CBSE Class 12 Business Studies Question Paper 2012 with Solution PDF-Set 66/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Please check that this question paper contains **7** printed pages.

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

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

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

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

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

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

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

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

(x) Attempt all parts of a question together.

1. Name the type of plan which provides the broad contours of an organisation's business. [1 mark]

Solution:

Concept:

- A strategy is a comprehensive plan for achieving an organisation's objectives.
- It provides broad contours by combining long-term objectives, courses of action and allocation of resources.

Step 1: Recognise the scope of the plan The expression "broad contours of an organisation's business" refers to its overall direction rather than a detailed method for doing one activity.

Step 2: Identify the comprehensive plan A strategy establishes the major objectives, decides the course of action and provides for the resources required. It therefore guides the organisation as a whole.

Step 3: Conclusion The type of plan is a **strategy**.

Quick Tip to Solve: Associate strategy with overall business direction; a procedure instead specifies a sequence of actions.

2. 'Planning always leads to success.' Do you agree ? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Planning decides in advance what is to be done and how it is to be done.
- Planning reduces uncertainty but cannot eliminate it or guarantee success.

Step 1: Reject an absolute guarantee No, I do not agree that planning always leads to success. Preparing a plan by itself does not ensure that the desired result will be achieved.

Step 2: Explain the limitation Plans may be based on assumptions that become invalid when the business environment changes. Moreover, successful implementation requires effective action and other managerial functions; merely repeating a previously successful plan is insufficient.

Step 3: Conclusion Planning does not guarantee success; it must be realistic, adaptable and effectively implemented.

Quick Tip to Solve: In statements using "always", check whether changing conditions or poor implementation can prevent the result.

3. Identify the nature of management when it is practised as personal application of existing knowledge to achieve desired results.

[1 mark]

Solution:

Concept:

- Art is the skilful and personal application of existing knowledge to achieve desired results.
- Management uses theoretical knowledge, but each manager applies it with individual skill and creativity.

Step 1: Identify the defining clue The question expressly describes management as the "personal application of existing knowledge". This is the characteristic feature of an art.

Step 2: Connect knowledge with practice Managers apply established principles to particular business situations. Their experience, judgement and creativity influence how they use those principles to achieve objectives.

Step 3: Conclusion The nature identified is **management as an art**.

Quick Tip to Solve: Personal application, creativity and practice point to art; a systematic body of knowledge points to science.

4. Name the level of management at which the managers are responsible for implementing and controlling the plans and strategies of the organisation. [1 mark]

Solution:

Concept:

- Middle management links top management with supervisory management.
- Middle-level managers interpret and implement the plans and strategies formulated by top management.

Step 1: Separate formulation from implementation Top management determines overall objectives and strategies. The question asks about the managers who put those plans into effect and control their implementation.

Step 2: Identify the responsible level Middle-level managers translate overall plans into departmental plans, assign responsibilities and monitor departmental performance so that organisational strategies are implemented.

Step 3: Conclusion The level is **middle management**.

Quick Tip to Solve: Use the distinction: top management formulates overall strategy; middle management implements it through departments.

5. Give the meaning of 'Placement' as a step in the process of staffing. [1 mark]

Solution:

Concept:

- Placement is a step in the staffing process that follows selection.
- It means assigning the selected person to the specific job or position for which that person has been selected.

Step 1: Locate placement in staffing After a candidate is selected and appointed, the organisation must put the person into an appropriate position. Placement concerns this assignment rather than the search for candidates.

Step 2: State its precise meaning Placement means placing the selected employee in the post for which he or she has been selected, matching the person with the particular job to be performed.

Step 3: Conclusion **Placement** is assigning the selected employee to the specific job or post for which the employee has been selected.

Quick Tip to Solve: Distinguish placement (assignment to a job) from orientation (introduction to the organisation and colleagues).

6. Define 'communication'. [1 mark]

Solution:

Concept:

- Communication is the process of exchanging information, ideas, views or feelings between people.
- The exchange must create common understanding; sending a message without understanding is incomplete communication.

Step 1: Identify what is exchanged Communication involves a sender conveying information, ideas, opinions or feelings to a receiver. It can take place through spoken, written or non-verbal messages.

Step 2: Include the essential outcome The receiver interprets the message so that its meaning is understood. Thus, the definition includes both exchange of information and the creation of understanding between the persons concerned.

Step 3: Conclusion **Communication** is the process of exchange of information between two or more persons to reach common understanding.

Quick Tip to Solve: A complete definition needs both exchange of information and common understanding.

7. State any one 'Developmental function' of Securities and Exchange Board of India (SEBI). [1 mark]

Solution:

Concept:

- SEBI undertakes developmental functions to promote the growth and efficient functioning of the securities market.
- Training intermediaries improves their professional competence and helps the market develop.

Step 1: Select a developmental function One developmental function of SEBI is the **training of intermediaries in the securities market**. This develops the knowledge and skills of persons providing market services.

Step 2: Explain its developmental character Better-trained intermediaries can perform their work more efficiently and professionally. This strengthens the market infrastructure; it is a market-development activity rather than the punishment of an unfair trading practice.

Step 3: Conclusion SEBI performs the developmental function of **training intermediaries in the securities market**.

Quick Tip to Solve: Training, research and investor education are developmental clues; preventing fraud is a protective function.

8. State any one advantage provided by Over The Counter Exchange of India. [1 mark]

Solution:

Concept:

- OTCEI is an electronic, screen-based exchange that facilitates securities trading through its network.
- Its nationwide network gives investors convenient access to trading facilities through member counters.

Step 1: Choose one investor advantage One advantage of OTCEI is **convenient access through a nationwide network of counters**. Investors need not depend on a single physical trading floor to transact in listed securities.

Step 2: Explain the benefit The electronic network connects the counters and makes trading facilities available at different locations. This improves accessibility for investors and facilitates transactions in securities admitted to the exchange.

Step 3: Conclusion OTCEI provides investors with **convenient nationwide access to trading facilities**.

Quick Tip to Solve: For an "any one advantage" question, name a distinct benefit and explain how it helps the investor.

9. State how 'Self-regulation by business' acts as a means of Consumer Protection. [1 mark]

Solution:

Concept:

- Consumer protection includes voluntary action by businesses to safeguard buyers from unfair trade practices.
- Self-regulation means adopting and following fair business practices without waiting for legal compulsion.

Step 1: Identify the voluntary commitment A business protects consumers by voluntarily adopting ethical standards, supplying good-quality products and giving truthful information about their price, quality and use.

Step 2: Explain how it protects the buyer It may establish a consumer service centre or grievance cell to deal promptly with complaints and provide redress. Such self-imposed discipline prevents exploitation and helps maintain customer confidence and long-term goodwill.

Step 3: Conclusion Self-regulation protects consumers when businesses voluntarily follow fair practices and resolve consumer complaints through their own grievance machinery.

