CBSE Class 12 Business Studies Question Paper 2014 with Solution PDF-Set 66/3

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. 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 means the overall character of the work environment as perceived by employees.
- Its characteristics influence employees' behaviour and can satisfy psychological and social needs without a direct monetary payment.

Step 1: State the first characteristic **Individual autonomy:** Employees have freedom to make decisions about their work within their assigned authority.

Step 2: State the second characteristic **Reward orientation:** The organisation recognises good work and achievement, so employees feel that their contribution is appreciated.

Step 3: Conclusion Two characteristics are individual autonomy and reward orientation.

Quick Tip to Solve: Recall autonomy and recognition when asked for characteristics of organisational climate.

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

Solution:

Concept:

- Communication transfers a message and its meaning from a sender to a receiver.
- Encoding puts the sender's ideas into symbols; decoding is the corresponding interpretation by the receiver.

Step 1: Identify who interprets the message The receiver receives the words, signs or other symbols sent through the communication channel.

Step 2: State the meaning of decoding Decoding is the process of converting the encoded symbols of the message into a meaningful form that the receiver can understand. It concerns interpreting meaning, rather than merely receiving a signal.

Step 3: Conclusion Decoding means converting the encoded symbols received in a message into a form that the receiver understands.

Quick Tip to Solve: Remember: the sender encodes an idea; the receiver decodes the symbols to understand it.

3. '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 concerned with obtaining, developing and maintaining an effective workforce.
- Employee welfare and social security are only one part of this wider responsibility.

Step 1: Name one activity **Recruitment and selection:** HRM identifies sources of suitable applicants and selects the right people for available jobs.

Step 2: Name another activity **Training and development:** HRM improves the job skills and knowledge of employees and prepares them for greater responsibilities.

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

Quick Tip to Solve: Choose two HR activities other than the welfare activity already supplied in the question.

4. 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 employees already working in the organisation, notably through promotion and transfer.
- The prospect of advancement links present performance with future career opportunities.

Step 1: Identify the opportunity for advancement When higher vacancies are filled internally, existing employees can aspire to promotion rather than seeing such opportunities go only to outsiders.

Step 2: Explain its motivational effect Employees realise that better performance can improve their prospects of promotion to a higher position. This expectation encourages them to work harder and improve their performance.

Step 3: Conclusion Internal recruitment motivates employees because they expect good performance to be rewarded with promotion and career advancement within the organisation.

Quick Tip to Solve: Link internal recruitment to promotion prospects, then link those prospects to improved effort.

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

Solution:

Concept:

- Debt creates fixed financial obligations such as interest and repayment of the borrowed principal.
- These obligations must be met even when the firm's operating earnings are low.

Step 1: Identify the fixed commitments Borrowing requires the firm to pay interest and repay debt according to the agreed terms; these payments do not automatically fall with sales or profits.

Step 2: Define the resulting risk Financial risk is the chance that a firm will be unable to meet its fixed financial obligations. Greater reliance on debt generally increases this risk because fixed commitments become larger.

Step 3: Conclusion Financial risk is the possibility that a firm may be unable to meet its fixed financial obligations, including interest and repayment of debt.

Quick Tip to Solve: Distinguish financial risk from business risk by focusing on fixed obligations arising from debt.

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

Solution:

Concept:

- Financial management concerns decisions about investment, financing and distribution of earnings.
- The primary objective is to maximise shareholders' wealth, represented by the market value of their shares.

Step 1: State the primary objective The objective of financial management is wealth maximisation: maximising the wealth of the shareholders.

Step 2: Explain how the objective is reflected Financial decisions should increase the market price of the company's equity shares. This approach considers the return and risk of decisions and their effect on the value of the shareholders' investment, rather than focusing only on current accounting profit.

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: For the primary objective, write wealth maximisation and connect it to the market price of shares.

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

Solution:

Concept:

- Management is multidimensional: it involves management of work, people and operations.

- Every organisation exists to carry out a basic task, such as producing goods, educating students or providing services.

Step 1: Identify the work to be performed Management translates the basic work of the organisation into specific goals that describe what must be accomplished.

Step 2: Explain how management achieves it Management assigns the means and responsibilities needed to achieve these goals and makes decisions to solve problems and complete the work. For example, a school translates its educational purpose into teaching and learning goals.

Step 3: Conclusion Management of work means translating the work of an organisation into goals and assigning the means to achieve those goals.

Quick Tip to Solve: Remember the sequence: basic organisational work, specific goals, and the means to achieve them.

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

Solution:

Concept:

- Legal environment is the framework of laws and legal institutions within which a business operates.
- Compliance with applicable legal requirements is compulsory for a business enterprise.

Step 1: Identify the legal framework The legal environment includes laws enacted by the legislature, administrative orders issued by government authorities, and court judgments that affect business activities.

Step 2: State its business coverage It also includes decisions of commissions and government agencies at the central, state and local levels. These requirements govern matters such as contracts, consumer protection and the conduct of business.

Step 3: Conclusion The legal environment includes legislation, administrative orders, court judgments and decisions of government agencies and commissions that regulate business.

Quick Tip to Solve: Remember the three main sources: laws, government orders and judicial decisions.

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

Solution:

Concept:

- Organising is a management function that converts a plan into a workable arrangement of activities and relationships.
- It brings human, physical and financial resources together to achieve organisational objectives.

Step 1: Identify and divide the work The work needed to implement the plan is identified and divided into manageable activities. Similar activities are grouped so that duties can be assigned clearly.

Step 2: Establish working relationships Duties are assigned to people, the necessary authority is provided, and reporting relationships are established. This arrangement coordinates efforts and enables people to work effectively towards common objectives.

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

Quick Tip to Solve: A complete definition links division of work, assignment of duties and authority relationships to objectives.

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

Solution:

Concept:

- Responsibility is the obligation of a subordinate to properly perform the duty assigned by a superior.
- It arises from the superior-subordinate relationship when a task is entrusted to the subordinate.

Step 1: Identify the assigned obligation When a superior assigns a duty, the subordinate is obliged to carry it out in accordance with the instructions and expected standards. This obligation is responsibility.

