CBSE Class 12 Business Studies Question Paper 2009 with Solution PDF-Set 66/2/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Please check that this question paper contains 8 printed pages.

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

(iii) Please check that this question paper contains 30 questions.

(iv) **Please write down the Serial Number of the question before attempting it.**

(v) 15 minutes time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the student will read the question paper only and will not write any answer on the answer script during this period.

(vi) Answers to questions carrying 1 mark may be from **one word** to **one sentence**.

(vii) Answers to questions carrying 3 marks may be from **50–75 words**.

(viii) Answers to questions carrying 4–5 marks may be about **150 words**.

(ix) Answers to questions carrying 6 marks may be about **200 words**.

(x) Attempt all parts of a question together.

1. Why is it said that 'management is all pervasive' ? [1 mark]

Solution:

Concept:

- Management is all pervasive: it is required in every kind of organisation, whether economic, social or political.
- The functions of planning, organising, staffing, directing and controlling are needed at all levels.

Step 1: Recognise the range of organisations A business enterprise, a hospital and a school have different purposes, but each needs people and resources to be coordinated towards its objectives. Management is therefore not confined to a particular business or industry.

Step 2: Connect the idea to organisational levels Within each organisation, top, middle and supervisory managers all perform managerial functions, although the nature and scope of their work differ.

Step 3: Conclusion Management is called all pervasive because it is needed in all types of organisations and at every level of management.

Quick Tip to Solve: For all pervasive, remember both dimensions: every organisation and every managerial level.

2. "Management creates a dynamic organisation." How ? [1 mark]

Solution:

Concept:

- A dynamic organisation adapts to changes in its environment rather than remaining fixed in old methods.
- Management helps people accept change so that organisational interests and individual interests can be served.

Step 1: Identify the need for adaptation Business conditions change with technology, competition and customer preferences. Employees may resist such changes because familiar routines feel more secure.

Step 2: Explain management's contribution Management explains the need for change, guides employees and helps them adjust their working methods. This enables the organisation to respond to its changing environment and remain competitive.

Step 3: Conclusion Management creates a dynamic organisation by helping its employees adapt to environmental changes and overcome resistance to change.

Quick Tip to Solve: Link dynamic with adaptation: show how management helps people change their methods.

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

Solution:

Concept:

- Management principles are general guidelines for managerial action, rather than rigid rules with an identical application everywhere.
- Contingent means that application depends on the circumstances prevailing in a particular situation.

Step 1: Identify what varies Organisations differ in their size, objectives, people and environment. A management principle cannot therefore be applied mechanically in precisely the same manner in every organisation.

Step 2: Relate application to circumstances The manager must consider the situation and modify the application of a principle accordingly. For instance, the appropriate degree of centralisation depends on organisational requirements and employees' capabilities.

Step 3: Conclusion Management principles are called contingent because their application depends on the prevailing situation and circumstances.

Quick Tip to Solve: For contingent, write depends on the situation; do not describe the principles as rigid laws.

4. State the principle of 'Order'. [1 mark]

Solution:

Concept:

- Fayol's principle of order concerns the proper arrangement of material resources and people.
- Material order and social order make resources available where and when organisational work requires them.

Step 1: State material order There should be a fixed, suitable place for every material or thing, and it should be kept in that place. This avoids unnecessary searching and loss of time.

Step 2: State social order There should be a suitable place for every person, and every person should occupy the position best suited to their abilities. This helps work proceed systematically.

Step 3: Conclusion The principle of order states that there should be a place for everything and everyone, and everything and everyone should be in their designated place.

Quick Tip to Solve: Remember both things and people: order covers material as well as social arrangements.

5. What is meant by 'follow-up action' as the step involved in the planning process ? [1 mark]

Solution:

Concept:

- Planning does not end with selecting and implementing a course of action.

- Follow-up action monitors implementation and checks whether planned objectives are being achieved.

Step 1: Check implementation Managers examine whether activities are being carried out according to the plan. They compare actual progress with the intended course of action rather than assuming implementation is automatically successful.

Step 2: Take necessary corrective action If progress departs from the plan, the reasons are identified and suitable corrective measures are taken. This feedback keeps execution directed towards the planned objectives.

Step 3: Conclusion Follow-up action means monitoring the implementation of plans to ensure that activities proceed as planned and taking corrective action where necessary.

Quick Tip to Solve: Associate follow-up with checking execution and correcting deviations after implementation.

6. Define 'objectives' as types of plans. [1 mark]

Solution:

Concept:

- Objectives are the desired future results or ends that an organisation seeks to achieve.
- They give direction to organisational efforts and form the basis for other plans.

Step 1: Identify the intended result An objective specifies what is to be achieved, rather than describing the detailed procedure for achieving it. For example, an enterprise may set a target to increase sales during the coming year.

Step 2: Explain its role in planning Managers formulate strategies, policies and other plans in the light of these desired results. Objectives also provide a basis for judging whether organisational efforts have succeeded.

Step 3: Conclusion Objectives are the end results towards which the activities and efforts of an organisation are directed.

Quick Tip to Solve: Define objectives as ends to be achieved; distinguish them from methods or procedures.

7. What is meant by 'motivation' as an element of directing ? [1 mark]

Solution:

Concept:

- Motivation is the process of stimulating people to act in a desired manner to accomplish organisational goals.
- It works through identifying needs and providing suitable incentives that encourage effort.

Step 1: Recognise the driving force Employees have needs and motives that influence their behaviour.

Management seeks to understand these needs so that employees are willing to contribute their effort to organisational work.

Step 2: Connect stimulation with action By providing appropriate financial or non-financial incentives, management encourages employees to work towards desired goals. Motivation therefore concerns willingness and enthusiasm to act.

Step 3: Conclusion Motivation means the process of stimulating people to take action and work willingly towards the achievement of desired organisational goals.

Quick Tip to Solve: Use the words stimulate and willingness; motivation is more than merely issuing instructions.

8. What is meant by 'supervision' ? [1 mark]

Solution:

Concept:

- Supervision means overseeing the work of subordinates and guiding their efforts.
- It is an element of directing that maintains direct contact between the supervisor and employees.

Step 1: Explain overseeing the work The supervisor observes employees while they perform their assigned tasks and checks that the work proceeds according to instructions and required standards.

Step 2: Explain guidance during performance Supervision also involves giving directions, clarifying doubts and helping employees solve work-related difficulties. It is therefore active guidance, not simply watching for mistakes.

Step 3: Conclusion Supervision means overseeing, guiding and instructing subordinates in the performance of their work so that tasks are carried out properly.

Quick Tip to Solve: In a supervision definition, include both overseeing the work and guiding the workers.

9. What is meant by 'Right to be informed' to the consumer ? [1 mark]

Solution:

Concept:

- The right to be informed protects a consumer against misleading or incomplete information about goods and services.
- Complete product information enables the consumer to compare alternatives and make a rational buying decision.

Step 1: State the right A consumer has the right to obtain complete information about the quality, quantity, potency, purity, standard and price of the goods or services being purchased.

