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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Answer 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 'Efficiency' in management ? [1 mark]

Solution:

Concept:

- Efficiency means completing an activity with the minimum possible cost and wastage of resources.
- Management uses resources such as money, materials, labour and time; efficiency concerns how economically these inputs are used.

Step 1: Identify the resource-use criterion Efficiency asks whether a given task can be completed with fewer inputs, less waste or lower cost. It therefore focuses on doing the task correctly and economically.

Step 2: State the meaning precisely An efficient manager obtains the desired output by making the best possible use of available resources. Achieving a target alone shows effectiveness; achieving it with minimum cost also shows efficiency.

Step 3: Conclusion Efficiency in management means doing the task correctly with minimum cost and wastage of resources.

Quick Tip to Solve: Link efficiency with the economical use of inputs; link effectiveness with achieving the intended result.

2. How does co-ordination integrates group efforts ? State. [1 mark]

Solution:

Concept:

- Coordination integrates the separate efforts of individuals and departments towards common organisational objectives.
- It harmonises interdependent activities so that group effort produces unity of action.

Step 1: Recognise the need to combine efforts Different people perform different tasks and may have different priorities. Unless their activities are linked, individual efforts can conflict or leave gaps in the overall work.

Step 2: Explain the integrating role Coordination brings these diverse interests and activities together into purposeful work. It aligns the timing and direction of individual contributions so that all members work towards the same organisational goal.

Step 3: Conclusion Coordination integrates group efforts by unifying diverse interests and interdependent activities into purposeful work directed towards common goals.

Quick Tip to Solve: Use the phrase unity of action to explain how separate contributions become a coordinated group effort.

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

Solution:

Concept:

- A method is a prescribed way or manner in which a particular task is to be performed.
- It provides a standard technique for an activity and helps avoid unnecessary variation in carrying it out.

Step 1: Identify what a method specifies A method describes how a specific task should be done. For example, a prescribed method of training tells the trainer the technique to use in teaching a particular skill.

Step 2: Distinguish it from a procedure A procedure specifies the sequence of steps for undertaking an activity, whereas a method specifies the way of performing a particular step or task. The emphasis here is on the prescribed manner of work.

Step 3: Conclusion A method, as a type of plan, is the prescribed way or manner in which a particular task has to be performed.

Quick Tip to Solve: Remember method as how to do a task, and procedure as the sequence in which activities are carried out.

4. To make the annual function of the school successful the principal of the school divided all the activities into task groups each dealing with a specific area like rehearsals, decoration, stage management, refreshments etc. Each group was placed under the overall supervision of a senior teacher. Identify the function of management performed by the Principal in doing so. [1 mark]

Solution:

Concept:

- Organising involves identifying and dividing work, grouping related activities, assigning duties and establishing working relationships.
- It creates a structure through which people and activities can contribute to the planned objective.

Step 1: Connect the case to division and grouping of work The principal divided the annual-function activities into task groups for 'rehearsals, decoration, stage management, refreshments'. This is the grouping of related work into distinct areas.

Step 2: Connect supervision to assignment of responsibility Placing each group under the 'overall supervision of a senior teacher' assigns responsibility and establishes a reporting relationship. Together these actions implement the organising function.

Step 3: Conclusion The function of management performed by the principal is organising.

Quick Tip to Solve: When a case divides work into groups and assigns responsibility or reporting relationships, identify organising.

5. Besides the investment decision the finance function is concerned with two other broad decisions. Name these decisions. [1 mark]

Solution:

Concept:

- Financial management includes investment, financing and dividend decisions.
- The financing decision concerns the sources of funds; the dividend decision concerns the distribution of profits.

Step 1: Name the decision about raising funds The financing decision determines the amount of finance to be raised from different sources, particularly the appropriate mix of owned funds and borrowed funds.

Step 2: Name the decision about distributing profits The dividend decision determines how much of the profit is to be distributed to shareholders as dividend and how much is to be retained in the business for future requirements.

Step 3: Conclusion The two other broad decisions are the financing decision and the dividend decision.

Quick Tip to Solve: Recall the three decisions together: where to invest, how to finance, and how much profit to distribute.