Step 2: Distinguish it from authority Authority is the right to issue orders or make decisions; responsibility is the duty to perform the assigned work. Thus, giving a person decision-making power and expecting proper task performance are related but distinct aspects of delegation.

Step 3: Conclusion Responsibility means the obligation of a subordinate to properly perform the duties assigned by the superior.

Quick Tip to Solve: Use "obligation to perform" for responsibility and "right to command" for authority.

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

Solution:

Concept:

- A method is a type of plan that prescribes the way in which a particular task is to be performed.
- It provides detailed guidance for carrying out one activity within a broader procedure.

Step 1: Identify the prescribed way A method specifies the manner or technique to be used for a given task. It guides employees about how the work should actually be done.

Step 2: Locate it within a procedure A procedure gives the sequence of steps for completing an activity, whereas a method describes the way to carry out a particular step. For example, a prescribed technique for training employees is a training method.

Step 3: Conclusion A method is a prescribed manner or technique for performing a particular task, specifying how that task is to be carried out.

Quick Tip to Solve: Ask "How should this particular task be done?" to recognise a method.

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

Solution:

Concept:

- Time study is a technique of scientific management used to establish a standard time for a well-defined job.
- The standard is based on time measurements of a worker of reasonable skill and efficiency under specified conditions.

Step 1: Measure task duration The job is divided into elements and the time taken to perform them is measured, commonly with a stopwatch. Observations provide a basis for judging the time reasonably needed.

Step 2: Fix the standard time The measurements are used to determine the standard time that a worker should take to complete the specified job. This standard helps in planning the workforce and assessing labour requirements.

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

Quick Tip to Solve: Associate time study with standard time; motion study concerns the movements used to do the work.

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

Solution:

Concept:

- A supervisor directly oversees employees and guides their day-to-day work at the operational level.
- Supervision links management with workers and helps convert plans and instructions into actual performance.

Step 1: Explain communication and guidance **Link between management and workers:** A supervisor communicates management plans, policies and instructions to workers and conveys workers' problems and suggestions to management. This two-way link prevents misunderstanding and enables workers to understand what is expected of them.

Step 2: Explain coordination of efforts **Maintaining group unity:** A supervisor stays in direct contact with workers, encourages cooperation and resolves differences among them. By reconciling their interests and coordinating their work, the supervisor helps the group function harmoniously towards common organisational goals.

Step 3: Explain control of work **Ensuring achievement of targets:** A supervisor observes performance, checks whether work follows the prescribed standards and guides employees when difficulties arise. Timely feedback and corrective guidance help employees avoid mistakes, use resources properly and complete their assigned work according to the required quality and time standards.

Step 4: Conclusion Three vital supervisory functions are linking management and workers, maintaining group unity, and ensuring that work meets targets and prescribed standards.

Quick Tip to Solve: For each supervisory function, name it and explain how direct contact with workers improves performance.

14. 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.

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

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

[3 marks]

Solution:

Concept:

- Branding is the product-related decision of giving a product a name, sign, symbol or combination that identifies the seller's goods and distinguishes them from competitors' goods.
- A recognised brand helps customers identify the product, provides an assurance of quality and can become a status symbol. Business values also appear in the firm's treatment of its employees and community.

Step 1: Identify and explain the product decision **(a) Branding:** The consumers preferred the goods of ABC Crackers Ltd. even when a competitor imitated them. The decisive line is that "it was a status symbol to buy the products of ABC Crackers Ltd. because of their quality." The brand differentiated the company's products from the competitor's products and assured buyers of the quality associated with that name. Customers could therefore recognise the goods they trusted, rather than treating the imitation as equivalent.

Step 2: Identify two values shown by the company **(b) Employment generation and concern for the community:** The company "employed people from nearby villages where there is a lot of unemployment." Providing jobs to these people shows concern for their livelihood and the economic development of the surrounding community.

Respect for employees and humane treatment: The case mentions the "good behaviour of the management with the employees." Treating employees with dignity communicates respect for people and supports healthy employer–employee relations. These values are evidenced by the stated actions, rather than merely by the commercial success of the products.

Step 3: Conclusion The product-related decision is branding. The two values are generation of employment for unemployed villagers and respectful, humane treatment of employees.

Quick Tip to Solve: Link each value to a stated action: hiring unemployed villagers shows employment generation, while good behaviour towards workers shows respect for employees.

15. '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 institution providing a platform for buying and selling existing securities. Its organised market supports investors and companies in addition to contributing to economic growth.
- Liquidity, continuous price determination and safety of transactions are three distinct stock-exchange functions. They explain why an investor can participate in an organised securities market with greater confidence.

Step 1: Explain liquidity and marketability **Providing liquidity and marketability to existing securities:** A stock exchange offers a continuous market in which investors can buy and sell securities already issued. An investor who needs funds can sell a security through the exchange instead of waiting for its maturity. Thus, the investment can be converted into cash, subject to market conditions, and buyers have an established place to acquire securities. The exchange does not itself guarantee a particular selling price.

Step 2: Explain price determination and transaction safety **Pricing of securities:** Demand and supply operate through buying and selling orders on the exchange. Their interaction helps determine security prices. The quoted prices communicate the market's assessment of a security and provide useful information to both buyers and sellers when making investment decisions.

Safety of transactions: Dealings take place within a defined regulatory and procedural framework. The exchange's rules, membership requirements and supervision help ensure fair dealings and protect investors against malpractice. Companies whose securities are traded must meet the applicable requirements. This improves confidence in the trading process, although it does not remove the commercial risk of an investment or guarantee a profit.

Step 3: Conclusion Three functions other than contributing to economic growth are providing liquidity and marketability, determining security prices through demand and supply, and promoting safety of transactions.

Quick Tip to Solve: Use three separate headings: an exit route for investors, a market price for securities, and regulated dealings. Explain what each function does for investors.

16. 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.

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

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

Solution:

Concept:

- Maslow's need hierarchy places basic physiological needs first, followed by safety and security, affiliation or belongingness, esteem and self-actualisation needs.
- Employment can provide income for basic needs and security of livelihood, but these do not by themselves satisfy a person's desire for affection, acceptance, recognition and respect.