Quick Tip to Solve: Link self-regulation with voluntary fair dealing and an effective consumer grievance cell.

10. Give any one responsibility of a consumer in addition to obtaining a cash receipt while purchasing a washing machine. [1 mark]

Solution:

Concept:

- A consumer should make an informed purchase and check the quality and safety of a product.
- For an electrical appliance, an appropriate standardisation mark provides an assurance of conformity to prescribed standards.

Step 1: State one responsibility The consumer should check that the washing machine bears the ISI standardisation mark before buying it.

Step 2: Apply it to the appliance This check helps the buyer choose a product conforming to prescribed quality and safety standards. It is a responsibility additional to obtaining a cash receipt: the receipt proves the purchase, while checking the mark helps assess the product before purchase.

Step 3: Conclusion One responsibility is to look for the ISI mark on the washing machine before purchasing it.

Quick Tip to Solve: For an electrical appliance, remember the ISI mark when asked for a quality-related consumer responsibility.

11. Explain how principles of management :

(i) help in optimum utilization of resources and effective administration, and

(ii) help the managers in meeting changing environment requirements. [3 marks]

Solution:

Concept:

- Principles of management are broad guidelines for managerial decisions and action, derived from observation and experience.
- They are flexible guidelines rather than rigid prescriptions; managers adapt their application to the situation.

Step 1: Explain optimum utilisation and administration **Optimum utilisation of resources:** Management principles guide the proper use of human and material resources, reducing waste and avoiding trial-and-error decisions. For example, division of work develops specialisation and improves efficiency. Resources can therefore be used to obtain greater output at a lower cost.

Step 2: Explain effective administration **Effective administration:** Principles guide the delegation of authority, assignment of responsibility and coordination of work. They discourage personal prejudice and provide an objective basis for decisions. Clear working relationships and balanced authority and responsibility help people work together towards organisational objectives.

Step 3: Explain adaptation to change **Meeting changing environment requirements:** Since principles are flexible, managers can modify their application as technology, competition, employee expectations or customer needs change. They provide useful guidance while leaving scope for judgment. Thus managers can select suitable methods for new circumstances instead of mechanically repeating an outdated practice.

Step 4: Conclusion Principles improve resource efficiency and administration, and their flexible application helps managers respond effectively to a changing business environment.

Quick Tip to Solve: Organise this answer under resources, administration and adaptability; explain the benefit under each heading.

12. Why is training important for the employees ? State any three reasons. [3 marks]

Solution:

Concept:

- Training is the systematic process of increasing an employee's knowledge and skills for a particular job.
- Its benefits to employees include career growth, greater earnings and safer performance of work.

Step 1: Explain career growth **Better career opportunities:** Training improves an employee's knowledge and job skills. The employee becomes better equipped to handle existing duties and more responsible assignments. This improves the prospects of promotion and future career growth within the organisation.

Step 2: Explain increased earnings **Higher earnings:** Training enables employees to perform their work more efficiently and accurately. Better performance improves productivity, which can help employees earn more, particularly where rewards or incentives are related to output and performance. The benefit arises from improved ability to do the job, rather than merely attending a programme.

Step 3: Explain safer work **Greater safety:** Training teaches employees the correct way to operate machines, use equipment and follow work procedures. They understand necessary precautions and are less likely to make unsafe errors. Consequently, the risk of accidents and injury is reduced, making employees more confident in carrying out their tasks.

Step 4: Conclusion Training benefits employees through better career and promotion prospects, increased earnings from improved performance, and greater safety at work.

Quick Tip to Solve: Keep the answer employee-centred: career, earnings and safety are distinct personal benefits of training.

13. What is meant by 'Financial Planning' ? State any two points of its importance. [3 marks]

Solution:

Concept:

- Financial planning estimates an organisation's future financial requirements and determines the sources from which funds will be raised.
- It seeks to make the right amount of finance available at the right time, avoiding both shortages and unnecessary surplus funds.

Step 1: Define financial planning Financial planning is the process of estimating the funds required by a business and determining their sources. It assesses how much finance will be needed, when it will be needed and how it will be obtained. It therefore provides a financial framework for carrying out the business plans.

Step 2: Explain preparation for the future **Helps in facing future uncertainties:** Financial planning forecasts requirements under different business situations and considers suitable sources of finance in advance. Managers can prepare for expansion, changing sales or unforeseen requirements rather than arranging funds hurriedly when a need arises. This helps the business face possible financial difficulties more effectively.

Step 3: Explain coordination **Helps in coordinating business functions:** Plans for production, purchases, marketing and other activities all require funds. Financial planning brings their requirements together and links them with the finance available. Departments can align their activities with the overall financial plan, avoiding conflicting commitments and helping the organisation carry out its plans in a coordinated manner.

Step 4: Conclusion Financial planning estimates financial needs and identifies their sources. It is important because it prepares the business for future uncertainties and coordinates the financial requirements of its different functions.

Quick Tip to Solve: For the meaning, state both estimation of requirements and determination of sources; then explain two separate benefits.

14. Mansi, a shoe manufacturer for school students, decided to maximise her profit by producing and distributing at large scale and thereby reducing the average cost of production.

(i) Identify the Marketing Management philosophy adopted by Mansi.

(ii) Explain this philosophy on the basis of

(a) Main Focus

(b) Means and Ends [3 marks]

Solution:

Concept:

- The production concept is a marketing management philosophy that stresses large-scale production and wide availability at a low price.
- Its focus is production efficiency, rather than product features or aggressive selling. Lower unit cost permits economical distribution and higher sales volume.

Step 1: Identify the philosophy from the case Mansi adopts the **production concept**. The decisive clues are "producing and distributing at large scale" and "reducing the average cost of production". They show that she seeks efficiency and volume, rather than identifying individual customer preferences or spending heavily on promotion.

Step 2: Explain the main focus **Main focus:** The emphasis is on increasing the quantity produced and improving production and distribution efficiency. The philosophy assumes that consumers favour products that are readily available and affordable. Mansi therefore concentrates on making school shoes available widely at a low unit cost.

Step 3: Explain the means and the end **Means:** Large-scale production, efficient operations and extensive distribution reduce average cost and make the product accessible. **End:** The business aims to earn profits through a high volume of sales. Thus efficiency and lower cost are the means, while profitability through large sales volume is the intended end.

Step 4: Conclusion The philosophy is the production concept: its main focus is production and distribution efficiency, its means are large-scale production and low cost, and its end is profit through higher sales volume.

Quick Tip to Solve: Large scale plus low average cost signals the production concept; superior features signal the product concept.

15. Explain any three assumptions of Maslow's need hierarchy theory. [3 marks]

Solution:

Concept:

- Maslow explains motivation through needs arranged in a hierarchy, from basic physiological needs to self-actualisation.
- A need influences behaviour when the person experiences it as unsatisfied; the theory links motivation to the level of need currently important to the person.