6. A textile company is diversifying and starting a steel manufacturing plant. State with reason the effect of diversification on the fixed capital requirements of the company. [1 mark]

Solution:

Concept:

- Fixed capital is invested in long-term assets such as land, buildings, plant and machinery.
- Diversification into a new line of business generally requires additional investment in such assets.

Step 1: Identify the assets required for diversification The textile company is entering steel manufacturing, which is a new line of activity. A steel plant needs its own production facilities, machinery and associated long-term assets.

Step 2: State the effect with its reason These facilities require additional long-term investment beyond the assets already used for textile production. Consequently, diversification increases the fixed capital requirements of the company.

Step 3: Conclusion The fixed capital requirements will increase because starting the steel manufacturing plant requires additional investment in fixed assets.

Quick Tip to Solve: For diversification, connect the new business facilities to additional fixed assets and hence higher fixed capital.

7. A TV manufacturing company is spending substantial amount of money to persuade the target customers to buy its T.V. sets through advertisements, personal selling and sales promotion techniques. Identify the element of marketing mix referred here. [1 mark]

Solution:

Concept:

- Promotion is the element of the marketing mix used to inform and persuade potential buyers about a product.
- The promotion mix includes advertising, personal selling, sales promotion and public relations.

Step 1: Identify the common purpose of the activities The company aims to 'persuade the target customers to buy its T.V. sets'. This purpose concerns communicating the product's benefits and stimulating purchase.

Step 2: Match the named techniques to the marketing-mix element Advertising, personal selling and sales promotion are promotional tools. Their combined use identifies promotion rather than the product, price or physical-distribution element of the marketing mix.

Step 3: Conclusion The element of the marketing mix referred to is promotion.

Quick Tip to Solve: When the clues name advertising, personal selling or sales promotion, select promotion as the marketing-mix element.

8. On the eve of Diwali Ravi purchased two kilograms of sweets from Nandan Sweets. On consumption of sweets his wife fell sick and was to be hospitalized. Ravi wanted to file a case in the consumer forum but could not do so because he did not have any proof of buying the sweets from Nandan sweets. Name the document that Ravi could had obtained for filing the complaint in the consumer forum. [1 mark]

Solution:

Concept:

- A consumer should insist on a cash memo or bill when buying goods because it is documentary evidence of the purchase.
- The document identifies the seller and records the transaction, helping the consumer establish a complaint against that seller.

Step 1: Identify the missing evidence The case says Ravi had no proof of buying the sweets from Nandan Sweets. He therefore needed a document issued by that shop at the time of purchase, rather than merely an account of his wife's illness.

Step 2: Name the required document The document is a **cash memo or purchase bill**. It records the purchase of the sweets and provides evidence connecting the transaction with Nandan Sweets.

Step 3: Conclusion Ravi should have obtained a **cash memo (purchase bill)** from Nandan Sweets.

Quick Tip to Solve: When a consumer case asks for proof of purchase, name the cash memo or bill issued by the seller.

9. State any three advantages of formal organization. [3 marks]

Solution:

Concept:

- Formal organisation is the structure of jobs and authority relationships deliberately created by management to achieve organisational objectives.
- It specifies who performs each task, who reports to whom and the authority attached to each position. Its advantages arise from these clear relationships.

Step 1: State the advantage of clear responsibility **Easy fixation of responsibility:** Duties are assigned to specific positions and employees. When work is delayed or a task is not performed, management can identify the person responsible. This reduces ambiguity and makes accountability easier to establish.

Step 2: Explain clarity of command **Avoidance of duplication and clarity of roles:** Each member knows the work to be done and the authority available for doing it. Clearly specified responsibilities and reporting relationships reduce overlapping efforts and help employees understand their contribution to the organisation.

Step 3: Explain coordination towards objectives **Effective accomplishment of goals:** A formal structure links the work of departments and individuals through established authority and communication relationships. Their efforts can therefore be coordinated and directed towards the organisation's common objectives, rather than being left as disconnected activities.

Step 4: Conclusion Three advantages of formal organisation are easy fixation of responsibility, clarity of roles with less duplication of effort, and coordinated accomplishment of organisational objectives.