Step 1: Identify the needs that employment fulfils **(i) Basic physiological needs:** The line "she had to work for 8 hours a day and was free to work overtime" shows the employment through which Huma earns her livelihood, with an opportunity to earn additional income. The remuneration from work enables her to meet basic needs such as food, clothing and shelter. Overtime is an opportunity for additional earnings, not evidence that higher social needs are satisfied.

Safety and security needs: The words "working in a company on a permanent basis" indicate job security and stability of future income. A permanent appointment addresses her concern for continuity of employment and economic security.

Step 2: Explain the next two needs that remain unsatisfied **(ii) Affiliation or belongingness needs:** These include affection, acceptance, friendship and a sense of belonging to a group. The statement "No one showed concern and enquired about her health" demonstrates the lack of care and social support Huma experiences. Merely having a permanent job does not give her this feeling of belonging.

Esteem needs: These concern self-respect, recognition, status, autonomy and respect from others. Huma also needs to feel that her contribution and worth are recognised. Esteem follows affiliation in Maslow's hierarchy; greater earnings or job security alone cannot provide the appreciation and respect associated with this level.

Step 3: Conclusion Huma is able to satisfy basic physiological needs through earnings and safety needs through permanent employment. The next two needs remaining to be satisfied are affiliation or belongingness and esteem.

Quick Tip to Solve: Match permanent employment with safety, earnings with basic needs, care and friendship with affiliation, and recognition or respect with esteem.

17. State any three functions performed by consumer organizations for protection and promotion of interests of consumers. [3 marks]

Solution:

Concept:

- Consumer organisations are voluntary bodies that protect consumers from exploitation and promote awareness of their rights and responsibilities.
- Their work includes consumer education, independent product testing and assistance in obtaining redress against unfair trade practices.

Step 1: Spread consumer awareness **Educating consumers:** Consumer organisations organise training programmes, seminars and workshops to educate the general public about consumer rights. They also publish periodicals and other publications to explain consumer problems, legal remedies and matters of consumer interest. Such education helps buyers make informed choices and recognise exploitation instead of accepting misleading claims without question.

Step 2: Test products independently **Comparative testing of consumer products:** These organisations carry out comparative tests of products in accredited laboratories. They assess their relative quality and publish the findings for consumers. This gives buyers reliable information for comparing competing products and helps them judge whether the quality offered corresponds to the claims made by sellers.

Step 3: Help consumers obtain remedies **Providing legal assistance:** Consumer organisations assist consumers in seeking legal redress for their grievances. They guide them in presenting complaints and can undertake advocacy or file complaints in the appropriate consumer forum on their behalf. This support makes it easier for an individual consumer to challenge unfair trade practices and obtain a suitable remedy.

Step 4: Conclusion Three functions are educating consumers, conducting comparative product testing and providing legal assistance to aggrieved consumers. Together, these functions promote informed buying and strengthen protection against exploitation.

Quick Tip to Solve: Remember the sequence educate, test and assist: explain how each function protects consumers rather than only naming the activity.

18. Explain the following Rights of Consumers :

(i) Right to be Informed

(ii) Right to seek Redressal [3 marks]

Solution:

Concept:

- Consumer rights protect buyers against exploitation and enable them to make informed choices and obtain remedies for genuine grievances.
- The right to be informed concerns information before and during purchase; the right to seek redressal concerns relief when the consumer has suffered a wrong.

Step 1: Explain the right to be informed **Right to be informed:** A consumer has the right to complete information about the product proposed to be purchased. This includes its ingredients, date of manufacture, price, quantity, directions for use and other relevant particulars. The information enables a buyer to assess suitability and compare alternatives before deciding. For example, the label on a packaged food item informs the consumer about its contents, net quantity and expiry information. A seller should not conceal relevant facts or mislead the buyer through false claims.

Step 2: Explain the right to seek redressal **Right to seek redressal:** A consumer has the right to seek relief against unfair trade practices, restrictive trade practices or unscrupulous exploitation. If a product or service falls short of what was promised, the consumer may seek a suitable remedy. Consumer forums can grant relief such as removal of a defect, replacement of a defective product, refund of the price paid or compensation for loss or injury suffered. For example, a consumer who receives a defective appliance can complain and seek its replacement or a refund, as appropriate.

Step 3: Conclusion The right to be informed ensures access to relevant product information for a sound purchase decision. The right to seek redressal enables an aggrieved consumer to claim an appropriate remedy against exploitation or deficient performance.

Quick Tip to Solve: Link informed with product facts and redressal with remedies; include both the meaning and a relevant example for each right.

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

Solution:

Concept:

- Financial management concerns the procurement and effective utilisation of funds to increase the wealth of shareholders.
- Investment decisions concern the use of funds in assets, whereas financing decisions concern the sources from which those funds are obtained.

Step 1: Explain the investment decision **Investment decision:** It is the decision about how the firm's funds should be invested in different assets. Management selects assets and projects that are expected to generate returns in relation to the risk involved. The aim is to use the available funds productively and contribute to the value of the firm.

Investment decisions may be long-term or short-term. Long-term investment decisions, called capital budgeting decisions, involve funds committed to fixed assets or projects, such as purchasing machinery or establishing a new plant. Short-term investment decisions concern current assets and working capital, such as the amount to hold in inventory, cash and debtors. Thus, the decision determines the asset composition of the business.

Step 2: Explain the financing decision **Financing decision:** It is the decision about the amount of finance to be raised from different long-term sources. Management decides the appropriate proportion of owners' funds and borrowed funds, thereby determining the firm's capital structure. Owners' funds include equity share capital and retained earnings; borrowed funds include loans and debentures.

In choosing this financing mix, management considers the cost and risk of each source. Borrowing

creates obligations to pay interest and repay principal, while equity does not carry a compulsory fixed payment but can affect ownership and control. For example, after deciding to buy a new machine, the choice between raising equity and taking a loan to pay for it is a financing decision.

Step 3: Conclusion An investment decision determines where funds are deployed in assets; a financing decision determines how the required funds are raised and the mix of their sources.

