# CBSE Class 12 Business Studies Question Paper 2014 with Solution PDF-Set 66/2

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

**Time Allowed: 3 hours** **Maximum Marks: 90**

### General Instructions

(i) Answers to questions carrying **1** mark may be from **one word** to **one sentence**.
(ii) Answers to questions carrying **3** marks may be from **50 – 75** words.
(iii) Answers to questions carrying **4 – 5** marks may be about **150** words.
(iv) Answers to questions carrying **6** marks may be about **200** words.
(v) Attempt all parts of a question together.

**1. State the objective of 'Financial Management'.** [1 mark]

**Solution:**

**Concept:**

- Financial management concerns investment, financing and dividend decisions for the effective use of funds.
- The primary objective is maximisation of shareholders' wealth, reflected in the market price of equity shares.

**Step 1:** Identify whose wealth is maximised Equity shareholders are the owners of the company. Financial decisions should increase the value of their investment rather than merely increase the volume of sales or the amount of funds raised.

**Step 2:** State the value criterion Select financial decisions that maximise the current market price of the company's equity shares. Share value reflects the expected return and the risk associated with those decisions.

**Step 3:** Conclusion The objective of financial management is to maximise shareholders' wealth by maximising the market price of the company's equity shares.

**Quick Tip to Solve:** Write wealth maximisation and link it to the market price of equity shares; profit alone is an incomplete objective.

**2. What is meant by 'Financial Risk' ?** [1 mark]

**Solution:**

**Concept:**

- Debt financing creates fixed financial obligations, such as interest and repayment of principal.
- Financial risk is the possibility that a firm cannot meet its fixed financing commitments.

**Step 1:** Identify the fixed obligations A business using debt must pay interest and meet the repayment obligations even when its operating earnings are low. These commitments do not automatically fall when business income falls.

**Step 2:** Explain the risk of non-payment If available earnings or cash are insufficient to meet these fixed financial payments, the firm faces financial risk. A larger debt commitment generally increases this risk because a greater amount must be paid regardless of performance.

**Step 3:** Conclusion Financial risk means the risk of a firm being unable to meet its fixed financial obligations, including interest payments and repayment commitments.

**Quick Tip to Solve:** Associate financial risk with fixed financing payments; distinguish it from fluctuations in operating performance.

**3. What is meant by 'Decoding' as an element of communication ?** [1 mark]

**Solution:**

**Concept:**

- Communication involves transmitting a message and obtaining an understanding of its meaning.
- Decoding is the receiver's conversion of the sender's encoded symbols into an understandable meaning.

**Step 1:** Locate decoding in the process The sender first encodes an idea in words, signs or other symbols and transmits the message through a channel. The receiver obtains that message before interpreting what those symbols convey.

**Step 2:** Explain the receiver's task The receiver translates the symbols into meaning using their knowledge and understanding. This interpretation is decoding. It differs from encoding, which is performed by the sender when preparing the message.

**Step 3:** Conclusion Decoding means converting the encoded symbols of a message into a meaning understood by the receiver.

**Quick Tip to Solve:** Remember the direction: the sender encodes an idea into symbols, while the receiver decodes those symbols into meaning.

**4. 'Providing for social security and welfare of employees' is one of the specialised activities performed by Human Resource Management. Mention any two other specialised activities of Human Resource Management.** [1 mark]

**Solution:**

**Concept:**

- Human Resource Management comprises specialised activities relating to the people employed by an organisation.
- Besides employee welfare and social security, HRM includes obtaining suitable employees and developing their abilities.

**Step 1:** Mention recruitment **Recruitment:** Searching for prospective employees and encouraging suitable candidates to apply for jobs is a specialised HRM activity. It creates a pool from which the organisation can select its employees.

**Step 2:** Mention training and development **Training and development:** Improving employees' job knowledge, skills and capabilities helps them perform their present work effectively and prepares them for future responsibilities. This is another specialised HRM activity, distinct from welfare provision.

**Step 3:** Conclusion Two other specialised activities of Human Resource Management are recruitment, and training and development of employees.

**Quick Tip to Solve:** Give two HRM activities other than the welfare activity already supplied; recruitment and training are clear examples.

**5. Give any two characteristics of 'Organizational Climate' that influence the behaviour of individuals and act as a non-financial incentive.** [1 mark]

**Solution:**

**Concept:**

- Organisational climate comprises characteristics that describe an organisation and distinguish it from others.
- These characteristics influence employees' behaviour and can provide motivation without a direct monetary payment.

**Step 1:** Identify employee autonomy **Individual autonomy:** Freedom to make decisions within one's area of responsibility encourages initiative and gives employees a sense of control over their work. It is one characteristic of organisational climate.

**Step 2:** Identify managerial support **Consideration and support:** Helpful, considerate behaviour by management and support for employees' efforts create a favourable working atmosphere. Employees feel valued and are encouraged to contribute to organisational objectives.

**Step 3:** Conclusion Two characteristics are individual autonomy, and consideration and support from management.

**Quick Tip to Solve:** Use characteristics of the working climate, such as autonomy and support; avoid listing cash incentives such as bonuses.

**6. How are employees motivated to improve their performance when the organization uses internal sources of recruitment ? State.** [1 mark]

**Solution:**

**Concept:**

- Internal recruitment fills vacancies from among the organisation's existing employees through transfers or promotions.
- The prospect of career advancement is a source of motivation for existing employees.

**Step 1:** Identify the opportunity created When a higher position can be filled internally, existing employees see an opportunity for promotion and career progress within the same organisation. They can connect their present contribution with future advancement.

**Step 2:** Link opportunity with performance Employees are encouraged to improve their efficiency, work responsibly and develop their abilities so that they may be considered for higher positions. The expectation of promotion therefore strengthens their motivation to perform better.

**Step 3:** Conclusion Internal recruitment motivates employees to improve performance because it offers them opportunities for promotion and advancement within the organisation.

**Quick Tip to Solve:** Link the answer in one chain: internal vacancies create promotion opportunities, which encourage better performance.

**7. Give the meaning of 'Method' as a type of plan.** [1 mark]

**Solution:**

**Concept:**

- A method is a type of standing plan that prescribes the manner in which a particular task is to be performed.
- It specifies the prescribed way of carrying out an activity and helps standardise its performance.

**Step 1:** Identify what a method prescribes A method states how a particular job or activity should be done. It gives the prescribed manner of performance, rather than stating only the result to be achieved or a general boundary for decisions.

**Step 2:** Distinguish it from a procedure A procedure lays down a sequence of steps for handling an activity, whereas a method focuses on the way a particular step or task is performed. For example, a prescribed technique of employee training is a method.

**Step 3:** Conclusion A method is a prescribed way or manner of performing a particular task or activity.

**Quick Tip to Solve:** Ask how a task is done to identify a method; a sequence of activities points instead to a procedure.

**8. Give the meaning of 'Responsibility' as an element of delegation.** [1 mark]

**Solution:**

**Concept:**

- Responsibility is the obligation of a subordinate to perform properly the duty assigned by a superior.
- In delegation, responsibility arises from the superior-subordinate relationship and flows upward towards the superior.

**Step 1:** Identify the obligation When a superior assigns a task, the subordinate must carry it out according to the instructions and expected standard. This obligation to complete the assigned duty is responsibility.

**Step 2:** Relate responsibility to delegation Delegation gives the subordinate authority needed to do the work, while responsibility requires that work to be performed properly. Authority is the right to act; responsibility is the obligation to act. The subordinate is responsible to the superior who assigned the duty.

**Step 3:** Conclusion Responsibility means the obligation of a subordinate to properly perform the task or duty assigned by a superior.

