# CBSE Class 12 Business Studies Question Paper 2011 with Solution PDF-Set 66/1

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

**1. Your grandfather has retired from an organisation in which he was responsible for implementing the plans developed by the top management. At which level of management was he working? State one more function performed at this level.** [1 mark]

**Solution:**

**Concept:**

- Middle management links top management with supervisory management.
- Its managers interpret organisational policies and implement the plans framed by top management.

**Step 1:** Identify the level from the case The grandfather was responsible for 'implementing the plans developed by the top management'. This is a function of middle management, which translates broad plans into departmental action.

**Step 2:** State another function Middle-level managers assign necessary duties and responsibilities to supervisory personnel so that departmental work is organised and the plans can be carried out effectively.

**Step 3:** Conclusion He worked at the middle level of management. One other function at this level is assigning duties and responsibilities to supervisory personnel.

**Quick Tip to Solve:** Implementing top-level plans points to middle management; supervising workers directly points to the supervisory level.

**2. List any two social objectives of Management.** [1 mark]

**Solution:**

**Concept:**

- Social objectives express the responsibility of an organisation towards society.
- They concern benefits to the community in addition to the economic interests of the business.

**Step 1:** State the first social objective **Environment-friendly production:** Management should use production methods that prevent pollution and protect the environment, rather than pursue output at the cost of public health.

**Step 2:** State the second social objective **Employment for disadvantaged sections:** Management should provide employment opportunities to economically and socially disadvantaged sections of society, helping them earn a livelihood.

**Step 3:** Conclusion Two social objectives are using environment-friendly production methods and providing employment opportunities to disadvantaged sections of society.

**Quick Tip to Solve:** For social objectives, name benefits to society; profit and survival are organisational objectives.

**3. State anyone reason why 'Principles of Management' are important.** [1 mark]

**Solution:**

**Concept:**

- Principles of management are general guidelines for managerial decisions and action.
- They bring together experience and systematic observation, helping managers understand recurring situations.

**Step 1:** Name one reason for their importance **Providing useful insights into reality:** Management principles give managers useful insights into real work situations and the likely consequences of different courses of action.

**Step 2:** Explain how the reason helps managers Managers can draw on this accumulated knowledge rather than rely only on trial and error. They apply the relevant principle to the circumstances and make a better informed decision about handling people and resources.

**Step 3:** Conclusion Principles of management are important because they provide managers with useful insights into real-life managerial situations.

**Quick Tip to Solve:** State one clear benefit of the principles, then connect it to better managerial decisions.

**4. Give the meaning of 'Mental Revolution' as suggested by F.W. Taylor.** [1 mark]

**Solution:**

**Concept:**

- Taylor stressed a fundamental change in the attitudes of both management and workers.
- Scientific management requires cooperation and recognition that the prosperity of both sides is linked.

**Step 1:** Explain the change in outlook Mental revolution means a complete change in the attitude of workers and management towards one another: both should recognise that their interests are common rather than treat each other as opponents.

**Step 2:** Describe the resulting cooperation Instead of quarrelling over the division of the existing surplus, both sides should cooperate to increase productivity and enlarge the surplus available. Management should share gains with workers, and workers should contribute their best efforts.

**Step 3:** Conclusion Mental revolution is a complete change in the attitudes of workers and management towards mutual cooperation and common prosperity.

**Quick Tip to Solve:** Remember the two sides together: changed attitudes, cooperation and increased prosperity for both.

**5. "The understanding of Business Environment enables the firm to identify opportunities." What is meant by 'opportunities' here?** [1 mark]

**Solution:**

**Concept:**

- The business environment contains external developments that may help or harm a business.
- An opportunity is a positive external trend or change that can improve the performance of a firm.

**Step 1:** Define an opportunity Opportunities refer to positive external trends or changes that help a firm improve its performance, provided the firm recognises them and takes suitable action.

**Step 2:** Connect the meaning with environmental understanding By studying its environment, a firm can identify such favourable developments early and use them to its advantage. For example, an increase in demand for a product can create an opportunity to expand sales; it is the favourable external change that constitutes the opportunity.

**Step 3:** Conclusion Here, opportunities mean positive external trends or changes that can help a firm improve its performance.

**Quick Tip to Solve:** An opportunity comes from a favourable external development; an internal advantage is a strength.

**6. Business Environment includes both 'specific and general' forces'. List any four general forces.** [1 mark]

**Solution:**

**Concept:**

- General forces influence business organisations broadly, rather than affect only a particular enterprise.
- They shape the overall conditions within which firms make decisions and operate.

**Step 1:** List two general forces **Economic forces:** Conditions such as income levels, inflation and interest rates influence business activity. **Social forces:** Customs, values and changes in lifestyles influence demand and business behaviour.

**Step 2:** List two more general forces **Political forces:** Political stability and the attitude of the government affect the business climate. **Technological forces:** Innovations and changes in production or communication technology affect how businesses operate.

**Step 3:** Conclusion Four general forces are economic, social, political and technological forces.

**Quick Tip to Solve:** General forces describe the wider environment; customers, suppliers and competitors are specific forces.

**7. Explain in one sentence how direction is an executive function of Management.** [1 mark]

**Solution:**

**Concept:**

- Directing guides, instructs, motivates and leads employees towards organisational objectives.
- An executive function puts managerial decisions and plans into action through people.

**Step 1:** Identify what direction does Direction initiates action by guiding and motivating employees to perform the tasks assigned to them. It therefore moves the organisation from deciding what should be done to actually getting the work performed.

**Step 2:** Frame the answer in one sentence Direction is an executive function of management because it initiates action by guiding and motivating employees to carry out plans and achieve organisational objectives.

**Step 3:** Conclusion Direction is an executive function because it initiates action by guiding and motivating employees to implement plans and achieve organisational objectives.

**Quick Tip to Solve:** Connect the word executive with execution: directing gets planned work started through people.

**8. Why is it said that "controlling is looking back" ?** [1 mark]

**Solution:**

**Concept:**

- Controlling compares actual performance with predetermined standards.
- Its backward-looking aspect concerns assessing work that has already been performed.

**Step 1:** Identify the performance being examined To control an activity, a manager first measures actual performance. This performance relates to work already done, so the information being examined is a record of past results.

**Step 2:** Explain why this is looking back The manager compares those past results with the standards set earlier and identifies deviations. Thus controlling looks back to evaluate completed performance, even though the corrective action based on that evaluation helps improve future performance.

**Step 3:** Conclusion Controlling is said to be looking back because it evaluates past performance by comparing actual results with previously established standards.

**Quick Tip to Solve:** Past results explain looking back; using deviations to improve future action explains its forward-looking side.

**9. What should be the 'focus point' for a manager while controlling, as controlling at each and every step is not possible?** [1 mark]

**Solution:**

**Concept:**

- Critical point control means concentrating managerial attention on the key result areas that are critical to the success of the organisation.
- Controlling every activity with equal attention is neither economical nor practicable; control should focus on strategically important performance.

**Step 1:** Identify the critical areas A manager should identify the key result areas (KRAs) whose performance has a decisive effect on organisational success. These are the focus points for control.

**Step 2:** Concentrate control efforts Standards and actual performance should be compared particularly in these critical areas so that managerial time is used where corrective action matters most. For example, an important cost component may require closer control than a minor expense.

