CBSE Class 12 Business Studies Question Paper 2015 with Solution PDF-Set 66/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

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. What is meant by 'Business Environment' ? [1 mark]

Solution:

Concept:

- Business Environment refers to the external setting in which a business enterprise operates.
- External individuals, institutions and forces affect the performance of a business even though they lie outside its control.

Step 1: Identify the scope The question concerns the surroundings of the enterprise rather than its internal employees or departments. These surroundings include customers, competitors, suppliers, government and economic, social and technological conditions.

Step 2: State the meaning Business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but may affect its performance.

Step 3: Conclusion Business environment is the totality of external individuals, institutions and forces that may influence the performance of an enterprise.

Quick Tip to Solve: In a definition of business environment, include both features: external forces and their effect on business performance.

2. Explain, how management helps in the development of society. [1 mark]

Solution:

Concept:

- Management helps achieve social objectives while coordinating the resources of an enterprise.
- Efficient organisations contribute to society through useful goods and services, employment and improved living standards.

Step 1: Link management with social needs Management directs the resources of a business towards producing goods and services that people need. By reducing waste and improving efficiency, it can make better-quality products available at reasonable prices.

Step 2: Explain the contribution Management helps in the development of society by providing quality goods and services, creating employment opportunities and adopting new technology. These activities improve the standard of living and promote social well-being.

Step 3: Conclusion Management develops society through useful goods and services, employment and better living standards.

Quick Tip to Solve: For society-related benefits, connect efficient business activity with employment, product quality and the standard of living.

3. Give the meaning of 'Objectives' as a type of plan. [1 mark]

Solution:

Concept:

- Objectives are a type of plan stating the desired results of organisational activity.
- They provide direction to other plans and serve as standards for evaluating achievement.

Step 1: Identify the intended result An organisation first decides what it wants to accomplish. For example, a target for output or sales describes a result to be achieved, rather than a procedure for performing an activity.

Step 2: Define objectives Objectives are the desired future positions or end results that an organisation seeks to achieve through its activities. They are the ends towards which planning, organising, staffing, directing and controlling are directed.

Step 3: Conclusion Objectives are the desired future positions or end results that an organisation aims to achieve.

Quick Tip to Solve: An objective answers what is to be achieved; a method or procedure answers how the work will be done.

4. 'Himalaya Ltd.', is engaged in manufacturing of washing machines. The target of the organisation is to manufacture 500 washing machines a day. There is an occupational specialisation in the organisation which promotes efficiency of employees. There is no duplication of efforts in such type of organisation structure.

Identify the type of organisation structure described above. [1 mark]

Solution:

Concept:

- A functional structure groups similar jobs into specialised departments according to functions.
- Functional specialisation promotes efficiency and avoids duplication of similar activities.

Step 1: Identify the decisive clues The case states that there is 'occupational specialisation' which promotes employee efficiency and that there is 'no duplication of efforts'. These are characteristic advantages of grouping similar activities together.

Step 2: Name the structure Himalaya Ltd. uses a functional organisational structure. Activities such as production, marketing and finance are grouped by function, so specialists handle similar work within their own departments. The daily production target is an objective; it does not itself determine the structure.

Step 3: Conclusion The structure described is a functional organisational structure.

Quick Tip to Solve: Look for occupational specialisation and avoidance of duplication when identifying a functional structure from a case.

5. How does 'cost of equity' affect the choice of capital structure of a company ? Explain. [1 mark]

Solution:

Concept:

- Capital structure is the relative proportion of debt and equity used for financing a company.
- The cost of equity is the return expected by shareholders for bearing the risk of their investment.

Step 1: Relate debt to shareholder risk As a company uses more debt, interest and repayment obligations increase. Equity shareholders then bear greater financial risk because their return is residual after the fixed financing obligations are met.

Step 2: Explain the effect on financing choice The increased risk raises the return expected by equity shareholders and therefore the cost of equity. Debt can be used only up to a suitable level; excessive debt raises the cost of equity sharply and may offset its initial advantage. A company must consider this effect when choosing its debt-equity mix.

Step 3: Conclusion Higher debt increases financial risk and hence the cost of equity, limiting how much debt the company should use in its capital structure.

Quick Tip to Solve: When discussing cost of equity, trace the chain: more debt, greater shareholder risk, higher required equity return.

6. 'Bharat Express' specialises in Courier Services. Its 'wide range of express package and parcel services' help business firms to make sure that the goods are made available to the customers at the right place and at the right time.

State with reason, whether the working capital requirements of 'Bharat Express' will be high or low. [1 mark]

Solution:

Concept:

- The nature of business affects the amount of working capital needed for day-to-day operations.
- Service organisations generally need less working capital because they do not maintain substantial stocks of raw materials or finished goods.

Step 1: Identify the nature of business 'Bharat Express' specialises in courier services. It provides the service of transporting packages and parcels rather than manufacturing goods for sale. The goods carried belong to its customers and are not its own trading inventory.

Step 2: Apply the working capital implication Its working capital requirements will be low compared with a manufacturing enterprise. A service business does not ordinarily need to finance large raw-material, work-in-progress and finished-goods inventories. It still needs funds for routine expenses such as wages and fuel, so low working capital does not mean no working capital.

Step 3: Conclusion Bharat Express will have low working capital requirements because it is a service organisation and does not maintain substantial inventories of goods.

Quick Tip to Solve: Classify the nature of business first: service firms generally need less inventory finance than manufacturing firms.