**Quick Tip to Solve:** For responsibility, remember the obligation to perform an assigned duty; for authority, remember the right to act.

**9. Define 'organizing' as a function of management.** [1 mark]

**Solution:**

**Concept:**

- Organising is the management process that establishes working relationships so that people can work together effectively towards organisational objectives.
- It includes identifying and grouping activities, assigning duties and establishing authority and reporting relationships.

**Step 1:** Connect plans with work A plan states what the organisation intends to achieve. Organising translates that plan into an arrangement of jobs and people by identifying the activities required and grouping related activities.

**Step 2:** Complete the definition Duties are assigned to suitable people, authority is delegated and reporting relationships are established. These relationships enable people to cooperate effectively in achieving organisational goals rather than working as disconnected individuals.

**Step 3:** Conclusion Organising is the process of identifying and grouping activities, assigning duties, delegating authority and establishing relationships among people so that they work together effectively to achieve organisational objectives.

**Quick Tip to Solve:** Recall the sequence: identify work, group activities, assign duties, then establish reporting relationships.

**10. What is included in 'Legal Environment' of Business ? State.** [1 mark]

**Solution:**

**Concept:**

- The legal environment consists of the legal framework within which a business must operate.
- It includes legislation, government administrative orders and court judgments that affect business decisions and conduct.

**Step 1:** State what is included The legal environment includes laws enacted by the government, administrative orders issued by government authorities and judgments delivered by courts. Businesses must take these legal requirements into account when making decisions.

**Step 2:** Illustrate the framework Examples include the Companies Act, the Consumer Protection Act and laws governing labour and the environment. These examples show that the legal environment covers obligations concerning how a business is formed, how it treats people and how it conducts its activities.

**Step 3:** Conclusion The legal environment of business includes laws, government administrative orders and judicial decisions that provide the framework within which business operates.

**Quick Tip to Solve:** Use the three legal sources: legislation, administrative orders and court judgments; give an Act as an example.

**11. What is determined by 'Time-Study' ?** [1 mark]

**Solution:**

**Concept:**

- Time study is a technique of scientific management used to determine the standard time required to perform a well-defined job.
- The standard is based on repeated observations of a worker of average skill and efficiency under normal working conditions.

**Step 1:** Identify what is measured The time taken to complete the specified job is observed repeatedly and recorded. The study takes account of the work involved and reasonable allowances rather than using an arbitrary target.

**Step 2:** State the determination Time study determines the standard time needed by an average worker to complete a well-defined job. This standard helps managers set a fair daily work target and estimate labour requirements. It is different from motion study, which identifies and removes unnecessary movements.

**Step 3:** Conclusion Time study determines the standard time required by a worker of average skill and efficiency to perform a well-defined job.

**Quick Tip to Solve:** Link time study with standard time; link motion study with eliminating unnecessary movements.

**12. What is meant by 'Management of Work' ?** [1 mark]

**Solution:**

**Concept:**

- Management of work is the dimension of management concerned with getting the basic work of an organisation performed.
- It translates the work to be done into goals and assigns the means to achieve them.

**Step 1:** Identify the basic work Every organisation exists to perform some work: a factory manufactures goods, a hospital treats patients and a school provides education. Management must identify this basic task and define the results to be achieved.

**Step 2:** Explain how work is managed Management translates the work into goals and assigns the means to achieve them. It identifies activities, responsibilities and suitable methods and resources so that the work can be completed effectively. The emphasis here is the task itself, alongside the other dimensions of managing people and operations.

**Step 3:** Conclusion Management of work means translating the work to be performed into goals and assigning the means to achieve those goals.

**Quick Tip to Solve:** For management of work, write: basic task, goals and means; keep the focus on what the organisation must accomplish.

**13. ABC Crackers Ltd., a fire-cracker manufacturing company launched some new products on the eve of Diwali in the market, which attracted many buyers. To meet the increased demand the company employed people from nearby villages where there is a lot of unemployment. Because of the good behaviour of the management with the employees, more and more people wanted to join the company. As the products were in great demand in the market, a competitor imitated the products. The products of the competitor were not accepted by the consumers as it was a status symbol to buy the products of ABC Crackers Ltd. because of their quality.** [3 marks]

**13(a). Identify and explain the product-related decision because of which consumers preferred the products of ABC Crackers Ltd.**

**Solution:**

**Concept:**

- Marketing Management: branding is the product-related decision of giving a product a name, sign, symbol or design that identifies it and distinguishes it from competitors' products.
- A recognised brand helps consumers identify their preferred product, assures an expected quality and can become a status symbol when buyers associate prestige with owning it.

**Step 1:** Identify the decision from the case The product-related decision is **branding**. The decisive evidence is that consumers rejected the competitor's imitations and that buying ABC Crackers Ltd.'s products was "a status symbol" because of their quality. Buyers therefore distinguished ABC's products from similar products sold by another producer instead of treating all fire-crackers as identical.

**Step 2:** Explain how branding creates preference Branding gives a product its own recognisable identity through a brand name, mark or other distinctive feature. It enables repeat buyers to locate the product they trust and associates that identity with a consistent level of quality. In this case, ABC's established identity carries both quality assurance and prestige. A competitor can imitate the physical product, but that does not automatically give the imitation ABC's reputation or the status consumers associate with the brand.

**Step 3:** Conclusion ABC used **branding**: a distinct product identity associated with quality and status made consumers prefer its products to the competitor's imitations.

**Quick Tip to Solve:** When a case stresses recognition, quality assurance or status despite imitation, identify branding and link its definition to those clues.

**13(b). Also identify any two values which ABC Crackers Ltd. wanted to communicate to the society.**

**Solution:**

**Concept:**

- Business Studies: social responsibility includes concern for the community in which a business operates and fair, respectful treatment of its employees.
- Values in a case must be inferred from the actions actually stated. Employment of unemployed villagers shows concern for livelihoods, while good behaviour towards employees shows respect for human dignity.

**Step 1:** Identify concern for employment and social welfare **Employment generation and concern for the community:** The company "employed people from nearby villages where there is a lot of unemployment." By giving work to local people who lack job opportunities, ABC helps them earn a livelihood and supports their families. This communicates sensitivity towards unemployment and the welfare of the surrounding community. The value follows from the stated recruitment action; it does not depend on an unstated donation or charitable programme.

**Step 2:** Identify respect for employees **Respect for human dignity and good employee relations:** The case states that there was "good behaviour of the management with the employees." Treating workers courteously and with consideration recognises them as people deserving respect. This humane attitude creates a favourable work environment and explains why more people wanted to join the company. It communicates care for employees rather than merely using them as a means to increase output.

**Step 3:** Conclusion Two values are **concern for community welfare through employment generation** and **respect for employees' dignity through humane treatment**.

**Quick Tip to Solve:** For a values question, pair each value with one stated action: local jobs show community concern; good employee treatment shows human dignity.

**14. 'Stock Exchange not only contributes to the economic growth, but performs many other functions.' Explain any three such functions.** [3 marks]

**Solution:**

**Concept:**

- A stock exchange is an organised market in which existing securities are bought and sold under prescribed rules.
- Apart from contributing to economic growth, it provides liquidity, discovers security prices and helps ensure the safety of transactions.

**Step 1:** Explain liquidity and marketability **Providing liquidity and marketability to existing securities:** The stock exchange provides a continuous market where investors can sell securities they already hold and obtain cash. An investor need not wait until the issuing company repays the investment. This makes investment in securities more attractive, since funds can be withdrawn by selling to another investor without withdrawing capital from the company.

