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

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 "Management called a group activity" ? [1 mark]

Solution:

Concept:

- Management is a group activity because organisational objectives are achieved through the coordinated efforts of several people.
- Coordination integrates individual efforts so that employees work towards a common organisational goal.

Step 1: Identify the collective effort An organisation employs people with different duties and abilities. Its objectives cannot normally be achieved by the isolated effort of one person; the work of different individuals and departments must contribute to the same result.

Step 2: Explain the role of management Management brings these individual efforts together and directs them towards common objectives. For example, production and sales employees must coordinate their activities to supply customers effectively.

Step 3: Conclusion Management is called a group activity because it coordinates the efforts of people working together to achieve common organisational objectives.

Quick Tip to Solve: Link the word group to coordinated efforts towards common goals, rather than merely to the number of employees.

2. "Management increases efficiency." How ? [1 mark]

Solution:

Concept:

- Efficiency means completing a task with the minimum possible cost and wastage of resources.
- Management uses human, financial and material resources in a planned and coordinated manner.

Step 1: Identify what efficiency measures Efficiency concerns the relationship between the resources used and the output obtained. Producing a given output with fewer inputs, or obtaining more output from the same inputs, improves efficiency.

Step 2: Explain how management improves resource use Through planning, organising and controlling, management assigns work appropriately and avoids duplication, idle time and waste. This reduces costs and enables the organisation to obtain better results from its available resources.

Step 3: Conclusion Management increases efficiency by making optimum use of resources and minimising wastage, so that work is completed at minimum cost.

Quick Tip to Solve: For an efficiency answer, emphasise lower cost and less waste; achievement of the target alone describes effectiveness.

3. Why are Principles of Management called flexible ? [1 mark]

Solution:

Concept:

- Management principles are general guidelines for managerial action, rather than rigid rules.
- Flexibility allows a manager to adapt their application to the needs of a particular situation.

Step 1: Recognise differences between situations Organisations differ in their size, employees, objectives and operating conditions. A single mechanical application of a principle would therefore not suit every managerial problem.

Step 2: Explain adaptation by the manager A manager may modify the application of a principle using judgement and experience, according to the circumstances. The principle continues to guide action, while its practical use changes to meet the requirements of the situation.

Step 3: Conclusion Principles of management are called flexible because their application can be modified by managers according to the needs of the situation.

Quick Tip to Solve: Describe flexibility as adapting the application of a guideline; do not describe principles as rigid laws that always operate identically.

4. What does the principle of 'Initiative' indicate ? [1 mark]

Solution:

Concept:

- Fayol's principle of initiative encourages employees to think out and execute plans within the established framework of the organisation.
- Employees should have opportunities to suggest improvements and take the first step in carrying them out.

Step 1: State what initiative involves Initiative means taking the first step with willingness and enthusiasm. In management, it includes thinking of a useful plan or suggestion and participating in its execution.

Step 2: Relate it to the treatment of employees Managers should encourage employees to offer constructive suggestions and undertake work on their own initiative within organisational rules. This develops involvement and a sense of contribution while retaining the necessary discipline.

Step 3: Conclusion The principle of initiative indicates that employees should be encouraged to develop and execute plans and make constructive suggestions within the prescribed limits of authority.

Quick Tip to Solve: Remember initiative through the pair think and execute: employees should help formulate useful ideas and carry them into action.

5. State first two steps in the process of planning. [1 mark]

Solution:

Concept:

- The planning process begins by deciding the objectives that the organisation wishes to achieve.
- Planning premises are assumptions about future conditions on which plans are based.

Step 1: State the first step: setting objectives The first step is setting objectives. Management decides the results to be achieved by the organisation and its departments. These objectives give direction to the planning exercise.

Step 2: State the second step: developing premises The second step is developing premises. Management identifies and develops assumptions about the future environment, such as likely demand or government policy, so that plans have a common and reasonable basis.

Step 3: Conclusion The first two steps in planning are: (1) setting objectives and (2) developing premises.

Quick Tip to Solve: Keep the sequence clear: decide the desired result first, and then state the future assumptions on which the plan will rest.

6. Give one difference between Policy and Procedure. [1 mark]

Solution:

Concept:

- A policy is a general guideline that helps managers take decisions within defined limits.
- A procedure specifies the sequence of steps to be followed in carrying out an activity.

Step 1: Choose a common basis of distinction Use the nature of guidance as the basis: a policy guides the decision to be made, whereas a procedure guides the order in which an activity is carried out.

Step 2: Present the difference

Basis	Policy	Procedure
Nature of guidance	A general guideline for decision-making.	A specified sequence of steps for performing an activity.

For example, a policy may favour promotion from within, while the promotion procedure lays down the steps for considering and approving a promotion.

Step 3: Conclusion A policy provides general guidance for decisions, whereas a procedure lays down the sequence of steps for carrying out an activity.

Quick Tip to Solve: Use the memory cue policy guides decisions; procedure orders actions. State both sides on the same basis.

7. What is meant by directing ? [1 mark]

Solution:

Concept:

- Directing is the management function of instructing, guiding, counselling, motivating and leading people towards organisational objectives.
- It initiates action by helping employees perform the work assigned to them.

Step 1: Identify the purpose of directing Plans and assigned duties have to be translated into actual performance. Directing helps employees understand what they should do and encourages them to carry out their responsibilities.

Step 2: State the activities involved Managers instruct and guide employees, motivate them to contribute willingly and lead them towards common goals. Communication and supervision support this process by making expectations clear and helping work proceed effectively.

Step 3: Conclusion Directing means instructing, guiding, counselling, motivating and leading people in an organisation to achieve its objectives.

Quick Tip to Solve: Define directing with action words such as guide, motivate and lead, and finish by linking them to organisational objectives.

8. Why it is said that "The supervisor is a link between management and the operative employees." ? [1 mark]

Solution:

Concept:

- A supervisor acts as the connecting link between management and operative employees.
- The link works in both directions: instructions move towards workers and workers' views move towards management.

Step 1: Explain communication towards employees The supervisor explains management's policies, decisions and instructions to operative employees. Since the supervisor directly oversees their work, these directions can be clarified in relation to their daily duties.

Step 2: Explain communication towards management The supervisor also communicates workers' problems, grievances, suggestions and performance information to management. This helps managers understand conditions at the operating level and take suitable action.

Step 3: Conclusion The supervisor links management and operative employees by conveying management's instructions to workers and communicating workers' problems and suggestions to management.

Quick Tip to Solve: Remember the two-way link: management instructions go down, while employees' feedback and difficulties go up.

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

Solution:

Concept:

- The right to be heard is a consumer right under consumer protection: the consumer's interests must receive due consideration at appropriate forums.
- A consumer must have an opportunity to represent a complaint or grievance about goods or services.

Step 1: State the consumer's entitlement A consumer has the right to present a complaint and to be heard when dissatisfied with a product or service.

Step 2: Explain the assurance The consumer's interests must receive due consideration at appropriate forums. Thus a complaint cannot simply be ignored; arrangements such as grievance cells and consumer forums provide an opportunity to voice it.

Step 3: Conclusion The right to be heard assures consumers that their complaints will be heard and their interests will receive due consideration at appropriate forums.