Step 1: Explain the first two assumptions **1. Behaviour is based on needs:** A person's behaviour is influenced by the needs he or she experiences. An employee acts to satisfy those needs; management can motivate more effectively by recognising them. For example, a person seeking economic security is influenced by dependable employment and pay.

2. Needs are arranged in a hierarchy: Human needs follow an order of importance, beginning with physiological needs and proceeding through safety, belongingness, esteem and self-actualisation. Under the theory, basic needs normally claim attention before higher needs.

Step 2: Explain the third assumption **3. A satisfied need no longer motivates:** Once a need has been reasonably satisfied, it loses its power to stimulate further effort. Motivation then comes from a need that remains unsatisfied. For example, after basic living and security needs are met, recognition and responsibility may become more effective motivators than merely repeating the same basic provision. The implication is that the same incentive need not motivate every employee at every stage.

Step 3: Conclusion Any three assumptions are: behaviour is based on needs; needs are arranged in a hierarchy; and a satisfied need ceases to be a motivator.

Quick Tip to Solve: Separate an assumption about how needs work from the names of the five levels; listing levels alone does not explain three assumptions.

16. Explain that technique of scientific management which is the strongest motivator for a worker to reach standard performance. [4 marks]

Solution:

Concept:

- Taylor's differential piece wage system links a worker's earnings to output and efficiency, making financial reward an incentive to attain the standard.
- Scientific management establishes the standard scientifically, using work study, and distinguishes efficient from inefficient performance through different piece rates.

Step 1: Identify the technique and set the standard The technique is the **differential piece wage system**. Taylor regarded monetary incentives as a powerful motivator. Under this method, the standard output that a worker should achieve in a specified time is determined scientifically. Actual output is then compared with that standard, so the classification rests on performance rather than favouritism.

Step 2: Explain the two differential rates **Higher rate for efficient workers:** A worker who reaches or exceeds the standard is paid at a higher piece rate. This rate applies to the output produced, thereby rewarding the worker for attaining the required level.

Lower rate for inefficient workers: A worker whose output falls below the standard is paid at a lower piece rate. The distinction creates a clear financial difference between standard and below-standard performance.

Step 3: Explain why it motivates standard performance **Incentive effect:** The prospect of qualifying for the higher rate encourages a worker to improve effort and efficiency and reach the standard. It also rewards efficient workers instead of paying everyone alike. For example, if the standard is 10

units per day, a worker producing 10 units at Rs 50 per unit earns Rs 500; one producing 9 units at the lower rate of Rs 40 per unit earns Rs 360. These illustrative rates show why reaching the standard can produce a substantial increase in earnings.

Step 4: Conclusion The differential piece wage system motivates workers to attain standard performance by paying a higher piece rate at or above the standard and a lower rate below it.

Quick Tip to Solve: Mention the scientifically fixed standard and both piece rates; a general statement that wages motivate workers does not explain the technique.

17. State any four points of importance of organising function of management. [4 marks]

Solution:

Concept:

- Organising means identifying and dividing work, grouping related activities, assigning duties and establishing authority relationships so that plans can be carried out.
- Its importance lies in creating a clear work structure: people understand their jobs, resources are used effectively and employees can develop their capabilities.

Step 1: State the benefits for work and authority

- **Benefits of specialisation:** Organising divides the total work into manageable activities and assigns specific tasks to employees. Repeated performance of a particular task helps workers gain experience and expertise, thereby improving their efficiency and the quality of work.
- **Clarity in working relationships:** Organising specifies each employee's responsibility and the person to whom that employee reports. Clear superior-subordinate relationships identify who can give instructions and who is accountable for results, reducing confusion and overlapping authority.

Step 2: State the benefits for resources and employees

- **Optimum utilisation of resources:** Clearly assigned duties avoid duplication of activities and prevent several people from unnecessarily doing the same work. Proper allocation of human, material and financial resources reduces wastage and enables the organisation to obtain better results from the resources available.
- **Development of personnel:** Organising makes effective delegation possible. When managers entrust routine work and suitable authority to subordinates, the subordinates gain experience in making decisions and accepting responsibility. Managers also get more time to concentrate on important matters, while employees prepare for greater responsibilities.

Step 3: Conclusion Four points of importance of organising are benefits of specialisation, clarity in working relationships, optimum utilisation of resources and development of personnel.

Quick Tip to Solve: Link each benefit to a structural action: dividing work creates expertise, reporting lines create clarity, allocation saves resources and delegation develops people.

18. Investment decision can be long-term or short-term. Explain long-term investment decision and state any two factors affecting this decision. [4 marks]

Solution:

Concept:

- An investment decision concerns the selection of assets in which a business will invest its funds. Long-term investment decisions are known as capital budgeting decisions.
- Capital budgeting selects projects expected to provide benefits over several years. The decision should be based on the project's expected cash flows and the return it can earn.

Step 1: Explain the long-term investment decision A **long-term investment decision** is a decision to commit funds to assets or projects that will generate benefits over a long period. Examples include purchasing new machinery, setting up a new factory or expanding the capacity of an existing plant. These decisions normally involve a substantial amount of funds and affect the business's future earning capacity, profitability and risk. They are difficult and costly to reverse because the funds remain committed for a long time. Management must therefore evaluate the alternatives carefully before selecting a project.

Step 2: State two factors affecting the decision

- **Cash flows of the project:** An investment generates cash payments and receipts over its life. The amount and timing of these cash outflows and inflows must be assessed carefully. A project should be evaluated on the cash it is expected to generate, rather than merely on its reported accounting profit, because cash is needed to recover the investment and meet obligations.
- **Rate of return:** The expected return from each investment proposal is compared with the return required to justify the investment. Management assesses the earnings expected in relation to the funds committed and the project's risk. Other things remaining the same, a proposal offering a higher acceptable return is more attractive.

Step 3: Conclusion Long-term investment, or capital budgeting, involves committing funds to projects or fixed assets that yield benefits over several years. Two factors affecting this decision are the project's cash flows and its expected rate of return.

Quick Tip to Solve: Identify capital budgeting by benefits lasting several years; for its evaluation, distinguish the cash generated by a project from the return earned on the funds invested.

19. Explain the following 'Rights of Consumers' :

(a) Right to be informed

(b) Right to seek redressal [4 marks]

Solution:

Concept:

- Consumer protection gives buyers rights against exploitation and unfair trade practices. Two of these are the right to be informed and the right to seek redressal.
- The first enables an informed buying decision; the second provides a remedy when a consumer

suffers because of defective goods, deficient services or unfair practices.

Step 1: Explain the right to be informed **(a) Right to be informed:** A consumer has the right to obtain complete information about the product being purchased, including its quality, quantity, purity, potency, standard and price. Manufacturers should therefore provide relevant information on the package or label, such as ingredients, manufacturing and expiry dates, directions for use and the maximum retail price, as applicable. This information enables the buyer to compare alternatives and make a well-informed choice, rather than be misled by incomplete descriptions or exaggerated claims. For instance, checking an expiry date helps a buyer avoid purchasing an unusable product.