**Step 2:** Explain how prices are determined **Pricing of securities:** Buying and selling on the exchange bring together demand for and supply of securities. Their interaction determines market prices, which reflect available information about the company and market conditions. These quoted prices help existing and prospective investors assess their holdings and make informed investment decisions.

**Step 3:** Explain transaction safety **Safety of transactions:** The exchange admits securities and members subject to its rules, and dealings take place within a regulated framework. Rules for trading and settlement, together with regulatory supervision, help protect investors against unfair practices. This promotes confidence in transactions, although it does not eliminate the possibility of a fall in a security's price.

**Step 4:** Conclusion Three functions of a stock exchange, besides contributing to economic growth, are providing liquidity and marketability, determining security prices, and promoting the safety of transactions.

**Quick Tip to Solve:** Keep each function distinct: liquidity concerns conversion into cash, pricing concerns demand and supply, and safety concerns regulated dealings.

**15. Huma is working in a company on a permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realised that she was fulfilling only some of her needs while some other needs still remained to be fulfilled.** [3 marks]

**15(i). By quoting the lines from the above para, identify the needs of Huma which she is able to fulfil.**

**Solution:**

**Concept:**

- Maslow's hierarchy begins with basic physiological needs, followed by safety or security needs. Only after these lower needs are reasonably satisfied do higher needs become prominent motivators.
- Pay helps meet basic necessities; stable employment provides security against uncertainty about future income.

**Step 1:** Identify basic physiological needs **Basic physiological needs:** These include food, clothing, shelter and other necessities of life. The line "As per the job agreement she had to work for 8 hours a day and was free to work overtime" indicates her employment and the opportunity to earn additional income. The remuneration from this work enables her to meet these basic needs. Overtime relates here to earnings; it is not itself a separate level in the need hierarchy.

**Step 2:** Identify safety or security needs **Safety or security needs:** These involve protection from uncertainty and insecurity, including security of employment and income. The words "Huma is working in a company on a permanent basis" provide the decisive evidence. Permanent employment gives her greater assurance of a continuing livelihood than temporary work. Thus this case indicates security as well as basic livelihood needs.

**Step 3:** Conclusion Huma is able to fulfil basic physiological needs through earnings from employment and safety or security needs through her permanent job.

**Quick Tip to Solve:** Quote the evidence separately: work and overtime point to earnings for basic needs; a permanent job points to security.

**15(ii). Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied.**

**Solution:**

**Concept:**

- After physiological and safety needs, Maslow's hierarchy places affiliation or belongingness needs, followed by esteem needs.
- Higher needs concern social acceptance and respect; more earnings or permanent employment alone do not necessarily satisfy them.

**Step 1:** Explain affiliation or belongingness needs **Affiliation or belongingness:** Huma needs affection, friendship, acceptance and a feeling of belonging to the work group. The line "No one showed concern and enquired about her health" indicates that the social care she expected was missing. A person may have a secure job and adequate income yet feel isolated when colleagues show no concern. Friendly relations and a supportive group help meet this next level of need.

**Step 2:** Explain esteem needs **Esteem:** The next level includes self-respect, recognition, status, autonomy and respect from others. Huma needs to feel that she and her contribution are valued. These needs are different from belongingness: friendship gives social acceptance, whereas recognition and responsibility support a sense of worth. The question asks for the two levels immediately following basic and safety needs, so esteem is the second required level; self-actualisation comes later.

**Step 3:** Conclusion The two further needs are affiliation or belongingness needs and esteem needs, in that order.

**Quick Tip to Solve:** After basic needs and security, remember belongingness and then esteem; do not jump directly to self-actualisation.

**16. Explain any three functions performed by a supervisor that are vital to any organization.** [3 marks]

**Solution:**

**Concept:**

- Supervision means overseeing employees' work and guiding their efforts so that organisational plans are carried out correctly.
- A supervisor works in direct contact with workers and performs the first-line management functions needed to connect plans with actual performance.

**Step 1:** Explain the supervisor's linking role **Link between workers and management:** A supervisor communicates management's plans, instructions and expectations to workers in a form they can understand. The supervisor also conveys workers' suggestions, grievances and difficulties to management. This two-way link reduces misunderstanding and helps managers make decisions with knowledge of conditions at the workplace.

**Step 2:** Explain guidance and achievement of targets **Ensuring achievement of work targets:** The supervisor assigns and explains work, demonstrates suitable methods and guides workers while they perform their tasks. By observing progress, the supervisor identifies mistakes and difficulties early and

takes corrective action. This helps employees use resources properly and complete the work within the required time and quality standards.

**Step 3:** Explain maintenance of group unity **Maintaining group unity:** The supervisor remains in close contact with workers, listens to their concerns and helps resolve disagreements. By encouraging cooperation and avoiding unnecessary friction, the supervisor develops a team whose members support one another. Such harmony prevents personal conflicts from obstructing work and helps direct the group's efforts towards organisational objectives.

**Step 4:** Conclusion Three vital functions of a supervisor are linking workers with management, guiding employees to achieve work targets, and maintaining unity and cooperation within the work group.

**Quick Tip to Solve:** For supervision, connect each function to direct contact with workers: communicate both ways, guide the work, and resolve group friction.

**17. State any three points of importance of consumer protection from the point of view of consumers.**

[3 marks]

**Solution:**

**Concept:**

- Consumer protection safeguards buyers against unfair trade practices and helps them exercise their rights when purchasing goods and services.
- From the consumer's viewpoint, protection is important because consumers may lack information, have little collective bargaining strength and face exploitation in the marketplace.

**Step 1:** Explain the need for consumer awareness **Consumer ignorance:** Many consumers do not know their rights, the remedies available to them or the agencies they can approach for help. Consequently, they may accept a defective product or an unfair charge without complaining. Consumer protection educates them about their rights and available relief so that they can make informed choices and seek redressal when their interests are harmed.

**Step 2:** Explain the need for collective support and safeguards **Unorganised consumers:** Consumers are widely scattered, whereas sellers and business firms are often organised and have greater resources. An individual consumer may therefore find it difficult to oppose an unfair practice. Consumer protection encourages consumer organisations to unite buyers, represent their interests and help them obtain relief.

**Widespread exploitation of consumers:** Consumers may suffer from adulteration, defective or unsafe products, short weights, misleading advertisements and overcharging. Consumer protection provides safeguards and means of redressal against these practices, helping buyers obtain fair treatment and value for the money they spend.

**Step 3:** Conclusion Consumer protection is important for consumers because it counters consumer ignorance, supports unorganised consumers and safeguards them against widespread exploitation.

**Quick Tip to Solve:** For the consumer's viewpoint, recall ignorance, lack of organisation and exploitation; explain how protection addresses each problem.

**18. Explain the following Rights of Consumers :** [3 marks]

**18(i). Right to Safety**

**Solution:**

**Concept:**

- The right to safety protects consumers against goods and services that are hazardous to life and health. It makes prevention of physical harm a central part of consumer protection.
- Quality-assurance marks and safety instructions help consumers choose and use products safely; they support the exercise of this right.

**Step 1:** State the protection available **Protection against hazards:** A consumer has the right to be protected against goods and services that endanger life or health. A defective electrical appliance may cause an electric shock or a fire, while unsafe food may damage health. The right therefore concerns safe consumption, rather than merely receiving an attractive product or a low price.

**Step 2:** Explain its practical application **Safe products and informed use:** Producers should supply goods meeting prescribed safety requirements. Consumers should choose appropriately quality-marked products, such as relevant electrical goods bearing the ISI mark, and follow the manufacturer's safety instructions. These precautions help reduce the risk of injury during normal use and make the protection meaningful in everyday purchases.

