CBSE Class 12 Business Studies Question Paper 2005 with Solution PDF-Set 66/3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Answers to questions carrying **2 - 3 marks** should not exceed **30 - 40** words.
(ii) Answers to questions carrying **4 - 5 marks** should not exceed **60 - 80** words.
(iii) Answers to questions carrying **6 marks** should not exceed **100** words.
(iv) Attempt all parts of a question together.

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

Solution:

Concept:

- The production concept is a marketing management philosophy that gives priority to efficient production and widespread availability.
- It assumes that buyers favour products that are readily available and affordable, so lowering the unit cost is central to this approach.

Step 1: State the underlying assumption The production concept assumes that consumers prefer products which are widely available at a low price. It is especially relevant where demand exceeds supply or where a high cost of production prevents many buyers from purchasing the product.

Step 2: Explain its managerial emphasis Management therefore concentrates on increasing production efficiency, achieving large-scale output and improving distribution coverage. Lower production costs permit affordable prices, while an extensive distribution network makes the goods easy to obtain. The main focus is producing and distributing efficiently rather than designing the offering primarily around individual consumer preferences.

Step 3: Conclusion The production concept holds that consumers favour easily available, inexpensive goods; hence the enterprise stresses efficient mass production, low costs and extensive distribution.

Quick Tip to Solve: Link the production concept with availability and affordability; do not confuse it with the product concept, which stresses quality and features.

2. How does marketing help an enterprise to establish a place in the market ? [2 marks]

Solution:

Concept:

- Marketing begins with identifying customer needs and seeks to satisfy them through an appropriate product, price, promotion and distribution.
- An enterprise establishes its market position by offering customer value and building lasting customer relationships.

Step 1: Identify and satisfy customer needs Marketing studies the requirements, preferences and purchasing capacity of the target customers. The enterprise uses this knowledge to offer suitable products at acceptable prices and make them available at convenient places. A product that satisfies an actual need gives buyers a reason to choose the enterprise.

Step 2: Build recognition and customer loyalty Promotion communicates the product's benefits and creates awareness of its name and distinctive features. Consistent quality, dependable availability and after-sales service then create customer satisfaction and repeat purchases. Together, differentiation and satisfied customers help the enterprise gain recognition, compete effectively and secure an enduring place in the market.

Step 3: Conclusion Marketing helps an enterprise establish a place in the market by satisfying customers better, communicating its offering and developing recognition, loyalty and repeat demand.

Quick Tip to Solve: For a question about market position, connect the marketing mix to customer satisfaction and then to recognition and repeat purchases.

3. What is meant by 'political environment' of business ? [2 marks]

Solution:

Concept:

- The political environment is the dimension of the business environment arising from political institutions, conditions and attitudes.
- Political stability and the government's attitude towards business influence business confidence, investment and policy decisions.

Step 1: Define the political environment The political environment of business comprises political conditions such as the general stability and peace in the country, the nature of political leadership, and the attitudes of the government and political parties towards business. These conditions form part of the external setting in which an enterprise operates.

Step 2: Explain its effect on business A stable political climate and a favourable attitude towards enterprise encourage confidence, long-term planning and investment. Political uncertainty, frequent changes of government or hostility towards particular business activities may discourage investment and disrupt plans. Thus, managers must consider the prevailing political climate when taking major decisions.

Step 3: Conclusion Political environment means the political conditions, stability, leadership and government attitudes towards business that influence the functioning and decisions of enterprises.

Quick Tip to Solve: Use stability and government attitudes to explain the political environment; specific statutes and court decisions belong mainly to the legal environment.

4. Enumerate any two points of importance of directing as a function of management. [2 marks]

Solution:

Concept:

- Directing involves instructing, guiding, motivating and leading employees to achieve organisational objectives.
- It brings plans into action and helps individuals work as an integrated group.

Step 1: State how directing initiates action **Initiates action:** Planning and organising provide objectives, tasks and resources, but employees must be guided to perform the work. Directing communicates what has to be done, gives instructions and encourages employees to start their assigned activities. It therefore converts plans into actual performance.

Step 2: State how directing integrates employee efforts **Integrates employees' efforts:** Employees perform different jobs and may have different personal interests. Through guidance, leadership and communication, directing brings their efforts into harmony with one another and with organisational objectives. This helps the group work towards a common result rather than as disconnected individuals.

Step 3: Conclusion Two points of importance are that directing initiates action and integrates

employees' efforts towards organisational objectives.

Quick Tip to Solve: Name two distinct benefits and briefly explain each; initiating work and integrating efforts are different contributions of directing.

5. State any two functions of top-level management. [2 marks]

Solution:

Concept:

- Top-level management includes the board of directors, chief executive and other senior executives responsible for the enterprise as a whole.
- Top managers determine the overall direction of the organisation and coordinate its principal activities.

Step 1: State the function of determining direction **Determine overall objectives and policies:** Top-level managers decide the organisation's broad goals and the policies and strategies for achieving them. They consider the business environment and the organisation's resources while setting this direction. These decisions provide a common framework within which departments formulate their own plans.

Step 2: State the function of coordinating departments **Coordinate departmental activities:** Top managers integrate the work of major departments such as production, finance, marketing and personnel. They ensure that departmental plans support the overall objectives and resolve major conflicts between them. This coordination prevents one department's decisions from obstructing the performance of the enterprise as a whole.

Step 3: Conclusion Two functions of top-level management are determining overall objectives and policies, and coordinating the activities of different departments.

Quick Tip to Solve: Choose organisation-wide functions for top management; routine supervision of workers is primarily a supervisory-level responsibility.

6. State any three objectives of sales promotion. [3 marks]

Solution:

Concept:

- Sales promotion comprises short-term incentives, such as samples, discounts and premiums, used to encourage the purchase or sale of a product.
- Its objectives concern the buying response the seller wants to obtain. An objective states the desired result; a promotional device is the means used to obtain it.

Step 1: Encourage consumers to try the product **Attract new customers and induce trial:** Sales promotion aims to persuade people who have not bought the product to try it. A free sample or introductory offer reduces the buyer's hesitation about an unfamiliar brand. The immediate objective

is to create an initial purchase or trial that may develop into regular demand if the product satisfies the customer.

Step 2: Increase purchases by existing customers **Stimulate larger or more frequent purchases:** Another objective is to increase sales to present customers within a short period. An extra-quantity pack or a limited-period concession gives the buyer an incentive to buy now or buy more. This helps the seller move stock and obtain an immediate increase in sales rather than waiting for ordinary purchasing patterns.

Step 3: Protect sales against competing offers **Meet competition and retain customers:** Sales promotion also seeks to prevent customers from shifting to rival brands. A suitable temporary incentive makes the firm's offer more attractive when competitors are making special offers. It supports customer retention and helps maintain the firm's sales in a competitive market.

Step 4: Conclusion Three objectives of sales promotion are to attract new customers through trial, increase purchases by existing customers, and meet competition while retaining customers.

Quick Tip to Solve: State each objective as a buying response, such as trial, larger purchases or retention; use a scheme only as an illustration.

