CBSE Class 12 Business Studies Question Paper 2010 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) Answer to questions carrying **1** mark may be from **one word to one sentence**.

(ii) Answer to questions carrying **3** marks may be from **50 - 75** words.

(iii) Answer to questions carrying **4 - 5** marks may be about **150** words.

(iv) Answer to questions carrying **6** marks may be about **200** words.

(v) Attempt all parts of question together.

1. List any two organisational objectives of management. [1 mark]

Solution:

Concept:

- Organisational objectives concern the economic results needed by the business itself.
- Survival, profit and growth are the principal organisational objectives of management.

Step 1: Identify the objectives Any two organisational objectives are **survival** and **profit**. These concern the continued functioning and economic success of the organisation.

Step 2: Explain their meaning **Survival:** The business must earn enough revenue to cover its costs and continue operating. **Profit:** It must earn a surplus over costs to reward enterprise and provide resources for future activities.

Step 3: Conclusion Two organisational objectives are survival and profit.

Quick Tip to Solve: For organisational objectives, recall survival, profit and growth; employee welfare belongs to personal objectives.

2. Give anyone reason why principles of management do not provide readymade solution to all managerial problems. [1 mark]

Solution:

Concept:

- Management principles are general guidelines for managerial action rather than rigid instructions.
- Their application depends on the particular situation and on human behaviour, which varies.

Step 1: State the reason Management principles do not provide ready-made solutions because they are **general guidelines**, not precise prescriptions for every possible managerial problem.

Step 2: Explain the implication Each problem has its own circumstances, such as the people involved and the nature of the organisation. The manager must therefore analyse the situation and apply or adapt the relevant principle using judgement; merely repeating the principle does not decide the action.

Step 3: Conclusion They are general guidelines whose application must be adapted to the specific managerial situation.

Quick Tip to Solve: Link the absence of a ready-made solution to the general nature of principles and the need for managerial judgement.

3. Volvo Ltd.'s target is to produce 10,000 shirts per month at a Cost of Rs. 100/- per shirt. The Production Manager achieved this target at a cost of Rs. 90/- per shirt. Do you think the 'Production Manager' is effective? Give one reason in support of your answer. [1 mark]

Solution:

Concept:

- Effectiveness means completing the assigned task and achieving the desired objective.
- Efficiency means achieving the result with minimum resources or cost; it is distinct from effectiveness.

Step 1: Compare output with the target The target was '10,000 shirts per month', and the question says that the Production Manager 'achieved this target'. Hence, the required quantity was produced within the stated period.

Step 2: Identify effectiveness The manager is **effective** because the output target was achieved. Production at 'Rs. 90/- per shirt' instead of Rs. 100 also indicates efficiency, but the direct reason for effectiveness is achievement of the production target.

Step 3: Conclusion Yes. The Production Manager is effective because the target of producing 10,000 shirts in the month was achieved.

Quick Tip to Solve: For effectiveness, check achievement of the target first; use the cost comparison when discussing efficiency.

4. State the objective of 'Method Study'. [1 mark]

Solution:

Concept:

- Method study is a technique of scientific management concerned with how a job is performed.
- It studies alternative methods to select the most suitable way of doing the work.

Step 1: State the objective The objective of **method study** is to determine the **one best way of doing a job**. This requires examining the methods by which the work can be carried out.

Step 2: Explain the benefit The chosen method should minimise the cost of production and maximise quality and customer satisfaction. Unnecessary operations and wasteful movements in the process can be eliminated, so available resources are used more effectively.

Step 3: Conclusion Method study aims to discover the one best method of performing a job, thereby minimising production cost.

Quick Tip to Solve: Associate method study with the best way of doing work; time study instead determines the standard time.

5. Give anyone limitation of internal sources of recruitment. [1 mark]

Solution:

Concept:

- Internal recruitment fills vacancies through existing employees, mainly by transfer or promotion.
- Restricting recruitment to existing staff can limit access to fresh talent and new ideas.

Step 1: Name one limitation **Limited scope for fresh talent:** Internal recruitment does not bring new people from outside the organisation into the vacant positions.

Step 2: Explain the effect Management must choose from its existing employees, even when outside candidates could offer different skills, wider experience or new ideas. Consequently, relying only on internal recruitment can restrict the organisation's choice and reduce the introduction of fresh thinking.

Step 3: Conclusion One limitation is that internal recruitment restricts the entry of fresh talent and new ideas from outside.

Quick Tip to Solve: State a limitation of choosing existing employees, such as lack of fresh talent, rather than a drawback of outside recruitment.

6. Name the method of training in which trainees learn on the equipments they will be using. [1 mark]

Solution:

Concept:

- Vestibule training is an off-the-job training method that simulates the actual working environment.
- Trainees practise on equipment similar to or the same as that used in their eventual jobs.

Step 1: Identify the method The method is **vestibule training**. The clue is that trainees learn on the equipment they will use while doing the actual work.

Step 2: Clarify its arrangement The equipment is placed in a separate training area that duplicates the workplace conditions. Trainees can become familiar with handling it without disrupting routine production. This method is especially useful where operating sophisticated equipment requires practice before a person joins the normal production process.

Step 3: Conclusion The method of training is vestibule training.

Quick Tip to Solve: Equipment practice in a simulated work area points to vestibule training; apprenticeship combines learning with work under a skilled person.

7. Name the financial decision which will help a business man in opening a new branch of its business. [1 mark]

Solution:

Concept:

- An investment decision determines how a firm allocates its funds among assets and projects.
- A decision involving a new branch generally commits funds to long-term assets and future operations.

Step 1: Identify the decision The relevant financial decision is the **investment decision**, specifically a long-term investment or **capital budgeting decision**.

Step 2: Connect it to the branch Opening a new branch requires deciding whether to commit funds to premises, equipment and other assets expected to generate benefits over several years. The investment decision evaluates this use of funds. A financing decision would instead determine the sources from which the required funds are raised.

Step 3: Conclusion Opening a new branch involves a long-term investment decision, also called a capital budgeting decision.

Quick Tip to Solve: Ask whether the issue is where funds will be invested or where funds will come from; a new branch concerns investment.

8. "Cost of debt" is lower than the cost of "Equity share capital". Give reason why even then a company can not work only with the debt. [1 mark]

Solution:

Concept:

- Debt requires contractual interest payments and repayment of principal, irrespective of the firm's profit.
- An excessive proportion of debt increases financial risk even though debt is normally cheaper than equity.

Step 1: Identify the obligation A company using debt must pay interest at the agreed times and repay the principal when due. These commitments continue even when its profits or cash inflows are low.

Step 2: Explain why debt alone is unsuitable Financing entirely with debt would create an excessive fixed financial burden and a high risk of default or insolvency. Equity provides a permanent financial base without compulsory dividends. Therefore, a lower cost of debt does not remove the need to balance debt with equity in the capital structure.

Step 3: Conclusion A company cannot prudently rely only on debt because compulsory interest and principal repayments create excessive financial risk.

Quick Tip to Solve: When cheaper debt is mentioned, discuss fixed payment obligations and default risk, rather than treating low cost as the only decision criterion.

9. Which Act of Consumer Protection provides for the formation of 'Consumer Protection Councils' in every district and the State of the country? [1 mark]

Solution:

Concept:

- Consumer protection law provides institutions that promote and protect the interests of consumers.
- Consumer Protection Councils are advisory bodies constituted under the Consumer Protection Act, 1986.