Quick Tip to Solve: Link "heard" with voicing a grievance and receiving due consideration; compensation is covered by the separate right to seek redressal.

10. What is the purpose of enacting the Consumer Protection Act 1986 ? [1 mark]

Solution:

Concept:

- Consumer protection safeguards consumers against unfair trade practices, defective goods and deficient services.
- The Consumer Protection Act, 1986 provides a legal framework for promoting and protecting consumers' interests and redressing their grievances.

Step 1: Identify the purpose of the Act The Act was enacted to provide better protection of the interests of consumers and to safeguard their rights in the market.

Step 2: Relate protection to redressal It provides for consumer councils and other authorities for settling consumer disputes. Its redressal machinery enables consumers to seek remedies for defective goods, deficient services and unfair practices through a simple, speedy and inexpensive process.

Step 3: Conclusion The purpose of the Consumer Protection Act, 1986 is to provide better protection of consumers' interests and a mechanism for the redressal of consumer grievances.

Quick Tip to Solve: Remember the Act's purpose as protection of consumer interests together with accessible redressal of grievances.

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

Solution:

Concept:

- Controlling measures actual performance, compares it with predetermined standards and takes corrective action where necessary.
- Standards are the benchmarks established through planning; control examines work already performed against these benchmarks.

Step 1: Explain the backward-looking aspect **Review of completed work:** Controlling is called looking back because the manager examines performance that has already taken place. For example, actual output for a completed period is measured after the work has been done. Control therefore starts with information about past activities rather than merely an intention about future work.

Step 2: Compare performance with the plan **Comparison with standards:** The manager compares the actual results with the targets set during planning. If planned output was not achieved, the comparison reveals a deviation. Thus control evaluates whether earlier actions followed the plan and achieved the expected results.

Step 3: Use the review to correct deviations **Corrective action:** Management analyses the causes of significant deviations and takes remedial action, such as removing a production bottleneck or providing training. Although its measurement looks back, control also improves future performance: the lessons from the review guide subsequent action and may help revise plans or standards.

Step 4: Conclusion Controlling is looking back because it reviews actual performance already completed and compares it with planned standards. This review enables corrective action and also gives controlling a forward-looking aspect.

Quick Tip to Solve: Explain the sequence: completed work, comparison with standards, then corrective action. Mention the future benefit without losing the focus on past performance.

12. Explain the objective of Financial Planning. [3 marks]

Solution:

Concept:

- Financial planning estimates an organisation's requirements of funds and determines suitable sources to meet them.
- Its central objective is to ensure that the right amount of funds is available at the right time, while avoiding unnecessary surplus funds.

Step 1: Ensure availability of sufficient funds **Avoid shortage of finance:** Financial planning estimates the funds needed for fixed assets and working capital. It also identifies when payments will arise and how much money must be raised. This ensures that funds are available when required for production, purchase of assets and other business activities, so operations do not suffer from a lack of finance.

Step 2: Avoid unnecessary raising of funds **Avoid excess finance:** Raising more funds than the business needs creates idle resources and an unnecessary financial burden. Financial planning matches

the amount raised with the estimated requirements. If a temporary surplus is expected, it can be put to suitable use rather than being left idle.

Step 3: Coordinate financing with business needs **Balance inflows and outflows:** By anticipating the amount and timing of receipts and payments, the enterprise can arrange suitable sources in advance. The resulting balance helps the business meet commitments and carry out its plans without either a financing shortfall or wasteful overfunding.

Step 4: Conclusion Financial planning aims to ensure adequate funds at the required time and to prevent unnecessary raising of funds. It therefore balances the availability of finance with the actual needs of the business.

Quick Tip to Solve: Organise this answer around the two risks financial planning prevents: shortage of funds and idle surplus funds.

13. State the objective of Financial Management. [3 marks]

Solution:

Concept:

- Financial management concerns the procurement and effective utilisation of finance through investment, financing and dividend decisions.
- Its primary objective is maximisation of shareholders' wealth, reflected in the market price of the company's equity shares.

Step 1: State the primary objective **Maximise shareholders' wealth:** Financial management aims to increase the wealth of the owners of the company. For a company whose equity shares are traded, this means maximising the market price of those shares. An increase in share value increases the value of shareholders' investment.

Step 2: Explain how financial decisions serve it **Choose value-creating decisions:** Management should select investment, financing and dividend decisions that increase the value of the company to its shareholders. For example, funds should be invested where their expected benefits justify their cost and risk. Obtaining finance and distributing profits must also support the firm's overall value.

Step 3: Recognise the basis of share value **Consider return and risk:** Market value depends on the returns shareholders expect and the risk associated with those returns. Merely increasing the current accounting profit is therefore an incomplete objective. Financial management must consider the timing and sustainability of benefits, together with risk, so that its decisions contribute to shareholders' long-term wealth.

Step 4: Conclusion The objective of financial management is maximisation of shareholders' wealth, which is reflected in maximising the market price of the company's equity shares through sound financial decisions.

Quick Tip to Solve: Begin with "shareholders' wealth maximisation" and connect it to the market price of equity shares; profit alone is an incomplete statement.

14. Define Capital Market. State the two parts of capital market. [3 marks]

Solution:

Concept:

- The capital market is the market for medium-term and long-term funds. It channels savings into investments used by business enterprises for growth and development.
- Its two parts are the primary market, which deals in new securities, and the secondary market, which deals in existing securities.

Step 1: Define the capital market The capital market comprises the institutions and arrangements through which medium-term and long-term funds, both debt and equity, are raised and invested. For example, an enterprise can obtain long-term finance by issuing shares or debentures. Thus, the defining feature is the provision of funds for a relatively long period; it is different from the money market for short-term funds.

Step 2: State its two parts

- **Primary market:** Also called the new issues market, it deals in securities issued for the first time. Investors subscribe to new shares or debentures, and the issuing enterprise receives the funds.
- **Secondary market:** Also called the stock market, it deals in the purchase and sale of securities that have already been issued. Investors trade with one another, ordinarily through stock exchanges; these transactions provide liquidity to existing investments.

Step 3: Conclusion The capital market provides medium-term and long-term finance. Its two parts are the **primary market** and the **secondary market**.

Quick Tip to Solve: Remember the distinction by asking whether the security is newly issued or already exists: new issues belong to the primary market; resale belongs to the secondary market.

15. What is meant by 'direct channels of distribution' ? List any four methods of direct distribution. [3 marks]

Solution:

Concept:

- A channel of distribution is the route through which a product moves from its producer to the final consumer.
- A direct channel, also called a zero-level channel, contains no independent intermediary between the producer and the consumer.

Step 1: Explain a direct channel of distribution In a direct channel of distribution, the producer sells the goods directly to the ultimate consumer without using a wholesaler, retailer or other independent middleman. The producer itself arranges contact with the buyer and the sale. A shop owned and operated by the manufacturer is still a direct channel because it is part of the producing enterprise, rather than an independent retailer.

Step 2: List four methods of direct distribution

- **Door-to-door selling:** The producer's own sales representatives contact consumers at their homes

and sell directly to them.