7. 'Maruti Vega Ltd.' entered into the market with coloured television and have now introduced products like audio systems, air-conditioners washing machines, etc. The company is not only offering the products but also handling complaints and offering after-sales services.

Identify the element of marketing-mix discussed here. [1 mark]

Solution:

Concept:

- Product is the element of the marketing mix covering the goods and services offered to satisfy customer needs.
- Product decisions include the product range and supporting services such as complaint handling and after-sales service.

Step 1: Identify the clues in the offering The case describes televisions and the addition of audio systems, air-conditioners and washing machines. These details concern the company's product range. It also mentions 'handling complaints and offering after-sales services', which support the customer benefit from the product.

Step 2: Name the marketing-mix element The element discussed is Product. In marketing, a product is more than the physical article: it includes services and benefits offered along with the article. The case does not describe the price charged, distribution channels or promotional communication.

Step 3: Conclusion The element of the marketing mix is Product, including its range and supporting after-sales services.

Quick Tip to Solve: Treat complaint handling and after-sales service as part of the total product offering when identifying a marketing-mix element.

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8. Himanshu purchased a new car from 'Galaxy Motors' for ₹ 25 lakhs. He was offered free insurance for the first year and three free servicing to be availed after the car had covered 5,000 km, 10,000 km and 15,000 km respectively. When Himanshu took the car for the first free servicing, he was told that the car was not new and first service had already been availed on this car. He felt cheated and filed a complaint in the State Commission. Being not satisfied with the decision of the State Commission, after two months he decided to file an appeal against it.

Can Himanshu appeal against the decision of the State Commission ? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Consumer Protection: an appeal against an order of the State Commission lies before the National Commission.
- Under the consumer-redressal rules applicable to this paper, the ordinary time limit for filing that appeal is 30 days from the order.

Step 1: Identify the appellate forum and time limit A consumer dissatisfied with the State Commission's decision may appeal to the National Commission within 30 days. Dissatisfaction alone does not

remove this time requirement.

Step 2: Apply the time limit to Himanshu Himanshu decided to appeal only "after two months", which is beyond 30 days. Therefore, on the facts stated, he cannot file an appeal within the prescribed period. No sufficient cause for the delay is stated in the case.

Step 3: Conclusion No. Himanshu has allowed the prescribed 30-day appeal period to expire by waiting two months after the State Commission's decision.

Quick Tip to Solve: For an appeal question, identify both the next higher commission and the time elapsed since the order.

9. What is meant by 'Formal Organisation' ? State its any two advantages. [3 marks]

Solution:

Concept:

- Organising: formal organisation is the structure of authority and responsibility deliberately established by management to achieve organisational objectives.
- It specifies jobs, reporting relationships and the extent of authority attached to each position; it is based on official positions rather than personal friendships.

Step 1: Define formal organisation Formal organisation is the officially prescribed framework of jobs and authority-responsibility relationships created by management. It shows who has to perform a particular task, who may issue instructions and to whom each employee is accountable. Work is divided among positions and departments, and their efforts are coordinated towards common organisational goals.

Step 2: State two advantages

- **Fixes responsibility:** Since each position has clearly specified duties and authority, it is easier to identify who is responsible for a task and hold that person accountable for its performance. Employees know what is expected of them, reducing uncertainty about their obligations.
- **Avoids duplication of effort:** Tasks and working relationships are clearly defined. Employees can carry out their assigned work without unnecessarily repeating another person's work, thereby avoiding overlapping activities and waste of organisational resources.

Step 3: Conclusion Formal organisation is management's deliberately designed structure of roles and authority. Two advantages are clear fixation of responsibility and avoidance of duplication of effort.

Quick Tip to Solve: Define formal organisation through official roles and authority, then explain each advantage in terms of how that structure helps work.

10. How do the 'Company-related factors' affect the choice of channels of distribution ? Explain.

[3 marks]

Solution:

Concept:

- Marketing Management: a channel of distribution is the route through which goods move from the producer to the consumer, directly or through intermediaries.
- Company-related factors include the financial strength of the company and the degree of control it wishes to retain over channel members.

Step 1: Explain the effect of financial strength **Financial strength:** Selling directly requires the company to invest in its own sales force, distribution facilities, warehouses or retail outlets and bear the associated operating expenses. A financially strong company can afford such facilities and may choose a direct or shorter channel. A company with limited financial resources generally relies more on intermediaries, who undertake distribution functions and reduce the company's need to finance its own distribution network.

Step 2: Explain the effect of the desired control **Degree of control:** A company wishing to exercise close control over distribution, prices charged to customers, selling practices and customer service generally prefers direct selling or a shorter channel. With fewer independent intermediaries, it can supervise these activities more closely. If the company is willing to accept less control and entrust these functions to intermediaries, it can use a longer channel to reach consumers.

Step 3: Conclusion Strong financial resources and a desire for close control favour direct or shorter channels; limited resources and willingness to delegate distribution favour the use of intermediaries.

Quick Tip to Solve: For company-related factors, link financial strength to the cost of a distribution network and desired control to the number of intermediaries.

11. 'A.S. Ltd.' is a large company engaged in assembly of air-conditioners. Recently the company had conducted the 'Time' and 'Motion' study and concluded that on an average a worker can assemble ten air-conditioners in a day. The target volume of the company in a day is assembling of 1,000 units of air-conditioners. The company is providing attractive allowances to reduce labour turnover and absenteeism. All the workers are happy. Even then the assembly of air-conditioners per day is 800 units only. To find out the reason the company compared actual performance of each worker and observed through C.C.T.V. that some of the workers were busy in gossiping.