7. "Managerial functions cannot be carried out without an efficient system of communication." Do you agree ? Give any three reasons is support of your answer. [3 marks]

Solution:

Concept:

- Communication is the process of exchanging information, ideas and understanding between people. It is effective when the receiver understands the message in the sense intended by its sender.
- Every managerial function requires information and the transmission of decisions. An efficient communication system links the manager's plans with the actions and feedback of employees.

Step 1: Establish the basis of coordinated action Yes, I agree with the statement. **Communication provides the basis of coordination:** The activities of different people and departments can be coordinated only when they understand the common objectives and one another's responsibilities. Managers communicate plans, instructions and schedules so that individual efforts move towards the same organisational goal. Without this exchange, activities may conflict or be duplicated.

Step 2: Explain its contribution to decisions **Communication provides the basis of decision-making:** Managers need reliable information about problems, available resources and alternative courses of action before making decisions. Reports and feedback from employees provide this information. Once a decision is made, it must also be communicated to those who will implement it. An isolated decision that employees do not understand cannot guide their work.

Step 3: Connect communication with managerial efficiency **Communication makes management efficient:** Clear instructions explain what is to be done, by whom and how. Feedback allows the manager to learn about difficulties and compare actual performance with expected performance. This enables guidance and corrective action. Consequently, directing and controlling, as well as the implementation of plans, depend on a functioning communication system.

Step 4: Conclusion Efficient communication is indispensable to managerial functions because it coordinates efforts, supplies information for decisions, and enables instructions, feedback and corrective action.

Quick Tip to Solve: Link each reason to a managerial need: coordinated efforts, informed decisions, and clear instructions with feedback.

8. Enumerate any three product related factors that should be taken into consideration while taking a decision on the choice of channel of distribution for any product. [3 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the final consumer. A direct channel has no intermediary, while an indirect channel includes intermediaries.
- Product-related factors influence how quickly, carefully and economically a product must reach its user. The physical and economic characteristics of the goods therefore affect the suitable length of the channel.

Step 1: Consider the product's unit value **Unit value of the product:** A product with a high unit value generally requires a shorter channel. Direct contact or few intermediaries helps the producer give the buyer suitable attention and avoids adding several intermediaries' margins to an already costly item. Low-priced products bought frequently can generally use longer channels to obtain wide and economical market coverage.

Step 2: Consider perishability **Perishable nature of the product:** Goods that deteriorate quickly, such as fresh vegetables or milk, should reach consumers through a short channel. Fewer stages reduce delays, repeated handling and the risk of spoilage. Durable goods that can be stored without deterioration can pass through a longer channel when other conditions make it suitable.

Step 3: Consider technical complexity **Technical nature of the product:** A technically complex product may require demonstration, installation, user guidance and after-sales service. A direct or short channel involving suitably trained sellers enables these services to be provided properly. Simple, standardised products that buyers can use without specialised assistance can generally be sold through a wider network of intermediaries.

Step 4: Conclusion Three product-related factors are unit value, perishability and technical complexity. High value, rapid deterioration or the need for specialised service generally favours a shorter distribution channel.

Quick Tip to Solve: For each product factor, state whether it favours a short or long channel and explain the practical reason.

9. Why is leadership considered as the most important element of directing function of management ? Give any three reasons. [3 marks]

Solution:

Concept:

- Leadership is the process of influencing people's behaviour so that they willingly strive to achieve organisational objectives. It gives direction to the efforts of individuals and groups.
- Directing activates employees through guidance, supervision, motivation and communication. Leadership is central to it because issuing instructions alone does not ensure willing and effective action.

Step 1: Explain how leadership secures willing effort **Influences behaviour towards organisational goals:** A leader explains the purpose of the work and inspires employees to contribute willingly. Employees receive a clear sense of direction and see how their efforts help the organisation. Leadership therefore turns formal plans and orders into purposeful action rather than leaving management dependent only on authority and mechanical compliance.

Step 2: Explain its role in confidence and cooperation **Builds confidence and team spirit:** A leader guides employees, listens to difficulties and encourages cooperation. This support raises morale and strengthens trust between employees and management. People become more willing to work together and use their abilities when they feel confident that the leader will help them overcome work-related problems. Such willing cooperation makes directing more effective.

Step 3: Explain how a leader facilitates change **Overcomes resistance to change:** Employees may resist new methods because they fear uncertainty or do not understand the need for change. A leader explains its benefits, clarifies doubts and encourages participation. By winning acceptance rather than merely imposing an order, leadership helps employees adapt their behaviour and implement changes needed for organisational objectives.

Step 4: Conclusion Leadership is a vital element of directing because it influences people towards goals, builds confidence and team spirit, and secures acceptance of necessary changes.

Quick Tip to Solve: Explain leadership through its effect on people: willing effort, confidence and cooperation, and acceptance of change.

10. An organisation follows the principles of management. What are the positive effects of each of the following principles of management on the organisation :

(i) Unity of direction

(ii) Esprit de corps

(iii) Subordination of individual interests to general interests [3 marks]

Solution:

Concept:

- Fayol's principles of management guide managers in coordinating activities and securing cooperation so that organisational objectives are achieved efficiently.

- Unity of direction concerns a common plan for activities with the same objective; esprit de corps concerns team spirit; subordination of individual interests gives priority to the common organisational interest.

Step 1: Explain the benefit of unity of direction **(i) Unity of direction:** Activities having the same objective are directed by one head under one plan. Consequently, the efforts of different employees and departments move towards the same goal. This promotes coordination, prevents duplication of work and avoids conflicting plans. For example, all activities connected with a product's sales campaign follow the same campaign plan instead of competing departmental plans.

Step 2: Explain the benefit of team spirit **(ii) Esprit de corps:** A spirit of unity and mutual trust develops among employees. Members work as a team and help one another instead of pursuing divisive rivalries. The resulting harmony raises morale, encourages cooperation and makes it easier to achieve the organisation's common objectives. Management's emphasis on "we" strengthens employees' sense of belonging.

Step 3: Explain the benefit of giving common interests priority **(iii) Subordination of individual interests to general interests:** The interests of the organisation take precedence when an employee's or group's personal interest conflicts with them. This prevents personal advantage from obstructing collective goals, reduces conflicts of interest and aligns employees' decisions with organisational objectives. Employees still have legitimate personal interests, but these must not be pursued at the expense of the organisation as a whole.

Step 4: Conclusion The three positive effects are coordinated effort through one plan, greater cooperation and morale through team spirit, and alignment of personal effort with the organisation's general interest.

Quick Tip to Solve: Link each principle to its direct benefit: one plan gives coordination, team spirit gives cooperation, and priority to general interests gives goal alignment.

11. Distinguish between Capital market and Money market on the basis of

(i) Participants,

(ii) Instruments traded,

(iii) Investment Outlay, and

(iv) Safety. [4 marks]

Solution:

Concept:

- The capital market deals in medium-term and long-term funds, while the money market deals in short-term funds, generally for periods up to one year.
- They differ in who participates, the securities traded, the size of investment and the relative risk borne by investors. Safety means relative security of investment; it does not imply that every instrument is risk-free.

Step 1: Identify the scope of the comparison Compare the two markets using the four bases specified in the question. The money market mainly meets short-term liquidity and working-capital needs, whereas the capital market provides longer-term finance. These different purposes explain why money-market transactions generally involve large sums and highly liquid instruments, while capital-market investments can also be made by small individual investors.