Quick Tip to Solve: Ask two separate questions: "Which asset should we acquire?" identifies investment; "Which source should pay for it?" identifies financing.

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

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- External recruitment seeks applicants from outside the organisation, rather than restricting vacancies to its existing employees.

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

- **Qualified personnel:** External sources enable management to attract people possessing the qualifications, training and skills required for a particular job. A business can invite applications specifying its needs and select suitably qualified people instead of depending entirely on the capabilities already available within the organisation.
- **Wider choice:** Recruitment from outside gives the enterprise access to a large pool of applicants. Advertising vacancies and using other external sources brings candidates from a wider labour market. Management can compare their qualifications and experience and choose the persons most suitable for the available jobs.

Step 2: State the advantages relating to organisational improvement

- **Fresh talent:** People recruited from outside can bring new ideas, different experiences and fresh approaches to work. Their knowledge can supplement that of existing employees and help the organisation improve its methods, overcome limitations in its current skills and respond to changing business requirements.
- **Competitive spirit:** When existing employees know that vacancies may be filled by capable outsiders, they recognise that advancement cannot be taken for granted. This can encourage them to improve their qualifications, develop their abilities and perform better, promoting a healthy spirit of competition within the organisation.

Step 3: Conclusion Four advantages of external recruitment are access to qualified personnel, a wider choice of candidates, the introduction of fresh talent and the development of a competitive spirit among existing employees.

Quick Tip to Solve: Recall the four benefits as qualification, choice, fresh talent and competition; state each heading with its own explanation.

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 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.

(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 of survival, profit and growth while fulfilling social objectives towards the community.
- Social objectives include using environmentally friendly methods and creating employment, particularly for disadvantaged sections of society.

Step 1: Identify and explain the organisational objectives **Survival:** A business must earn enough revenue to cover its costs and continue operating. Mega Ltd. achieved this basic objective in its first year because its revenue was "just sufficient to meet its costs." Merely covering costs, however, does not provide a surplus for future needs.

Profit: Management must ensure an adequate surplus to compensate for business risks and finance future activities. The desire "to increase the revenue" and the decision "to reduce the labour cost" show an attempt to improve profitability. Lower production costs can increase the surplus earned from sales.

Growth: A business should increase its activities and prospects over time. The decision "to start manufacturing solar water-heaters" expands the product range and opens opportunities in a different market. Gradually changing the product mix can also reduce dependence on electric water-heaters.

Step 2: Explain the social objective and state two values **Social objective:** Management should create benefits for society while conducting business. Shifting the unit "to a backward area" can create employment there, while manufacturing "solar water-heaters" promotes the use of renewable energy. These decisions can therefore serve social objectives alongside cost reduction and diversification.

The two values communicated are:

- **Concern for the environment:** Solar water-heaters use renewable solar energy and help conserve conventional energy resources.
- **Concern for balanced regional development:** Locating production in a backward area can provide local employment and contribute to the development of that area.

Step 3: Conclusion Mega Ltd.'s decisions reflect organisational objectives, including survival, profit and growth, together with social objectives. The values conveyed are environmental responsibility and concern for employment and development in backward areas.

Quick Tip to Solve: Link covering costs to survival, a surplus to profit, new activities to growth, and benefits for the community or environment to social objectives.

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

Solution:

Concept:

- Business environment means the sum total of individuals, institutions and other forces outside the control of a business enterprise that may affect its performance.
- Its features explain the nature of these external influences. Any three may be explained; here the features are totality of external forces, specific and general forces, and interrelatedness.

Step 1: Explain the meaning of business environment **Business environment** comprises external individuals, institutions and forces that influence a business's functioning and performance. Customers, suppliers, competitors, government, technological developments and social conditions are examples. These forces operate outside the enterprise and are largely beyond its direct control. Nevertheless, changes in them may create opportunities or threats, so management must understand and respond to them. The term refers to the combined external setting in which the enterprise operates.

Step 2: Explain three features

- **Totality of external forces:** Business environment includes all forces outside a business enterprise that can influence it. It is an aggregate of external influences rather than a single isolated factor. For example, demand, government policy and technology together shape the conditions in which a manufacturer operates.
- **Specific and general forces:** Specific forces, such as customers, suppliers, investors and competitors, affect an individual enterprise directly and immediately in its day-to-day operations. General forces, such as economic, social, political, legal and technological conditions, influence enterprises more broadly and may affect them indirectly. Thus a supplier's delivery decision is a specific influence, while a change in national economic conditions is a general influence.
- **Interrelatedness:** The different elements of the business environment are closely connected. A change in one can lead to changes in others. For example, growing health consciousness among consumers increases demand for health-oriented goods and may encourage firms to introduce suitable products. Social change therefore affects market demand and business decisions.

Step 3: Conclusion Business environment is the total external setting influencing an enterprise. It comprises the totality of external forces, includes both specific and general forces, and consists of elements that are interrelated.

Quick Tip to Solve: Give the meaning first, then explain three distinct features with examples; do not substitute the importance of environmental scanning for its features.

23. 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 scientific management seeks harmony between management and workers through a mental revolution in their attitudes towards one another.
- Fayol's principle of remuneration of employees requires fair compensation that satisfies employees while remaining within the organisation's paying capacity.

Step 1: Identify Taylor's principle from the sharing of gains The words "management should share the gains with the workers" refer to Taylor's principle of **Harmony, not discord**. Management and workers should recognise that their interests are interdependent. Conflict over the distribution of existing gains wastes effort; their common interest lies in increasing the organisation's prosperity.

Step 2: Explain harmony through a mental revolution **Change of attitude:** Both sides must replace suspicion and antagonism with mutual trust and respect. This complete change in attitude is called a mental revolution.

Responsibilities of both sides: Management should share productivity gains with workers rather than retain every benefit for itself. Workers should contribute sincerely to improved productivity instead of resisting change or adopting disruptive methods.

Joint prosperity: Cooperation increases the size of the gains available to both sides. Thus the prosperity of the employer and the employees should be viewed as connected, rather than as opposing objectives.