Step 2: Explain the right to seek redressal **(b) Right to seek redressal:** A consumer has the right to seek relief against unfair trade practices, restrictive trade practices and unscrupulous exploitation. Where goods are defective or services are deficient, the consumer can make a complaint and seek an appropriate remedy. Depending on the facts, relief may include removal of the defect or deficiency, replacement of the product, refund of the price paid, or compensation for the loss or injury suffered. Consumer redressal agencies provide a means of obtaining such relief. Thus the right gives practical protection after a purchase instead of leaving the buyer to bear the loss without a remedy.

Step 3: Conclusion The right to be informed protects the consumer through adequate product information, while the right to seek redressal protects the consumer through suitable relief when goods, services or trading practices cause a grievance.

Quick Tip to Solve: Link "informed" with information before buying and "redressal" with remedies such as replacement, refund or compensation after a grievance.

20. Atul is working in an organisation. After every three months his manager transfers him from one department to another so that he may gain a broader understanding of all the departments of the organisation.

Name and explain the method of training Atul is undergoing. [4 marks]

Solution:

Concept:

- Training improves an employee's knowledge and skills for work. On-the-job training teaches through actual work situations rather than only through classroom instruction.
- Job rotation is an on-the-job training method in which the trainee is moved between jobs or departments to acquire a broader understanding of the organisation.

Step 1: Identify the method from the case The method is **job rotation**. The decisive clue is that Atul's manager "transfers him from one department to another" after every three months. This is a planned movement across different work assignments for training, rather than permanent assignment to one specialised job. The stated purpose, to "gain a broader understanding of all the departments", confirms job rotation. It is not apprenticeship, which involves learning a skilled trade under a master worker, or vestibule training, in which a work environment is reproduced away from the actual workplace.

Step 2: Explain how job rotation trains Atul In job rotation, a trainee works successively on different jobs or in different departments for specified periods. Atul learns the duties, procedures and problems

of each department by performing its work and interacting with its employees. When he moves to the next department, he acquires another set of skills and sees how that department's activities connect with the others. This broad experience develops versatility and a better appreciation of coordination across the organisation. It can also help the manager judge Atul's abilities and interests and prepare him for responsibilities requiring knowledge of several functions. The essential feature is learning through varied actual assignments; the three-month interval is the arrangement in this case, not a fixed requirement for all job-rotation programmes.

Step 3: Conclusion Atul is undergoing job rotation, an on-the-job training method. His planned departmental transfers expose him to different duties and give him a wider understanding of how the organisation functions as a whole.

Quick Tip to Solve: Repeated movement across jobs or departments to broaden experience signals job rotation; training under a skilled master signals apprenticeship.

21. Explain how management 'increases efficiency' and 'helps in the development of society'. [5 marks]

Solution:

Concept:

- Management coordinates human and material resources to achieve organisational objectives effectively and efficiently. Efficiency means completing work with the minimum possible cost and wastage of resources.
- An organisation operates within society. Good management therefore pursues organisational goals while providing useful goods, employment and responsible conduct that improve people's lives.

Step 1: Explain how management increases efficiency **Optimum use of resources:** Managers plan activities, organise the resources required and assign work according to employees' abilities. This avoids idle machinery, duplicated work and unnecessary expenditure, so the same resources can produce a greater output.

Reduction of cost and wastage: Management seeks to reduce costs and increase productivity through better planning, organising, staffing, directing and controlling. For example, coordinating purchases with production requirements prevents material shortages as well as excess inventories. Comparing actual performance with standards helps managers correct avoidable waste and delays. Thus, efficiency improves when the desired output is obtained with fewer inputs or more output is obtained from the available inputs.

Step 2: Explain how management helps society develop **Quality goods at reasonable prices:** Efficiently managed enterprises supply products that satisfy people's needs, use resources economically and can offer quality at competitive prices. This improves consumers' standard of living.

Employment and opportunities for growth: As managed enterprises grow and undertake new activities, they create employment. Training and development improve employees' skills and earning capacity, contributing to individual and social progress.

Useful technology and responsible conduct: Management helps introduce new technology for productive purposes and directs resources towards useful products and services. By meeting obligations

towards employees, consumers and the community, it supports society's welfare rather than pursuing organisational results at society's expense.

Step 3: Conclusion Management increases efficiency by lowering costs, reducing wastage and improving productivity through coordinated use of resources. It helps society develop by supplying useful quality products at reasonable prices, generating employment and growth opportunities, and adopting beneficial technology responsibly.

Quick Tip to Solve: Separate the answer into resource use inside the organisation and benefits reaching society; explain the link between each managerial action and its outcome.

22. State any five points which clarify how understanding of Business Environment helps the managers.

[5 marks]

Solution:

Concept:

- Business environment means the totality of external individuals, institutions and forces that affect an enterprise's performance but are largely outside its direct control.
- Understanding these forces enables managers to interpret changes and choose timely responses. Awareness turns external developments into information useful for business decisions.

Step 1: Recognise opportunities and threats early **Identification of opportunities and first-mover advantage:** Environmental understanding helps managers identify favourable external changes before competitors do. Acting early enables a business to exploit an emerging need, introduce a suitable product and gain a first-mover advantage instead of merely following established rivals.

Identification of threats and early warning signals: Managers can detect adverse developments, such as a new competitor, a substitute product or a change in consumer preferences. Early awareness gives the enterprise time to prepare a response and reduce the possible damage to its business.

Step 2: Use environmental information in business decisions **Tapping useful resources:** The environment supplies inputs such as finance, labour, materials and machinery, and receives the enterprise's outputs. Understanding what resources are available and what suppliers and customers expect helps managers obtain suitable inputs and offer outputs that the environment values.

Coping with rapid changes: Technology, market conditions and customer expectations change quickly. Environmental understanding helps managers recognise these shifts and adapt products, methods and practices in time, instead of continuing with arrangements that have become unsuitable.

Assistance in planning and policy formulation: An informed view of external conditions provides a realistic basis for objectives, plans and policies. For example, recognising a likely change in demand helps management plan capacity and sales efforts. Decisions then reflect actual opportunities and constraints rather than unsupported assumptions.

Step 3: Conclusion Understanding the business environment helps managers identify opportunities, obtain early warning of threats, tap useful resources, cope with rapid changes, and formulate realistic plans and policies. Each benefit supports timely and better-informed managerial action.

Quick Tip to Solve: Use five distinct NCERT headings and explain the managerial benefit of each; do not merely list external forces such as technology or competition.

23. State any five limitations of Planning. [5 marks]

Solution:

Concept:

- Planning decides in advance what to do and how to do it. It provides direction, but its usefulness is restricted by the way plans are prepared and by changes in the business environment.
- Limitations explain why a carefully prepared plan cannot by itself guarantee success. Managers must review plans and exercise judgement while implementing them.