Step 2: Compare the four bases

Basis	Capital market	Money market
(i) Participants	Financial institutions, banks, companies, foreign investors and the investing public, including individual retail investors, participate.	The principal participants are the Reserve Bank of India, commercial banks, financial institutions and large companies; institutional participants dominate.
(ii) Instruments traded	Equity shares, preference shares, debentures, bonds and other medium-term or long-term securities are traded.	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills are dealt in.
(iii) Investment outlay	Securities can be purchased in relatively small amounts, making participation possible for small savers as well as institutions.	Transactions generally require a large outlay because instruments are issued or traded in large denominations. Small individual investors usually do not participate directly.
(iv) Safety	Investments are generally riskier because returns and market prices can fluctuate significantly; the longer period also increases exposure to uncertainty.	Instruments are generally safer because they are short-term and are commonly issued by the government or financially sound institutions. Default risk is relatively low, though it is not absent in every instrument.

Step 3: Conclusion Capital markets have wider participation and permit smaller investments in longer-term securities, with generally greater risk. Money markets mainly involve institutional participants making large short-term transactions in relatively safer instruments.

Quick Tip to Solve: For this comparison, remember: capital market means wider investors, shares and bonds, smaller entry amounts and higher risk; money market means institutions, short-term bills, large amounts and greater safety.

12. "In today's commercial world, the stock exchange performs many vital functions." Do you agree ? Give any four reasons in support of your answer. [4 marks]

Solution:

Concept:

- A stock exchange is an organised market in which existing securities are bought and sold under prescribed rules. It forms an important part of the secondary market.
- Its functions serve both investors and the economy: it provides a ready market, helps determine security prices, promotes safer dealings and directs savings towards productive investment.

Step 1: State agreement and explain marketability and valuation Yes, I agree that the stock exchange

performs vital functions in the commercial world. The following four reasons support this statement:

1. Providing liquidity and marketability to existing securities: The stock exchange provides a continuous market where investors can sell securities already held by them and buy other listed securities. Thus an investor can convert an investment into cash without requiring the company to return its capital. The availability of an exit route also makes people more willing to invest their savings.

2. Pricing of securities: Security prices are determined through the interaction of demand and supply. These prices reflect investors' assessments of a company's prospects and relevant market information. Quoted prices therefore help buyers and sellers value their investments and decide when to trade.

Step 2: Explain safety and the contribution to economic growth **3. Safety of transactions:** Listed companies have to meet the exchange's requirements, while trading takes place through a regulated system and authorised intermediaries. Rules concerning dealings and disclosure promote fair transactions and protect investors against malpractices. This does not eliminate investment risk or guarantee a profit; it provides a more reliable framework for trading.

4. Contributing to economic growth: Trading and price information help investors compare securities and move funds towards companies with better prospects. By supporting liquidity and the efficient allocation of savings, the stock exchange encourages investment in productive enterprises and contributes to capital formation and economic growth. Although secondary-market trades transfer existing securities, their marketability supports investors' willingness to supply capital.

Step 3: Conclusion The statement is justified: a stock exchange provides liquidity, helps price securities, promotes safety of transactions and contributes to economic growth through better allocation of investment funds.

Quick Tip to Solve: Support agreement with four distinct functions: liquidity, pricing, safety and economic growth. Explain what each function does rather than merely listing its name.

13. Define the term 'Functional Structure' of an organisation and enumerate any three merits of this form of organisational structure. [4 marks]

Solution:

Concept:

- Organisation structure specifies how activities are grouped and how authority and responsibility are arranged. A functional structure groups similar activities according to the functions performed.
- Functional grouping creates departments such as production, marketing, finance and personnel. Employees engaged in a particular function work under the specialist responsible for that function.

Step 1: Define functional structure **Meaning:** A functional structure is an organisational structure in which activities of a similar nature are grouped together into separate departments on the basis of the functions performed. Each functional department is placed under a specialist head. For example, all production activities are grouped in the production department, while selling and advertising activities are grouped in the marketing department. Its basis is the type of work performed, rather than separate products or geographical areas.

Step 2: Enumerate three merits of functional grouping **1. Functional specialisation:** Employees repeatedly perform work belonging to their own specialised area and work with others who possess similar skills. They develop expertise and are guided by a manager experienced in that function. This improves the quality and efficiency of work; for example, finance specialists can concentrate on the firm's financial activities.

2. Effective control and coordination within a department: Similar activities are brought under one departmental head, who can issue appropriate instructions, supervise performance and fix responsibility. Employees dealing with the same function can coordinate their work more easily. This makes control of that function more effective, although coordination between different departments still requires management attention.

3. Economies of scale and reduced duplication: Resources and facilities required for a particular function are pooled in one department instead of being unnecessarily repeated in several units. Staff, equipment and specialised services can consequently be used more efficiently. Such economies of scale help lower costs and avoid duplication of effort within the organisation.

Step 3: Conclusion Functional structure groups similar activities into specialised functional departments. Three merits are functional specialisation, better control and coordination within each department, and economies of scale through reduced duplication and efficient use of resources.

Quick Tip to Solve: Define the grouping basis first: similar functions. Then explain three separate merits, keeping coordination within a function distinct from coordination between departments.

14. The workers of a factory are demanding the introduction of time-wage system in place of the existing piece-rate system of wage payment. The management is not prepared to accept this demand of the workers. Why, in your opinion, is the management opposing this demend ? Explain in brief any four reasons. [4 marks]

Solution:

Concept:

- Under the piece-rate system, wages depend on the number of units produced. Under the time-wage system, wages depend on the time spent at work, irrespective of the quantity produced during that time.
- The management's preference can be explained by the advantages of linking remuneration directly with output, provided the work can be measured and acceptable quality is maintained.

Step 1: Explain the output and incentive considerations The workers demand a time-wage system in place of the existing piece-rate system. Management may oppose this change for the following reasons:

- **Incentive for greater production:** A piece-rate worker earns more by producing more units. This direct connection between effort, output and earnings encourages workers to work efficiently. A fixed payment for time alone would remove this particular incentive and could reduce production.
- **Reward for efficient workers:** Workers producing more acceptable units receive higher earnings than workers producing fewer units. Management can therefore reward differences in performance.

Under a uniform time rate, efficient workers may receive the same wages as less efficient workers working for the same period, which can discourage the former.

Step 2: Explain the supervision and cost considerations

- **Less supervision of work effort:** Since earnings fall when output falls, workers have a financial reason to avoid wasting working time. Management may consequently need less close supervision of their pace of work. Time wages may require closer supervision to ensure that paid working time is used productively.
- **Greater certainty of direct labour cost per unit:** With a specified piece rate, the direct wage cost of an accepted unit is known in advance. This assists cost estimation and production planning. Under time wages, the wage bill for a period is payable even if fewer units are produced, so wage cost per unit can rise when output falls.

Step 3: Conclusion Management may oppose the demand because it wants to retain the output incentive, performance-based earnings, reduced need for close supervision and predictable direct labour cost per unit associated with the piece-rate system.

Quick Tip to Solve: Link each reason to the basis of payment: pieces completed under piece rates, compared with time worked under time wages.