Step 3: Identify and explain Fayol's principle of remuneration The words "employees compensation should depend on the earning capacity of the company" and provide "a reasonable standard of living" refer to **Remuneration of employees**.

Fairness to employees: Pay should be just and equitable and enable employees to maintain at least a reasonable standard of living. Fair remuneration promotes satisfaction and a sense that employees' contribution is valued.

Fairness to the organisation: The remuneration policy should also remain within the enterprise's paying capacity. Neither an unfairly low wage nor a compensation commitment the enterprise cannot sustain serves the long-term interest of both parties. A fair balance supports harmonious working relations.

Step 4: Conclusion Taylor's **Harmony, not discord** calls for a mental revolution and sharing gains with workers. Fayol's **Remuneration of employees** calls for fair pay consistent with the company's capacity and a reasonable standard of living. Both principles encourage mutually beneficial relations between management and employees.

Quick Tip to Solve: Link "share the gains" with Taylor's harmony and mental revolution; link "reasonable standard of living" and "earning capacity" with Fayol's remuneration.

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

Solution:

Concept:

- Personal selling is a personal form of communication in which a salesperson interacts directly with a prospective buyer to persuade the buyer to purchase a product.
- A good salesperson combines knowledge with trustworthy conduct and an ability to communicate according to the customer's needs.

Step 1: State the meaning of personal selling **Personal selling** means selling through personal interaction between the salesperson and the prospective buyer. The salesperson explains the product, answers questions, deals with objections and seeks to persuade the customer to buy. Unlike an impersonal advertising message addressed to many people, the sales presentation can be adapted to the particular customer's needs and response. The immediate feedback helps the salesperson clarify doubts and assist the purchase decision.

Step 2: Explain knowledge of the product and the company **Knowledge:** A good salesman should know the product's features, uses, quality, price and the benefits it offers, as well as relevant company policies such as delivery and after-sales service. Such knowledge allows accurate answers to customers' questions and a convincing explanation of how the product meets a need. It also prevents unsupported promises. Knowledge of competing products helps the salesperson explain the offered product's advantages honestly.

Step 3: Explain honesty and integrity **Honesty:** A good salesman should be sincere and truthful in dealings with customers. The salesperson should describe the product accurately, disclose relevant limitations and honour commitments rather than mislead a buyer merely to obtain an immediate order. Honest conduct builds trust, goodwill and lasting customer relationships. A satisfied customer is more likely to buy again and recommend the business to others.

Step 4: Explain communication skills **Communication skills:** A good salesman should explain ideas clearly in language the customer understands and listen patiently to the customer's needs and doubts. Persuasive communication is supported by relevant information, polite answers and a presentation adapted to the individual buyer. Listening is as important as speaking: it enables the salesperson to recommend a suitable product and handle objections effectively, instead of delivering an unsuitable standard speech.

Step 5: Conclusion Personal selling persuades prospective buyers through direct personal interaction. Three qualities of a good salesman are **knowledge**, **honesty** and **communication skills**; together these support a well-informed purchase decision and durable customer relationships.

Quick Tip to Solve: For each salesman quality, name it and explain its effect on the customer: knowledge answers doubts, honesty builds trust, and communication connects needs with benefits.

25. State any five limitations of planning. [5 marks]

Solution:

Concept:

- Planning decides in advance what to do and how to do it. It provides direction, but its effectiveness is restricted by organisational conditions and uncertainty in the business environment.
- NCERT identifies limitations such as rigidity, reduced creativity, high costs, time consumption and the inability of plans to work fully in a dynamic environment. A limitation explains why even a carefully prepared plan may not deliver the desired outcome.

Step 1: State the limitations arising within the organisation

- **Planning leads to rigidity:** A well-defined plan specifies the future course of action. Managers may continue to follow it strictly even when circumstances require a change, reducing flexibility in operations.
- **Planning reduces creativity:** Planning is generally undertaken by top management, while other managers implement the plans. When employees merely carry out predetermined decisions, their initiative and independent thinking may be restricted.
- **Planning involves huge costs:** Collecting information, analysing alternatives and obtaining expert advice require expenditure. The benefits of a plan should justify the costs incurred in preparing it.

Step 2: State the limitations concerning time and changing conditions

- **Planning is a time-consuming process:** Gathering data, evaluating alternatives and choosing the best course of action take considerable time. In an urgent situation, this delay may cause the organisation to lose an opportunity.
- **Planning may not work in a dynamic environment:** Plans rest on assumptions about future conditions. Changes in government policies, competition, technology or consumer preferences may invalidate those assumptions and make the original plan ineffective.

Step 3: Conclusion Five limitations of planning are rigidity, reduced creativity, huge costs, time consumption and limited effectiveness in a dynamic environment. These limitations require managers to review plans and use judgement while implementing them.

Quick Tip to Solve: For each limitation, name the NCERT heading and briefly show how it restricts planning; avoid merely listing the advantages of flexible management.

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

(i) Participants

(ii) Instruments

(iii) Duration

(iv) Investment outlay

(v) Liquidity [5 marks]

Solution:

Concept:

- The capital market deals in medium-term and long-term funds, including securities whose maturity exceeds one year. The money market deals in short-term funds and monetary assets with a maturity of up to one year.
- The two markets differ in their participants, instruments, duration, size of investment and liquidity. The comparison must address the same basis on both sides rather than describe either market in isolation.

Step 1: Compare participants, instruments and duration

Basis	Capital Market	Money Market
Participants	Financial institutions, banks, companies, foreign investors and individual or retail investors participate.	The main participants are the Reserve Bank of India, commercial banks, financial institutions and finance companies; large companies also participate.
Instruments	Equity shares, preference shares, debentures, bonds and other long-term securities are traded.	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills are used.
Duration	It provides medium-term and long-term finance, generally for periods exceeding one year. Shares have no fixed maturity.	It provides short-term finance for periods up to one year, including very short periods such as overnight borrowing.