Step 1: Identify the statutory provision The question asks for the Act under which Consumer Protection Councils are formed at the district and State levels. These councils promote awareness and protection of consumer rights; their role helps identify the relevant consumer legislation.

Step 2: Name the Act The required legislation is the **Consumer Protection Act, 1986**. The councils constituted under this Act promote consumer rights. They should be distinguished from the consumer disputes redressal agencies, whose function is to decide consumer complaints.

Step 3: Conclusion The **Consumer Protection Act, 1986** provides for the formation of Consumer Protection Councils.

Quick Tip to Solve: Remember the distinction: councils promote consumer rights, while redressal agencies decide consumer complaints.

10. Why consumer protection is important for consumers? Give anyone reason. [1 mark]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices and exploitation.
- Consumer ignorance is an important reason why consumers need protection.

Step 1: State one reason **Consumer ignorance:** Many consumers are unaware of their rights, the remedies available to them and the procedure for seeking redressal. This lack of awareness makes it easier for sellers to exploit them.

Step 2: Explain how protection helps Consumer protection educates consumers about these rights and gives them a means to complain when goods or services are defective or unfair practices occur. Thus, it helps an uninformed consumer become aware and seek a remedy instead of accepting exploitation.

Step 3: Conclusion Consumer protection is important because **consumer ignorance** leaves buyers vulnerable to exploitation; it makes them aware of their rights and available remedies.

Quick Tip to Solve: When asked for one reason, name consumer ignorance and link it directly to awareness of rights and remedies.

11. What is meant by 'Planning' ? List any two features of planning. [3 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done and how it is to be done.
- It involves setting objectives and developing a course of action to achieve them; it bridges the gap between the present position and the desired future position.

Step 1: Define planning **Meaning:** Planning is the process of setting objectives for a given period, formulating alternative courses of action and selecting the most suitable course for achieving those objectives. It decides beforehand what to do, how to do it, when to do it and who will do it. A plan therefore gives direction to subsequent managerial action.

Step 2: List two features

- **Planning focuses on achieving objectives:** Plans are prepared to attain specified organisational goals. The objectives indicate the desired results, while the plan states the actions needed to reach those results.
- **Planning is a primary function of management:** Planning precedes organising, staffing, directing and controlling. Other managerial functions operate within the framework of the plans: work cannot be organised properly until the intended objectives and course of action are known.

Step 3: Conclusion Planning is deciding in advance the objectives and the course of action for achieving them. Two features are its **focus on objectives** and its **primacy among managerial functions**.

Quick Tip to Solve: Use the sequence objectives, advance decisions, course of action for the definition, then name two distinct features.

12. Explain by giving any three reasons why delegation is important in an organisation. [3 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to perform assigned tasks.
- The subordinate receives responsibility and sufficient authority, while the superior retains ultimate accountability. Delegation helps distribute managerial work.

Step 1: Explain the benefits to managers and employees

- **Effective management:** By assigning routine work and the required authority to subordinates, a manager reduces the personal workload and can concentrate on important matters such as planning and decision-making. This improves the effectiveness of managerial effort.
- **Employee development:** Delegated work gives subordinates opportunities to use their abilities, exercise judgement and make decisions. Experience in handling responsibility develops their skills and prepares them for higher positions.

Step 2: Explain the motivational benefit

- **Motivation of employees:** Entrusting responsibility and authority expresses the superior's confidence in the subordinate. It gives employees recognition and a sense of importance and encourages them to take initiative and perform better. The motivation comes from meaningful responsibility, rather than merely from an instruction to complete a routine task.

Step 3: Conclusion Delegation is important because it promotes **effective management**, supports **employee development** and increases **employee motivation**.

Quick Tip to Solve: Build each reason around a different beneficiary: managerial time, employee skills and employee confidence.

13. Explain when and why the need is felt for having a framework, within which managerial and operating tasks are performed to accomplish desired goals. Name this 'framework' also. [3 marks]

Solution:

Concept:

- Organisation structure is the framework within which managerial and operating tasks are performed to accomplish organisational goals.
- The framework specifies jobs, departments and reporting relationships, helping coordinate specialised activities.

Step 1: Explain when the framework is needed **When needed:** As an enterprise grows in size and its activities become more numerous and complex, one person cannot perform or supervise every activity effectively. The work must be divided into specialised jobs and related jobs must be grouped into departments. The need for a definite framework is therefore felt to establish how these jobs and departments will relate to one another.

Step 2: Explain why it is needed and name it

- **Clarity of duties and authority:** The framework states who performs each task, who reports to whom and who has authority to make decisions. This reduces confusion, duplication and gaps in work.
- **Coordination towards goals:** It links the activities of different employees and departments, ensuring that their separate efforts contribute to common organisational objectives. It provides the basis for managerial and operating work to proceed in an orderly manner.

This framework is called the **organisation structure**.

Step 3: Conclusion The framework is the **organisation structure**. It is needed as work grows and becomes complex, so that duties and authority are clear and departmental efforts are coordinated towards organisational goals.

Quick Tip to Solve: Recognise the phrase framework of managerial and operating tasks as organisation structure; explain growth, clarity and coordination.

14. Explain the following money market instruments:

(a) Treasury Bill

(b) Commercial Paper [3 marks]

Solution:

Concept:

- The money market deals in short-term financial instruments with a maturity of up to one year. Such instruments help borrowers meet temporary funding needs and investors employ surplus funds.
- Treasury bills raise short-term funds for the government, while commercial paper raises short-term funds for financially strong companies. Both are unsecured instruments, but their issuers and risk characteristics differ.

Step 1: Explain Treasury Bills **(a) Treasury Bill:** A Treasury bill is a short-term borrowing instrument of the Government of India, issued by the Reserve Bank of India on its behalf. Its maturity is less than one year. It is an unsecured promissory note and is regarded as virtually free of default risk because the government is the borrower.

Issue and return: Treasury bills are issued at a discount to their face value and redeemed at face value on maturity. The difference between the purchase price and the redemption value is the investor's return; they do not pay a separate periodic interest coupon. They are therefore also called zero-coupon bonds.

Step 2: Explain Commercial Paper **(b) Commercial Paper:** Commercial paper is an unsecured, negotiable, short-term promissory note issued by large, creditworthy companies to obtain funds from the money market. It generally has a fixed maturity ranging from 15 days to one year and is issued at a discount and redeemed at its face value.

Purpose and suitability: Companies use it to finance working-capital requirements and may also use it for bridge financing until longer-term funds become available. Because it has no collateral, a strong credit standing is essential for the issuing company to attract investors at a reasonable cost.

Step 3: Conclusion Treasury bills meet the government's short-term borrowing needs, whereas commercial paper provides short-term finance to creditworthy companies. In each case, the discount on issue provides the investor's return on redemption at face value.

Quick Tip to Solve: Identify the issuer first: government means Treasury bill; a creditworthy company issuing a short-term unsecured note means commercial paper.

15. What is meant by 'Production concept' of marketing? [3 marks]

Solution:

Concept:

- A marketing management philosophy states the approach a firm follows in conducting its marketing activities. The production concept places emphasis on the efficiency and scale of production.
- The production concept assumes that consumers favour products that are readily available and

affordable. A firm following it concentrates on lowering costs and making its output widely available.