(a) Identify the function of management discussed above.

(b) State those steps in the process of the function identified which are discussed in the above paragraph.

[3 marks]

Solution:

Concept:

- Controlling is the management function of ensuring that actual performance conforms to planned standards by identifying deviations and their causes and initiating corrective action where necessary.
- The process includes setting performance standards, measuring actual performance, comparing it

with standards, analysing deviations and taking corrective action.

Step 1: Identify the function in the case **(a) Controlling:** A.S. Ltd. compares actual assembly performance with a predetermined target and investigates why output falls short. This checking of performance against standards identifies the function as controlling.

Step 2: State the steps evidenced in the paragraph **(b) The following steps are discussed:**

- **Setting performance standards:** Time and motion studies establish that a worker can assemble "ten air-conditioners in a day". The company fixes its daily target at "1,000 units".
- **Measurement of actual performance:** The company determines that actual daily assembly is "800 units only" and observes the performance of individual workers.
- **Comparison of actual performance with standards:** It compares actual output of 800 units with the target of 1,000 units, revealing a shortfall of 200 units, and compares each worker's performance with the expected output.
- **Analysing deviations:** To find the reason for the shortfall, it uses C.C.T.V. and finds that some workers are "busy in gossiping". This identifies a cause of the deviation.

Step 3: Conclusion The function is controlling. The case describes setting standards, measuring performance, comparing actual performance with standards and analysing deviations; it does not describe subsequent corrective action against gossiping.

Quick Tip to Solve: Match each controlling step to a case fact; identifying the cause of a shortfall is analysis, while actually removing it is corrective action.

12. 'The Stock Exchange performs many vital functions in today's commercial world.' Explain any three such functions. [3 marks]

Solution:

Concept:

- A stock exchange is an organised market in which existing securities are bought and sold according to prescribed rules. It is an important institution of the secondary capital market.
- Its functions make securities marketable, help determine their prices and provide a regulated setting for transactions. Any three functions may be explained.

Step 1: Explain liquidity and marketability **Providing liquidity and marketability to existing securities:** A stock exchange gives investors a ready and continuous market for securities they already hold. An investor needing cash can sell the investment to another investor instead of waiting for the company to repay it. Thus, investors can convert their holdings into cash while the company's invested capital remains available for its business. This ease of exit also encourages people to invest in securities.

Step 2: Explain price determination **Pricing of securities:** Buy and sell orders bring together demand for and supply of securities. Their interaction helps establish market prices. Expectations about profitability, the company's performance and economic conditions affect these orders and hence prices. The quotations provide useful information to buyers and sellers and help investors assess the value of

their holdings before taking investment decisions.

Step 3: Explain safety of transactions **Safety of transactions:** Trading takes place within a framework of rules and regulations, and listed companies must satisfy the exchange's requirements. Regulated dealings and disclosure requirements help protect investors and promote fair transactions. This improves confidence in the market. Such regulation concerns the conduct of transactions; it does not guarantee that a security's price cannot fall or that investors will earn a profit.

Step 4: Conclusion Three vital functions of a stock exchange are providing liquidity and marketability, determining security prices through demand and supply, and promoting safety of transactions through regulated trading.

Quick Tip to Solve: Link each function to an investor's need: liquidity helps sell, pricing helps value, and regulated trading helps transact fairly.

13. Jaideep recently joined as the Managing Director of 'Tivori Ltd.', an apparel designing company. He observed that the company had a number of experienced fashion designers on its payroll. They regularly offered useful suggestions which were neither appreciated nor rewarded by the company. Instead the company outsourced its services to some renowned fashion designers and paid them a good compensation for their services.

Because of this the employees felt disheartened and stopped giving useful suggestions.

(a) Identify the communication barrier discussed above.

(b) State the category of this communication barrier.

(c) Explain any other communication barrier of the same category. [3 marks]

Solution:

Concept:

- Communication can be obstructed by personal factors relating to superiors or subordinates. These are called personal barriers to communication.
- An employee's willingness to communicate depends partly on encouragement and rewards. When useful suggestions bring no appreciation or incentive, the employee may stop offering them even though a channel for communication exists.

Step 1: Identify the barrier in part (a) **Lack of proper incentives:** This is the communication barrier illustrated. The designers "regularly offered useful suggestions which were neither appreciated nor rewarded by the company." Since they received no encouragement for their contribution, they "felt disheartened and stopped giving useful suggestions." The absence of suitable appreciation and rewards therefore discouraged upward communication from employees to management.

Step 2: State its category for part (b) **Personal barrier:** Lack of proper incentives belongs to the category of personal barriers to communication. The case concerns employees' willingness and motivation to share their ideas. Their suggestions were available, but management's response discouraged them from continuing to communicate. The obstacle is not a difficulty in the meaning of words or an unclear message.

Step 3: Explain another barrier for part (c) **Fear of challenge to authority:** A superior may believe that allowing a subordinate to communicate ideas, criticism or suggestions freely could weaken the superior's authority. To preserve that position, the superior may deliberately withhold or suppress such communication. As a result, useful information fails to reach the appropriate level and communication becomes ineffective. This is another personal barrier because it arises from the superior's individual attitude towards subordinates and authority.

Step 4: Conclusion (a) The barrier is **lack of proper incentives**. (b) It is a **personal barrier to communication**. (c) Another barrier in this category is **fear of challenge to authority**, under which a superior suppresses communication perceived as a threat to authority.