- **Mail-order selling:** Consumers order from the producer on the basis of catalogues or advertisements, and the producer dispatches the goods directly.
- **Company-owned retail outlets:** The manufacturer sells through its own shops or showrooms to the final consumers.
- **Internet selling:** The producer receives orders through its own website and supplies the goods directly to the consumers.

Step 3: Conclusion Direct distribution means **producer-to-consumer selling without an independent intermediary**. Four methods are door-to-door selling, mail-order selling, company-owned retail outlets and internet selling.

Quick Tip to Solve: Check who owns the selling outlet: a manufacturer's own showroom is direct distribution, whereas selling through an independent retailer adds an intermediary.

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 (a) Production (b) Finance (c) Marketing (d) Personnel.

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

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

(C) State the steps followed in the process of this function of management. [4 marks]

Solution:

Concept:

- Organising identifies and divides the work, groups related activities, assigns duties and establishes reporting relationships so that organisational objectives can be achieved.
- Grouping activities into production, finance, marketing and personnel departments is functional departmentalisation within the organising process.

Step 1: Identify the function and quote the evidence **(A) The function is organising.** The promoters identify activities and plan to group responsibility under managers for different functions.

(B) The identifying lines are: "They identified the following main activities which they have to perform" and "In order to facilitate the work they thought that four managers should be appointed to look after (a) Production (b) Finance (c) Marketing (d) Personnel." The first line indicates

identification of work, while the second indicates grouping related work and allocating responsibility.

Step 2: State the steps in the organising process **(C) The steps are:**

- **Identification and division of work:** Identify the total work needed to achieve the objectives and divide it into manageable activities. Here, the promoters identify activities such as purchasing raw materials, producing toys and arranging finance.
- **Departmentalisation:** Group similar or related activities into departments. In this case, the proposed departments are production, finance, marketing and personnel.
- **Assignment of duties:** Allocate work to individuals according to their abilities, clearly specifying their responsibilities. Managers can then be made responsible for the work of the respective departments.
- **Establishing reporting relationships:** Specify who reports to whom and who has authority to direct whom. Clear authority-responsibility relationships allow departments and employees to coordinate their work and avoid confusion.

Step 3: Conclusion The function is **organising**, as shown by the identification of activities and the proposed appointment of four functional managers. Its process comprises identification and division of work, departmentalisation, assignment of duties and establishment of reporting relationships.

Quick Tip to Solve: Look for the sequence work, departments, duties and reporting relationships; it identifies organising and also gives the order of its four steps.

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

Solution:

Concept:

- Staffing includes training and development, through which an organisation improves its employees' capabilities. Both involve learning, but their immediate purposes and scope differ.
- Training improves the skills and knowledge required for a particular job, whereas development promotes the overall growth of an individual and prepares the person for wider responsibilities.

Step 1: Identify and explain training **Training:** The first concept is training. The words "improve skills and abilities of employees" indicate a systematic learning process aimed at improving performance in an assigned job. Training increases job-related knowledge, skills and aptitude so that an employee can carry out work more effectively and efficiently.

Its focus is the employee's present work and the specific competence needed for it. For example, teaching an employee to operate a particular machine safely is training. This example illustrates the concept; the case itself does not specify a machine or a training method.

Step 2: Identify and explain development **Development:** The second concept is development. The words "growth of individuals in all respects" point to a broader learning process that develops a person's overall abilities rather than merely a skill for one existing task.

Development increases an individual's knowledge, understanding, judgement and capacity to accept greater responsibility. It has a long-term and future-oriented focus, including the person's personal and professional growth. For example, opportunities to develop decision-making and leadership abilities prepare an employee for more responsible positions. Thus, development extends beyond the immediate requirements of the current job.

Step 3: Conclusion The two concepts are **training** and **development**, respectively. Training concentrates on competence for a specific job, while development concerns the individual's broader growth and readiness for future responsibilities.

Quick Tip to Solve: Match "specific job skills" with training and "overall growth and future responsibilities" with development; quote the relevant words before explaining each concept.

18. "All managers are leaders but all leaders are not managers." In the light of this statement differentiate between leadership and management. [4 marks]

Solution:

Concept:

- Management is the process of planning, organising, staffing, directing and controlling organisational efforts to achieve objectives effectively and efficiently.
- Leadership is the process of influencing people's behaviour so that they willingly strive to achieve group objectives. It is an element of directing and hence an important part of management.

Step 1: Explain the relationship in the statement A manager is expected to guide, motivate and influence subordinates while carrying out the directing function. In this functional sense, every manager has a leadership role. However, a person can influence others without holding a managerial post: an informal group may willingly follow a member whom it trusts. Such a leader need not perform the full range of managerial functions or hold formal authority. The statement therefore explains the wider responsibilities of a manager and the possibility of leadership outside a formal managerial position.

Step 2: Distinguish leadership from management

Basis	Leadership	Management
Scope	Concerned primarily with influencing, guiding and inspiring people towards group goals.	Covers planning, organising, staffing, directing and controlling; leadership is one part of directing.
Authority	Influence may arise from personal qualities, competence and the confidence of followers; a formal post is not essential.	A manager occupies a formal organisational position with authority and responsibility assigned to that post.
Relationship	Centres on the relationship between a leader and followers, who may follow voluntarily.	Centres on the formal relationship between a manager and subordinates within the organisational structure.
Responsibility	A leader influences the group and helps secure its willing cooperation, without necessarily administering all its resources.	A manager is formally accountable for coordinating people and other resources and for achieving the results of the assigned unit.

Step 3: Conclusion Managers must exercise leadership as part of directing, but leadership alone does not make someone a manager. A leader may influence a group without a managerial appointment, whereas a manager also has formal authority, accountability and the broader duties of management.

Quick Tip to Solve: Begin with leadership as a part of directing, then compare scope, authority, relationships and responsibility in separate rows.

19. Explain how controlling helps in 'achieving better co-ordination' and 'better planning' ? [4 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, identifying deviations and taking corrective action so that organisational objectives are achieved.
- Planning sets the targets for action, while control provides feedback about their achievement. Control also integrates the efforts of departments by keeping them directed towards common objectives.

Step 1: Explain better co-ordination

- **Unify departmental efforts:** Each department and employee works according to standards derived from the overall organisational plan. These common targets guide separate activities in the same direction instead of allowing departments to pursue conflicting priorities.
- **Correct deviations that affect other activities:** Performance reports reveal where work is falling behind or resources are being misused. Managers take corrective action and adjust interdependent activities, bringing individual and departmental efforts into harmony. For example, detecting a production shortfall enables production and sales to revise their linked schedules together.

Step 2: Explain better planning

- **Provide feedback on existing plans:** Comparison of actual results with standards shows whether the targets and assumptions underlying the plan were realistic. Investigating deviations helps managers distinguish poor execution from an unsuitable standard.
- **Improve future targets and methods:** Information gathered through control becomes the basis for subsequent planning. Managers can revise unrealistic standards, forecast resource requirements more accurately and avoid repeating past errors. Thus, experience from one operating period improves the next plan.

Step 3: Conclusion Controlling achieves better co-ordination by aligning and correcting interdependent efforts towards common goals. It promotes better planning by supplying reliable performance feedback for revising standards, assumptions and future courses of action.