Step 1: State limitations affecting flexibility and adaptation **1. Planning leads to rigidity:** A well-defined plan prescribes a particular course of action. Managers and employees may follow it even when circumstances require a different response. Such rigidity reduces the flexibility needed to deal with new situations.

2. Planning may not work in a dynamic environment: Business conditions change continuously because of economic, political, technological and competitive developments. Plans are based on assumptions about future conditions; unexpected changes can make those assumptions and the resulting plans ineffective.

Step 2: State limitations arising from the planning process **3. Planning reduces creativity:** Planning is generally undertaken by top management, while other employees are expected to implement the predetermined plans. When they merely follow instructions instead of developing their own ideas, their initiative and creativity may be restricted.

4. Planning involves huge costs: Collecting information, conducting surveys, obtaining expert advice and analysing alternatives require expenditure. These costs can be substantial, and the benefits expected from a plan must justify the resources spent on preparing it.

5. Planning is a time-consuming process: Gathering reliable information, evaluating alternatives and securing approval take considerable time. An opportunity may disappear while a plan is being developed, especially when a situation demands a quick decision.

Step 3: Conclusion Five limitations of planning are rigidity, difficulty in a dynamic environment, reduced creativity, huge costs and the time consumed in preparing plans. These limitations require managers to keep plans flexible and review them when conditions change.

Quick Tip to Solve: Recall the five limitations through flexibility, change, creativity, cost and time; explain how each one restricts planning rather than merely listing its name.

24. Pranav is engaged in 'Transport-Business'. Identify the working capital requirements of Pranav stating the reason in support of your answer. Pranav also wants to expand and diversify his Transport-Business. Explain any two factors that will affect his fixed capital requirements.

[5 marks]

Solution:

Concept:

- Working capital finances day-to-day operations through current assets. Its requirement depends on the nature of business and the time between paying operating expenses and receiving revenue.
- Fixed capital is invested in long-term assets such as vehicles, buildings and equipment. Growth prospects and diversification influence the amount needed for these assets.

Step 1: Identify the working capital requirement and its reason **Relatively low working capital requirement:** Pranav is engaged in "Transport-Business", which is a service business. Unlike a manufacturing concern, it does not need to maintain large inventories of raw materials, work-in-progress and finished goods, nor does it have a lengthy manufacturing cycle tying up funds. Consequently, its working capital requirement is relatively low.

It still needs funds for recurring operating expenses such as fuel, drivers' wages, repairs and other running costs. Thus, low working capital does not mean that no working capital is needed. The nature of the service business explains the relatively small investment in current assets.

Step 2: Explain the effect of growth prospects on fixed capital **Growth prospects:** The statement that Pranav "wants to expand" indicates a plan to increase the scale of operations. A business anticipating growth requires additional fixed assets to handle the larger volume of activity. For a transport business, expansion may involve acquiring more vehicles and related long-term facilities. Therefore, stronger growth prospects increase the fixed capital requirement; merely financing routine running expenses would not provide the extra operating capacity.

Step 3: Explain the effect of diversification on fixed capital **Diversification:** The case also says that Pranav wants to "diversify his Transport-Business". Diversification means entering new lines of business or adding new activities. These may require additional or different fixed assets and infrastructure instead of relying entirely on existing assets. Accordingly, diversification generally increases the fixed capital requirement. Pranav must assess the long-term assets needed for the proposed activities before arranging funds for them.

Step 4: Conclusion Pranav's transport service has a relatively low working capital requirement because it does not carry manufacturing inventories. His plans for expansion and diversification are the two factors that increase his fixed capital requirements by creating a need for additional long-term assets.

Quick Tip to Solve: Separate fuel and wages, which need working capital, from vehicles and other long-term assets, which need fixed capital; link expansion to growth prospects and new activities to diversification.

25. Differentiate between 'Advertising' and 'Personal Selling' on any five bases. [5 marks]

Solution:

Concept:

- Advertising is a paid form of impersonal presentation and promotion of goods, services or ideas by an identified sponsor.
- Personal selling involves oral presentation through conversation with prospective buyers for the purpose of making a sale. The differences arise from the nature of contact, coverage and ability to respond to the buyer.

Step 1: Establish the nature of the two promotional tools Advertising communicates a standard promotional message through media such as newspapers, television or radio. The advertiser pays for the message, but normally does not meet each receiver. In personal selling, a salesperson interacts directly with a prospective customer, explains the offering and responds to the customer's questions. Compare the tools on the same basis in each row below.

Step 2: Distinguish on five bases

Basis	Advertising	Personal selling
Nature of contact	It is impersonal: the sponsor communicates through a medium rather than through direct personal interaction with each buyer.	It is personal: the salesperson establishes direct contact and converses with the prospective buyer.
Direction of communication	It is essentially one-way communication; the receiver cannot ordinarily obtain an immediate reply within the advertisement itself.	It is two-way communication; the buyer can ask questions and the salesperson can answer immediately.
Flexibility of message	The message is standardised for the audience and cannot readily be changed to suit each individual receiver.	The sales presentation can be adjusted to the needs, doubts and reactions of the individual customer.
Coverage	It can reach a very large number of people, often across a wide geographical area, at the same time.	It reaches comparatively fewer people, because the salesperson must devote time to individual or small-group interaction.
Cost per person reached	The cost per person reached is generally low when the advertisement reaches a mass audience, even though total campaign expenditure can be high.	The cost per person contacted is generally high because of the salesperson's time, travel and remuneration.

Step 3: Conclusion Advertising provides impersonal mass communication at a relatively low cost per person reached. Personal selling provides direct, flexible and two-way communication, but normally covers fewer people at a higher cost per contact. The five bases above distinguish the two tools without confusing total expenditure with cost per person.

Quick Tip to Solve: For a distinction question, use a Basis column and compare the same feature in both columns; remember personal contact, feedback, flexibility, reach and cost per contact.

26(a). What is meant by 'Formal Organisation' ? State any three advantages and any two limitations of 'Formal Organisation'. [6 marks]

Solution:

Concept:

- Formal organisation is the structure of authority relationships deliberately created by management to achieve organisational objectives. It specifies jobs, responsibilities, authority and reporting relationships.
- Its prescribed rules and chain of command make work systematic, but excessive reliance on these arrangements may reduce speed, initiative and attention to social relationships.

Step 1: Define formal organisation Formal organisation refers to the organisational structure designed by management to accomplish a particular task. It clearly specifies the boundaries of authority and responsibility and establishes relationships among different job positions. The structure describes who will do a task, who can issue instructions and to whom each employee must report. These relationships arise from officially assigned positions rather than from personal friendship.