Step 2: Compare investment outlay and liquidity

Basis	Capital Market	Money Market
Investment outlay	Securities may be purchased in comparatively small amounts, so individuals with small savings can participate as well as large investors.	Transactions normally involve a large investment outlay because the instruments are issued and traded in large denominations.
Liquidity	Securities are liquid through trading on stock exchanges, but are generally less liquid than money-market instruments. Saleability depends on buyers and market conditions.	Instruments are generally highly liquid because of their short maturity and arrangements for conversion or discounting; they are regarded as close substitutes for money.

Step 3: Conclusion The capital market channels savings into medium-term and long-term investment and permits wider retail participation. The money market meets short-term funding needs through large-value, highly liquid instruments. The five requested distinctions are set out on matching bases above.

Quick Tip to Solve: Use one matching row for each specified basis. Link capital market with long-term securities and retail participation, and money market with short maturities, large outlays and high liquidity.

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

Solution:

Concept:

- Planning decides in advance the objectives to be achieved and the course of action to achieve them; it supplies standards for performance.
- Controlling compares actual performance with these standards, identifies deviations and ensures corrective action. Planning and controlling are interdependent functions of management.

Step 1: Explain how planning provides the basis for control **Planning supplies standards:** The objectives and targets fixed through planning become the criteria against which actual performance is measured. For example, a planned monthly sales target gives the sales manager a definite benchmark for checking results. Without a plan, there is no predetermined standard against which performance can be judged.

Planning without controlling is meaningless: Merely drawing up a plan does not ensure its implementation. Control checks whether activities actually follow the chosen course and whether the objectives are being achieved. It gives practical meaning to the plan by ensuring that effort remains directed towards the intended result.

Step 2: Explain how control completes and improves planning **Controlling without planning is blind:** Unless management first specifies what is to be accomplished, it cannot decide whether actual results are satisfactory or whether corrective action is needed. Thus planning is a prerequisite for effective control.

Control provides feedback for future plans: Comparison reveals deviations and their causes. This information helps management revise unrealistic standards, correct faulty assumptions and prepare more workable future plans. Therefore, the relationship is a continuous cycle rather than a one-time sequence.

Step 3: Relate both functions to the past and the future **Both are forward-looking:** Planning looks ahead to select future action. Controlling also looks ahead because corrective measures are intended to improve future performance and prevent a recurrence of mistakes.

Both involve looking back: Controlling examines work already performed, while planning uses past experience and information obtained through control when choosing future action. Hence describing planning as only forward-looking and controlling as only backward-looking is incomplete.

Step 4: Conclusion Planning and controlling are inseparable, interdependent functions, often described as the Siamese twins of management. Planning establishes the standards, controlling ensures their achievement, and control feedback becomes the basis of the next planning cycle.

Quick Tip to Solve: Link the two functions in a cycle: plans set standards, control checks results, and feedback improves the next plan. Explain why each function needs the other.

OR

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

Solution:

Concept:

- Controlling ensures that actual performance conforms to planned performance. It requires standards, measurement, comparison, analysis and corrective action.
- Deviations are differences between actual and standard performance. Their significance and causes determine the corrective action that management should take.

Step 1: Set standards and measure actual performance **1. Setting performance standards:** Standards are the criteria against which actual performance will be evaluated. They should be clear and, wherever possible, measurable, such as units of output, sales revenue, cost or time. Qualitative standards, such as employee morale, should also be stated so that evaluation is meaningful. Standards must be realistic and sufficiently flexible to suit changing circumstances.

2. Measurement of actual performance: Managers ascertain actual results objectively and reliably through personal observation, sample checking, performance reports or other suitable methods. Measurement should normally use the same units as the standards. Where possible, performance is measured while work is in progress so that emerging problems can be corrected promptly.

Step 2: Compare results and analyse deviations **3. Comparing actual performance with standards:** Actual results are compared with the predetermined standards to identify deviations. For example, output below the planned quantity or costs above the allowed level reveals a gap requiring attention. The comparison shows the extent and direction of the difference; it does not by itself establish its cause.

4. Analysing deviations: Managers determine which deviations are significant and why they occurred. Critical point control focuses on key result areas essential for organisational success. Management by exception concentrates managerial attention on deviations beyond acceptable limits. Causes may include defective materials, inadequate training, faulty machinery or unrealistic standards; identifying the real cause prevents an unsuitable remedy.

Step 3: Take corrective action and follow up **5. Taking corrective action:** If deviations are within acceptable limits, no corrective intervention may be necessary. Significant deviations require measures directed at their causes, such as repairing equipment, improving materials or training employees. If the standard itself is unrealistic, it may need revision. Managers should follow up to see whether the action restores performance to the desired course. Thus the process feeds information back into planning and helps prevent the same problem from recurring.

Step 4: Conclusion The controlling process proceeds through setting standards, measuring actual performance, comparing it with standards, analysing significant deviations and taking corrective action. This sequence connects performance evaluation with practical improvement in the achievement of organisational objectives.

Quick Tip to Solve: Remember the sequence: set, measure, compare, analyse and correct. Distinguish finding a deviation by comparison from finding its cause through analysis.

28(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 Management: marketing functions create and deliver a product that satisfies customer needs, rather than merely selling an already manufactured article.
- Product decisions determine the offering, standardisation and grading establish quality expectations, support services sustain satisfaction, and pricing determines the exchange value.

Step 1: Explain product designing and development **(i) Product designing and development:** This function concerns decisions about a product's quality, features, shape, size, style and performance in the light of the needs and preferences of its target customers. A good design makes the product useful and attractive and can give it a competitive advantage. Development converts the product idea into a suitable offering and improves the offering as customer requirements change.

Step 2: Explain standardisation and grading **(ii) Standardisation and grading:** Standardisation means producing goods of predetermined specifications, such as quality, size and weight, so that a customer can expect consistent performance and need not inspect every unit separately. Grading means classifying products into groups or grades on the basis of important characteristics such as quality, size or colour. It is particularly useful where natural products cannot all be identical, as with fruit or agricultural produce. The grades help buyers compare the offerings and help sellers charge different prices for different qualities.

