignment.
- Development is the broader process of improving an individual's capabilities, judgement and

overall personality. It prepares a person for growth and greater responsibilities in the future.

Step 1: Identify the focus of the two processes Both training and development improve human resources, but their emphasis differs. Training closes a specific gap between the skills a job requires and those the employee possesses. Development goes beyond one immediate task to increase the person's capacity to think, decide and handle changing responsibilities. These differences can be set out on the six bases asked in the question.

Step 2: Compare the six specified bases The following table compares the two processes on each requested basis.

Basis	Training	Development
(i) Purpose	Improves the knowledge and practical skills needed for efficient performance of the current job.	Promotes overall growth and prepares the individual for future positions and greater responsibility.
(ii) Level of trainees involved	Generally emphasised for workers and other non-managerial or operational employees, although managers also receive job training.	Generally emphasised for managers and executives who need broader abilities for higher responsibilities.
(iii) Scope of learning	Narrow and job-oriented: learning is related to a specific task, procedure or occupation.	Broad and person-oriented: learning includes managerial, conceptual and human relations abilities beyond a single job.
(iv) Depth of knowledge imparted	Provides specific technical or operational knowledge, with emphasis on applying it correctly in a particular task.	Provides deeper understanding of principles, situations and relationships, strengthening judgement and decision-making.
(v) Initiative in learning	Usually initiated and arranged by management to meet the organisation's identified skill requirements.	Greater emphasis is placed on the individual's initiative and motivation for self-improvement, supported by the organisation.
(vi) Duration	Usually a short-term programme with a defined skill objective and period of instruction.	A long-term and continuing process that accompanies personal and professional growth.

Step 3: Conclusion Training primarily equips an employee to perform a particular present job better, whereas development builds wider and deeper capabilities for future growth. The distinction is one of emphasis; the two processes complement each other in staffing.

Quick Tip to Solve: Remember the contrast as present job and specific skills for training, versus future responsibility and overall growth for development; use every basis named in the question.

22(a). **'Advertising encourages sale of inferior and dubious products' and 'Advertising confuses rather than helps'. Do you agree ? Give reasons..** [6 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal presentation and promotion of goods, services or ideas by an identified sponsor. It informs consumers and seeks to persuade them to buy.
- The objections that advertising promotes inferior products and confuses consumers must be assessed by separating the useful function of advertising from misleading claims or other misuse of it.

Step 1: Assess the claim about inferior and dubious products I do not agree with the statement as a general condemnation of advertising. It can be misused to promote a doubtful product, but it cannot by itself make poor quality satisfactory to consumers.

- **Initial sales are different from lasting acceptance:** An attractive advertisement may induce a consumer to try an inferior product once. After using it, the buyer can judge its quality; disappointing performance discourages repeat purchases.
- **Quality sustains demand:** Continued sales depend on the product satisfying the customer's needs and providing value. Advertising cannot permanently substitute for quality or remove the buyer's experience of a defective product.
- **Misleading claims are a misuse:** False promises and concealment of defects deserve criticism and action under consumer protection measures. This is an objection to dishonest advertising and the advertiser's conduct, rather than proof that all advertising encourages inferior goods.

Step 2: Assess the claim that advertising confuses consumers I also do not agree that advertising necessarily confuses rather than helps. Rival advertisements may each claim superiority, which can make a choice difficult, but relevant advertising supplies information needed for comparison.

- **Information aids choice:** Advertisements make consumers aware of available products, their features, uses, prices and places of purchase. Without such information, buyers may not know which alternatives exist.
- **Comparison remains the buyer's decision:** Competing messages draw attention to differences between brands. A consumer should compare the claims with personal needs, price, specifications and actual performance rather than accept every statement of superiority literally.
- **Exaggeration should be controlled:** Excessive, vague or misleading claims can create confusion. Clear and truthful claims, responsible advertising and consumer awareness reduce that problem while retaining advertising's useful role as a source of information.

Step 3: Conclusion Both criticisms point to possible abuses, but neither is universally true. Advertising can encourage a first trial and communicate competing claims; sustained sales still require satisfactory quality, while truthful information helps an informed consumer choose. Misleading advertising should be checked rather than treating advertising itself as wholly harmful.

Quick Tip to Solve: Discuss each quoted objection separately: distinguish a first purchase from repeat demand, and distinguish useful product information from misleading persuasion.