**Step 3:** Conclusion The right to safety means protection from goods and services hazardous to life and health, supported by safety standards and careful product selection and use.

**Quick Tip to Solve:** Anchor a safety answer in the words life and health, then illustrate it with a dangerous product such as a defective electrical appliance.

**18(ii). Right to be Heard**

**Solution:**

**Concept:**

- The right to be heard gives consumers a voice in matters affecting their interests. Their complaints must be heard and their interests must receive due consideration at appropriate forums.
- Business grievance cells and consumer organisations provide ways to raise concerns and represent consumers; being heard is the opportunity to present a grievance for consideration.

**Step 1:** State the consumer's entitlement **Hearing and consideration:** A consumer has the right to have a complaint heard and consumer interests given due consideration at appropriate forums. For example, a buyer facing a defective product or deficient service must have an opportunity to explain the grievance rather than being ignored by the seller or service provider. The essential point is that the consumer's voice receives attention.

**Step 2:** Explain how the right is exercised **Channels for presenting concerns:** Businesses may establish consumer-service and grievance cells so that customers can report problems. Consumer organisations can also represent buyers and help place their complaints before appropriate consumer redressal agencies. Such arrangements allow consumers to present their views and complaints and

help ensure that decisions affecting them take their interests into account.

**Step 3:** Conclusion The right to be heard ensures that consumers can present their complaints and that their interests receive due consideration at appropriate forums.

**Quick Tip to Solve:** Use the paired ideas complaint heard and interests considered; distinguish the opportunity to raise a grievance from the eventual remedy granted.

**19. State any four advantages of external sources of recruitment.** [4 marks]

**Solution:**

**Concept:**

- Recruitment is the process of searching for prospective employees and encouraging them to apply for jobs in an organisation.
- External recruitment invites applications from outside the organisation. It expands the pool of candidates beyond existing employees and helps the enterprise obtain suitable talent.

**Step 1:** State the advantages relating to the choice of employees

- **Qualified personnel:** External sources make it possible to attract people who possess the required education, professional qualifications and experience. The organisation can specify the qualifications needed for a post and select applicants who meet those requirements, rather than depending only on the capabilities available internally.
- **Wider choice:** An external search gives the enterprise a large number of applicants from different backgrounds. Since the pool is wider than that of present employees, management has a better opportunity to compare candidates and select the person most suitable for the job.

**Step 2:** State the advantages relating to new ideas and employee effort

- **Fresh talent:** People recruited from outside bring new ideas, different experiences and new ways of performing work. This can help the enterprise improve its existing practices and avoid relying continuously on the same approaches.
- **Competitive spirit:** When existing employees know that competent outsiders may also be selected, they are encouraged to improve their performance and update their abilities. Competition with new entrants can therefore stimulate greater effort among the current workforce.

**Step 3:** Conclusion The four advantages of external recruitment are qualified personnel, wider choice, fresh talent and competitive spirit. Together, they help an organisation obtain suitable employees and encourage better performance.

**Quick Tip to Solve:** Remember the four headings as qualification, choice, freshness and competition; explain the specific benefit under each heading.

**20. Give the meaning of 'Investment' and 'Financing' decisions of financial management.** [4 marks]

**Solution:**

**Concept:**

- Financial management involves decisions about the procurement and effective utilisation of funds so that the value of the owners' investment is increased.
- An investment decision concerns the assets in which funds are employed; a financing decision concerns the sources from which those funds are obtained.

**Step 1:** Explain the investment decision **Investment decision:** It is the decision relating to how the firm's funds are invested in different assets. As financial resources are limited, management must choose their uses carefully and allocate them to assets and activities that contribute to the firm's objectives.

Investment decisions include both long-term and short-term decisions. A long-term investment decision, also called a capital budgeting decision, concerns investment in fixed assets or projects, such as buying a new machine or setting up a new factory. A short-term investment decision, also called a working capital decision, concerns investment in current assets such as cash, inventory and debtors. Thus, the investment decision determines where the funds will be used and affects the earning capacity and liquidity of the business.

**Step 2:** Explain the financing decision **Financing decision:** It is the decision relating to the amount of finance to be raised from various long-term sources. Management decides the appropriate combination of owners' funds and borrowed funds to meet the enterprise's financing requirements.

Owners' funds include equity share capital and retained earnings, while borrowed funds include debentures, bank loans and other long-term borrowings. The choice determines the firm's capital structure. In selecting the mix, management considers the cost of finance, the risk associated with fixed repayment and interest obligations, and the effect on the owners' control. For example, deciding how much of a proposed factory's cost should be financed through equity and how much through a long-term loan is a financing decision.

**Step 3:** Conclusion Investment decisions determine the deployment of funds in assets, whereas financing decisions determine the sources and mix of funds to be raised. They respectively answer where money should be invested and how that money should be obtained.

**Quick Tip to Solve:** Buying a machine is an investment decision; choosing equity or a loan to pay for it is a financing decision.

**21. Explain the concept of 'Business Environment' and any three features of it.** [4 marks]

**Solution:**

**Concept:**

- Business environment means the sum total of the individuals, institutions and other forces outside a business enterprise that may affect its performance.
- These external forces include economic, social, technological, political and legal conditions. They

influence business decisions even though they are largely outside the control of an individual enterprise.

**Step 1:** Explain the concept **Business environment:** It is the totality of external forces affecting a business. Customers, competitors, suppliers and government agencies, together with wider economic and social conditions, form its surroundings. For example, a change in consumer preferences or a new government regulation can affect what the firm produces and how it operates. The environment therefore includes more than the physical location of the business.

**Step 2:** Explain three features

- **Totality of external forces:** Business environment comprises all forces outside the enterprise that influence it. Their combined effect, rather than any single isolated influence, constitutes the environment in which the enterprise functions.
- **Inter-relatedness:** Different elements of the environment are closely connected. For example, greater health consciousness, a social change, increases demand for healthier food and influences the products businesses offer. A change in one element may thus cause changes in others.
- **Dynamic nature:** The environment keeps changing through shifts in technology, consumer preferences, competition and government policy. A firm must monitor these developments and adapt its decisions; an approach that succeeded earlier may cease to suit present conditions.

**Step 3:** Conclusion Business environment is the totality of external influences on an enterprise. Three of its features are the totality of external forces, inter-relatedness and dynamic nature.

**Quick Tip to Solve:** Define business environment as external forces first; then give three named features with an explanation, rather than merely listing its economic or social dimensions.

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**22. Mega Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided**

**(i) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.**

**(ii) to start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly.**

**This will not only help in covering the risks, but also help in meeting other objectives too.** [4 marks]

**22(a). Identify and explain the objectives of management discussed above.**

**Solution:**

**Concept:**

- Organisational objectives include survival, profit and growth. Management must secure the enterprise's continued existence, a reasonable surplus and its development.
- Social objectives involve benefits to society, including employment opportunities and environmentally responsible products and practices.

**Step 1:** Explain the organisational objectives in the case

- **Survival:** An enterprise must earn enough revenue to cover its costs and continue operating. The statement "the revenue earned by the company was just sufficient to meet its costs" indicates survival in the first year.
- **Profit:** The enterprise also needs a surplus to reward its owners and provide for risks. The intentions "to increase the revenue" and "to reduce the labour cost" seek to improve this surplus.
- **Growth:** Development can take the form of an expanded product range and business activity. The decision "to start manufacturing solar water-heaters" diversifies the product range and creates a basis for further growth.