Step 2: Explain its purpose The seller should disclose relevant particulars, such as ingredients, manufacturing and expiry dates, directions for use and maximum retail price, as applicable. This helps the buyer choose correctly and guards against unfair trade practices.

Step 3: Conclusion The right to be informed means the consumer's right to complete and accurate information about the goods or services before making a purchase.

Quick Tip to Solve: Remember the product particulars: quality, quantity, potency, purity, standard and price.

10. Who can file a complaint under the Consumer Protection Act, 1986 ? [1 mark]

Solution:

Concept:

- The Consumer Protection Act, 1986 provides a redressal mechanism for consumer grievances.
- A complaint may be brought by the consumer or by the persons and bodies authorised by the Act.

Step 1: Identify the consumer and representative complainants A consumer, any registered consumer association, or the Central Government or a State Government can file a complaint under the Act.

Step 2: Include collective and succession cases One or more consumers may complain on behalf of numerous consumers having the same interest. In the event of a consumer's death, the legal heir or representative may also file the complaint. Registration of a consumer association does not require the affected consumer to be its member.

Step 3: Conclusion An eligible complainant is a consumer, a registered consumer association, the Central or a State Government, consumers representing a common interest, or the deceased consumer's legal heir or representative.

Quick Tip to Solve: List both individual complainants and representative bodies when asked who can file a complaint.

11. "Controlling is a pervasive function." Explain. [3 marks]

Solution:

Concept:

- Controlling means comparing actual performance with planned standards, identifying deviations and taking corrective action.
- A pervasive function operates throughout an organisation: at every managerial level, in every department and in different kinds of organisations.

Step 1: Explain control at all levels **Every managerial level:** Top management controls overall organisational performance and major policies. Middle management controls departmental results and the implementation of plans. Supervisors control day-to-day work, such as output and quality. Thus, controlling is a responsibility of every manager, although its scope differs with the level of authority.

Step 2: Explain control in every activity **Every functional area:** Production managers compare output and quality with standards; finance managers compare expenditure with budgets; marketing managers compare sales with targets; and personnel managers monitor matters such as attendance

and employee performance. Each department needs feedback and corrective action to achieve its objectives.

Step 3: Extend the explanation to organisations **Every type of organisation:** Controlling is needed in business enterprises as well as educational institutions, hospitals and other non-business organisations. Each has objectives and must check whether its activities are producing the intended results. The particular standards vary, but the need to evaluate and correct performance remains common.

Step 4: Conclusion Controlling is pervasive because it is exercised at all levels of management, in all departments and in every type of organisation to ensure that performance follows plans.

Quick Tip to Solve: Explain pervasiveness through three dimensions: managerial levels, functional departments and types of organisations.

12. State the two important objectives of 'Financial Planning'. [3 marks]

Solution:

Concept:

- Financial planning estimates the funds required by a business and determines the appropriate sources and timing of finance.
- Its two important objectives are ensuring availability of funds when needed and avoiding unnecessary raising of funds.

Step 1: Ensure that funds are available when required **Availability of sufficient funds:** Financial planning estimates the amount of money required for fixed assets, day-to-day operations and future expansion. It also estimates when these payments will arise and identifies suitable sources of funds. By matching the timing of receipts and payments, the business can meet its obligations and carry out its activities without interruption caused by a shortage of finance. Merely estimating a total amount is insufficient if that amount is unavailable on the date it is needed.

Step 2: Avoid raising funds unnecessarily **Avoid unnecessary finance:** Financial planning ensures that the business does not raise more funds than its requirements justify. Excess funds may remain idle and increase the cost of financing without earning an adequate return. Accurate estimates of requirements and likely internal receipts help determine the amount to be raised from outside sources. If a temporary surplus arises, the business can plan its appropriate use rather than allow money to remain unproductive.

Step 3: Conclusion The two objectives of financial planning are to ensure sufficient funds at the right time and to prevent the unnecessary raising of funds, thereby avoiding both shortages and idle finance.

Quick Tip to Solve: Pair the objectives: enough money when needed, but no needless excess that adds financing cost.

13. What is meant by 'Financial Management' ? State any two financial decisions taken by a Financial Manager. [3 marks]

Solution:

Concept:

- Financial management is concerned with the efficient acquisition and utilisation of finance in a business.
- It aims to secure suitable funds at an appropriate cost and use them effectively, with the overall objective of maximising shareholders' wealth.

Step 1: Define financial management Financial management means planning and managing the procurement and use of funds so that financial resources are available in the required amount and are employed efficiently. It involves decisions about how much finance is needed, where it should come from and how it should be invested. The financial manager considers the expected return, risk and cost associated with these choices, rather than merely arranging cash for immediate payments.

Step 2: State the investment decision **Investment decision:** The financial manager decides how the firm's funds should be invested in different assets. Long-term investment decisions, also called capital budgeting decisions, concern assets such as a new plant or machinery. Short-term investment decisions concern current assets and working capital. The choice must consider expected cash flows, returns and risk, because the assets selected affect the future earning capacity of the business.

Step 3: State the financing decision **Financing decision:** The financial manager decides the sources from which funds should be raised and their appropriate mix, particularly owners' funds and borrowed funds. In selecting this capital structure, the manager considers the cost of finance, financial risk, repayment obligations and effects on control. The decision should provide adequate finance on suitable terms without exposing the firm to an excessive fixed financial burden.

Step 4: Conclusion Financial management deals with the efficient procurement and use of finance. Two decisions taken by a financial manager are the investment decision and the financing decision.

Quick Tip to Solve: For two decisions, state investment as the use of funds and financing as the sources of funds; explain each separately.

14. Differentiate between Primary market and Secondary market. [3 marks]

Solution:

Concept:

- The primary market is the new issue market in which securities are issued by companies to investors for the first time.
- The secondary market is the market for the purchase and sale of existing securities among investors. It provides liquidity to investments already made.

Step 1: Identify what is traded A new issue mobilises capital for its issuer and therefore belongs to the primary market. A resale transfers an existing investment from one investor to another and belongs to the secondary market. The same security can first be issued in the primary market and

subsequently traded in the secondary market.

Step 2: Compare the markets on three bases

Basis	Primary market	Secondary market
Nature of securities	Deals in new securities issued for the first time; it is the new issue market.	Deals in existing securities that have already been issued.
Parties	Securities are sold by the issuing company to investors, directly or through intermediaries.	Investors buy and sell securities among themselves through the market.
Flow of funds	The issuing company receives the proceeds and obtains capital for its business.	The selling investor receives the proceeds; the issuing company receives no fresh capital from the resale.

Step 3: Conclusion The primary market raises fresh capital through new issues, whereas the secondary market enables investors to transfer existing securities and obtain liquidity. These are complementary parts of the capital market.

Quick Tip to Solve: Ask who receives the money: a new issue finances the company; a resale pays the existing investor.