OR

22(b). Explain, in brief, the factors on which the choice of channels of distribution depend. [6 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the ultimate consumer. It may be direct or may include agents, wholesalers and retailers.
- The suitable channel provides the required market coverage and service economically. Its choice depends on the product, customers, intermediaries and the producer's resources and objectives.

Step 1: Examine the product and the market

- **Product characteristics:** Perishable goods, such as fresh milk, generally need a short channel to avoid delay and deterioration. Bulky goods are also better handled through short channels to reduce repeated handling and transport costs. Expensive technical equipment often requires direct selling, installation and after-sales service, whereas standardised, low-priced consumer goods can use wholesalers and retailers.
- **Market characteristics:** A small number of buyers concentrated in one area can be served directly. Numerous buyers scattered over a wide area generally require intermediaries. Industrial buyers placing large orders favour direct contact; consumers buying small quantities need conveniently located retailers. Buyers' shopping habits and the service they expect also influence the choice.

Step 2: Assess the company and available intermediaries

- **Company characteristics:** A financially strong producer can maintain its own sales force, warehouses and retail outlets. A firm with limited resources may rely on intermediaries. A company seeking close control over prices, presentation and customer service may prefer a shorter channel, provided it can meet the associated costs.
- **Middlemen considerations:** Suitable intermediaries must be available and willing to handle the product. Their reputation, market contacts, financial strength, efficiency, commission and ability to provide storage, credit and service must be examined. A channel is unsuitable if its members cannot perform the distribution functions required.

Step 3: Consider competition and the business environment

- **Competitive factors:** The channels used by competitors provide a useful guide to established buying arrangements and market access. A firm may use similar outlets to reach the same customers, or select another channel where it offers a real advantage. The decision must suit its own product and objectives rather than merely copy a rival.
- **Environmental factors:** Economic conditions and legal restrictions affect channel choice. In a depressed market, firms may favour economical arrangements with fewer avoidable distribution costs. Applicable laws and regulations must also be observed; the selected channel and its trading arrangements cannot violate them.

Step 4: Conclusion The choice depends on product, market, company, middlemen, competitive and environmental factors. These must be considered together to select a channel that reaches the intended buyers with adequate service at a reasonable total cost.

Quick Tip to Solve: Organise the answer under six heads: product, market, company, middlemen, competition and environment. For each, explain how it changes the choice of channel.

23(a). Explain the following rights of consumers :

(i) The Right to be informed

(ii) The Right to choose and

(iii) The Right to healthy environment [6 marks]

Solution:

Concept:

- Consumer rights protect buyers against exploitation and enable them to make informed choices. They also recognise that consumption and production should not damage people's health or surroundings.
- The three rights asked here concern adequate information, freedom of selection and a healthy environment. Each gives consumers protection while placing corresponding responsibilities on business.

Step 1: Explain the right to be informed

- **Access to material product information:** A consumer has the right to know the quality, quantity, potency, purity, standard and price of goods or services. Relevant details such as ingredients, manufacture and expiry dates, directions for use and warnings should be disclosed clearly where applicable. This enables a buyer to judge suitability and use the product safely.
- **Protection against deceptive information:** Information should be truthful and sufficient, rather than concealed or presented through misleading claims. For example, a clear statement of the quantity and price helps the consumer compare competing packs and detect short measure or overcharging. The right therefore supports an informed purchase and protects against unfair trade practices.

Step 2: Explain the right to choose

- **Access to alternatives:** Wherever possible, consumers should have access to a variety of goods and services at competitive prices. They should be able to compare the quality, price and features of available products and select the one that best meets their needs and purchasing power.
- **Freedom from forced purchases:** The seller should not force a buyer to accept an unwanted brand or purchase another product as a condition for obtaining the desired item. For instance, a consumer seeking a particular appliance should be free to reject an unnecessary accessory. The purchase should result from the consumer's own decision, rather than coercion or artificial restriction of choice.

Step 3: Explain the right to a healthy environment

- **Healthy living surroundings:** Consumers have the right to live and work in an environment that does not endanger their health or well-being. This includes protection from harmful pollution of air, water and land and from unsafe disposal of waste arising from business and consumption activities.
- **Protection of present and future quality of life:** Business should use resources responsibly and avoid practices that unnecessarily damage ecological balance. Pollution control, safe waste treatment and environmentally responsible products help protect both present consumers and future generations. This right extends beyond the safety of one purchase to the condition of the

surroundings in which people live.

