CBSE Class 12 Business Studies Question Paper 2005 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. How does marketing help a firm to build goodwill in the market ? [2 marks]

Solution:

Concept:

- Marketing identifies customer needs and creates an offering that provides satisfaction and value.
- Goodwill is the favourable reputation and confidence a firm earns among customers and the public.

Step 1: Satisfy customer needs **Customer satisfaction:** Marketing enables a firm to understand what customers want and supply suitable goods and services of dependable quality at an acceptable price. When the offering fulfils the promises made about it, customers feel satisfied and develop a favourable opinion of the firm.

Step 2: Build lasting customer relationships **Customer confidence:** Fair dealing, truthful product information and prompt after-sales service strengthen trust. Satisfied customers buy again and recommend the firm to others. These favourable experiences and recommendations establish the firm's reputation and therefore build goodwill in the market.

Step 3: Conclusion Marketing builds goodwill by satisfying customer needs and earning lasting trust through reliable products, fair dealing and service.

Quick Tip to Solve: Link goodwill to satisfied customers: explain how meeting needs produces trust, repeat purchases and favourable recommendations.

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

Solution:

Concept:

- The selling concept is a marketing philosophy that gives primary importance to selling and promotion.
- Its starting point is the goods already produced; its aim is to increase sales volume and earn profits through sales.

Step 1: State the underlying assumption **Need for persuasion:** The selling concept assumes that customers will not purchase enough of a firm's products on their own. The firm must therefore persuade and stimulate them through intensive selling and promotional efforts.

Step 2: Explain its business focus **Sales orientation:** The firm first produces goods and then concentrates on finding buyers for them through advertising, personal selling and other promotional measures. Its emphasis is on selling what has been made and increasing sales volume, rather than beginning with an assessment of customer needs. Profits are sought through larger sales.

Step 3: Conclusion The selling concept holds that adequate sales require aggressive selling and promotion to persuade customers to purchase the firm's existing products.

Quick Tip to Solve: Remember the sequence: existing product, intensive selling and promotion, larger sales volume, then profits.

3. State any two functions of lower-level management. [2 marks]

Solution:

Concept:

- Lower-level management consists of supervisors, foremen and similar managers who directly guide operating workers.
- It connects management decisions with the actual performance of work at the operating level.

Step 1: Guide and supervise workers **Direct supervision:** Lower-level managers assign specific duties to workers, explain methods and instructions, and oversee daily performance. They provide practical guidance so that employees carry out the assigned operations correctly and meet the required standards.

Step 2: Maintain working conditions and discipline **Orderly work:** They maintain discipline and ensure safe and satisfactory working conditions at the workplace. By attending to day-to-day difficulties and checking observance of rules, they help workers perform their duties smoothly and keep operations on schedule. These are operating-level responsibilities, rather than the formulation of overall company policy.

Step 3: Conclusion Two functions of lower-level management are directly guiding and supervising workers, and maintaining discipline and satisfactory working conditions.

Quick Tip to Solve: Choose duties performed close to workers, such as supervision and discipline; avoid top-level functions such as setting overall policy.

4. What is meant by 'economic environment' of business ? [2 marks]

Solution:

Concept:

- The business environment includes external conditions and forces that influence the functioning of an enterprise.
- The economic environment is the part comprising economic conditions, policies and institutions that affect business decisions.

Step 1: Define the economic environment **Meaning:** The economic environment of business is the sum of external economic factors and forces within which a business operates. These conditions influence the availability and cost of resources, demand for products, and the opportunities and constraints faced by the enterprise.

Step 2: Identify its main components **Components:** It includes the economic system, national income and its distribution, the rate of economic growth, inflation, interest rates, and government fiscal and monetary policies. For example, a rise in interest rates can make borrowing more expensive for firms and consumers, thereby affecting investment and demand. Such economic forces lie outside an individual firm's direct control.

Step 3: Conclusion The economic environment is the totality of external economic conditions, policies and institutions that influence business activities and decisions.

Quick Tip to Solve: For this definition, mention external economic forces and add examples such as inflation, interest rates, national income or fiscal policy.

5. Enumerate any two functions of a supervisor. [2 marks]

Solution:

Concept:

- A supervisor is the immediate manager who oversees workers and guides their day-to-day activities.
- Supervision translates management instructions into work and supports communication between workers and management.

Step 1: Guide workers in performing their duties **Guidance and supervision:** A supervisor allocates work, explains instructions and methods, and observes workers as they carry out their tasks. The supervisor helps resolve operating difficulties and checks that the required quality and quantity of work are achieved.

Step 2: Act as a communication link **Link between workers and management:** A supervisor communicates management instructions and policies to workers in understandable terms. The supervisor also conveys workers' suggestions, grievances and practical difficulties to higher management. This two-way communication promotes understanding and enables problems at the workplace to receive attention.

Step 3: Conclusion Two functions of a supervisor are guiding and overseeing workers, and acting as a communication link between workers and management.

Quick Tip to Solve: Enumerate functions as clear headings; guidance and the two-way communication link are distinct supervisory responsibilities.

6. "All managers are leaders, but all leaders are not managers." Do you agree with this statement ? Give any three reasons in support of your answer. [3 marks]

Solution:

Concept:

- Leadership is the process of influencing people to contribute willingly towards group objectives. It is an essential element of the managerial function of directing.
- A manager occupies a formally appointed position, while a leader may acquire influence through personal qualities and acceptance by followers.

Step 1: State the agreement and explain the managerial role Yes, the statement is correct in the sense that every manager is expected to perform leadership as part of directing. **Leadership is part of management:** A manager must guide, motivate and influence subordinates to achieve organisational objectives; merely issuing formal orders is not sufficient to secure willing cooperation.

Step 2: Distinguish the basis and scope of influence **A leader need not hold formal office:** An informal group may accept a respected employee as its leader because of knowledge, personality or trust, even though that employee has no managerial appointment.

Management has a wider scope: A manager also plans, organises, staffs and controls, with formal responsibility for results. A leader may influence others without performing all these managerial

functions or bearing responsibility for the whole managerial position.

Step 3: Conclusion Thus managers need to exercise leadership, but a person can lead an informal group without becoming a manager. Leadership is a managerial role as well as an influence relationship outside formal managerial posts.

Quick Tip to Solve: Use three distinct grounds: leadership within directing, formal appointment versus acceptance, and the wider functions of management.

7. Enumerate any three market related factors that should be kept in view while taking decision on the choice of channels of distribution of any product. [3 marks]

Solution:

Concept:

- A channel of distribution is the route through which a product moves from the producer to its final users, either directly or through intermediaries.
- Market-related factors concern the buyers and their buying patterns. They help determine how many intermediaries are needed to reach and serve customers economically.

Step 1: Consider the number and spread of buyers **Number of buyers:** A large number of potential customers generally requires intermediaries and a longer channel, because contacting every buyer directly would be costly. With only a few buyers, direct selling or a short channel is more feasible.