**Step 2:** Explain the social objective in the case **Social objective:** Business should benefit the society in which it operates. Shifting production to a "backward area" can create employment opportunities there and contribute to regional development. Manufacturing "solar water-heaters" encourages the use of renewable energy and environmentally responsible products. These decisions can therefore serve social objectives alongside the company's organisational objectives.

**Step 3:** Conclusion The case discusses organisational objectives of survival, profit and growth, together with social objectives relating to employment in a backward area and environmental responsibility.

**Quick Tip to Solve:** Match objectives to evidence: meeting costs is survival, improving surplus is profit, diversification supports growth, and community benefits indicate social objectives.

**22(b). State any two values which the company wanted to communicate to the society.**

**Solution:**

**Concept:**

- Social responsibility means taking account of society's welfare while conducting business, rather than considering only the enterprise's immediate financial gain.
- A value-based answer should connect each stated value to a specific business decision in the case.

**Step 1:** State concern for employment and regional development **Employment generation and balanced regional development:** The company decided to shift its manufacturing unit to a "backward area". Establishing production there can provide employment opportunities to the local population and support development in an economically less developed region. This communicates concern for the community's livelihood. Although lower labour cost is the company's stated commercial motive, local job creation is the social value associated with that location decision.

**Step 2:** State concern for environmental protection **Environmental protection and conservation of energy:** The decision "to start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly" promotes use of renewable solar energy. Such products can reduce dependence on conventional electricity for water heating and support conservation of energy resources. The value communicated is concern for a cleaner environment and responsible use of natural resources, rather than merely increasing sales.

**Step 3:** Conclusion The two values are concern for employment and development in backward areas, and environmental protection through renewable energy and conservation of energy resources.

**Quick Tip to Solve:** For each value, cite its decision: a backward-area factory supports local employment, while solar heaters support environmental protection.

**23. What is meant by 'Personal Selling' ? Explain any three qualities of a good salesman.** [5 marks]

**Solution:**

**Concept:**

- Personal selling is a promotional activity involving direct personal interaction between a salesperson and a prospective buyer to persuade the buyer to purchase a product or service.
- A good salesperson combines suitable personal qualities with knowledge of the product and an understanding of customers, so that selling becomes a helpful exchange rather than mere pressure to buy.

**Step 1:** Explain the meaning of personal selling Personal selling means selling through personal communication. The salesperson meets or interacts directly with a prospective customer, explains the product, answers questions and attempts to persuade the customer to buy. It is a two-way process: the customer can express needs and objections, and the salesperson can adapt the presentation accordingly. For example, a salesperson explaining the features of a refrigerator to a family and answering its questions about capacity and service is engaged in personal selling.

**Step 2:** Explain three qualities of a good salesman

- **Physical qualities:** A salesman should have good health and stamina, a pleasing appearance, neat clothing and a clear, pleasant voice. These qualities help create a favourable first impression and enable the salesman to meet customers energetically. A pleasing appearance means being presentable; it does not mean that physical attractiveness alone can make a sale.
- **Social qualities:** A salesman should be courteous, cooperative, patient and friendly. Good manners and the ability to listen help the salesman establish a rapport with customers. By respecting doubts and answering objections politely, the salesman makes customers comfortable and builds lasting relationships instead of provoking resistance.
- **Mental qualities:** A salesman should be alert, intelligent and imaginative, with a good memory and sound judgement. These qualities help in understanding a customer's requirements, recalling product details and responding sensibly to unexpected questions. The salesman can then select relevant arguments and adapt the presentation to the individual customer.

**Step 3:** Conclusion Personal selling is direct, persuasive interaction with a prospective buyer. Three

important qualities of a good salesman are suitable physical qualities, social qualities and mental qualities, each of which improves the effectiveness of this interaction.

**Quick Tip to Solve:** For each quality, give both its meaning and its practical effect on the customer; naming qualities alone does not explain them.

**24. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gains with the workers, while the other suggested that employees compensation should depend on the earning capacity of the company and should give them a reasonable standard of living.**

**Identify and explain the principles of Fayol and Taylor referred to in the above para.** [5 marks]

**Solution:**

**Concept:**

- Taylor's principle of harmony, not discord, requires a complete change in the attitude of management and workers towards each other so that both work for their common prosperity.
- Fayol's principle of remuneration of employees requires fair and reasonable compensation, satisfactory to employees and employers, with regard to the organisation's capacity to pay.

**Step 1:** Identify and explain Taylor's principle

- **Identification and case evidence:** Taylor's principle is **harmony, not discord**. The statement that "the management should share the gains with the workers" points to sharing the benefits of increased productivity rather than treating management and labour as opposing groups.
- **Mental revolution and common interests:** Taylor recognised the danger of conflict between management and workers. Both sides must change their attitudes towards each other, a change called a mental revolution. Management should share gains with workers, while workers should work wholeheartedly and accept changes introduced for the organisation's benefit. Both should realise that the prosperity of one depends on the prosperity of the other. This creates harmony and directs effort towards greater output and mutual prosperity rather than disputes over the existing surplus.

**Step 2:** Identify and explain Fayol's principle

- **Identification and case evidence:** Fayol's principle is **remuneration of employees**. The words "employees compensation should depend on the earning capacity of the company" and "give them a reasonable standard of living" identify the need for fair payment which considers both the employee and the employer.
- **Fair and reasonable compensation:** Employees should receive just and equitable remuneration that enables a reasonable standard of living. At the same time, the payment should be within the paying capacity of the organisation. Thus compensation should satisfy employees as well as the employer instead of favouring one side alone. Fair remuneration helps maintain employee satisfaction and harmonious relations and encourages employees to contribute towards organisational objectives.

**Step 3:** Conclusion The passage refers to Taylor's **harmony, not discord** and Fayol's **remuneration**

**of employees**. Sharing productivity gains promotes mutual prosperity, while fair and affordable remuneration protects the interests of both employees and the organisation.

**Quick Tip to Solve:** Link each principle to its own clue: sharing gains and changing mutual attitudes indicate harmony; fair compensation and capacity to pay indicate remuneration.

**25. Define 'Planning'. State any four points of importance of planning.** [5 marks]

**Solution:**

**Concept:**

- Planning is the management function of deciding in advance what is to be done and how it is to be done. It involves setting objectives and developing an appropriate course of action to achieve them.
- Planning bridges the gap between the present position and the desired future position. It is a mental exercise involving a choice among alternative courses of action.

**Step 1:** Define planning **Planning** means setting objectives for a given period, formulating alternative courses of action to achieve them, and selecting the most suitable course. Thus, it specifies in advance what is to be done, how, when and by whom. An objective indicates the desired result, while the plan identifies the actions and resources required to reach that result.

**Step 2:** State four points of importance

- **Planning provides directions:** By stating objectives clearly in advance, planning directs the efforts of managers and employees towards the desired results. Everyone knows what the organisation seeks to achieve and what work is expected of them. This helps different departments act towards common goals.
- **Planning reduces the risks of uncertainty:** Managers look ahead, anticipate possible changes in the business environment and prepare suitable responses. Forecasts and contingency measures help the organisation deal with unexpected events. Planning cannot eliminate uncertainty, but it reduces its likely adverse effects by preparing the organisation beforehand.
- **Planning reduces overlapping and wasteful activities:** Plans coordinate the activities of different departments and individuals. Clear responsibilities and a common course of action reduce duplication of effort, confusion and unnecessary work. This allows resources such as time, money and materials to be used more efficiently.
- **Planning establishes standards for controlling:** Plans specify the objectives and expected performance against which actual results can be compared. Managers identify deviations from these standards and take corrective action. Without planned targets, they would have no clear basis for deciding whether performance is satisfactory.