**Step 3:** Conclusion The focus point should be the key result areas (KRAs), following the principle of critical point control.

**Quick Tip to Solve:** For a question asking where control should focus, identify critical key result areas; significant deviations describe management by exception.

**10. Define Financial Management.** [1 mark]

**Solution:**

**Concept:**

- Financial management concerns the acquisition and effective utilisation of finance for the business.
- It covers financial decisions that influence the availability, cost and use of funds, with the objective of maximising shareholders' wealth.

**Step 1:** Identify the two parts of the definition The business must first procure finance from suitable sources. It must then use those funds effectively in assets and operations rather than leave them idle or waste them.

**Step 2:** State the meaning Financial management is concerned with the optimal procurement as well as the usage of finance. Optimal procurement seeks appropriate funds at a reasonable cost and risk, while effective usage puts those funds to productive business purposes.

**Step 3:** Conclusion Financial management means the optimal procurement and effective utilisation of finance.

**Quick Tip to Solve:** Remember both halves of the definition: obtaining finance optimally and using it effectively.

**11. Explain 'Increasing competition' and 'More demanding customers' as impact of Government policy changes on Business and Industry.** [3 marks]

**Solution:**

**Concept:**

- Liberalisation reduced restrictions on business, while globalisation opened the economy to greater interaction with international markets.
- Changes in government policy altered the competitive environment and expanded the alternatives available to customers. Business must adapt its decisions to these changes.

**Step 1:** Explain increasing competition **Increasing competition:** Industrial delicensing and the entry of foreign firms increased the number and strength of competitors. Indian firms now had to compete with domestic rivals as well as multinational enterprises. They could no longer rely mainly on protection or restricted entry. To survive, they had to improve quality, control costs, use better technology and make their products more attractive to buyers.

**Step 2:** Explain more demanding customers **More demanding customers:** Wider availability of products and increased competition gave buyers a greater choice of goods and services. Better-informed customers began to expect improved quality, reasonable prices and reliable service. They could compare alternatives and switch to another seller if dissatisfied. Firms therefore had to become more customer-oriented, respond to changing preferences and continually improve the value they offered.

**Step 3:** Conclusion Government policy changes intensified competition by opening entry and markets, and made customers more demanding by expanding their choice and expectations. Businesses consequently had to improve efficiency, quality and customer satisfaction.

**Quick Tip to Solve:** Link increasing competition to entry of rivals, and demanding customers to wider choice and higher expectations.

**12. Differentiate between 'Objective' and 'Strategy' as types of plans.** [3 marks]

**Solution:**

**Concept:**

- Objectives and strategies are both types of plans, but they answer different planning questions.
- An objective states the desired end result. A strategy is a comprehensive plan for achieving organisational objectives, taking the business environment into account.

**Step 1:** Clarify the meaning of each plan An objective is the end towards which activities are directed, such as achieving a specified increase in sales. It indicates what the organisation wants to accomplish. A strategy combines the determination of long-term objectives, selection of a course of action and allocation of resources needed to carry it out. It helps decide the broad route to the desired result.

**Step 2:** Distinguish on three bases

| Basis | Objective | Strategy |
|---|---|---|
| Meaning | The desired end result to be achieved through activities. | A comprehensive plan specifying the broad course of action to achieve objectives. |
| Focus | States what the organisation seeks to accomplish; it provides a target for action. | States the broad approach, actions and resource allocation needed to achieve the target. |
| Environment | Expresses the organisation's desired position or performance. | Frames the course of action in the light of environmental opportunities, threats and competitors' moves. |

**Step 3:** Conclusion Objectives specify the ends to be achieved, whereas strategies provide a comprehensive approach to achieving those ends in the prevailing business environment.

**Quick Tip to Solve:** In a distinction table, keep the same basis in each row: desired result versus comprehensive approach to that result.

**13. "External sources of recruitment are considered better than internal sources." Give any three reasons in support of this statement.** [3 marks]

**Solution:**

**Concept:**

- External recruitment searches for prospective employees outside the organisation instead of limiting the search to existing employees.
- Its advantages arise from access to a larger labour market and the entry of new talent. The following three merits explain why it can be preferred to internal recruitment.

**Step 1:** Explain access to candidates and choice **Qualified personnel:** External sources enable management to attract suitably qualified and trained people from outside. Vacancies can be advertised with the required educational qualifications, experience and skills, helping the organisation find people suited to the job.

**Wider choice:** The organisation can choose from a large pool of applicants rather than only its present employees. This wider field improves the opportunity to compare candidates and select the person best suited to the requirements of the vacancy.

**Step 2:** Explain the benefit of fresh talent **Fresh talent:** People recruited from outside bring new ideas, different experience and fresh approaches to work. Existing employees may not always be able to fulfil every new requirement of an expanding or changing business. External recruitment can therefore introduce the additional skills and perspectives that the organisation needs.

**Step 3:** Conclusion Three reasons supporting external recruitment are availability of qualified personnel, a wider choice of candidates, and the introduction of fresh talent and ideas.

**Quick Tip to Solve:** Explain each merit through its benefit: qualified people improve suitability, wider choice improves selection, and fresh talent introduces new ideas.

**14. Explain any three qualities of a good leader.** [3 marks]

**Solution:**

**Concept:**

- Leadership is the process of influencing people's behaviour so that they strive willingly and enthusiastically towards organisational goals.
- A leader needs personal qualities that inspire confidence and make followers willing to accept guidance. Three such qualities are integrity, self-confidence and communication skills.

**Step 1:** Explain integrity and self-confidence **Integrity:** A leader should be honest, sincere and consistent in words and actions. Keeping promises and acting fairly creates trust among subordinates. Employees are more willing to follow someone whose conduct provides a dependable example.

**Self-confidence:** A leader should have confidence in his or her own ability and judgement. Confidence helps the leader face difficult situations and take decisions without unnecessary hesitation. It also reassures followers and encourages them to work towards the chosen goal.

**Step 2:** Explain communication skills **Communication skills:** A leader should explain ideas, instructions and expectations clearly so that followers understand what is required. Communication also involves listening patiently to employees' suggestions and problems. This two-way exchange prevents misunderstandings and helps the leader secure willing cooperation.

**Step 3:** Conclusion Integrity builds trust, self-confidence inspires confidence in followers, and effective communication provides clear guidance and understanding. These three qualities help a leader influence people towards common organisational goals.

**Quick Tip to Solve:** For each leadership quality, name the trait and explain how it improves the leader's relationship with followers.

**15. Explain the role of marketing in a firm.** [3 marks]

**Solution:**

**Concept:**

- Marketing identifies customer needs and satisfies them through suitable products and services. It connects a firm with the people whose demand sustains its business.
- For a firm, the role of marketing is to help achieve objectives such as survival, profit and growth by creating and retaining customers through superior value.

**Step 1:** Explain how marketing creates customers **Identifying and satisfying needs:** Marketing helps a firm discover what consumers want, how much they can pay and where they prefer to buy. This knowledge guides the design of the offering and the choice of price, promotion and distribution. The firm can therefore offer goods and services that meet actual demand rather than merely produce what it finds convenient.