Step 4: Conclusion The right to be informed ensures truthful and adequate product information; the right to choose ensures access to alternatives and freedom of selection; and the right to a healthy environment safeguards health and environmental quality for present and future consumers.

Quick Tip to Solve: Keep the rights distinct: information answers "What am I buying?", choice answers "Can I select freely?", and a healthy environment concerns safe surroundings and ecological protection.

OR

23(b). Giving any six points, explain the importance of consumer protection in India. [6 marks]

Solution:

Concept:

- Consumer protection means safeguarding consumers against unfair trade practices and providing education, organisation and redressal so that they can exercise their rights.
- Its importance can be explained from the consumers' position in the market and from the responsibility and long-term interests of business. The following six points show why it is necessary in India.

Step 1: Explain the consumers' need for knowledge and collective strength

- **Consumer ignorance:** Many consumers are unaware of their rights, the quality standards available to them and the remedies against a seller's misconduct. They may accept an unsafe or defective product without protesting. Consumer protection educates them about these rights and remedies so that they can make informed purchases and seek relief when cheated.
- **Unorganised consumers:** An individual consumer usually has little bargaining power against a large producer or trader. Consumers are scattered and may lack the means to pursue complaints alone. Consumer organisations and protection machinery give them a collective voice and assistance in obtaining redressal.

Step 2: Explain the need to prevent exploitation and preserve customer confidence

- **Widespread exploitation:** Consumers may face adulteration, substandard or duplicate goods, short weights, excessive charges and misleading advertisements. These practices can cause financial loss and endanger health. Consumer protection provides safeguards and remedies against such unfair practices, making the market safer and fairer for buyers.
- **Long-term interest of business:** A business depends on satisfied customers for repeat purchases, favourable publicity and continued sales. Exploiting buyers may produce an immediate gain but damages goodwill. Protecting consumer interests builds trust and helps the business survive and grow over time.

Step 3: Explain the social and ethical grounds for protection

- **Social responsibility:** Business uses society's resources and earns its income by meeting people's needs. It therefore has an obligation towards consumers, an important group on which it depends. Supplying safe goods of the promised quality, charging fair prices and dealing with complaints are

essential parts of this responsibility.

- **Moral justification:** Honesty and fairness require that a seller should not take advantage of a buyer's ignorance or weak position. Knowingly selling adulterated goods, concealing defects or making false claims is unethical. Consumer protection reinforces the duty of business to deal truthfully and avoid practices harmful to consumers.

Step 4: Conclusion Consumer protection is important because it counters ignorance, strengthens unorganised buyers, prevents exploitation, serves the long-term interests of business, fulfils social responsibility and promotes ethical dealing. It benefits consumers while supporting a trustworthy market.

Quick Tip to Solve: Organise the six points as three consumer needs and three business considerations; explain the harm prevented or benefit created under each heading.

24(a). Explain briefly any six features of planning. [6 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done, how it is to be done, when it is to be done and who will do it. It bridges the gap between the present position and the desired future position.
- Planning gives direction to managerial action by setting objectives and choosing a course of action. Its six features explained below distinguish it as a deliberate and continuing management function.

Step 1: Explain its focus and its place in management

- **Planning focuses on achieving objectives:** A plan begins with the results the organisation wants to attain. Managers then decide the activities and resources needed for those results. Thus planning is purposeful: a production plan, for example, identifies what must be produced to reach the organisation's output objective rather than merely listing unrelated activities.
- **Planning is a primary function of management:** Planning lays the foundation for organising, staffing, directing and controlling. Managers must know the intended work before assigning duties, appointing employees or guiding their efforts. Plans also supply the standards against which actual performance is compared during control.

Step 2: Explain its scope and orientation towards the future

- **Planning is pervasive:** It is required at every level of management and in every department. Top management prepares broad plans for the organisation, while middle and supervisory managers prepare more detailed plans within their responsibilities. The scope differs, but production, marketing, finance and other activities all require advance decisions.
- **Planning is futuristic:** Planning is concerned with anticipating future conditions and preparing to deal with them. Managers use forecasts and assumptions about factors such as demand, costs and competition when selecting actions. These estimates cannot remove uncertainty, but they help the organisation prepare instead of merely reacting after events occur.