15. What is meant by 'Indirect channels of distribution' ? Explain any two methods of indirect channels of distribution. [3 marks]

Solution:

Concept:

- An indirect channel of distribution is a route through which goods move from the producer to the consumer with the help of one or more intermediaries.
- Retailers, wholesalers and agents are intermediaries. The number of intermediaries determines whether an indirect channel is one-level, two-level or three-level.

Step 1: Define an indirect channel An indirect channel involves middlemen between the producer and the ultimate consumer. Instead of selling directly to every buyer, the producer uses intermediaries who perform functions such as purchasing, storing, transporting and selling goods. Two methods are explained below.

Step 2: Explain the one-level channel **One-level channel: Producer to retailer to consumer.** There is only one intermediary, the retailer. The producer supplies goods to retailers, who sell them to final consumers. This route allows the manufacturer to reach buyers through retail outlets without using wholesalers. For example, a manufacturer may supply consumer appliances to retailers for sale to households.

Step 3: Explain the two-level channel **Two-level channel: Producer to wholesaler to retailer to consumer.** Two intermediaries are involved. The wholesaler purchases goods in large quantities from the producer, breaks the bulk and supplies smaller quantities to retailers. Retailers then sell to final consumers. This route suits consumer goods with a large number of geographically dispersed buyers and small retail orders.

Step 4: Conclusion Indirect distribution uses intermediaries. A one-level channel uses a retailer,

while a two-level channel uses both a wholesaler and a retailer before the goods reach consumers.

Quick Tip to Solve: Count only intermediaries, excluding producer and consumer: a retailer gives one level; a wholesaler plus a retailer gives two.

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

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

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

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

Solution:

Concept:

- Organising is the management function of identifying and grouping work, assigning duties and establishing authority relationships so that people can work together to achieve objectives.
- The organising process comprises identification and division of work, departmentalisation, assignment of duties, and establishment of reporting relationships.

Step 1: Identify the management function The function is organising. Aman, Avneesh and Amrish identify the work needed for toy manufacturing and arrange it under functional managers. They are creating a structure for carrying out activities rather than merely setting a future target.

Step 2: Quote the evidence from the case The words "They identified the following main activities which they have to perform" show identification of the work. The further words "four managers should be appointed to look after" production, finance, marketing and personnel show grouping of activities into departments and assignment of responsibility to managers. These lines establish that the function is organising.

Step 3: State the four steps in the process **Identification and division of work:** Identify the total work and divide it into manageable activities to avoid duplication and enable specialisation. The case lists purchasing materials and machinery, production, finance, sales, market identification and

employee selection.

Departmentalisation: Group similar and related activities into departments. Here the proposed departments are production, finance, marketing and personnel.

Assignment of duties: Allocate work to people according to their ability and competence, and clearly specify their responsibilities. Suitable managers and employees are entrusted with each department's work.

Establishment of reporting relationships: Specify who reports to whom and define authority and responsibility. This creates a clear hierarchy, enables coordination and tells each employee whose instructions to follow.

Step 4: Conclusion The function is organising, evidenced by identifying activities and appointing functional managers. Its four steps are division of work, departmentalisation, assignment of duties and establishment of reporting relationships.

Quick Tip to Solve: Look for the sequence work, groups, people and reporting: it distinguishes organising from planning and from staffing alone.

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 individual in all respects." Identify and explain the two concepts explained above. [4 marks]

Solution:

Concept:

- Staffing includes training and development, the planned learning activities that improve employees' capabilities and contribute to organisational effectiveness.
- Training develops the knowledge and skills needed for a particular job; development promotes the growth of the individual in all respects.

Step 1: Identify and explain training **Training:** The opportunities described as being designed and delivered to "improve skills and abilities of employees" refer to training. It is a systematic process through which employees learn the knowledge, skills and techniques required to perform a particular job effectively. Its focus is relatively narrow and job oriented: it improves performance in the employee's present assignment. For example, teaching a machine operator how to operate equipment safely increases the employee's proficiency in that work. Such learning helps reduce mistakes and enables the employee to achieve the required standard of performance.

Step 2: Identify and explain development **Development:** The opportunities designed to help in the "growth of individual in all respects" refer to development. It is a learning process directed towards the employee's overall growth, including knowledge, understanding, attitudes, judgement and broader capabilities. Its scope extends beyond the immediate requirements of a specific job and prepares the individual to accept greater responsibilities in the future. For example, learning to analyse business situations and make decisions develops a manager's ability to handle a wider role. Thus, development has a broader, longer-term perspective than training.

Step 3: Conclusion The first concept is **training**, which improves job-specific skills and abilities. The

second is **development**, which supports the overall growth of the individual and readiness for future responsibilities.

Quick Tip to Solve: Link "skills for a particular job" with training and "overall growth of the individual" with development; explain the scope of each after identifying it.

18. "Leadership is considered as the most important element of directing." In the light of this statement explain any four points of importance of leadership. [4 marks]

Solution:

Concept:

- Leadership is the process of influencing people's behaviour so that they willingly strive to achieve organisational objectives.
- As an element of directing, leadership converts instructions into willing effort by building confidence, cooperation and commitment among employees.

Step 1: Explain influence on effort and personal relationships **1. Influences behaviour towards organisational goals:** A leader guides employees and influences their actions so that they contribute willingly to common objectives. By explaining what is expected and setting an example, the leader channels individual efforts in the desired direction. Work is therefore carried out with commitment rather than merely in response to formal orders.

2. Builds personal relationships: A leader maintains personal relations with followers and tries to understand their feelings, needs and problems. This creates trust and confidence. Employees become more willing to cooperate and to share difficulties, helping management secure their effective contribution to organisational activities.

Step 2: Explain cooperation in change and resolution of conflicts **3. Helps introduce necessary changes:** Employees may resist changes because of uncertainty or fear. A leader explains the purpose and benefits of the proposed changes, provides reassurance and persuades employees to cooperate. Leadership thereby reduces resistance and helps the organisation implement necessary changes smoothly.

4. Handles conflicts effectively: A leader allows employees to express their views, listens patiently and seeks an explanation of their differences. By clarifying misunderstandings and finding an acceptable solution, the leader prevents disputes from obstructing work. This maintains cooperation and directs attention back to shared organisational objectives.

Step 3: Conclusion Leadership is important because it influences employees towards organisational goals, builds personal relationships, secures cooperation in change and resolves conflicts. These contributions help directing produce willing and coordinated action.

Quick Tip to Solve: For each point of importance, name the contribution and explain how a leader's action improves employees' willingness or ability to work towards common goals.

19. How does controlling help in 'efficient use of resources' and how does it 'facilitate decision making' ? Explain. [4 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with predetermined standards, finding deviations and taking corrective action.
- Information obtained through control improves the use of resources and provides a factual basis for managerial decisions about future operations.