Quick Tip to Solve: Link each advantage to a structural feature: assigned duties give accountability, defined roles reduce overlap, and linked departments improve coordination.

10. There are some characteristics that should be kept in mind while choosing a brand name. Explain any two such characteristics that a good brand name should have. [3 marks]

Solution:

Concept:

- A brand name is the part of a brand that can be spoken, such as a word or a combination of words. It helps buyers identify and distinguish the product.
- A well-chosen name makes the product easier to recognise and remember. The name should also communicate a suitable association with the product.

Step 1: Explain simplicity and memorability **Short, easy to pronounce, spell, recognise and remember:** A good brand name should be simple enough for customers to say and recall without difficulty. This helps them ask for the product by name and recognise it on later purchases. A complicated or confusing name can make it harder for buyers to remember the brand or communicate it to others. For example, a short name such as Vim is easy to recall.

Step 2: Explain a connection with product benefits **Suggest the benefits or qualities of the product:**

The brand name should, where possible, create an appropriate impression of what the product offers. A suitable association helps buyers understand and remember its intended benefit or distinctive quality. For example, the name Fair and Lovely suggests the beauty-related benefit historically associated with that brand. The association should suit the product rather than mislead buyers about its features.

Step 3: Conclusion A good brand name should be short and easy to pronounce, spell and remember; it should also suggest appropriate product benefits or qualities.

Quick Tip to Solve: For each brand-name characteristic, explain how it helps the buyer recognise, remember or understand the product.

11. Name and define the process that helps in finding possible candidates for a job or a function.

[3 marks]

Solution:

Concept:

- Staffing involves obtaining, developing and retaining suitable people for organisational jobs. Recruitment is the stage that creates a pool of prospective employees.
- Recruitment means searching for prospective employees and stimulating them to apply for jobs in the organisation. It precedes selection of the most suitable applicant.

Step 1: Identify the process described The process is **recruitment**. The clue is that it helps in finding possible candidates for a job or a function. At this stage, the organisation is seeking people who may be suitable and encouraging them to become applicants; it is not yet making the final choice among them.

Step 2: Define recruitment and explain its purpose **Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.** It involves locating potential sources of candidates and inviting interested, qualified people to apply. The resulting pool of applicants gives the organisation people from whom it can subsequently choose suitable employees. Thus recruitment increases the number of prospective candidates available for consideration.

Step 3: Distinguish the stage from selection Recruitment is a positive process because it attracts and encourages applications. Selection follows it and evaluates applicants to choose the person best suited to the job. The question concerns finding possible candidates, so recruitment is the appropriate term, rather than selection, training or placement.

Step 4: Conclusion The process is **recruitment**: searching for prospective employees and stimulating them to apply for jobs in the organisation.

Quick Tip to Solve: Use the verb to identify the stage: attracting applicants is recruitment; choosing among applicants is selection.

12. 'Efficient functioning of stock exchange creates a conducive climate for active and growing primary market for new issues as well as for an active and healthy secondary market.' In the light of this statement state any three functions of a stock exchange. [3 marks]

Solution:

Concept:

- A stock exchange is an organised market in which existing securities are bought and sold under prescribed rules. Its smooth functioning supports the secondary market and makes investment in new issues more attractive.
- The primary market raises fresh funds for issuers, while the secondary market permits investors to transfer their existing holdings. A stock exchange supports both through liquidity, price discovery and safe dealings.

Step 1: State the liquidity and marketability function **Providing liquidity and marketability to existing securities:** The exchange offers a continuous market where investors can sell their holdings and other investors can buy them. Investors can therefore convert securities into cash without waiting for their maturity. This ready exit encourages people to subscribe to new issues, although a secondary-market sale itself does not raise fresh capital for the company.

Step 2: Explain how securities are priced **Pricing of securities:** The forces of demand and supply determine the prices of securities through trading on the exchange. These quoted prices provide useful information about the value of investments. They guide buyers and sellers in making investment decisions and help the market direct funds towards promising enterprises.

