CBSE Class 12 Business Studies Question Paper 2009 with Solution PDF-Set 66/1

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 **1** mark may be from **one word** to **one sentence**.
(ii) Answers to questions carrying **3** marks may be from **50–75 words**.
(iii) Answers to questions carrying **4–5** marks may be about **150 words**.
(iv) Answers to questions carrying **6** marks may be about **200 words**.
(v) Attempt all parts of a question together.

1. Why is it said that management is a goal-oriented process ? [1 mark]

Solution:

Concept:

- Management coordinates human and material resources through planning, organising, staffing, directing and controlling.
- A goal is a specific result an organisation seeks to achieve.

Step 1: Identify the purpose Every organisation is established to achieve certain objectives, such as providing a service, earning profit or increasing sales.

Step 2: Connect activities with objectives Management directs the efforts of individuals and departments towards these predetermined objectives. Their activities are coordinated so that they contribute to the organisation's common results.

Step 3: Conclusion Management is called a goal-oriented process because all its activities and coordinated efforts are directed towards achieving predetermined organisational goals.

Quick Tip to Solve: Link the word goal-oriented to predetermined objectives and coordinated efforts.

2. "Management helps in development of society." How ? [1 mark]

Solution:

Concept:

- Management helps an organisation achieve its objectives while meeting the needs of different groups in society.
- Efficient use of resources enables enterprises to provide useful goods and services.

Step 1: Identify the contribution Management produces and supplies good-quality goods and services at reasonable prices by using resources efficiently.

Step 2: Relate it to social development It also creates employment opportunities and adopts improved technology. These activities help people meet their needs and improve their standard of living.

Step 3: Conclusion Management helps develop society by supplying quality goods and services at reasonable prices, generating employment and improving the standard of living.

Quick Tip to Solve: For societal development, connect business efficiency with benefits received by people.

3. Why are the principles of management called universally applicable ? [1 mark]

Solution:

Concept:

- Management principles provide broad guidelines for managerial decisions and behaviour.
- Universal applicability means relevance to different kinds of organisations and managerial levels.

Step 1: Identify their range Principles of management can be applied in business as well as non-business organisations, whether large or small, and at different levels of management.

Step 2: Recognise necessary adaptation Their application may vary with the nature of the organisation and the situation. They are general guidelines, so managers adapt them to prevailing requirements rather than applying them mechanically.

Step 3: Conclusion Management principles are universally applicable because they can guide management in all types of organisations and at all managerial levels, with suitable adaptation to circumstances.

Quick Tip to Solve: Universal applicability concerns the range of organisations; it does not mean identical application.

4. Why did Fayol introduce the concept of 'Gang Plank' in the principle of 'Scalar-Chain' ? [1 mark]

Solution:

Concept:

- Scalar chain is the formal line of authority from the highest to the lowest level.
- A gang plank permits direct communication between employees at the same level when urgent action is needed.

Step 1: Identify the difficulty Following every link in the scalar chain can delay communication, especially when employees in different departments need to exchange urgent information.

Step 2: Explain the shortcut Fayol introduced the gang plank to allow such employees to communicate directly in an emergency, with the knowledge of their superiors. This saves time while retaining respect for the formal authority structure.

Step 3: Conclusion Fayol introduced the gang plank to avoid delays in urgent communication by permitting direct contact between employees at the same level, with their superiors informed.

Quick Tip to Solve: State both the reason, avoiding delay, and the method, direct horizontal communication.

5. What is meant by 'selecting an alternative' as a step in the planning process ? [1 mark]

Solution:

Concept:

- Planning involves choosing a course of action for achieving predetermined objectives.
- After alternatives are identified and evaluated, a decision must be made about which course to adopt.

Step 1: Compare the courses The planner evaluates the available alternatives in the light of objectives, likely costs, benefits and feasibility.

Step 2: Make the choice Selecting an alternative means choosing the best and most feasible course of action from those evaluated. The chosen course should contribute most effectively to achieving the

planned objectives; sometimes a suitable combination is selected.

Step 3: Conclusion Selecting an alternative is the decision-making step in which the best and most feasible course of action is chosen from the evaluated alternatives to achieve the objectives.

Quick Tip to Solve: Do not confuse selecting an alternative with merely listing possible courses of action.

6. What is meant by 'Policy' as a type of Plan ? [1 mark]

Solution:

Concept:

- A policy is a standing plan that guides managerial thinking and decision-making.
- It provides a broad framework within which choices can be made in recurring situations.

Step 1: State the meaning A policy is a general statement or understanding that guides thinking and channels decisions towards organisational objectives.

Step 2: Explain its role It sets boundaries for decisions while leaving some discretion to the manager. For example, a policy of filling vacancies through internal promotion guides staffing decisions without prescribing every action in detail.

Step 3: Conclusion A policy is a general guideline for decision-making that defines the broad limits within which managers exercise discretion to achieve organisational objectives.

Quick Tip to Solve: Remember that a policy guides decisions, whereas a procedure specifies a sequence of actions.

7. Give any two elements of directing. [1 mark]

Solution:

Concept:

- Directing involves instructing, guiding, inspiring and leading employees to achieve organisational objectives.
- Its elements include supervision, motivation, leadership and communication.

Step 1: Name supervision Supervision is one element of directing. It involves overseeing employees' work and guiding their efforts so that tasks are performed properly.

Step 2: Name motivation Motivation is another element. It stimulates employees to act and encourages them to contribute willingly towards organisational goals. Both elements help turn plans into effective action.

Step 3: Conclusion Any two elements of directing are supervision and motivation.

Quick Tip to Solve: When asked for any two elements, name two clearly; supervision and motivation are a valid pair.

8. How does a supervisor act as a linking pin between management and the operatives ? [1 mark]

Solution:

Concept:

- A supervisor works close to the operating employees and is the first point of contact with management.
- Supervision links managerial decisions with their execution by workers.

Step 1: Carry instructions downward The supervisor communicates management's policies, plans and instructions to the operatives, explains what is expected and guides them in doing the work.

Step 2: Carry feedback upward The supervisor conveys workers' problems, grievances, suggestions and work-related feedback to management. This two-way exchange promotes understanding and helps management respond to operational difficulties.

Step 3: Conclusion A supervisor acts as a linking pin by conveying management's instructions to workers and communicating workers' problems and suggestions back to management.

Quick Tip to Solve: Describe both directions of communication to explain the supervisor's linking role.

9. What is meant by 'Right to choose' to a consumer ? [1 mark]

Solution:

Concept:

- The right to choose is a consumer right that safeguards freedom of selection in the market.
- A consumer should have access to a variety of goods and services at competitive prices.

Step 1: State the freedom protected The right to choose means that a consumer is free to select from different goods and services available in the market according to personal needs and preferences.

Step 2: Explain the practical implication The seller should not force the consumer to buy a particular product or accept an unwanted substitute. Availability of alternatives at competitive prices allows the consumer to compare quality and price before choosing.

Step 3: Conclusion The right to choose assures access to a variety of goods and services at competitive prices and freedom to select the most suitable one.

Quick Tip to Solve: Remember the two key expressions: variety at competitive prices, and freedom to select without compulsion.

10. Which claims can be appealable before the Supreme Court under Consumer Protection Act ?

[1 mark]

Solution:

Concept:

- The Consumer Protection Act applicable to this 2009 paper used District Forum, State Commission and National Commission as its three-tier redressal machinery.
- An appeal to the Supreme Court lies against an order of the National Commission made in its original jurisdiction.

Step 1: Identify the relevant claims The National Commission originally entertained complaints where the value of goods or services and the compensation claimed exceeded Rs 1 crore under the Act applicable to this paper.