Step 1: Explain efficient use of resources

- **Setting and enforcing standards:** Managers set standards for the use of materials, labour, money and equipment. Actual consumption, cost and output are then compared with these standards. This makes employees aware of the expected level of performance and encourages economical use of the resources placed at their disposal.
- **Preventing waste through correction:** Where actual use exceeds the standard, management investigates the cause and corrects it. For example, excessive material wastage may call for better machine maintenance or employee training. Detecting and correcting such deviations reduces spoilage, idle time and unnecessary expenditure. Thus, the same resources can produce more output, or the required output can be achieved with fewer resources.

Step 2: Explain how control facilitates decision making

- **Supplying reliable performance information:** The control process provides managers with facts about actual results and their differences from planned results. By analysing significant deviations, management can identify the activities needing attention and distinguish a faulty method from an unrealistic standard or a change in external conditions.
- **Choosing an appropriate response:** This information helps managers decide whether to change operating methods, train workers, repair equipment, reallocate resources or revise future plans and standards. For example, repeated delays traced to an unreliable supplier provide a reason to select another supplier. Decisions therefore rest on the causes revealed by performance review rather than on guesswork.

Step 3: Conclusion Controlling promotes efficient resource use by detecting and removing waste. It facilitates decision making by supplying performance information and identifying the causes of deviations, so managers can choose suitable corrective action and improve future plans.

Quick Tip to Solve: Link resource efficiency to standards, waste detection and correction; link decision making to performance information, cause analysis and the choice of action.

20. Explain any four ways and means of consumer protection available in India. [4 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices, defective goods, deficient services and other forms of exploitation.
- Protection requires informed consumers as well as responsible business conduct, organised assistance and legal remedies. Any four recognised ways may be explained.

Step 1: Explain the role of business and consumers

- **1. Self-regulation by business:** Firms should voluntarily adopt fair business practices and ethical standards, recognising that consumer satisfaction is essential for long-term survival. They should supply safe and good-quality products, disclose correct information, charge fair prices and settle genuine complaints promptly. Industry and trade associations may also frame codes of conduct for their members. Such voluntary discipline prevents exploitation before a dispute arises.
- **2. Consumer awareness:** Consumers must know their rights and the remedies available when those rights are violated. An informed buyer checks quality, price, labels, expiry dates and instructions, obtains a cash memo and avoids misleading claims. Awareness enables the consumer to recognise an unfair practice, demand proper treatment and take action instead of accepting exploitation silently.

Step 2: Explain organised and legal protection

- **3. Consumer organisations:** Voluntary consumer associations educate consumers through publications, campaigns and meetings. They may test products, give advice, help consumers prepare complaints and assist them in obtaining redress. By taking up issues affecting many buyers, these organisations give individual consumers a stronger collective voice against unfair practices.
- **4. Government and legal protection:** The government protects consumers through laws and their enforcement. The Consumer Protection Act, 1986 provides a three-tier redressal machinery at the district, state and national levels for consumer disputes. An eligible complainant can seek relief for defective goods, deficient services or unfair trade practices, including replacement, refund or compensation as appropriate. This makes consumer rights enforceable rather than merely voluntary promises.

Step 3: Conclusion Four ways of protecting consumers in India are self-regulation by business, consumer awareness, assistance from consumer organisations and government protection through legislation and consumer redressal agencies. Together they help prevent exploitation and provide remedies when it occurs.

Quick Tip to Solve: Organise the answer by who acts: the business, the informed consumer, consumer associations and the government. Give a concrete protective role for each.

21. "Coordination is needed at all levels of management and it is a function of all managers." Explain.

[5 marks]

Solution:

Concept:

- Coordination is the process of integrating the efforts of different individuals and departments to achieve organisational goals with unity of action.
- Coordination is all-pervasive: it is necessary at the top, middle and supervisory levels. It is also the responsibility of every manager, rather than the work of a separate department alone.

Step 1: Explain the need at every level **Top management:** The chief executive and other senior managers coordinate the activities of the organisation as a whole. They ensure that the plans of production, marketing, finance and personnel support the same organisational objectives. For example, an expansion plan must bring together the proposed output, expected demand and funds needed.

Middle management: Departmental managers coordinate the work of their divisions and link it with other departments. A production manager must match production schedules with the sales department's requirements and the purchase department's supply of materials. This prevents one department's decisions from obstructing another's work.

Supervisory management: Supervisors coordinate the activities of individual workers. They allocate tasks, arrange the sequence of work and ensure that each worker's output fits with that of others. Even a sound departmental plan fails if workers do not work together at the operational level.

Step 2: Show why every manager must coordinate **Responsibility of all managers:** Every manager directs the efforts of people whose activities depend on one another. Each manager must therefore reconcile differences in individual interests, timing and methods, and secure cooperation towards the common goal. Coordination cannot be delegated entirely to one specialist while other managers work independently.

Integration through managerial functions: Coordination is built into planning, organising, staffing, directing and controlling. A manager coordinates plans, establishes related duties, places suitable people, communicates and motivates them, and compares interdependent results with standards. It is a continuous activity throughout these functions, so it is often called the essence of management.

Step 3: Conclusion Coordination is required at every level because organisational, departmental and individual efforts must fit together. It is the function and responsibility of all managers because each manager must integrate the activities under their charge with the common objectives.

Quick Tip to Solve: Explain the two halves separately: give the top, middle and supervisory roles, then connect every manager's functions with unity of action.

22. Explain any two principles of Scientific Management. [5 marks]

Solution:

Concept:

- F. W. Taylor's scientific management applies systematic study and analysis to work instead of relying on guesswork, tradition or individual judgement alone.
- Two principles are Science, not Rule of Thumb, and Harmony, not Discord. The first improves the method of working; the second creates cooperation between management and workers.

Step 1: Explain Science, not Rule of Thumb **Science, not Rule of Thumb:** Taylor held that there should be a scientifically determined best method of performing a task. Managers should not leave every worker to follow a personal method based only on experience or customary practice. Different ways of doing the work must be studied systematically, tested and compared before selecting the most efficient method.

The study considers the sequence of operations, tools, equipment, time and effort required. The method that produces the required output with minimum unnecessary effort and waste should be standardised, and workers should be trained to use it. For example, instead of allowing each worker to choose a different way of handling materials, management can study the alternatives and establish a suitable standard procedure. This raises efficiency and makes expected performance more reliable.

Step 2: Explain Harmony, not Discord **Harmony, not Discord:** Management and workers should recognise that their interests are interdependent, rather than treating one another as opponents. Conflict over sharing the existing surplus wastes energy; both sides should work together to increase productivity and the prosperity of the enterprise.

Taylor called for a **mental revolution**, meaning a fundamental change in the attitudes of both sides. Management should share the gains of higher productivity with workers and provide fair treatment and suitable working conditions. Workers should cooperate with management, accept scientifically developed methods and avoid deliberately restricting output. Mutual trust and a common concern for greater efficiency replace suspicion and constant disputes. Thus, harmony requires a change by both employers and employees, not merely obedience from workers.

Step 3: Conclusion Science, not Rule of Thumb replaces untested working practices with scientifically developed methods. Harmony, not Discord requires a mental revolution in which management and workers cooperate for increased productivity and mutual prosperity.