Geographical concentration: When buyers are concentrated in a small area, the producer can serve them through a short channel. Widely scattered buyers generally favour a longer channel using wholesalers and retailers with local reach.

Step 2: Consider the size of the usual order **Size of order:** Customers buying in large quantities can normally be served directly or through a short channel because the value of each order justifies direct contact and delivery. Where customers buy small quantities at a time, retailers and other intermediaries can combine distribution work and make the product conveniently available.

Step 3: Conclusion Three market-related factors are the number of buyers, their geographical concentration and the size of their orders. The chosen channel should give the required market coverage at a reasonable distribution cost.

Quick Tip to Solve: Relate each market factor to channel length: many, scattered, small-order buyers usually need more intermediaries.

8. State any three features of Public Relation. [3 marks]

Solution:

Concept:

- Public relations means deliberate and continuing efforts to establish mutual understanding and favourable relations between an organisation and its various publics.

- Its publics include customers, employees, investors, government and the local community; its purpose is to build goodwill and a favourable organisational image.

Step 1: State its credibility and selling approach **High credibility:** News, reports and other information appearing through apparently independent media are often regarded as more credible by readers than a paid advertisement. This credibility helps public relations build confidence in an organisation.

Indirect approach to selling: Public relations ordinarily promotes understanding and a favourable image rather than directly asking people to buy. It can therefore reach people who avoid advertisements or resist a direct sales presentation.

Step 2: Explain its ability to present the organisation **Dramatisation:** Public relations can attract attention to an organisation, its achievements or a product through newsworthy events, exhibitions, speeches and similar activities. Such presentation brings the organisation before its publics and helps communicate its message in an interesting way. The emphasis remains on goodwill and communication rather than a personal demand for an immediate purchase.

Step 3: Conclusion The three features are high credibility, an indirect approach to selling, and the ability to dramatise the organisation or its products. Together, these features make public relations useful for building a favourable image.

Quick Tip to Solve: Remember credibility, indirect selling and dramatisation; explain each as a feature rather than listing publicity activities alone.

9. An organisation follows the principles of management. What are the adverse effects of each of the following principles of management on the organisation ?

(i) Unity of command,

(ii) Order, and

(iii) Stability of Tenure of personnels [3 marks]

Solution:

Concept:

- Fayol's principles of management are flexible guidelines intended to improve organisational efficiency. Their application should take account of the actual situation.
- The printed question asks for adverse effects of following the principles. The possible disadvantages therefore arise from rigid or inappropriate application; they are not the usual benefits of these principles.

Step 1: Discuss rigid unity of command and order **(i) Unity of command:** One employee normally receives orders from one superior, avoiding conflicting instructions. However, enforcing this rule mechanically may delay access to specialist guidance or urgent decisions: an employee may have to route every matter through a single superior even where another expert could help promptly.

(ii) Order: A proper place for people and materials saves time. If assignments and locations are treated as permanently fixed, the organisation may become inflexible; useful redeployment of employees or rearrangement of resources may be delayed when work requirements change.

Step 2: Discuss excessive protection of tenure **(iii) Stability of tenure of personnel:** Reasonable tenure gives employees time to learn and contribute. If stability is interpreted as retaining every person indefinitely regardless of suitability or performance, it may protect inefficiency, restrict opportunities for capable newcomers and resist necessary organisational change. Stability should therefore mean reasonable continuity, not immunity from performance review.

Step 3: Conclusion The possible adverse effects of rigid application are delays in obtaining specialist guidance, inflexibility in arranging resources, and retention of unsuitable personnel. Properly applied, these principles remain beneficial; their flexibility prevents these disadvantages.

Quick Tip to Solve: Read the demand carefully: this wording asks about adverse effects of following the principles, so qualify the answer by explaining rigid application rather than silently answering violation.

10. How does motivation improve the efficiency of workers in an organisation ? Give any three points [3 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to act willingly towards organisational goals. It links a worker's needs with the work to be performed.
- Efficiency improves when employees use their ability with willingness, avoid waste and maintain regular, sustained effort. Financial and non-financial incentives can both encourage this behaviour.

Step 1: Explain how motivation improves performance **1. Converts ability into effective effort:** Merely having the knowledge and skill to do a job does not ensure good performance. Motivation creates the willingness to work and encourages employees to use their abilities fully. A worker who sees a connection between good performance and need satisfaction puts greater effort into assigned duties. Consequently, output can increase with the resources already available to the organisation.

Step 2: Explain the improvement in attitude and continuity **2. Changes a negative attitude into a positive attitude:** Suitable recognition, encouragement and rewards make workers feel that their contribution matters. They become more cooperative, accept responsibility and support organisational objectives instead of resisting work. This reduces avoidable delays and helps tasks to be completed more effectively.

3. Reduces absenteeism and labour turnover: Motivated workers obtain satisfaction from their jobs and are more willing to attend regularly and remain with the organisation. Regular attendance reduces interruptions, while retaining experienced workers avoids repeated recruitment and training. The continuity of skilled effort improves the efficient use of time and other resources.

Step 3: Conclusion Motivation improves workers' efficiency by increasing willing effort, developing a positive and cooperative attitude, and reducing absenteeism and labour turnover. Thus, the organisation obtains better performance from its human resources.

Quick Tip to Solve: For each point, connect the motivational effect on the worker with its result for efficiency: greater effort, less resistance or fewer interruptions.

11. You are the representative of workers in a factory and want to impress upon the management the need for introducing time-rate system in place of existing piece-rate system of wage payment. What four reasons would you like to give to the management to justify your viewpoint ? Explain, in brief. [4 marks]

Solution:

Concept:

- Under the time-rate system, wages depend on the time worked at an agreed hourly, daily or monthly rate. Under the piece-rate system, wages depend on the number of units produced.
- From the workers' representative's viewpoint, the case for time wages should show both fair treatment of workers and advantages to the factory, such as better quality, less waste and simpler wage administration.

Step 1: Explain the quality and security benefits **1. Better quality of work:** Piece wages can tempt workers to concentrate on the number of pieces rather than careful workmanship. Under time wages, earnings do not depend directly on producing more pieces, so workers can give proper attention to quality and precision. Where the factory values accurate work, fewer defective products and less reworking benefit management.

2. Regular and secure earnings: Workers know the wages payable for the time they work. Their earnings are not directly reduced simply because the speed of production varies due to differences in jobs or interruptions beyond their control. Greater income security promotes satisfaction and confidence, helping management maintain a more stable workforce.

Step 2: Explain the safety and administrative benefits **3. Less harmful haste and wastage:** Workers need not rush merely to increase the number of pieces and their wages. They can follow safe methods, handle machinery carefully and use materials properly. This reduces the risk of accidents, excessive strain, machine damage and waste associated with hurried production. Management benefits from safer, more careful working.