Step 2: State the appeal route A party aggrieved by the National Commission's order in such a complaint could appeal before the Supreme Court. Thus, the appeal concerns claims exceeding Rs 1 crore decided by the National Commission; it is not a fresh complaint filed directly in the Supreme Court.

Step 3: Conclusion Claims involving goods or services and compensation exceeding Rs 1 crore, decided by the National Commission in its original jurisdiction, could be appealed before the Supreme Court.

Quick Tip to Solve: For this historical paper, link claims above Rs 1 crore to the National Commission, then its original order to the Supreme Court.

11. "Controlling is forward looking." Explain. [3 marks]

Solution:

Concept:

- Controlling compares actual performance with planned standards, identifies deviations and initiates corrective action.
- Although performance information relates to work already done, the purpose of control is to improve future results and secure organisational objectives.

Step 1: Connect past measurement with future improvement **Use deviations as a warning:** Managers first compare actual performance with standards and locate significant deviations. Recording a shortfall alone does not complete controlling. The information is useful because it shows where future operations need attention. For example, a production shortfall alerts the manager that the next production cycle may also miss its target unless its cause is removed.

Step 2: Explain corrective action and prevention **Correct future performance:** Managers investigate causes and take suitable action, such as repairing machinery, training employees or improving work methods. These actions cannot change output already produced, but they can prevent the same error from recurring. **Improve future plans:** Feedback from control also helps managers revise unrealistic standards and prepare better plans for the next period. Control therefore guides future

activity towards the desired results.

Step 3: Conclusion Controlling is forward looking because corrective action and feedback aim to prevent repetition of mistakes and improve future performance, even though deviations are detected using past results.

Quick Tip to Solve: Explain the statement through the sequence: detect a deviation, remove its cause, and prevent its recurrence in future work.

12. Explain the importance of 'Financial Planning'. [3 marks]

Solution:

Concept:

- Financial planning estimates the financial requirements of a business and specifies the sources from which funds will be obtained.
- Its central aim is to ensure that adequate funds are available at the right time while avoiding unnecessary excess funds.

Step 1: Explain the availability of funds **Ensure adequate finance:** Financial planning forecasts how much money will be needed for fixed assets and day-to-day operations, and when it will be required. The enterprise can arrange appropriate sources in advance rather than interrupt production or investment because funds are unavailable. Planning therefore links financial resources with the proposed scale of business operations.

Step 2: Explain efficient use and coordination **Avoid shortage and wasteful surplus:** Estimating requirements helps prevent both under-financing, which obstructs business activity, and over-financing, which leaves funds idle and adds unnecessary cost. **Coordinate plans and prepare for change:** Sales, production, investment and financing plans must fit together. Financial planning brings their money requirements into a common framework, helps evaluate alternative courses of action, and prepares the business to respond to future uncertainty more systematically.

Step 3: Conclusion Financial planning is important because it provides timely and adequate finance, avoids shortage or unnecessary surplus, and coordinates business plans for efficient operations.

Quick Tip to Solve: Organise this answer around timely availability, avoidance of excess or shortage, and coordination of the business plans.

13. "Sound Financial Management is the key to the prosperity of business." Explain. [3 marks]

Solution:

Concept:

- Financial management concerns procuring funds economically and using them efficiently to achieve the firm's objectives.
- Sound investment, financing and dividend decisions contribute to wealth maximisation and the

financial health of the enterprise.

Step 1: Explain how sound decisions improve prosperity **Select profitable investments:** Financial management directs funds towards assets and projects that offer an appropriate return in relation to their risk. Funds are not locked into unproductive assets, and the business builds its future earning capacity. **Choose economical finance:** The manager selects a suitable combination of owned and borrowed funds, taking account of their cost, repayment obligations and financial risk. This helps control the overall cost of capital and protects financial stability.

Step 2: Connect efficient use with continuing growth **Maintain liquidity and support growth:** Efficient management of working capital provides funds for routine payments and keeps operations running smoothly without excessive idle balances. A suitable dividend decision balances shareholders' current income with retained earnings needed for future expansion. In this way, sound financial management influences profitability, liquidity, risk and growth together, rather than merely arranging money when a shortage arises.

Step 3: Conclusion Sound financial management is a key to business prosperity because it secures economical finance, uses funds productively and balances profitability, liquidity and risk to support sustained growth and shareholder wealth.

Quick Tip to Solve: Link the statement to investment, financing and dividend decisions, then show how each strengthens the firm's financial position.

14. Differentiate between capital market and money market. [3 marks]

Solution:

Concept:

- Financial Markets: the capital market supplies medium- and long-term finance, whereas the money market deals in short-term funds.
- A comparison must use the same basis for both markets, such as maturity, instruments and participants. The maturity of the claim, rather than the size of a particular business, determines the market.

Step 1: Identify the financing needs served A business needing funds for a long-lived investment, such as expansion of its factory, normally approaches the capital market. A temporary shortage of funds, such as financing day-to-day operations for a few months, is met through the money market. The main differences are set out below on common bases.

Step 2: Compare the two markets on common bases

Basis	Capital market	Money market
Maturity	Deals in medium- and long-term securities, generally with a maturity exceeding one year.	Deals in short-term funds and securities having a maturity up to one year.
Instruments	Equity shares, preference shares, debentures and bonds are major instruments.	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills are major instruments.
Participants	Includes companies, financial institutions and individual or retail investors.	Mainly includes the Reserve Bank of India, commercial banks, financial institutions and large business firms.

Step 3: Conclusion Thus, the capital market meets longer-term investment and financing needs through instruments such as shares and debentures, while the money market meets short-term liquidity needs through instruments such as treasury bills and commercial paper.

Quick Tip to Solve: Start with maturity: up to one year indicates the money market. Then compare instruments and participants in matching rows.

15. What is meant by channels of distribution ? Explain the types of channels of distribution. [3 marks]

Solution:

Concept:

- Marketing Management: a channel of distribution is the route through which goods move from the producer to the ultimate consumer, including the intermediaries participating in that movement.
- Channels are classified as direct or indirect according to whether intermediaries are used. The number of levels refers to the number of intermediary stages between producer and consumer.

Step 1: Explain the direct channel **Direct channel or zero-level channel:** The producer sells goods directly to the ultimate consumer without a wholesaler, retailer or other intermediary. The route is producer to consumer. For example, a producer may sell through its own retail outlet or direct personal selling. Since there is no intermediary level, this is called a zero-level channel.

Step 2: Explain the indirect channels

- **One-level channel:** The producer sells to a retailer, who sells to the consumer. The route is producer to retailer to consumer. The retailer provides the link between the producer and final buyers.
- **Two-level channel:** The producer sells to a wholesaler, the wholesaler supplies retailers, and retailers sell to consumers. The route is producer to wholesaler to retailer to consumer. This is commonly used for consumer goods requiring wide distribution.

- **Three-level channel:** An agent operates between the producer and wholesalers. The route is producer to agent to wholesaler to retailer to consumer. Agents help producers reach wholesalers in widely spread markets.

Step 3: Conclusion Channels of distribution connect producers with consumers. The direct channel has no intermediary, while indirect channels use one or more intermediary levels, commonly retailers, wholesalers and agents.

Quick Tip to Solve: Count only intermediaries when naming a channel's level: producer and consumer are the two endpoints, not additional levels.