15. Describe, in brief, Taylor's principles of
(i) co-operation, not individualism, and
(ii) maximum, not restricted output. [4 marks]

Solution:

Concept:

- Taylor's scientific management seeks to replace inefficient working practices with scientifically determined methods and a shared commitment to greater productivity.
- Co-operation between management and workers, together with maximum output, makes it possible to promote the prosperity of both the employer and the employees.

Step 1: Describe co-operation, not individualism

- **Joint effort towards common objectives:** Management and workers should co-operate instead of pursuing separate interests in opposition to each other. Work is a joint responsibility: management should develop scientific methods, provide suitable conditions and guidance, while workers should willingly use those methods. Co-operation replaces mutual suspicion with a common effort to improve performance.
- **Mutual confidence and participation:** Management should listen to workers, welcome useful suggestions and suitably reward ideas that improve efficiency or reduce cost. Workers, in turn, should accept beneficial changes and avoid unnecessary conflict or obstruction. Both sides should recognise that lasting prosperity depends on their working together, rather than on one side trying to secure gains at the expense of the other.

Step 2: Describe maximum, not restricted output

- **Reject deliberate restriction of production:** Workers and management should aim at the greatest feasible output through scientific methods, rather than deliberately limiting production. Workers should not practise systematic soldiering or hold down output merely because they fear that efficient working will harm their interests. The emphasis is on removing avoidable waste and using available resources efficiently.
- **Share the benefits of higher productivity:** Greater output spreads costs over more units and can reduce production cost per unit. It creates scope for higher wages for workers, greater profits for the employer and lower prices for consumers. Management should therefore support higher productivity with fair treatment and sharing of its gains, helping workers see that increasing production can serve their own prosperity as well.

Step 3: Conclusion Co-operation, not individualism calls for management and workers to act as partners. Maximum, not restricted output calls for efficient use of resources and an end to deliberate output restriction, so that increased productivity can benefit both sides.

Quick Tip to Solve: Separate the principles clearly: co-operation concerns the relationship between people; maximum output concerns their shared production objective.

16. Explain briefly any five factors which affect the capital structure of a business enterprise. [5 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and owners' funds used in the long-term financing of a business. Debt carries a contractual interest obligation, whereas an equity dividend depends on the profits and the decision to distribute them.
- The finance manager seeks a suitable financing mix by considering the enterprise's capacity to meet fixed payments, its expected return and the effect of new finance on ownership control.

Step 1: Examine the capacity to service debt The following factors determine how much fixed-charge finance the business can safely use:

- **Cash-flow position:** A company with strong, regular cash inflows can use more debt because it can pay interest and repay principal when due. A company with uncertain cash receipts should rely more on equity; accounting profits alone do not ensure that cash will be available on the payment dates.
- **Stability of earnings:** Stable operating earnings make fixed interest payments less risky and permit a relatively higher debt proportion. Fluctuating earnings call for a more cautious financing mix, since interest remains payable even in a poor trading year.
- **Return on investment:** If the expected return on investment exceeds the interest rate on debt, using borrowed funds can increase the earnings available to equity shareholders. If the return is below the borrowing cost, additional debt reduces their earnings and increases financial risk, so greater reliance on equity is preferable.

Step 2: Consider financing cost and ownership control Two further factors affect the choice between debt and equity:

- **Cost of debt:** The lower the interest rate at which the enterprise can borrow, the more attractive debt becomes relative to other sources. Interest is generally a tax-deductible business expense, which lowers its effective cost. Nevertheless, cheap debt should be used only within the company's repayment capacity.
- **Control considerations:** Issuing additional equity shares can dilute the existing shareholders' voting power. If the present owners wish to retain control, they may prefer debt, which normally carries no voting rights, provided the additional fixed obligations can be safely met.

Step 3: Conclusion Cash-flow position, stability of earnings, return on investment, cost of debt and control considerations are five factors affecting capital structure. Their combined effect determines a financing mix that balances the possible benefit of debt with the financial risk it creates.

Quick Tip to Solve: For every factor, state the direction of its effect: explain when it favours more debt and when it favours greater reliance on equity.

17. You have joined as a finance advisor in a company and found that the company was under-capitalised. The directors of the company do not agree with you as they are ignorant about the meaning of under-capitalisation. Explain to them the meaning of 'under-capitalisation' and convince them by giving four reasons in support of your viewpoint. [5 marks]

Solution:

Concept:

- Under-capitalisation is a condition in which the capital employed in a company is less than the capital justified by its earning capacity. Consequently, the company earns an unusually high rate of return on its existing capital compared with similar businesses.
- This historical capitalisation concept concerns the relationship between capital and sustainable earnings. It does not merely mean that a company is short of cash or unable to meet its working-capital requirements.

Step 1: Explain the meaning to the directors I would explain that the company is under-capitalised if its normal earning capacity warrants a larger capitalisation than the capital presently recorded. For example, a business earning substantially more on each rupee of capital than comparable businesses may have a real value greater than its recorded capitalisation. High earnings and a high rate of dividend can therefore coexist with under-capitalisation; the term does not necessarily indicate financial weakness or an immediate shortage of funds.

Step 2: Explain four reasons that can produce this condition The following reasons support how such a situation can arise:

- **Acquisition of assets at low prices:** If assets were acquired cheaply, for example during a depression, only a small amount of capital may have been needed. When normal conditions return, these assets may generate earnings that justify a much larger capitalisation than their original cost.
- **Underestimation of future earnings:** At promotion, the expected earnings may have been estimated too conservatively and capital fixed accordingly. If the company's sustainable earnings subsequently exceed that estimate, the original capitalisation proves inadequate in relation to its

earning power.

- **Conservative dividend policy:** Retaining a substantial part of profits builds reserves that can finance further productive assets and expansion. If earning capacity grows through these retained profits without a corresponding increase in the nominal share capital, the company can earn an abnormally high return on that capital.
- **Efficient management:** Better organisation, economical use of resources and effective cost control can raise profits above the normal industry level. A relatively small capital base then produces earnings normally associated with a larger capitalisation.

These are explanations of the condition, rather than invented facts about this particular company. Its earnings, capital and comparable industry returns would be examined to establish which explanations actually apply.

Step 3: Conclusion Under-capitalisation means capitalisation below the level warranted by the company's earning capacity. Cheaply acquired assets, underestimated earnings, retention of profits and efficient management are four reasons why it may arise, even though the company is profitable and financially sound.

Quick Tip to Solve: Distinguish under-capitalisation from shortage of cash: compare capital with normal earning capacity, then explain four causes of that mismatch.

18. Explain briefly any five major changes initiated by the Government of India since 1991 to modernise India's Industrial system. [5 marks]

Solution:

Concept:

- The New Industrial Policy of 1991 introduced liberalisation, privatisation and globalisation to modernise India's industrial system and make enterprises more competitive.
- Liberalisation reduces unnecessary government controls, privatisation increases the role of private enterprise, and globalisation integrates domestic industry with the world economy.