Quick Tip to Solve: Link co-ordination to the harmony of departmental efforts, and better planning to feedback from actual results; explain both links rather than merely defining control.

20. Explain any four functions of Consumer Organisations and Non-Government Organisations (NGO's) for protecting and promoting the interest of consumers. [4 marks]

Solution:

Concept:

- Consumer organisations and non-government organisations are voluntary bodies that protect consumers against exploitation and promote awareness of consumer rights and responsibilities.
- Their work combines preventive measures, such as education and product testing, with assistance in obtaining redress when an unfair practice or defective product harms consumers.

Step 1: Explain education and publication functions

- **Educate consumers:** These organisations conduct training programmes, seminars and workshops to explain consumer rights and the precautions to take while buying goods or services. Informed consumers are better able to recognise misleading claims, insist on bills and make responsible purchase decisions.
- **Publish useful consumer information:** They bring out periodicals and other publications on consumer problems, legal remedies and matters of consumer interest. Such information helps buyers understand available remedies and make choices with greater awareness, rather than relying only on sellers' advertisements.

Step 2: Explain product testing and complaint functions

- **Test products and publish findings:** They undertake comparative testing of consumer products in accredited laboratories to assess their quality, safety and compliance with relevant standards. Publishing the findings informs buyers about the relative quality of different brands and discourages the sale of unsafe or substandard goods.
- **Assist consumers in filing complaints:** They help an aggrieved consumer prepare and present a complaint before the appropriate consumer forum. Guidance about the procedure and supporting documents, and legal assistance where needed, make the redressal mechanism easier to use, especially for consumers who lack experience or resources.

Step 3: Conclusion Four functions are consumer education, publication of consumer information, comparative product testing with publication of results, and assistance in filing consumer complaints. Together they prevent exploitation and help consumers secure redress.

Quick Tip to Solve: Recall four separate actions: educate, publish, test and assist with complaints. Explain what each action does for consumers instead of repeating the general aim of protection.

21. "Coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of common purpose." In the light of this statement explain the nature of coordination. [5 marks]

Solution:

Concept:

- Coordination harmonises the activities of individuals and departments so that their efforts contribute to common organisational objectives.

- It is the essence of management: it binds the other managerial functions together and creates unity of action rather than a mere collection of separate efforts.

Step 1: Explain how coordination unifies group effort **Integrates group efforts:** Different people perform different tasks and may have different interests. Coordination brings these efforts together into a purposeful whole. For example, purchasing, production and sales must work in harmony to fulfil an order; isolated efficiency in one department cannot ensure the organisation's success.

Ensures unity of action: Coordination directs different activities towards the same goal. It links the timing and sequence of interdependent tasks so that departments complement one another instead of pulling in conflicting directions. This is the meaning of an orderly arrangement of efforts in the statement.

Step 2: Explain the continuing and pervasive nature of coordination **Continuous process:** Coordination begins with planning and continues through organising, staffing, directing and controlling. Since activities and conditions keep changing, managers must maintain harmony throughout operations rather than coordinate only once at the start.

All-pervasive function: Coordination is required in every department and at every level of management. Top management aligns departmental plans, middle management links the activities of departments, and supervisors coordinate the work of individual employees.

Step 3: Identify managerial responsibility and deliberate effort **Responsibility of all managers:** Every manager must coordinate the work under his or her charge and relate it to the work of others. It cannot be left exclusively to a separate department or to senior managers.

Deliberate function: Coordination requires conscious managerial effort. Cooperation among employees is helpful, but willingness to help alone does not ensure the right timing, allocation or sequence of work. Managers intentionally align activities and resolve differences to secure the common purpose.

Step 4: Conclusion Coordination is a deliberate, continuous and pervasive responsibility of all managers. By integrating group efforts and ensuring unity of action, it converts the separate contributions of people and departments into achievement of common organisational objectives.

Quick Tip to Solve: Link each feature to harmony of efforts: integration, unity, continuity, all levels, every manager and deliberate action. Do not confuse voluntary cooperation with the wider process of coordination.

22. Explain 'Differential Piece Rate' and 'Functional Foremanship' as techniques of scientific management.

[5 marks]

Solution:

Concept:

- Taylor's scientific management replaces rule-of-thumb methods with systematic study of work, appropriate standards and specialised supervision to improve efficiency.
- Differential piece rate uses financial incentives to reward efficient workers, while functional foremanship applies specialisation to the task of supervising workers.

Step 1: Explain differential piece rate **Meaning:** Under differential piece rate, workers are paid according to the number of units produced, but two different rates per unit are used. A standard level of output is fixed through scientific study. Workers attaining or exceeding the standard receive the higher piece rate; workers producing below the standard receive the lower piece rate.

Purpose: The difference rewards efficient workers and motivates others to attain the prescribed standard. For illustration, suppose the standard is 10 units a day, the lower rate is Rs 40 per unit and the higher rate is Rs 50 per unit. A worker making 9 units receives Rs 360, while one making 10 units receives Rs 500. The applicable rate is paid on that worker's entire output, rather than merely on units above the standard. These figures illustrate the technique.

Step 2: Explain functional foremanship and planning specialists **Meaning:** Functional foremanship divides supervisory work among specialists because one foreman cannot possess expert knowledge of every aspect of work. Taylor suggested eight specialist foremen, four concerned with planning and four with execution. Each worker receives instructions from the relevant specialist within that specialist's function.

Planning in-charge: The instruction card clerk specifies instructions for carrying out the work; the route clerk lays down the sequence of operations; the time and cost clerk prepares time and cost information and instructions; and the disciplinarian maintains discipline and compliance with rules.

Step 3: Describe execution specialists and the benefit **Production in-charge:** The gang boss arranges machines, tools and materials and keeps them ready for work. The speed boss ensures that the work proceeds at the proper speed using the appropriate tools. The repair boss maintains machines and equipment in working condition. The inspector checks the quality of the output against prescribed standards.

Benefit: Specialised guidance improves the quality of supervision and execution. Functional foremanship departs from unity of command because a worker receives instructions from several specialists, each responsible for a different function.

Step 4: Conclusion Differential piece rate encourages achievement of the standard by offering a higher rate to efficient workers. Functional foremanship improves supervision by dividing planning and execution among eight specialists. Both seek higher efficiency through scientifically organised work.

Quick Tip to Solve: For differential piece rate, state the standard and the two rates. For functional foremanship, remember four planning specialists and four execution specialists, and give each one's specific responsibility.

23. Explain any five limitations of planning. [5 marks]

Solution:

Concept:

- Planning decides in advance what is to be done, how it is to be done and who will do it. It provides direction, but its usefulness is limited by both organisational practices and an uncertain environment.
- A limitation explains why a plan may be costly, restrictive or unable to deliver the expected results.

It does not mean that managers should abandon planning altogether.

Step 1: Explain the restrictions that plans may create

- **Planning leads to rigidity:** A specific plan fixes the course of action and the responsibilities of employees. Once managers commit resources to it, they may be reluctant to change it even when circumstances require a different approach. Following the plan mechanically can therefore reduce flexibility.
- **Planning reduces creativity:** Plans are often prepared by top management and implemented by subordinates. When employees are expected merely to carry out predetermined instructions, they have less opportunity to suggest original ideas or devise new methods. Excessive dependence on a fixed plan can discourage initiative.

