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

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. Define 'Financial Management'. [1 mark]

Solution:

Concept:

- Financial Management concerns the efficient acquisition and use of funds in a business.
- Financial decisions determine how funds are raised, invested and retained for business requirements.

Step 1: Identify the financial task A business must obtain funds for its activities and decide how to employ them. Financial management brings these decisions together so that money is available when needed and is used efficiently.

Step 2: State the meaning Financial management means the efficient acquisition of finance, its efficient utilisation, and the proper distribution and disposal of surplus for the smooth working of the business.

Step 3: Conclusion Financial management is concerned with the efficient acquisition and utilisation of funds and the proper distribution and disposal of surplus.

Quick Tip to Solve: For a definition, connect both sides of finance: obtaining funds and using them efficiently.

2. What is meant by 'Feedback' in the concept of communication ? [1 mark]

Solution:

Concept:

- Communication transfers a message and its meaning from a sender to a receiver.
- Feedback is the receiver's response that completes the communication process.

Step 1: Locate the response After receiving and interpreting a message, the receiver responds to the sender. This response may be verbal, written or non-verbal; it tells the sender what the receiver has understood.

Step 2: Explain its significance Feedback is the communication of the receiver's response back to the sender. It enables the sender to judge whether the message was understood as intended and whether clarification is required.

Step 3: Conclusion Feedback means the response of the receiver communicated back to the sender about the message received.

Quick Tip to Solve: Remember the return direction: the original receiver responds to the original sender.

3. How does 'Cost of Debt' affect the capital structure of a company ? State. [1 mark]

Solution:

Concept:

- Capital structure is the mix of debt and equity used to finance a business.

- The cost of debt is the interest cost of borrowed funds; it influences the attractiveness of borrowing.

Step 1: Relate borrowing cost to financing Debt involves interest payments. When the cost of debt is low, the business can obtain borrowed funds at a smaller financing cost, making debt a more attractive component of its financing mix.

Step 2: State the direction of the effect Other things remaining the same, a lower cost of debt encourages greater use of debt in the capital structure. A higher cost of debt makes borrowing less attractive and discourages its use.

Step 3: Conclusion A lower cost of debt encourages a company to use more debt in its capital structure; a higher cost discourages debt, other things remaining the same.

Quick Tip to Solve: For a cost question, give the inverse link: cheaper borrowing encourages a larger debt component.

4. Why do employees become lethargic when the organization uses internal sources of recruitment ? State. [1 mark]

Solution:

Concept:

- Internal recruitment fills vacancies from the existing workforce through promotion or transfer.
- Exclusive reliance on existing employees can reduce the pressure created by outside competition.

Step 1: Identify the missing competition When vacancies are filled only from within, existing employees do not have to compete with fresh outside candidates who may bring new skills, ideas and higher performance standards.

Step 2: Explain the effect on effort The absence of competition from outsiders can make employees complacent. They may feel that advancement is restricted to the existing workforce and consequently show less initiative or effort to improve their performance.

Step 3: Conclusion Employees may become lethargic because internal recruitment reduces the spirit of competition with outside candidates and can make existing employees complacent.

Quick Tip to Solve: Link lethargy to reduced outside competition, rather than to the speed or cost of recruitment.

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

Solution:

Concept:

- Organisational climate describes the characteristics that distinguish an organisation and influence the behaviour of its members.
- Supportive climate characteristics can motivate employees without direct monetary rewards.

Step 1: State individual autonomy **Individual autonomy:** Employees are allowed independence in carrying out their work. Such freedom encourages responsibility and initiative, helping employees feel trusted.

Step 2: State consideration **Consideration:** Management shows concern for employees and treats them with respect. A considerate environment creates a sense of belonging and motivates employees to contribute to the organisation.

Step 3: Conclusion Two characteristics are **individual autonomy** and **consideration**.

Quick Tip to Solve: Use characteristics of the work environment, such as autonomy and consideration, rather than financial rewards.

6. 'Maintaining labour relations and union-management relations' 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 includes specialised activities for obtaining, developing and maintaining employees.
- Recruitment and employee training are distinct activities in addition to labour and union-management relations.

Step 1: Mention recruitment **Recruitment:** Human Resource Management searches for prospective employees and stimulates them to apply for jobs in the organisation, creating a pool of suitable candidates.

Step 2: Mention training and development **Training and development:** Human Resource Management arranges learning to improve employees' job knowledge and skills and to prepare them for future responsibilities. This helps the organisation develop a capable workforce.

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

Quick Tip to Solve: Name two separate HR activities; do not repeat labour relations, which the question already supplies.

7. What is meant by 'Management of Operations' ? [1 mark]

Solution:

Concept:

- Operations are the activities that transform inputs into useful goods or services.
- Management coordinates the production process to achieve the organisation's desired output efficiently.

Step 1: Identify the transformation process Every business requires a process through which inputs, such as materials, labour and technology, are converted into goods or services. This production process is the organisation's operations.

Step 2: Explain the management of that process Management of operations means managing the production process that transforms inputs into desired output for consumption. It involves coordinating the resources and activities needed to produce goods or deliver services efficiently and effectively.

Step 3: Conclusion Management of operations means managing the process of transforming inputs into the desired goods or services for consumption.

Quick Tip to Solve: For operations, remember the chain: inputs, transformation process, and useful goods or services.

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

Solution:

Concept:

- Accountability is an element of delegation: the person entrusted with work must explain the results to the superior.
- Authority permits action, responsibility requires performance, and accountability requires answerability for that performance.

Step 1: Identify the obligation Delegation assigns a duty and the authority needed to perform it. The subordinate is expected to use that authority to carry out the assigned task.

Step 2: State to whom the person is answerable Accountability means being answerable to the superior for the final outcome of the assigned task. It flows upward, from the subordinate to the superior. The superior also remains accountable for the work delegated and cannot escape it merely by assigning it to someone else.

Step 3: Conclusion Accountability is the obligation of a subordinate to answer to the superior for the final outcome of the work assigned.

Quick Tip to Solve: For accountability, remember the question: who must explain the result to whom? Distinguish this from the duty to do the work.

9. What is included in 'Technological Environment' of business ? State. [1 mark]

Solution:

Concept:

- The technological environment is the dimension of business environment concerned with scientific and technological developments.
- Technology affects how goods and services are produced and distributed, as well as which products

become possible.

Step 1: Identify the relevant developments Scientific improvements and innovations provide new methods and techniques of production. A business must consider these developments because they can make its existing processes less efficient than newer alternatives.

Step 2: State what this environment includes It includes forces relating to scientific improvements and innovations that provide new ways of producing goods and services and new methods and techniques of operating a business. These may include advances in machinery, communication and production processes.

Step 3: Conclusion The technological environment includes scientific improvements and innovations that provide new methods and techniques of production and new ways of operating a business.