Step 3: Explain customer support services **(iii) Customer support services:** These include services such as after-sales service, handling customer complaints and adjustments, maintenance and technical assistance, and consumer information. They help customers use the product properly and obtain a remedy when a difficulty arises. Prompt support builds satisfaction and confidence in the seller, encourages repeat purchases, and can create preference for the firm's products even when competing products are similar.

Step 4: Explain pricing of products **(iv) Pricing of products:** Pricing means deciding the amount of money a customer must pay to obtain a product. It is a significant decision because price affects demand, sales revenue and the firm's profitability. The marketer considers product cost, customer demand and perceived utility, competition, the firm's objectives and applicable government regulations before fixing a suitable price. The function also involves decisions concerning discounts and credit terms.

Step 5: Conclusion The four functions jointly shape the offering: design and development provide the desired product, standardisation and grading communicate consistent or classified quality, support services maintain satisfaction, and pricing fixes the terms of exchange.

Quick Tip to Solve: Link each function to its distinct purpose: product utility, quality assurance and classification, customer assistance, and the amount paid by the buyer.

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:

- Marketing Management: advertising is paid, impersonal communication by an identified sponsor to promote goods, services or ideas.
- Objections to advertising concern its economic and social effects, including cost, distorted consumption, confusion and objectionable messages. These criticisms should be explained rather than treated as proof that every advertisement is harmful.

Step 1: Explain the objection about costs **(i) Adds to cost:** Advertising requires expenditure on preparing messages, employing specialists and buying space or time in the media. Critics argue that firms recover this expenditure from buyers through higher product prices, so consumers ultimately bear the burden. The objection is that these selling expenses do not themselves improve the physical product. However, the criticism is not always conclusive: where advertising increases sales substantially, production and distribution costs per unit may fall. The objection is therefore about the possible price burden, not a claim that every advertised product must be more expensive.

Step 2: Explain the objection about social values **(ii) Undermines social values:** Advertisements may encourage materialism by suggesting that happiness, success or social standing depend on owning particular goods. They can stimulate demand for products that people do not actually need and encourage dissatisfaction with what people already possess. The criticism is especially relevant when luxury or status is presented as a necessity. It concerns the social influence of persuasive messages, rather than the legitimate communication of useful product information.

Step 3: Explain how advertising can confuse buyers **(iii) Confuses the buyers:** Competing sellers may each claim that their brand is superior, although the brands perform broadly similar functions. Repeated and exaggerated claims can make it difficult for a buyer to identify the genuine differences and judge which product best meets a need. Instead of helping comparison, such messages may obscure relevant facts about quality, performance and value. The objection is to misleading or conflicting persuasion; clear, factual advertisements can assist an informed choice.

Step 4: Explain the objection about bad taste **(iv) Some advertisements are in bad taste:** Certain advertisements use indecent language, objectionable images or offensive representations merely to attract attention. Such material may hurt public sentiments, offend accepted standards of decency, or present people and relationships in an inappropriate manner. Critics therefore object to the manner in which the message is presented. This does not make the entire medium objectionable: the concern is with particular advertisements that sacrifice responsible communication for publicity.

Step 5: Conclusion Four objections are that advertising adds to cost, undermines social values, confuses buyers, and that some advertisements are in bad taste. Each criticism identifies a possible misuse or adverse effect of a widely used promotional medium.

Quick Tip to Solve: State each objection as a heading and explain its mechanism: price burden, materialism, conflicting brand claims, or an offensive presentation.

29(a). With the help of any four points, explain the crucial role that organizing plays in an enterprise.

[6 marks]

Solution:

Concept:

- Organising is the management function of identifying and dividing work, grouping related activities, assigning duties and establishing reporting relationships so that plans can be implemented.
- Its importance lies in converting the enterprise's objectives into a coordinated structure of jobs, authority and resources. The following four points explain its crucial role.

Step 1: Explain specialisation and clear relationships

- **Benefits of specialisation:** Organising systematically divides the total work into specific jobs. Repeated performance of a particular task enables an employee to acquire skill and experience in it. Work is assigned according to employees' abilities, which improves proficiency, productivity and the quality of performance. Instead of everyone attempting every activity, each person can concentrate on the task for which that person is best suited.
- **Clarity in working relationships:** Organising establishes who has to do which work, who reports to whom and who can issue instructions to whom. Clearly defined authority and responsibility remove ambiguity about roles. Employees know the extent of their discretion and the person from whom they should seek instructions. This clarity facilitates communication and coordination and reduces confusion and conflict over duties.

Step 2: Explain resource use and adaptation

- **Optimum utilisation of resources:** Proper assignment of jobs prevents overlapping of work and duplication of effort. Human, material and financial resources can be placed where they are needed, while a clear division of responsibilities helps avoid both idle capacity and unnecessary workloads. Efficient organisation therefore reduces waste and makes better use of the resources available to the enterprise.
- **Adaptation to change:** A sound organisation structure provides a framework within which duties, relationships and resources can be adjusted when the business environment changes. The structure can accommodate new activities, products or technology through suitable regrouping and reassignment of work. Such flexibility helps the enterprise maintain stability while responding effectively to changing conditions and pursuing continued growth.

Step 3: Conclusion Organising plays a crucial role through the benefits of specialisation, clarity in working relationships, optimum utilisation of resources and adaptation to change. Together these enable coordinated and efficient implementation of the enterprise's plans.

Quick Tip to Solve: For each importance point, state the benefit and then explain how organising produces it; listing the headings alone does not explain its role.

OR

29(b). Explain the concept of 'Functional Structure' of an organisation. Also, explain any four disadvantages of functional structure. [6 marks]

Solution:

Concept:

- An organisation structure specifies the grouping of jobs and the relationships of authority and responsibility through which the enterprise's activities are coordinated.
- A functional structure groups jobs of a similar nature into major functions such as production, marketing, finance and personnel. Each functional department is headed by a specialist responsible for that function.

Step 1: Explain the concept of functional structure Under a functional structure, activities are grouped on the basis of the functions to be performed. For example, all production activities are placed in the production department, while selling and market-related activities are placed in marketing. Employees carrying out similar tasks work together under the appropriate functional head. The heads of these departments report to the top management. Thus the basis of departmentalisation is the specialised function rather than an individual product or geographical territory.