Quick Tip to Solve: Match the case's decisive words to the barrier: suggestions that are neither appreciated nor rewarded indicate lack of proper incentives.

14. What is meant by 'Management' ? State any three objectives of management. [4 marks]

Solution:

Concept:

- Management is the process of getting things done with the aim of achieving organisational goals effectively and efficiently. Effectiveness concerns achieving the desired result; efficiency concerns doing so with minimum cost and waste of resources.
- Management balances organisational, social and personal objectives. A business must remain viable, fulfil its responsibilities to society and meet reasonable employee needs rather than pursue only one group's interests.

Step 1: Define management Management coordinates people's efforts and the use of physical and financial resources through planning, organising, staffing, directing and controlling. Its aim is both to achieve the intended goals and to use resources economically. Thus, completing a production target is effectiveness, while completing it without unnecessary expenditure reflects efficiency.

Step 2: State three objectives of management

- **Organisational objectives:** Management seeks survival, profit and growth. The business must earn enough revenue to cover costs and continue operating; profit rewards risk and supports future operations, while growth expands its scale and prospects.
- **Social objectives:** Management aims to benefit society while conducting business. It should supply useful, quality products at reasonable prices, use environmentally friendly methods and provide employment opportunities, including for disadvantaged groups.
- **Personal objectives:** Management aims to satisfy employees' reasonable financial, social and developmental needs. Fair remuneration, recognition, opportunities for advancement and a sense of belonging help align individual aspirations with organisational goals.

Step 3: Conclusion Management means achieving organisational goals effectively and efficiently through coordinated effort. Its three broad objectives are organisational success, social welfare and satisfaction of employees' personal needs.

Quick Tip to Solve: Remember the three objective groups as organisation, society and people; survival, profit and growth belong within organisational objectives.

15. Explain any four points of importance of 'consumer protection' from the point of view of business.

[4 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair and exploitative business practices. From the business viewpoint, treating consumers fairly supports a lasting relationship between the enterprise and the market it serves.
- A business depends on consumers and uses society's resources. Protecting consumer interests is therefore both commercially useful and a responsibility arising from its place in society.

Step 1: Explain the commercial reasons for protection

- **Long-term interest of business:** A satisfied consumer is likely to buy again and tell others about a good experience. Attention to product quality, fair prices and prompt handling of complaints builds goodwill and a loyal customer base. These strengthen continued sales and the long-term profitability of the business.
- **Business uses society's resources:** Businesses draw on society for labour, finance, materials and other resources. They consequently have a responsibility to supply products and services that serve public interests. Consumer protection helps discharge this responsibility instead of using those resources to exploit buyers.

Step 2: Explain the responsibility and ethical reasons

- **Social responsibility:** Business has responsibilities towards various interest groups, including consumers. Consumers provide the revenue on which the enterprise depends. Protecting their interests through safe products, accurate information and fair dealing is an essential part of fulfilling the business's social responsibility.
- **Moral justification:** It is the moral duty of business to care for consumer interests and avoid exploitation. Defective or unsafe products, adulteration, false advertising and misleading claims are unethical even when they produce an immediate gain. Honest dealings respect the buyer and help establish trust in the enterprise.

Step 3: Conclusion Consumer protection matters to business because it serves its long-term interests, acknowledges its use of society's resources, fulfils its social responsibility and meets the moral obligation to deal fairly with consumers.

Quick Tip to Solve: For the business viewpoint, explain why firms should protect buyers; do not replace these reasons with a list of consumer rights.

16. Neeraj Gupta started a company 'YoYo Ltd.' with ten employees, to assemble economical computers for the Indian rural market. The company did very well in its initial years. As the product was good and marketed well, the demand went up. To increase production the company decided to recruit additional employees. Neeraj Gupta, who was earlier taking all decisions for the company, had to selectively disperse the authority. He believed that people are competent, capable and resourceful and can assume responsibility for effective implementation of their decisions. This paid off and the company was not only able to increase its production but also expanded its product range with different features.

(a) Identify the concept used by Neeraj Gupta through which he was able to steer his company to greater heights.

(b) Also explain any three points of importance of this concept. [4 marks]

Solution:

Concept:

- Decentralisation is the systematic dispersal of decision-making authority to lower levels of management, retaining central control over major policies.
- It reflects the belief that employees are competent and can assume responsibility; it goes beyond assigning a single task by extending discretion throughout the organisation.

Step 1: Identify the concept from the case **(a) Decentralisation.** Neeraj Gupta earlier took all decisions himself, but later had to "selectively disperse the authority". His belief that people are "competent, capable and resourceful" and can take responsibility for implementing their decisions is the philosophy behind decentralisation. Lower levels now exercise decision-making authority instead of referring every matter to the owner.

Step 2: Explain three points of importance **(b) Three points of importance are:**

- **Develops initiative among subordinates:** Freedom to take decisions encourages employees to act independently and develop confidence and self-reliance. They learn to use their judgement, accept responsibility for outcomes and find better ways to perform their work.
- **Develops managerial talent for the future:** Employees gain experience by making decisions in actual work situations. This training through practice improves their managerial abilities and prepares them to take up greater responsibilities as the business grows.
- **Facilitates quick decision-making:** Decisions are taken near the point of action by people familiar with local circumstances. They need not pass through every level for approval, reducing delay and allowing timely action to meet changing production and customer requirements.