Quick Tip to Solve: Link technological environment with scientific innovation and new methods, rather than with government policy or consumer customs.

10. Give the meaning of 'Procedure' as a type of plan. [1 mark]

Solution:

Concept:

- A procedure is a standing plan that guides the performance of recurring activities.
- It specifies the sequence of steps to be followed so that an activity is performed systematically.

Step 1: Identify the type of guidance When a task recurs, the organisation need not decide the whole process afresh each time. A procedure provides a prescribed way of carrying out the activity.

Step 2: Emphasise the order of steps A procedure lays down the routine steps to be followed, usually in a chronological sequence, to perform a particular activity. For example, an admission procedure specifies the successive stages from submitting an application to completing admission.

Step 3: Conclusion A procedure is a plan specifying the routine steps, in a prescribed sequence, for carrying out a particular activity.

Quick Tip to Solve: Remember that a procedure tells the order of actions; a method tells how one particular step is performed.

11. Define organization as a structure. [1 mark]

Solution:

Concept:

- Organisation structure is the framework within which managerial and operating tasks are performed.
- It links jobs, positions and departments through formal authority and reporting relationships.

Step 1: Identify the framework Organising divides work into jobs and departments and assigns those

jobs to people. The resulting arrangement provides a framework for coordinating their activities.

Step 2: Include the relationships As a structure, organisation is the framework of jobs and positions, with clearly defined authority and responsibility relationships. It shows who reports to whom and how different activities are linked, enabling the enterprise to work towards common objectives.

Step 3: Conclusion Organisation as a structure is the framework of jobs, positions and formal authority-responsibility relationships within which the enterprise performs its activities.

Quick Tip to Solve: For a structure definition, include both the arrangement of jobs and the reporting relationships connecting them.

12. What is determined by 'Fatigue Study' ? [1 mark]

Solution:

Concept:

- Fatigue study is a technique of scientific management associated with F. W. Taylor.
- It examines tiredness caused by work so that suitable rest intervals can be planned.

Step 1: Relate fatigue to performance Continuous work without adequate rest causes physical or mental fatigue. As fatigue increases, a worker may lose concentration and produce less efficiently.

Step 2: State what the study determines Fatigue study determines the amount and frequency of rest intervals required for completing a task. These intervals allow workers to recover energy and maintain efficiency throughout the working period; they are not a measure of the standard time for the job, which is the concern of time study.

Step 3: Conclusion Fatigue study determines the amount and frequency of rest intervals needed by workers while completing a task.

Quick Tip to Solve: Associate fatigue study with rest pauses, and time study with the standard time required to complete a job.

13. 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 children from nearby villages. Although the products were in great demand, appropriate safety warnings for use were not mentioned on the labels, which led to many accidents.

(i) Identify and explain the important product related decision that was not taken into consideration by the company.

(ii) Also state any two values which were violated by the company. [3 marks]

Solution:

Concept:

- Labelling is a product-related decision involving the design and content of the label attached to a product or its package.

- A label describes the product and gives information about its use, including necessary precautions and safety warnings.
- Business decisions must respect consumer safety and the welfare and rights of children.

Step 1: Identify and explain the neglected decision **(i) Labelling:** The company neglected the information that must appear on a product label. The decisive words are that "appropriate safety warnings for use were not mentioned on the labels. Labelling is more than giving a product a name: a label also communicates how the product is to be used and the precautions that consumers should observe. For fire-crackers, clear warnings and directions are particularly important because improper use can cause injury. Attracting buyers does not remove the duty to communicate these precautions.

Step 2: State the two values violated **(ii) Consumer safety and concern for human life:** Omitting safety warnings exposed users to danger; the case states that this "led to many accidents. The company placed sales before the protection of its consumers.

Protection and welfare of children: The company "employed children from nearby villages to meet demand. Employing children in hazardous fire-cracker manufacturing disregards their safety, development and right to a healthy childhood and education.

Step 3: Conclusion The neglected product-related decision was labelling, particularly the provision of safety warnings and directions for use. The two values violated were concern for consumer safety and protection of the welfare and rights of children.

Quick Tip to Solve: Use the missing label warning to identify labelling; use the employment of children as the separate evidence for the second value.

14. How are consumer grievances redressed by the three-tier machinery under Consumer Protection Act, 1986 ? Explain. [3 marks]

Solution:

Concept:

- The Consumer Protection Act, 1986 establishes a three-tier quasi-judicial machinery to provide consumers simple and inexpensive redressal against defective goods, deficient services and unfair trade practices.
- In the framework applicable to this paper, jurisdiction depends on the value of the goods or services and the compensation claimed. Appeals link the district, state and national levels.

Step 1: Explain the District Forum **District Forum:** A complaint involving goods or services and compensation claimed not exceeding Rs 20 lakh can be filed before the District Forum. After hearing the parties and examining the evidence, it passes an appropriate order. A party dissatisfied with its order can appeal to the State Commission within 30 days.

Step 2: Explain the State Commission **State Commission:** It deals with complaints where the value of goods or services and compensation claimed exceeds Rs 20 lakh but does not exceed Rs 1 crore. It also hears appeals against District Forum orders. An appeal against its order can be made to the National Commission within 30 days.

Step 3: Explain the National Commission and relief **National Commission:** It entertains complaints exceeding Rs 1 crore and hears appeals against State Commission orders. An order in a complaint originally filed before it can be appealed against in the Supreme Court within 30 days. These bodies can direct removal of defects, replacement of goods, refund of the price, compensation for loss or injury, or discontinuance of an unfair trade practice, as appropriate to the complaint.

Step 4: Conclusion Consumer grievances are thus redressed through District Forums, State Commissions and the National Commission, with jurisdiction based on claim value and a system of appeals for review of decisions.

Quick Tip to Solve: For this 1986 Act question, remember the historical limits: up to Rs 20 lakh, above Rs 20 lakh to Rs 1 crore, and above Rs 1 crore.

15. Explain any three organizational barriers to effective communication. [3 marks]

Solution:

Concept:

- Organisational barriers arise from the structure, rules, policies and authority relationships of an organisation. They obstruct the free exchange of information even when the sender's language is clear.
- Effective communication requires a climate in which employees can exchange relevant information freely and convey feedback without fear or unnecessary restrictions.

Step 1: Explain the barrier created by organisational policy **Organisational policy:** An explicit or implicit policy that does not support free flow of communication restricts the exchange of messages. For example, if every suggestion must pass through a rigid chain of superiors and direct discussion is discouraged, employees may stop offering useful ideas. The policy itself then becomes an obstacle to effective communication.

Step 2: Explain the barrier created by rules and regulations **Rules and regulations:** Rigid rules and cumbersome procedures may prescribe restrictive channels or formalities for sending information. A message may require several approvals or a particular written format before it can move. Such requirements delay communication and can prevent urgent information from reaching the right person in time, reducing the usefulness of the message.