**Creating superior customer value:** Marketing helps the firm make its offering more attractive than competing offerings. It may provide better quality, convenience, service or an appropriate price. When customers perceive greater value, they prefer the firm and are more likely to purchase again.

**Step 2:** Relate customer satisfaction to business objectives **Generating revenue and supporting growth:** Satisfied customers provide sales revenue and repeat business. By winning and retaining customers, marketing enables the firm to earn profits, survive competition and expand its activities. Thus, customer satisfaction is the route through which marketing contributes to the firm's commercial objectives.

**Step 3:** Conclusion Marketing plays a vital role in a firm by identifying customer needs, creating superior value and retaining satisfied customers. These activities generate revenue and help the firm achieve survival, profitability and growth.

**Quick Tip to Solve:** Link the firm's objectives to customers: understand needs, deliver better value, retain buyers and earn revenue.

**16. "Planning is an important function of Management." State any four reasons.** [4 marks]

**Solution:**

**Concept:**

- Planning means setting objectives and deciding in advance what to do, how to do it, when to do it and who is to do it.
- It provides the basis for purposeful action by selecting a course of action before work begins. Its importance can be explained through direction, risk reduction, efficiency and control.

**Step 1:** State how planning guides action and addresses uncertainty **Provides direction:** Planning states objectives clearly and specifies the activities needed to achieve them. Employees and departments know what they must accomplish and how their efforts contribute to organisational goals. This directs their work towards a common purpose instead of allowing unrelated activities.

**Reduces the risks of uncertainty:** Planning requires managers to look ahead and anticipate likely changes or problems. They can consider possible responses and prepare suitable courses of action in advance. Planning cannot eliminate uncertainty, but such preparation reduces its adverse effects on the organisation.

**Step 2:** State how planning improves efficiency and supports control **Reduces overlapping and wasteful activities:** A plan clarifies the work to be performed and coordinates the activities of different departments and individuals. This reduces duplication, confusion and unnecessary expenditure of effort and resources. Managers can identify inefficiencies and arrange work more economically.

**Establishes standards for controlling:** The objectives and targets set during planning become the standards against which actual performance is compared. Managers can identify deviations and take corrective action. Without planned standards, it would be difficult to judge whether performance is satisfactory.

**Step 3:** Conclusion Planning is important because it provides direction, reduces the risks of uncertainty, reduces overlapping and wasteful activities, and establishes standards for controlling. These four reasons show how advance decisions make managerial action more purposeful and effective.

**Quick Tip to Solve:** Give four distinct textbook headings, then connect each heading to a practical benefit of deciding in advance.

**17. "Organisation is the harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes." In the light of this statement explain any four points of importance of organising..** [4 marks]

**Solution:**

**Concept:**

- Organising identifies and divides work, groups related activities, assigns duties and establishes reporting relationships so that people can pursue common objectives.
- The statement highlights coordination among specialised parts: separate jobs and departments must work as an integrated organisation rather than as isolated units.

**Step 1:** Explain the benefits for work and responsibility

- **Benefits of specialisation:** Organising systematically divides the total work into jobs and assigns particular tasks to particular employees. Repeated performance of a specific task develops experience and expertise, reduces wasted effort and improves efficiency. Thus, specialised parts contribute effectively to the common purpose.
- **Clarity in working relationships:** Organising specifies who is responsible for which activity and who reports to whom. Each employee knows the extent of authority and the person from whom instructions are received. Clear reporting relationships remove confusion and overlapping responsibilities and help different parts coordinate their efforts.

**Step 2:** Explain the benefits for resources and change

- **Optimum utilisation of resources:** Proper assignment of jobs avoids duplication of activities. Work is allocated according to employees' capabilities, while physical and financial resources are directed to the activities that need them. This reduces wastage and enables the enterprise to obtain better results from its available resources.
- **Adaptation to change:** A clear organisation structure allows duties, relationships and activities to be modified when business conditions change. New activities can be introduced and existing ones rearranged without losing sight of the common objective. The enterprise can therefore respond to technological, market and other environmental changes while maintaining coordination.

**Step 3:** Conclusion Organising supports the common purpose through specialisation, clarity in working relationships, optimum utilisation of resources and adaptation to change. It links the efforts of specialised parts into coordinated organisational action.

**Quick Tip to Solve:** Explain each benefit by linking a feature of organising, such as division of work or clear authority, to the improvement it produces.

**18. "There is a close and reciprocal relationship between planning and controlling." Explain the statement.** [4 marks]

**Solution:**

**Concept:**

- Planning decides in advance the objectives to be achieved and the course of action to achieve them. It establishes standards of expected performance.
- Controlling compares actual performance with those standards, analyses significant deviations and initiates corrective action. Planning and controlling are interdependent management functions.

**Step 1:** Explain how each function depends on the other

- **Planning provides the basis for controlling:** A manager can judge performance only when an expected result has already been specified. The targets, schedules and budgets established through planning become the standards used in controlling. Without plans there is no standard against which actual performance can be measured; controlling would therefore have no basis.
- **Controlling gives meaning to planning:** Making plans alone does not ensure their achievement. Controlling checks whether activities are proceeding according to plan and identifies deviations. Corrective action brings performance closer to the planned objectives. Without such checks, plans may remain only statements of intention, so planning is incomplete without controlling.

**Step 2:** Show their reciprocal links across time

- **Both are forward-looking:** Planning selects a future course of action. Controlling is also forward-looking because its corrective action improves future performance and seeks to prevent a deviation from recurring. Its purpose is to guide achievement of objectives rather than merely to identify past mistakes.
- **Both are backward-looking:** Planning uses past experience and the feedback obtained from earlier performance when preparing future plans. Controlling examines actual performance already achieved and compares it with previously established standards. The information gained may show that a plan or standard needs revision and thus becomes an input to the next planning exercise.

**Step 3:** Conclusion Planning precedes controlling by setting standards, while controlling follows up the plans and supplies feedback for future planning. Their relationship is close and reciprocal: each supports the other, and both look to the future while drawing on past performance.

**Quick Tip to Solve:** Link the two functions in a cycle: plans set standards, control checks results, and feedback improves the next plans.

**19. What is meant by 'Primary Market'? Explain any two methods of floating new issues in the Primary Market.** [4 marks]

**Solution:**

**Concept:**

- The primary market is the market for new securities. It connects enterprises that need fresh capital with investors willing to supply funds.
- New shares, debentures and other securities can be issued through different methods. An offer through a prospectus and private placement are two such methods.

**Step 1:** Define the primary market **Meaning:** The primary market, also called the new issues market, deals in securities issued for the first time. A company uses it to raise new capital, for example to establish a business, expand its operations or modernise its facilities. Investors subscribe to the new securities and their subscription money becomes available to the issuing enterprise. Thus, this market facilitates the transfer of savings to productive investment. It differs from the secondary market, where investors buy and sell securities that have already been issued.

**Step 2:** Explain an offer through a prospectus **Offer through prospectus:** The company invites the general public to subscribe to its new securities by issuing a prospectus. The prospectus discloses relevant information about the enterprise and the proposed issue, enabling prospective investors to assess the investment before applying. The invitation therefore reaches a wide body of potential subscribers, rather than a few selected investors. This is a common method used by public companies to raise funds from the public; the issue may also be supported by underwriters.