Step 3: Explain selection and continuity in planning

- **Planning involves decision-making:** There may be several ways to achieve an objective. Managers identify the alternatives, compare their likely costs and benefits and select the most suitable course. For example, capacity may be increased by overtime or by installing equipment; choosing between feasible alternatives is an essential part of planning.
- **Planning is continuous:** Plans are prepared for a particular period and must be followed by fresh plans when that period ends. They also need review when actual performance or environmental conditions differ from expectations. Planning therefore continues throughout organisational life rather than being a one-time exercise performed only at the start of a business.

Step 4: Conclusion The six features are objective orientation, primacy, pervasiveness, a futuristic outlook, decision-making and continuity. Together they show how planning directs present action towards desired future results throughout the organisation.

Quick Tip to Solve: For each feature, give its heading and explain its managerial implication; distinguish futurity, which concerns upcoming conditions, from continuity, which concerns repeated planning and review.

OR

24(b). Explain, in brief, the meaning of 'Goals' and 'Objectives' as types of plans and give any four examples of each. [6 marks]

Solution:

Concept:

- Planning specifies the results an organisation wishes to attain and the course of action for attaining them. Goals and objectives are end results towards which organisational effort is directed.
- Goals express broad desired outcomes and the general direction of the enterprise. Objectives translate those broad aims into specific targets that guide action and permit assessment of performance.

Step 1: Explain goals as broad ends of planning **Meaning of goals:** Goals are the broad purposes or desired future results that an organisation seeks to achieve. They indicate what the enterprise ultimately wants to accomplish and provide a common direction for its departments. They are generally expressed in wider terms; detailed departmental plans are framed to contribute to their achievement. For example, a goal of growth tells managers the direction in which the business should develop, without itself prescribing every sales or production target.

Step 2: Give four examples of organisational goals

- **Survival:** To continue operating successfully and maintain the enterprise as a going concern in a competitive environment.
- **Profitability:** To earn an adequate profit that rewards the owners and provides funds for the continued operation of the business.
- **Growth:** To expand the size and activities of the enterprise, including its markets, output or range of products.
- **Social responsibility:** To conduct business in a manner that serves society, including responsible

treatment of consumers, employees and the environment.

Step 3: Explain objectives as specific targets **Meaning of objectives:** Objectives are the definite results that an organisation, department or individual is expected to achieve. They give operational expression to the organisation's broad goals. A well-stated objective specifies the result clearly and, wherever possible, gives a measurable standard and a time period. It therefore helps managers allocate resources, coordinate work and compare actual performance with the planned result. Objectives at different levels should support the overall goals of the enterprise.

Step 4: Give four examples of objectives

- **Sales objective:** To increase annual sales revenue by 10 per cent during the next financial year.
- **Profit objective:** To earn a net profit of Rs 20,00,000 during the coming financial year.
- **Production objective:** To produce 50,000 units of the product during the next twelve months.
- **Quality objective:** To reduce the proportion of defective output from 5 per cent to 2 per cent within one year.

These are illustrative targets: each states an identifiable result and a period within which it is to be attained. Sales and production objectives support growth, while profit and quality objectives support financial strength and continued customer acceptance.

Step 5: Conclusion Goals state the enterprise's broad desired ends, while objectives make those ends definite enough to guide and evaluate action. Survival, profitability, growth and social responsibility illustrate goals; specified sales, profit, output and quality targets illustrate objectives.

Quick Tip to Solve: For each broad goal, think of a concrete result and a deadline to frame an objective. Keep the four examples of each category clearly separate.

25(a). What is 'functional structure' of organisation ? Explain any two advantages and any two disadvantages of this form of organisation. [6 marks]

Solution:

Concept:

- Organisation structure establishes the division of work, grouping of activities, authority relationships and coordination needed to achieve the objectives of an enterprise.
- In a functional structure, activities of a similar nature are grouped into departments according to the functions performed, such as production, marketing, finance and personnel.