Quick Tip to Solve: For each principle, state the contrast in its title, explain the change Taylor wanted, and show its practical effect on work or relationships.

23. Explain any five features of Planning. [5 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done, how it is to be done, when it is to be done and by whom. It sets objectives and selects a course of action to achieve them.

- The features of planning describe its nature as a management function. They explain its relationship with objectives, other functions, management levels and the future.

Step 1: Explain its purpose and position in management

- **Planning focuses on achieving objectives:** An organisation establishes specific goals before deciding its activities. Every plan directs effort towards these goals and provides a basis for judging whether the intended results have been achieved. Activities are therefore purposeful rather than carried out at random.
- **Planning is a primary function of management:** Planning precedes organising, staffing, directing and controlling. It lays down what is to be achieved, so the other functions can arrange resources, guide people and compare performance with the planned standards. These functions are performed within the framework of plans.

Step 2: Explain its scope, continuity and future orientation

- **Planning is pervasive:** Planning is required at all levels of management and in all departments. Top management plans for the organisation as a whole, while middle and supervisory managers prepare plans for their respective units. The scope and time period vary, but the need to plan exists throughout the organisation.
- **Planning is continuous:** Plans are prepared for a specified period. When that period ends, new plans are required. Plans also have to be revised when circumstances change or when earlier assumptions prove incorrect. Thus, planning forms a continuing cycle rather than a once-only activity.
- **Planning is futuristic:** Planning looks ahead and prepares the organisation for future events. Managers forecast likely conditions and assess opportunities and threats before choosing action. For example, anticipated demand helps determine future production, although a forecast cannot remove all uncertainty.

Step 3: Conclusion Five features of planning are its focus on objectives, primacy among management functions, pervasiveness, continuity and future orientation. Together they show how planning guides coordinated action towards desired results.

Quick Tip to Solve: For a features question, explain the nature of planning under clear headings; do not replace features with benefits such as reducing waste or promoting coordination.

24. Explain the objectives of National Stock Exchange of India. [5 marks]

Solution:

Concept:

- The National Stock Exchange of India (NSE) was established to provide a modern, nationwide securities market. Its objectives concern access, transparency, trading efficiency and reliable settlement.
- An exchange brings buyers and sellers of securities together under an organised trading system. NSE's objectives describe the standards and facilities that this system aims to provide.

Step 1: Explain nationwide trading and equal access

- **Establish a nationwide trading facility:** NSE aims to provide a trading facility across the country for all types of securities, including equity securities and debt instruments. A nationwide system links market participants and makes organised securities trading available beyond a single local market.
- **Ensure equal access to investors:** It aims to give investors throughout the country equal access to the market through an appropriate communication network. An investor's geographical location should not prevent access to the trading facilities available through the exchange's network.

Step 2: Explain trading quality, settlement and market standards

- **Provide a fair, efficient and transparent securities market:** NSE seeks to achieve these qualities through an electronic trading system. Orders can be processed systematically, and market information such as prices is available through the system. This supports fair dealing and reduces the lack of transparency associated with informal trading arrangements.
- **Enable shorter settlement cycles and book-entry settlement:** NSE aims to reduce the time between a trade and its settlement and to support settlement through entries in records rather than cumbersome physical transfers. This makes the completion of transactions more efficient and reduces delays associated with the movement of paper securities.
- **Meet international benchmarks and standards:** NSE seeks to bring the Indian securities market's trading and settlement practices in line with internationally accepted standards. Modern systems and dependable procedures strengthen market quality and investor confidence.

Step 3: Conclusion NSE's objectives are nationwide trading in securities, equal access for investors, fair and transparent electronic trading, shorter settlement cycles with book-entry settlement, and compliance with internationally accepted market standards.

Quick Tip to Solve: Recall NSE's objectives through five headings: nationwide reach, equal access, electronic transparency, efficient settlement and international standards.

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:

- The selling concept starts with an existing product and seeks to persuade customers to buy it through selling and promotion.
- The marketing concept starts with the needs of a chosen target market. The business coordinates its activities to satisfy those needs better than competitors and earns profits through customer satisfaction.

Step 1: Identify the concepts from the statements **Selling concept:** 'Bending the customer according to the product' means persuading the customer to accept what the firm has already produced. The product is the starting point, and selling effort is directed towards converting it into sales.

Marketing concept: 'Developing the product according to customer-needs' means first finding out what the target customers need and then designing the offering to satisfy them. Here the customer's requirements guide production and other business decisions.

Step 2: Distinguish the two approaches

Basis	Selling concept	Marketing concept
Starting point	Starts at the factory with products already made by the business.	Starts with a well-defined target market and an understanding of its needs.
Main focus	Focuses on the existing product and the seller's need to dispose of it.	Focuses on customers' needs and the satisfaction delivered by the offering.
Means	Uses aggressive selling and promotional efforts to persuade buyers.	Uses integrated marketing efforts: product, price, promotion and distribution work together.
Objective	Seeks profits through a larger volume of sales.	Seeks profits through customer satisfaction and continuing customer relationships.
Perspective	Takes an inside-out approach: produce first and then seek customers.	Takes an outside-in approach: understand customers first and then develop the product.

For example, promoting an existing product forcefully reflects selling orientation, whereas researching buyers' needs before deciding its features reflects marketing orientation. Promotion is used in both, but under marketing it supports an offering designed around customer needs.

Step 3: Conclusion The first statement expresses the **selling concept**, while the second expresses the **marketing concept**. Selling seeks customers for an existing product; marketing develops a suitable product for the target customers and earns profit by satisfying them.

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

26(a). What is meant by 'Informal organisation' ? Explain any five features of informal organisation.

[6 marks]

Solution:

Concept:

- Organising creates a formal structure of jobs, authority and reporting relationships. Alongside it, employees develop personal and social relationships through their everyday interaction.
- Informal organisation arises from these relationships and meets members' social and psychological needs. It is not deliberately designed by management.

Step 1: Define informal organisation **Informal organisation** is the network of social relationships among employees that arises spontaneously as people associate and interact at work. For example, employees from different departments may become friends because they share an interest and regularly spend their lunch break together. This relationship exists beyond their formally assigned duties and reporting lines.

Step 2: Explain five features

1. **Spontaneous formation:** Informal organisation emerges naturally from personal interaction among employees. Management does not establish it through an organisation chart or a deliberate allocation of duties. Friendship, common interests and a sense of belonging bring its members together.
2. **Independent channels of communication:** Information flows through informal channels, commonly called the grapevine. Communication does not have to follow the official chain of command; a member may communicate directly with a friend in another department or at another level.
3. **Group-based standards of behaviour:** Members develop their own norms, expectations and standards of conduct. These are not written rules issued by management. Acceptance by the group and social pressure encourage members to follow them, for example in matters of cooperation or mutual support.
4. **No fixed structure:** The pattern of relationships is not rigidly defined. Membership and relationships may change as interests and interactions change. Informal leaders gain influence through personal qualities, expertise or acceptance by members rather than merely through an official job title.
5. **Arises within the formal organisation:** The formal organisation brings people together at the workplace and provides opportunities for regular interaction. Social relationships then develop among them, cutting across official departments and levels. Thus the informal organisation has its origin in the formal organisation, while its relationships go beyond official work requirements.