**Step 3:** Explain private placement **Private placement:** The company allots its securities to selected institutional investors and a limited number of individuals instead of inviting subscriptions from the general public. The issuer approaches these selected investors directly to obtain the required funds. Since the offer is directed to a restricted group, it avoids the elaborate procedures and expense associated with a general public issue and can raise funds relatively quickly. It is particularly useful when an enterprise can secure subscriptions from suitable large investors without making a widespread public invitation.

**Step 4:** Conclusion The primary market raises fresh capital through newly issued securities. An offer through a prospectus invites the public to subscribe, while private placement places securities with selected investors.

**Quick Tip to Solve:** In each method, identify who receives the invitation: the general public for a prospectus issue and selected investors for private placement.

**20. "Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions." Explain any four such functions.** [4 marks]

**Solution:**

**Concept:**

- A financial market links suppliers of funds, such as households, with those who require funds for productive activities, such as business enterprises.

- The four principal functions are mobilising savings and channelising them into productive uses, facilitating price discovery, providing liquidity to financial assets and reducing the cost of transactions.

**Step 1:** Explain how savings reach productive uses **Mobilisation of savings and channelising them into the most productive uses:** A financial market facilitates the transfer of savings from savers to investors. It gives savers a choice of investments and enables their surplus funds to reach business enterprises that require capital. Instead of remaining idle, savings can finance productive activities. By bringing together alternative investment opportunities and competing users of funds, the market helps direct scarce financial resources towards uses that offer productive returns.

**Step 2:** Explain how financial assets acquire prices **Facilitating price discovery:** The interaction of demand for and supply of financial assets helps establish their prices. Savers supply funds and business firms demand funds; their interaction in the market influences the price of the financial asset being traded. Market prices therefore convey information about the willingness of investors to hold particular securities and the availability of funds. This price discovery assists participants in making investment and financing decisions.

**Step 3:** Explain how investors obtain liquidity **Providing liquidity to financial assets:** Financial markets provide a mechanism through which investors can buy and sell securities. An investor who needs cash can sell an existing security instead of having to wait for its maturity, subject to the availability of a buyer. This ability to convert financial assets into cash makes them more liquid and gives investors confidence when committing their savings. The market thus reconciles investors' need for access to funds with enterprises' need for capital.

**Step 4:** Explain how dealing costs are reduced **Reducing the cost of transactions:** Financial markets supply useful information about the securities available, their prices and the parties willing to trade. They save buyers and sellers the time, effort and expense of independently searching for suitable counterparties and gathering relevant information. By bringing participants together through an organised trading mechanism, the market reduces the costs of conducting transactions and makes the transfer of funds easier.

**Step 5:** Conclusion Financial markets allocate scarce resources by mobilising savings, discovering prices, making financial assets liquid and lowering transaction costs. These functions help funds move efficiently from savers to productive users.

**Quick Tip to Solve:** Recall the four functions in the order savings, price, liquidity and cost; explain the mechanism behind each heading rather than merely naming it.

**21. "Management is a profession like medical or legal profession." Do you agree with this statement? Give any five reasons in support of your answer.** [5 marks]

**Solution:**

**Concept:**

- A profession is an occupation backed by specialised knowledge, restricted entry, a professional association, an ethical code and a service motive.

- Management has some professional characteristics, but it does not satisfy all of them as completely as medicine or law.

**Step 1:** State the position and examine knowledge and entry I do not fully agree with the statement. Management is moving towards professional status, but it is not a full-fledged profession like medicine or law. The following five reasons explain this position.

- **Well-defined body of knowledge:** Management has an organised body of principles and theories, developed through observation and experience. It can be studied in universities and management institutes. This characteristic supports its professional nature, although its principles must be adapted to people and situations.
- **Restricted entry:** A doctor or lawyer must possess the prescribed qualification before practising. There is no comparable compulsory qualification for becoming a manager. An owner may appoint a manager without a management degree. Therefore, entry into management is not legally restricted in the same way.

**Step 2:** Examine association, conduct and service

- **Professional association:** Associations such as the All India Management Association promote managerial development. However, their membership is not compulsory for all managers, unlike the compulsory professional registration applicable to established professions.
- **Ethical code of conduct:** Management associations prescribe ethical standards, but every manager is not bound by one universally enforceable professional code through compulsory membership. Thus, management does not fully meet this professional requirement.
- **Service motive:** A profession gives priority to serving clients and society. Management can serve society through good-quality goods, fair treatment and responsible use of resources. However, profit maximisation remains a major objective of many businesses; service is not an overriding professional obligation for every manager.

**Step 3:** Conclusion Management possesses a specialised knowledge base and is becoming increasingly professional. Since compulsory qualifications, compulsory association membership and universally binding professional obligations are absent, it cannot yet be equated completely with the medical or legal profession.

**Quick Tip to Solve:** Test professional status against all five features; a management degree alone does not make entry into management legally restricted.

**22. Explain Fayol's principles of 'equity' and 'order' with examples,** [5 marks]

**Solution:**

**Concept:**

- Henri Fayol's principles are general guidelines for managerial decisions and behaviour; their application depends on the situation.
- Equity concerns fair treatment of employees, while order concerns the proper placement of people and materials.

**Step 1:** Explain equity with an example

- **Meaning of equity:** Managers should treat employees with justice and kindness. There should be no discrimination on grounds such as sex, religion, nationality, language or personal relationships. Fairness encourages employees to contribute their best.
- **Application and example:** Suppose two employees perform equally well and have the same responsibilities. The manager should judge their promotion or reward by the same fair criteria, rather than favouring a relative or an employee from a particular community. Such impartial treatment creates loyalty and a sense of belonging.
- **Fairness with discipline:** Equity does not mean ignoring poor performance or misconduct. A manager may take necessary disciplinary action, but should do so justly and without personal prejudice. Kindness and justice must operate together.

**Step 2:** Explain order with examples

- **Material order:** There should be a place for everything and everything should be in its place. Materials, tools and equipment should be arranged systematically so that they can be found and used without delay. For example, a workshop should keep each tool in its assigned labelled rack after use, reducing search time and unnecessary interruption.
- **Social order:** There should be a place for everyone and everyone should be in the appointed place. The right person should be assigned the right job, according to ability and suitability. For example, a trained accountant should handle accounts, and a skilled machine operator should operate the machine. Employees should also be available at their assigned work locations when required.

Proper order avoids confusion, minimises waste of time and materials, and helps work proceed smoothly. It requires both a suitable arrangement of physical resources and an appropriate placement of employees.

**Step 3:** Conclusion Equity promotes loyalty through just and kind treatment. Order promotes efficiency by putting materials in their proper places and suitable people in their proper jobs. Both principles help an organisation work harmoniously and effectively.

**Quick Tip to Solve:** Remember equity as fair treatment, and order as correct placement; explain both material order and social order with separate examples.

**23. Explain in brief the various steps involved in the process of staffing.** [5 marks]

**Solution:**

**Concept:**

- Staffing means finding the right people for the right jobs and developing their abilities. It involves obtaining, utilising and maintaining a competent workforce.
- The staffing process begins with estimating human resource requirements and continues with appraisal, career growth and fair remuneration after appointment.