Step 1: Explain the reduction of domestic industrial controls

- **1. Abolition of industrial licensing:** Industrial licensing was abolished for most industries, except a small list requiring regulation for strategic, safety or environmental reasons. Entrepreneurs gained greater freedom to establish enterprises, expand production and diversify without obtaining the earlier range of licences.
- **2. Reduced role of the public sector:** The number of industries reserved exclusively for the public sector was reduced, allowing private enterprises into many fields previously closed to them. Disinvestment of government shareholding in selected public enterprises was also initiated. These changes aimed to improve efficiency, accountability and competition while reducing the government's direct business involvement.
- **3. Relaxation of restrictions on large business houses:** The pre-entry restrictions imposed under the Monopolies and Restrictive Trade Practices framework were relaxed. Large firms no longer needed the earlier special approvals merely because of their size for expansion, new undertakings

and diversification. This facilitated growth and modernisation according to business opportunities.

Step 2: Explain the opening to foreign investment and technology

- **4. Liberalisation of foreign investment:** Foreign equity participation was encouraged and approval procedures were simplified, including automatic approval in specified high-priority industries subject to prescribed limits. Access to foreign capital could support new projects, better management practices and competitive production.
- **5. Liberalisation of foreign technology agreements:** Procedures for technical collaboration with foreign firms were simplified and automatic permission was introduced for specified technology agreements within prescribed conditions. Indian enterprises could acquire improved production techniques, machinery-related know-how and technical expertise more easily, supporting better productivity and product quality.

Step 3: Conclusion Thus, delicensing, a smaller public-sector reservation with disinvestment, relaxation of restrictions on large firms, easier foreign investment and simpler foreign technology collaboration were five major post-1991 industrial reforms. Together they increased entrepreneurial freedom and access to capital and modern technology.

Quick Tip to Solve: Organise the reforms around five freedoms: start an industry, enter reserved fields, expand a large firm, obtain foreign capital and acquire foreign technology.

19. "Controlling helps in financial matters and maintaining and improving quality." Explain this statement, in brief. [5 marks]

Solution:

Concept:

- Controlling means setting performance standards, measuring actual performance, comparing it with the standards, analysing deviations and taking corrective action.
- Financial control checks the use of money and the financial results of operations; quality control checks whether products and processes conform to prescribed quality standards.

Step 1: Explain how control helps in financial matters

- **1. Regulate expenditure through budgets:** Budgets state expected receipts, expenditure and resource requirements for a period. Comparing actual expenditure and revenue with budgeted figures reveals overspending, revenue shortfalls and other significant deviations. Management can investigate their causes and take timely action instead of allowing financial waste to continue.
- **2. Check costs and financial performance:** Cost records and financial statements help management examine costs, profits, liquidity and the return earned on funds. Comparing actual results with targets or past performance identifies inefficient operations and unproductive use of capital. For example, an unexpectedly high material cost can lead management to examine purchase prices and material wastage.
- **3. Safeguard funds and ensure proper use:** Internal checks and audits help verify transactions, maintain reliable records and detect errors, misuse or fraud. Authorisation and review of payments support financial discipline. These controls help ensure that money is used for approved business

purposes and that corrective decisions are based on dependable information.

Step 2: Explain how control maintains and improves quality

- **4. Maintain prescribed quality standards:** Management fixes standards for materials, production processes and finished products. Inspection and testing compare actual quality with these standards. Defective inputs or products can then be identified and corrected or rejected, helping the business supply goods of consistent quality instead of passing defects to customers.
- **5. Prevent recurrence and improve quality:** Analysis of defects and customer complaints reveals their causes, such as unsuitable materials, worn machinery or inadequate training. Corrective action may include better inputs, machine maintenance, improved methods or employee training. Regular monitoring, including statistical quality checks where suitable, verifies whether these changes reduce defects and supports further improvement.

Step 3: Conclusion Controlling supports financial discipline by checking expenditure, performance and the use of funds. It also maintains and improves quality by comparing output with standards, finding the causes of defects and correcting the production process. In both areas, comparison must lead to action rather than merely recording a deviation.

Quick Tip to Solve: For each area, connect a standard to an actual result and then a corrective action: a budget to spending, or a quality specification to a defective product.

20. "Management is regarded as a perfect science." Do you agree ? Explain in brief any five reasons.

[5 marks]

Solution:

Concept:

- Science is a systematic body of knowledge whose principles explain relationships between causes and effects and can be tested by observation and experimentation.
- Management has a systematic body of knowledge, but it deals with people and changing business situations. It is therefore an inexact or social science rather than a perfect science.

Step 1: State whether the claim is correct I do not agree with the statement. Management has scientific features, such as organised knowledge and principles developed through observation, but its principles cannot produce the same precise results in every situation. Five reasons for treating it as an inexact science are explained below.

Step 2: Explain the limitations of scientific precision

- **Human behaviour is complex:** Management deals with human beings whose needs, attitudes, emotions and motives differ. Unlike physical objects, people may react differently to the same managerial action, so their behaviour cannot be predicted with complete accuracy.
- **Controlled experiments are difficult:** Management principles arise from observation and repeated practical experience, but managers cannot isolate all variables under laboratory conditions. Changing an incentive, for example, may coincide with changes in supervision or employee expectations.
- **Principles are not universally exact:** A principle has general applicability, but its usefulness

depends on the circumstances. A method effective in one organisation may need modification in another because size, technology, employees and objectives differ.

- **Cause-and-effect relationships are not precise:** Business results usually have several causes operating together. Higher productivity may reflect training, motivation, better machinery and market conditions; it is difficult to attribute an exact result to one managerial decision alone.
- **The environment keeps changing:** Economic, social, technological and competitive conditions change continually. Managers must adapt their application of principles to these changes, so a decision successful today does not guarantee an identical outcome tomorrow.

Step 3: Conclusion Management is not a perfect science. It is a social or inexact science: its systematic knowledge guides decisions, but human differences and changing circumstances prevent the precision associated with the physical sciences.

Quick Tip to Solve: Separate having scientific knowledge from obtaining exact results: management has the former, while human behaviour and changing conditions limit the latter.

21(a). Why is staffing an important function of management in all organisations ? Explain, in brief, any six reasons. [6 marks]

Solution:

Concept:

- Staffing is the managerial function of filling and keeping filled the positions in the organisation structure through recruitment, selection, placement, training and development of employees.
- People put plans into action and use the organisation's other resources. Staffing is therefore essential in all organisations, whatever their size or activity.

Step 1: Connect staffing with organisational performance A structure of jobs alone cannot achieve objectives. Each position needs a person with suitable knowledge, skills and attitudes, and that person must be developed and retained. Staffing provides this continuing link between the work to be done and the people capable of doing it. Its importance can be explained through the following six reasons.

Step 2: Explain six reasons for its importance

- **Obtaining competent personnel:** Manpower planning identifies the number and type of employees needed. Recruitment attracts suitable candidates and selection identifies competent people, giving the organisation the human resources required to carry out its activities.
- **Putting the right person on the right job:** Proper selection and placement match an employee's abilities with the requirements of a position. This improves performance and reduces errors that arise when a person is assigned work for which he or she is unsuitable.
- **Ensuring survival and growth:** Training and development continually improve employees' capabilities and prepare future managers. A supply of capable personnel enables the organisation to meet changing demands and expand without being held back by a shortage of skills.
- **Using human resources effectively:** Systematic assessment of manpower requirements helps avoid both overstaffing and understaffing. Employees' abilities are utilised productively, while unnecessary labour costs and excessive workloads can be reduced.