Step 3: Conclusion Informal organisation is the spontaneous network of employees' social relationships. Its five features are natural formation, informal communication channels, group-based behavioural standards, an unfixed structure and its origin within the formal organisation.

Quick Tip to Solve: Separate official design from social relationships: the organisation chart shows formal links, while friendships, group norms and the grapevine reveal informal organisation.

OR

26(b). Explain any four points which highlight the importance of decentralisation in an organisation.

[6 marks]

Solution:

Concept:

- Decentralisation is the systematic delegation of decision-making authority throughout the levels of an organisation. Decisions are taken as near as possible to the point where action is required.
- Its importance lies in developing capable and motivated managers while improving the speed and effectiveness of organisational decisions. Top management retains overall responsibility and control.

Step 1: Explain how decentralisation develops initiative **Develops initiative among subordinates:** Managers at lower levels receive freedom to make decisions within their area of authority instead of seeking approval for every action. They learn to depend on their own judgement, identify problems and devise solutions. Being trusted to decide encourages confidence and a willingness to accept responsibility. This provides opportunities to demonstrate talent and become more resourceful in handling work.

Step 2: Explain its role in developing managerial talent **Develops managerial talent for the future:** Decentralisation gives subordinates practical experience in making decisions and judging their consequences. They learn to analyse information, compare alternatives and coordinate resources. Their successes and mistakes become learning experiences, while senior managers can identify people with potential. Thus, the organisation develops a pool of trained managers who can take up more demanding responsibilities as it expands or as senior positions become vacant.

Step 3: Explain why decisions become quicker **Facilitates quick decision-making:** A manager close to the operating problem usually possesses relevant local information and can act promptly. Since the matter need not travel through several levels for approval, delays in communication and decision-making are reduced. For example, an authorised branch manager can respond to a local customer complaint without waiting for head-office permission, provided the action is within the authority delegated.

Step 4: Explain how it reduces the burden on top management **Provides relief to top management:** Routine operating decisions are handled by managers at the appropriate lower levels. Senior executives therefore have more time for major policy decisions, strategic planning and coordination of the organisation as a whole. This does not remove their accountability: they establish broad policies, review results and exercise overall control while allowing subordinate managers to manage day-to-day operations.

Step 5: Conclusion Decentralisation develops initiative, builds future managerial talent, speeds up decisions and relieves top management of routine work. These four benefits help the organisation use the abilities of managers throughout its hierarchy.

Quick Tip to Solve: Link each benefit to decision-making authority: freedom builds initiative, experience develops talent, local authority speeds action and routine delegation frees senior management.

27(a). Explain the steps in the process of staffing. [6 marks]

Solution:

Concept:

- Staffing is the managerial function of obtaining and maintaining a competent workforce to fill the positions in the organisation structure. It places suitable people in suitable jobs and develops their abilities.
- The staffing process begins with estimating personnel needs and continues after appointment through development, appraisal, career planning and compensation. It is a continuous function because personnel requirements change over time.

Step 1: Estimate requirements and attract candidates **1. Estimating manpower requirements:** Determine the number and type of employees needed by examining the workload and the workforce already available. Workload analysis estimates personnel required, while workforce analysis identifies available employees and their capabilities. Comparing the two reveals shortages or surpluses and helps specify the qualifications needed for each job.

2. Recruitment: Search for prospective employees and encourage them to apply. Suitable internal sources, such as promotion and transfer, and external sources, such as advertisements and employment agencies, create a pool of candidates from which a choice can be made.

Step 2: Select employees and introduce them to work **3. Selection:** Choose the most suitable applicants by comparing their qualifications and abilities with job requirements. Screening, tests, interviews, reference checks and medical examination, as appropriate, help assess suitability before the appointment is offered. Recruitment attracts candidates; selection decides which of them should be employed.

4. Placement and orientation: Assign the selected employee to the job for which the person has been chosen. Orientation introduces the employee to the organisation, colleagues, rules and responsibilities, helping the newcomer settle into the workplace and understand what is expected.

Step 3: Develop employees and assess performance **5. Training and development:** Improve employees' knowledge, skills and attitudes. Training equips them to perform their present jobs effectively, whereas development prepares them for wider responsibilities and future growth. Suitable programmes bridge the gap between existing abilities and required performance.

6. Performance appraisal: Evaluate actual employee performance against predetermined standards. Appraisal provides feedback, identifies strengths and weaknesses, and helps determine further training needs. A systematic assessment also supplies information for personnel decisions rather than relying only on informal impressions.

Step 4: Plan advancement and provide compensation **7. Promotion and career planning:** Provide opportunities for advancement to positions involving greater responsibility. Career planning matches employees' aspirations and potential with organisational opportunities, motivating them to improve and helping the organisation prepare future managers.

8. Compensation: Determine the pay and rewards employees receive for their work. Compensation includes direct financial payments, such as wages, salaries and incentives, as well as indirect benefits. A fair and appropriate compensation system helps attract, retain and motivate competent employees.

Step 5: Conclusion Staffing proceeds through manpower estimation, recruitment, selection, placement

and orientation, training and development, performance appraisal, promotion and career planning, and compensation. Together these steps secure competent employees and support their continuing contribution to organisational goals.

Quick Tip to Solve: Recall the sequence as planning people, attracting and choosing them, placing them, developing and reviewing them, then supporting their advancement and rewards.

OR

27(b). Explain the following methods of training the workers :

(i) Apprenticeship Programme

(ii) Vestibule Training

(iii) Internship [6 marks]

Solution:

Concept:

- Training is the systematic acquisition of job-related knowledge and skills. The method is chosen according to the work, the degree of practical skill needed and the facilities available.
- Apprenticeship develops skilled workers through supervised practice, vestibule training recreates the workplace separately, and internship combines institutional education with practical experience.

Step 1: Explain apprenticeship programme **Apprenticeship programme:** A trainee works under the guidance of an experienced worker or master worker for a prescribed period to acquire a high level of occupational skill. The learner observes the expert, performs actual tasks under supervision and gradually becomes capable of working independently. Practical work is commonly supplemented by related theoretical instruction. It is suitable for skilled trades such as electricians, plumbers and mechanics, where competence requires sustained practice rather than a short explanation. Its central feature is learning a trade through supervised work over a substantial period.

Step 2: Explain vestibule training **Vestibule training:** Employees learn their jobs in a separate training area where the equipment, materials and working conditions of the actual workplace are reproduced. They practise on the same or similar machines before being placed on the regular production floor. Separating training from normal operations lets trainees concentrate on learning and make initial mistakes without interrupting production. It is particularly useful where the actual equipment is sophisticated or where mistakes at the workplace would be costly. Unlike merely watching a demonstration, trainees gain practical experience in a simulated work setting.