Step 2: Explain the environmental and resource limitations

- **Planning may not work in a dynamic environment:** Plans depend on assumptions about future economic, political, legal and technological conditions. Unexpected changes, such as a new technology or a change in government policy, can make these assumptions incorrect. A plan based on them may lose its relevance.
- **Planning involves huge costs:** Collecting and analysing information, forecasting, consulting experts and evaluating alternatives require money and effort. For example, conducting a detailed market survey before preparing a sales plan is costly. The benefit expected from a plan must justify these expenses.
- **Planning is a time-consuming process:** Formulating a sound plan requires information, discussion and comparison of alternatives. This can delay action, particularly when a decision must be taken quickly. An opportunity may disappear while the organisation is still completing its planning exercise.

Step 3: Conclusion Five limitations of planning are rigidity, reduced creativity, difficulty in a dynamic environment, high costs and the time required. Managers must recognise these limitations and review plans as conditions change.

Quick Tip to Solve: For each limitation, state the heading and explain its effect: fixed actions cause rigidity, fixed instructions restrict creativity, uncertainty weakens forecasts, and preparation consumes money and time.

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

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) is the regulator of the securities market. Its overall purpose is to protect investors and to promote the development and regulation of that market.
- An orderly securities market needs fair dealings by issuers, stock exchanges, brokers and other intermediaries, together with reliable information for investors.

Step 1: Explain why SEBI was established Expansion of the securities market was accompanied by malpractices such as price rigging, unofficial premiums on new issues, misleading information and violations of the rules by market participants. Such practices exposed investors to exploitation and weakened confidence in the market. SEBI was therefore established to provide an effective regulatory framework, protect investors and encourage the healthy growth of the securities market. It was constituted in 1988 and received statutory status in 1992.

Step 2: Explain four objectives of SEBI

- **Regulate stock exchanges and the securities industry:** SEBI aims to secure orderly functioning of stock exchanges and other parts of the securities market. Clear rules and supervision help ensure that transactions take place through a transparent and reliable system.
- **Protect investors' rights and interests:** SEBI seeks to safeguard investors against exploitation and to provide guidance and education. Investors should receive adequate information to make informed decisions and have access to arrangements for dealing with their grievances.
- **Prevent trading malpractices:** SEBI aims to check unfair practices, including price manipulation and insider trading. It also seeks a proper balance between self-regulation by the securities industry and statutory regulation, so that market freedom operates within safeguards.
- **Develop a code of conduct and fair practices:** SEBI seeks to regulate intermediaries such as brokers and merchant bankers through standards of conduct. Fair dealings and professional accountability help maintain integrity and build investors' confidence in the securities market.

Step 3: Conclusion SEBI was set up to curb securities-market malpractices and ensure investor protection and healthy market development. Its objectives include orderly regulation of the market, protection of investors, prevention of unfair trading and fair conduct by intermediaries.

Quick Tip to Solve: Separate the reason for establishment from the four objectives. Remember the objectives through the groups affected: exchanges, investors, trading practices and intermediaries.

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: the selling concept seeks buyers for what the firm has already produced, whereas the marketing concept begins with the needs of a chosen target market.
- Selling aims at profits through a larger sales volume; marketing aims at profits through customer satisfaction and lasting customer relationships.

Step 1: Identify the two concepts from their starting points **Selling concept:** 'Bending the customer according to the Product' describes the selling concept. The firm starts with its existing product and uses persuasion and promotion to induce customers to buy it. The emphasis is on selling what the business makes.

Marketing concept: 'Developing the product according to customer-needs' describes the marketing

concept. The firm first identifies the needs and wants of its target customers, then develops an offering that satisfies them better than competing offerings. The emphasis is on making what customers want.

Step 2: Differentiate selling and marketing on five bases

Basis	Selling concept	Marketing concept
Starting point	Starts at the factory with the existing product.	Starts with a well-defined target market and an understanding of customer needs.
Main focus	Focuses on the product and converting it into cash through sales.	Focuses on satisfying the customer's needs and wants.
Means used	Uses aggressive selling and promotional efforts to stimulate purchases.	Uses integrated marketing efforts, coordinating product, price, place and promotion.
Basis of profit	Seeks profit through increased sales volume.	Seeks profit through customer satisfaction and repeat business.
Perspective	Works mainly from inside the firm outward, pushing its existing offering to buyers.	Works from the market inward, using customer needs to guide the firm's decisions.

Step 3: Conclusion The first statement refers to the **selling concept**, while the second refers to the **marketing concept**. Selling starts with the existing product and persuades buyers; marketing starts with the customer and coordinates business activities to satisfy that customer profitably.

Quick Tip to Solve: Ask what comes first: an existing product suggests selling; an identified customer need suggests marketing. Then compare starting point, focus, means and route to profit.

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

Solution:

Concept:

- Organising: organisation structure specifies how jobs are grouped, authority is distributed and reporting relationships are established.
- A functional structure groups similar activities under specialised departments such as production, marketing, finance and personnel. Its benefits and limitations arise from this functional specialisation.

Step 1: Explain the meaning of functional structure A **functional structure** is an organisation structure in which activities of a similar nature are grouped together into separate functional departments. For example, production-related activities come under the production department, while selling and market-related activities come under marketing. Each department is generally headed by a specialist who supervises employees performing that function. Departments together contribute to the organisation's overall objectives.

Step 2: Explain two advantages of functional structure

- **Functional specialisation:** Employees repeatedly perform similar tasks within their area of

expertise and work under specialist supervision. They develop deeper knowledge and proficiency, which improves the quality and efficiency of their work. For example, finance staff become skilled in managing financial records and funds rather than dividing their attention among unrelated functions.

- **Economies of scale and reduced duplication:** Similar activities and resources are brought together in one department. Facilities and expertise can be shared instead of being duplicated in several separate units. This makes better use of resources and can reduce operating costs.

Step 3: Explain two limitations of functional structure

- **Excessive emphasis on functional objectives:** Departmental heads may give priority to their own department's goals rather than the goals of the enterprise as a whole. For instance, a department may resist an action that benefits the organisation if it makes that department's own performance appear weaker. This narrow outlook can displace overall organisational interests.
- **Difficulty in coordination:** Each function develops its own priorities and specialised viewpoint, while completing a business task often requires several departments to act together. Their different approaches can cause conflict and delay decisions. Top management must spend additional effort resolving disagreements and coordinating their work.

Step 4: Conclusion Functional structure groups similar jobs into specialised departments. It promotes functional expertise and economies in the use of resources, but can encourage a departmental outlook and make coordination across functions difficult.

Quick Tip to Solve: Link each point to the grouping of similar work: this creates expertise and shared resources, but also creates departmental boundaries that can hinder the enterprise's common goals.

OR

26(b). Explain the elements of delegation of authority. [6 marks]

Solution:

Concept:

- Delegation means entrusting a subordinate with responsibility for a task and granting the authority needed to perform it. It allows a manager to obtain work through others while retaining ultimate responsibility for its completion.
- The three elements of delegation are authority, responsibility and accountability. Effective delegation requires a balance between the authority granted and the responsibility assigned.