**Step 3:** Conclusion Planning is deciding objectives and the best course of action in advance. Its importance includes providing direction, reducing uncertainty, avoiding overlapping and wasteful activities, and establishing standards for control.

**Quick Tip to Solve:** Link each importance heading to its effect: direction aligns effort, anticipation reduces uncertainty, coordination avoids waste, and targets make control possible.

**26. Differentiate between 'Primary Market' and 'Secondary Market' on any five basis.** [5 marks]

**Solution:**

**Concept:**

- The primary market, or new issue market, deals with securities issued for the first time. It provides a channel through which companies obtain fresh capital from investors.
- The secondary market deals with the purchase and sale of existing securities among investors. Stock exchanges facilitate such trading and provide liquidity and marketability to investments.

**Step 1:** Identify the nature of the two markets A primary-market transaction brings a new security into circulation and supplies funds to the issuing company. A secondary-market transaction transfers an existing security from one investor to another. Although the issuer's security changes hands in the latter case, the issuing company does not receive the sale proceeds. The following five bases distinguish these markets.

**Step 2:** Compare the markets on five bases

| Basis | Primary Market | Secondary Market |
|---|---|---|
| Nature of securities | Deals in new securities issued for the first time; hence it is called the new issue market. | Deals in existing securities that have already been issued; hence it is the market for subsequent trading. |
| Parties to the transaction | The issuing company sells securities to investors, either directly or through intermediaries. The company is a party to the transaction. | Investors buy and sell existing securities among themselves. The issuing company is generally not a party to these trading transactions. |
| Flow of funds | Funds flow from investors to the issuing company. The company receives fresh capital for purposes such as setting up operations, expansion or diversification. | Funds flow from the buyer to the selling investor. The issuing company receives no additional capital from the resale of its securities. |
| Price determination | The price of the new issue is fixed by the company or determined through the book-building process, in which investors bid within the announced price band. | The market price is determined by demand and supply during trading. It can change repeatedly as investors place buy and sell orders. |
| Frequency of a security's sale | A particular new security is sold for the first time in this market. A company may make further new issues, but each is a fresh issue. | The same existing security can be bought and sold repeatedly between investors, providing liquidity to its holders. |

**Step 3:** Conclusion The primary market creates and places new securities and raises fresh funds for the issuer. The secondary market enables repeated trading of existing securities among investors, with prices responding to demand and supply and proceeds going to the seller.

**Quick Tip to Solve:** Track who receives the money: payment to the issuing company for a new security indicates the primary market; payment to an existing holder indicates the secondary market.

**27(a). Explain the following functions of marketing :**

**(i) Product designing and development**

**(ii) Standardization and Grading**

**(iii) Customer Support Services**

**(iv) Pricing of products** [6 marks]

**Solution:**

**Concept:**

- Marketing includes the activities that identify customer needs and create, communicate and deliver value to satisfy those needs profitably.
- Product design, standardisation and grading, customer support and pricing are related functions: they shape the offer, ensure consistent quality, support its use and determine what the buyer pays.

**Step 1:** Explain product designing and development **Product designing and development:** This function decides the product's features, quality, shape, size, style and performance in accordance with customers' needs. Good design makes a product useful and attractive and can improve its performance while reducing production costs. Development translates the product idea into an actual offering and improves existing products as needs change. For example, a bottle designed with an easy grip and a leak-proof cap offers greater convenience to its users. A distinctive and suitable design can give the firm a competitive advantage.

**Step 2:** Explain standardisation and grading **Standardisation and grading:** Standardisation means producing goods of predetermined specifications, such as quality, size, weight and performance. It ensures uniformity, so buyers know the characteristics they can expect and need not examine every unit individually. Grading means classifying products into groups according to important characteristics such as quality, size or weight. It is particularly useful for agricultural goods whose quality is not always uniform. Different grades can command different prices; for example, fruit may be grouped by size and quality. Standardisation establishes specifications, whereas grading sorts the output into categories.

**Step 3:** Explain customer support services **Customer support services:** These include after-sales service, handling complaints and adjustments, maintenance, technical assistance, credit facilities and information about using a product. Their purpose is to help customers obtain satisfactory value from what they buy and to resolve difficulties during use. For example, prompt installation and repair service make a durable appliance more convenient to own. Effective support increases customer satisfaction, encourages repeat purchases and builds brand loyalty; the relationship with the buyer therefore continues beyond the initial sale.

**Step 4:** Explain pricing of products **Pricing of products:** Pricing determines the amount of money a customer must pay to acquire a product or service. The marketer considers production and distribution costs, customer demand and willingness to pay, competition, the utility of the product and the firm's objectives. Decisions also cover discounts and payment terms. Price affects sales volume, revenue, profitability and the product's position in the market. A price must therefore be acceptable to the target customers while enabling the business to meet its objectives.

**Step 5:** Conclusion These functions work together: design creates a suitable product, standardisation and grading communicate its quality, support services sustain customer satisfaction, and pricing

establishes the terms of exchange.

**Quick Tip to Solve:** Keep standardisation and grading distinct: standardisation fixes specifications; grading sorts products into quality or size groups.

OR

**27(b). 'Though advertising is one of the most frequently used media of promotion of goods and services, yet it attracts lot of objections.' Explain any four such objections.** [6 marks]

**Solution:**

**Concept:**

- Advertising is an identified sponsor's paid form of non-personal presentation and promotion of ideas, goods or services.
- Although advertising informs and persuades customers, critics object to its possible effects on prices, social values, consumer choice and the purchase of inferior products. The following are four objections.

**Step 1:** Explain the objection that advertising adds to cost **Adds to cost:** Advertising requires substantial expenditure on producing messages and purchasing space or time in newspapers, television and other media. Critics argue that this expenditure raises the cost of marketing the product and is ultimately passed on to consumers through higher prices. A buyer may therefore pay for the promotional campaign as well as for the product itself. The objection is especially strong where rival firms spend heavily merely to shift existing customers from one brand to another without improving the product's usefulness.

**Step 2:** Explain the objection that advertising undermines social values **Undermines social values:** Critics say that advertisements encourage materialism by presenting the possession of goods as the route to happiness, success or social acceptance. They can stimulate desires for products that people do not really need or cannot afford. When advertisements repeatedly link status with expensive brands, consumers may judge themselves and others by possessions rather than by personal qualities. The objection concerns the creation of unnecessary wants and dissatisfaction with one's existing standard of living.

**Step 3:** Explain the objection that advertising confuses buyers **Confuses the buyers:** Competing brands often make similar or exaggerated claims, each describing its own product as superior. For example, several brands in the same product category may all claim to provide the best quality or performance. Instead of providing a clear basis for comparison, such messages can make it difficult for a consumer to identify the real differences between products. Critics argue that persuasive slogans, celebrity endorsements and repeated claims may overshadow the relevant facts needed to make a rational choice.

**Step 4:** Explain the objection that advertising encourages inferior products **Encourages sale of inferior products:** Critics argue that an effective advertising campaign can persuade buyers to purchase goods whose actual quality does not justify the claims made for them. An appealing presentation or exaggerated promise may attract customers even when the product is inferior. Consumers may

rely on the advertisement instead of examining the product's quality, suitability or performance. The objection is therefore to promotional persuasion being used to secure sales without a corresponding improvement in the goods offered to the public.

**Step 5:** Conclusion Four objections are that advertising adds to cost, undermines social values, confuses buyers and encourages the sale of inferior products. These criticisms explain why advertising's influence on consumer welfare attracts scrutiny despite its widespread use.

**Quick Tip to Solve:** For an objection to advertising, name the criticism and explain its effect on the buyer; do not substitute the features or benefits of advertising.