Step 3: Conclusion Neeraj used decentralisation. By encouraging initiative, developing future managers and speeding up decisions, it helped YoYo Ltd. handle growth and expand its activities.

Quick Tip to Solve: Look for systematic dispersal of decision-making authority and trust in lower levels: these indicate decentralisation. Explain each benefit by showing what this freedom enables employees to do.

17. The workers of 'Gargya Ltd.' are unable to work on new computerised machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor and the supervisor is overburdened with the frequent calls of workers.

Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently.

Also state any three benefits that the workers will derive by the decision of the supervisor. [4 marks]

Solution:

Concept:

- Training is the systematic process of increasing employees' knowledge, skills and abilities for a particular job. It improves their capacity to perform their present work.
- Training benefits employees through better career prospects, improved performance and earning capacity, and greater safety while handling equipment.

Step 1: Recommend training for the workers The supervisor should arrange **training** in operating the new computerised machines. The difficulty is a lack of job-related skills and knowledge: the workers are "unable to work on new computerised machines" and repeatedly seek guidance. Demonstration, supervised practice and instruction in correct operating and safety procedures will help them learn the work. Once they have acquired the required competence, they can handle routine operations independently and the supervisor will face fewer repeated calls for assistance.

Step 2: State three benefits to the workers

- **Better career prospects:** Training equips workers with new technical knowledge and skills. Their improved competence makes them better prepared for more responsible jobs and improves their prospects of promotion and career advancement.
- **Higher earnings:** Training improves efficiency and performance. When workers can operate the machines correctly, they can produce better output with fewer errors; their improved performance helps them earn more, for example through performance-related rewards where applicable.
- **Greater safety:** Training teaches correct machine-handling methods and the precautions needed for safe operation. Workers who understand the controls and operating procedures are less likely to make dangerous mistakes and suffer accidents at work.

Step 3: Conclusion Training will enable Gargya Ltd.'s workers to use the new machines competently and independently. It gives the workers better career prospects, opportunities for higher earnings and greater safety.

Quick Tip to Solve: When employees cannot use new equipment, recommend training. If benefits to workers are asked, focus on their careers, earnings and safety rather than only on the employer's output or costs.

18. Beni, after completing her MBA, took up a job with a multinational company named 'Fortio'. The company was paying good salary and perks to its employees. The wages were within the paying capacity of the company that provided the employees a reasonable standard of living. The company also had a good work-culture and the behaviour of superiors was very good towards their subordinates. Beni was very happy in this organisation, but due to long working hours she did not have time to cook her meal. She had to depend upon outside food, which was deteriorating her health.

She observed that this problem was faced by many of her colleagues, not only in her company but also in many other companies. This was because of increase in the number of working women and non-availability of hygienic home-cooked food. She identified this as a great opportunity and decided to give up her job to supply packaged home-cooked food to office goers at a reasonable price. At the end of the day she was also distributing the left-over food in the nearby night-shelters.

(a) State the dimension of business environment being discussed above.

(b) State the principle of management being followed by 'Fortio'.

(c) Identify any two values being communicated by the company to the society in the above case.

[4 marks]

Solution:

Concept:

- The social environment includes social trends, attitudes, lifestyles and the role of women in society. Changes in these factors can create new business opportunities.
- Fayol's principle of remuneration of employees requires fair and reasonable remuneration, giving employees a reasonable standard of living while remaining within the organisation's paying capacity.

Step 1: Identify the environmental dimension in part (a) **Social environment:** The case refers to an "increase in the number of working women" and the resulting demand for hygienic home-cooked food. A change in women's participation in employment changes lifestyles and food requirements. Beni recognises this social trend and turns the unmet need of office goers into an opportunity to supply packaged meals at reasonable prices.

Step 2: State the management principle in part (b) **Remuneration of employees:** Fortio pays good salaries and perks. The decisive words are that wages were "within the paying capacity of the company" and provided employees "a reasonable standard of living". These are the two sides of Fayol's remuneration principle: employees should receive fair compensation, while the organisation should be able to afford it. Fair remuneration promotes satisfaction and harmonious relations between employees and management.

Step 3: Identify two values for part (c) **Concern for employees' welfare:** Good salaries and perks help employees maintain a reasonable standard of living, showing that the company cares about their well-being.

Respect for human dignity: The good work culture and the very good behaviour of superiors towards subordinates show respectful treatment of employees. This creates a humane workplace in which people feel valued rather than merely treated as instruments of production.

Step 4: Conclusion (a) The dimension is the social environment. (b) The principle is remuneration of

employees. (c) Two values shown by Fortio are concern for employees' welfare and respect for human dignity.

Quick Tip to Solve: Link a change in lifestyles to the social environment; link fair wages within the employer's capacity to remuneration of employees. Support each value with a specific fact from the case.

19. 'Mission Coach Ltd.' is a large and creditworthy company manufacturing coaches for Indian Railways. It now wants to export these coaches to other countries and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost, the company decides to tap the money market.

(a) Name and explain the money-market instrument the company can use for the above purpose.

(b) What is the duration for which the company can get funds through this instrument ?

(c) State any other purpose for which this instrument can be used. [4 marks]

Solution:

Concept:

- The money market provides short-term finance through instruments with maturities of up to one year. It is distinct from the capital market, which supplies long-term funds.
- Commercial paper is an unsecured, negotiable promissory note issued by large and creditworthy companies to raise short-term funds at market-determined interest rates.