Step 1: State the basic assumption **Preference for availability and affordability:** The production concept means that management believes customers will prefer products that are inexpensive and easily available. It treats a low selling price and ready access to the product as the main influences on the buyer's choice.

Focus of management: The firm's attention is therefore directed primarily towards producing and distributing goods efficiently, rather than starting with a detailed investigation of each customer's particular needs. The emphasis is on supplying the market with an affordable product in adequate quantities.

Step 2: Explain how the concept guides business decisions **High production efficiency:** Management seeks to increase output and reduce the cost per unit through efficient operations and economies of large-scale production. Lower production costs can support lower prices, helping attract price-conscious customers.

Wide distribution: The firm also develops an extensive distribution system so that the product is conveniently available to a large number of buyers. For example, a manufacturer following this approach would concentrate on producing a basic household item in large quantities at low cost and supplying it through many retail outlets.

Step 3: Conclusion The production concept is the philosophy that consumers favour affordable, readily available products. Accordingly, management stresses high production efficiency, low unit costs and wide distribution to increase sales.

Quick Tip to Solve: Link the production concept to two buyer preferences, low price and easy availability, and then explain the firm's emphasis on efficiency and distribution.

16. Explain "Policy" and "Procedure" as types of plans. [4 marks]

Solution:

Concept:

- Plans specify a future course of action for achieving organisational objectives. Policies and procedures are standing plans used repeatedly in situations that recur.
- A policy provides broad guidance for decisions, while a procedure prescribes the sequence of steps for carrying out an activity. Both promote consistency, but they guide different aspects of work.

Step 1: Explain policy as a type of plan **Broad guide to decisions:** A policy is a general statement that guides thinking and channels decision-making towards organisational objectives. It defines the boundaries within which managers exercise their judgement, helping them deal consistently with recurring situations.

Scope for discretion: A policy does not normally describe every action in detail. It leaves room for a manager to select the appropriate course within the stated limits. For example, a policy of filling vacancies through internal promotion guides recruitment decisions while leaving the selection of a suitable employee to management. Such guidance avoids deciding the basic approach afresh every

time a vacancy occurs.

Step 2: Explain procedure as a type of plan **Prescribed sequence of actions:** A procedure is a plan specifying the steps to be followed in a particular order when performing a recurring activity. It explains how work is to be carried out and provides a standard way of implementing decisions or policies.

Order and uniformity: Unlike the broad guidance of a policy, a procedure gives a chronological sequence and is more specific in directing action. For example, a recruitment procedure may require inviting applications, screening them, conducting tests and interviews, checking references and issuing an appointment letter. Following this order helps ensure that essential steps are not omitted and that similar cases receive uniform treatment.

Step 3: Conclusion A policy guides decisions by setting broad boundaries and allowing judgement within them. A procedure guides action by prescribing an ordered sequence of steps. Thus, policies indicate the general approach, while procedures explain how recurring work is to be performed.

Quick Tip to Solve: Ask whether the plan guides a choice or lists an order of actions: guidance for a choice is a policy, while a fixed sequence of actions is a procedure.

17. Ayasha Ltd., assured their employees that inspite of recession no worker will be retrenched from the job.

(i) Name and explain the type of incentive offered to the employees.

(ii) Explain one more incentive of the same category. [4 marks]

Solution:

Concept:

- Non-financial incentives satisfy employees' psychological, social and emotional needs, such as security, recognition and belongingness, rather than rewarding them primarily through money.
- Job security is a non-financial incentive which gives an employee stability regarding future employment and income. Recognition is another incentive in the same category.

Step 1: Identify and explain the incentive in part (i) **Job security:** Ayasha Ltd. offers job security, a **non-financial incentive**. The words "inspite of recession no worker will be retrenched from the job" show that the company assures employees of continued employment even when business conditions are unfavourable. The incentive is the feeling of security created by this assurance; the case does not state that the firm has announced a bonus or a wage increase.

This assurance reduces anxiety about losing one's livelihood and provides stability about future income and work. Employees can concentrate on their duties instead of constantly worrying about unemployment. A sense of security can also encourage loyalty and willingness to contribute to the organisation's objectives.

Step 2: Explain one further incentive for part (ii) **Employee recognition programmes:** Recognition means acknowledging and appreciating an employee's good performance, achievement or useful contribution. For example, a manager may praise an employee before colleagues, award a certificate of merit or display the employee's achievement on the notice board.

Such appreciation satisfies the need for esteem and makes the employee feel that the organisation values the contribution. It can encourage the employee to maintain good performance and motivate others to make useful contributions. Recognition belongs to the non-financial category because its main motivational value lies in appreciation and status rather than a direct monetary payment.

Step 3: Conclusion The incentive offered by Ayasha Ltd. is **job security**, which is a non-financial incentive. **Employee recognition programmes** are another non-financial incentive: acknowledging achievement gives employees esteem and encourages better performance.

Quick Tip to Solve: Link the assurance of continued employment to job security, then choose another psychological incentive such as recognition; do not substitute a cash bonus.

18. Explain the meaning and the objective of Financial Management. [4 marks]

Solution:

Concept:

- Financial management concerns the efficient procurement and utilisation of funds. It seeks to obtain finance at a suitable cost and risk and use it in ways that improve the firm's value.
- Its primary objective is shareholders' wealth maximisation, represented by maximising the market value of the company's equity shares.

Step 1: Explain the meaning of financial management **Procure and use funds efficiently:** Financial management deals with decisions about acquiring funds and putting them to the best possible use. A business needs finance for long-term assets as well as day-to-day operations. Management determines how much finance is needed, chooses suitable sources and ensures that the funds are used efficiently.

Balance cost, return and risk: It aims to reduce the cost of procuring funds, keep financial risk under control and secure an effective deployment of finance. Thus, financial management includes investment decisions, financing decisions and dividend decisions. These decisions concern where funds should be invested, how they should be raised and how much profit should be retained or distributed.

Step 2: Explain the primary objective **Maximise shareholders' wealth:** The main objective of financial management is to maximise the wealth of the owners. For a company, this means maximising the market price of its equity shares, and thereby the market value of the shareholders' investment. A financial decision is desirable when it adds value to the company and improves shareholders' wealth.

Consider expected earnings and risk: The market value of shares reflects the expected benefits of financial decisions and the risk attached to those benefits. Decisions which increase expected earnings without a disproportionate increase in risk tend to increase share value. Merely showing a larger current accounting profit is therefore insufficient: financial management must consider how decisions affect the company's value and owners' wealth.

Step 3: Conclusion Financial management is the efficient procurement and utilisation of funds, with appropriate attention to their cost and risk. Its primary objective is **shareholders' wealth maximisation**, achieved by increasing the market value of the company's equity shares.

Quick Tip to Solve: For the meaning, write both procurement and utilisation of funds. For the objective, connect shareholders' wealth with the market value of equity shares.

19. State any four advantages of formal organisation. [4 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately established by management to achieve the organisation's objectives.
- It specifies the work assigned to each position, the reporting relationship and the rules governing official communication. Its advantages follow from this clarity and deliberate coordination.

Step 1: State the advantages arising from clearly defined duties

- **Easy fixation of responsibility:** The duties and authority of each position are clearly specified. Management can therefore identify who is responsible for a particular task or result and hold that person accountable. Responsibility does not get lost among employees with overlapping roles.
- **Avoidance of duplication of effort:** Work is systematically divided among departments and individuals. Each employee knows the task assigned to the position, reducing the chance that several people unnecessarily perform the same work while another important activity is neglected.