Step 3: Explain the barrier created by status **Status:** Differences in the status of superiors and subordinates can create a psychological distance between them. A subordinate may fear an adverse reaction and hesitate to convey an unfavourable report or question the superior's instructions. Equally, a superior may not give sufficient attention to a subordinate's views. The resulting lack of openness obstructs upward communication and feedback.

Step 4: Conclusion Unsupportive organisational policy, rigid rules and regulations, and status differences are three organisational barriers that restrict, delay or discourage effective communication.

Quick Tip to Solve: Link each organisational barrier to its effect: policy restricts flow, rigid procedures delay it, and status inhibits honest feedback.

16. Explain the following Money Market Instruments :

(i) Treasury bill

(ii) Commercial paper

(iii) Call money [3 marks]

Solution:

Concept:

- The money market deals in short-term funds and financial assets with maturities of up to one year. Its instruments meet temporary financing needs and help participants manage liquidity.
- Treasury bills, commercial paper and call money differ mainly in their issuer or borrower, maturity and method of raising or lending funds.

Step 1: Explain treasury bills **Treasury bill:** A treasury bill is a short-term borrowing instrument of the Government of India, issued by the Reserve Bank of India on its behalf. It is a zero-coupon instrument: it carries no stated interest payment, is issued at a discount to its face value and is redeemed at par. The difference between the issue price and face value is the investor's return. It is highly liquid and involves negligible default risk because it is backed by the government.

Step 2: Explain commercial paper **Commercial paper:** Commercial paper is an unsecured, negotiable promissory note issued by large and creditworthy companies to raise short-term funds, usually for a period of 15 days to one year. It is generally issued at a discount and redeemed at face value. It provides an alternative to bank borrowing for working capital and can also provide bridge finance while a company awaits funds from a longer-term source. Its acceptance depends on the issuer's creditworthiness.

Step 3: Explain call money **Call money:** Call money is short-term finance repayable on demand, used mainly by banks to meet temporary shortages of funds and maintain the cash reserve ratio. Funds are lent by a bank with surplus liquidity to another bank facing a shortage. Such inter-bank funds are commonly described in the textbook as having a maturity of one day to fifteen days. The interest rate is called the call rate and changes with the demand for and supply of funds.

Step 4: Conclusion Treasury bills raise short-term government finance, commercial paper raises unsecured short-term corporate finance, and call money adjusts temporary liquidity needs mainly between banks.

Quick Tip to Solve: Associate each instrument with its main user: treasury bill with government, commercial paper with creditworthy companies, and call money with banks.

17. State any three points of importance of consumer protection from the point of view of consumers. [3 marks]

Solution:

Concept:

- Consumer protection safeguards consumers against unfair trade practices and provides information, support and remedies for infringements of their rights.

- From the consumers' viewpoint, its importance arises from consumer ignorance, lack of organisation and widespread exploitation.

Step 1: Explain the need to overcome consumer ignorance **Consumer ignorance:** Many consumers do not know their rights or the relief available when a seller supplies defective goods or deficient services. Consumer protection educates them about these rights and the remedies available. An informed consumer can insist on a bill, check quality and seek redress instead of silently accepting a loss.

Step 2: Explain the need for collective support **Unorganised consumers:** Consumers are widely scattered and often lack a common organisation through which they can safeguard their interests. Consumer protection encourages consumer organisations and other support systems to assist them. Such organisations guide individual buyers, represent their concerns and help them pursue complaints effectively.

Step 3: Explain the need to prevent exploitation **Widespread exploitation of consumers:** Buyers may face adulteration, defective or unsafe products, false weights, misleading advertisements and other unfair practices. Consumer protection checks such exploitation and provides a mechanism for obtaining appropriate relief. It makes sellers answerable for the goods and services they offer.

Step 4: Conclusion Consumer protection is important to consumers because it overcomes their ignorance, strengthens otherwise unorganised buyers and safeguards them against widespread exploitation.

Quick Tip to Solve: For the consumers' viewpoint, recall ignorance, lack of organisation and exploitation; keep business benefits such as goodwill out of this answer.

18. Kavya is working in a company on permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Kavya worked overtime. But even after working for long hours and putting in her best efforts, no recognition was given to her by her boss. Due to overtime 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.

(i) Identify and explain the needs of Kavya discussed in the above para, by quoting the lines.

(ii) Also explain two other needs of Kavya followed by the above needs, which still remained to be satisfied. [3 marks]

Solution:

Concept:

- Maslow's need hierarchy explains motivation through basic physiological, safety or security, affiliation or belongingness, esteem and self-actualisation needs, in that order.
- A manager should recognise both the needs already served by employment and the higher needs that money and a permanent job alone cannot satisfy.

Step 1: Identify the lower needs served by employment **Basic physiological needs:** These are essential needs such as food, clothing and shelter. Employment provides income with which they can

be met. The lines that Kavya was "working in a company" and "was free to work overtime" indicate the opportunity to earn a livelihood and additional income; they do not establish the amount she earned.

Safety or security needs: These concern protection from threats and security of employment and income. The words "working in a company on permanent basis" indicate job security. The stipulated "8 hours a day" also specifies her agreed working conditions.

Step 2: Explain the two unmet social and recognition needs **Affiliation or belongingness needs:** After physiological and security needs, a person seeks affection, acceptance, friendship and a sense of belonging. The line "No one showed concern and enquired about her health" shows that Kavya lacked this social support when she fell ill. Concern from colleagues and her superior would help satisfy this need.

Esteem needs: These include self-respect, recognition, status and respect from others. The words "even after working for long hours and putting in her best efforts, no recognition was given to her by her boss" directly show an unmet esteem need. Appreciation of her contribution and suitable responsibility would help fulfil it. These are the two unmet needs directly evidenced in the case beyond the basic needs served by her job.

Step 3: Explain the final higher need in the hierarchy **Self-actualisation needs:** Beyond esteem lies the desire to realise one's full potential, develop one's abilities and become what one is capable of becoming. Opportunities for challenging work, creativity and personal growth help meet it. Thus, when considering the final two higher levels of the complete hierarchy, they are esteem and self-actualisation. The case directly establishes lack of recognition, but does not describe a specific opportunity for Kavya's self-development.

Step 4: Conclusion Kavya's job serves basic livelihood and security needs, but her colleagues' lack of concern shows unmet belongingness and her boss's lack of recognition shows unmet esteem. Self-actualisation is the highest need, involving development and fulfilment of her potential.

Quick Tip to Solve: Match each clue to its precise need: permanent job means security, concern means belongingness, recognition means esteem, and realising full potential means self-actualisation.

19. What is meant by the 'Business Environment' ? Explain any three features of business environment.

[4 marks]

Solution:

Concept:

- Business environment means the sum total of all individuals, institutions and other forces outside the control of a business enterprise that may affect its performance.
- External forces include customers, competitors, suppliers, government and social, economic and technological conditions. Their effects must be understood together rather than as isolated influences.