Step 1: Name and explain the instrument for part (a) **Commercial paper:** Mission Coach Ltd. can issue commercial paper to meet the floatation expenses of its equity issue. Commercial paper is a short-term, unsecured promissory note which can be transferred by negotiation. Because no specific asset is pledged as security, investors rely on the financial standing and creditworthiness of the issuing company. The case describes Mission Coach Ltd. as a "large and creditworthy company", making this instrument appropriate.

When funds are needed for expenses connected with raising long-term capital, commercial paper provides **bridge financing**: temporary funds bridge the interval before the long-term issue proceeds become available. The equity shares finance the investment in machines; commercial paper meets the immediate floatation expenses.

Step 2: State the maturity period for part (b) **Duration:** Commercial paper has a maturity period ranging from **15 days to one year**. Thus, the company can obtain funds for a short-term period within this range. It should arrange repayment when the instrument matures rather than treating it as permanent finance for its hi-tech machines.

Step 3: State another use for part (c) **Working-capital requirements:** Commercial paper can also be used to finance day-to-day operating needs, such as buying raw materials or meeting other short-term business payments. This is separate from the bridge-financing use identified in the case. Its short maturity makes it suitable for temporary working-capital needs rather than a long-term investment by itself.

Step 4: Conclusion Mission Coach Ltd. can use commercial paper, an unsecured and negotiable

short-term promissory note, for bridge financing of its floatation expenses. Its maturity ranges from 15 days to one year. Another use is financing working-capital requirements.

Quick Tip to Solve: A large creditworthy company seeking temporary funds for floatation expenses points to commercial paper and bridge financing; do not confuse the temporary funding with the long-term equity issue.

20. Give the meaning of 'organising'. State the steps in the process of organising. [5 marks]

Solution:

Concept:

- Organising is the management function that identifies and groups work, assigns duties, establishes authority and reporting relationships, and brings resources together to implement plans.
- Its process converts the overall plan into a coordinated arrangement of jobs and departments, with clear responsibility for each activity.

Step 1: Explain the meaning of organising Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships so that people can work together effectively to accomplish organisational objectives. It creates the framework within which plans are put into action, avoiding uncertainty about who performs each task and who reports to whom.

Step 2: State the steps in their sequence

- **Identification and division of work:** Identify all activities required to achieve the objectives laid down in the plan. Divide the total work into manageable tasks so that duplication is avoided and employees can specialise in particular jobs.
- **Departmentalisation:** Group similar and related activities into departments or units. For example, activities may be grouped by function, such as production, marketing and finance, to facilitate coordination.
- **Assignment of duties:** Allocate the jobs to employees in accordance with their abilities and competence. Clearly define each person's duties so that the work is performed effectively and responsibility for completing it is fixed.
- **Establishing reporting relationships:** Specify who is accountable to whom and who has authority to give instructions. Establish superior–subordinate relationships and a hierarchy, giving employees the authority needed to discharge their assigned responsibilities.

Step 3: Conclusion Organising turns plans into an orderly structure of work and relationships. Its four steps are identification and division of work, departmentalisation, assignment of duties, and establishment of reporting relationships.

Quick Tip to Solve: Recall the sequence as work, departments, duties and reporting relationships: first decide what must be done, then group it, allocate it and establish accountability.

21. Anjali had been working with 'Tata Enterprises' for the last ten years. She was famous for her dedication towards the work. When the Manager senior to her retired, all her colleagues thought that now Anjali would be promoted. But to everyone's surprise the vacant post was filled by an outsider 'Miss Monika'. Anjali felt demoralised and her performance started declining. She would absent herself often and could not meet her targets.

Miss Monika was a good leader who would not only instruct her subordinates, but also guide and inspire them. She noticed Anjali's behaviour and felt that her performance could be improved. She started involving Anjali in decision-making issues related to the organisation and made her a part of a high-level joint management committee. Anjali was now punctual to office and her performance started improving.

(a) Identify the function of management being performed by Monika.

(b) Name the element of the above function of management which helped Monika to improve Anjali's behaviour.

(c) State any three features of the element identified in (b) above. [5 marks]

Solution:

Concept:

- Directing means instructing, guiding, counselling, motivating and leading people to achieve organisational objectives.
- Motivation is the process of stimulating people to act in a desired manner to accomplish desired goals. Employee participation is a non-financial incentive that can satisfy needs for recognition and involvement.

Step 1: Identify the function in part (a) Monika is performing **directing**. The case says that she would "not only instruct her subordinates, but also guide and inspire them". These activities are characteristic of directing: a manager activates employees' efforts and helps them contribute towards organisational goals.

Step 2: Identify the element in part (b) The element is **motivation**. Anjali felt demoralised after losing the expected promotion. Monika stimulated her willingness to work by "involving Anjali in decision-making" and making her "a part of a high-level joint management committee". Such employee participation is a non-financial incentive: it makes an employee feel valued and involved in organisational affairs. The result was that Anjali became punctual and her performance improved.

Step 3: State three features for part (c)

- **Motivation is an internal feeling:** The urge to act arises within an individual from needs, desires and aspirations. A manager can provide suitable incentives, but the willingness to make an effort develops within the employee.
- **Motivation produces goal-directed behaviour:** It directs a person's energy towards achieving a goal. In this case, the renewed willingness to work is reflected in Anjali's punctuality and improved performance towards organisational targets.
- **Motivation is a complex process:** Individuals differ in their needs, expectations and reactions. Therefore, the same incentive may not motivate every employee equally; a manager must understand the particular employee and choose a suitable incentive, as Monika did by involving Anjali in decisions.