Step 2: State the advantages arising from established relationships

- **Maintenance of unity of command:** The formal structure establishes who reports to whom. An employee knows the superior from whom instructions are to be received, which reduces confusion and conflicting orders and makes supervision more effective.
- **Achievement of organisational goals:** Different activities are linked through defined working relationships and coordination. Individual and departmental efforts are directed towards common objectives instead of remaining isolated, helping the enterprise complete its planned work.

Step 3: Conclusion Four advantages of formal organisation are easy fixation of responsibility, avoidance of duplication of effort, maintenance of unity of command and coordinated achievement of organisational goals.

Quick Tip to Solve: Link each advantage to a feature of the formal structure: defined duties fix responsibility, division of work avoids duplication, and reporting relationships clarify command and coordination.

20. Explain the following 'Rights' of Consumers:

(i) Right to Safety

(ii) Right to Choose [4 marks]

Solution:

Concept:

- Consumer rights protect buyers against unfair trade practices and ensure that the goods and services offered to them meet their needs without exposing them to avoidable danger or coercion.
- The right to safety concerns protection against hazardous goods and services; the right to choose concerns freedom to select from the alternatives available in the market.

Step 1: Explain the right to safety

- **Protection against hazards:** A consumer has the right to be protected against goods and services that are hazardous to life and health. For example, defective electrical appliances, unsafe medicines or adulterated food can cause injury or illness, so consumer protection requires attention to their safety.
- **Assurance of safe quality:** Goods and services must meet the applicable safety and quality requirements. Consumers should prefer products carrying appropriate quality certification, such as the ISI mark on electrical appliances, and follow the directions for safe use. Safety is relevant to the product's use, not merely to its appearance or low price.

Step 2: Explain the right to choose

- **Access to alternatives:** A consumer has the right to choose from a variety of goods and services at competitive prices. Different brands, qualities, sizes and prices allow the buyer to compare alternatives and select the one best suited to personal requirements and purchasing power.
- **Freedom from forced purchase:** The seller should give the consumer a reasonable opportunity to choose and should not compel the purchase of a particular product. For example, a buyer seeking one item should not be forced to purchase an unwanted additional item as a condition of obtaining it.

Step 3: Conclusion The right to safety protects consumers against goods and services hazardous to life and health. The right to choose gives consumers access to alternatives at competitive prices and the freedom to select the product or service they want.

Quick Tip to Solve: Keep the two rights distinct: unsafe products relate to safety, whereas restricted alternatives or a forced purchase relate to choice.

21. Is 'management' a full fledged 'profession'? Give any three reasons in support of your answer.

[5 marks]

Solution:

Concept:

- A profession is an occupation founded on specialised knowledge, with restricted entry, a representative professional association, an ethical code and a service motive.
- Management has a well-defined body of knowledge taught in institutions, but possessing some features of a profession does not make it a full-fledged profession.

Step 1: State the position of management Management is **not a full-fledged profession**. It is moving towards professionalisation: management knowledge is systematically developed and taught, and trained managers increasingly apply it. Nevertheless, several essential professional requirements are not compulsory for everyone who enters managerial work. The following three reasons establish the distinction.

Step 2: Explain the three reasons

- **Entry is not restricted:** A person need not hold a prescribed management degree, pass a qualifying examination or obtain a professional licence to become a manager. Owners may manage their enterprises and organisations may appoint managers without an MBA. In an established profession,

entry normally depends on specified qualifications and examination requirements.

- **Membership of an association is not compulsory:** Management associations, such as the All India Management Association, exist to promote knowledge and professional standards. However, joining such a body is not a legal prerequisite for managerial employment. Their membership does not control entry into the whole field in the way that professional bodies regulate recognised professions.
- **A universally binding ethical code is absent:** Management associations prescribe ethical standards for their members, but all managers are not necessarily members. Consequently, there is no single professional code enforced by one representative association on every practising manager. Ethical behaviour is desirable, but this differs from compulsory adherence to a profession-wide code.

Step 3: Conclusion Management cannot yet be called a full-fledged profession because entry is unrestricted, association membership is optional and an enforceable professional ethical code does not bind all managers. Its organised knowledge and growing emphasis on professional conduct show progress towards professionalisation.

Quick Tip to Solve: Compare management with the compulsory requirements of an established profession. The key distinction is between a feature that exists and a requirement that binds every practitioner.

22(i). Name and explain the principle of management which requires judicious application of penalties by the management. [2.5 marks]

Solution:

Concept:

- Fayol's principle of discipline means obedience to organisational rules and employment agreements that are necessary for the working of the organisation.
- Discipline requires cooperation between management and workers. Good supervision, clear and fair agreements, and judicious application of penalties help maintain it.

Step 1: Identify the principle The principle is **Discipline**. The phrase "judicious application of penalties" points to the fair enforcement of rules and agreements. Discipline includes respect for the organisation's rules and the fulfilment of commitments by both superiors and subordinates.

Step 2: Explain how discipline is maintained **Good supervision:** Managers should guide workers properly and set an example by respecting their own obligations.

Clear and fair agreements: The responsibilities and expected conduct of management and workers should be understood by both sides. Management must honour its commitments just as workers must perform their duties.

Judicious penalties: Where a breach occurs, any penalty should follow a fair assessment of the facts and be proportionate to the misconduct. Arbitrary or excessive punishment undermines cooperation rather than maintaining discipline.

Step 3: Conclusion Fayol's principle of discipline requires obedience to rules and agreements by everyone in the organisation, supported by good supervision, fair agreements and judicious penalties.

Quick Tip to Solve: Link "judicious penalties" with discipline, and explain that the obligation to honour agreements applies to managers as well as workers.

22(ii). Name and explain the technique of scientific management which helps in establishing interchangeability of manufactured parts and products.

[2.5 marks]

Solution:

Concept:

- Taylor's technique of standardisation of work establishes standards for business activities, including processes, raw materials, time, products, machinery and working conditions.
- A standard is a benchmark used in production to ensure consistent quality and conformity. Uniform specifications help make manufactured parts interchangeable.

Step 1: Identify the technique The technique is **Standardisation of work**. The words "interchangeability of manufactured parts and products" indicate that components must conform to common dimensions and specifications. A part made to the required standard can fit in place of another equivalent part.

Step 2: Explain the purpose of standardisation **Establish common specifications:** Standards are set for the dimensions, quality and other characteristics of materials and products. Manufacturing then follows these benchmarks, producing uniform components that can be assembled or replaced without individual adjustment.

Standardise methods and equipment: Work processes, machines and operating conditions are also standardised so that consistent results are obtained. This provides a basis for checking production and maintaining quality.

Remove unnecessary differences: Standardisation seeks to eliminate needless variations in types, sizes and quality and promotes interchangeable parts. It should be distinguished from simplification, which primarily reduces unnecessary varieties of products rather than setting the benchmark specifications themselves.

Step 3: Conclusion Standardisation of work is the scientific-management technique that establishes uniform specifications and procedures, thereby helping achieve interchangeability of manufactured parts and products.

Quick Tip to Solve: Connect interchangeability with common specifications under standardisation; connect reduction in the number of product varieties with simplification.

23. Explain any five impacts of Government Policy changes on Business and Industry in India.

[5 marks]

Solution:

Concept:

- Changes in government policy, particularly liberalisation, privatisation and globalisation, altered the conditions in which Indian business and industry operate.
- These policies reduced several controls and opened markets to greater domestic and foreign

participation. Enterprises consequently had to respond to stronger market forces.