Step 1: Explain authority **Authority:** Authority is the right of an individual to command subordinates and to take decisions within the scope of the position. It includes the right to use organisational resources and issue orders necessary for the assigned work. It arises from the formal position held by the person and flows downwards from a superior to a subordinate through the organisational hierarchy.

For example, a sales manager assigned a sales target must be authorised to allocate work to salespersons and use the approved selling budget. The manager must specify the limits within which the

subordinate may decide independently. Authority should be sufficient for the responsibility entrusted; assigning a task without the necessary powers obstructs its performance.

Step 2: Explain responsibility **Responsibility:** Responsibility is the obligation of a subordinate to perform the assigned duty properly. It arises when a superior assigns work and the subordinate accepts it. Responsibility flows upwards, because the subordinate owes performance to the superior who entrusted the task.

The duty, expected result and time for completion should be clearly stated so that the employee knows what must be achieved. A superior can assign duties to subordinates, but cannot escape ultimate responsibility for the work. Thus, delegation of a sales task does not relieve the sales manager of the obligation to ensure that the department's target is met.

Step 3: Explain accountability **Accountability:** Accountability means being answerable for the final outcome of the assigned task. Once a subordinate has accepted responsibility and received authority, the superior can require an explanation of performance. Accountability flows upwards from the subordinate to the superior.

Accountability cannot be delegated. A manager remains answerable to the manager's own superior even after entrusting duties and authority to a subordinate. Delegation therefore creates accountability at the subordinate's level without removing the superior's existing accountability. Periodic reporting and review enable the superior to compare actual results with the expected result and take corrective action.

Step 4: Conclusion Delegation combines the grant of authority, the assignment of responsibility and the creation of accountability. Authority enables action, responsibility obliges the subordinate to perform, and accountability makes the person answerable for results. The superior continues to remain ultimately answerable for the delegated work.

Quick Tip to Solve: Remember the three questions: What powers may I use? What duty must I perform? To whom must I explain the result? These identify authority, responsibility and accountability respectively.

27(a). 'Staffing is an important function of management in all organisations'. Why ? Explain any four reasons. [6 marks]

Solution:

Concept:

- Staffing is the managerial function of filling and keeping filled the positions in the organisational structure. It includes estimating manpower requirements, recruitment, selection, placement, training, development and appraisal.
- People put plans and other resources into action. Staffing therefore matters in every organisation: its purpose is to obtain suitable employees, use their abilities effectively and develop them for present and future work.

Step 1: Explain how staffing obtains competent personnel **Obtaining competent personnel:** Staffing identifies the number and types of employees required, searches for suitable candidates and selects

those whose knowledge, skills and abilities match the jobs. A job description and job specification give a basis for choosing employees instead of making arbitrary appointments.

This helps the organisation secure a capable workforce at different levels. For example, selecting a person with the required technical ability for a production job makes it more likely that the work will be performed correctly. Every organisation needs such competent people to carry out its activities and achieve its objectives.

Step 2: Explain how staffing improves performance **Better performance through the right person on the right job:** Selection and placement match an employee's abilities with the requirements of a particular position. Training then supplies the knowledge and skills needed to perform that work effectively, while appraisal identifies areas requiring improvement.

A suitable and properly trained employee works more efficiently and makes fewer avoidable errors. Staffing thus improves both individual performance and the organisation's overall results. Merely employing people is insufficient; they must be placed and developed in roles where their capabilities can contribute effectively.

Step 3: Explain how staffing ensures continuity and growth **Continuous survival and growth:** Training, management development and succession planning prepare employees to assume greater responsibilities in future. They create a supply of capable people who can fill vacancies arising from retirement, promotion, transfer or expansion.

This reduces disruption when an important position becomes vacant and helps the organisation undertake new activities. Staffing therefore meets current needs while developing future managers and specialists, enabling the organisation to continue operating and grow over time.

Step 4: Explain how staffing uses human resources optimally **Optimum utilisation of human resources:** Manpower planning helps avoid both overstaffing and understaffing. Overstaffing leaves employees underutilised and raises unnecessary labour costs, whereas understaffing overloads employees and can delay work. Proper placement also prevents the waste of abilities caused by assigning unsuitable jobs.

By assessing requirements, allocating people appropriately and improving their skills, staffing obtains better use of the available workforce. This helps control labour costs and supports the efficient use of other resources, because people operate equipment and carry out organisational decisions.

Step 5: Conclusion Staffing is important in all organisations because it obtains competent personnel, improves performance by placing the right people in suitable jobs, ensures continuity and growth through development, and enables optimum utilisation of human resources. These four benefits explain why staffing is essential to achieving organisational objectives.

Quick Tip to Solve: For an importance-of-staffing answer, name four separate benefits and explain the mechanism behind each: recruitment, placement and training, succession planning, and manpower planning respectively.

OR

27(b). What is meant by Recruitment ? Explain any four external sources of recruitment. [6 marks]

Solution:

Concept:

- Staffing includes obtaining suitable people for organisational positions. Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- External recruitment seeks candidates from outside the existing workforce. It widens the pool of applicants, whereas selection subsequently chooses the most suitable people from that pool.

Step 1: Explain the meaning of recruitment Recruitment identifies possible sources of employees, contacts potential candidates and encourages applications for vacant posts. It is a positive process because it tries to attract a sufficiently large number of qualified applicants. It does not itself mean appointing every applicant: screening, tests and interviews belong to the later selection process.

Step 2: Explain direct recruitment and advertisements

- **Direct recruitment:** An organisation places a notice on its premises or at the factory gate specifying the jobs available. Interested people assemble on the stated date and are assessed for the work. This source is commonly used for casual vacancies of unskilled or semi-skilled workers and can meet an immediate need at relatively low cost.
- **Advertisement:** Vacancies are announced in newspapers, professional journals or other suitable media. The advertisement states the nature of the job, qualifications, experience and application procedure. Its wide reach attracts applicants from different places and is useful when the organisation needs a broader choice, particularly for technical, managerial or specialised posts.

Step 3: Explain employment exchanges and campus recruitment

- **Employment exchanges:** Government employment exchanges maintain records of registered job seekers. When an employer notifies its requirements, the exchange forwards names of candidates whose qualifications appear suitable. This provides a readily available source of applicants, especially for operative and other non-managerial vacancies, though the employer must still assess their suitability.
- **Campus recruitment:** Organisations contact universities, colleges and professional or technical institutes to recruit students completing their education. Presentations, applications and interviews may be arranged on the campus. This source helps employers obtain fresh talent with the required educational background, particularly for entry-level technical and management positions.

Step 4: Conclusion Recruitment means searching for prospective employees and encouraging them to apply. Four external sources are direct recruitment, advertisements, employment exchanges and campus recruitment; each brings applicants into consideration from outside the organisation.

Quick Tip to Solve: Start with searching and encouraging applications, then explain how each named source supplies candidates. Keep recruitment separate from the final selection and appointment.

28(a). **"Directing is the heart of management process." Do you agree ? Give four reasons in support of your answer.** [6 marks]

Solution:

Concept:

- Directing is the managerial function of instructing, guiding, motivating and leading people so that their efforts contribute to organisational objectives. Its elements include supervision, motivation, leadership and communication.
- Plans and organisational arrangements achieve results only when people act on them. Directing operates throughout the organisation and connects managerial decisions with the actual work of employees.