Step 3: Explain the safety of transactions **Safety of transactions:** Trading is conducted within an established legal and regulatory framework. Listed companies and market participants must follow the exchange's rules and applicable regulations. Such supervision promotes fair dealings, protects investors' interests and builds confidence in the securities market.

Step 4: Conclusion Three functions are providing liquidity and marketability, pricing securities, and ensuring safety of transactions. Together they make secondary-market trading more dependable and encourage investors to participate in the primary market.

Quick Tip to Solve: Link the exchange's functions to three investor needs: an exit through liquidity, a price through demand and supply, and confidence through regulated trading.

13. Neha was a regional sales manager in 'Good Look Garments Ltd' for ten years. On the retirement of the marketing manager Neha applied for the same post as she was extremely ambitious and had dedicated all her energies to obtain the post of marketing manager. However, the top management of the company decided to fill this post by selecting a better person from outside the company. Because of this Neha was heart-broken and her performance declined.

When the new marketing manager joined, one of her major problems was how to motivate and inspire Neha to her former level of performance ?

Suggest any three non-financial incentives that the new marketing manager may use to motivate Neha. [3 marks]

Solution:

Concept:

- Non-financial incentives motivate employees by satisfying psychological, social and esteem needs rather than by giving direct monetary rewards. They can restore confidence, involvement and commitment.
- Neha is described as "extremely ambitious" and as having "dedicated all her energies" to becoming marketing manager. Her disappointment after being passed over indicates a need for recognition, responsibility and credible future growth opportunities.

Step 1: Offer career advancement opportunities **Career advancement opportunity:** The manager should provide suitable training and development and explain a fair path to future advancement. Neha's ambition to obtain the marketing manager's post shows that professional growth matters to her. A clear promotion policy and opportunities to improve her abilities can renew her willingness to perform well. This should be a genuine opportunity, without promising a promotion that cannot be assured.

Step 2: Recognise her contribution **Employee recognition programme:** The manager should appreciate Neha's experience, good work and contribution through suitable praise and recognition, including acknowledgement before colleagues when deserved. Neha has worked for the company "for ten years". Recognising her contribution can rebuild her self-esteem and make her feel valued despite the appointment of an outside candidate.

Step 3: Give meaningful responsibility and autonomy **Employee empowerment:** Neha can be given greater authority over appropriate regional sales decisions, with the resources and discretion needed to fulfil her responsibilities. Trusting her judgement allows her to demonstrate her abilities and experience. This sense of importance and ownership can help restore her interest in work and her former level of performance.

Step 4: Conclusion Career advancement opportunities, employee recognition and employee empowerment are three suitable non-financial incentives. They address Neha's desire for growth, appreciation and meaningful responsibility without relying on a monetary reward.

Quick Tip to Solve: For a disappointed ambitious employee, connect each incentive to the unmet need: career growth, recognition of contribution, or greater responsibility and autonomy.

14. Explain how does the understanding of business environment help the management in the following :

(a) tapping useful resources ; and

(b) coping with rapid changes. [4 marks]

Solution:

Concept:

- Business environment consists of the external individuals, institutions and forces that affect the functioning of an enterprise. Understanding it helps managers relate business decisions to the conditions outside the organisation.
- A business depends on its environment for inputs and for acceptance of its outputs. Environmental awareness therefore helps both in obtaining useful resources and in adapting to changing conditions.

Step 1: Explain how awareness helps in tapping useful resources **(a) Tapping useful resources:** The environment supplies the inputs a business needs, such as finance, materials, labour, machines, water and power. A study of the environment helps management identify the availability of these resources and the conditions on which their suppliers will provide them. The business can then arrange and use suitable resources to produce goods and services.

The enterprise also depends on the environment to sell its output. It must offer products that consumers want and provide a fair return or benefit to those supplying inputs. Thus, understanding the expectations of investors, workers, suppliers and customers makes the exchange of resources and outputs effective and helps the enterprise secure continued support.

Step 2: Explain how awareness helps in coping with rapid changes **(b) Coping with rapid changes:** Markets, technology, competition and customer preferences change quickly. Merely continuing with past methods may make the firm's products or practices unsuitable. By continuously scanning the environment, management notices changes early and understands their likely effect on the business.