Step 1: Explain the effects on competition and customers

- **Increasing competition:** Relaxation of industrial licensing and the entry of foreign firms increased competition for Indian enterprises, especially in service industries. Firms could no longer rely mainly on protection from rivals; they had to improve quality, control costs and offer better value to retain their markets.
- **More demanding customers:** Greater competition and wider choice made customers more demanding. Well-informed buyers could compare products and insist on better quality, reasonable prices and dependable service. Businesses therefore had to pay closer attention to customer needs and satisfaction.

Step 2: Explain the effects on technology, adaptation and people

- **Rapidly changing technological environment:** Increased competition forced firms to adopt improved technology and modern production processes. Technological improvements helped them raise productivity and quality and introduce better products, while continued innovation became necessary to remain competitive.
- **Necessity for change:** A more dynamic market made existing products, practices and organisational arrangements less secure. Enterprises had to modify their operations and strategies in response to changing conditions. Resistance to change could cause a firm to lose customers and opportunities to more adaptable competitors.
- **Need for developing human resources:** New technology and competitive methods required employees with greater competence and commitment. Businesses had to invest in training, development and motivation so that their people could learn new skills, operate modern systems and contribute effectively to organisational performance.

Step 3: Conclusion Five impacts were increasing competition, more demanding customers, rapid technological change, the necessity for organisational change and a greater need to develop human resources. Together, these changes required Indian enterprises to become more efficient, responsive and competitive.

Quick Tip to Solve: Link each policy impact to a business response: competition to efficiency, demanding buyers to quality, technology to modernisation, uncertainty to adaptation, and new skills to employee development.

24. State any five functions of 'Stock Exchange'. [5 marks]

Solution:

Concept:

- A stock exchange is an institution that provides a platform for buying and selling existing securities under prescribed rules and regulations.
- Its functions benefit investors through marketability, price information and regulated dealings, while supporting the mobilisation of savings for productive investment.

Step 1: State the functions supporting investors and transactions

- **Providing liquidity and marketability to existing securities:** The stock exchange provides a continuous market in which investors can buy and sell securities. An investor can convert an investment into cash by selling it to another investor, without requiring the issuing company to repay its capital. This makes long-term investments more attractive.
- **Pricing of securities:** The interaction of demand and supply in the market determines security prices. These prices reflect available information about companies and market conditions and provide useful signals to investors. Buyers and sellers can use quoted prices to judge the value of their investments.
- **Safety of transactions:** Dealings take place within a regulated framework. The exchange's rules, scrutiny of listed companies and regulation of trading members promote fair transactions and protect investors against malpractices. This function improves confidence in the securities market, although it does not eliminate the risk of changes in prices.

Step 2: State the functions supporting investment and development

- **Contributing to economic growth:** The buying and selling of securities enables savings to move towards more productive investment opportunities. Market prices help investors assess enterprises and reallocate their funds. This process supports capital formation and the efficient use of resources, contributing to economic growth.
- **Spreading the equity cult:** Stock exchanges encourage wider public participation in share ownership by providing information about listed companies and educating investors about securities. Better awareness and regulated trading facilities encourage people to invest their savings in equities and broaden the investor base.

Step 3: Conclusion Five functions of a stock exchange are providing liquidity and marketability, pricing securities, promoting safety of transactions, contributing to economic growth and spreading the equity cult.

Quick Tip to Solve: Remember the five functions through their beneficiaries: investors need liquidity, prices and safer dealings; the economy needs productive investment and wider participation in share ownership.

25. 'An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the product.'

In the light of the above statement draw a label for a 'liquid soap' and highlight the important information to be provided on it. [5 marks]

Solution:

Concept:

- A label is the part of a product or its package that identifies the product and communicates information to the buyer. It may be a simple tag or a carefully designed graphic attached to the container.
- Labelling describes the product and specifies its contents, quantity, producer and instructions for use. Clear labelling also helps identify and promote the brand and provides information needed for an informed purchase.

Step 1: Draw a readable liquid-soap label The following is an illustrative label for a liquid hand soap. The brand, manufacturer, dates and price are sample details used to show where the necessary information appears. The product name is prominent, while the information panel gives the details the customer should read before buying and using it.

FreshCare
LIQUID HAND SOAP
Gentle everyday cleansing

Net quantity: 250 mL
Ingredients: Water, cleansing agents, glycerine, fragrance and permitted colour.
Directions: Wet hands, apply a small quantity, lather thoroughly and rinse with water.
Caution: For external use only. Avoid contact with eyes. Keep out of reach of young children.
Storage: Keep in a cool, dry place away from direct sunlight.
Batch No.: FC1001 **Mfd.:** Jan. 2010
Use before: 24 months from manufacture.
MRP: Rs 60 (inclusive of all taxes).
Manufactured by: FreshCare Products Ltd.,
12 Industrial Estate, New Delhi – 110020.
Consumer care: 1800-000-0000

Sample details for this model label.

Illustrative label for a liquid hand soap

Step 2: Highlight the important information on the label

- **Brand and product identity:** The brand name, FreshCare, and the description "Liquid Hand Soap" identify the product and distinguish it from competing products. The label must make the nature of the contents clear.
- **Contents and net quantity:** The ingredients state what the soap contains, while "Net quantity: 250 mL" tells the buyer how much is in the bottle. This helps the buyer compare packs and choose a suitable product.
- **Manufacturer and contact details:** The manufacturer's name and full address identify the

business responsible for the product. A consumer-care contact enables a buyer to make an enquiry or complaint.

- **Price and production particulars:** The maximum retail price, inclusive of all taxes, informs the buyer of the permitted retail ceiling. The batch number, manufacturing date and use-before information help identify the production lot and judge whether the product is within its stated useful period.
- **Directions, precautions and storage:** Instructions explain how to use the liquid soap. Warnings such as "For external use only" and "Avoid contact with eyes" guide safe handling, while storage directions help preserve its condition.

Step 3: Conclusion A useful liquid-soap label combines a clear brand and product name with ingredients, quantity, manufacturer details, price, batch and date information, and directions and precautions. The drawn label therefore identifies the soap and supplies the detailed information needed for purchase and use.

Quick Tip to Solve: Divide a label into a prominent product-name panel and a readable information panel; check identity, contents, maker, price and dates, and safe use before finishing.

26(a). Explain the process of staffing. [6 marks]

Solution:

Concept:

- Staffing is the managerial function of finding the right people for the right jobs, developing their abilities and retaining them in the organisation.
- It is a continuous process that begins with estimating manpower requirements and continues through recruitment, selection, development, appraisal and compensation.

Step 1: Estimate the manpower required **Estimating manpower requirements:** Determine how many employees are needed and what qualifications, skills and experience they must possess. Workload analysis identifies the number and types of people required, while workforce analysis examines the people already available. Comparing the two reveals shortages or surplus staff and provides the basis for staffing decisions.

Step 2: Attract and select suitable candidates **Recruitment:** Search for prospective employees and encourage them to apply for the jobs. Internal sources such as transfers and promotions, or external sources such as advertisements and employment exchanges, create a pool of applicants.

Selection: Choose the most suitable applicants from that pool. Screening, tests, interviews and other appropriate checks match each person's capabilities with the requirements of the job; unsuitable applicants are eliminated at successive stages.