4. Simple calculation and administration: Wages can be calculated from the agreed time rate and the attendance or time record. Management need not determine and maintain a separate piece rate for each product or operation. Workers can also understand and check their earnings easily, reducing complexity and disputes about the number or classification of pieces.

Step 3: Conclusion I would recommend time wages on four grounds: better quality, secure earnings and a stable workforce, less haste and wastage, and simpler wage administration. Management should support the system with suitable supervision so that careful work is accompanied by reasonable output.

Quick Tip to Solve: Justify time wages by linking each workers' benefit to a factory benefit; distinguish payment for time worked from payment for units produced.

12. Distinguish between the features of National Stock Exchange of India (N.S.E.I) and Over The Counter Exchange of India (O.T.C.E.I.) on the basis of

(i) size of company

(ii) securities traded,

(iii) settlement, and

(iv) objective. [4 marks]

Solution:

Concept:

- Financial Markets: a stock exchange provides an organised mechanism for buying and selling securities and gives investors liquidity.
- The National Stock Exchange of India (NSEI) provides a nationwide market, while the Over The Counter Exchange of India (OTCEI) was designed especially to give smaller companies access to the capital market.

Step 1: Compare the companies and securities covered The first two bases concern who can raise funds and what instruments investors can trade. The comparison is as follows:

Basis	NSEI	OTCEI
Size of company	Primarily serves large, established companies satisfying its listing requirements.	Especially serves small and medium-sized companies that find access to the main exchanges difficult.
Securities traded	Trades equity and preference shares and debentures in its capital-market segment, and treasury bills, government securities and PSU bonds in its wholesale debt segment.	Provides trading in equity shares and debentures, especially those of small and medium-sized companies admitted to its counter-based system.

Step 2: Compare settlement and the purpose of each exchange Settlement means completing a trade by delivering securities and paying for them. For this older paper, the historical textbook comparison of settlement periods is given below. The objective explains why each market was established.

Basis	NSEI	OTCEI
Settlement	In the historical textbook comparison, payment and delivery are completed within 15 days; shorter cycles and book-entry settlement are among its objectives.	In the historical textbook comparison, settlement is completed within 7 days, providing quicker liquidity through its counter-based network.
Objective	To establish a nationwide, fair, transparent and efficient trading facility with equal access for investors across the country.	To provide a convenient and economical capital-market outlet for small and medium companies and liquidity for investors in their shares.

Step 3: Conclusion NSEI is a broad nationwide securities market, whereas OTCEI was created particularly to meet the financing and trading needs of small and medium-sized companies. The distinction concerns company size, the range of securities, the settlement arrangement and the purpose of the exchange.

Quick Tip to Solve: Use the four bases in the question as the rows of the comparison. Link NSEI with nationwide access and OTCEI with the capital needs of smaller companies.

13. "Securities and Exchange .Board of India (SEBI) is the watchdog of the securities market." Do you agree ? Give four reasons in support of your answer. [4 marks]

Solution:

Concept:

- Financial Markets: the Securities and Exchange Board of India (SEBI) protects investors' interests and promotes the development and regulation of the securities market.
- A watchdog supervises market participants and checks abuses. SEBI performs this role through protective and regulatory measures that encourage fair dealings and confidence in securities transactions.

Step 1: State the position and explain protection against market abuses Yes, the statement is correct. SEBI is rightly called the watchdog of the securities market because it supervises conduct and acts against practices that harm investors. Two reasons are:

- **Checks fraudulent and unfair trade practices:** SEBI prohibits practices such as price rigging and misleading transactions that create an artificial picture of demand or prices. This helps protect investors from manipulation and supports fair price discovery.
- **Prohibits insider trading:** SEBI checks trading by persons who use unpublished price-sensitive information for private gain. Such information can give insiders an unfair advantage over ordinary investors; restraining this conduct helps maintain equal treatment and market confidence.

Step 2: Explain supervision and protection through information Two further reasons show how SEBI makes the market accountable to investors:

- **Regulates market intermediaries and exchanges:** SEBI registers and regulates brokers and other intermediaries, lays down standards of conduct and can inspect their activities. Supervision makes it harder for market participants to misuse their position and encourages orderly securities trading.
- **Protects investors through disclosure and grievance redressal:** SEBI requires relevant information to be disclosed in securities issues and promotes investor education and measures for resolving investor complaints. Informed investors can assess risks and make better decisions, while grievance mechanisms provide a means of addressing unfair treatment.

Step 3: Conclusion Thus, SEBI acts as the watchdog by checking fraudulent trading, prohibiting insider trading, regulating market participants and protecting investors through disclosure and grievance redressal. These functions promote a fair, transparent and orderly securities market.

Quick Tip to Solve: Begin by agreeing with the statement, then give four distinct functions and explain how each protects investors or keeps the securities market fair.

14. Describe, in brief, Taylor's principles of

(i) Science, not the rule of thumb, and

(ii) Harmony, not discord. [4 marks]

Solution:

Concept:

- Scientific management, developed by F.W. Taylor, applies systematic study to work so that resources are used efficiently and output improves.
- Taylor combined scientific methods of doing work with a cooperative relationship between management and workers. Technical improvement alone is insufficient if the two sides remain in conflict.

Step 1: Explain science, not the rule of thumb **Replace guesswork with scientific investigation:** Rule-of-thumb methods depend on personal judgement, past habits and trial and error. Taylor argued that each element of a job should instead be studied scientifically to find the best method of performing it.

Develop and adopt the best method: Management should examine alternative ways of doing a task through observation and experimentation, compare the time and effort involved, and standardise the most efficient method. For example, the arrangement of tools and the sequence of operations should be selected after study rather than left to each worker's habit. This reduces unnecessary effort, improves productivity and makes efficient performance possible.

Step 2: Explain harmony, not discord **Recognise common interests:** Management and workers should regard one another as partners in the prosperity of the enterprise rather than as opponents. Repeated disputes and suspicion waste energy that could be used to increase output.

Bring about a mental revolution: Both sides must change their attitudes. Management should treat workers fairly and share the gains of increased productivity; workers should cooperate with scientific methods and avoid restricting output. Their attention should be on increasing the total surplus through joint effort instead of merely quarrelling over the division of an unchanged surplus. Such mutual trust creates the harmony needed for scientific management to succeed.

Step 3: Conclusion Science, not the rule of thumb, requires a scientifically established best method of work. Harmony, not discord, requires a mental revolution that replaces employer-worker conflict with mutual trust and cooperation.

Quick Tip to Solve: Link science with the method of work, and harmony with the attitude of management and workers; mental revolution is the key phrase for harmony.

15. Define the term 'Organisation Structure' and enumerate any three considerations to be kept in mind while building an organizational structure. [4 marks]

Solution:

Concept:

- Organisation structure is the framework within which managerial and operating activities are performed. It establishes jobs, departments, authority and reporting relationships.
- A suitable structure converts the organisation's objectives into coordinated work. The distribution of duties and the arrangement of supervision must therefore suit the enterprise.