Step 3: Explain internship **Internship:** An educational institution and a business enterprise cooperate to provide students with both theoretical knowledge and practical training. Students spend part of their learning period in the institution and part working in an organisation under suitable guidance. The workplace experience enables them to apply classroom ideas to real situations, understand professional responsibilities and develop job-related skills. For example, a management student may complete an internship in a business concern. Its distinguishing feature is the combination of formal education and practical exposure arranged as part of the learning programme.

Step 4: Conclusion Apprenticeship trains a person in a skilled trade under an experienced worker; vestibule training provides practice in a separate reproduction of the workplace; internship links institutional study with practical work in an organisation.

Quick Tip to Solve: Link the three methods to their settings: expert worker for apprenticeship, a separate simulated workplace for vestibule training, and institution plus enterprise for internship.

28(a). Explain any four reasons why directing is an important function of management. [6 marks]

Solution:

Concept:

- Directing is the management function of instructing, guiding, motivating and leading people to achieve organisational objectives. It concerns the human effort through which plans are put into action.
- Its importance can be explained through initiating action, integrating employees' efforts, realising their potential and facilitating changes in the organisation.

Step 1: Explain how directing initiates action **Initiates action:** Planning determines what should be done, organising provides the structure, and staffing places people in jobs. These preparations produce results only when employees actually begin performing their duties. Through instructions, guidance and supervision, directing tells employees what to do and helps them carry out their assigned responsibilities. It therefore converts plans and available resources into purposeful work. For example, a supervisor explains the day's production assignments and guides workers in starting them.

Step 2: Explain how directing integrates efforts **Integrates employees' efforts:** Different employees perform different activities, and each may concentrate on a narrow departmental task. Directing guides their individual contributions towards common organisational objectives and prevents efforts from working at cross-purposes. A manager explains how each person's work connects with that of others, encourages cooperation and resolves difficulties during performance. Consequently, the collective effort becomes more effective than isolated individual activity. Production and sales staff, for example, can be guided to meet a common delivery commitment.

Step 3: Explain how directing develops employee potential **Helps employees realise their potential:** Employees may possess abilities that they do not use fully without encouragement and support. Through motivation, leadership and guidance, managers identify these abilities, build confidence and encourage employees to contribute their best. Suitable incentives and recognition create willingness to work, while guidance helps overcome difficulties. Directing thus improves performance by combining employees' capabilities with their readiness to apply them, benefiting both the individual and the organisation.

Step 4: Explain how directing facilitates change **Facilitates the introduction of changes:** Employees may resist new methods or technology because they fear uncertainty, loss of status or difficulty in adjusting. A manager uses communication, persuasion, leadership and motivation to explain the need for change, clarify its benefits and address employees' concerns. This builds cooperation and makes implementation smoother. For instance, explaining a new production method and guiding workers

through its use can reduce resistance and enable the enterprise to adapt to a changing environment.

Step 5: Conclusion Directing is important because it starts purposeful work, unites individual efforts, brings out employees' abilities and secures cooperation for change. These four contributions enable the organisation to translate its plans into effective performance.

Quick Tip to Solve: For each reason, name the contribution and explain how guidance, motivation or communication produces it; avoid simply listing the elements of directing.

OR

28(b). Explain any four 'Semantic barriers' to effective communication. [6 marks]

Solution:

Concept:

- Semantic barriers are problems in the meaning of words, symbols and messages. They arise during the encoding, transmission or decoding of a message and prevent the receiver from understanding what the sender intends.
- Effective communication requires a common understanding of the language and expressions used. Merely delivering a message does not ensure that its meaning has been understood correctly.

Step 1: Explain badly expressed messages and words with different meanings **Badly expressed message:** A message may fail to convey its intended meaning because the sender uses inadequate vocabulary, chooses incorrect words, omits necessary information or frames sentences poorly. For example, an instruction that does not specify the task or deadline leaves employees uncertain about what is required. The problem lies in how the message has been encoded, even when the sender's intention is clear to the sender.

Symbols or words with different meanings: One word may carry several meanings, and the receiver may interpret it differently from the sender. For example, the word 'value' may refer to a price, usefulness or a moral principle. If the surrounding context does not clarify which meaning is intended, the receiver may act on an interpretation that the sender never intended.

Step 2: Explain faulty translations and technical jargon **Faulty translations:** In an organisation using several languages, messages may have to be translated before they reach employees. If the translator lacks command over both languages or fails to preserve the context, the translated message can convey a different meaning. An error in translating an instruction can therefore result in incorrect action, although the original message was accurate.

Technical jargon: Specialists often use technical terms and abbreviations that other employees do not understand. For instance, a technical department's specialised expressions may be unfamiliar to a person in another department. Without an explanation in language suited to the receiver, the message becomes difficult to decode and communication loses its effectiveness.

Step 3: Conclusion Four semantic barriers are badly expressed messages, symbols or words with different meanings, faulty translations and technical jargon. In each case, a difference between the intended and understood meaning obstructs effective communication.

Quick Tip to Solve: Link each semantic barrier to a problem of meaning: expression, interpretation, translation or specialised vocabulary. Explain the effect on the receiver rather than merely listing the headings.

29(a). What is meant by the term 'Capital Structure' ? Explain any two factors that affect the capital structure of a company. [6 marks]

Solution:

Concept:

- Capital structure refers to the proportion of debt and equity used to finance a company's long-term fund requirements. Debt includes borrowed funds such as debentures and long-term loans, while equity includes shareholders' funds.
- A suitable financing mix balances the benefits of borrowing against its financial risk. Interest and repayment obligations must be met even when business earnings are weak, whereas equity does not carry a compulsory fixed dividend obligation.

Step 1: State the meaning of capital structure **Meaning:** Capital structure is the mix or relative proportion of debt and equity in the total long-term capital of a company. For example, a company may finance its long-term needs partly with shareholders' funds and partly with debentures or long-term bank loans. The financing decision determines how much reliance is placed on each source. A greater share of debt increases the fixed financial commitments of the company, so the mix must be chosen with care.

Step 2: Explain cash flow position as a factor **Cash flow position:** Before raising debt, a company must assess whether its expected cash inflows will be sufficient to meet the resulting cash outflows. It needs cash for normal business operations as well as interest payments and the repayment of borrowed principal when due. A company with strong, stable and predictable cash flows can generally use more debt because it is better placed to honour these commitments. A company with weak or uncertain cash flows should rely more on equity to reduce the danger of default. Accounting profits alone are insufficient if cash is unavailable on the payment dates.

Step 3: Explain return on investment as a factor **Return on investment:** The company should compare the return it earns on its investment with the cost of debt. When the return on investment exceeds the interest cost of borrowing, the use of debt can increase the earnings available to equity shareholders per share; this benefit is called trading on equity. Such a company may use a higher proportion of debt, provided its payment capacity and risk remain acceptable. If the return is lower than the cost of debt, borrowing reduces the earnings available to shareholders instead of improving them. Greater reliance on equity is then more appropriate. Thus, the expected return and its stability influence the debt-equity mix.