Step 3: Place and develop the employees **Placement and orientation:** Assign the selected person to the job for which the person has been chosen. Introduce the employee to the organisation, its rules, superiors and colleagues so that the employee can settle into the work environment.

Training and development: Improve the knowledge and skills needed for the present job through training. Development broadens employees' abilities and prepares them for greater responsibilities

and future positions.

Step 4: Appraise, advance and compensate employees **Performance appraisal:** Evaluate employees' current or past performance against established standards. Feedback identifies strengths, shortcomings and further training needs.

Promotion and career planning: Provide opportunities for advancement to higher positions with greater responsibility. Career planning links individual aspirations with the organisation's future requirements and encourages employees to improve their competence.

Compensation: Determine fair wages, salaries, incentives and other benefits for the work performed. Suitable compensation helps attract and retain capable employees and rewards their contribution to organisational objectives.

Step 5: Conclusion Staffing therefore includes estimating manpower requirements, recruitment, selection, placement and orientation, training and development, performance appraisal, promotion and career planning, and compensation. These connected activities ensure that competent people are available and continue to perform effectively.

Quick Tip to Solve: Remember the employee's journey: estimate the need, attract, choose, place, develop, appraise, advance and reward. Explain each activity rather than merely listing its name.

OR

26(b). Explain the process of selection of employees. [6 marks]

Solution:

Concept:

- Selection is the process of choosing the most suitable candidates from the applicants recruited for a job. It matches their abilities and qualifications with the job's requirements.
- Selection involves successive stages of screening and evaluation. Candidates who do not meet the relevant requirements are eliminated, while those found suitable proceed towards appointment.

Step 1: Screen applications and administer tests **Preliminary screening:** Examine application forms and conduct an initial screening to reject candidates who do not satisfy basic requirements such as qualifications, experience or eligibility. This saves the time and expense of evaluating clearly unsuitable applicants further.

Selection tests: Use appropriate tests to assess the candidate's suitability. Intelligence tests measure learning and reasoning ability; aptitude tests assess potential to acquire skills; trade tests assess existing job skills; personality and interest tests help understand relevant personal characteristics and preferences.

Step 2: Interview candidates and verify their background **Employment interview:** Conduct a formal, detailed conversation with the applicant to assess suitability for the job. The interviewer can explore knowledge, experience and attitude, while the candidate can learn about the organisation and the work involved.

Reference and background checks: Contact previous employers, teachers or other referees identified

for verification. These checks confirm information supplied by the applicant and provide relevant evidence about experience, conduct and previous performance.

Step 3: Make the selection decision and check fitness **Selection decision:** Choose the candidate who best satisfies the requirements on the basis of the evidence collected. The manager who will be responsible for the new employee normally has an important role in the final decision.

Medical examination: Have the selected candidate undergo a medical fitness examination where required. It establishes whether the person is physically fit to perform the duties of the particular job before the appointment is finalised.

Step 4: Issue the offer and complete the employment contract **Job offer:** Offer the job through a letter of appointment specifying matters such as the position, reporting arrangements and date of joining. Give the candidate reasonable time to accept the offer and make the necessary arrangements.

Contract of employment: After acceptance, complete the formal agreement and supporting documents. The contract records important terms such as job title, duties, remuneration, working hours, leave and rules governing termination. Clear terms establish the obligations of both the employer and the employee.

Step 5: Conclusion The selection process comprises preliminary screening, selection tests, employment interview, reference and background checks, the selection decision, medical examination, job offer and contract of employment. Together these stages provide a systematic basis for appointing the person best suited to the job.

Quick Tip to Solve: Keep selection distinct from recruitment: recruitment creates the applicant pool; selection screens, tests and verifies applicants before offering and formalising employment.

27(a). 'Motivation plays an important role in the success of management.' Explain any four points of importance of motivation in the light of the statement. [6 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to take action to accomplish desired goals. It connects the satisfaction of employees' needs with the achievement of organisational objectives.
- Directing succeeds when employees are willing to apply their abilities. Motivation develops this willingness through suitable financial and non-financial incentives.

Step 1: Explain the link with managerial success The statement is correct. Merely recruiting capable employees and assigning work does not ensure that they will perform enthusiastically. Management must encourage them to contribute willingly. Motivation helps convert their potential into useful performance. Four points explaining its importance are given below.

Step 2: Explain the effects on performance and attitudes

- **Improves performance levels:** Motivation bridges the gap between the ability to work and the willingness to work. Employees who are appropriately motivated use their knowledge, skills and energy more fully. This improves their individual efficiency and, consequently, the performance of

the organisation.

- **Changes negative or indifferent attitudes into positive attitudes:** An employee may initially be indifferent to organisational targets or reluctant to cooperate. By understanding the employee's needs and providing appropriate incentives and recognition, management encourages a positive outlook. Employees then participate more willingly in work and support organisational goals.

Step 3: Explain the effects on retention and change

- **Reduces employee turnover:** Motivation helps satisfy employees' needs and builds satisfaction with their work and workplace. Satisfied employees are less inclined to leave the organisation. Lower turnover saves recruitment and training costs and helps management retain experienced personnel and maintain continuity of work.
- **Facilitates the introduction of changes:** Employees may resist new methods or technology because they fear insecurity, additional effort or unfamiliar duties. Motivation helps managers explain the benefits of change and meet employees' relevant needs. Willing cooperation makes the implementation of change easier and enables the organisation to adapt to its environment.

Step 4: Conclusion Motivation contributes to successful management by improving performance, developing positive attitudes, reducing employee turnover and securing cooperation in implementing changes. It makes employees willing partners in achieving organisational objectives.

Quick Tip to Solve: For each importance point, state the benefit and explain how motivating employees produces it; keep improved performance, positive attitudes, retention and acceptance of change distinct.

OR

27(b). "Managerial functions cannot be carried out without an efficient system of communication." Do you agree with this statement? Give any four reasons in support of your answer. [6 marks]

Solution:

Concept:

- Communication is the exchange of facts, ideas, opinions and feelings between two or more persons to create mutual understanding. Its success requires the receiver to understand the message in its intended sense.
- Communication links people and departments so that managerial plans, decisions and instructions can be translated into coordinated action.

Step 1: State agreement with the statement Yes, I agree that managerial functions cannot be carried out effectively without an efficient system of communication. Planning, organising, staffing, directing and controlling all require information to move between managers and employees. Plans must be explained, duties assigned, employees guided and actual performance reported. Four reasons supporting the statement are as follows.

Step 2: Explain the role in coordination and decisions

- **Provides the basis of coordination:** Communication informs employees about organisational objectives, the methods of work and the interdependence of their activities. Departments exchange

information and adjust their efforts to a common plan. Without such mutual understanding, each unit may work in isolation and the organisation cannot achieve unity of action.

- **Provides the basis of decision making:** Managers need relevant information about operations, resources and problems before selecting a course of action. Communication makes this information available and carries the resulting decision to the people responsible for implementation. Inadequate information can produce unsuitable decisions, while a decision that is not conveyed cannot guide action.

Step 3: Explain the role in administration and leadership

- **Increases managerial efficiency:** Managers convey goals, instructions and responsibilities to subordinates and receive reports and feedback from them. Employees can clarify doubts, understand what is expected and carry out their duties correctly. This exchange enables managers to organise, direct and control work efficiently and reduces confusion and avoidable mistakes.
- **Establishes effective leadership:** A leader must influence and guide employees towards common objectives. Communication enables the leader to explain expectations, listen to employees' suggestions and difficulties, and secure their understanding and cooperation. Through this two-way exchange, leadership becomes more effective than the mere issue of orders.