Step 1: State agreement and explain the role of directing Yes, directing may rightly be called the heart of the management process. Planning decides what should be done, organising establishes relationships and staffing fills positions, but employees still need guidance and encouragement to perform. Directing activates these arrangements and keeps people working towards the desired results. The following four reasons support the statement.

Step 2: Explain how directing initiates and integrates action

- **Initiates action:** Directing starts the actual performance of work. Through instructions, guidance and supervision, managers explain what employees must do and how their tasks should be carried out. Thus, plans are translated into action rather than remaining statements of intention. For example, a supervisor explains the day's production assignment and guides workers in executing it.
- **Integrates employee efforts:** Different employees and departments perform different tasks. Directing guides these individual efforts towards common organisational objectives and helps employees understand how their work fits into the whole. Leadership and communication prevent people from pursuing disconnected goals, enabling coordinated action instead of separate, conflicting efforts.

Step 3: Explain how directing develops potential and facilitates change

- **Realises employees' potential:** Employees may possess abilities that are not fully used without encouragement and support. Appropriate motivation, leadership and guidance help them apply their knowledge and skills more effectively. Managers can recognise good performance, clarify difficulties and create willingness to contribute, thereby improving both individual performance and organisational results.
- **Facilitates the introduction of change:** Employees may resist new methods because of uncertainty, habit or fear. Effective communication explains the need for change, and guidance and motivation help people adjust to new requirements. By addressing doubts and securing cooperation, directing makes the implementation of necessary organisational changes smoother.

Step 4: Conclusion Directing is the heart of management because it initiates action, integrates individual efforts, helps employees realise their potential and facilitates change. It gives continuing life to plans and organisational arrangements by guiding people towards common objectives.

Quick Tip to Solve: Link each reason to people taking action: starting work, combining efforts, using abilities and accepting change. Naming the other management functions alone does not explain directing's importance.

OR

28(b). "Effectiveness of a manager depends on his ability to communicate effectively." Explain how ? [6 marks]

Solution:

Concept:

- Communication, a component of directing, is the process of exchanging information, ideas and feelings so that a common understanding develops between the sender and receiver.
- A manager works through other people. Plans and decisions produce results only when employees understand them and can communicate their responses and difficulties to the manager.

Step 1: Explain the link with coordination **Basis of coordination:** Communication explains organisational goals, the manner of achieving them and the relationships between different people's activities. By sharing this information, a manager enables departments and individuals to adjust their work to one another. For example, production and sales can coordinate their schedules only if they exchange information about demand and output. Thus, effective communication unifies efforts towards common objectives.

Step 2: Show how communication enables smooth working **Smooth working of an enterprise:** A manager initiates action by communicating instructions, provides guidance during work and receives information about its progress. Employees can ask questions and report obstacles rather than act on guesses. If communication breaks down, instructions may be misunderstood and work may be delayed or duplicated. A continuous flow of clear messages therefore helps the organisation function smoothly.

Step 3: Connect information with sound decisions **Basis of decision making:** Managers need relevant, timely and accurate information to identify problems and compare alternative courses of action. Communication brings facts and suggestions from employees, departments and other sources to the decision maker. It also conveys the final decision to those who must implement it. Incomplete or distorted information can lead to poor decisions even when the manager has formal authority.

Step 4: Explain its contribution to managerial efficiency **Increases managerial efficiency:** Clear communication tells subordinates what is expected, gives them necessary instructions and enables the manager to obtain feedback. Responsibilities can be explained and performance can be reviewed against expectations. This reduces misunderstandings and repeated clarification, allowing the manager to direct and control work effectively. Authority becomes useful in practice when the people concerned understand how to act on it.

Step 5: Relate communication to cooperation and industrial peace **Promotes cooperation and industrial peace:** Two-way communication gives employees an opportunity to express grievances and enables management to explain its policies. Listening to each other's views builds mutual understanding and reduces avoidable conflicts. Rumours and suspicion are less likely when reliable information is available. The manager can therefore secure willing cooperation instead of relying only on orders.

Step 6: Show how communication supports leadership and motivation **Establishes effective leadership and boosts morale:** A leader must explain a vision, persuade employees and guide them

towards desired behaviour. Communication also allows a manager to recognise good performance, clarify expectations and encourage suggestions. When employees feel informed and heard, their participation and morale improve. The manager can motivate them more effectively by understanding their needs and responding appropriately.

Step 7: Conclusion The statement is justified: a manager's effectiveness depends greatly on communicating effectively because communication enables coordination, smooth operations, informed decisions, efficient direction, cooperation and leadership. Merely sending orders is insufficient; employees must understand the message and the manager must receive useful feedback.

Quick Tip to Solve: Link each importance of communication to a managerial result: coordinated effort, smooth work, sound decisions, efficiency, cooperation or motivated employees.

29(a). 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, trade receivables and cash; net working capital is current assets less current liabilities.
- Working capital requirements depend on how much money is tied up in the operating cycle and how long it takes to recover that money through sales and collections. The following are four factors affecting the requirement.

Step 1: Consider the nature of the business **Nature of business:** A trading company generally needs less working capital than a manufacturing company of comparable operating scale. It buys finished goods for resale and does not have to finance raw materials and work-in-progress through a manufacturing process. A manufacturer must hold raw materials, meet production expenses and carry work-in-progress as well as finished goods. These additional stages tie up funds. Service businesses that do not maintain substantial inventories may require still less working capital. Thus, the activities undertaken influence both the amount and the period for which funds remain blocked in current assets.

Step 2: Examine the scale of operations **Scale of operations:** A company operating on a large scale generally requires a larger absolute amount of working capital than a similar company operating on a small scale. A higher volume of production and sales usually requires more stock, more cash to meet wages and other operating expenses, and a larger amount of trade receivables. For example, an expansion in output may require the company to purchase additional materials before collecting cash from the resulting sales. Economies of scale may reduce the requirement per unit, but the total funds needed for routine operations normally rise as the business expands.

Step 3: Assess the length of the production cycle **Production cycle:** The production cycle is the period between acquiring raw materials and converting them into finished goods. A longer production cycle requires more working capital because expenditure on materials, labour and other production costs remains tied up for a longer period before goods become saleable. A shipbuilding company, for

example, has funds committed to production for much longer than a business that makes a product in a few days. A shorter cycle or more efficient processing releases funds earlier and reduces the amount needed to maintain the same flow of output, other things remaining the same.

Step 4: Evaluate the credit allowed to customers **Credit allowed:** A liberal credit policy increases working capital requirements. When customers are allowed a longer time to pay, sales do not immediately produce cash and more funds remain tied up in trade receivables. The company must still pay its operating expenses while waiting for collections. A stricter credit policy, a shorter collection period or a greater proportion of cash sales reduces this blockage and therefore lowers working capital requirements. This factor concerns credit given to customers: credit received from suppliers has the opposite effect because it helps finance current purchases.