Step 2: Explain four disadvantages

- **Functional empires and narrow perspective:** Departmental members may become so concerned with their own specialised activities that they give departmental objectives priority over the overall objectives of the enterprise. A production manager, for example, may concentrate on producing standardised output economically without giving sufficient attention to customers' changing requirements. The integrated view of the business can consequently suffer.
- **Problems in coordination:** Each function depends on other functions, but the separate departmental chains can make communication and coordination difficult. Decisions requiring cooperation may be delayed when departments do not appreciate one another's requirements. This problem becomes particularly serious when the enterprise is large or its activities are diverse.
- **Interdepartmental conflict:** The interests of different functions may be incompatible in a particular situation. For instance, marketing may seek a wider variety of products, while production may prefer longer runs of a few standard products. Such conflicting priorities can lead to disputes about resources and decisions and obstruct the achievement of organisational goals.
- **Inflexibility:** Employees and managers may develop fixed ways of thinking and working within their specialised fields. They may resist changes that disturb established procedures or require cooperation beyond their own function. This narrow functional orientation can make it harder for the enterprise to respond quickly to new conditions or changing business needs.

Step 3: Conclusion Functional structure means grouping similar activities into specialised functional departments. Its disadvantages include functional empires, coordination difficulties, interdepartmental conflict and inflexibility, all of which require management attention to keep departmental work aligned with enterprise objectives.

Quick Tip to Solve: Define functional structure through its basis of grouping first; then link each disadvantage to excessive separation or specialisation of departments.

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

(i) Business cycle

(ii) Operating efficiency

(iii) Availability of raw material

(iv) Level of competition [6 marks]

Solution:

Concept:

- Working capital finances day-to-day operations, including purchases of raw materials, wages, inventories and credit sales. Its requirement depends on the volume of activity and the time for which funds remain tied up before cash is recovered.
- The business cycle, operating efficiency, availability of raw material and level of competition affect either the scale of current assets required or the speed with which those assets turn into cash.

Step 1: Explain the business cycle and operating efficiency

- **(i) Business cycle:** During a boom, demand and sales are high. A business increases production and therefore needs larger stocks of raw materials and finished goods, as well as more funds for wages and other operating expenses. Credit sales may also increase debtors. Consequently, its working capital requirement rises. During a depression, demand, production and sales generally fall, so less money is needed for these current assets and expenses; the requirement falls.
- **(ii) Operating efficiency:** Efficient operations reduce waste and shorten the time taken to convert inputs into sales and to collect the proceeds. Better inventory management avoids unnecessary stocks, while prompt collection reduces funds locked in debtors. Thus, a business can carry on a given level of operations with less working capital. Inefficiency, avoidable delays and excess inventories tie up money for longer and raise the requirement.

Step 2: Explain raw-material availability and competition

- **(iii) Availability of raw material:** If raw materials are readily and regularly available near the business, they can be purchased in smaller quantities as needed. Lower precautionary stocks mean a smaller working capital requirement. If supplies are irregular, scarce or available only in a particular season, the business must buy and store larger quantities to prevent production interruptions. This locks more funds in inventory and increases working capital needs.
- **(iv) Level of competition:** Strong competition may compel a business to maintain larger stocks so that customers receive goods immediately, and to offer more liberal credit terms to attract or retain buyers. Both inventories and debtors then increase, raising working capital requirements. Where competition is less intense, the business may operate with smaller stocks and stricter credit terms, so relatively less working capital is required.

Step 3: Conclusion A boom, inefficient operations, irregular raw-material supplies and intense competition generally increase working capital needs. Efficient operations, dependable supplies and conditions allowing smaller inventories or shorter customer credit reduce the funds tied up in daily business.

Quick Tip to Solve: For each factor, trace its effect on inventory, debtors or the time taken to recover cash; more funds tied up for longer means a larger working capital requirement.

OR

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

(i) Stability of earnings

(ii) Growth opportunities

(iii) Cash flow position

(iv) Taxation policy [6 marks]

Solution:

Concept:

- The dividend decision determines how much of the profit available to equity shareholders is distributed as dividend and how much is retained in the business. Retained earnings provide internal finance, whereas dividends provide a current return to shareholders.
- Earnings stability, growth opportunities, cash flow and taxation policy affect how much profit a company distributes.

Step 1: Explain earnings stability and growth opportunities

- **(i) Stability of earnings:** A company with stable and predictable earnings is in a better position to commit to a regular and relatively high dividend. It can be more confident that future profits will sustain the payment. A company whose earnings fluctuate widely is likely to pay a lower dividend and retain more during good years, so that it has resources to meet its needs when earnings decline.
- **(ii) Growth opportunities:** A company with attractive opportunities for expansion needs funds for new projects. It is likely to retain a larger share of profits and pay a smaller dividend because retained earnings are a source of internal finance. A company with fewer profitable growth opportunities has less need to retain profits for investment and can distribute a larger proportion to shareholders.

Step 2: Explain cash availability and taxation policy

- **(iii) Cash flow position:** Dividend payment involves an outflow of cash. A company needs sufficient cash after meeting operating requirements and other commitments before it can pay dividend. High accounting profits do not necessarily mean that cash is available: money may be tied up in debtors, inventories or other assets. A sound cash flow position supports a higher dividend, while a shortage of cash may require a lower payout even when profits are substantial.
- **(iv) Taxation policy:** The tax treatment of dividends affects the amount that a company is willing to distribute. Under the dividend distribution tax system relevant to this paper, a company had to bear tax on dividends declared. A higher tax on dividend distribution makes payment more costly and may encourage retention and a lower dividend; a lower rate makes distribution relatively more attractive.

Step 3: Conclusion Stable earnings and adequate cash generally favour a higher dividend. Profitable growth opportunities favour retention and a lower payout. Taxation policy affects the cost and attractiveness of distributing profits, so the company considers its tax consequences before fixing dividend.

Quick Tip to Solve: Separate profit from cash: stable profits support a continuing dividend, but the company still needs cash to pay it. For taxation, apply the tax system relevant to the paper's year.