Managers can then revise plans, improve products, adopt suitable technology and adjust operating practices in time. Such awareness makes the organisation more sensitive and flexible in responding to external developments, rather than being surprised by them. It helps the firm cope with the uncertainty created by a changing business environment.

Step 3: Conclusion Understanding the environment helps management obtain and use the resources supplied by external groups while meeting their expectations. Continuous environmental scanning also enables timely changes in plans and practices so that the business can cope with rapid external change.

Quick Tip to Solve: For resources, explain the exchange of inputs and outputs with the environment; for change, connect early scanning with timely adaptation.

15. An environmental conscious multinational company "AXN Ltd." follows certain well defined business principles that result to minimize the employee turnover. Following are some of the important environmental factors followed by 'AXN Ltd.'

(1) Honour the law of every country in which it operates.

(2) Respect the culture and customs of all nations.

(3) Provide clean and safe products to enhance the quality of life throughout the world.

(4) Develop a culture in the company that enhances individual creativity and team work while honouring mutual trust and respect between management and labour.

From the above :

(i) identify and state any one general principle of management and any one dimension of business environment.

(ii) also identify any two values which the above guiding principles and environmental factors are conveying to the society. [4 marks]

Solution:

Concept:

- Fayol's principles guide managerial behaviour. Esprit de corps means promoting team spirit, unity and harmony among employees so that they work together towards organisational objectives.
- Dimensions of the business environment describe different external influences on a firm. The legal environment includes the laws, regulations and legal requirements within which a business must operate.

Step 1: Identify and state one management principle **(i) Management principle – Esprit de corps:** The statement about enhancing "individual creativity and team work while honouring mutual trust and respect between management and labour" indicates team spirit and harmony. Esprit de corps requires management to promote unity among employees and a sense of belonging to the organisation. Managers should encourage cooperation and replace an individualistic approach with a collective spirit, so that employees see themselves as members of one team.

This principle is supported directly by AXN Ltd.'s emphasis on teamwork and mutual trust. Such cooperation strengthens relationships within the company and helps employees contribute willingly towards common objectives.

Step 2: Identify and state one environmental dimension **Legal environment:** The commitment to "Honour the law of every country in which it operates" identifies the legal dimension. This includes the laws passed by the government, administrative rules and regulations, and judicial decisions that define permissible business conduct. AXN Ltd. must understand and comply with the legal requirements of each country in which it conducts business.

Step 3: Identify two values conveyed by the company **(ii) Respect for cultural diversity:** The promise to "Respect the culture and customs of all nations" conveys respect for different societies, their traditions and their ways of life. It shows consideration for people beyond the company's own national background.

Concern for consumer welfare and quality of life: The commitment to provide "clean and safe products to enhance the quality of life throughout the world" conveys responsibility towards consumers

and society. Product safety and cleanliness place people's well-being at the centre of business conduct.

Step 4: Conclusion The identified management principle is **esprit de corps**, and the environmental dimension is the **legal environment**. Two values are **respect for cultural diversity** and **concern for consumer welfare and quality of life**, each supported by a stated commitment of AXN Ltd.

Quick Tip to Solve: Match teamwork with esprit de corps, law with the legal environment, and support each value with a specific phrase from the case.

16. It is deciding in advance what to do and how to do ? It is one of the basic managerial functions. It requires that before doing something, the manager must formulate an idea of how to work on a particular task. This function is closely connected with creativity and innovation. It seeks to bridge the gap between where we are and where we want to go and is performed at all levels of management. Inspite of this the function of management referred above has a number of limitations. Explain any two such limitations. [4 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it. It provides a course of action for moving from the present position towards desired objectives.
- Planning gives direction, but its effectiveness is limited by fixed courses of action and by changes in the business environment. Two such limitations are rigidity and inability to work effectively in a dynamic environment.

Step 1: Identify the function described The function is **planning**. The case says that it involves "deciding in advance what to do and how to do" and bridges the gap between "where we are and where we want to go". These clues concern determining the future course of action before undertaking the task.