- **Improving job satisfaction and morale:** Fair appraisal, appropriate remuneration and opportunities for promotion make employees feel that their contribution is recognised. Satisfaction and morale encourage cooperation, commitment and willingness to perform well.
- **Maintaining continuity of personnel:** Staffing helps retain capable employees and prepare replacements through career planning and development. Succession arrangements and a continuing supply of trained staff reduce disruption when employees retire, leave or move to other positions.

Step 3: Conclusion Staffing is important because it obtains competent employees, matches people with jobs, supports growth, uses manpower efficiently, improves morale and maintains continuity. These benefits enable every organisation to translate its plans into effective performance.

Quick Tip to Solve: Link each staffing benefit to a distinct outcome: competence, job fit, growth, efficient use, morale and continuity. Explain the connection instead of merely listing headings.

OR

21(b). Explain, in brief, any six external sources of recruitment of employees. [6 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- External recruitment draws candidates from outside the organisation. It provides a wider choice and brings new talent and experience into the enterprise.

Step 1: Explain sources that attract applicants directly **1. Direct recruitment:** The organisation displays a notice at its factory gate or office specifying the available jobs. Job seekers assemble on the specified date and are assessed for suitability. This inexpensive source is particularly useful for casual workers and unskilled or semi-skilled jobs, where a lengthy recruitment procedure may not be necessary.

2. Casual callers: Organisations maintain records of unsolicited applications received from people seeking employment, even when no vacancy has been advertised. When a suitable vacancy arises, the personnel department can contact applicants from this waiting list. Maintaining an updated database reduces the time and expense of searching afresh for candidates.

3. Advertisements: Vacancies are advertised in newspapers, professional journals and other appropriate media. The advertisement states the nature of the job, qualifications, experience and the procedure for applying. It reaches a large number of potential candidates and is particularly useful when the organisation wants a wider choice of qualified employees.

Step 2: Explain sources that use outside institutions **4. Employment exchanges:** Government employment exchanges register job seekers and maintain information about their qualifications and experience. An employer informs the exchange of its requirements, and the exchange forwards names of suitable registered candidates. This source helps in matching vacancies with available applicants, particularly for operative and clerical posts.

5. Placement agencies and management consultants: Private agencies maintain information about applicants and recommend candidates against an employer's requirements for a fee. Management consultants specialise in locating and selecting suitable managerial and professional personnel, including senior executives. Their expertise saves the employer search time and helps identify specialised talent.

6. Campus recruitment: Enterprises approach universities, colleges, management institutes and technical institutions to recruit students who are completing their studies. Interviews and selection activities may be conducted on the campus. This gives the organisation access to trained young applicants and enables students to enter suitable jobs at the beginning of their careers.

Step 3: Conclusion Six external sources are direct recruitment, casual callers, advertisements, employment exchanges, placement agencies and management consultants, and campus recruitment. Each brings prospective employees from outside the organisation; the choice depends on the type of vacancy and the qualifications required.

Quick Tip to Solve: For each source, state where candidates come from and how the employer contacts them. Do not include transfers or promotions, which are internal sources.

22(a). Explain the major activities involved in physical distribution of goods. [6 marks]

Solution:

Concept:

- Physical distribution comprises the activities that move finished goods from producers to customers. Its purpose is to make the required goods available at the right place and time, in the right quantity and condition.
- The principal activities are order processing, transportation, warehousing and inventory control. They must be coordinated to provide satisfactory customer service at an economical total distribution cost.

Step 1: Process orders and transport the goods **1. Order processing:** This begins with receipt of the customer's order and includes checking its accuracy, verifying the availability of goods, preparing the necessary documents and arranging dispatch. Orders should be processed quickly and correctly so that the right goods reach the right customer without avoidable delay. Errors in quantities, addresses or billing can cause returns, additional costs and loss of customer goodwill. A prompt and accurate order-processing system improves the speed and reliability of delivery.

2. Transportation: Transportation physically moves goods from the producer's premises to warehouses, dealers or final customers. Road, rail, water and air transport may be used according to the nature of the goods, distance, urgency and cost. For example, highly perishable goods require rapid movement, while bulky goods may favour a cheaper mode. The firm must balance freight cost with speed, safety and dependable delivery because customers cannot use goods that are unavailable at their location.

Step 2: Store goods and regulate stock levels **3. Warehousing:** Warehouses store finished goods until they are required for sale or delivery. Storage bridges the time gap between production and

consumption and protects goods against damage, deterioration and theft. The firm decides the number, location and capacity of warehouses. Warehouses near customers can shorten delivery time and improve service, but additional warehouses also increase storage and operating costs. Seasonal demand or production may make adequate storage especially necessary.

4. Inventory control: The firm determines how much stock to hold and when and how much to reorder. Adequate inventory enables it to meet orders promptly and avoid stock-outs, lost sales and dissatisfied customers. Excessive stock, however, ties up working capital and increases storage, insurance and obsolescence costs. Inventory decisions therefore consider expected demand, the time required for replenishment and the desired level of customer service. The aim is to maintain an appropriate stock level, balancing availability against the cost of carrying inventory.

Step 3: Conclusion Effective physical distribution integrates order processing, transportation, warehousing and inventory control. Together these activities ensure timely and reliable delivery while balancing customer service with the total cost of moving and holding goods.

Quick Tip to Solve: Follow the goods from order to delivery: process the order, transport the goods, store them when needed and control the stock. Explain the customer-service and cost effect of each activity.

OR

22(b). You are the advertising manager in a company manufacturing coloured television sets. Which media would you choose for advertising your product ? Explain briefly any five reasons in support of your answer. [6 marks]

Solution:

Concept:

- Advertising media are the channels through which a paid, non-personal promotional message reaches prospective buyers. The medium should suit the product, target audience and message.
- A coloured television is a durable consumer product whose picture quality, colour reproduction, sound and operation can be demonstrated effectively through television advertising.

Step 1: Select television as the advertising medium I would choose **television advertising** for the company's coloured television sets. The product's central benefit is an enjoyable audio-visual experience, so a medium that combines moving pictures and sound is especially appropriate. The following five reasons support this choice.

Step 2: Explain the suitability of the medium **1. Combined sight and sound:** Television presents the advertising message through pictures, speech, music and movement together. Attractive scenes and clear sound help communicate the viewing experience offered by the product more effectively than a sound-only radio message.

2. Effective demonstration: A commercial can show the set in use and demonstrate its controls, remote operation and special features. Prospective buyers can see how the product functions instead of relying only on a written description. The demonstration should be truthful and avoid exaggerated claims about picture quality.

3. Wide coverage: Popular television programmes reach a large number of households in different areas. As television sets are used by families across many income and age groups, this coverage helps create awareness among a broad market and supports sales through the company's dealers.

4. Strong attention and recall: Moving images, an interesting story, a recognisable brand name and an appropriate jingle can attract viewers and make the message memorable. This helps the brand stand out when consumers compare alternative television sets before purchasing.

5. Choice of audience and repeated exposure: The company can select channels, programmes and transmission times watched by its intended customers. Repeating the advertisement at suitable intervals reinforces the brand and product benefits, increasing the chance that buyers remember them when they visit a showroom.

Step 3: Conclusion Television is a suitable medium because it combines audio-visual appeal with product demonstration, broad household coverage, strong recall and planned repeated exposure to the target audience. These benefits justify its choice for advertising coloured television sets, subject to the company's advertising budget.