Step 1: State the meaning of business environment The business environment comprises all external individuals, institutions and forces that affect the enterprise's functioning and performance, even

though these lie outside its direct control. For example, changes in consumer preferences, government policy or production technology can create opportunities or threats for a firm. Management studies these influences so that the enterprise can respond appropriately.

Step 2: Explain three features

- **Totality of external forces:** Business environment is the aggregate of all things external to a business firm. It includes both individual forces, such as suppliers and customers, and broader economic, social, political, legal and technological conditions. Taken together, they constitute the environment within which the business operates.
- **Interrelatedness:** The different elements of the business environment are closely related. A change in one element can influence several others. For example, greater health awareness, a social change, can increase demand for health-related products and encourage businesses to adopt new production technologies.
- **Dynamic nature:** The business environment keeps changing as technology improves, consumers' preferences shift and new competitors enter the market. Consequently, a business cannot rely permanently on an earlier assessment; it must continually monitor changes and adapt its plans and operations.

Step 3: Conclusion Business environment is the totality of external influences on an enterprise. Three of its features are the totality of external forces, interrelatedness among these forces and their dynamic nature.

Quick Tip to Solve: Begin with the external nature of the environment, then explain each chosen feature under a separate heading with a short example where useful.

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

Solution:

Concept:

- Financial management concerns the acquisition and effective use of funds. Investment decisions determine how the firm's funds are allocated to assets.
- Dividend decisions determine how much of the profit available to shareholders is distributed as dividend and how much is retained in the business for future requirements.

Step 1: Explain the investment decision **Investment decision:** This is the decision about how the firm's funds should be invested in different assets. A firm has limited financial resources and must choose assets and projects that contribute most effectively to its objectives. Such decisions influence the firm's earning capacity, risk and future profitability.

Long-term investment: Investment in fixed assets, such as a new plant or machinery, is called a capital budgeting decision. It generally involves a substantial commitment of funds over a long period. Management compares the expected cash flows, return and risk of alternative proposals before selecting them.

Short-term investment: Investment in current assets, such as inventories and receivables, is a working capital decision. It affects day-to-day operations, liquidity and profitability. Thus, investment

decisions cover both the long-term productive base and the assets needed for normal operations.

Step 2: Explain the dividend decision **Dividend decision:** This is the decision about the portion of profit to be distributed to shareholders as dividend and the portion to be retained in the business. Retained earnings provide an internal source of finance for future investment, while dividends give shareholders a current return on their investment.

Management therefore decides the division of available earnings between distribution and retention. For example, it may retain part of the earnings to finance expansion and distribute the balance to shareholders. The decision takes account of the firm's earnings, cash availability and future financing requirements, while seeking to maximise shareholders' wealth. It concerns the use of profits, rather than the selection of the particular assets in which funds will be invested.

Step 3: Conclusion The investment decision allocates funds among the firm's assets. The dividend decision divides available profits between dividends paid to shareholders and earnings retained for future business needs.

Quick Tip to Solve: Link investment with the assets in which funds are used, and dividend with the division of profit between shareholders and the business.

21. 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 revenue. 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.

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

(b) State any two values which the company wanted to communicate to the society. [4 marks]

Solution:

Concept:

- Management pursues organisational objectives, including survival, profit and growth, while also meeting its social responsibilities towards the community and the environment.
- Social objectives include creating employment opportunities, especially for disadvantaged sections, and using environmentally friendly methods of production. A case may illustrate economic and social objectives together.

Step 1: Identify and explain the organisational objectives **Survival:** The statement that revenue was "just sufficient to meet its costs" shows that Mega Ltd. initially achieved survival. To continue operating, an organisation must earn enough revenue to cover its costs.

Profit: The decision "to reduce the labour cost" while seeking increased revenue indicates the profit objective. Profit provides a reward for business risk and a surplus over costs; merely recovering costs

does not provide that surplus. Lower operating costs can improve profitability.

Growth: The decision "to start manufacturing solar water-heaters" indicates a move towards growth by adding a product line and adapting to changing opportunities. Growth means expanding the enterprise's business, such as through a wider product range or increased sales. Gradually changing its product mix also helps the company spread the risk associated with dependence on electric heaters.

Step 2: Explain the social objective and state two values **Social objective:** Locating the unit in a "backward area" can provide local employment and support development there. Manufacturing solar water-heaters promotes the use of renewable energy and helps conserve conventional energy resources. These decisions show concern for society alongside the company's economic interests.

The two values communicated are:

Concern for the environment and conservation of energy: Solar water-heaters encourage the use of renewable solar energy and reduce dependence on electricity for heating water.

Concern for employment and balanced regional development: Establishing the unit in a backward area creates opportunities for local people and contributes to the area's economic development. The case does not establish that low wages alone are a social benefit; the relevant value is providing employment and development opportunities.

Step 3: Conclusion Mega Ltd. pursues organisational objectives of survival, profit and growth, together with social objectives. Its decisions communicate environmental responsibility and concern for employment and development in backward areas.

Quick Tip to Solve: Link each objective to a case phrase: covering costs means survival, reducing costs supports profit, adding products supports growth, and community or environmental benefits indicate social objectives.

22. How is training in an organisation beneficial 'for employees' ? State by giving any four reasons.

[4 marks]

Solution:

Concept:

- Training systematically improves an employee's knowledge, skills and ability to perform a job. Its benefits extend to the employee's career, earnings, safety and confidence.
- The question asks for benefits to employees, so each reason must explain an advantage received by the worker rather than merely an increase in the organisation's profits or productivity.

Step 1: Explain the benefits for career and earnings **1. Better career opportunities:** Training improves employees' skills and knowledge. A more competent employee can undertake greater responsibility and becomes better equipped for promotion and career advancement. Learning improved methods also helps the employee remain useful when the job's requirements change.

2. Higher earnings: Training improves the efficiency and performance of employees. Better performance helps them earn more, for example through performance-related rewards or improved earning opportunities. The benefit arises from enhanced ability and efficiency; training is not a promise of an automatic salary increase in every organisation.

Step 2: Explain the benefits for safety and satisfaction **3. Greater safety:** Training teaches employees the correct and safe handling of machines, equipment and materials. Knowledge of operating procedures and precautions makes them less prone to accidents at work. It therefore protects their health and reduces the risk of injury resulting from unfamiliarity with equipment.

4. Increased satisfaction and morale: Training builds confidence by enabling employees to understand their duties and perform them competently. This reduces uncertainty and frustration about how to do a task. A sense of competence and achievement increases job satisfaction and improves employee morale.

Step 3: Conclusion Training benefits employees through better career prospects, higher earning capacity, safer working and increased satisfaction and morale. Each benefit follows from improved job knowledge and skill.

Quick Tip to Solve: For employee benefits of training, recall career, earnings, safety and morale; explain how improved skill produces each benefit.