Step 2: Explain how planning leads to rigidity **Planning leads to rigidity:** A plan lays down specific goals and a predetermined course of action. Managers may then insist on following that course even when circumstances call for a different response. Employees have less freedom to exercise initiative or alter their methods. Thus, strict adherence to an established plan can reduce flexibility and prevent the organisation from adapting quickly. Plans should be capable of revision rather than being treated as unchangeable instructions.

Step 3: Explain the limitation of a dynamic environment **Planning may not work in a dynamic environment:** Plans are based on assumptions about future conditions. The economic, political, legal, technological and social environment can change in ways that managers cannot predict accurately. Such changes may make the assumptions underlying a plan incorrect and the planned action unsuitable. For example, a sudden technological change can make a planned production method outdated. Preparing a plan therefore cannot eliminate uncertainty or ensure that the expected conditions will actually occur.

Step 4: Conclusion The function is planning. Two limitations are that it can introduce rigidity and that rapidly changing environmental conditions can make a plan ineffective. These limitations explain

why managers need flexibility and continuing review while implementing plans.

Quick Tip to Solve: For a limitation of planning, name the limitation first, then show how a fixed plan or an uncertain future can obstruct managerial action.

17. Mr. Naresh recently completed his M.B.A. from one of the Indian Institutes of Management in Human Resource Management. He has been appointed as Human Resource Manager in a Truck Manufacturing Company. The company has 1,500 employees and has an expansion plan in hand that may require additional 500 persons for various types of jobs. Mr. Naresh has been given the complete charge of the company's Human Resource Department.

List out the specialized activities that Mr. Naresh is supposed to perform as the Human Resource Manager of the company. [4 marks]

Solution:

Concept:

- Staffing is concerned with obtaining, developing and retaining suitable people for organisational positions. In a large enterprise, specialised personnel work is handled by its Human Resource Department.
- Human resource management covers the employee's relationship with the organisation from recruitment and development to compensation, welfare and industrial relations.

Step 1: Connect the case with specialised personnel work Mr. Naresh is in charge of the company's Human Resource Department. The existing workforce of 1,500 employees and the expansion requiring an additional 500 persons make systematic staffing and employee administration essential. His responsibilities extend beyond appointing new workers to developing and maintaining the whole workforce.

Step 2: List the activities for obtaining and developing employees

- **Recruitment:** Search for qualified persons and attract suitable applicants for the company's jobs.
- **Job analysis:** Analyse jobs to determine their duties, responsibilities and the qualifications required of employees.
- **Training and development:** Arrange training and development programmes to improve employees' skills, knowledge and future capabilities.
- **Performance appraisal:** Assess employees' work performance and provide a basis for development, rewards and personnel decisions.

Step 3: List the activities for rewarding and maintaining employees

- **Compensation:** Develop appropriate compensation and incentive plans to reward employees' services.
- **Welfare and social security:** Provide employee welfare facilities and protect employees against occupational hazards through appropriate social security measures.
- **Industrial relations:** Maintain labour relations and effective union–management relations.
- **Grievance handling:** Handle employees' complaints and grievances and help resolve workplace disputes.

- **Personnel records and policies:** Maintain the information and administrative arrangements needed for effective management of employees.

Step 4: Conclusion As Human Resource Manager, Mr. Naresh must undertake recruitment, job analysis, compensation, training and development, performance appraisal, welfare and social security, labour relations and grievance handling. These activities help the company obtain suitable people for expansion and manage its existing employees effectively.

Quick Tip to Solve: Recall HR activities through the employee's journey: attract suitable people, define their jobs, develop and assess them, then reward and protect them.

18. State any four factors which affects the requirements of working capital of a company. [4 marks]

Solution:

Concept:

- Working capital finances day-to-day operations through current assets such as cash, inventories and trade receivables. Its requirement depends on how much money is tied up in the operating cycle.
- The nature of the business, its scale, the production cycle and the credit allowed to customers influence this requirement. These factors should be considered together while planning short-term finance.

Step 1: State the business-related factors **1. Nature of business:** A trading enterprise usually needs relatively less working capital than a manufacturing enterprise because it does not process raw material into finished goods. A manufacturer generally has funds invested in raw materials, work-in-progress and finished goods. Service businesses may require relatively little inventory.