**28(a). Explain the relationship between planning and controlling.** [6 marks]

**Solution:**

**Concept:**

- Planning decides in advance what is to be done and establishes the objectives and standards of performance. Controlling measures actual performance against those standards and takes corrective action.
- Planning and controlling are inseparable, interdependent functions of management. Planning gives direction to control, while control supplies information for improving future plans.

**Step 1:** Explain how planning provides the basis for control **Planning sets standards:** The objectives, targets and expected results fixed during planning become the standards against which actual performance is measured. For example, a planned production target provides the benchmark for checking production achieved. Without such a predetermined standard, a manager cannot judge whether performance is satisfactory; controlling would have no objective basis.

**Step 2:** Explain how control makes plans effective **Controlling ensures implementation:** Merely preparing a plan does not ensure that the desired results will follow. Control checks whether activities are proceeding according to the plan, identifies deviations and initiates corrective action. Thus, planning without controlling is meaningless because there would be no systematic assurance that the plan is being carried out.

**Step 3:** Show why neither function can stand alone **The functions are interdependent:** Planning is a prerequisite for controlling, as it supplies the standards. Conversely, controlling completes the management process by checking results and bringing performance closer to planned objectives. Planning without control lacks follow-up, while control without planning lacks direction; the two functions reinforce each other.

**Step 4:** Connect control findings with subsequent planning **Control provides feedback for new plans:** Deviations reveal whether assumptions were realistic and whether methods and resources were adequate. Managers use this information when revising standards or preparing the next plan. If a target was unrealistic, the plan may require revision; if implementation was faulty, corrective action may improve performance without changing the target. In this way, the cycle of planning and control continues.

**Step 5:** Explain the forward-looking character of both functions **Both look ahead:** Planning is forward-looking because it chooses a future course of action. Controlling is also forward-looking: although it examines results already obtained, its purpose is to correct present deficiencies and prevent their recurrence so that future performance meets the objectives. Control does more than record past mistakes.

**Step 6:** Explain the backward-looking character of both functions **Both use past experience:** Controlling is backward-looking in the sense that it compares actual performance with established standards. Planning also draws on past results and the feedback supplied by control when deciding future action. Therefore, describing planning as only forward-looking and controlling as only backward-looking gives an incomplete account of their relationship.

**Step 7:** Conclusion Planning establishes the desired performance, and controlling checks and improves its achievement. Control feedback feeds the next round of planning, making them complementary and inseparable functions; both have forward-looking and backward-looking aspects.

**Quick Tip to Solve:** Link your answer in a cycle: plans set standards, control compares results and corrects deviations, and feedback improves the next plan. Explain why both functions also use the past and influence the future.

OR

**28(b). Explain the various steps in the process of controlling.** [6 marks]

**Solution:**

**Concept:**

- Controlling ensures that actual activities conform to planned activities. It involves comparing performance with standards, understanding significant deviations and taking corrective action.
- The controlling process proceeds through setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action. Its findings also provide feedback for future planning.

**Step 1:** Set performance standards **Setting performance standards:** Standards are the criteria against which actual performance will be measured. They should be clear, realistic and measurable wherever possible, and should specify the expected performance and the relevant period. Quantitative standards may concern cost, output, sales or time. Qualitative standards, such as improvement in employee motivation, should be stated so that performance can be assessed as objectively as possible. Standards must remain consistent with organisational objectives.

**Step 2:** Measure actual performance **Measurement of actual performance:** Managers collect reliable information about what has actually been achieved. Methods include personal observation, sample checking and performance reports. The method should suit the activity, and measurement should use the same units and time period as the standards to permit a valid comparison. Performance should be checked at suitable intervals, preferably while work is in progress, so that emerging problems can be addressed promptly.

**Step 3:** Compare actual performance with the standards **Comparison of actual performance with**

**standards:** Actual results are placed alongside the predetermined standards to determine the extent and direction of any deviation. For instance, actual output can be compared with the output target for the same period. This comparison indicates whether performance meets expectations or differs from them. The mere existence of a difference does not establish its cause, so the deviation must then be analysed.

**Step 4:** Analyse significant deviations and their causes **Analysing deviations:** Managers identify which deviations require attention and why they occurred. Under **critical point control**, attention focuses on key result areas that are vital to organisational success. Under **management by exception**, only deviations beyond an acceptable range are brought to management's attention. Significant deviations must be investigated to locate their causes, such as inadequate resources, defective methods or unrealistic standards. Both favourable and unfavourable deviations can provide useful information.

**Step 5:** Take corrective action and obtain feedback **Taking corrective action:** If a significant deviation is found, managers act on its cause to bring performance into line with the plan. Depending on the cause, they may provide training, repair equipment, improve work methods or allocate resources differently. If the standard itself is demonstrably unrealistic, it may need revision. Where deviations remain within acceptable limits, no corrective action may be necessary. The results of action are monitored and the information is used in subsequent planning and control.

**Step 6:** Conclusion The controlling process consists of setting standards, measuring actual performance, comparing results with standards, analysing deviations and taking suitable corrective action. These steps help an organisation achieve its planned objectives and improve future performance.

**Quick Tip to Solve:** Remember the order as standard, measurement, comparison, analysis and correction. Comparison finds the difference; analysis explains its cause; corrective action deals with that cause.

**29(a). Explain, with the help of any four points, the importance of 'Delegation' in an organization.**

[6 marks]

**Solution:**

**Concept:**

- Delegation means entrusting responsibility and granting the authority needed to carry out a task to a subordinate. The superior remains accountable for the final result.
- Delegation is important because it enables managers to share work and develops the people who carry it out. Its benefits can be explained through the following four points.

**Step 1:** Explain effective management **Effective management:** Delegation transfers routine and less important duties to subordinates, reducing the manager's personal workload. The manager can therefore devote more attention to important matters such as setting objectives, planning and dealing with exceptional problems. For example, when a sales manager authorises a subordinate to handle routine customer enquiries, the manager gains time to develop the sales strategy. Work is completed through the coordinated efforts of several people rather than being delayed until one manager can attend to everything.

**Step 2:** Explain employee development **Employee development:** By accepting responsibility and using authority, subordinates gain experience in taking decisions and solving work-related problems. They learn by doing instead of only following detailed orders. This develops their knowledge, judgement and managerial skills, preparing them for higher responsibilities. For example, allowing an assistant to organise a departmental activity gives the assistant practice in coordinating people and resources. Delegation thus acts as a practical means of training future managers within the organisation.

**Step 3:** Explain employee motivation **Motivation of employees:** Delegation communicates the superior's trust in a subordinate's ability. Being entrusted with meaningful responsibility and corresponding authority satisfies the employee's need for recognition and gives a sense of achievement. The employee feels that his or her contribution matters and is encouraged to take initiative and perform better. This psychological benefit is different from merely increasing the employee's workload: motivation arises when responsibility is accompanied by genuine authority and confidence in the employee.

**Step 4:** Explain facilitation of organisational growth **Facilitation of growth:** Delegation creates a pool of competent and experienced subordinates who can take up positions in new departments, branches or projects. As the enterprise expands, every decision need not return to the existing top managers. Trained employees can accept greater responsibilities, enabling expansion without overburdening a few individuals. Thus, by developing managerial talent and distributing work, delegation makes it easier for the organisation to undertake new activities and sustain its growth.

**Step 5:** Conclusion Delegation promotes effective management, employee development, employee motivation and organisational growth. These four benefits show why sharing responsibility with adequate authority is essential, even though the superior retains accountability for the result.