Step 5: Conclusion The four factors are the nature of business, scale of operations, production cycle and credit allowed to customers. Manufacturing activities, a larger operating scale, a longer production cycle and longer customer credit generally increase working capital needs because they increase funds committed to day-to-day operations or delay their recovery.

Quick Tip to Solve: For each factor, state its direction of effect and explain why funds remain blocked in inventories, production or receivables for a larger amount or a longer time.

OR

29(b). "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 requirements. Debt creates compulsory interest and repayment commitments, whereas equity dividends are discretionary.
- The finance manager seeks a suitable balance between the cost of funds and financial risk. A cheaper source is not automatically suitable if the company cannot meet its fixed obligations.

Step 1: Assess the company's cash flow position **Cash flow position:** Before choosing debt, management must estimate the cash available to pay interest and repay principal on the due dates. A company with strong, regular and predictable operating cash flows can use a larger proportion of debt because it can meet these contractual payments with greater confidence. A company with weak or fluctuating cash flows should rely more on equity, as a reported accounting profit does not itself guarantee that cash will be available when a loan instalment falls due.

Step 2: Examine the interest coverage ratio **Interest coverage ratio:** This compares earnings before interest and tax with the interest payable on debt. It indicates how many times operating earnings cover the interest obligation. A high ratio gives a larger safety margin and supports the use of additional debt; a low ratio suggests that even a modest decline in earnings may make interest difficult to pay. However, this measure considers interest rather than principal repayment, so it must be used with other indicators of payment capacity.

Step 3: Check the debt service coverage ratio **Debt service coverage ratio:** This assesses whether the cash earnings available for debt service are adequate for both interest and the repayment of principal. It therefore provides a broader indication of debt-paying ability than interest coverage alone. A high ratio permits greater use of debt, other conditions remaining favourable. A low ratio calls for caution and a greater reliance on equity, because a company may earn enough to pay interest yet still be unable to pay the loan instalment when it becomes due.

Step 4: Compare return on investment with the cost of debt **Return on investment:** When the return earned on the funds employed is higher than the cost of debt, borrowing can increase the earnings available to equity shareholders. This is favourable trading on equity and may justify a higher debt proportion. If the return is lower than the cost of borrowing, debt reduces the earnings available to shareholders and increases financial risk. Management should therefore consider the expected return and its stability before increasing financial leverage.

Step 5: Conclusion Four factors influencing capital structure are the cash flow position, interest coverage ratio, debt service coverage ratio and return on investment. Together, they indicate whether the company can safely meet debt commitments and whether borrowing is likely to benefit equity shareholders.

Quick Tip to Solve: Separate ability to pay from benefit of borrowing: cash flow and coverage ratios test payment capacity, while return compared with debt cost tests the benefit of leverage.

30(a). What are the characteristics of a good brand name ? Explain. [6 marks]

Solution:

Concept:

- A brand name is the part of a brand that can be spoken, such as a word, a name or a combination of words and numbers. It identifies a seller's product and distinguishes it from competing products.
- A good brand name helps customers recognise and remember the product. Its selection should support communication, product positioning, future expansion and legal protection.

Step 1: Make the name easy to communicate and recall

- **Short, easy to pronounce, spell and remember:** A simple name is easier for consumers to ask for, recognise in advertisements and recall while shopping. A long or difficult name may be mispronounced or forgotten, weakening the connection between the advertisement and the product.
- **Suggestive of benefits or qualities:** The name should, where possible, suggest an advantage, function or quality associated with the product. This gives the consumer a useful clue about the product and supports its positioning. For example, a name suggesting freshness may help communicate the benefit offered by a personal-care product.

Step 2: Give the product a distinctive and flexible identity

- **Distinctive:** The name should stand out from competing names so that customers can identify the intended seller's product without confusion. A distinctive name makes it easier to build a separate image and reduces mistaken purchases of similar products.

- **Adaptable to packaging, labelling and advertising:** A good name should suit different sizes and forms of packaging and work well in printed, spoken and visual communication. It should be legible on a small label and remain effective in an advertisement or a display, so that the brand is presented consistently.

Step 3: Provide scope for growth and legal protection

- **Versatile enough for new products:** The name should be capable of accommodating new products added to the company's product line. An excessively narrow name may tie the business to one product feature and become unsuitable when the company introduces related products or enters another segment.
- **Capable of registration and legal protection, with staying power:** The name should be eligible for registration so that its unauthorised use can be challenged. It should also remain relevant over time instead of depending entirely on a short-lived fashion. A lasting, protectable name allows the firm to build recognition and goodwill through continued use.

Step 4: Conclusion A good brand name is simple and memorable, suggestive, distinctive, adaptable to different communication media, versatile for future products and capable of lasting legal protection. These qualities help customers identify the product and help the seller build a durable brand identity.

Quick Tip to Solve: Check a proposed name from both sides: can customers say, remember and distinguish it, and can the firm use, extend and legally protect it over time?

OR

30(b). Explain the following sales promotion activities :

(i) Discount

(ii) Product combination

(iii) Financing

(iv) Lucky draw [6 marks]

Solution:

Concept:

- Sales promotion consists of short-term incentives offered in addition to the normal product or service to encourage customers to buy. It supplements advertising and personal selling by giving the buyer an immediate reason to act.
- Discount, product combination, financing and lucky draw are different consumer-promotion techniques. Their benefits respectively concern a lower price, an additional product, easier payment and the chance of a prize.

Step 1: Explain discount and product combination

- **(i) Discount:** A product is offered at a price below its usual selling price for a specified promotional period. The reduction gives the customer an immediate monetary saving and encourages purchase. For example, a shop may offer a discount of 20 per cent during a clearance sale, so an article

normally sold for Rs 1,000 is available for Rs 800. This can attract price-sensitive buyers and help the seller increase sales or clear stocks.

- **(ii) Product combination:** Another product is offered as a gift along with the purchase of the main product. The buyer receives the additional article without paying a separate price for it, which increases the perceived value of the offer. For example, a bucket may be given free with the purchase of a specified packet of washing powder. The incentive is the extra product received, rather than a direct reduction in the main product's price.

Step 2: Explain financing and lucky draw

- **(iii) Financing:** The seller facilitates the purchase by offering easy payment terms, such as interest-free instalments or an attractive instalment scheme. The buyer can obtain the product now and pay its price over a period instead of meeting the whole cost immediately. For example, a television may be offered through monthly instalments without interest under a promotional scheme. Such arrangements reduce the immediate payment burden and encourage purchases of relatively expensive durable goods.
- **(iv) Lucky draw:** Customers who purchase the product are given an opportunity to participate in a draw and win prizes. The winner is selected by chance, for example through a draw of numbered coupons issued to buyers of a product. The prospect of winning an attractive prize creates excitement and encourages purchase. A prize is received only by the selected winners; every purchaser does not receive a gift, as in a product-combination offer.

Step 3: Conclusion Discount offers a direct price saving; product combination adds a free product; financing makes payment easier; and lucky draw offers a chance to win a prize. Each technique provides a short-term buying incentive, but the form of benefit offered to the consumer differs.

Quick Tip to Solve: Match each technique with its distinctive benefit: lower price, extra product, easier payment or chance of a prize. In a lucky draw only selected buyers win; in a product combination the stated gift accompanies each qualifying purchase.