16. Aman, Avneesh and Amrish have decided to start a business of manufacturing toys. They identified the following main activities which they have to perform :

(i) Purchase of raw materials

(ii) Purchase of machinery

(iii) Production of toys

(iv) Arrangement of finance

(v) Sale of toys

(vi) Identifying the areas where they can sell their toys

(vii) Selection of employees

In order to facilitate the work they thought that four managers should be appointed to look after (1) Production (2) Finance (3) Marketing (4) Personnel. [4 marks]

16(a). Identify the function of management involved in the above mentioned para.

Solution:

Concept:

- Organising identifies and groups activities, assigns duties and establishes working relationships.
- The organising function converts a plan into a workable structure with defined responsibility.

Step 1: Identify the evidence The entrepreneurs identify the activities needed for toy manufacture and group the work into production, finance, marketing and personnel. The case states, "They identified the following main activities which they have to perform". These are arrangements for carrying out the business plan.

Step 2: Name the function The function is **organising**. Grouping related work and proposing managers for the groups creates an organisational structure. The passage goes beyond merely deciding that toys will be manufactured; it arranges how the required work will be performed.

Step 3: Conclusion The management function described is **organising**.

Quick Tip to Solve: Look for identification of work, departmental grouping and assignment of managers when identifying organising in a case.

16(b). Quote the lines from the above para which help you in identifying this function.

Solution:

Concept:

- A case-based answer should quote the actual words that establish the management function.
- Identifying activities and grouping them under responsible managers are evidence of organising.

Step 1: Quote identification of work The first relevant line is: "They identified the following main activities which they have to perform". This shows that the work necessary for starting the toy business has been identified.

Step 2: Quote the grouping arrangement The clearest supporting line is: "In order to facilitate the work they thought that four managers should be appointed to look after (1) Production (2) Finance (3) Marketing (4) Personnel." It groups the identified activities into functional departments and proposes managers responsible for them. These words connect the evidence directly with organising.

Step 3: Conclusion The quoted identification of activities and appointment of four functional managers establish that the function is organising.

Quick Tip to Solve: Quote the sentence containing the identifying action, then link it to the concept; avoid adding facts absent from the case.

16(c). State the steps followed in the process of this function of management.

Solution:

Concept:

- The organising process arranges work and authority so the plan can be implemented.
- Its standard sequence is identification and division of work, departmentalisation, assignment of duties and establishment of reporting relationships.

Step 1: Identify and group the work **Identification and division of work:** Identify all activities needed to achieve the objectives and divide the total work into manageable tasks, avoiding duplication.

Departmentalisation: Group similar or related activities into departments, such as production, finance, marketing and personnel in this case.

Step 2: Assign responsibility and relationships **Assignment of duties:** Allocate each job to a suitable person according to ability and provide the necessary authority to carry it out.

Establish reporting relationships: Specify who reports to whom, who may give instructions and the extent of authority. Clear superior-subordinate relationships coordinate departments and avoid confusion over responsibility.

Step 3: Conclusion The four steps are identification and division of work, departmentalisation, assignment of duties, and establishment of reporting relationships.

Quick Tip to Solve: Remember the organising sequence as work, groups, people and reporting: first define tasks, then arrange responsibility.

17. "Some learning opportunities are designed and delivered to improve skills and abilities of employees whereas some others are designed to help in the growth of the individual in all respects." Identify and explain the two concepts explained above. [4 marks]

Solution:

Concept:

- Staffing includes training and development of employees. Both are planned learning activities, but they differ in the breadth and purpose of the learning provided.
- Training improves the knowledge and skills needed to perform a specific job, whereas development promotes the overall growth and future capabilities of an individual.

Step 1: Identify and explain training **Training:** The learning opportunities "designed and delivered to improve skills and abilities of employees" refer to training. Training is the systematic process of increasing an employee's knowledge, aptitude and skills for doing a particular job effectively. It is job-oriented and aims to improve current performance by teaching the methods, procedures and techniques required in that work. For example, teaching a machine operator how to operate a new machine improves the skills needed for that specific assignment. By reducing mistakes and improving proficiency, training helps employees perform their present duties more efficiently.

Step 2: Identify and explain development **Development:** The opportunities "designed to help in the growth of the individual in all respects" refer to development. Development is a broader learning process concerned with the overall growth of an employee's personality and capabilities. It improves understanding, judgement, attitudes and the ability to handle responsibilities, rather than being confined to the technique of one current job. It prepares a person to accept higher or different responsibilities in the future. For example, developing a manager's decision-making and interpersonal abilities helps the individual handle a wider range of managerial situations. Thus, development is person-oriented and has a long-term perspective.

Step 3: Conclusion The first concept is **training**, which improves skills for a specific job. The second is **development**, which promotes the individual's overall growth and readiness for future responsibilities.

Quick Tip to Solve: Link "skills for the present job" with training and "overall growth and future responsibilities" with development.

18. "Leadership is required only for less efficient subordinates." Do you agree ? Explain any four reasons in support of your answer. [4 marks]

Solution:

Concept:

- Leadership is the process of influencing the behaviour of people so that they willingly strive to achieve organisational objectives. It is an element of directing.
- Technical efficiency alone does not ensure cooperation, motivation or acceptance of change. Leadership is therefore needed for efficient as well as less efficient subordinates.

Step 1: State the position and explain influence and support I do not agree with the statement.

Leadership is required for all subordinates, including those who are already efficient, for the following reasons:

- **Influences behaviour towards common goals:** A leader clarifies the direction of work and influences employees to contribute willingly towards organisational objectives. Even capable individuals need their efforts coordinated so that personal preferences do not pull the group in different directions.
- **Provides confidence, support and encouragement:** A leader helps employees recognise their abilities, encourages them to take responsibility and supports them when they face difficulties. Such encouragement sustains the confidence and motivation of efficient workers as well as helping less efficient workers improve.

Step 2: Explain change and conflict resolution

- **Helps introduce necessary changes:** Employees may resist a new method or policy because they fear its consequences, even when they perform their present work well. A leader explains the need for change, removes doubts and persuades employees to accept it voluntarily, enabling the organisation to adapt.
- **Handles conflicts effectively:** Differences of opinion and competing interests can arise between efficient employees too. A leader listens to the parties, allows them to express their views and works towards an acceptable resolution. This prevents disagreements from disrupting teamwork and helps maintain a cooperative working environment.

Step 3: Conclusion Leadership is required for every group of subordinates. By directing behaviour, giving confidence and support, facilitating change and resolving conflicts, it enables the abilities of all employees to serve organisational goals.

Quick Tip to Solve: To reject "only inefficient workers", use needs that arise in every team: common direction, encouragement, change and conflict resolution.

19. How does controlling help in 'achieving objectives' and 'improving employees morale' ? [4 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, identifying deviations and taking corrective action so that activities follow the plan.
- Two important benefits are accomplishment of organisational goals and improvement in employees' motivation and morale. Standards guide both managerial action and employees' effort.

Step 1: Explain how controlling achieves objectives **Measure progress against the plan:** Organisational objectives are translated into standards of performance, such as the required output, quality or completion time. By measuring actual results and comparing them with these standards, managers find out whether work is moving towards the intended objectives. Thus controlling makes the progress towards goals visible instead of leaving managers to rely on impressions.

Correct deviations: Where actual performance falls short, managers identify the causes and take suitable corrective action. For example, a shortfall arising from inadequate training can be addressed

through training rather than by merely demanding more output. Timely correction brings activities back on the planned course and helps the organisation accomplish its objectives efficiently.

Step 2: Explain how controlling improves employees' morale **Clarify expectations:** A sound control system communicates the standards in advance. Employees therefore know what work they are expected to perform and the basis on which their performance will be appraised. This reduces uncertainty and gives their efforts a clear direction.