Quick Tip to Solve: Match the medium to the product: for a television set, first choose television advertising, then give five distinct benefits linked to how families see, understand and remember the product.

23(a). Explain, in brief, any six reasons as to why consumer protection is needed in India. [6 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices and provides information, representation and remedies when their interests are harmed.
- Its need arises both from the disadvantages faced by individual consumers and from the obligation of business to deal fairly with the society that supports it.

Step 1: Identify the disadvantages faced by consumers **1. Consumer ignorance:** Many consumers lack adequate knowledge of their rights, product standards and available remedies. They may accept defective goods or unfair terms because they do not know how to object. Consumer education and protection make them aware of their rights and enable informed buying decisions.

2. Unorganised consumers: An individual buyer usually has little bargaining power against an organised producer or seller. Consumers are numerous and scattered, and cannot easily defend their common interests separately. Consumer organisations and accessible complaint machinery give them collective support and representation.

3. Widespread exploitation: Buyers may suffer from adulteration, substandard goods, false weights, misleading advertisements, overcharging and other unfair practices. Such practices cause financial loss and may endanger health and safety. Protection is needed to prevent these abuses and provide redress when they occur.

Step 2: Explain the obligations and interests of business **4. Social responsibility:** Business obtains its resources and income from society and depends on consumers for its existence. It therefore has a

responsibility to supply safe, reliable goods at fair prices and provide proper information and service. Consumer protection helps ensure that this responsibility is fulfilled in practice.

5. Long-term interest of business: A business cannot build lasting goodwill by exploiting its customers. Fair dealing, satisfactory quality and prompt settlement of complaints create trust and repeat purchases. Protecting consumers thus supports the continued growth and survival of responsible enterprises as well as the welfare of buyers.

6. Prevention of government intervention: Persistent unfair practices invite stricter government controls and legal action. By protecting consumer interests voluntarily and resolving genuine grievances, businesses reduce the need for such intervention. Where voluntary action fails, consumer-protection institutions are necessary to enforce fair conduct and provide remedies.

Step 3: Conclusion Consumer protection is needed in India because consumers may be ignorant, unorganised and exposed to exploitation, while businesses must fulfil their social responsibility, safeguard their long-term interests and avoid practices that invite government intervention. Together these reasons support a fair and accountable marketplace.

Quick Tip to Solve: Organise six reasons into two groups: three consumer weaknesses and three business obligations or interests. Explain how each reason makes protection necessary rather than merely listing headings.

OR

23(b). Explain, in brief, any six responsibilities of consumers to safeguard their interests. [6 marks]

Solution:

Concept:

- Consumer protection requires consumers to be alert and informed as well as requiring responsible conduct from business. Rights can be exercised effectively only when buyers fulfil their responsibilities.
- A consumer should make a reasoned purchase, insist on evidence of the transaction and take action against unfair trade practices rather than accept exploitation silently.

Step 1: Take precautions before buying **1. Be aware of available goods and services:** Find out about the products available in the market, compare their quality, price and suitability, and understand the rights available to consumers. An informed choice reduces dependence on a seller's claims and helps the consumer obtain value for money.

2. Buy standardised goods: Prefer products bearing appropriate quality certification, such as ISI for relevant industrial goods or AGMARK for agricultural products. Check that the mark is genuine and suitable for the product. Such certification provides an assurance that prescribed quality standards have been followed.

3. Read labels carefully: Check the price, quantity, manufacturing and expiry dates, ingredients, warnings and directions for use before purchase. This helps the buyer avoid expired or unsuitable goods, detect overcharging and use the product safely according to the manufacturer's instructions.

Step 2: Preserve evidence and act against exploitation **4. Insist on a cash memo or bill:** Obtain a proper bill stating the seller's identity, product details, date and amount paid, and preserve it along with warranty documents. This is evidence of the purchase and helps establish a claim if the goods prove defective or the promised service is not supplied.

5. Deal honestly and purchase lawfully: Buy from lawful sources, discourage black marketing and avoid dishonest practices such as demanding a bill for an inflated amount. Pay the agreed legitimate price and follow the conditions of proper use. Responsible conduct discourages practices that ultimately harm consumers as a group.

6. Seek redressal for genuine grievances: Approach the seller with a clear complaint and supporting records when goods are defective or services are deficient. If the grievance remains unresolved, use the appropriate consumer redressal machinery. Make truthful claims and specify the relief sought; even a small loss should not lead a consumer to ignore an unfair practice.

Step 3: Conclusion Consumers safeguard their interests by being informed, buying standardised goods, examining labels, obtaining bills, dealing honestly and seeking redressal for genuine grievances. These six responsibilities help prevent exploitation and make consumer rights effective in practice.

Quick Tip to Solve: Arrange consumer responsibilities in purchase order: compare, check quality and label, obtain the bill, then act honestly and complain with evidence if necessary.

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

(i) Communication,

(ii) Flow of authority,

(iii) Tenure,

(iv) Leadership,

(v) Durability, and

(vi) Interdependence. [6 marks]

Solution:

Concept:

- Formal organisation is the deliberately established structure of jobs, authority and responsibility through which an enterprise achieves its objectives.
- Informal organisation is the network of personal and social relationships that arises spontaneously as people interact within the formal structure. Its influence comes from acceptance by members rather than an official designation.

Step 1: Compare communication, authority and tenure The first three distinctions concern the way relationships are maintained and how long membership continues.

Basis	Formal organisation	Informal organisation
Communication	Communication follows prescribed official channels and reporting relationships. A message ordinarily passes through the recognised chain of command.	Communication passes through social contacts, often called the grapevine. It can move rapidly in any direction without following the official chain.
Flow of authority	Authority comes from an official position and flows downwards from superior to subordinate through the hierarchy.	Influence comes from personal acceptance and group relationships. It may flow upwards, downwards or horizontally, regardless of official rank.
Tenure	Membership and tenure are governed by appointment, service rules or the contract of employment. A person remains in the formal role subject to those official terms.	Membership has no formally fixed tenure. It continues while personal relations, common interests and voluntary acceptance by the group continue.

Step 2: Compare leadership, durability and interdependence The remaining distinctions explain how leaders emerge, how stable the relationships are and how the two structures are related.

Basis	Formal organisation	Informal organisation
Leadership	Leaders are appointed by management. Their right to direct others comes from the authority attached to their posts.	Leaders emerge from the group because of qualities such as knowledge, trust, experience or personal influence. Members accept them voluntarily.
Durability	The structure is relatively stable and enduring. Official positions and relationships normally continue even when the individuals holding them change.	Relationships are comparatively fluid and less durable. Changes in friendship, interests or group composition may alter or dissolve the group.
Interdependence	It is deliberately created and can be established independently of any particular informal group. Its structure is laid down by management.	It develops within the formal organisation through interaction among its members and therefore depends on that setting for its emergence in the enterprise.

Step 3: Conclusion Formal organisation rests on officially prescribed positions and relationships; informal organisation rests on spontaneous personal relationships. They differ on all six specified bases, although both operate alongside each other in the same enterprise.

Quick Tip to Solve: For each basis, contrast official position and prescribed rules with personal acceptance and social relationships; keep authority separate from informal influence.