Step 4: Conclusion Capital structure is the proportion of debt and equity in a company's long-term financing. A strong cash flow position supports the servicing of debt, while a return on investment above the cost of debt can make borrowing beneficial to equity shareholders. Both factors must be considered before choosing the financing mix.

Quick Tip to Solve: Keep capital structure distinct from total capital required: it concerns the debt-equity mix. For every factor, explain whether and why it permits greater or lower reliance on debt.

OR

29(b). Explain the meaning of 'Fixed Capital'. Explain any two factors that determine the fixed capital of a company. [6 marks]

Solution:

Concept:

- Fixed capital refers to the funds invested in long-term or fixed assets used repeatedly in business operations, such as land, buildings, plant, machinery and equipment.
- The requirement for fixed capital depends on the amount and kind of long-term assets needed. Nature of business and scale of operations are two important determinants.

Step 1: Explain the meaning of fixed capital Fixed capital is the portion of a company's capital invested in acquiring fixed assets that provide benefits over several accounting periods. For example, a manufacturer needs funds to purchase factory premises and machines before production can begin. These assets support the earning capacity of the business and are used repeatedly rather than bought for immediate resale. Thus, fixed capital concerns long-term investment decisions. It differs from working capital, which finances day-to-day requirements such as inventories and wages; the distinction is based on the purpose for which the funds are used.

Step 2: Explain the influence of the nature of business **Nature of business:** A manufacturing company generally requires a large investment in factory buildings, production plant and machinery. It therefore needs more fixed capital than a trading concern carrying on comparable operations. A trading company mainly buys finished goods and sells them without processing, so it normally needs fewer production assets. Similarly, a business providing services primarily through people's skills may require relatively little heavy equipment. The comparison concerns the assets needed for the particular activity: a transport service with a large vehicle fleet can still be highly capital intensive.

Step 3: Explain the influence of the scale of operations **Scale of operations:** A company operating on a large scale normally requires more fixed capital than one operating on a small scale in the same line of business. Greater output capacity calls for larger premises, more machines, additional equipment and other supporting facilities. For example, a large garment factory needs substantially more production equipment than a small garment-making unit. Expansion of capacity consequently raises long-term asset investment. The relevant comparison is between similar activities, because the type of business also affects the assets required.

Step 4: Conclusion Fixed capital finances the long-term assets used in business. Manufacturing activity generally requires more of it than trading, and a larger scale of operations generally increases the amount required within the same business activity.

Quick Tip to Solve: Link each factor to a change in long-term assets: the business activity determines the type of assets, while its scale determines their capacity and quantity.

30(a). What is Labelling ? State any five functions of labelling. [6 marks]

Solution:

Concept:

- Labelling means designing and putting a label on a product or its package. A label may be a simple tag or an elaborate graphic attached to the package and communicates information about the product.
- Labels serve marketing and information functions: they describe, identify, grade and promote a product, and provide information required by law.

Step 1: Define labelling Labelling is the activity of designing and attaching a label to a product or its container. The label can carry the brand name, a picture, written particulars and instructions. It therefore helps a buyer recognise and understand what is being offered. For example, the printed panel on a packaged food item communicates the name of the product and particulars of its contents. The label is distinct from packaging: the package contains or protects the product, while its label communicates information about it.

Step 2: State the functions that help buyers understand the product

- **Describing the product and specifying its contents:** A label describes what the product is and gives relevant particulars such as its ingredients, quantity, date of manufacture, directions for use and precautions. This enables buyers to use the product correctly and safely.
- **Identifying the product or brand:** The name, symbol or design on the label enables a customer to identify a particular product or brand among competing products. It also helps the buyer recognise the same brand on a later purchase.
- **Grading the product:** Labels can indicate different grades or qualities of a product. Distinct grade names or symbols allow buyers to distinguish varieties with different features or quality levels within a product range.

Step 3: State the promotional and legal functions

- **Helping in promotion:** An attractive label draws attention to the product and communicates its selling features or a special offer. Its colours, design and information can help persuade a customer at the point of purchase and support other promotional efforts.
- **Providing information required by law:** A label supplies particulars that applicable laws require, such as prescribed statutory warnings or declarations about the product. For example, cigarette packs carry the prescribed health warning. Such information helps protect consumers and supports compliance with legal requirements.

Step 4: Conclusion Labelling is the designing and attachment of the product's information label. Its five functions are describing the product and its contents, identifying the product or brand, grading the product, helping promotion and providing information required by law.

Quick Tip to Solve: Recall five distinct verbs for label functions: describe, identify, grade, promote and inform legally; give a separate point for each.

OR

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

(i) Rebate

(ii) Quantity gift

(iii) Lucky Draw

(iv) Product combination [6 marks]

Solution:

Concept:

- Sales promotion consists of short-term incentives designed to encourage an immediate purchase or trial of a product. It supplements advertising and personal selling.
- A rebate lowers the effective price, a quantity gift increases the amount received, a lucky draw offers a chance of winning a prize, and product combination supplies another product along with the main purchase.

Step 1: Explain rebate and quantity gift

- **(i) Rebate:** A rebate is a special reduction in the price offered to encourage customers to buy, often to clear surplus or old stock. The buyer obtains the same product at a lower price for the promotional period. For example, a refrigerator advertised at a special reduced price during a clearance sale gives customers a monetary incentive to purchase immediately. The incentive is a saving in the price paid, rather than an additional article.
- **(ii) Quantity gift:** Under this scheme, the seller supplies an extra quantity of the same product without a proportionate increase in price. For example, a pack may offer 20% extra shampoo at the regular pack price, or an additional unit may be supplied free with a specified purchase. The customer receives more of the product for the same expenditure, which encourages larger purchases and can induce trial.

Step 2: Explain lucky draw and product combination

- **(iii) Lucky draw:** Customers who make a qualifying purchase are given an opportunity to enter a draw for prizes. Entries or coupons are selected randomly, and the selected customers receive the announced prizes. For example, a seller may enter purchasers of a television into a draw for a holiday. Every eligible buyer gets a chance to win, but the prize is not guaranteed to each buyer; the attraction of winning encourages purchases during the scheme.
- **(iv) Product combination:** The seller offers another product as a gift along with the purchase of the main product. For example, a free toothbrush may accompany a toothpaste pack, or a water bottle may accompany a specified purchase of a beverage. The additional product increases the perceived value of the purchase and makes the offer attractive. Unlike a quantity gift, it adds a different product rather than more of the same product.

Step 3: Conclusion Rebate provides a price saving; quantity gift provides extra quantity of the same product; lucky draw provides a chance to win a prize; and product combination provides an additional, different product with the main purchase. All four aim to stimulate sales through a short-term buying incentive.

Quick Tip to Solve: Identify what the buyer receives: a lower price means rebate, more of the same product means quantity gift, a chance of a prize means lucky draw, and a different free product means product combination.