Step 2: State three advantages

- **Fixes responsibility:** Duties and reporting relationships are clearly specified. It becomes easier to identify who is responsible for a particular task and to hold the appropriate person accountable when performance falls short.
- **Avoids duplication of effort:** Clearly defined roles tell employees the work assigned to them and the authority available to carry it out. This reduces overlapping activities and uncertainty about who should perform a job, leading to more systematic functioning.
- **Maintains unity of command:** An established chain of command tells each employee the superior from whom instructions are to be received and to whom the employee reports. This helps prevent confusion arising from conflicting orders and supports coordinated effort towards organisational goals.

Step 3: State two limitations

- **May cause procedural delays:** Communication and decisions generally follow the prescribed chain of command. Even when a situation calls for a quick response, messages may have to pass through several levels, delaying action.
- **May restrict initiative:** Formal organisation places emphasis on established rules and assigned tasks. Employees may be discouraged from departing from these procedures, so their creativity and independent initiative can be limited when an unusual situation requires a fresh approach.

These limitations concern excessive dependence on formal procedures; they do not remove the need for a defined structure. Management must retain clear responsibilities while allowing suitable flexibility in implementation.

Step 4: Conclusion Formal organisation is the deliberately designed structure of authority and responsibility. Its advantages include fixing responsibility, avoiding duplication of effort and maintaining unity of command. Its limitations include procedural delays and restriction of employee initiative.

Quick Tip to Solve: Begin with the deliberately designed structure, then label the three advantages and two limitations separately so that every demand of the question is visibly answered.

OR

26(b). 'Delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance.' In the light of this statement identify and explain the essential elements of delegation. [6 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate so that assigned work can be performed. It involves responsibility, authority and accountability.
- Responsibility concerns the duty to perform work, authority supplies the right to make decisions, and accountability requires an explanation of the results achieved.

Step 1: Explain responsibility for the assigned work **Responsibility:** It is the obligation of a subordinate to perform the duty assigned by the superior properly. Delegation starts when the superior identifies the work to be done and entrusts it to a subordinate. Responsibility flows upwards: the subordinate is responsible to the superior for carrying out the assigned task. For example, when a sales manager assigns a sales target to a salesperson, achieving that target becomes the salesperson's responsibility. The task and expected standards should be clearly understood so that the subordinate knows what performance is required.

Step 2: Explain authority to carry out that responsibility **Authority:** It is the right of an individual to command subordinates, take decisions and use organisational resources for achieving objectives. It arises from the formal position occupied by the manager and flows downwards from the superior to the subordinate. After assigning work, the superior must give sufficient authority to perform it, such as the right to contact customers or incur approved selling expenses. Authority should be commensurate with responsibility: inadequate authority prevents the subordinate from doing the work, while excessive authority can be misused.

Step 3: Explain accountability for performance **Accountability:** It means being answerable for the final outcome of the assigned duty. Once responsibility is accepted and authority is granted, the subordinate must explain to the superior whether the required results were achieved. Accountability flows upwards, from the subordinate to the superior. It cannot be delegated: a superior remains accountable to his or her own superior for the performance of work even after delegating it. Thus, the sales manager still has to answer for departmental sales, although sales duties have been assigned to individual salespersons. Delegation shares the work and authority; it does not remove the superior's ultimate obligation to secure results.

Step 4: Conclusion The statement identifies all three essential elements: entrusting work creates responsibility, granting decision-making rights provides authority, and requiring an explanation of results creates accountability. Effective delegation links these elements while retaining the superior's ultimate accountability.

Quick Tip to Solve: Remember the sequence: assign the duty, grant the necessary rights, and require an account of results. Authority flows down; responsibility and accountability flow up.

27(a). What is meant by 'Leadership' ? Describe any four qualities of a good leader. [6 marks]

Solution:

Concept:

- Leadership is the process of influencing the behaviour of people so that they strive willingly and enthusiastically towards the achievement of organisational goals.
- A leader directs individual efforts towards a common purpose. Personal qualities help the leader win confidence and cooperation rather than rely only on formal authority.

Step 1: State the meaning of leadership Leadership means influencing the behaviour of others to make them work willingly towards desired objectives. It involves a relationship between the leader and followers, who interact with one another. In management, a leader encourages employees to contribute their best efforts towards organisational goals. The emphasis is on voluntary and enthusiastic cooperation: merely issuing an order does not by itself establish effective leadership.

Step 2: Describe knowledge and integrity **Knowledge:** A good leader should possess adequate knowledge of the organisation, its work and the tasks performed by employees. Such knowledge enables the leader to give useful guidance, understand practical difficulties and make sound decisions. Employees are more likely to accept the guidance of someone who understands their work and can help solve their problems.

Integrity: A leader should be honest, sincere and consistent in words and actions. Fair dealing and adherence to ethical standards create trust among followers. When employees believe that promises will be honoured and decisions will be impartial, they develop confidence in the leader and cooperate more readily.

Step 3: Describe communication skill and self-confidence **Communication skill:** A good leader must explain goals, instructions and expectations clearly so that followers understand what is required. Communication also requires patient listening to employees' suggestions, doubts and difficulties. This two-way exchange reduces misunderstanding and enables the leader to secure willing cooperation rather than mechanical compliance.

Self-confidence: A leader should have confidence in his or her own ability, judgement and decisions. Confidence helps the leader face difficult situations calmly, take necessary decisions and reassure followers. It inspires employees to believe that obstacles can be overcome. Self-confidence should be supported by knowledge and sound judgement, so that it encourages others without turning into stubbornness or overconfidence.

Step 4: Conclusion Leadership is influence that encourages willing effort towards organisational goals. Knowledge, integrity, communication skill and self-confidence are four qualities that help a leader guide people effectively and gain their trust and cooperation.

Quick Tip to Solve: For each quality, state its name and explain how it helps the leader influence followers. Keep the meaning of leadership focused on willing cooperation towards goals.

OR

27(b). What is meant by 'Directing' as a function of management? Describe any four points of its importance. [6 marks]

Solution:

Concept:

- Directing is the management function that guides, instructs, counsels, motivates and leads employees to achieve organisational objectives.
- It puts plans into action through people. Its elements include supervision, motivation, leadership and communication.

Step 1: Explain the meaning of directing Directing means guiding, instructing, counselling, motivating and leading people in the organisation to achieve its objectives. After managers have planned the work, organised resources and appointed employees, they must show people what to do and encourage them to perform. Directing is a continuous activity carried out at every level where a manager has subordinates. It involves communication and support as well as issuing instructions.

Step 2: Describe how directing begins and unifies work

- **Initiates action:** Directing converts plans into actual performance. Employees may have the necessary resources and assigned duties, but guidance, instructions and supervision are needed to make them begin and carry out the work. It therefore sets organisational activities in motion.
- **Integrates employees' efforts:** Different employees and departments perform different tasks. Directing guides their individual efforts towards common organisational objectives so that one person's work supports the work of others. It helps employees understand how their contribution fits into the overall result.