23. State any five features of planning. [5 marks]

Solution:

Concept:

- Planning is the management function of deciding in advance what is to be done, how it is to be done, when it is to be done and who is to do it. It bridges the gap between the present position and the desired future position.
- The features of planning describe its nature as a managerial activity. They should be distinguished from its importance, which explains the benefits that planning brings to an organisation.

Step 1: State the objective-oriented and primary nature of planning **1. Planning focuses on achieving objectives:** Plans are prepared to attain specific organisational objectives. Every proposed activity and course of action is considered in relation to the result it is intended to achieve. Thus planning is purposeful rather than an exercise carried out without a definite goal.

2. Planning is a primary function of management: Planning lays the foundation for the other functions of management. Organising, staffing, directing and controlling are carried out within the framework of the plans. For example, the activities to be organised and the people to be appointed depend on what the organisation plans to do.

Step 2: State its scope, continuity and orientation towards the future **3. Planning is pervasive:** Planning is required at all levels of management and in every department. Top management prepares plans for the organisation as a whole, while departmental and supervisory managers prepare plans for their respective areas. The scope and extent vary, but the need for planning exists throughout the organisation.

4. Planning is continuous: Plans are prepared for a specific period. At the end of that period, new plans are required. Changes in circumstances or the results of earlier plans may also require revision before the period ends. Planning therefore continues as an ongoing process rather than ending with the preparation of one plan.

5. Planning is futuristic: Planning looks ahead and anticipates future events. Managers use forecasts and available information about likely conditions to decide an appropriate course of action. It involves preparing for the future, although forecasts cannot eliminate all uncertainty.

Step 3: Conclusion Five features of planning are that it focuses on objectives, is the primary management function, is pervasive, is continuous and is futuristic. Together these show how planning guides managerial action across the organisation over time.

Quick Tip to Solve: For a features question, describe the nature of planning under distinct headings; do not replace these with benefits such as reducing waste or setting standards for control.

24. What is meant by 'Physical Distribution' ? Explain its major components. [5 marks]

Solution:

Concept:

- Physical distribution concerns the physical movement and handling of goods from the place of production to the place of consumption. It makes goods available to customers at the right place and time.
- Its major components are order processing, transportation, warehousing and inventory control. They must be coordinated because decisions about one component affect delivery service and the cost of the others.

Step 1: Define physical distribution and explain order processing **Meaning:** Physical distribution is the set of activities involved in the physical flow of goods from producers to consumers. It includes handling, storing and moving goods so that customer orders can be fulfilled effectively. It concerns the actual movement of products, rather than merely selecting the intermediaries through whom ownership passes.

1. Order processing: This includes receiving a customer's order, checking its details and the availability of stock, and arranging accurate and prompt dispatch. Speed and accuracy matter because delays or mistakes can result in late delivery, customer dissatisfaction and loss of future business. An efficient order-processing system links the customer's requirements with the firm's dispatch arrangements.

Step 2: Explain transportation, warehousing and inventory control **2. Transportation:** Transportation moves goods from the place where they are produced to the place where they are needed. It creates place utility by connecting production centres with markets. The marketer selects suitable modes of transport after considering factors such as cost, speed, reliability and the nature of the goods.

3. Warehousing: Warehousing involves storing and preserving goods until they are required for sale or consumption. It creates time utility by bridging the gap between production and demand. The number and location of warehouses affect both storage costs and how quickly customers can be served.

4. Inventory control: Inventory control determines the appropriate level of stock to maintain and when to replenish it. Adequate stock helps meet demand and avoid lost sales, but excessive stock ties up funds and increases storage, insurance and related carrying costs. The firm therefore balances

customer-service requirements against the cost of holding inventory.

Step 3: Conclusion Physical distribution manages the physical flow of goods to consumers. Order processing initiates fulfilment, transportation moves the goods, warehousing stores them until needed, and inventory control maintains a suitable stock level for efficient customer service.

Quick Tip to Solve: Remember the four components as order, transport, warehouse and inventory. Explain both what each does and how it affects timely delivery or distribution cost.

25. Principles of Taylor and Fayol are mutually complementary. One believed that the management should scientifically select the person and the work assigned should suit his/her physical and intellectual capabilities, while the other suggested that the work can be performed more efficiently if divided into specialised tasks.

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

Solution:

Concept:

- Taylor's principle of **development of each and every person to his or her greatest efficiency and prosperity** connects scientific selection and training with the capabilities of each worker.
- Fayol's principle of **division of work** increases efficiency through specialisation: a complex job is divided into smaller, specialised tasks.

Step 1: Identify Taylor's principle from the selection of workers The words "scientifically select the person" and "work assigned should suit his/her physical and intellectual capabilities" refer to **development of each and every person to his or her greatest efficiency and prosperity**. Taylor advocated a scientific approach to selecting workers instead of choosing them arbitrarily. A person's abilities and aptitude should be assessed and matched with the requirements of the job, so that the right person is assigned the right work.

Step 2: Explain how Taylor develops the selected worker **Scientific training and development:** Selection is followed by the necessary education and training in the best method of doing the assigned task. Management should help every worker develop his or her potential rather than expect workers to discover efficient methods unaided. Proper selection, suitable work and training improve individual efficiency and output. Higher efficiency benefits the organisation and creates scope for greater prosperity for workers as well.

Step 3: Identify and explain Fayol's division of work The phrase "work can be performed more efficiently if divided into specialised tasks" identifies **division of work**. A job is broken into smaller tasks, and a person with the required ability is entrusted with a particular task. Repeated performance builds skill, precision and expertise. It also reduces the time lost in changing from one kind of activity to another, enabling more and better work with the same effort. Fayol applied this principle to both technical and managerial activities, rather than restricting specialisation to factory workers.

Step 4: Relate the two principles Taylor emphasises selecting and developing the person who performs a task, while Fayol explains how dividing the work produces specialisation. These approaches support each other: specialised tasks can be allotted to scientifically selected and trained people, improving

the efficiency of the whole organisation.

Step 5: Conclusion Taylor's principle is **development of each and every person to his or her greatest efficiency and prosperity**; Fayol's principle is **division of work**. The first develops suitable workers, and the second makes work efficient through specialisation.

Quick Tip to Solve: Link scientific selection, matching abilities and training to Taylor's development principle; link the division of a job into specialised tasks to Fayol's division of work.

26. Differentiate between 'Capital Market' and 'Money Market' on the basis of the following :

(i) Safety

(ii) Expected Return

(iii) Investment outlay

(iv) Participants

(v) Duration [5 marks]

Solution:

Concept:

- The **capital market** deals in medium- and long-term funds through instruments such as shares and debentures. It includes both the primary and secondary markets.
- The **money market** deals in short-term funds through instruments such as treasury bills, commercial paper and call money. The nature and maturity of its instruments explain its different risk, return and investment requirements.