Step 4: Conclusion (a) The function is directing. (b) Its element is motivation, applied through employee participation. (c) Motivation is an internal feeling, produces goal-directed behaviour and is a complex process.

Quick Tip to Solve: Distinguish the broad function from its element: instructing and guiding indicate directing, while restoring willingness through participation indicates motivation.

22. Mohit Gupta is working with 'Yellow Security Services Ltd.' He is also recruiting security guards for the company. The company provide security services in Delhi and Noida at short notice to various companies. The guards are recruited on temporary basis. The guards provided by this company are known for their honesty and punctuality. Mohit Gupta is well known in his village for providing employment to unskilled people.

(a) Name the source of recruitment used by 'Yellow Security Services Ltd.'

(b) State any one disadvantage of this source of recruitment.

(c) Identify the need of 'Security Guards' which is being fulfilled by the company as per Maslow's need hierarchy.

(d) Identify any two values communicated to the society in the above stated case. [5 marks]

Solution:

Concept:

- Staffing: labour contractors are an external source of recruitment. They maintain contact with workers and can arrange labour at short notice.
- Maslow's need hierarchy begins with basic physiological needs, such as food, clothing and shelter. Employment provides income with which these needs can be met.

Step 1: Identify the recruitment source in part (a) **Labour contractors** are the source of recruitment. Mohit Gupta recruits guards and supplies them to organisations requiring their services. The clues are that the company supplies guards "at short notice" and that they are recruited "on temporary basis". His contacts in the village enable him to bring together people seeking work and organisations needing workers. This is an external source because the people are obtained from outside the organisation rather than through promotion or transfer of existing staff.

Step 2: State one disadvantage for part (b) **Dependence on the contractor:** workers may have closer personal links with the labour contractor than with the organisation employing them. If the contractor leaves, the workers may also leave with him. This can interrupt the availability of labour and the organisation's work. Thus, although the source supplies workers quickly, continued availability can depend heavily on the contractor.

Step 3: Identify the need fulfilled in part (c) **Basic physiological needs** are being fulfilled. By "providing employment to unskilled people", the company gives the guards an opportunity to earn income and obtain food, clothing and shelter. The occupation's name, security guard, does not itself establish a safety need: the case describes temporary employment and does not promise job security or permanent service.

Step 4: Identify two values for part (d) **Social responsibility and concern for the disadvan-**

taged: providing employment to "unskilled people" helps people who may have fewer employment opportunities earn a livelihood.

Honesty and punctuality: the case expressly says that the guards are known for "honesty and punctuality". These show integrity in performing duties and respect for commitments and other people's time.

Step 5: Conclusion The source is labour contractors; one disadvantage is that workers may leave when their contractor leaves. Employment meets the guards' basic physiological needs. The case communicates social responsibility through employment generation, and honesty and punctuality in service.

Quick Tip to Solve: Match each answer to a case clue: temporary labour supplied at short notice indicates contractors; earning a livelihood indicates physiological needs, irrespective of the job's title.

23. Explain the following principles of management :

(a) Science, not rule-of-thumb.

(b) Discipline. [6 marks]

Solution:

Concept:

- Frederick Winslow Taylor's scientific management replaces untested traditional methods with methods established through systematic study and analysis.
- Henri Fayol's principle of discipline requires obedience to organisational rules and employment agreements. It applies to managers as well as workers.

Step 1: Explain science, not rule-of-thumb **Replace personal judgement with scientific investigation:** the rule-of-thumb approach uses customary methods, rough estimates and a manager's individual judgement. Taylor proposed that work methods should instead be examined scientifically. A method should be selected because evidence establishes its suitability, rather than merely because it has always been followed.

Determine the best method of doing the job: management should analyse the job, study possible ways of performing it, and develop and test the most efficient method. Work-study techniques help determine the appropriate sequence, tools, time and working conditions. For example, the movement of materials in a factory should be studied to eliminate unnecessary handling rather than left to each worker's guesswork.

Improve efficiency and prosperity: the scientifically developed method should be standardised and taught to workers. It helps avoid wasted effort and resources, increases productivity and reduces costs. The resulting gains can contribute to the prosperity of both the employer and the employees. The principle therefore concerns applying an organised body of tested knowledge to work.

Step 2: Explain discipline **Observe rules and agreements:** discipline means obedience to organisational rules and to the employment agreement that governs the relationship between the organisation and its employees. It includes sincere effort, orderly conduct and respect for commitments, enabling people to work together effectively.

Maintain discipline at every level: workers should perform their agreed duties, and management must honour its own promises. For example, if workers agree to additional effort to improve production and management promises a corresponding benefit, both sides must fulfil the agreement. Discipline is therefore a responsibility of managers as well as subordinates.

Provide the conditions for discipline: Fayol emphasised good superiors at all levels, clear and fair agreements, and judicious application of penalties. Competent superiors set an example and explain expectations; equitable agreements prevent avoidable disputes; and penalties, when necessary, should be applied fairly after considering the circumstances. These conditions encourage willing compliance and orderly functioning.

Step 3: Conclusion Science, not rule-of-thumb, requires Taylor's scientifically tested methods to replace guesswork and traditional practice. Fayol's discipline requires both managers and employees to obey fair rules and fulfil agreements, supported by good supervision and judicious penalties.

Quick Tip to Solve: Associate Taylor with scientific study of how work is done, and Fayol's discipline with obedience and reciprocal commitments; include the conditions needed for discipline.