**Step 1:** Estimate manpower requirements and attract applicants **Estimating manpower requirements:** Assess how many employees are needed and what qualifications and skills each job requires. Workload analysis determines the number and types of people required, while workforce analysis

examines the employees already available. Their comparison reveals understaffing or overstaffing.

**Recruitment:** Search for prospective employees and stimulate them to apply for jobs. Suitable internal sources, such as transfers and promotions, and external sources, such as advertisements and placement agencies, create a pool of candidates.

**Step 2:** Select, place and orient suitable employees **Selection:** Choose the most suitable candidates from the applicant pool by using the appropriate screening, tests, interviews and other checks. Selection seeks to match the person's abilities with the job's requirements.

**Placement and orientation:** Put the selected employee in the position for which he or she has been selected. Introduce the employee to colleagues, organisational rules and the workplace so that the new recruit can settle down and work confidently.

**Step 3:** Develop employees and assess their work **Training and development:** Improve employees' job knowledge and skills through suitable learning opportunities. Training develops competence for present work, while development prepares employees for wider responsibilities and future growth.

**Performance appraisal:** Evaluate an employee's current or past performance against predetermined standards. Feedback identifies strengths and shortcomings and helps determine training needs and other personnel decisions.

**Step 4:** Provide career growth and fair rewards **Promotion and career planning:** Provide opportunities to move to positions involving greater responsibility and status. Career planning links employees' aspirations with the organisation's future requirements and encourages continued improvement.

**Compensation:** Determine the wages, salaries, incentives and other benefits payable for employees' work. Fair and competitive compensation attracts and retains capable people and rewards their contribution.

**Step 5:** Conclusion Thus, staffing proceeds through estimating manpower requirements, recruitment, selection, placement and orientation, training and development, performance appraisal, promotion and career planning, and compensation. These steps ensure that capable people are appointed and supported throughout their employment.

**Quick Tip to Solve:** Recall staffing as a career sequence: estimate the need, attract, choose, introduce, train, appraise, promote and pay. Keep recruitment distinct from selection.

**24. "Determining the overall cost of capital and the financial risk of the enterprise depends upon various factors." Explain any five such factors.** [5 marks]

**Solution:**

**Concept:**

- Capital structure is the proportion of debt and equity used to finance a business. The choice of this mix influences both the overall cost of capital and financial risk.
- Debt involves compulsory interest and repayment obligations, while equity does not require a fixed dividend. A financing decision therefore balances the advantage of cheaper debt against the risk of failing to meet fixed commitments.

**Step 1:** Examine cash flows and interest-paying capacity **1. Cash flow position:** Before raising debt, a company must estimate its future cash inflows and outflows. Cash must be sufficient to meet normal business expenses as well as interest and repayment of principal when due. A strong and steady cash flow permits greater use of debt; weak or fluctuating cash flows make a high debt proportion risky and favour equity financing.

**2. Interest coverage ratio:** This ratio compares earnings before interest and tax with the interest obligation. Higher coverage indicates that earnings provide a larger cushion for paying interest, so the company can normally consider more debt. Low coverage limits borrowing because even a small fall in earnings may threaten interest payments. Actual cash availability must also be checked, since accounting earnings alone do not pay interest.

**Step 2:** Compare the return on investment with the cost of debt **3. Return on investment:** When the return earned on total investment exceeds the interest rate on debt, using debt can increase the earnings available per equity share. This favourable financial leverage encourages debt financing. If the return falls below the cost of debt, borrowing reduces the earnings available to equity shareholders, so a larger equity proportion is preferable.

**4. Cost of debt:** A company that can borrow at a lower interest rate has a stronger reason to include debt in its capital structure, subject to its repayment capacity. As borrowing becomes expensive, the saving associated with debt declines. Excessive borrowing can itself increase lenders' perceived risk and the interest rate they demand, limiting the advantage of additional debt.

**Step 3:** Consider the tax advantage of borrowing **5. Tax rate:** Interest on debt is deductible in calculating taxable profits, whereas dividends on equity are paid out of profits after tax. A higher corporate tax rate therefore makes debt relatively cheaper by increasing its tax saving. At a lower tax rate this advantage is smaller. The tax benefit should still be weighed against the fixed interest and repayment obligations rather than used as a reason for unlimited borrowing.

**Step 4:** Conclusion Cash flow position, interest coverage ratio, return on investment, cost of debt and tax rate are five factors affecting the debt–equity mix. A suitable capital structure seeks a reasonable overall cost of capital while keeping financial risk within the enterprise's capacity to bear it.

**Quick Tip to Solve:** Link each factor to a financing decision: show when debt becomes attractive and when its fixed payment obligations make equity safer.

**25. What is Packaging? State any four functions of Packaging.** [5 marks]

**Solution:**

**Concept:**

- Packaging means designing and producing the container or wrapper of a product. It is a product-related marketing decision that combines protection with convenient handling and presentation.
- A package does more than contain the goods: it identifies the product, protects it, makes its use convenient and helps promote it at the point of purchase.

**Step 1:** Define packaging Packaging is the activity of designing and producing a product's container or wrapper. For example, the bottle containing shampoo and the box around a fragile article are

packages. The design, material, size and presentation are chosen to suit the product and the buyer's needs.

**Step 2:** State four functions of packaging

- **Product identification:** A distinctive package helps customers recognise a product and distinguish it from competing products. Its characteristic colour, shape or design can make the brand readily identifiable even before the customer reads its name.
- **Product protection:** The package protects the product against deterioration, leakage, breakage, pilferage and damage during storage and transportation. Suitable packaging helps preserve the product's quality until it reaches the consumer.
- **Facilitating use of the product:** Appropriate sizes, shapes and features make the product easier to handle, carry, store and use. For instance, a squeezable toothpaste tube permits convenient dispensing while keeping the remaining contents enclosed.
- **Product promotion:** An attractive package draws attention and can encourage purchase, especially in self-service stores where the product must appeal directly to the shopper. Its design and presentation communicate the product's appeal and support the seller's promotional efforts.

**Step 3:** Conclusion Packaging is the designing and production of the container or wrapper. Its four functions are product identification, product protection, facilitating product use and product promotion.

**Quick Tip to Solve:** Remember identification, protection, use and promotion; explain what the package does for the buyer or the product under each heading.

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**26(a). What is meant by 'Divisional Structure' of an organisation? For which type of business enterprises is this structure most suitable? State any four advantages of this form of organisational structure.** [6 marks]

**Solution:**

**Concept:**

- Divisional structure groups organisational activities around products or product lines. Each division contains the functions needed for its own product, such as production, marketing and finance.
- Each division is relatively self-contained and is headed by a divisional manager accountable for its performance. This structure suits large, diversified enterprises with several distinct products.

**Step 1:** Explain the meaning and suitability **Meaning:** Divisional structure is an organisational structure in which activities relating to a particular product or product line are grouped into a separate division. Each division has its own functional departments and a manager responsible for its operations and results, while overall policy and coordination remain with top management.

**Suitability:** It is most suitable for large business enterprises manufacturing a wide variety of products, particularly when they expand into new product lines. Where different products require different resources, production methods or marketing arrangements, separate product divisions allow focused management of each business.