Step 1: Define organisation structure Organisation structure means the framework of job positions and formal relationships through which the activities of an enterprise are divided, grouped and coordinated. It specifies who performs each task, who has authority to make decisions, who is responsible for results and who reports to whom. Thus, it provides an orderly basis for working together rather than leaving these relationships uncertain.

Step 2: Enumerate three considerations in building the structure **1. Objectives of the enterprise:** The structure should be designed to achieve the enterprise's stated objectives. Essential jobs and departments must receive a clear place in it, and their responsibilities should contribute to the common goals. For example, an enterprise aiming to expand sales needs an arrangement that gives adequate attention to marketing activities.

2. Nature and division of activities: Identify all the work to be done, divide it into manageable jobs and group related activities into departments. The grouping should encourage specialisation while avoiding duplication of work or omission of necessary tasks. The nature and scale of operations guide which activities belong together.

3. Span of management and reporting relationships: Decide how many subordinates each manager can supervise effectively, taking account of the complexity of work and the competence of staff. Establish clear authority and responsibility relationships accordingly. A workable span and clear reporting lines permit effective supervision and coordination without creating unnecessary levels of management.

Step 3: Conclusion Organisation structure is the formal framework of jobs and relationships. Three considerations in building it are the enterprise's objectives, the nature and grouping of activities, and a suitable span of management with clear reporting relationships.

Quick Tip to Solve: Begin with the framework definition, then list three design considerations: goals, grouping of work, and supervision. Keep each consideration distinct.

16. "Controlling helps in achieving objectives of the organisation and improving employees' morale." Explain this statement, in brief. [5 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with predetermined standards, identifying deviations and taking corrective action. Its purpose is to keep activities directed towards organisational objectives.
- Effective control also improves employees' morale: clear standards tell employees what is expected, and fair assessment gives them confidence that their contribution will be recognised.

Step 1: Explain how control secures organisational objectives **1. Establish a clear yardstick:** Organisational plans are translated into standards of performance, such as a production target, an acceptable quality level or a cost limit. Employees and managers therefore know the results towards which their efforts must be directed.

2. Detect deviations from the plan: Actual performance is measured and compared with the standards. This comparison reveals whether the organisation is progressing towards its objectives and identifies the areas in which performance falls short. For example, an output shortfall can be noticed before it threatens the entire production plan.

3. Take corrective action: Managers investigate the causes of significant deviations and remove them through suitable action, such as repairing equipment, providing training or improving the work method. Thus control brings performance back on course and helps the organisation achieve its planned results rather than merely record failures.

Step 2: Explain how control improves employees' morale **4. Clarify expectations and responsibility:** Well-defined, attainable standards tell employees in advance what work they must do and the level of performance expected. This reduces uncertainty, enables employees to direct their effort properly and encourages responsibility for their results.

5. Provide fair appraisal and recognition: When performance is judged against known standards, employees can see the basis on which their work is assessed. Good performance can be recognised and rewarded, while shortcomings can lead to constructive guidance and training. Such an objective and supportive system gives employees satisfaction, confidence and motivation to perform better, thereby improving morale.

Step 3: Conclusion Controlling helps achieve organisational objectives by monitoring progress and correcting deviations. It improves employees' morale by making expectations clear and linking fair assessment, guidance and recognition to actual performance.

Quick Tip to Solve: Link objectives to standards, comparison and correction; link morale to clear expectations, fair appraisal and recognition.

17. Explain any five points of importance of financial planning. [5 marks]

Solution:

Concept:

- Financial planning estimates the funds needed by an enterprise and determines suitable sources for obtaining them. It considers both the amount required and the time at which it will be required.
- Sound financial planning aims to make adequate funds available for business activities while avoiding unnecessary idle funds. It translates business plans into an organised programme of financing.

Step 1: Explain how planning prepares the business for its financial needs **1. Helps in forecasting future requirements:** Financial planning estimates the funds needed for fixed assets and day-to-day operations over the planning period. Management can therefore anticipate requirements and arrange finance in advance, instead of discovering a shortage when a payment or investment becomes due.

2. Ensures adequate and timely availability of funds: By matching expected receipts with payments, the enterprise identifies the amount and timing of funds to be raised. This helps avoid both a shortage that interrupts operations and an unnecessary surplus that remains idle and earns little return. The business can undertake its proposed activities with greater continuity.

3. Helps the enterprise face changes and surprises: Forecasts make managers consider alternative situations, such as a fall in sales or an increase in costs. They can assess the resulting cash needs and prepare suitable responses. Although uncertainty cannot be eliminated, prior preparation reduces the financial shock of unforeseen events.

Step 2: Explain how planning improves coordinated financial decisions **4. Coordinates different business functions:** Production, purchasing, marketing and other departmental plans all require funds and also affect cash flows. A financial plan brings these requirements together, reconciles competing demands and connects financial decisions with the overall operating plan. Departments are less likely to make commitments which the enterprise cannot finance.

5. Links present decisions with future growth: Financial planning evaluates the future consequences of current investments and financing commitments. It helps management decide whether resources will remain available for expansion, replacement of assets and repayment of obligations. Thus short-term financial decisions support the enterprise's long-term objectives rather than create avoidable future difficulties.

Step 3: Conclusion Financial planning is important because it forecasts requirements, secures timely and adequate funds, prepares the business for uncertainties, coordinates departmental plans and connects present financial decisions with future growth.

Quick Tip to Solve: Explain each importance point by showing what financial planning anticipates or coordinates and how that helps the enterprise.

18. You are a newly appointed finance advisor in a company and found that the company is over-capitalised. The management does not agree with your findings. Convince the management by giving five reasons in support of your viewpoint. [5 marks]

Solution:

Concept:

- Over-capitalisation exists when a company's capital is excessive in relation to its earning capacity, so that its earnings do not provide a fair or normal return on the capital employed.
- A large capital balance or a shortage of cash alone does not prove over-capitalisation. The finance adviser must relate the amount of capital to the sustainable earnings it can generate.

Step 1: Explain the basis of the finding I would explain to the management that capital must be supported by productive assets and adequate recurring earnings. If the company cannot earn the normal return expected on its capital, its capitalisation is too high relative to its earning power. The following five causes explain how such a situation can arise; the company's records should be used to establish which of them apply.

Step 2: Present five reasons for over-capitalisation

- **Excessive promotion and establishment expenses:** Heavy preliminary expenses, underwriting commissions and other formation costs may absorb a large part of the funds raised. They increase the capital to be serviced without creating corresponding income-producing assets.
- **Acquisition of assets at inflated prices:** If assets were bought at high prices during a boom, their recorded cost and the capital raised to finance them may be excessive. After prices and business conditions return to normal, those assets may not earn an adequate return on that cost.
- **Overestimation of earning capacity:** Capital may have been raised on the basis of unduly optimistic sales and profit forecasts. If actual sustainable earnings fall below those estimates, the company cannot provide the expected return on the capital issued.
- **Inadequate provision for depreciation:** Failure to charge adequate depreciation overstates past profits and may lead to excessive dividend distribution. Funds required for replacement are then unavailable, assets become obsolete, and earning capacity falls while the capital claim remains.
- **Borrowing at a high rate of interest:** Expensive loans impose a heavy fixed interest burden. Where the assets financed do not earn enough to cover this cost adequately, the profits available to shareholders become insufficient to support the existing capitalisation.