Encourage better performance: When employees know that good performance will be recognised and that shortcomings will be identified fairly, they are motivated to improve. Clear standards and objective appraisal help them feel that their contribution counts. This improves confidence and morale and encourages them to perform to the best of their ability.

Step 3: Conclusion Controlling helps achieve objectives by checking progress and correcting deviations. It improves employees' morale by making performance expectations clear and providing a fair basis for appraisal and recognition.

Quick Tip to Solve: Link goals to comparison and correction; link morale to clear standards, fair appraisal and recognition. Explain the mechanism behind each benefit.

20. Explain any four responsibilities of the consumer to safeguard his interests. [4 marks]

Solution:

Concept:

- Consumer protection requires consumers to exercise their rights responsibly. An alert and informed buyer can avoid exploitation and preserve the evidence needed to obtain redressal.
- Consumer responsibilities apply before buying, while selecting and using the product, and after the transaction. Any four appropriate responsibilities can be explained.

Step 1: Exercise care before buying **1. Be aware of available goods and services:** A consumer should obtain information about different products, their prices, features and terms before making a choice. Comparing alternatives enables an informed decision suited to one's needs and budget instead of depending blindly on advertisements or the seller's claims. Awareness makes it harder for a seller to exploit the buyer through misleading information.

2. Buy standardised goods: A consumer should, as applicable, look for recognised quality certification such as the ISI mark on industrial products and the Agmark on agricultural products. These marks provide an assurance of prescribed quality standards. Checking the appropriate certification reduces the risk of buying inferior or unsafe goods merely because they are offered at a lower price.

Step 2: Check information and preserve proof **3. Read labels carefully:** Before purchase, the consumer should check details such as the price, quantity, manufacturing and expiry dates, ingredients and directions or warnings. These particulars help the buyer detect an expired or unsuitable product, compare value and use it safely. Instructions should also be followed during use to avoid harm caused by improper handling.

4. Insist on a cash memo: The consumer should obtain and retain a proper bill or cash memo for the purchase. It provides evidence of the seller, date, goods and price paid. If the product is

defective or the service deficient, this proof supports a complaint and a claim for replacement, refund or other suitable relief. A buyer who accepts a sale without a bill may find it difficult to establish the transaction later.

Step 3: Conclusion Four responsibilities are to make an informed choice, purchase appropriately standardised goods, read product labels and instructions, and insist on a cash memo. Together they help prevent exploitation and support effective redressal when needed.

Quick Tip to Solve: Organise consumer responsibilities around the purchase: compare first, check quality and the label, then collect the bill as evidence.

21. "Coordination is not a separate function of management, it is the essence of management." Explain with the help of a suitable example. [5 marks]

Solution:

Concept:

- Coordination is the process of integrating the efforts of different individuals and departments so that their activities contribute to common organisational objectives.
- It is the essence of management because it is inherent in every managerial function. It binds planning, organising, staffing, directing and controlling into a unified process rather than operating as an isolated activity.

Step 1: Explain coordination throughout management **Planning:** Managers coordinate departmental plans with the overall objectives of the enterprise. A sales target must be consistent with production capacity, finance and the availability of employees.

Organising: Work, authority and responsibility are divided among departments, but their relationships must also be established. Coordination integrates these specialised activities and prevents gaps or duplication in work.

Staffing: Recruitment, selection and training must match the requirements of different jobs. The personnel department works with departmental managers so that the right number of suitably qualified people is available when required.

Directing: Through supervision, motivation, leadership and communication, managers guide individual efforts towards common goals. Coordination reconciles personal interests with organisational interests and promotes cooperation.

Controlling: Performance in different departments is compared with coordinated standards. Corrective action in one department must take account of its effect on the others, so that the enterprise as a whole achieves its plans.

Step 2: Apply the idea to a manufacturing enterprise Suppose a company plans to sell 10,000 school bags before the new school session. The sales department communicates the expected demand; production prepares its schedule; purchasing arranges material; finance provides funds; and personnel arranges the necessary workers. Managers coordinate these decisions from the planning stage through actual production and delivery.

If sales promises delivery without consulting production, or purchasing obtains material after the

production date, separate departmental efficiency will not achieve the company's objective. Regular communication and corrective action align their efforts. The example shows that coordination is needed continuously, at every level and within every function, rather than only after each department has completed its work.

Step 3: Conclusion Coordination is rightly called the essence of management: it integrates all managerial functions and departmental efforts into unity of action. In the school-bag example, coordinated plans, resources, employees and delivery schedules together enable the enterprise to meet its common sales objective.

Quick Tip to Solve: Link coordination to each of the five managerial functions, then use one common business target to show how the departments depend on one another.

22. Explain any two reasons why proper understanding of management principles is necessary.

[5 marks]

Solution:

Concept:

- Management principles are broad and general guidelines for managerial decision making and behaviour. They are developed through observation, experimentation and experience in managing organisations.
- These principles are flexible guides rather than rigid rules. Proper understanding helps a manager judge when and how a principle should be applied to a particular situation.

Step 1: Explain how principles provide useful insights into reality **Providing managers with useful insights into reality:** Management principles summarise the knowledge and experience gained by earlier managers. Understanding them gives a manager insight into the likely effects of different decisions and the relationships between managerial actions and results. The manager can learn from accumulated experience instead of discovering every lesson through personal trial and error.

For example, the principle of unity of command indicates that an employee should receive orders from one superior. A manager who understands its purpose can recognise why instructions from several bosses may create confusion, conflicting priorities and difficulty in fixing responsibility. The principle therefore helps identify the cause of a practical problem and select a sensible response.

Since principles are general guidelines, the manager must still interpret the actual circumstances. Proper understanding means knowing the reasoning behind the principle, rather than merely memorising its name or applying it mechanically.

Step 2: Explain how principles improve resource use and administration **Optimum utilisation of resources and effective administration:** Human and material resources are limited. Knowledge of management principles helps managers organise and use these resources to obtain the best possible results with minimum avoidable cost and wastage. Decisions are more systematic because the manager considers established relationships and methods before acting.

For instance, division of work allows employees to specialise in suitable tasks, improving skill and efficiency. Matching authority with responsibility enables a person entrusted with a task to take the

decisions needed to perform it. Such arrangements reduce confusion, unnecessary repetition and delays.

Principles also support effective administration by discouraging purely arbitrary decisions and clarifying expected working relationships. Managers can guide employees consistently, coordinate their work and secure cooperation. Thus the organisation gains both better use of its resources and a more orderly process for achieving its objectives.

Step 3: Conclusion Proper understanding of management principles is necessary because it provides useful insights drawn from managerial experience and helps achieve optimum resource utilisation with effective administration. In both cases, managers must apply the principles thoughtfully according to the situation.

Quick Tip to Solve: State two recognised reasons as headings, explain the benefit of each, and add an example showing how a principle improves a real managerial decision.

23. Explain any five points of importance of planning for a large business enterprise. [5 marks]

Solution:

Concept:

- Planning means deciding in advance what to do, how to do it, when to do it and who should do it. It links the present position of an enterprise with the future position it seeks to attain.
- A large enterprise has many departments, employees and activities. Plans provide common objectives and a coordinated course of action so that these resources work towards organisational goals.

Step 1: Explain direction and preparation for uncertainty **1. Planning provides direction:** Plans state the objectives to be achieved and the action needed to achieve them. Employees and departments therefore know what they must contribute. In a large enterprise, common plans guide production, purchasing, marketing and finance towards the same goals instead of letting each department work without a shared purpose.