Step 1: Compare safety and expected return The first two distinctions concern the risk borne by investors and the return they expect in exchange for that risk.

Basis	Capital market	Money market
Safety	Investment is generally riskier, because repayment and returns are less certain and market prices can fluctuate substantially.	Instruments are generally much safer because they have short maturities and are issued or used by financially sound institutions. The risk of default is comparatively low.
Expected return	Expected returns are generally higher, reflecting the greater risk and scope for long-term capital appreciation, especially in equity shares.	Expected returns are generally lower because instruments are short-term and relatively safe.

Higher expected return is not a guaranteed return. Similarly, greater safety in the money market is a relative comparison, rather than a claim that every instrument is completely risk-free.

Step 2: Compare investment outlay, participants and duration The remaining distinctions identify the amount normally invested, the parties using the markets and the period for which funds are raised.

Basis	Capital market	Money market
Investment outlay	A relatively small investment is possible because securities can be bought in smaller units. Large investments are also possible.	A large investment outlay is generally required because instruments are usually issued or traded in large denominations.
Participants	Financial institutions, banks, companies, foreign investors and individual retail investors participate.	The major participants are the Reserve Bank of India, commercial banks, financial institutions and companies; institutional participation predominates.
Duration	Provides medium- and long-term finance, generally for periods exceeding one year. Equity capital has no fixed redemption maturity.	Provides short-term finance through instruments with maturities of up to one year.

Step 3: Conclusion The capital market generally offers higher expected returns with greater risk and permits small individual investments for longer periods. The money market predominantly serves institutional participants requiring short-term funds and generally offers greater safety, lower expected returns and large-denomination investments.

Quick Tip to Solve: Start with duration: short-term institutional borrowing explains the money market's large outlay, greater relative safety and lower expected return. Then contrast each of the five specified bases in the same order.

27(a). Explain any four points which highlight the importance of controlling. [6 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, finding deviations and taking corrective action so that organisational objectives are achieved.
- Its importance lies in keeping activities directed towards goals, checking the suitability of standards, using resources efficiently and motivating employees through clear performance expectations.

Step 1: Explain goal achievement and the judgement of standards The following are two ways in which controlling supports effective management:

- **Accomplishing organisational goals:** Controlling measures progress towards the organisation's goals and brings deviations to light. Managers can then locate their causes and take corrective action before the organisation moves too far from its intended results. Thus, activities remain on the right track. For example, if actual output falls below the planned output, the manager can investigate machine breakdowns or shortages and remedy the cause.
- **Judging accuracy of standards:** A control system helps management verify whether the standards set are accurate and realistic. While comparing actual results with standards, managers also examine changes in the organisation and its environment. If changed circumstances have made a standard unsuitable, it can be reviewed and revised. Thus, controlling checks the standards themselves instead of assuming that every difference must be an employee's fault.

Step 2: Explain efficient resource use and employee motivation Two further points showing the importance of controlling are:

- **Making efficient use of resources:** Under a control system, work is performed in accordance with predetermined standards. Each activity is checked against what should have been achieved with the resources used. This reduces wastage and spoilage and helps ensure that human, physical and financial resources are used effectively and efficiently. Detecting excess material consumption, for instance, enables a manager to investigate and reduce avoidable waste.
- **Improving employee motivation:** A good control system lets employees know well in advance what they are expected to do and the standards against which their performance will be assessed. This clarity helps them perform better and work towards the desired results. When performance is evaluated against communicated standards, employees understand the basis of assessment and can direct their efforts towards meeting those expectations.

Step 3: Conclusion Controlling is important because it helps accomplish organisational goals, judge the accuracy of standards, make efficient use of resources and improve employee motivation. Together, these four benefits connect performance measurement with better organisational results.

Quick Tip to Solve: For each point on the importance of controlling, state the benefit and explain how comparing performance with standards produces that benefit.

OR

27(b). Explain the relationship between planning and controlling. [6 marks]

Solution:

Concept:

- Planning decides in advance the objectives to be achieved and the courses of action to be followed. It supplies the standards for measuring performance.
- Controlling compares actual performance with these standards, analyses deviations and initiates corrective action. Planning and controlling are interdependent functions that reinforce each other.

Step 1: Establish their mutual dependence

- **Planning provides the basis for controlling:** The objectives and standards fixed during planning are the criteria against which actual performance is compared. Without a plan, a manager has no predetermined benchmark for deciding whether performance is satisfactory. For example, actual output cannot be judged as sufficient unless a planned output has first been specified. Therefore, controlling cannot operate meaningfully without planning.
- **Controlling gives meaning to planning:** Merely making a plan does not ensure its achievement. Controlling checks whether activities conform to the plan and reveals deviations so that corrective measures can be taken. Without this follow-up, plans may remain statements of intention with no assurance of implementation. Thus, planning without controlling is of little practical use.

Step 2: Explain the continuous connection between the two functions

- **They form a continuous cycle:** Planning is the starting point of the management process and

controlling completes the cycle by checking results against the plan. Information obtained through control becomes feedback for subsequent planning. For example, a repeated difference between planned and actual output may indicate that future plans need to provide better maintenance or more realistic production targets.

- **Planning is both forward-looking and backward-looking:** Planning looks ahead because it chooses future objectives and actions. It also uses past experience and information revealed by earlier control exercises to make future plans more sound. Therefore, it is inaccurate to describe planning as concerned only with the future.
- **Controlling is both backward-looking and forward-looking:** It looks back when it examines actual performance already achieved and compares it with standards. However, its purpose is also to improve future performance: corrective action prevents deviations from recurring and helps the organisation meet its objectives. It is therefore more than a post-mortem of past activities.

Step 3: Conclusion Planning and controlling are inseparable and mutually dependent: planning establishes the standards, while controlling checks their achievement and supplies feedback for better plans. Both draw on past performance and guide future action, so they operate together as a continuing management cycle.

Quick Tip to Solve: Connect the functions in a cycle: plans set standards, control compares results and corrects deviations, and control feedback improves the next plan.

28(a). Explain the following functions of marketing :

(i) Marketing Planning

(ii) Product designing and development

(iii) Pricing of products

(iv) Standardisation and Grading [6 marks]

Solution:

Concept:

- Marketing consists of activities that identify customers' needs and satisfy them through an appropriate product offering. Its functions connect the producer's decisions with the value sought by customers.
- Marketing planning gives direction to these activities; product development, pricing, and standardisation and grading help create a suitable and consistent offering for the chosen market.

Step 1: Explain marketing planning **Marketing planning:** This means developing suitable marketing plans to achieve the organisation's marketing objectives. The firm decides what it wants to accomplish, such as increasing its market share, and specifies the activities needed to achieve it. The plan may include production levels, promotion programmes and other marketing actions. For example, an enterprise aiming to increase its share of the market must decide how much additional output is needed and how that output will be promoted and sold. Planning therefore coordinates marketing efforts towards clearly defined results.