Step 3: Conclusion These five reasons show why the capital employed may be greater than the company's earnings can justify. I would support the diagnosis with the company's formation costs, asset purchase prices, original profit estimates, depreciation policy and borrowing terms, rather than equating over-capitalisation simply with excess cash.

Quick Tip to Solve: Link every cause to the same test: capital or financial charges rise without a matching rise in sustainable earnings. Distinguish the causes of over-capitalisation from its effects on shareholders.

19. "Management is regarded as fully-developed profession." Do you agree ? Give reasons. [5 marks]

Solution:

Concept:

- A profession is an occupation founded on specialised knowledge and training, with restricted entry, a representative professional association, an ethical code and a service motive.
- Management has several professional characteristics, but it does not satisfy all the essential conditions of a fully developed profession. Each characteristic must therefore be tested separately.

Step 1: State the position and examine knowledge and entry I do not agree that management is a fully developed profession. It is developing towards professional status, as the following comparison shows.

- **Well-defined body of knowledge:** Management has an organised body of principles and techniques that can be acquired through systematic study. Universities and management institutes provide specialised education and training. It therefore satisfies this characteristic of a profession to a considerable extent.
- **Restricted entry:** Entry into an established profession such as medicine requires specified qualifications. In management, no particular degree, licence or professional qualification is compulsory for becoming a manager. A management degree may improve competence and employment prospects, but it is not a universal legal condition of entry. This essential feature is therefore not fully satisfied.

Step 2: Examine association, ethical discipline and service

- **Professional association:** Management associations, such as the All India Management Association, promote managerial knowledge and professional standards. However, joining such an association is not compulsory for practising as a manager, and these bodies do not exercise the same compulsory control over entry as the recognised bodies of established professions.
- **Ethical code of conduct:** Management associations advocate ethical standards and responsible conduct. Yet all managers are not compulsorily enrolled in one professional body or uniformly bound by its enforceable professional code. Thus ethical guidance exists, but the profession-wide disciplinary requirement is incomplete.
- **Service motive:** Managers are expected to serve the organisation and consider the interests of employees, consumers and society. Nevertheless, business management has traditionally given major importance to earning profits, and service to society is not its sole governing objective. The service orientation is developing rather than uniformly established as in an ideal profession.

Step 3: Conclusion Management possesses specialised knowledge and an increasing professional orientation. However, the absence of compulsory qualifications, compulsory association membership and a universally enforceable professional code prevents it from being described as a fully developed profession.

Quick Tip to Solve: Test the statement against five headings: knowledge, entry, association, ethics and service. Do not treat the existence of management degrees as proof that a degree is compulsory for every manager.

20. Explain any five positive impacts of globalisation and liberalisation on business and industry in India. [5 marks]

Solution:

Concept:

- Liberalisation removes unnecessary government controls and restrictions on business, giving enterprises greater freedom to enter markets, expand and make operating decisions.
- Globalisation integrates the Indian economy with the world economy through trade, investment, technology and business links. The following are five positive effects on Indian business and industry.

Step 1: Explain the gains in business opportunities and resources

- **Greater freedom and scope for expansion:** Relaxation of industrial licensing and other controls reduced administrative obstacles to setting up and expanding enterprises. Firms could respond more quickly to demand, diversify their products and use their resources in activities offering better opportunities.
- **Access to foreign capital:** A more open investment environment attracted foreign investment and encouraged collaborations with overseas enterprises. This supplemented domestic funds and helped finance larger production facilities, modernisation and new business projects.
- **Access to modern technology and management practices:** International collaborations and easier imports made improved machinery, technical knowledge and production methods more accessible. Indian firms could raise productivity, improve quality and learn better methods of managing production and marketing.

Step 2: Explain the gains from markets and competition

- **Wider markets and export opportunities:** Integration with the world economy enabled Indian producers to seek buyers beyond the domestic market. Export opportunities and international business links increased their potential sales, supported production on a larger scale and reduced dependence on only one market.
- **Improvement in efficiency and competitiveness:** Competition from foreign firms encouraged Indian enterprises to control costs, upgrade products and provide better customer service. Efficient firms improved their processes and became better equipped to compete both in India and abroad. These gains depended on firms adapting successfully to the changed environment.

Step 3: Conclusion Five positive impacts are greater business freedom, access to foreign capital, access to improved technology, wider export markets, and improved efficiency and competitiveness. Together they created opportunities for the growth and modernisation of Indian business and industry.

Quick Tip to Solve: Link each reform to a business gain: fewer controls to expansion, foreign investment to funds, global links to technology and markets, and competition to efficiency.

21(a). Why is the employees' training necessary in an organisation ? Explain in brief any six reasons.

[6 marks]

Solution:

Concept:

- Training is a planned process of improving the knowledge and skills required to perform a particular job. It prepares employees to use the organisation's methods, equipment and procedures correctly.
- Training is necessary because appointing an employee does not by itself ensure effective performance. Both new and existing employees need learning as their responsibilities and the methods of work change.

Step 1: Explain how training improves present performance

- **Higher efficiency and productivity:** Training teaches employees the correct way of doing their work. Better job knowledge and practice improve the speed, accuracy and quality of performance, enabling the organisation to obtain more useful output from its resources.
- **Economy in the use of resources:** Trained employees handle materials, tools and machines properly. They make fewer avoidable mistakes, reducing wastage, defective production and damage to equipment. This helps lower operating costs.
- **Reduced need for close supervision:** Employees who understand the work and its procedures can carry out routine tasks with greater independence. Supervisors therefore spend less time repeatedly explaining basic operations and can devote more attention to coordination and difficult problems.

Step 2: Explain how training develops a reliable workforce

- **Fewer accidents and safer working:** Instruction in safe operating methods, correct machine handling and precautions reduces errors that can cause accidents. This protects employees as well as the organisation's equipment and continuity of operations.
- **Higher morale and confidence:** Training enables employees to perform their jobs competently instead of feeling uncertain about what to do. A sense of achievement and opportunities to learn improve confidence, satisfaction and willingness to contribute to the organisation.
- **Adaptability and preparation for greater responsibilities:** Employees need training when new technology, methods or procedures are introduced. It helps them adjust to change and acquire the skills needed for higher responsibilities, providing the organisation with capable employees for future vacancies and expansion.

Step 3: Conclusion Employees' training is necessary to improve efficiency, economise resources, reduce close supervision, prevent accidents, strengthen morale and prepare employees for change and greater responsibilities. It benefits both the organisation and its employees by improving present work and future capability.