**Quick Tip to Solve:** For each importance point, connect delegation to its benefit: less routine work for the manager, practical learning, recognition, and a trained team for expansion.

OR

**29(b). 'Organizing involves a series of steps in order to achieve the desired goals.' Explain these steps.** [6 marks]

**Solution:**

**Concept:**

- Organising is the process of identifying and dividing work, grouping related activities, assigning duties and establishing authority relationships so that people can work together to achieve organisational objectives.
- Planning determines what is to be achieved; organising creates the structure through which that plan is carried out. The organising process involves four interrelated steps in the following order.

**Step 1:** Identify and divide the work **Identification and division of work:** First identify all activities that must be performed to achieve the objectives laid down in the plan. Divide the total work into

manageable tasks so that it can be assigned to individuals or groups. This prevents duplication, ensures that no essential activity is overlooked and permits specialisation because people can concentrate on defined tasks. For example, a manufacturing enterprise identifies activities such as purchasing materials, producing goods, selling the output and maintaining accounts, then breaks these activities into specific jobs.

**Step 2:** Group related activities into departments **Departmentalisation:** Next group activities that are similar or related into departments. Grouping may be based on functions, such as production, marketing and finance, or on products, territories or another suitable basis. Bringing related jobs together facilitates coordination and specialisation, while making the overall workload easier to manage. Thus, purchasing, production and sales work are not treated as an undifferentiated collection of tasks; they are arranged into logical units according to the needs of the enterprise.

**Step 3:** Assign duties to suitable people **Assignment of duties:** Allocate the work of each department to employees who are best suited to perform it. Match a person's qualifications, skills and experience with the requirements of the job, and clearly define the duties to be carried out. This creates a proper fit between people and jobs and helps avoid uncertainty about who must perform a particular task. For example, accounts work should be assigned to persons with the relevant accounting knowledge rather than being allotted without considering their abilities.

**Step 4:** Establish reporting relationships **Establishing authority and reporting relationships:** Finally specify who will report to whom and who has the authority to give instructions and make decisions. Each employee should know the superior from whom instructions are received and the subordinates whose work he or she directs. Grant the authority needed to discharge assigned duties and define responsibility clearly. These relationships create the management hierarchy, connect the departments and provide channels for communication and coordination, enabling individual efforts to contribute to common goals.

**Step 5:** Conclusion The organising process proceeds through identification and division of work, departmentalisation, assignment of duties, and establishment of authority and reporting relationships. Together these steps convert the planned activities into a coordinated structure of jobs and people for achieving the desired goals.

**Quick Tip to Solve:** Remember the order as work, departments, people and reporting: first define tasks, then group them, assign them and clarify who reports to whom.

**30(a). Explain the following as factors affecting the requirements of fixed capital :**

**(i) Scale of operations**

**(ii) Choice of technique**

**(iii) Technology upgradation**

**(iv) Financing alternatives** [6 marks]

**Solution:**

**Concept:**

- Fixed capital refers to funds invested in fixed assets, such as land, buildings, plant and machinery, that serve the business over several years.
- A capital budgeting decision must consider how much productive capacity is required, which technology will be used, when assets must be replaced and whether assets must be purchased at all.

**Step 1:** Explain the effect of scale and technique

- **(i) Scale of operations:** A business operating on a large scale needs larger premises, more plant and machinery, and greater installed capacity to produce and distribute its output. It therefore requires a larger investment in fixed assets than a small-scale business of the same nature. For example, a factory supplying a national market generally needs greater production capacity than a small local unit. The relevant link is between the size of operations and the capacity of long-term assets needed to support it.
- **(ii) Choice of technique:** A capital-intensive technique relies heavily on machinery and automation. Purchasing and installing such equipment requires more fixed capital. A labour-intensive technique relies relatively more on human effort and generally requires a smaller investment in machinery. Thus, for comparable operations, choosing greater mechanisation raises the fixed capital requirement, while choosing a labour-intensive method lowers it. The wage bill is a recurring expense and should not be confused with investment in fixed assets.

**Step 2:** Explain replacement needs and financing alternatives

- **(iii) Technology upgradation:** Where technology changes rapidly, existing machinery may become obsolete even before it is physically worn out. A business in such an industry must replace or upgrade equipment more frequently to remain competitive and maintain product quality. It therefore needs more fixed capital to provide for these repeated investments. Businesses using relatively stable technology can continue using their assets for longer and normally face lower replacement-related requirements.
- **(iv) Financing alternatives:** If suitable assets are available on lease, a business can use them without purchasing them outright. Leasing avoids the large initial investment needed to buy the asset and therefore reduces the immediate fixed capital funds required for ownership. If leasing is unavailable or unsuitable and the business must purchase the equipment, its fixed capital requirement is higher. Lease rentals still have to be paid periodically; leasing reduces the upfront purchase commitment rather than making the use of the asset free.

**Step 3:** Conclusion Larger operations, capital-intensive production and frequent technological replacement increase fixed capital requirements. The availability of leasing can reduce the initial

investment needed to acquire the use of fixed assets.

**Quick Tip to Solve:** For each factor, state whether fixed capital rises or falls and explain the asset investment causing that change; for leasing, distinguish periodic rent from an upfront purchase.

OR

**30(b). Explain the following as factors affecting 'dividend decision' :**

**(i) Stability of dividend**

**(ii) Shareholders' preference**

**(iii) Legal constraints**

**(iv) Access to capital market** [6 marks]

**Solution:**

**Concept:**

- The dividend decision determines the portion of earnings distributed to shareholders and the portion retained in the business to finance future needs.
- Management balances shareholders' expectations with the company's funding requirements, subject to the legal restrictions on distributing profits.

**Step 1:** Explain dividend stability and shareholder preferences

- **(i) Stability of dividend:** Companies generally try to maintain a stable dividend per share because shareholders value a dependable income. A temporary increase or decline in earnings is therefore not normally matched by an equally sharp change in dividend. Management is cautious about raising the dividend and usually does so when it expects the higher level of earnings to be sustainable. Conversely, it avoids reducing the regular dividend merely because profits fall temporarily, provided that financial and legal conditions permit its continuation.
- **(ii) Shareholders' preference:** While deciding the dividend, management should consider shareholders' desire for current income as compared with growth in the value of their investment. Shareholders who depend on a regular cash income may prefer a higher dividend payout. Those who favour capital appreciation may accept a larger retention of earnings to finance profitable expansion. Thus, the preference of the shareholder group influences how much profit is distributed, while the company also considers its own investment and financing needs.

**Step 2:** Explain legal limits and access to external funds

- **(iii) Legal constraints:** The company law lays down requirements and restrictions relating to the payment of dividends. The company must comply with these provisions, including the conditions concerning profits available for distribution, before declaring a dividend. Management cannot distribute any amount it wishes simply because shareholders demand it or cash is available. These legal requirements place a boundary on the dividend decision and protect the interests of the company and its stakeholders.
- **(iv) Access to capital market:** A large, established company with a good reputation can generally raise funds from the capital market more easily. Because it can obtain external finance for future

investment, it may distribute a relatively larger part of its earnings as dividend. A smaller company or one with limited access to outside funds depends more heavily on retained earnings. It is consequently likely to retain a larger share of profits and adopt a lower dividend payout to finance its growth.

**Step 3:** Conclusion The dividend decision is influenced by the aim of maintaining a stable payout, shareholders' income preferences, mandatory legal limits and the ease of raising external finance. Better capital-market access can support higher dividends, while restricted access encourages greater retention.

**Quick Tip to Solve:** Link stability to a sustainable dividend, preference to current income, law to the permitted payout, and market access to the need for retained earnings.