2. Planning reduces the risks of uncertainty: Managers look ahead, anticipate likely changes in demand, technology, competition and other conditions, and prepare suitable responses. Such preparation helps the enterprise cope with future developments. Planning does not eliminate uncertainty, but it reduces the risk arising from an unprepared response to change.

Step 2: Explain efficient activity, decisions and control **3. Planning reduces overlapping and wasteful activities:** A plan specifies responsibilities and coordinates the activities of different departments. This reduces duplication of work, conflicting efforts and unnecessary expenditure. When employees know their duties and the sequence of operations, the enterprise can use its resources more efficiently.

4. Planning facilitates decision making: Managers identify alternative courses of action and evaluate them in the light of the objectives and available resources. They select the most suitable alternative rather than act at random. Once a plan is chosen, later decisions can be made consistently within its framework.

5. Planning establishes standards for controlling: Plans specify the results expected from activities,

such as sales targets or production schedules. Actual performance can then be compared with these standards. Managers can identify deviations, find their causes and take corrective action. Without predetermined targets, it would be difficult to judge whether performance is satisfactory.

Step 3: Conclusion Thus, planning gives a large enterprise direction, prepares it for uncertainty, reduces overlapping and waste, supports sound decisions and supplies standards for control. These benefits help its many activities contribute to common organisational objectives.

Quick Tip to Solve: For importance of planning, connect each named benefit with its effect on the enterprise. For controlling, explicitly mention comparison of actual performance with planned standards.

24. Why was the Securities and Exchange Board of India (SEBI) set up ? Explain any four regulatory functions of SEBI. [5 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) is the regulator of India's securities market. Its purpose is to protect investors and to promote the development and regulation of that market.
- Regulatory functions establish and enforce rules for market participants. They make the functioning of stock exchanges, intermediaries and other securities-market institutions more orderly and accountable.

Step 1: Explain why SEBI was established As the securities market expanded, malpractices such as unofficial private placements, misleading information, price manipulation and delays in delivery or settlement harmed investors and reduced confidence in the market. An effective regulator was therefore needed to supervise market dealings and check such abuses.

SEBI was set up to protect the interests of investors in securities, promote the development of the securities market and regulate it. It seeks to provide issuers with an orderly way of raising funds, investors with protection and reliable information, and intermediaries with a competitive and professional environment. These objectives explain the need for rules and supervision over securities-market activity.

Step 2: Explain four regulatory functions **1. Registration and regulation of intermediaries:** SEBI registers stockbrokers, sub-brokers, merchant bankers, underwriters and other intermediaries associated with the securities market. It prescribes conditions and regulates their operations so that they meet the standards required for dealing with investors and issuers.

2. Regulation of investment schemes and mutual funds: SEBI registers and regulates the working of collective investment schemes, including mutual funds. This brings institutions that pool investors' money under a regulatory framework and requires them to follow the prescribed rules.

3. Regulation of takeovers: SEBI regulates the substantial acquisition of shares and the takeover of companies. The prescribed procedures and disclosures help make such transactions transparent and safeguard the interests of shareholders affected by a change in control.

4. Inspection and inquiry: SEBI can call for information, undertake inspections, conduct inquiries and carry out audits of stock exchanges, intermediaries and other persons associated with the securities

market. These powers enable it to check compliance and identify irregularities rather than depend only on voluntary assurances.

Step 3: Conclusion SEBI was established to protect investors and to develop and regulate the securities market. Its regulatory work includes supervising intermediaries, regulating investment schemes and mutual funds, regulating takeovers, and inspecting and investigating securities-market participants.

Quick Tip to Solve: Keep regulatory functions distinct from promotional activities such as investor education. Use registration, regulation, takeover rules and inspection as four clear regulatory headings.

25. 'Bending the customer according to the product' and 'Developing the product according to customer-needs' are the two important concepts of marketing management.
Identify the concepts and differentiate between the two. [5 marks]

Solution:

Concept:

- Marketing Management distinguishes the selling concept, which seeks customers for an existing product, from the marketing concept, which begins by identifying customer needs.
- The selling concept stresses selling and promotional effort. The marketing concept integrates the firm's activities to satisfy the target market better than competitors and thereby earn profits.

Step 1: Identify the two concepts from the statements **Selling concept:** 'Bending the customer according to the product' means persuading customers to purchase what the business has already produced. The starting point is the existing product, and the firm uses aggressive selling and promotion to increase sales.

Marketing concept: 'Developing the product according to customer-needs' means first finding what the target customers require, and then designing the product and marketing programme to satisfy those requirements. Customer satisfaction is the route to achieving the firm's objectives.

Step 2: Differentiate on the main bases

Basis	Selling concept	Marketing concept
Starting point	Factory or existing production facilities.	Clearly defined target market and its needs.
Main focus	Existing products: sell what the firm makes.	Customer needs: make what customers want.
Means used	Aggressive selling, advertising and other promotional efforts.	Integrated marketing, coordinating product, price, distribution and promotion.
Ends	Profits through a high volume of sales.	Profits through customer satisfaction and repeat business.
Perspective	Inside-out: from the firm and its products towards buyers.	Outside-in: from the market and customer needs towards the firm's decisions.

Step 3: Conclusion The first statement describes the **selling concept**; the second describes the **marketing concept**. Selling concentrates on converting existing products into sales, whereas marketing coordinates business activities around customer needs to earn profits through satisfaction.

Quick Tip to Solve: Ask what comes first: an existing product points to selling; identifying customer needs before designing the product points to marketing.

26(a). What is meant by 'Divisional Structure' of an organisation ? Explain any two advantages and any two limitations of it. [6 marks]

Solution:

Concept:

- A divisional structure groups organisational activities into separate divisions on the basis of the products manufactured. Each division contains the functional departments needed for its own product.
- The structure is suitable for large enterprises with several distinct product lines. Divisional autonomy and accountability aid performance, but duplication and rivalry may increase costs and obstruct the overall organisational interest.

Step 1: Explain the meaning of divisional structure **Meaning:** A divisional structure is an organisational arrangement in which activities relating to each major product or product line are grouped into a separate division. For example, a diversified enterprise may have separate divisions for cosmetics and garments. Each division has its own production, purchasing, sales and other functions, and a divisional head is responsible for its performance. It operates as a largely self-contained unit, while the top management coordinates divisions and retains control over overall policy. Thus, the primary basis of grouping is the product rather than a common function for the whole enterprise.

Step 2: Explain two advantages

- **Product specialisation and managerial development:** All activities concerning a product are brought under one divisional head. The manager gains experience in several functions associated with that product, instead of knowing only one specialist function. This develops general managerial skills and prepares managers for higher responsibilities. Employees can also concentrate on the requirements of their particular product line.
- **Accountability for results:** Revenue and costs can be identified separately for each division, making it possible to assess its profit or loss. Responsibility for poor performance can therefore be fixed on the concerned division, and appropriate corrective action can be taken. This clearer measurement encourages divisional managers to use resources efficiently.

Step 3: Explain two limitations

- **Duplication of activities and higher cost:** Each division maintains its own functional facilities, such as purchasing, sales and administration. Repetition of these activities across divisions may waste resources and prevent the economies that could arise from a common facility. The structure is therefore expensive, especially when product lines do not justify separate facilities.
- **Conflict between divisions:** Divisions may compete for funds, personnel and other scarce resources.

A divisional manager may maximise the interests of that division even when doing so harms another division or the organisation as a whole. Such rivalry can make coordination difficult and cause the overall organisational objective to be neglected.

Step 4: Conclusion Divisional structure creates separate product-based units with their own functional departments. It promotes product specialisation, managerial development and clear performance accountability, but may lead to duplicated costs and conflict between divisions.