Quick Tip to Solve: Give six distinct reasons and explain the effect of each: efficiency, economy, supervision, safety, morale, and readiness for change or promotion.

OR

21(b). Explain, in brief, any six steps involved in the selection procedure of employees. [6 marks]

Solution:

Concept:

- Selection is the process of identifying and choosing the most suitable person from the applicants for a particular job. It compares a candidate's qualifications, abilities and fitness with the requirements of that job.
- Each stage supplies information for judging suitability. Candidates who do not meet the requirements may be rejected at different stages; recruitment merely attracts applicants, whereas selection chooses among them.

Step 1: Screen applications and test suitability **1. Preliminary screening:** The organisation examines application forms and conducts an initial screening to eliminate applicants who do not possess the minimum qualifications, experience or other essential requirements. This saves the time and expense of applying the more detailed selection procedures to clearly unsuitable candidates.

2. Selection tests: Shortlisted applicants undergo appropriate tests to measure their suitability objectively. Intelligence tests assess mental ability, aptitude tests assess the capacity to learn, and trade tests assess existing occupational skills. The tests chosen should relate to the work to be performed; a test score is evidence of suitability rather than an automatic substitute for the other stages.

Step 2: Interview candidates and verify their information **3. Employment interview:** The employer holds a formal conversation with the candidate to assess knowledge, communication, interests and overall suitability for the position. It also gives the applicant an opportunity to understand the job and the organisation. Questions should help judge the candidate against the job's requirements.

4. Reference and background checks: The employer contacts the referees or previous employers named by the applicant and verifies relevant information such as experience, conduct and past performance. This helps confirm claims made in the application and interview and reduces the risk of choosing someone on the basis of incorrect information.

Step 3: Decide on selection and check medical fitness **5. Selection decision:** After considering the information collected through screening, tests, interviews and reference checks, the responsible managers decide which candidate is most suitable. The final decision is generally made with the involvement of the manager who will supervise the selected employee, since that manager understands the work to be performed.

6. Medical examination: The selected candidate is examined to establish physical fitness for the particular job before appointment is finalised. The examination checks whether the person can perform the duties safely and satisfactorily. It should assess fitness in relation to the actual nature and requirements of the work.

Step 4: Conclusion Thus, six steps in the selection procedure are preliminary screening, selection tests, employment interview, reference and background checks, selection decision and medical examination. Together they help the organisation select a person whose abilities and fitness match the job.

Quick Tip to Solve: Remember the sequence as screen, test, interview, verify, decide and examine. Explain the purpose of each stage rather than merely naming it.

22(a). Explain, in brief, any six remedies available to consumers under the Consumer Protection Act, 1986. [6 marks]

Solution:

Concept:

- Consumer protection includes a system of redressal through which an aggrieved consumer can obtain relief against defective goods, deficient services and unfair business practices.
- Under the Consumer Protection Act, 1986, the appropriate consumer redressal agency can direct the opposite party to provide relief when the complaint is proved. A remedy is the corrective order granted on a complaint, whereas a consumer right is the underlying entitlement being protected.

Step 1: State remedies that correct the defective purchase **1. Removal of defects or deficiencies:** The agency can order removal of the defect in the goods or the deficiency in the service complained of. For example, a seller may be directed to repair a defective appliance so that it performs as promised, while a service provider may have to correct an inadequately performed service.

2. Replacement of goods: The agency can direct the seller to replace defective goods with new goods of a similar description that are free from defects. This gives the consumer a satisfactory product in place of the faulty one and is a distinct form of relief from merely repairing the original product.

3. Refund of the price or charges: The agency can order return of the price paid for the goods, or the charges paid for the service. The consumer thereby receives back the money spent on the unsatisfactory purchase instead of retaining the defective goods or relying only on their repair.

Step 2: State remedies that compensate loss and prevent harmful practices **4. Payment of compensation:** The agency can order the opposite party to pay an appropriate amount as compensation for the loss or injury suffered by the consumer due to its negligence. For example, where a defective product injures the buyer, compensation addresses the resulting harm; it is different from simply refunding the purchase price.

5. Discontinuance of unfair or restrictive trade practices: The agency can direct the business to discontinue an unfair or restrictive trade practice and not repeat it. Such an order addresses the objectionable business conduct itself, such as a misleading sales practice, rather than providing only an individual replacement or refund.

6. Withdrawal of hazardous goods: The agency can direct the withdrawal of hazardous goods from sale. Removing such goods from the market prevents their continued supply and protects consumers from the risk of injury. This relief is concerned with consumer safety as well as the particular complaint that brought the danger to notice.

Step 3: Conclusion Six available remedies are removal of defects or deficiencies, replacement of defective goods, refund of the price or charges, compensation for loss or injury, discontinuance of unfair or restrictive trade practices, and withdrawal of hazardous goods from sale. The appropriate relief depends on the facts established in the complaint.

Quick Tip to Solve: Organise remedies into correction of the purchase, compensation for the harm and prevention of further harm. Do not substitute a list of consumer rights for the reliefs ordered by the agency.

OR

22(b). Explain, in brief, any four rights of consumers as provided under the Consumer Protection Act, 1986. [6 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unsafe goods, misleading information and unfair trade practices. The Consumer Protection Act, 1986 recognises rights that enable consumers to make informed purchases and seek fair treatment.
- A consumer right states what the consumer is entitled to; it differs from a remedy, which is the relief ordered after a complaint succeeds. Any four recognised rights may be explained here.

Step 1: Explain the rights to safety and information

- **Right to safety:** Consumers have the right to be protected against the marketing of goods and services hazardous to life and property. For example, electrical appliances should satisfy appropriate safety standards so that normal use does not expose the buyer to avoidable injury. This right places importance on product quality, proper instructions and safe use.
- **Right to be informed:** Consumers have the right to information about the quality, quantity, potency, purity, standard and price of goods or services. Such information protects them against unfair trade practices and helps them compare alternatives. A package should therefore provide relevant particulars such as ingredients, weight, price and expiry date where applicable; an advertisement should not conceal material facts.

Step 2: Explain the rights to choice and a hearing

- **Right to choose:** Consumers have the right to be assured, wherever possible, of access to a variety of goods and services at competitive prices. They should be able to select a product suited to their needs and purchasing power rather than be compelled to buy an unwanted product or accept a tied purchase. Meaningful choice requires the freedom to compare available alternatives.
- **Right to be heard:** Consumers have the right to be heard and to be assured that their interests receive due consideration at appropriate forums. They must be able to raise complaints or express dissatisfaction, directly or through consumer organisations. For instance, a consumer's complaint about defective goods should receive proper consideration instead of being dismissed without examination.

Step 3: Conclusion Four rights provided under the Consumer Protection Act, 1986 are the right to safety, the right to be informed, the right to choose and the right to be heard. Together, they protect consumers before purchase and ensure that their concerns can be represented afterwards.