2. Scale of operations: Other things remaining the same, a company operating on a larger scale needs more working capital. It must maintain larger stocks and meet a greater volume of routine expenses and receivables. A smaller scale of operations generally requires a smaller amount of these current assets.

Step 2: State the operating-cycle and credit factors **3. Production cycle:** A longer production cycle increases the working capital requirement because money remains tied up in raw materials and work-in-progress for a longer period before the finished goods can be sold. A shorter production cycle releases these funds sooner and reduces the requirement.

4. Credit allowed: A liberal credit policy towards customers increases the amount invested in debtors and therefore the working capital required. When customers are allowed a longer time to pay, the company must finance operations while awaiting collection. Cash sales or a stricter credit policy reduce this investment.

Step 3: Conclusion Four factors affecting working capital requirements are the nature of business, scale of operations, length of the production cycle and credit allowed to customers. Manufacturing, larger scale, longer processing and more liberal customer credit generally increase the requirement, other things remaining the same.

Quick Tip to Solve: Link each factor to funds tied up in stock, production or debtors; this makes the direction of its effect easy to explain.

19. Your company has setup a food processing unit in Kashmir with a production capacity of 10,000 litres of apple juice per day. The company plans to market the apple juice in tetra pack of 100 mili litres. Design a label for the same. [4 marks]

Solution:

Concept:

- A label identifies a product and its brand, describes its contents and gives buyers essential information about quantity, use and the manufacturer. It also helps promote the product through an attractive design.
- A food-product label should provide the prescribed product and safety particulars. Here, the design must prominently identify apple juice and show the net quantity as 100 ml, the quantity in each tetra pack.

Step 1: Choose the brand and organise the information **Brand and product identity:** Use the proposed brand name "Kashmir Orchard" with "Apple Juice" immediately below it. A simple apple illustration can make the pack recognisable. The brand is a suggested name for this design.

Description and quantity: Print "Net quantity: 100 ml" clearly. Give the ingredients and nutrition information according to the actual formulation, together with storage and use instructions. The daily production capacity of 10,000 litres describes the factory, whereas 100 ml describes the pack being offered to the consumer.

Step 2: Draw the proposed label and complete the particulars **Consumer information:** Include the manufacturer's name and full Kashmir address, batch number, manufacturing date, best-before information, maximum retail price inclusive of taxes and consumer-care details. Provide the applicable food licence number and vegetarian symbol. The design below reserves spaces for facts which the question does not supply; the manufacturer must fill them from actual production and approved product records before sale.

Presentation: Keep the brand and product name prominent on the front. Place the detailed particulars in a readable panel so that attractive promotion does not obscure essential information. Do not claim a particular juice percentage, nutritional value, shelf life or certification without supporting product information.

KASHMIR ORCHARD

APPLE JUICE



Net quantity: 100 ml Tetra pack

Ingredients: [actual ingredients in prescribed order]
Nutrition information: [actual declared values]
Manufactured by: [company name and full Kashmir address]
Batch No.: [. . .] **Mfg. date:** [. . .]
Best before: [validated period/date]
MRP: Rs [. . .] (inclusive of all taxes)
Storage/use: [instructions appropriate to the product]
Food licence No.: [. . .] **Consumer care:** [contact]

● Vegetarian product

Proposed 100 ml tetra-pack label; bracketed fields are to be completed with actual product particulars.

Step 3: Conclusion The proposed label identifies Kashmir Orchard Apple Juice in a 100 ml tetra pack and combines brand recognition with product description, manufacturer details, batch and date information, price and consumer guidance. All variable particulars must be completed accurately for the marketed pack.

Quick Tip to Solve: For a label-design answer, show the actual label and check product name, quantity, maker, dates, batch and price; do not confuse factory output with pack size.

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20. A company has been registered under the Companies Act with an authorized share capital of ₹ 20,000 crores. Its registered office is situated in Delhi and manufacturing unit in a backward district of Rajasthan. Its marketing department is situated in Bhopal. The company is manufacturing Fast Moving Consumer Goods (FMCG).