Step 4: Conclusion An efficient communication system is essential for managerial effectiveness: it supports coordination, informed decision making, efficient administration and effective leadership. It enables management's intentions to become understood and coordinated action.

Quick Tip to Solve: Begin with clear agreement, then connect each reason to a managerial activity: coordinating efforts, making decisions, administering work and leading employees.

28(a). Explain the process of controlling. [6 marks]

Solution:

Concept:

- Controlling means comparing actual performance with planned standards, finding deviations and taking corrective action so that organisational objectives are achieved.
- Planning supplies the standards for control. Information from control helps managers correct current performance and improve future plans, making controlling a continuous process.

Step 1: Set performance standards **Setting performance standards:** Establish the criteria against which actual performance will be judged. Standards should be clear, measurable and attainable and should cover key activities and responsibility centres. They may be quantitative, such as units produced, cost per unit or sales revenue, or qualitative, such as improvement in employee relations. Wherever possible, qualitative standards should also be expressed in terms that permit objective assessment. Standards derived from plans tell employees what results are expected.

Step 2: Measure actual performance **Measurement of actual performance:** Assess what has actually been achieved, using methods suited to the activity, such as personal observation, sample checking, performance reports or accounting information. Measurement should be objective, reliable and made in the same units as the standard. For example, a monthly production target in units must be

compared with actual units produced in that month. Measurement during work allows a manager to identify a developing problem before it becomes serious.

Step 3: Compare performance with standards **Comparing actual performance with standards:** Compare the measured results with the predetermined criteria to determine the extent and direction of deviation. A result may meet the standard, fall short of it or exceed it. For instance, if the planned monthly output is 1,000 units and actual output is 900 units, the comparison reveals a shortfall of 100 units. Comparison alone identifies a gap; it does not yet explain its cause.

Step 4: Analyse significant deviations **Analysing deviations:** Determine whether the deviations are significant and investigate why they occurred. Through critical point control, managers concentrate on key result areas that are essential for success. Through management by exception, they focus on deviations beyond acceptable limits rather than every small variation. Possible causes include unrealistic standards, inadequate resources, defective materials or poor training. Identifying the actual cause prevents a manager from treating only the symptom.

Step 5: Take corrective action **Taking corrective action:** Remove the cause of a significant deviation and bring performance into line with the plan. Action may include training employees, improving supervision, repairing equipment or ensuring timely material supplies. If investigation establishes that a standard was unrealistic or conditions have changed, revise that standard on a justified basis. Where results are within acceptable limits, no corrective action is necessary. Follow up to see whether the action has worked; this feedback also supports the next planning cycle.

Step 6: Conclusion The controlling process consists of setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action. Its purpose is to ensure that actual activities lead to the planned organisational results.

Quick Tip to Solve: Remember the order: set, measure, compare, analyse and correct. Distinguish finding a deviation from investigating its cause and then removing that cause.

OR

28(b). Explain any four points highlighting the importance of controlling. [6 marks]

Solution:

Concept:

- Controlling checks whether activities are proceeding according to plans. Managers compare performance with standards and take corrective action when significant deviations occur.
- Control provides information for achieving objectives, reviewing standards and improving the use of resources. It is useful at every level of management and continues throughout organisational activity.

Step 1: Explain how controlling supports goals and standards

- **Accomplishing organisational goals:** Controlling measures progress towards planned objectives and identifies deviations in time. Managers can then correct the activities that are moving away from the plan, keeping the organisation on the right track. For example, if actual production

is below the planned level, timely investigation can identify a machine breakdown and arrange repairs before the shortfall becomes larger. Thus, control converts plans into a basis for checking results and helps ensure that the desired organisational goals are achieved.

- **Judging accuracy of standards:** A good control system helps management verify whether the standards originally set were accurate, objective and realistic. While comparing actual results with standards, managers also review those standards in the light of changes in the organisation and its environment. If a standard is found unrealistic, it can be revised on a justified basis. For example, a change in production technology may require a fresh assessment of the expected output per worker. Control therefore improves the quality of future planning instead of treating every difference as an employee's failure.

Step 2: Explain how controlling improves resources and motivation

- **Making efficient use of resources:** Control establishes expected performance and checks actual use of human, financial and physical resources against it. This helps to detect waste, spoilage, idle time and unnecessary expenditure. Corrective action can then reduce avoidable losses and ensure that resources are used economically to achieve the objectives. For example, comparing material consumption with the approved standard can reveal excess wastage and lead to better handling or supervision. Efficient use does not mean blindly cutting expenditure; it means preventing waste while maintaining the required results.
- **Improving employee motivation:** Clearly communicated standards tell employees what they are expected to do and the basis on which their performance will be appraised. When employees understand their targets and receive fair feedback on their results, they can direct their efforts towards meeting those targets. Recognition of good performance and guidance on shortcomings encourage improvement. Thus, a sound control system can motivate employees to work better by making expectations and performance assessment clear, rather than leaving them uncertain about what counts as satisfactory work.

Step 3: Conclusion Four points highlighting the importance of controlling are accomplishing organisational goals, judging the accuracy of standards, making efficient use of resources and improving employee motivation. Each shows how control uses performance information to improve organisational results.

Quick Tip to Solve: For an importance question, name each benefit and explain how control produces it. For this alternative, develop four distinct benefits rather than listing the stages of the control process.

29(a). What is meant by Dividend decision? State any four factors affecting the Dividend decision.

[6 marks]

Solution:

Concept:

- Financial Management concerns obtaining and using funds to achieve the firm's objectives. The dividend decision determines how much profit is distributed to shareholders and how much is retained in the business.
- Retained earnings are an internal source of finance. Paying dividends rewards shareholders now,

while retaining earnings supports the firm's future investment and growth.

Step 1: Explain the meaning of dividend decision The **dividend decision** is the decision about the proportion of earnings to distribute among shareholders as dividend and the proportion to retain in the business as retained earnings. Thus, management decides how to divide the profit available for appropriation between current distribution and reinvestment. The objective is to balance shareholders' expectation of a return with the company's need for funds, keeping the overall objective of shareholders' wealth maximisation in view.

Step 2: State four factors affecting the decision

- **Amount of earnings:** Dividends are paid out of current and past earnings. Therefore, the amount of distributable earnings is a major determinant of dividend. Other things remaining the same, higher earnings permit a higher dividend, while low earnings limit the amount available for distribution.
- **Stability of earnings:** A company with relatively stable earnings is better placed to commit itself to a higher regular dividend. A company whose earnings fluctuate is likely to pay a more conservative dividend because it may not be able to maintain the same payment in a year of low profits.
- **Growth opportunities:** Companies with good growth opportunities need funds for future projects. They may retain a larger part of earnings and pay lower dividends to finance expansion internally. A company with fewer profitable investment opportunities can distribute a larger proportion of its earnings.
- **Cash flow position:** Payment of a cash dividend involves an outflow of cash. Even a profitable company may have funds tied up in inventories or receivables. A sound cash flow position supports a higher dividend, whereas a shortage of cash can restrict payment despite reported profits.