Quick Tip to Solve: Identify the grouping basis first: separate product lines mean a divisional structure. Link its benefits to responsibility for one product and its limitations to repeating functions across products.

OR

26(b). What is meant by 'Formal Organisation' ? Explain any five features of Formal Organisation.

[6 marks]

Solution:

Concept:

- Organising establishes a structure of jobs and authority to coordinate individual efforts towards common organisational objectives.
- A formal organisation is the structure of authority relationships deliberately designed by management. It clearly specifies duties, responsibility, reporting relationships and the authority attached to each position.

Step 1: State the meaning of formal organisation Formal organisation means the officially prescribed network of jobs and relationships created by management for achieving organisational goals. For example, a production supervisor reports to the production manager because this relationship is part of the approved structure, rather than a matter of personal friendship. The following are its five features.

Step 2: Explain the planned relationships and rules

- **Specified authority and responsibility:** It specifies who reports to whom, the duties assigned to each person, and the authority available for performing those duties. Thus, each employee knows both the work expected and the superior to whom an explanation of performance must be given.
- **Deliberately designed structure:** It is consciously created by top management to facilitate the smooth functioning of the organisation. Jobs, departments and reporting relationships are planned rather than arising spontaneously from social interaction.
- **Coordination through rules and procedures:** The efforts of different departments are coordinated and interlinked through prescribed rules and procedures. These provide a common method of working, so that separate activities contribute to the organisation's overall objectives.

Step 3: Explain its focus and chain of command

- **Emphasis on work:** It places greater emphasis on the work to be performed than on interpersonal relationships among employees. Relationships follow official positions and assigned tasks; personal likes and dislikes do not determine the prescribed structure.

- **Scalar chain:** It follows an officially established chain of command linking higher and lower levels. Formal communication normally travels through these prescribed channels, identifying the route for orders, reports and accountability.

Step 4: Conclusion Formal organisation is the management-designed structure of official relationships. Its five features are specified authority and responsibility, deliberate creation, coordination through rules and procedures, emphasis on work, and an established scalar chain.

Quick Tip to Solve: Link each feature to the official structure: who reports to whom, who designs it, how work is coordinated, what it emphasises, and which channel communication follows.

27(a). What is meant by Internal Source of Recruitment ? Why do organisations prefer recruitment through internal sources ? Explain. [6 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.
- Internal recruitment fills vacancies from the organisation's existing workforce, principally through transfers and promotions. A transfer shifts an employee to a comparable job, whereas a promotion moves an employee to a higher position with greater responsibility and status.

Step 1: Explain the internal source of recruitment Internal source of recruitment means obtaining suitable employees for vacant positions from within the organisation itself. Instead of approaching entirely new applicants, management considers people already employed. For example, an experienced supervisor may be promoted to a managerial vacancy, or an employee may be transferred from a department with surplus staff to one needing staff. Organisations prefer these sources for the following reasons.

Step 2: Explain the benefits for employees and selection

- **Motivation and morale:** Opportunities for promotion encourage employees to improve their performance. When employees see that good work can lead to advancement, they have an incentive to develop their abilities and remain committed to the organisation.
- **Simpler and more reliable selection:** Management already knows the employees' capabilities, experience, conduct and performance records. Assessing suitability is therefore easier, and the risk of choosing an unsuitable person is lower than when relying only on information about an unknown outside applicant.

Step 3: Explain the savings and deployment advantages

- **Preparation for higher responsibilities:** Employees who already understand the organisation can be developed for higher positions. Experience gained within the business helps them take up greater responsibilities, and less induction is needed than for a newcomer unfamiliar with its procedures.
- **Balance of personnel:** Transfers permit employees to move from departments where there is a surplus to departments facing a shortage. The organisation can use its available workforce more

effectively without necessarily increasing its total staff strength.

- **Economy in recruitment:** Internal recruitment avoids much of the expenditure on advertising vacancies, inviting outside applications and conducting an extensive external selection process. It also saves time because potential candidates and their records are readily available.

Step 4: Conclusion Internal recruitment uses existing employees through transfers and promotions. It is preferred because it motivates employees, simplifies assessment, helps prepare staff for higher responsibilities, balances personnel between departments, and reduces recruitment cost and time.

Quick Tip to Solve: Begin with transfers and promotions, then explain each advantage through its effect on employees, selection, development, deployment or cost.

OR

27(b). Explain the steps in the process of selection of employees. [6 marks]

Solution:

Concept:

- Selection is the process of choosing, from the applicants recruited, the person best suited to the requirements of a particular job. It matches the applicant's abilities and other qualities with the job specification.
- Selection uses successive checks to assess suitability. Recruitment attracts applicants, whereas selection evaluates them and results in the appointment of suitable candidates; an applicant may be rejected at a stage if essential requirements are not met.

Step 1: Screen applicants and conduct selection tests **Preliminary screening:** Examine application forms and conduct a preliminary interview to eliminate applicants who do not meet the basic qualifications, experience or other essential requirements. This prevents spending time on clearly unsuitable candidates.

Selection tests: Administer relevant tests to measure qualities needed for the job. Intelligence tests assess learning and judgement; aptitude tests indicate potential to acquire skills; trade tests measure existing job skills; personality and interest tests help assess behavioural suitability and preferences. Use tests relevant to the job rather than treating every test score as sufficient for appointment.

Step 2: Interview candidates and check their background **Employment interview:** Hold a detailed conversation with the shortlisted applicant to evaluate suitability and obtain information that an application or test may not reveal. The applicant can also learn about the organisation and the proposed work, making the exchange useful to both parties.

Reference and background checks: Contact the referees named by the applicant, such as previous employers or teachers, and verify relevant particulars. These checks help confirm the accuracy of information about experience, conduct and past performance before a final choice is made.

Step 3: Decide, check fitness and issue the appointment **Selection decision:** Choose the most suitable candidate from those who have passed the earlier stages. The manager responsible for the work normally participates in this decision because the employee must meet the department's actual needs.

Medical examination: Require the selected candidate to undergo a medical fitness test where appropriate, to establish that the person is medically fit to perform the work. This is a suitability check, not a substitute for assessing qualifications and competence.

Job offer: Make the offer through a letter of appointment. Give the candidate a reasonable opportunity to accept it and communicate the relevant conditions of appointment.

Contract of employment: After acceptance, complete the employment agreement and necessary documents. Record terms such as duties, remuneration, working hours, leave, notice and other service conditions so that both parties understand their obligations.

Step 4: Conclusion The selection process proceeds through preliminary screening, tests, interview, reference checks, selection decision, medical examination, job offer and the contract of employment. Together these stages help the organisation appoint a suitable employee on clearly understood terms.

Quick Tip to Solve: Remember the sequence as screening and tests, interview and verification, then decision, fitness, offer and contract. Keep recruitment separate: it brings applicants to the selection process.

28(a). "Human beings cannot be motivated only through monetary incentives; non-monetary incentives are also necessary to motivate them." Explain any four such non-monetary incentives.

[6 marks]

Solution:

Concept:

- Motivation stimulates people to act towards organisational goals. Money can satisfy material needs, but employees also seek respect, recognition, responsibility, growth and a sense of achievement.
- Non-monetary or non-financial incentives mainly satisfy psychological, social and esteem needs. They complement financial rewards by making employees feel valued and by improving their experience of work.

Step 1: Explain status and employee recognition **1. Status:** Status means the position or rank of an employee in the organisation. Authority, responsibility, rewards and other privileges associated with a position indicate its status. A respected designation and suitable responsibility can satisfy the employee's need for esteem and encourage better performance. For example, entrusting a capable employee with a supervisory position communicates confidence in that person's ability. The motivational value comes from the respect and importance attached to the role, rather than merely from additional pay.