Step 1: Define functional structure of organisation **Meaning:** A functional structure is an organisation structure in which jobs and activities requiring similar knowledge and skills are grouped together under a functional department. Thus, purchasing and manufacturing activities may be grouped under production, selling activities under marketing, and financial activities under finance. Each department is headed by a specialist responsible for its own function, while the heads report to the top management. The basis of grouping is the function performed rather than a particular product or geographical area. This structure is especially suitable where an enterprise has a limited range of

products and requires a high degree of functional expertise.

Step 2: Explain two advantages of functional structure

- **Functional specialisation:** Employees performing similar tasks work together under a specialist departmental head. Repeated performance of a particular function develops their knowledge, experience and skills. Expert supervision and exchange of specialised knowledge improve the quality and efficiency of work. For example, concentrating financial work in the finance department enables trained staff to handle budgets and financial records competently.
- **Economy of operations:** Grouping similar activities avoids unnecessary duplication of staff, equipment and other resources in different parts of the enterprise. A common department can serve the organisation's requirements for its function, and resources can be used more fully. The resulting economies of scale help reduce operating costs and improve efficiency.

Step 3: Explain two disadvantages of functional structure

- **Difficulty in coordination:** Departments may concentrate on their own functional priorities and fail to appreciate the needs of other departments. For instance, production may favour long runs of standard products, while marketing may demand many varieties. Reconciling such different priorities requires coordination by higher management; without it, delays and interdepartmental conflict can obstruct organisational objectives.
- **Inflexibility and narrow outlook:** Functional personnel tend to view problems from the standpoint of their own specialisation. Established departmental routines can make it difficult to respond quickly to changing customer needs or unfamiliar situations requiring several functions to act together. Managers may defend departmental interests rather than consider the enterprise as a whole, reducing adaptability and responsiveness.

Step 4: Conclusion Functional structure groups activities by specialised functions. It promotes specialisation and economy of operations, but it can create coordination difficulties and an inflexible, narrow departmental outlook. Effective overall direction is therefore necessary to keep all functions working towards common organisational objectives.

Quick Tip to Solve: Identify the basis of grouping first: production, marketing and finance indicate a functional structure. Link its benefits to specialisation and its limitations to departmental separation.

OR

25(b). What is 'formal organisation' ? Distinguish between 'formal organisation' and 'informal organisation' on the basis of

(i) formation, (ii) stability, (iii) communication and (iv) flow of authority [6 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately designed by management to achieve the objectives of an enterprise.
- Informal organisation is the network of social relationships that arises spontaneously when people

interact at work. It develops within the formal organisation but is not prescribed by its official structure.

Step 1: Define formal organisation **Meaning:** Formal organisation refers to the official structure of jobs and relationships established by management. It specifies the work to be performed, the persons responsible for it, the authority delegated to them and their reporting relationships. Thus, each employee knows the duties of the position and the superior to whom the employee is accountable. For example, a sales manager's authority over the sales staff follows from the position assigned in the organisation structure, rather than from personal friendship.

Step 2: Compare the four specified bases The differences are set out below. Each row compares the same basis for the two organisations.

Basis	Formal organisation	Informal organisation
Formation	It is created deliberately by management. Jobs, departments, authority and reporting relationships are defined in advance to achieve organisational objectives.	It develops spontaneously through personal interaction, friendship, common interests and social needs. Management does not deliberately create these relationships.
Stability	It is relatively stable because it is based on officially defined positions and relationships. It continues until management makes a formal change in the structure.	It is comparatively less stable because it depends on personal relationships. Its membership and influence can change as friendships, interests and group relations change.
Communication	Communication follows officially prescribed channels and the chain of command. For example, instructions and reports pass through the designated superior-subordinate relationships.	Communication follows no fixed official channel and may move in any direction between members. This unofficial network is commonly called the grapevine.
Flow of authority	Authority flows downwards from superior to subordinate through the officially established hierarchy. The right to direct others is attached to the position held.	Influence is based on personal qualities, acceptance and relationships rather than official rank. It may flow in any direction; an informal leader can influence colleagues regardless of position.

Step 3: Conclusion Formal organisation is management's deliberately established structure of authority and responsibility. Compared with informal organisation, it is deliberately formed, relatively stable, uses prescribed communication channels and carries authority down the hierarchy. Informal organisation develops spontaneously, is less stable and permits communication and personal influence in any direction.

Quick Tip to Solve: Use the four bases named in the question as the rows of a comparison table. Link formal authority to the official position and informal influence to personal acceptance.