Quick Tip to Solve: For each consumer right, name the entitlement and explain its practical effect. Keep rights such as being informed distinct from remedies such as replacement or refund.

23(a). Explain the various factors which should be considered before taking decision on the choice of a particular medium of advertising for a product. [6 marks]

Solution:

Concept:

- An advertising medium is the channel through which an advertising message reaches prospective buyers, such as newspapers, magazines, radio, television or outdoor displays. Media selection should help the advertiser reach the intended audience with an effective message.
- The best medium depends on the product, its customers, the market and the resources available. A medium's large total audience alone does not make it appropriate if few of those people are potential buyers.

Step 1: Match the medium to the product and its audience

- **Nature of the product:** Consider the product's uses and the way its benefits must be presented. A product needing a visual demonstration may be advertised effectively on television, while technical or industrial goods may need detailed information in a specialised trade journal. The medium must communicate the product's relevant qualities clearly.
- **Nature of prospective customers:** Consider the age, income, education, occupation and media habits of the target buyers. Advertising should appear in a medium those buyers actually use. For example, a product intended for schoolchildren requires a different audience focus from machinery bought by industrial purchasing managers.
- **Extent and location of the market:** The medium's geographical coverage should match the area in which the product is sold. A local retailer can use a local newspaper or outdoor display, whereas a nationally distributed product may justify national television or widely circulated publications. Paying for coverage beyond the selling area can waste resources.

Step 2: Compare the message requirements, cost and exposure

- **Nature of the message and advertising objective:** Decide whether the advertisement must announce a sale, explain technical details, demonstrate use or build an image. Detailed information needs adequate space and time for study; a demonstration benefits from sight and sound. The medium should support the required appeal and presentation.
- **Cost and funds available:** Compare the cost of preparing and placing advertisements with the advertising budget. Television may require substantial production and transmission expenditure, while a local newspaper may suit a smaller budget. Assess cost in relation to the relevant audience reached and the expected effectiveness, rather than choosing only the cheapest space.
- **Reach, frequency and life of the advertisement:** Examine how many target buyers the medium reaches, how often the message can be repeated and how long it remains available. A magazine may be retained and reread, while a radio or television message passes quickly and may require repetition. The proposed schedule should give sufficient exposure at the time customers are likely to buy.

Step 3: Conclusion Media selection should balance the product's nature, prospective customers, geographical market, message and objective, available budget, and the reach, frequency and life of exposure. The chosen medium, or combination of media, should deliver the intended message to likely buyers effectively within the advertiser's resources.

Quick Tip to Solve: Test each medium by asking who will see it, where they live, what the message needs to show, and how much effective repeated exposure will cost.

OR

23(b). You are the marketing manager of a company manufacturing toy car. Which media would you choose for advertising your product ? Explain in brief, any five reasons in support of your answer. [6 marks]

Solution:

Concept:

- Advertising is an impersonal, paid form of communication by an identified sponsor to inform and persuade potential customers about a product.
- The advertising medium should suit the product's characteristics and the habits of its target audience. A toy car is bought for children, while parents generally pay for it.

Step 1: Select television as the advertising medium I would choose **television**, especially suitable children's programmes, for advertising the toy car. It can show the toy in operation and communicate with children as well as the parents who make the purchase. The following five reasons support this choice.

Step 2: Explain the first three reasons

- **Combined appeal to sight and hearing:** Television combines moving pictures, colour, sound and speech. An attractive presentation can catch children's attention and make the toy car more interesting than a description heard or read alone.
- **Demonstration of the product:** A commercial can show how the car moves and how it is played with. Its actual features can be demonstrated clearly, helping viewers understand the play experience before buying it. Only features the product really possesses should be shown.
- **Suitable audience selection:** Placing the advertisement around children's programmes helps reach children who are likely to want toys. Parents watching with them can also learn about the product, so the message reaches both users and buyers.

Step 3: Explain the remaining two reasons

- **Wide coverage:** Television can reach a large number of households across different places. For a company selling its toy car over a wide market, this helps create awareness among many potential customers through the same campaign.
- **Repetition and lasting recall:** The advertisement can be repeated at suitable intervals. A consistent picture of the toy, its brand name and a memorable message help children and parents recognise and recall the brand when they visit a shop.

Step 4: Conclusion Television is an appropriate medium for the toy car because it offers audio-visual appeal, product demonstration, access to the intended audience, wide coverage and repeated reminders. These advantages make it well suited to presenting a play product to children and their parents.

Quick Tip to Solve: Link each reason to the toy car: show its movement, attract children and inform the parent who pays. Give five distinct advantages rather than repeating that television is attractive.

24(a). Explain, in brief, any six features of planning. [6 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done and how it is to be done. It connects the present position of an organisation with the position it wants to reach.
- Planning sets objectives and develops a course of action for achieving them. Its features explain its role in managerial work rather than the successive steps used to prepare a particular plan.

Step 1: Explain the purpose and position of planning

- **Planning focuses on achieving objectives:** Plans are prepared to attain specific organisational objectives. Managers first identify the desired results and then determine the activities and resources needed. This gives purposeful direction to efforts and prevents unrelated activities from consuming resources.
- **Planning is a primary function of management:** It precedes organising, staffing, directing and controlling because these functions need a framework of objectives and actions. For example, the work to be organised and the people to be recruited depend on what the organisation plans to achieve. Planning therefore provides the basis for the other functions.

Step 2: Explain its scope and continuity

- **Planning is pervasive:** It is required at every level of management and in every department. Top managers prepare broad plans for the organisation, while middle and supervisory managers prepare plans for their own areas. Their scope differs, but each manager must plan the work for which he or she is responsible.
- **Planning is continuous:** Plans operate for a particular period, after which fresh plans are needed. Existing plans must also be reviewed and revised when circumstances change. Thus planning does not end with the preparation of one document; it continues as objectives, performance and business conditions are reviewed.

Step 3: Explain its future orientation and choice

- **Planning is futuristic:** It is concerned with future actions and their expected results. Managers anticipate likely conditions, such as demand and availability of resources, using forecasts and available information. They prepare for the future even though planning cannot remove all uncertainty.
- **Planning involves decision making:** Managers identify alternative courses of action, evaluate their consequences and select the most suitable one. Choosing between different ways to achieve an objective is central to planning. If no alternative course is available, the element of choice is absent.

Step 4: Conclusion Six features of planning are its focus on objectives, primacy among managerial functions, pervasiveness, continuity, future orientation and involvement of decision making. Together they make planning a purposeful process that guides managerial action throughout the organisation.

Quick Tip to Solve: For features of planning, explain what planning is like; for its process, explain the steps in order. Keep each feature distinct and add one sentence showing its managerial significance.