**Step 2:** State four advantages of divisional structure

- **Development of managerial skills:** A divisional head handles several functions associated with a product instead of specialising in only one function. This broad experience develops general management abilities and prepares managers for higher responsibilities.
- **Accountability for performance:** Revenue and costs can be assigned to each division and its profit or loss assessed separately. The divisional head can therefore be held accountable for results, and management can identify and take corrective action in a poorly performing division.
- **Flexibility and initiative:** Each division functions as a relatively autonomous unit. Decisions concerning its product can be taken more quickly within the division, encouraging initiative and enabling it to respond promptly to changes in its market.
- **Facilitation of expansion and growth:** New products can be accommodated by adding new divisions without substantially disturbing existing divisions. The enterprise can therefore expand its range of business activities while retaining a clear focus and responsibility for each product line.

**Step 3:** Conclusion Divisional structure organises work by product lines and suits large, diversified enterprises. Its advantages include managerial development, clear performance accountability, flexibility and initiative, and easier expansion and growth.

**Quick Tip to Solve:** Link every advantage to the self-contained product division: its head manages several functions, answers for results, decides promptly and accommodates growth.

OR

**26(b). What is meant by 'Informal organisation' ? State any three advantages and any two disadvantages of this form of organisation.**

[6 marks]

**Solution:**

**Concept:**

- Informal organisation is the network of social relationships that arises spontaneously from interaction among employees in a formal organisation.
- It is based on personal friendship, common interests and group norms, rather than deliberately prescribed authority and reporting relationships.

**Step 1:** Explain the meaning An informal organisation develops when employees meet, communicate and form personal relationships while working together. Management does not deliberately create this network through an organisation chart. For example, employees from different departments may become friends because they share an interest. Their informal relations can influence communication and behaviour even though their formal duties remain unchanged.

**Step 2:** State three advantages

- **Faster communication:** Information travels quickly through informal channels because it does not have to follow every link in the prescribed chain of command. Employees can also obtain prompt feedback through their personal contacts.
- **Fulfilment of social needs:** Membership of an informal group provides friendship, acceptance

and a sense of belonging. This gives employees psychological satisfaction and can improve their cooperation at work.

- **Support for organisational objectives:** Informal groups can help overcome weaknesses in the formal organisation. Personal contacts enable employees to assist one another and resolve practical difficulties, thereby supporting the achievement of common objectives.

**Step 3:** State two disadvantages

- **Spread of rumours:** Informal communication may carry incomplete or incorrect information. Rumours can create misunderstanding, anxiety and uncertainty among employees and disturb the working environment.
- **Resistance to change:** An informal group may oppose a new policy or work method when it feels that the change threatens its established relationships or interests. Such collective opposition can delay the implementation of useful managerial decisions.

**Step 4:** Conclusion Informal organisation is a spontaneous network of personal relationships. It offers fast communication, social satisfaction and support for organisational objectives, but can also spread rumours and encourage resistance to change.

**Quick Tip to Solve:** Keep the meaning separate from the evaluation: list exactly three advantages and two disadvantages, and connect each heading to its effect on employees or organisational work.

**27(a). Explain any four non-financial incentives.** [6 marks]

**Solution:**

**Concept:**

- Non-financial incentives are rewards and arrangements that motivate employees by satisfying their psychological, social and higher-level needs rather than by offering direct monetary payment.
- Recognition, advancement, security and participation can encourage employees to identify with their work and the organisation. Their effectiveness depends on the employee's needs.

**Step 1:** Explain recognition and career advancement

- **Employee recognition programmes:** Recognition means acknowledging and appreciating an employee's good performance. A manager may praise an employee's effort, present a certificate for an achievement or display outstanding performance on a notice board. This satisfies the need for esteem and makes the employee feel that the organisation values the contribution. Recognition should be fair, timely and related to actual performance so that it encourages continued effort.
- **Career advancement opportunity:** Employees seek opportunities to grow in their careers and take on higher responsibilities. An organisation can motivate them through promotion opportunities, suitable training and development programmes, and a clear route for professional progress. The prospect of advancement encourages employees to improve their abilities and perform well in their present positions. The motivating element is growth and responsibility, even though a promotion may also have financial consequences.

**Step 2:** Explain job security and participation

- **Job security:** Employees want reasonable stability in employment and protection against arbitrary loss of their jobs. A sense of security reduces anxiety about the future and encourages loyalty towards the organisation. Employees can then concentrate on their duties instead of constantly worrying about continued employment. Management should combine security with clear performance expectations so that it does not encourage complacency.
- **Employee participation:** Employees may be involved in decisions concerning their work, such as work methods, quality improvement or working conditions. Their suggestions can be obtained through committees and joint discussions. Participation makes employees feel respected and gives them a sense of involvement in organisational affairs. When people help shape a decision, they are more likely to accept it and cooperate in its implementation.

**Step 3:** Conclusion Four non-financial incentives are employee recognition programmes, career advancement opportunities, job security and employee participation. They motivate through appreciation, personal growth, stability and involvement rather than through direct monetary rewards.

**Quick Tip to Solve:** For each non-financial incentive, name the arrangement, show how management provides it, and explain the employee need that it satisfies.

OR

**27(b). Explain any four psychological barriers of communication.** [6 marks]

**Solution:**

**Concept:**

- Psychological barriers arise from the emotional and mental state of the sender or receiver. Effective communication requires both accurate transmission and a willingness to understand the message.
- Premature evaluation, lack of attention, loss by transmission and poor retention, and distrust can prevent the receiver from understanding the meaning intended by the sender.

**Step 1:** Explain barriers arising during reception

- **Premature evaluation:** The receiver judges a message before the sender has completed it. Such judgement may reflect the receiver's prejudices or past experience rather than the complete facts. For example, rejecting a suggestion after hearing only its opening words prevents the receiver from understanding its benefits. The receiver should first listen to the entire message and then evaluate it.
- **Lack of attention:** A receiver who is preoccupied with personal problems or other work may not listen carefully. Even though the words reach the receiver, their meaning is not properly understood. For example, an employee worrying about a family problem may miss important instructions. Communication therefore requires attention and concentration as well as hearing.

**Step 2:** Explain barriers affecting preservation and acceptance

- **Loss by transmission and poor retention:** When a message passes through several people, each may omit or alter a part of it, so the final message differs from the original. People also cannot retain all the information received orally, particularly when it is lengthy or they are inattentive. Thus,

important details may be forgotten before action is taken. Clear written support and confirmation can help preserve the intended meaning.

- **Distrust:** If the sender and receiver do not trust one another, the receiver may view even a correct message with suspicion. The receiver may search for hidden motives, reject useful information or interpret neutral words negatively. For example, an employee who distrusts a manager may not accept an assurance about a new policy. Mutual confidence is necessary for the message to be accepted in its intended spirit.

**Step 3:** Conclusion The four psychological barriers are premature evaluation, lack of attention, loss by transmission and poor retention, and distrust. They obstruct complete listening, accurate understanding, recall and acceptance of a message.

**Quick Tip to Solve:** Distinguish psychological barriers from semantic barriers: focus on the listener's judgement, attention, memory and trust rather than difficult words or faulty translation.