2. Employee recognition programmes: Recognition means acknowledging and appreciating an employee's good performance. A manager may praise an achievement, issue a certificate of appreciation or recognise an employee's contribution at a meeting. Recognition should be timely and related to genuine performance so that employees understand which contributions are valued. It satisfies the need for appreciation and encourages the employee to maintain or improve the effort that produced the achievement. Public appreciation can also encourage others to perform well.

Step 2: Explain job enrichment and employee empowerment **3. Job enrichment:** Design a job so that it contains greater variety, challenge, responsibility and scope for the use of skills. Giving

an employee a meaningful whole task, freedom in performing it and feedback on results makes work more interesting. The employee can experience personal growth and achievement instead of regarding the job as a repetitive routine. For example, allowing a worker to plan and check a complete assignment, instead of performing only one repetitive operation, increases the scope of the job and can strengthen motivation.

4. Employee empowerment: Give employees greater autonomy and authority to make decisions concerning their own work. When management permits a person to use judgement within clear limits, the employee gains confidence and feels that the organisation trusts that ability. This sense of responsibility and ownership can produce initiative and commitment. For example, authorising a service employee to resolve routine customer complaints within prescribed limits enables meaningful decisions rather than requiring approval for every small matter. Appropriate authority must accompany the responsibility entrusted.

Step 3: Conclusion Four non-monetary incentives are status, employee recognition, job enrichment and employee empowerment. By meeting needs for esteem, appreciation, achievement and autonomy, they help sustain motivation alongside monetary rewards.

Quick Tip to Solve: For each non-financial incentive, name the NCERT term, explain what management provides and link it to the employee need it satisfies. Do not simply list four names.

OR

28(b). What is meant by 'communication' ? Explain how communication is an important function of management. [6 marks]

Solution:

Concept:

- Communication is the process of exchanging information, ideas, views and feelings between two or more persons to create common understanding.
- Directing depends on communication: an instruction is useful only when its recipient understands it, while feedback tells the sender whether the message was understood.

Step 1: Define communication Communication means transmitting information from a sender to a receiver and establishing a common understanding of its meaning. It may use spoken words, written messages, gestures or other suitable means. Mere dispatch of a message is insufficient: the receiver must understand the intended message. Feedback completes the process by enabling the sender to check understanding and remove doubts.

Step 2: Explain its importance in management

- **Basis of coordination:** Communication links the activities of different people and departments. By sharing objectives, plans and work requirements, it enables their efforts to move towards the same organisational goals instead of conflicting with one another.
- **Smooth working of the enterprise:** Managers communicate instructions, employees report progress and departments exchange necessary information. This continuous flow makes organised

activity possible; when communication stops, effective organised work comes to a halt.

- **Basis of decision-making:** Managers need accurate and timely information to identify problems, compare alternatives and choose action. Communication supplies facts from different levels and also conveys the decisions to those who must implement them.
- **Increases managerial efficiency:** Managers can assign duties, explain authority and specify responsibilities through clear messages. Employees then know what is expected of them, which reduces misunderstandings, duplication and avoidable delays in execution.
- **Establishes effective leadership:** A leader must explain goals, guide subordinates and listen to their difficulties. Two-way communication helps the manager influence people, gain their confidence and secure their willing cooperation.
- **Promotes motivation and morale:** Communication clarifies expectations, recognises achievement and permits employees to express suggestions and grievances. Being informed and heard builds a sense of belonging, improves morale and encourages employees to contribute towards shared objectives.

Step 3: Conclusion Communication creates common understanding through the exchange of messages and feedback. It is essential to management because it coordinates work, supports decisions, makes direction effective and builds leadership, motivation and cooperation.

Quick Tip to Solve: Define communication through common understanding, then connect each importance point to a managerial task: coordinating, deciding, assigning, leading or motivating.

29(a). "Determination of capital structure of a company is influenced by a number of factors." Explain any four such factors. [6 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and equity used to finance a company's long-term capital needs. Debt creates fixed interest and repayment obligations, while equity does not require a compulsory dividend.
- A suitable financing mix balances the benefit of debt with the risk of failing to meet fixed financial commitments and with the effect of new equity on ownership control.

Step 1: Identify the financing decision Determining capital structure means choosing how much long-term finance should come from borrowed funds and how much from owners' funds. There is no single debt-equity mix suitable for every company. Management must examine the company's capacity to service debt and the consequences of each source before deciding the proportion. Four relevant factors are explained below.

Step 2: Explain four factors affecting the mix

- **Cash-flow position:** A company must have enough cash to pay interest, repay principal and meet its normal operating commitments when they fall due. If cash inflows are strong, stable and predictable, it can safely use a higher proportion of debt. Weak or uncertain cash flows call for greater reliance on equity. Accounting profit alone is insufficient, because obligations must be met

in cash at the required time.

- **Interest coverage ratio:** This indicates how many times earnings before interest and tax cover the interest obligation. A higher coverage gives lenders and management greater assurance that interest can be paid even if earnings fall, so it supports additional debt. Low coverage restricts borrowing. The ratio must still be considered with cash availability, because earnings coverage does not itself guarantee cash for every payment.
- **Return on investment:** When the return earned on the company's investment exceeds the cost of debt, using debt may improve the return available to equity shareholders. This is favourable financial leverage, also called trading on equity. If the return on investment is below the borrowing cost, additional debt can reduce shareholders' returns; management should then avoid excessive debt and prefer a more conservative mix.
- **Control:** Issuing fresh equity to new investors may dilute the voting power of existing shareholders. Debt normally carries no voting rights, so a company whose existing owners wish to retain control may prefer debt, provided it can meet the financial obligations. If control dilution is acceptable, raising equity becomes easier. The wish to preserve control must not justify borrowing beyond the company's repayment capacity.

Step 3: Conclusion Cash-flow position, interest coverage ratio, return on investment and the concern for control influence capital structure. The company should choose a debt-equity mix that suits its earning and payment capacity while considering shareholders' returns and voting control.

Quick Tip to Solve: For every capital-structure factor, state its direction: explain when it permits more debt and when it favours equity, rather than merely naming the factor.

OR

29(b). Explain any four factors affecting working capital requirement of a company. [6 marks]

Solution:

Concept:

- Working capital finances the day-to-day operations of a business. It is invested in current assets such as inventories, debtors and cash; net working capital is the excess of current assets over current liabilities.
- The amount required depends on how much money is tied up in the operating cycle and how quickly that money is recovered through sales and collections. Four factors affecting this requirement are explained below.

Step 1: Explain the nature of business and scale of operations

- **Nature of business:** A trading concern normally needs less working capital than a manufacturing concern because it buys finished goods for resale and does not have to hold raw materials or work-in-progress. A manufacturing company must finance raw materials, production expenses and goods at different stages before receiving sale proceeds. A service business that does not maintain large inventories generally has a relatively low working capital requirement.
- **Scale of operations:** A company operating on a large scale ordinarily needs a larger absolute

amount of working capital. It purchases more materials, holds more stock, incurs higher day-to-day expenses and usually has more money outstanding from customers. A smaller company requires less money for these purposes, other things remaining the same.