OR

24(b). Defining 'organisational objectives' is the first step in the process of planning. Explain, in brief, the other steps of this process. [6 marks]

Solution:

Concept:

- Planning is deciding in advance what is to be done and how it is to be done. Once organisational objectives are defined, managers identify and choose a suitable course of action for attaining them.
- The remaining planning steps proceed from assumptions about the future to alternatives, evaluation, selection, implementation and follow-up. Each step provides information or direction for the next.

Step 1: Establish the basis for comparing plans

- **Developing premises:** Managers make assumptions about the future environment in which the plan will operate. These planning premises may concern demand, prices, competition, government policy and availability of resources. For example, a sales plan may assume a certain growth in market demand. Common, realistic assumptions help different departments prepare consistent plans.
- **Identifying alternative courses of action:** Managers list the different ways of achieving the objectives. They should search for feasible and innovative alternatives rather than immediately accept the first solution. For example, higher output may be obtained through an additional shift, new machinery or outsourcing.
- **Evaluating alternative courses:** Each alternative is examined in the light of the objectives, premises, available resources, costs, likely benefits and risks. Managers compare strengths and limitations and assess the consequences of each course so that the choice rests on reasoned analysis.

Step 2: Choose the plan and put it into operation

- **Selecting an alternative:** The most suitable course is chosen after evaluation. It should offer the best prospect of attaining the objectives within the organisation's constraints. Sometimes a combination of alternatives is more suitable than a single course; choosing need not mean selecting the cheapest one.
- **Implementing the plan:** The selected plan is translated into action. Managers communicate it, assign duties, arrange finance and other resources, and develop the necessary supporting schedules and programmes. A production expansion plan, for instance, requires machines to be installed and workers to be assigned before output can rise.
- **Follow-up action:** Managers monitor the progress and results of implementation to see whether work follows the plan and objectives are being achieved. Deviations are identified and suitable corrective action is taken. Changes in the assumptions may also require the plan to be reviewed.

Step 3: Conclusion After defining objectives, the planning process comprises developing premises, identifying alternatives, evaluating them, selecting the best course, implementing the plan and taking follow-up action. These steps turn a desired result into an actionable and monitored programme.

Quick Tip to Solve: Remember the sequence as assumptions, options, comparison, choice, action and review; explaining objectives again does not answer the demand for the other planning steps.

25(a). Distinguish between formal and informal organisations on the basis of

(i) formation,

(ii) purpose,

(iii) structure,

(iv) behaviour of members,

(v) stability, and

(vi) adherence to rules. [6 marks]

Solution:

Concept:

- Formal organisation is the deliberately designed framework of official jobs, authority and responsibility created by management to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that develops spontaneously when people interact within the formal organisation. Both forms can coexist among the same employees.

Step 1: Compare formation, purpose and structure The first three differences concern how each organisation originates and what gives it shape.

Basis	Formal organisation	Informal organisation
(i) Formation	Created deliberately by management through the organising process: jobs are identified, grouped and assigned.	Arises spontaneously through interaction, friendship and shared interests among employees; management does not deliberately create it.
(ii) Purpose	Established primarily to achieve the organisation's predetermined objectives through coordinated work.	Develops primarily to satisfy members' social and psychological needs, such as friendship, belonging and mutual support.
(iii) Structure	Has a clearly defined structure of positions, authority and responsibility, normally shown in an organisation chart.	Has no officially prescribed structure; relationships depend on personal contacts and informal influence rather than assigned positions.

Step 2: Compare conduct, stability and rules The remaining differences concern the basis on which people act and the continuity of their relationships.

Basis	Formal organisation	Informal organisation
(iv) Behaviour of members	Official conduct is guided by assigned duties, authority relationships and the requirements of their jobs. Members are expected to act in their official capacities.	Conduct is guided by personal feelings, social relationships and group expectations. Members interact as people with common interests rather than solely as holders of posts.
(v) Stability	Relatively stable: official positions and relationships generally continue even when the people occupying them change.	Relatively less stable: groups and relationships may change when members, interests or interpersonal feelings change.
(vi) Adherence to rules	Members are expected to follow officially prescribed rules, procedures and regulations; breaches may attract formal disciplinary action.	No formally prescribed organisational rule book governs the network itself. Members follow unwritten group norms and social expectations, supported by peer approval or disapproval.

Step 3: Conclusion Formal organisation rests on planned official relationships, whereas informal organisation rests on spontaneously developed personal relationships. Their differences are evident in formation, purpose, structure, members' behaviour, stability and the nature of rules they follow.

Quick Tip to Solve: Use the six bases given in the question as row headings and place both organisations side by side; informal groups have unwritten norms even though their structure is not officially prescribed.

OR

25(b). "Authority can be delegated but accountability cannot." Explain the statement. [6 marks]

Solution:

Concept:

- Delegation is the assignment of work and the granting of sufficient authority to a subordinate to perform it. It enables managers to obtain results through others.
- Authority is the right to take decisions and give orders. Accountability is the obligation to answer for the results of assigned work; a manager remains answerable to the superior who entrusted that work to the manager.

Step 1: Explain how authority passes to a subordinate **1. Assignment of duties:** A superior first entrusts a specific task to a subordinate and clarifies the results expected. For example, a sales manager may assign a territory's sales work to a sales officer.

2. Grant of decision-making powers: The superior delegates the authority needed to perform that task, such as the power to contact customers or approve discounts within specified limits. Thus, authority flows downwards from superior to subordinate. The manager can share the right to act while retaining overall authority and control.

Step 2: Explain why the superior remains accountable **3. Accountability to one's own superior continues:** Delegation does not release the delegating manager from the obligation to deliver the results originally assigned to that manager. If the sales target is missed, the sales manager must still answer to the general manager; merely saying that the work was delegated does not discharge this obligation.

4. The subordinate also becomes accountable: Acceptance of the task and authority creates the subordinate's responsibility to perform it and accountability to the delegating superior. The sales officer must explain performance to the sales manager. This creates accountability at the subordinate's level without transferring or extinguishing the sales manager's existing accountability upwards.

Step 3: State the managerial implications of the statement **5. Supervision cannot be abandoned:** Since the manager remains ultimately accountable, the manager must choose a capable subordinate, explain the assignment, provide adequate authority and resources, review progress and take corrective action when necessary. Delegation is a means of securing performance, not a means of escaping answerability.

6. Authority and responsibility must correspond: The subordinate should receive authority proportionate to the assigned responsibility so that the task can actually be performed. Nevertheless, even properly delegated authority does not remove the superior's final accountability for the delegated task. Each person answers to the relevant superior for obligations entrusted to that person.

Step 4: Conclusion Authority can be delegated because a subordinate can be empowered to make decisions and carry out assigned work. Accountability cannot be delegated because the superior's obligation to answer for the final results remains intact, even though the subordinate becomes accountable to that superior for performing the delegated task.

Quick Tip to Solve: Use a chain of two reporting relationships: the officer answers to the manager, and the manager still answers to the general manager. Delegating powers adds a subordinate's accountability; it does not cancel the superior's.