OR

24(b). Delegation of authority is based on the elementary principle of division of labour." Explain this statement. [6 marks]

Solution:

Concept:

- Division of labour means dividing a total task into manageable duties and assigning them to different people according to their capabilities.
- Delegation is the downward transfer of authority from a superior to a subordinate to carry out an assigned duty. It combines assignment of responsibility, grant of authority and creation of accountability.

Step 1: Explain why managerial work must be divided **1. Limited capacity of a manager:** A manager cannot personally perform every activity of an expanding organisation. The manager therefore divides the total work, retains important duties and entrusts other duties to subordinates. This is the application of division of labour to managerial work.

2. Assignment of specific duties: The superior identifies the work to be done and assigns a clearly defined part of it to each subordinate. For example, a sales manager may entrust the supervision of separate territories to different sales officers. Each officer becomes responsible for the duty assigned, rather than all officers attempting the entire managerial task.

Step 2: Show how authority makes the division effective **3. Grant of corresponding authority:** Merely dividing duties is insufficient if subordinates cannot act. The superior grants the right to take the decisions, issue the instructions and use the resources required for each assigned task. Authority should be commensurate with responsibility so that the subordinate can fulfil the obligation.

4. Specialisation and efficient performance: Assigning suitable work enables subordinates to concentrate on particular activities and develop skill through experience. Work is performed by more people with clearer roles, while the superior can give greater attention to planning, coordination and other important matters. Delegation thus obtains the efficiency benefits of division of labour.

Step 3: Explain the accountability that unifies the divided work **5. Defined accountability for results:** The subordinate is answerable to the superior for the satisfactory performance of the assigned duty. Clear duties and authority make it possible to judge results and prevent confusion over who should do a particular job. The superior reviews progress and coordinates the separate contributions towards common objectives.

6. Retention of the superior's ultimate responsibility: Delegation shares work and authority; it does not relieve the superior of ultimate accountability to higher management. The superior remains responsible for selecting suitable people, providing guidance and ensuring that the divided work is completed. Thus, division creates distinct contributions without destroying managerial control or unity of purpose.

Step 4: Conclusion The statement is correct: delegation rests on division of labour because a superior distributes portions of work among subordinates and grants the authority needed to perform them. Responsibility and accountability connect these separate duties to the organisation's common objectives, while the superior retains ultimate responsibility.

Quick Tip to Solve: Explain the link as a sequence: divide the work, assign duties, grant authority and require results. Add that the superior's ultimate accountability continues.

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

Solution:

Concept:

- Planning means deciding in advance what to do, how to do it, when to do it and who is to do it. It sets objectives and selects a course of action for achieving them.
- Planning is necessary but has limitations arising from both the planning process and the uncertainty of the business environment. A plan cannot remove every risk or ensure success by itself.

Step 1: Explain the limitations affecting flexibility and adaptation **1. Planning leads to rigidity:** A well-defined plan lays down objectives, procedures and methods to be followed. Managers may insist on following these predetermined courses even when circumstances call for modification. Such inflexibility can restrict initiative and make it difficult to respond to an unforeseen situation. Plans therefore require review rather than mechanical adherence.

2. Planning may not work in a dynamic environment: Business conditions change through government policies, competitors' actions, technology and customers' preferences. Planning relies on assumptions about the future, and these assumptions may prove incorrect. A sudden change can make a carefully prepared plan unsuitable; planning cannot accurately predict or control all external developments.

Step 2: Explain the limitations concerning people and expenditure **3. Planning reduces creativity:** Plans are often prepared by top management and implemented by other managers and employees. If those implementing them are expected merely to obey predetermined instructions, they may have little opportunity to suggest better methods or exercise independent judgement. Excessive reliance on established plans can consequently discourage initiative and creative thinking.

4. Planning involves huge costs: Preparing plans requires collecting information, conducting surveys and research, analysing alternatives and sometimes obtaining expert advice. These activities use money and managerial effort before implementation begins. When the benefits expected from a plan are smaller than the cost of preparing it, the planning exercise becomes uneconomical.

Step 3: Explain the limitations concerning time and results **5. Planning is a time-consuming process:** Setting objectives, developing assumptions and evaluating alternative courses take considerable time. Detailed planning may delay decisions and action. In an emergency, or where a market opportunity lasts only briefly, excessive time spent preparing a plan may cause the organisation to lose that opportunity.

6. Planning does not guarantee success: A plan must be translated into effective action and supported by organising, staffing, directing and controlling. Even a sound plan can fail through poor implementation or changed circumstances. Similarly, a plan that succeeded earlier cannot simply be reused without checking present conditions; past success does not ensure future results.

Step 4: Conclusion Six limitations of planning are rigidity, difficulty in a dynamic environment, reduced creativity, high cost, consumption of time and absence of any guarantee of success. Managers should recognise these limitations, review assumptions and implement plans effectively instead of treating a written plan as sufficient for success.

Quick Tip to Solve: Remember the six headings as flexibility, environment, creativity, cost, time and success. Explain a different practical problem under each heading rather than repeating uncertainty in several forms.

OR

25(b). "Planning is of vital importance in the managerial process." Do you agree ? Explain in brief any five reasons in support of your answer. [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 establishes objectives and selects the course of action for achieving them.
- Planning is a primary function of management: organising, staffing, directing and controlling are carried out in the light of the objectives and courses of action laid down by plans.

Step 1: State agreement with the statement Yes, I agree that planning is of vital importance in the managerial process. It gives purposeful direction to managerial action instead of leaving decisions to chance. The following five reasons explain its importance.

Step 2: Explain how planning guides action and prepares the organisation

- **Planning provides direction:** By stating objectives clearly, planning tells managers and employees what the organisation seeks to achieve. Each department can align its activities with these objectives, and employees know the results expected from their work. This directs their efforts towards a common purpose rather than unrelated individual goals.
- **Planning reduces the risk of uncertainty:** Planning requires managers to look ahead, assess likely changes and consider alternative courses of action. They can anticipate possible difficulties and prepare suitable responses. Although a plan cannot eliminate uncertainty or control every external event, it helps the organisation face change with greater preparedness.

Step 3: Explain how planning improves efficiency and control

- **Planning reduces overlapping and wasteful activities:** Plans clarify what each department and individual should do and help coordinate their activities. This reduces duplication of work, confusion and unnecessary effort. Resources can be assigned according to the planned work, improving efficiency and reducing waste.
- **Planning facilitates decision making:** Managers identify alternative courses of action, compare their likely consequences and select the one best suited to the objectives. Established plans also guide subsequent decisions, so managers can choose actions consistently instead of deciding each issue without a common basis.
- **Planning establishes standards for controlling:** A plan specifies the desired results, such as output, cost or completion time. These become standards against which actual performance can be compared. Managers can identify deviations, investigate their causes and take corrective action. Without planned standards, they would lack a clear basis for judging performance.

Step 4: Conclusion Planning is therefore vital because it provides direction, reduces the risk of uncertainty, reduces overlapping and wasteful activities, facilitates decision making and establishes standards for controlling. It connects the organisation's objectives with coordinated action and subsequent performance review.

Quick Tip to Solve: Begin with a clear agreement, then explain exactly five distinct benefits. For the control point, link planned standards to comparison with actual performance and corrective action.