Step 2: Explain the production cycle and credit allowed

- **Production cycle:** This is the time taken to convert raw materials into finished goods. A longer production cycle ties up funds in materials, work-in-progress, wages and other production expenses for a longer period. Therefore, a company with a long production cycle requires more working capital than one whose goods can be manufactured and sold quickly.
- **Credit allowed:** A company that sells goods on credit has to finance customers until their payments are collected. A liberal credit policy or a longer collection period increases debtors and hence the working capital requirement. Cash sales or a shorter credit period release funds sooner and reduce the amount needed, assuming the same volume of sales.

Step 3: Conclusion The four factors are the nature of business, scale of operations, length of the production cycle and credit allowed to customers. Manufacturing activity, a larger scale, slower production and a longer customer-credit period generally increase working capital needs.

Quick Tip to Solve: For each factor, trace how long cash remains tied up in stock, production or debtors. More funds tied up, or a longer wait for recovery, means a higher working capital requirement.

30(a). What is meant by Packaging ? Give any five points explaining why packaging is important.

[6 marks]

Solution:

Concept:

- Packaging means the act of designing and producing the container or wrapper of a product. It forms part of product decisions in marketing and includes the immediate package as well as suitable outer packing for handling and transport.
- Packaging contains and protects the product, but its marketing role extends further: it helps customers use the product, recognise it and evaluate it at the point of purchase. Its importance is explained in five points below.

Step 1: State the meaning and explain protection and convenience **Meaning:** Packaging is the process of designing and producing the container or wrapper in which a product is presented and sold.

- **Product protection:** Appropriate packaging protects a product against damage, breakage, leakage, contamination and deterioration during storage, transportation and handling. For example, a sealed food package helps preserve the contents, while a strong carton reduces the risk of damage to a fragile product. Thus the product reaches the buyer in a usable condition.
- **Convenience in use and handling:** A suitable package makes a product easier to carry, store, open and use. A resealable container, a convenient grip or a dispensing cap can make consumption simpler and avoid wastage. Standard packages also make stacking, transportation and distribution

more convenient for sellers.

Step 2: Explain self-service, rising standards and innovation

- **Self-service outlets:** In supermarkets and other self-service stores, customers select goods with little assistance from salespeople. The package therefore helps attract attention, identify the brand and communicate product features. It acts as a silent salesman and assists the purchase decision at the shelf.
- **Rising standards of health and sanitation:** Customers increasingly expect clean, hygienic and safely packed products. Properly sealed packaging reduces exposure to dust and handling and gives buyers greater confidence about the condition of the contents. This is especially important for food, medicines and personal-care products.
- **Innovational opportunity:** New packaging designs can create a useful product difference and improve marketability. For example, an easy-to-open pack or a dispenser that releases a controlled quantity adds convenience even when the basic product is unchanged. Such innovations can attract buyers and help the firm distinguish its offering from competing brands.

Step 3: Conclusion Packaging is the designing and production of a product's container or wrapper. It is important for product protection, convenience, effective selling in self-service outlets, meeting higher health and sanitation expectations, and providing opportunities for innovation and differentiation.

Quick Tip to Solve: Begin with the definition, then separate the five reasons. Explain what each feature does for the product, customer or seller instead of merely listing package materials.

OR

30(b). Explain the following sales promotion activities : [6 marks]

30(b)(i). Refunds

Solution:

Concept:

- Sales promotion offers short-term incentives to encourage immediate purchases.
- A refund returns part of the price paid after the buyer satisfies the stated offer conditions.

Step 1: Explain the refund offer Under a refund scheme, the seller offers to return a part of the price paid by the customer on producing proof of purchase or fulfilling the advertised conditions. The customer initially purchases the product and subsequently receives the promised money back. For example, a seller may promise to refund a stated amount when a buyer submits the purchase receipt within the offer period.

Step 2: Explain its promotional effect The refund reduces the effective cost of the product and makes purchase more attractive during the scheme. It encourages customers to try the product or buy sooner rather than postpone the decision. Unlike an ordinary price reduction shown directly on the bill, the refund is claimed according to the specific scheme after purchase. The promised amount and conditions should be clear to the buyer.

Step 3: Conclusion Refunds are promotional offers returning a specified portion of the purchase price

to eligible customers, thereby reducing their effective cost and encouraging sales.

Quick Tip to Solve: Distinguish a refund from an immediate discount: the customer pays first and claims the promised money back under the scheme.

30(b)(ii). Instant draw and assigned gifts

Solution:

Concept:

- Sales promotion uses short-term benefits to stimulate buying.
- Instant draws and assigned gifts offer a chance of an immediate prize or a predetermined gift linked to purchase.

Step 1: Explain the immediate incentive In an instant draw scheme, a purchaser becomes eligible to participate in a draw immediately on buying the product. The result is known at once, so the buyer need not wait for a later contest. For example, the customer may draw a slip at the sales counter and receive the prize specified on it, subject to the conditions of the offer.

Step 2: Explain assigned gifts and their purpose An assigned gift is a specified gift offered with the purchase under the announced scheme. A seller may, for example, offer a particular useful article with a stated product or quantity. The immediate possibility of winning in a draw, or the certainty of the assigned gift, adds attraction to the transaction. These incentives encourage customers to purchase during the promotional period and may help draw attention to the brand.

Step 3: Conclusion Instant draws give purchasers an immediate chance to win a prize, while assigned gifts provide the specified gift attached to the purchase offer. Both encourage immediate buying.

Quick Tip to Solve: Separate the chance-based instant draw from the predetermined assigned gift, then explain how each attracts purchasers.

30(b)(iii). Full finance

Solution:

Concept:

- Sales promotion reduces barriers to purchase through temporary incentives.
- Full finance enables purchase without an initial down payment, with the price paid through instalments under the scheme.

Step 1: State how full finance works Under a full finance scheme, the seller arranges finance for the entire purchase price. The customer can obtain the product without making a down payment and repay the amount in easy instalments according to the announced terms. This scheme is commonly used for consumer durable goods, such as a television or refrigerator, where the purchase price may otherwise require substantial immediate funds.

Step 2: Explain why it promotes sales Removing the need for an initial lump-sum payment makes the

product accessible to customers who can afford periodic instalments but cannot pay the whole price immediately. It therefore encourages earlier purchase and can increase sales during the offer. Full finance concerns financing the entire price; it does not mean that the product is free. Any interest, processing charges and instalment conditions depend on the actual scheme and must be understood by the customer.

Step 3: Conclusion Full finance is a sales promotion arrangement allowing purchase without a down payment and repayment of the financed price in instalments, making immediate purchase easier.

Quick Tip to Solve: Full finance means financing the whole price, not giving the product free; emphasise no down payment and instalment repayment.

30(b)(iv). Sampling

Solution:

Concept:

- Sales promotion can encourage product trial through a direct incentive.
- Sampling distributes small quantities of a product free of cost so prospective consumers can experience it.

Step 1: Explain the sampling method Sampling means offering a small quantity or trial pack of a product free to prospective customers. Samples may be delivered at homes, distributed at a store or provided with another purchase. For example, a small free sachet of a new shampoo allows a customer to try its quality and suitability before deciding whether to buy the regular pack.

Step 2: Explain its promotional purpose A free sample reduces the hesitation involved in spending money on an unfamiliar product. The customer gains first-hand experience of the product rather than relying only on advertising claims. If satisfied, the consumer may purchase the normal pack and later become a regular buyer. Sampling is particularly useful when introducing a new product or when actual use can demonstrate a distinctive benefit. The sample is a trial incentive, rather than the normal sale of the full product.

Step 3: Conclusion Sampling supplies a free trial quantity to prospective buyers, encouraging them to experience the product and purchase it if satisfied.

Quick Tip to Solve: Link sampling with free trial and a new-product launch; the purpose is to convert product experience into subsequent purchases.