Step 3: Describe how directing develops and supports employees

- **Helps employees realise their potential:** Appropriate motivation and effective leadership encourage employees to use their abilities fully. Guidance, recognition and suitable incentives bring out initiative and capabilities that might otherwise remain unused, improving both individual performance and organisational results.
- **Facilitates introduction of changes:** Employees may resist changes in methods, technology or working arrangements because of uncertainty. Through communication, explanation, motivation and leadership, directing helps them understand the purpose of change and cooperate in implementing it. This enables the organisation to adapt more effectively.

Step 4: Conclusion Directing guides and motivates people to achieve organisational objectives. Its importance is shown by its role in initiating action, integrating employees' efforts, developing their potential and facilitating change.

Quick Tip to Solve: Define directing with people-related verbs, then link each importance point to an outcome: starting work, combining effort, developing ability or accepting change.

28(a). What is meant by 'Budgetary Control' ? State any five advantages of Budgetary Control.

[6 marks]

Solution:

Concept:

- A budget is a statement of expected results expressed in numerical terms for a specified future period.
- Budgetary control uses budgets as standards: actual results are compared with budgeted results, deviations are analysed and corrective action is taken.

Step 1: Explain budgetary control Budgetary control is a technique of managerial control in which operations are planned in advance through budgets and actual results are compared with these budgetary standards. Budgets may specify expected sales, production, expenditure or cash receipts and payments. If actual performance differs from the budget, managers investigate the reasons and take suitable corrective action. Thus the budget provides a numerical basis for judging performance rather than leaving control to general impressions.

Step 2: State the advantages for planning and coordination

- **Focuses on specific, time-bound objectives:** Budgets express targets in numerical terms for a definite period. This directs operations towards stated objectives and makes the expected level of achievement clear to managers and employees.
- **Promotes coordination:** Preparation of budgets requires different departments to work together. For example, production and purchasing budgets must support the sales budget. Their preparation and use help coordinate interdependent activities across the organisation.

Step 3: State the advantages for resources, motivation and control

- **Ensures optimum utilisation of resources:** Budgets allocate resources according to departmental requirements and organisational priorities. Comparing actual use with planned use helps identify waste and encourages economical use of funds, materials and other resources.
- **Motivates employees:** When employees participate in preparing budgets and know the targets expected of them, they develop a greater sense of responsibility. This participation encourages commitment and motivates them to work towards the agreed targets.
- **Facilitates management by exception:** Comparison of actual and budgeted performance reveals deviations and their extent. Managers can concentrate attention on significant departures that require corrective action, rather than spending equal time on every routine activity.

Step 4: Conclusion Budgetary control compares actual results with numerical plans and uses deviations to guide corrective action. Its five advantages are clear time-bound targets, coordination, optimum resource utilisation, employee motivation and management by exception.

Quick Tip to Solve: For budgetary control, state both the numerical plan and the actual-versus-budget comparison; then organise the advantages around targets, departments, resources, people and exceptions.

OR

28(b). What is meant by 'Controlling' ? State any five points highlighting the importance of Controlling.

[6 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with predetermined standards, identifying deviations and taking corrective action so that organisational objectives are achieved.
- Standards provide the basis for judging performance. Controlling closes the management cycle by ensuring that activities conform to plans and by supplying feedback for future planning.

Step 1: Define controlling Controlling means ensuring that organisational activities are performed according to the plans. Managers establish performance standards, measure actual performance, compare the two, analyse significant deviations and take corrective action. Thus, controlling involves both finding out whether work is proceeding as intended and correcting the causes of departures; it is not merely fault-finding after work is complete.

Step 2: State five points of importance

- **Accomplishing organisational goals:** Controlling measures progress towards planned objectives and brings deviations to the manager's attention. Corrective action keeps activities on the right track and helps the organisation achieve its goals.
- **Judging accuracy of standards:** A sound control system helps management check whether standards are accurate and realistic. By reviewing performance and changes in the operating environment, managers can revise unsuitable standards and make future plans more dependable.
- **Making efficient use of resources:** Comparing performance with predetermined norms helps reduce wastage and spoilage. Employees are expected to follow prescribed standards, so human, physical and financial resources are used effectively and economically.
- **Improving employee motivation:** Clearly communicated standards tell employees what is expected of them and how their performance will be evaluated. When employees know that good performance will be recognised, they are encouraged to work towards the required results.
- **Ensuring order and discipline:** A control system keeps a check on employees' activities and helps prevent dishonest behaviour and misuse of resources. Accountability for performance encourages compliance with rules and orderly conduct of work.

Step 3: Conclusion Controlling ensures conformity with plans through measurement, comparison and corrective action. It is important for achieving goals, checking standards, using resources efficiently, motivating employees and maintaining order and discipline.

Quick Tip to Solve: Begin with the comparison-and-correction meaning, then use five distinct NCERT headings; do not replace the importance of controlling with the steps of its process.

29(a). Explain any four functions of 'Stock Exchange'. [6 marks]

Solution:

Concept:

- A stock exchange is an institution that provides a platform for buying and selling existing securities under prescribed rules. It forms an organised secondary market rather than a market for the original issue of securities by companies.
- Its functions include providing liquidity and marketability, determining security prices, ensuring the safety of transactions and contributing to economic growth through the movement of investment funds.

Step 1: Explain liquidity and pricing functions

- **Providing liquidity and marketability to existing securities:** The stock exchange provides a ready and continuous market in which investors can buy or sell securities already issued. An investor who needs cash can sell an investment without waiting for the issuing company to repay it. This gives investors both liquidity and the opportunity to change their portfolios, while the company continues to retain the capital originally raised.
- **Pricing of securities:** Security prices are determined by the forces of demand and supply operating through trading on the exchange. These prices reflect available information about company performance and expectations of future returns. Published quotations provide a basis for valuing investments and help buyers and sellers make informed investment decisions.

Step 2: Explain safety and economic growth functions

- **Safety of transactions:** Trading takes place within a framework of rules and regulations. Listed companies must comply with the exchange's requirements, and market participants must follow prescribed trading procedures. This regulated environment helps protect investors and promotes fair dealing. Safety here means safeguards in the trading process; it does not guarantee a profit or eliminate the risk of a fall in security prices.
- **Contributing to economic growth:** The stock exchange enables existing securities to be bought, sold and reinvested. Investors can move funds away from less promising investments towards enterprises with better prospects. This process encourages capital formation and helps direct savings towards productive uses, supporting investment and economic growth. Although a secondary-market sale pays the selling investor, its liquidity and price signals encourage participation in investment generally.

Step 3: Conclusion Four functions of a stock exchange are providing liquidity and marketability to existing securities, determining security prices, safeguarding transactions through regulated trading and contributing to economic growth by facilitating investment and reinvestment.