**28(a). "Sound Financial Planning is essential for the success of any business enterprise." Explain this statement by giving any six reasons.** [6 marks]

**Solution:**

**Concept:**

- Financial planning estimates a business's future financial requirements and determines the sources through which those requirements will be met. It translates business plans into financial terms.
- Sound financial planning aims to make funds available at the right time while avoiding unnecessary surplus funds. It links investment, financing and operating decisions to the enterprise's objectives.

**Step 1:** Explain how planning prepares the business for the future

- **Forecasting future requirements:** Financial planning helps the enterprise anticipate future needs for funds. By estimating investment and operating requirements in advance, managers can arrange suitable finance instead of reacting to a shortage when a payment becomes due.
- **Avoiding business shocks and surprises:** Planning makes the business consider different situations and the financial consequences of its decisions. It prepares managers for possible changes in sales, costs and cash flows, enabling the enterprise to respond more effectively to uncertainty.
- **Coordinating business functions:** The financial implications of production, marketing, purchasing and other plans are brought together. This improves coordination: for example, a sales expansion plan must be supported by production capacity and the funds required for additional materials and stock.

**Step 2:** Explain how planning supports decisions and control

- **Reducing waste, duplication and gaps:** Financial planning links different decisions with each other. It helps prevent departments from independently making inconsistent commitments or arranging duplicate resources, and identifies financial needs that might otherwise be overlooked.
- **Linking the present with the future:** Financial planning connects current financing and investment decisions with the enterprise's longer-term objectives. Managers can examine whether today's allocation of funds will support future growth and whether the proposed financing can be sustained.

- **Providing a basis for financial control:** Financial plans supply targets and standards against which actual results can be compared. If expenditure, receipts or financing depart from the plan, managers can investigate the reasons and take corrective action. Thus, planning makes control systematic rather than dependent on guesswork.

**Step 3:** Conclusion Sound financial planning supports business success by forecasting requirements, preparing for uncertainty, coordinating functions, reducing waste and gaps, linking present decisions to future objectives, and providing standards for financial control. It helps the enterprise use its financial resources purposefully and maintain continuity of operations.

**Quick Tip to Solve:** Explain each reason through its effect on the business: forecasting prepares, coordination connects departments, and financial targets make control possible.

OR

**28(b). You are a Finance Manager of a newly established company. The Directors have asked you to determine the amount of. Fixed Capital requirement for the company. Explain any four factors that you will consider while determining the Fixed Capital requirement for the company.** [6 marks]

**Solution:**

**Concept:**

- Fixed capital is the amount invested in long-term assets such as land, buildings, plant and machinery. These assets serve the business over several accounting periods.
- The finance manager must estimate fixed capital before selecting long-term sources of finance. The requirement depends on the assets necessary for the firm's operations and its future plans.

**Step 1:** Assess the business and the scale of operations **1. Nature of business:** A manufacturing company generally requires substantial investment in factory premises, plant and machinery because it transforms raw materials into finished goods. A trading concern mainly buys and sells finished goods and therefore normally needs less fixed capital. A service concern's requirement depends on the assets its particular service needs. The manager should first identify the company's activity rather than assume that every newly established business needs the same assets.

**2. Scale of operations:** A company operating on a large scale needs greater production capacity, larger premises and more machinery. Its fixed capital requirement is therefore higher than that of a similar company operating on a small scale. The estimate must reflect the capacity the company actually proposes to install; merely being newly established does not determine its scale.

**Step 2:** Examine production technique and growth plans **3. Choice of technique:** A capital-intensive method uses more sophisticated machinery and automation and therefore requires a larger investment in fixed assets. A labour-intensive technique relies more heavily on workers and generally requires less fixed capital for the same kind of activity. The finance manager should determine which production technique the directors intend to adopt and estimate the cost of the required equipment accordingly.

**4. Growth prospects:** If the company expects rapid expansion, it may need additional capacity, bigger premises and more equipment in the future. Its fixed capital requirement will consequently be higher than that of a company with limited expansion plans. Provision should be based on realistic

growth expectations so that shortage of long-term assets does not obstruct expansion and unnecessary capacity does not lock up funds.

**Step 3:** Conclusion The four factors are nature of business, scale of operations, choice of technique and growth prospects. The finance manager should assess each against the company's proposed operations and plans before estimating its investment in long-term assets.

**Quick Tip to Solve:** For every fixed-capital factor, state both the condition and its effect: for example, a capital-intensive technique requires more investment in machinery.

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**29(a). Name the element of marketing-mix in which a set of firms and individuals creates possession, place and time utility and helps in market offering. Also explain any five important functions performed by this element.** [6 marks]

**Solution:**

**Concept:**

- Place or physical distribution is the element of the marketing mix concerned with making goods available at the right place and time. Channels of distribution are an important part of this element.
- Channels of distribution are the set of firms and individuals that assist in transferring goods and their ownership from producers to consumers. They create place, time and possession utility.

**Step 1:** Identify the element described The element is **place or physical distribution**, specifically its **channels of distribution**. The words "a set of firms and individuals" refer to channel members such as wholesalers and retailers. They bridge the gap between production and consumption and make the market offering conveniently available to buyers. The reference to possession, place and time utility indicates distribution rather than product design, price or promotion. Five important functions performed by channels of distribution are explained below.

**Step 2:** Explain how channel members arrange the supply **1. Sorting:** Middlemen obtain goods from different producers and sort them into homogeneous groups according to characteristics such as quality, size or price. This makes it easier for customers to select the category of goods they require.

**2. Accumulation:** Channel members collect goods from different sources and build up a sufficient stock. By bringing together supplies, they help maintain availability and meet the needs of buyers who require a suitable quantity at a particular time.

**3. Allocation:** Middlemen break large quantities of goods into smaller lots suitable for individual buyers. For example, a wholesaler divides a manufacturer's large consignment into smaller quantities for retailers, while retailers sell still smaller quantities to consumers. This reconciles large-scale production with small purchases.

**Step 3:** Explain how channels match and stimulate demand **4. Assorting:** Channel members build an assortment of products from different producers so that customers can obtain a variety of related goods at one outlet. A retailer, for instance, can bring several brands and product categories together, saving the buyer the effort of contacting each producer separately.

**5. Product promotion:** Channel members help promote goods through displays, demonstrations, personal interaction and other selling efforts. They communicate product features and availability to

prospective buyers and encourage purchases. This supports the producer's promotional effort at the point where customers make buying decisions.

**Step 4:** Conclusion The description identifies place or physical distribution, particularly channels of distribution. Five channel functions are sorting, accumulation, allocation, assorting and product promotion, which together help connect producers with consumers.

**Quick Tip to Solve:** Keep sorting, accumulation, allocation and assorting distinct: classify goods, collect supplies, break bulk and build a variety, respectively.

OR

**29(b). Identify and explain the promotional tool of marketing-mix which plays a persuasive, service and informative role and thereby links a business firm to its customers. Also explain by giving any four reasons how this tool helps in increasing the sales of businessmen.** [6 marks]

**Solution:**

**Concept:**

- Personal selling is the promotion tool in which a salesperson personally communicates with prospective buyers to persuade them to purchase a product.
- Its two-way interaction combines information about the product, persuasion and customer service, linking the business with its customers.