Step 2: Explain product designing and development **Product designing and development:** This

function involves decisions about a product's design and the development of an offering that satisfies customers' requirements. Design includes features such as shape, size, style and other characteristics affecting usefulness and attractiveness. A good design can improve performance, make the product easier to use, and give the firm a competitive advantage. For example, a conveniently shaped container can make a product easier to handle while also making it more appealing. Development should reflect customers' needs rather than merely the producer's preferences.

Step 3: Explain pricing of products **Pricing of products:** Price is the amount customers must pay to obtain a product. Determining an appropriate price is a crucial marketing decision because it affects demand, sales revenue and the firm's competitive position. The marketer considers the cost of production and distribution, the utility and demand for the product, competition, the firm's pricing objectives and relevant government regulations. A price must support the firm's objectives while remaining acceptable to the target customer; simply adding a margin to cost without considering the market may be unsuitable.

Step 4: Distinguish standardisation from grading **Standardisation and grading:** Standardisation means producing goods according to predetermined specifications so that their quality, size and other characteristics remain uniform. It assures customers of consistency and reduces the need to examine every unit separately. Grading means classifying products into groups on the basis of characteristics such as quality, size or weight. It is especially useful for agricultural produce, where complete uniformity is difficult to achieve. For example, apples may be sorted into grades according to size and quality, enabling different grades to be sold at appropriate prices. Thus standardisation sets and maintains specifications, while grading sorts goods into identifiable categories.

Step 5: Conclusion Marketing planning sets objectives and programmes; product designing and development creates a useful and attractive offering; pricing determines what customers pay; and standardisation and grading provide consistency and meaningful quality categories. Together these functions help the firm satisfy its target customers effectively.

Quick Tip to Solve: Keep standardisation and grading distinct: the former establishes uniform specifications, while the latter sorts products into groups such as size or quality grades.

OR

28(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 a paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. It reaches a large audience and can inform as well as persuade buyers.
- The objections concern the economic and social consequences of advertising: its expenditure, its influence on values, the information buyers receive, and the quality of the goods promoted. These criticisms explain why advertising attracts objections despite its widespread use.

Step 1: Explain the objection that advertising adds to costs **Adds to costs:** Large sums spent on advertising increase the cost of marketing goods and services. Critics argue that firms ultimately recover this expenditure through the selling price, so consumers bear the burden of promotion in the form of higher prices. From this viewpoint, resources used for expensive advertisements could instead be used to reduce prices or improve the product. The objection is about the additional expenditure and its possible transfer to buyers. It does not mean that every advertisement necessarily raises the price, because an increase in sales volume can also reduce cost per unit.

Step 2: Explain the objection concerning social values **Undermines social values:** Critics argue that advertising encourages materialism by attaching prestige, success and happiness to the possession of particular products. Repeated persuasive messages can create dissatisfaction with what people already own and stimulate desires for goods they cannot afford or do not actually need. Emphasis on consumption as a symbol of status may weaken values such as simplicity and contentment. Thus the criticism is that advertising can influence people's aspirations and standards of living in socially undesirable ways, rather than merely communicating useful product information.

Step 3: Explain why advertisements may confuse buyers **Confuses the buyers:** Competing firms often make similar claims that their own brands are the best. When several advertisements emphasise selected advantages without giving a balanced comparison, consumers may find it difficult to judge which product actually suits their needs. For example, rival brands may each claim superior performance while referring to different product features. The volume and persuasive nature of these messages can therefore confuse buyers instead of enabling a clear, informed choice. This objection concerns conflicting or exaggerated claims, especially when buyers cannot easily verify them.

Step 4: Explain the objection about inferior goods **Encourages sale of inferior products:** Critics contend that persuasive advertisements can induce consumers to purchase goods whose quality or performance does not justify the claims made for them. Attractive presentation and repeated messages may create a favourable impression that is stronger than the product's actual merits. Buyers may consequently make an initial purchase of an inferior product. This objection highlights the possibility of misleading promotion; it should not be treated as a claim that all advertised goods are inferior. Lasting repeat demand still depends on whether the product meets customers' expectations.

Step 5: Conclusion Four objections to advertising are that it adds to costs, undermines social values, confuses buyers and encourages the sale of inferior products. They question both its possible effect on consumers' expenditure and the way persuasive promotional messages can influence buying decisions and social attitudes.

Quick Tip to Solve: For each objection, give its heading and explain the harm alleged: higher cost, materialism, confusing claims, or persuasion to buy inferior goods.

29(a). Differentiate between formal and informal organization on the following basis :

(i) Meaning

(ii) Origin

(iii) Authority

(iv) Behaviour

(v) Flow of communication

(vi) Nature [6 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately created by management to achieve organisational objectives. It specifies jobs, reporting relationships and the official channels of communication.
- Informal organisation is the network of social relationships that arises spontaneously as employees interact at work. Its influence rests on personal acceptance rather than an officially assigned position.

Step 1: Identify the two kinds of relationships Compare the officially prescribed structure with the social network that develops within it. In a formal organisation an employee follows an instruction because the superior occupies an authorised position. In an informal organisation a person may influence colleagues because they trust and accept that person. Both kinds can exist among the same employees; their basis and operation differ.

Step 2: Distinguish them on the six specified bases

Basis	Formal organisation	Informal organisation
Meaning	A planned structure of authority relationships, defining jobs and responsibilities to achieve organisational goals.	A network of social relationships arising through interaction among employees beyond officially prescribed relationships.
Origin	Deliberately created by management through the organising process.	Emerges spontaneously from employees' social interaction and shared interests.
Authority	Arises from the position a person holds in the management hierarchy; it is attached to the official job.	Arises from personal qualities, acceptance and influence within the group, independent of formal position.
Behaviour	Guided by prescribed rules, procedures and official expectations for performing work.	Guided by group norms, shared values and the expectations of fellow members.
Flow of communication	Follows the officially specified channels and chain of command.	Flows through independent channels without a fixed prescribed route, often called the grapevine.
Nature	Relatively rigid: the prescribed structure and relationships are formally defined.	Flexible: relationships and interaction change with people's interests and social ties.

Step 3: Conclusion Formal organisation is intentionally established and position-based, whereas

informal organisation develops spontaneously and is based on social acceptance. The six distinctions above explain their meaning, origin, authority, behaviour, communication and nature.

Quick Tip to Solve: For each basis, contrast the official structure with the social group: position versus acceptance, prescribed rules versus group norms, and fixed channels versus the grapevine.

OR

29(b). With the help of any four points, explain the importance 'Decentralisation' in an organization.

[6 marks]

Solution:

Concept:

- Decentralisation means the systematic delegation of decision-making authority throughout the organisation, down to its lower levels. It gives managers at different levels discretion to decide matters within their assigned areas.
- Its importance lies in developing capable managers and making organisational decisions closer to the point of action. Top management retains overall direction while lower-level managers exercise the authority entrusted to them.