24. 'Abhishek Ltd.' is manufacturing cotton clothes. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed oranisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of ₹ 50 lakhs from I.C.I.C.I. Bank and is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion, identify and explain any four such factors. [6 marks]

Solution:

Concept:

- A dividend decision determines how much profit is distributed to shareholders and how much is retained in the business to finance future requirements.
- Profitability, availability of cash, investment opportunities and restrictions imposed by lenders influence this decision. The following are four factors present in the case.

Step 1: Identify the stability of earnings **Stability of earnings:** The relevant words are: "It has been consistently earning good profits for many years." A company with stable earnings can predict its future income with greater confidence and can normally afford a higher and more regular dividend. Abhishek Ltd.'s consistent record supports a regular distribution, since the directors can reasonably expect earnings to continue. A company whose earnings fluctuate would generally retain a larger buffer and be more cautious about committing to regular dividends.

Step 2: Examine the cash available for payment **Cash flow position:** The case states, "There is availability of enough cash in the company". Dividend payment involves an actual outflow of cash;

earning an accounting profit alone does not guarantee that cash is available. A sound cash position enables the company to pay dividends after meeting its other cash requirements. Thus, the availability of cash favours dividend payment by Abhishek Ltd., while a shortage of cash would restrict payment even if profits were high.

Step 3: Relate retention to future expansion **Growth opportunities:** The relevant words are "good prospects for growth in future". A company with attractive opportunities for expansion needs funds to finance them. Retained earnings are an internal source of such finance. Abhishek Ltd. may therefore retain a larger portion of its profits to meet its future growth requirements, reducing the amount currently available for distribution. The decision balances present shareholder income against the funds needed to develop the business.

Step 4: Check the lender's conditions **Contractual constraints:** The company "is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement." Lenders may impose conditions limiting dividend payments to protect repayment of their loan. Abhishek Ltd. must comply with the conditions of its I.C.I.C.I. Bank loan before declaring a dividend. Even good profits and adequate cash do not permit it to ignore a contractual ceiling or other restriction on distribution.

Step 5: Conclusion The four factors identified are stability of earnings, cash flow position, growth opportunities and contractual constraints. Stable profits and cash support distribution, while expansion requirements and the loan conditions may limit the dividend and increase retention.

Quick Tip to Solve: In a dividend case, match each quotation to a distinct factor: regular profits, cash, expansion and loan terms point to stability, cash flow, growth and contractual constraints respectively.

25. Radhika was a student of Business Studies of Class XII. Her father was a farmer who grew different varities of rice and was well-versed about various aspects of rice cultivation. He was also selected by the government for a pilot-project on rice cultivation. As a project-work in Business Studies she decided to study the feasibility of marketing good quality rice at a reasonable price. Her father suggested her to use internet to gather customers' views and opinions. She found that there was a huge demand for packaged organic rice. She knew that there were no pre-determined specifications in case of rice because of which it would be difficult to achieve uniformity in the output. To differentiate the product from its competitors, she gave it the name of 'Malabari Organic Rice' and classified it into three different varieties namely — Popular, Classic and Supreme, based on the quality. She felt that these names would help her in product differentiation.

Explain the three functions of marketing, with reference to the above paragraph. [6 marks]

Solution:

Concept:

- Marketing includes identifying consumer needs, developing a suitable market offering and helping buyers distinguish and select that offering.
- The three functions illustrated here are gathering and analysing market information, standardisation and grading, and branding. Standardisation and grading are treated together as one marketing function.

Step 1: Explain gathering and analysing market information **Gathering and analysing market information:** A marketer systematically collects and analyses information about consumers' needs, preferences, demand and market opportunities. This information supports decisions about what product to offer and how to market it, reducing reliance on guesswork. In the case, Radhika's father suggested that she "use internet to gather customers' views and opinions." Her finding that "there was a huge demand for packaged organic rice" is the result of this information-gathering exercise. It helps her assess the feasibility of the proposed business and identify the kind of rice customers want.

Step 2: Explain standardisation and grading **Standardisation and grading:** Standardisation means producing goods according to predetermined specifications relating to such aspects as quality, size or weight, so that the output is uniform. Grading means classifying goods into groups with similar quality or characteristics. Grading is particularly useful for agricultural products, where natural variation makes complete uniformity difficult. The case specifically notes that rice has "no pre-determined specifications" and that uniform output would be difficult to achieve. Radhika therefore "classified it into three different varieties namely — Popular, Classic and Supreme, based on the quality." These quality categories illustrate grading. They allow buyers to identify the grade they want and compare rice of a similar quality more easily.

Step 3: Explain branding **Branding:** Branding involves giving a product a name, sign, symbol or other identification that distinguishes it from competing products. A recognisable brand helps buyers identify the seller's offering, remember it and make repeat purchases. In the case, Radhika gave her product the name "Malabari Organic Rice" specifically "to differentiate the product from its competitors". This is branding. The Popular, Classic and Supreme variety names also help identify the different quality offerings within her product range. A brand is the product's identity, whereas grading classifies its quality; the two functions serve related but distinct purposes.

Step 4: Conclusion Radhika gathers and analyses market information through customers' internet views, uses grading within the standardisation-and-grading function to classify rice by quality, and uses branding through the name "Malabari Organic Rice" to differentiate her offering.

Quick Tip to Solve: Link customer research to market information, quality-based categories to grading, and a distinctive product name to branding. Treat standardisation and grading as one combined marketing function.