Quick Tip to Solve: For each function, name it and explain how the exchange performs it. Keep secondary-market trading distinct from raising funds through a fresh issue in the primary market.

OR

29(b). Explain any four methods of floatation of new issue in the 'Primary Market'. [6 marks]

Solution:

Concept:

- The primary market deals in new securities issued by companies to raise fresh capital. The proceeds of a new issue go to the issuing company rather than to an existing investor selling a security.
- Methods of floatation describe the routes by which these new securities are offered to investors. Any four recognised methods may be explained; the following are offer through prospectus, offer for sale, private placement and rights issue.

Step 1: Explain offers made to the public

- **Offer through prospectus:** The company invites the general public to subscribe for its securities by issuing a prospectus. This document supplies information about the company, the purpose of the issue, its financial position and prospects, and the terms of the securities. Interested investors apply for the shares or debentures, after which the company makes allotments. Underwriters and intermediaries may assist the company in completing the issue.
- **Offer for sale:** The issuing company does not offer the securities directly to the public. It sells them at an agreed price to an intermediary, such as an issuing house or stockbroker. That intermediary subsequently offers the securities to the investing public, generally at a higher price. Thus, the initial sale by the company and the subsequent public offer are distinct stages of the arrangement.

Step 2: Explain offers to selected or existing investors

- **Private placement:** The company allots securities to selected investors, such as banks, insurance companies, mutual funds or other institutional investors, instead of inviting the public at large. Negotiating with a limited group makes raising funds quicker and avoids much of the expense associated with a public issue. The defining feature is the selective group of investors approached by the company.
- **Rights issue:** An existing company offers new shares first to its existing equity shareholders, normally in proportion to the shares they already hold. For example, an offer of one new share for every five shares held gives each eligible shareholder a proportionate entitlement. This preferential opportunity allows existing shareholders to subscribe for additional capital and maintain their proportionate interest if they take up the offer.

Step 3: Conclusion Four methods of floating a new issue are offer through prospectus, offer for sale, private placement and rights issue. They differ chiefly in whether the company approaches the public directly, uses an intermediary, approaches selected investors, or gives priority to existing shareholders.

Quick Tip to Solve: Remember the recipient of the first offer: public, intermediary, selected investors, or existing shareholders. This distinguishes the four methods without confusing a fresh issue with stock-exchange trading.

30(a). Consumer Products are classified on different basis. 'Durability of the Product' is one of them. Explain any three types of products in this category. [6 marks]

Solution:

Concept:

- Consumer products are bought by ultimate consumers for personal consumption. On the basis of durability, NCERT classifies them as non-durable products, durable products and services.
- Durability concerns how long the benefit of a purchase lasts and how the product is consumed. This basis must be distinguished from buying habits, which give categories such as convenience, shopping and speciality products.

Step 1: Explain tangible products consumed quickly **Non-durable products:** These are tangible products normally consumed in one or a few uses. Soap, toothpaste, milk, beverages and stationery are familiar examples. Because consumption is quick and the price per purchase is usually relatively low, consumers buy them frequently and expect them to be readily available. Marketers therefore seek wide distribution through many retail outlets, generally keep a small margin per unit, and use substantial advertising to induce trial and build preference. A packet of milk illustrates the idea: consuming it exhausts the benefit of that particular unit, so another unit must be bought for the next use.

Step 2: Explain tangible products used repeatedly **Durable products:** These are tangible consumer products that normally survive many uses and continue providing benefits over a relatively long period. Refrigerators, television sets, washing machines, bicycles and furniture are examples. They are purchased less frequently and usually involve greater expenditure and a more considered choice than non-durable goods. Buyers therefore pay close attention to quality, reliability, warranties and after-sales service. Selling such products generally requires more personal selling and supporting services, and they commonly permit a higher margin per unit. A refrigerator continues to be used repeatedly; its utility is not exhausted by the first use.

Step 3: Explain intangible products **Services:** These are intangible activities, benefits or satisfactions offered for sale, such as haircuts, medical treatment, education and repairs. Unlike a physical product, a service cannot normally be touched or stored as inventory. Production and consumption are often simultaneous; for example, the customer receives a haircut while the service is performed. Services are also variable because performance depends on who provides them and under what circumstances. Their intangibility, inseparability, variability and perishability make quality control, the credibility of the service provider and responsiveness to customers especially important in marketing them.

Step 4: Conclusion The three categories are non-durable products, durable products and services. Non-durables are exhausted quickly, durables provide repeated tangible use, and services supply intangible benefits rather than ownership of a physical object.

Quick Tip to Solve: Use one example for each category: milk, a refrigerator and a haircut. Explain the life of the benefit; avoid replacing these categories with convenience, shopping and speciality goods.

OR

30(b). Physical distribution includes some components for physically moving the goods from manufacturers to the customers. Explain these components.

[6 marks]

Solution:

Concept:

- Physical distribution is the set of activities concerned with the physical movement of finished goods from the producer to the consumer. It makes the product available at the right place and time.
- Its main components are order processing, transportation, warehousing and inventory control. They must be coordinated to provide reliable customer service at a reasonable total distribution cost.

Step 1: Explain the information and movement components

- **Order processing:** Physical distribution begins with receiving the customer's order. The firm must check the order, verify the availability of goods, prepare the invoice and instructions for dispatch, and arrange prompt execution. Both speed and accuracy matter: delayed processing makes the customer wait, while an incorrectly processed order can send the wrong quantity or product. An efficient order-processing system therefore shortens delivery time and improves customer satisfaction.
- **Transportation:** This is the physical movement of goods from one place to another, such as from the factory to a warehouse and then to the customer's location. A firm selects an appropriate mode of transport by considering cost, speed, reliability and the nature of the goods. For example, perishable goods require quick and suitable transport. Transportation creates place utility by making products available where buyers need them.

Step 2: Explain the storage and stock components

- **Warehousing:** Warehousing means storing goods safely between their production and their sale or use. Since production and consumption do not always occur at the same time, storage maintains a regular supply and creates time utility. Decisions about the number, location and capacity of warehouses affect delivery speed and cost. Warehouses near important markets can serve buyers quickly, although maintaining more warehouses increases storage expenses.
- **Inventory control:** This involves deciding the quantity of goods to keep in stock and when to replenish it. Adequate inventory helps meet orders promptly and avoids lost sales caused by stock-outs. Excessive inventory, however, blocks funds and increases storage, insurance, damage and obsolescence costs. The firm balances these costs against the cost of inadequate stock, taking account of expected demand, replenishment time and the level of customer service it intends to offer.

Step 3: Conclusion The four components of physical distribution are **order processing, transportation, warehousing and inventory control**. Together they ensure that orders are handled accurately and goods are moved, stored and supplied to customers in the required quantity at the required time and place.

Quick Tip to Solve: Follow an order from receipt to delivery: process it, transport the goods, store them when necessary, and maintain enough inventory. This sequence recalls all four components.