Step 3: Conclusion A dividend decision divides earnings between dividends and retained earnings. Four factors affecting it are the amount of earnings, stability of earnings, growth opportunities and cash flow position; management considers their combined effect before deciding the distribution.

Quick Tip to Solve: Keep profit and cash separate: earnings determine what can be distributed, while the cash flow position determines whether the cash payment can be made comfortably.

OR

29(b). What is meant by Financing decision? State any four factors affecting the financing decision.

[6 marks]

Solution:

Concept:

- Financial Management includes the financing decision: selecting suitable sources from which the business will raise the funds it requires.
- The choice between owners' funds and borrowed funds affects the cost of finance, financial risk and control over the business. A sound financing mix balances these considerations.

Step 1: Explain the meaning of financing decision The **financing decision** is concerned with deciding

the sources from which the funds required by a business will be raised and the amount to be raised from each source. In long-term financing, it includes deciding the proportion of owners' funds and borrowed funds. Owners' funds include equity share capital and retained earnings; borrowed funds include loans and debentures. This choice determines the financing mix or capital structure of the enterprise. Management aims to obtain adequate funds on suitable terms while balancing cost and risk.

Step 2: State four factors affecting the decision

- **Cost:** Different sources of finance have different costs. Management compares the cost of raising funds from alternative sources and generally prefers a lower-cost source, subject to other considerations. Interest on debt is a tax-deductible expense, which can make debt cheaper, but cost alone should not determine the financing mix.
- **Risk:** Borrowed funds require payment of interest and repayment of principal according to agreed terms, irrespective of whether the business earns enough profit. Hence, debt increases financial risk. Equity finance does not impose a compulsory fixed dividend payment or scheduled repayment of equity capital, so it carries less fixed-payment risk for the company.
- **Cash flow position:** A company with strong and reasonably dependable cash flows can use more borrowed funds because it can meet interest and repayment commitments. If its cash flows are weak or uncertain, relying heavily on debt may cause difficulty in meeting these obligations, so owners' funds may be more suitable.
- **Control considerations:** Issuing additional equity shares may dilute the voting control of existing shareholders. Borrowing generally does not dilute their ownership or voting rights. Therefore, management wishing to retain control may prefer debt, provided that the resulting financial risk and payment commitments remain manageable.

Step 3: Conclusion The financing decision selects the sources and proportions of funds used by the business. Four factors affecting it are cost, risk, cash flow position and control considerations. Their balance helps the enterprise choose an appropriate mix of owners' and borrowed funds.

Quick Tip to Solve: Link each financing factor to the choice between equity and debt: compare their cost, fixed-payment risk, ability to service debt and effect on voting control.

30(a). Name that element of marketing-mix which affects the revenue and profits of a firm. Explain any five factors which help in determining this element. [6 marks]

Solution:

Concept:

- Price is the amount of money paid by a buyer in consideration of purchasing a product or service. It is the revenue-producing element of the marketing mix.
- Pricing decisions must cover costs, reflect customers' perceived value and take account of competition, government regulation and the firm's marketing objectives.

Step 1: Identify the element of the marketing mix The element is **price**. Sales revenue depends on the price charged and the quantity sold. Profit is the excess of revenue over total cost. Product,

promotion and physical distribution involve expenditure, whereas price directly generates revenue. A price increase does not necessarily raise profit because it may reduce the quantity demanded.

Step 2: Explain five factors determining price

- **Product cost:** The cost of producing, distributing and selling the product provides the basic reference for pricing. In the long run, the price should recover total fixed and variable costs and provide a reasonable profit. A firm cannot continue indefinitely with prices that fail to cover its costs.
- **Utility and demand:** The utility perceived by customers and the intensity of their demand influence the maximum price they will pay. When demand is elastic, a price rise can cause a substantial fall in sales, so pricing requires particular care. A product offering greater perceived benefits or facing relatively inelastic demand permits more pricing flexibility.
- **Extent of competition in the market:** The number of competing firms, the prices they charge and the availability of substitutes affect the price a business can set. Strong competition limits the freedom to charge a high price. The firm must compare its product's quality, features and benefits with rival offerings rather than consider its own cost alone.
- **Government and legal regulations:** The government may regulate the prices of essential products to protect consumers against unfair practices. Statutory price controls or other applicable legal restrictions limit the firm's freedom to fix prices. A business must comply with such requirements even if its preferred price would be different.
- **Pricing objectives:** The firm's objective influences its decision. Maximising current profit may favour a different price from increasing market share. A business seeking to survive intense competition may reduce its price, while a business stressing product-quality leadership may charge a higher price to support superior quality. The chosen price must therefore serve the specific objective.

Step 3: Conclusion Price affects the revenue and profits of a firm. Five determinants are product cost, utility and demand, competition, government and legal regulations, and pricing objectives. They must be considered together to set a feasible price.

Quick Tip to Solve: Link each pricing factor to its effect: cost sets a recovery requirement, demand sets customers' willingness to pay, and competition and regulation constrain the final choice.

OR

30(b). 'Generally consumers prefer to buy goods directly from the producers but it is not always possible.' Give reasons, why is it so by explaining four different factors responsible' for this. [6 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the consumer. A direct channel has no intermediary; indirect channels use wholesalers, retailers or other intermediaries.
- The choice depends on product characteristics, the market, the company's resources and the

business environment. Consumers' preference alone cannot determine an economical and effective channel.

Step 1: Relate the statement to channel selection The statement that consumers "prefer to buy goods directly from the producers" points to a direct channel of distribution. However, "it is not always possible" because the producer must also ensure that goods reach customers conveniently and economically. Intermediaries perform functions such as accumulating and breaking bulk, storing goods and making products available near buyers. The following four factors explain why a direct channel may be unsuitable.

Step 2: Explain four factors affecting the channel

- **Product-related factors:** The nature, value, perishability and technical complexity of the product influence channel length. Standardised, low-unit-value consumer goods sold frequently in small quantities often need wholesalers and retailers to reach buyers economically. For example, distributing ordinary packaged consumer goods through shops is more practical than requiring each buyer to visit the factory. By contrast, perishable or technically complex products may favour shorter channels because they need speedy delivery or specialised assistance.
- **Market-related factors:** The number and geographical concentration of buyers and the size of their purchases matter. A few buyers concentrated in one area can be served directly. When consumers are numerous, widely scattered and buy only small quantities, maintaining direct contact with each becomes expensive. Intermediaries provide local availability and combine many small transactions, making an indirect channel appropriate.
- **Company-related factors:** The financial strength of the producer and its desired control over distribution affect the decision. Direct selling requires investment in sales staff, storage, transport and sales outlets. A company lacking sufficient resources cannot establish such a network merely because customers prefer direct purchase. It may rely on established intermediaries; a financially strong company seeking greater control over sales and service can more readily use direct distribution.
- **Environmental factors:** Economic conditions and legal restrictions also influence the choice. During depressed economic conditions, firms seek channels that reduce distribution expenses. Laws may restrict particular channel arrangements or practices. The producer must therefore select a channel consistent with prevailing economic conditions and legal requirements, rather than follow consumer preference alone.

Step 3: Conclusion Direct buying is not always practical because the channel must suit the product, the market, the company's resources and the environment. Where buyers are scattered and purchase small quantities, or a producer cannot finance direct outlets, intermediaries can provide a more feasible distribution route.

Quick Tip to Solve: For channel-choice questions, explain how each factor makes the channel shorter or longer. Do not merely list the services of wholesalers and retailers.