**Step 1:** Identify and explain the promotional tool The tool is **personal selling**. The clues are its "persuasive, service and informative role" and its role in linking a firm to customers. A salesperson explains the product, answers queries, demonstrates its use and helps the buyer choose a suitable offering. The buyer's response is available immediately, so the salesperson can adapt the explanation and remove doubts. This personal interaction distinguishes it from impersonal mass advertising.

**Step 2:** Explain how personal selling increases sales

- **Effective promotional tool:** A salesperson can explain product features and benefits directly and demonstrate their use. Objections can be answered immediately, making the message convincing and helping convert interest into a purchase.
- **Flexible approach:** The presentation can be changed according to the customer's needs, knowledge, buying capacity and reactions. The salesperson stresses the benefits relevant to that buyer instead of giving every customer the same message, improving the likelihood of a sale.
- **Minimum wastage of effort:** The firm can direct salespeople towards identified prospective buyers. Time and selling effort are concentrated on people likely to need and buy the product, rather than being spread indiscriminately, making sales efforts more productive.
- **Consumer attention:** Direct face-to-face communication helps secure the buyer's attention. The salesperson can involve the buyer in a demonstration and clarify doubts before attention is lost, encouraging a favourable buying decision.

**Step 3:** Conclusion The promotional tool is personal selling. Its effective persuasion, flexible presentation, focused effort and ability to obtain consumer attention help businessmen increase sales.

**Quick Tip to Solve:** Link each advantage of personal selling to a buying decision: explaining, adapting, targeting and securing attention show how it raises sales.

**30(a). Reena purchased one litre of pure Deshi Ghee from a shopkeeper. After using it she had a doubt that it is adulterated. She sent it for a laboratory test which confirmed that the Ghee is adulterated. State any six reliefs available to Reena, if she complains and the Consumer Court is satisfied about the genuineness of the complaint.** [6 marks]

**Solution:**

**Concept:**

- Consumer protection provides remedies against defective goods and unfair trade practices. A consumer forum may order suitable relief after being satisfied that a complaint is genuine.
- Reena bought ghee described as pure, but the laboratory confirmed adulteration. The reliefs concern both her loss and prevention of further harm to consumers.

**Step 1:** Apply consumer protection to Reena's complaint The ghee was sold as "pure Deshi Ghee", whereas the laboratory test "confirmed that the Ghee is adulterated". This establishes a defect in the quality and purity of the goods supplied. On accepting the complaint, the Consumer Court can direct the opposite party to provide appropriate relief. The following are six available forms of relief; the order depends on the facts and the loss established.

**Step 2:** State six reliefs the Consumer Court can grant

- **Replacement of the goods:** The court can direct replacement of the adulterated ghee with fresh, pure ghee free from the defect. This gives Reena the quality of product she originally purchased.
- **Refund of the price:** The court can direct the seller to return the purchase price paid by Reena. A refund restores the money spent on goods that failed to meet the promised standard.
- **Compensation for loss or injury:** It can award reasonable compensation for loss or injury suffered because of the seller's negligence. Any claim for illness or other injury must be supported by the facts; the question does not state that Reena became ill.
- **Discontinuance of unfair trade practice:** It can order the seller to stop the unfair practice of selling adulterated ghee as pure and not repeat it. This addresses the misleading representation as well as the immediate complaint.
- **Withdrawal of hazardous goods:** It can direct withdrawal of hazardous goods from sale. If the adulterated stock is hazardous, this prevents its continued supply and protects other consumers from the same risk.
- **Payment of litigation costs:** It can order payment of adequate costs to Reena for pursuing her complaint. This helps ensure that obtaining redress does not leave the successful complainant bearing the entire cost of proceedings.

**Step 3:** Conclusion Reena may obtain replacement, refund, compensation for established loss or injury, discontinuance of the unfair practice, withdrawal of hazardous goods from sale and adequate litigation costs, as appropriate in the court's order.

**Quick Tip to Solve:** Separate relief for the buyer from orders protecting all buyers; do not invent an illness or promise that every remedy is automatically granted together.

OR

**30(b). Prakhar purchased an ISI mark electric iron from 'Bharat Electricals'. While using he found that it was not working properly. He approached the seller and complains for the same. The seller satisfies Prakhar by saying that he will ask the manufacturer to replace this iron. The manufacturer refused to replace and 'Bharat Electricals' decided, to file a complaint in the Consumer Court.**

**Can 'Bharat Electricals' do this? Why ? Also explain 'who is a consumer' as per Consumer Protection Act, 1986.** [6 marks]

**Solution:**

**Concept:**

- Consumer Protection: The Consumer Protection Act, 1986 protects a consumer who buys goods or hires or avails services for consideration. The purpose of the purchase matters when deciding whether the buyer is a consumer.
- Goods acquired for resale or for a commercial purpose are generally excluded. A retail dealer buying stock for resale is therefore different from the final consumer using the product.

**Step 1:** Identify the position of the retailer **Bharat Electricals cannot file this complaint in its own capacity as a consumer.** The case states that Prakhar "purchased an ISI mark electric iron from 'Bharat Electricals" and that the manufacturer "refused to replace this iron". Bharat Electricals is the seller of the iron; its acquisition of the iron from the manufacturer was for resale. Such a purchase does not make the dealer a consumer under the Act. The manufacturer's refusal does not change the purpose for which the dealer bought the goods.

**Step 2:** Explain who can seek consumer redress in this case **Prakhar is the consumer:** He bought the iron for use and found that it was "not working properly". He can seek redress for the defective product under the Act. The seller's assurance that it would ask the manufacturer for replacement does not transfer Prakhar's consumer status to the seller. An ISI mark is an assurance of prescribed quality standards; it does not prevent a complaint when a product is actually defective.

**Step 3:** Define a consumer of goods **Buyer for consideration:** A consumer is a person who buys goods for consideration that has been paid, promised, partly paid and partly promised, or is payable under a system of deferred payment.

**Approved user:** The definition also includes a user of those goods, other than the buyer, when the use is made with the buyer's approval.

**Exclusions:** A person obtaining goods for resale or for a commercial purpose is not a consumer. However, goods bought and used exclusively to earn one's livelihood by means of self-employment are not treated as a commercial-purpose purchase for this exclusion. Nothing in the case indicates that this exception applies to Bharat Electricals' resale of the iron.

**Step 4:** Define a consumer of services **Hirer or person availing services:** A consumer also includes a person who hires or avails services for consideration paid, promised, partly paid and partly promised, or payable under deferred payment.

**Approved beneficiary:** A beneficiary of those services is also included when the services are availed with the approval of the person who hired them. Services availed for a commercial purpose are

excluded, subject to the Act's livelihood by self-employment protection. Services rendered free of charge or under a contract of personal service do not fall within the statutory definition of service.

**Step 5:** Conclusion Bharat Electricals cannot complain as a consumer about goods it acquired for resale. Prakhar, the final buyer and user of the defective iron, can seek consumer redress. The Act covers buyers and approved users of goods, and hirers and approved beneficiaries of services, for the specified forms of consideration, subject to its exclusions.

**Quick Tip to Solve:** First ask why the goods were acquired: personal use points to consumer status, whereas resale excludes the dealer. Keep the buyer and the seller distinct even when the seller offers to arrange a replacement.