Step 1: Explain the idea before its benefits In a decentralised organisation, every routine decision need not be referred to the top management. Authority is distributed across levels so that managers can take decisions within their responsibilities. This is a systematic organisational approach, rather than an isolated act of assigning one task. Its importance can be explained through the following four points.

Step 2: Explain how it develops managerial ability

- **Develops initiative among subordinates:** When lower-level managers are trusted to take decisions, they learn to depend on their own judgement. They gain confidence, take initiative and accept responsibility for the outcomes of their actions. They do not remain passive executors waiting for every instruction from above.
- **Develops managerial talent for the future:** The opportunity to make decisions gives subordinates practical experience in handling managerial problems. They learn to evaluate alternatives, exercise judgement and understand the consequences of decisions. This experience prepares a pool of capable managers who can take up higher responsibilities in the future.

Step 3: Explain how it improves organisational functioning

- **Enables quick decision-making:** Decisions can be taken near the point where action is required. The manager concerned is familiar with local conditions and does not have to wait for every matter to travel up and down a long hierarchy. This reduces delay and helps the organisation respond promptly to changing situations.
- **Provides relief to top management:** Lower-level managers handle operating decisions within the authority given to them. As a result, top executives are freed from much routine supervision and can devote more time to policy formulation, strategic planning and other important matters

affecting the organisation as a whole.

Step 4: Conclusion Decentralisation is important because it develops initiative, prepares future managerial talent, speeds up decisions and relieves top management of routine work. These benefits arise when authority is systematically distributed and managers are allowed to exercise it responsibly.

Quick Tip to Solve: Link each benefit to delegated decision-making: it gives subordinates initiative and experience, removes approval delays and frees senior managers for policy decisions.

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

(i) Nature of business

(ii) Scale of operations

(iii) Seasonal factors

(iv) Production cycle [6 marks]

Solution:

Concept:

- Working capital finances day-to-day operations, such as the purchase of materials, payment of wages and holding of inventory and receivables. Funds remain committed until the operating cycle produces cash from sales.
- The amount required depends on how much business is conducted and how long money remains tied up in current assets. Each factor should therefore be linked to its effect on inventory, operating expenses or the time taken to recover cash.

Step 1: Explain nature of business and scale of operations **(i) Nature of business:** A trading concern generally needs less working capital than a manufacturing concern of comparable scale because it purchases finished goods and does not maintain raw-material and work-in-progress inventories. A manufacturing concern must finance materials, processing and the resulting inventories before it receives sales proceeds. Service businesses generally need still less inventory and therefore often have lower working-capital requirements. The precise need also depends on the credit terms and expenses of the particular business.

(ii) Scale of operations: A business operating on a larger scale normally requires more working capital in absolute terms. It needs larger stocks of materials and finished goods, incurs greater wage and other operating payments, and usually has larger sales receivables. A smaller scale generally requires a smaller absolute investment in these current assets. Thus, expanding the volume of operations increases the funds required to support daily activities.

Step 2: Explain seasonal factors and the production cycle **(iii) Seasonal factors:** During the peak season, higher production and sales require larger inventories and more funds for wages, purchases and other operating expenses. Working-capital needs therefore increase. During the lean season, activity is lower and the requirement declines. For example, a business selling winter garments must build stocks before winter and finance this seasonal accumulation until sales generate cash.

(iv) Production cycle: The production cycle is the time between the receipt of raw materials and their conversion into finished goods. A longer production cycle ties up funds in materials and work

in progress for a longer period, increasing the working capital required to maintain uninterrupted operations. A shorter cycle releases those funds sooner and reduces the requirement. For instance, goods requiring lengthy processing need a larger investment in work in progress than goods completed quickly.

Step 3: Conclusion Working-capital requirements are influenced by the business's operating nature, its scale, seasonal changes in activity and the length of its production cycle. Manufacturing, larger operations, peak-season activity and longer processing generally increase the funds tied up in daily business.

Quick Tip to Solve: For each working-capital factor, identify whether it raises the amount of current assets or lengthens the time for which cash is tied up; then explain the resulting increase or decrease in funds required.

OR

30(b). Explain the following as factors affecting the choice of capital structure :

(i) Cash flow position

(ii) Cost of equity

(iii) Floatation cost

(iv) Stock-market conditions [6 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and equity used to finance a company's long-term requirements. The choice affects the cost of finance, financial risk and the return available to equity shareholders.
- Debt creates compulsory interest and repayment commitments, whereas equity does not require fixed contractual payments. A suitable financing mix balances the benefits of debt against the company's ability to meet these commitments and the return expected by shareholders.

Step 1: Explain cash flow position and cost of equity **(i) Cash flow position:** Before borrowing, a company must assess whether it can generate enough cash to pay interest and repay principal on the due dates. It must also provide for normal operations, investment in fixed assets and increased working-capital needs. A strong and reasonably predictable cash flow position permits greater use of debt. Weak or uncertain cash flows favour more equity, since failure to meet debt commitments creates financial distress. Accounting profit alone is insufficient; actual cash availability matters.

(ii) Cost of equity: Equity shareholders expect a return appropriate to the risk they bear. As the proportion of debt increases, fixed interest obligations make the earnings available to shareholders more variable, increasing their financial risk. Shareholders consequently demand a higher return, raising the cost of equity. Although debt can initially lower the overall cost of finance, excessive borrowing may increase the cost of equity enough to offset that advantage. The debt-equity mix must therefore consider its effect on both costs.

Step 2: Explain floatation cost and stock-market conditions **(iii) Floatation cost:** Raising capital

involves expenses such as brokerage, underwriting commission, legal charges and preparation of issue documents. These are called floatation costs. An equity issue generally has higher floatation costs than raising debt through a loan or similar arrangement. A company compares the costs of the available sources because a high issue cost reduces the net funds received and makes that source less attractive, other things remaining equal.

(iv) Stock-market conditions: Market sentiment affects investors' willingness to subscribe to shares and the price at which shares can be issued. During a buoyant or bullish stock market, investors are more willing to invest in equity and a company can often issue shares on favourable terms. During depressed or bearish conditions, an equity issue may be difficult or yield an unattractive price, so debt may be preferred if the company's repayment capacity permits. Thus, prevailing market conditions influence the timing and mix of financing.

Step 3: Conclusion A company should choose its capital structure after considering cash available for debt payments, the effect of borrowing on the return required by equity shareholders, the expenses of raising funds and prevailing stock-market conditions. The aim is a sustainable financing mix with an appropriate cost and level of risk.

Quick Tip to Solve: Keep the four links distinct: cash flow determines repayment capacity, debt risk influences the cost of equity, floatation costs affect net proceeds, and market sentiment affects the attractiveness of issuing shares.