(i) Suggest with the help of a diagram a suitable organization structure for the company.

(ii) State any three advantages of this organization structure. [5 marks]

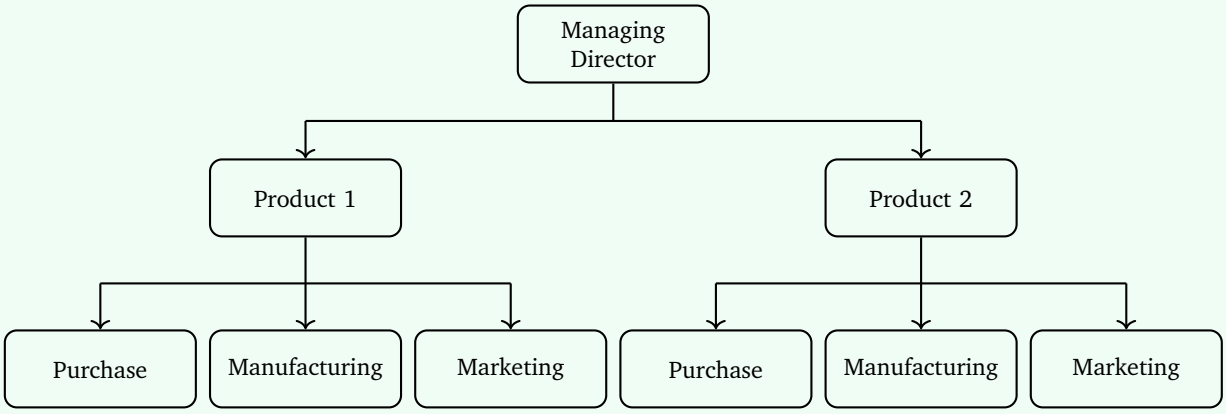
Solution:

Concept:

- In a divisional organisation structure, activities are grouped around products. Each product division has its own functional departments and is headed by a manager responsible for its operations and results.
- Divisional grouping permits product specialisation and decentralised decisions while the managing director coordinates the enterprise as a whole. Functions such as purchase, manufacturing and marketing are organised within each product division.

Step 1: Recommend a divisional structure The suitable organisation structure is a **divisional structure**. The company is a large enterprise with authorised capital of Rs 20,000 crores, and the case states that it is manufacturing "Fast Moving Consumer Goods (FMCG)." A product-based divisional arrangement enables it to organise its consumer-goods business into product divisions. Each division can coordinate the activities needed for its product instead of leaving all product responsibilities dispersed among company-wide functional departments. The fact that the registered office, manufacturing unit and marketing department are situated in different places does not change the product basis of the proposed structure.

Step 2: Show product divisions and their functional departments Place the Managing Director at the top and product divisions below. Each product division has purchase, manufacturing and marketing departments. The diagram uses the generic labels Product 1 and Product 2 to show the proposed arrangement; these are illustrative division labels, not names of products supplied by the case. Each divisional head coordinates these functions for that division, while the Managing Director coordinates the divisions and the company's overall policy.



Proposed divisional organisation structure

Step 3: Explain three advantages of divisional structure

- **Product specialisation and varied skills:** Personnel concentrate on the requirements of a particular product. A divisional head gains experience across purchase, manufacturing and marketing, developing varied managerial skills while promoting an integrated approach to that product's business.
- **Accountability and fixation of responsibility:** The performance of each product division can be assessed separately because its revenues and costs can be identified. Responsibility for divisional results can therefore be fixed on its head, allowing management to identify successful and poorly performing divisions.
- **Flexibility and initiative:** Each division has operational autonomy within the company's overall policies. Its manager can respond promptly to the needs of the product and its market without referring every routine matter to the top management. This encourages initiative and quicker decisions.

Step 4: Conclusion The company should adopt a **divisional organisation structure**: the Managing Director supervises product divisions, each with its own purchase, manufacturing and marketing

departments. Three advantages are product specialisation with development of varied skills, clear accountability, and divisional autonomy that promotes flexibility.

Quick Tip to Solve: In a divisional chart, put products immediately below the top executive and repeat the necessary functions under each product. Placing only functions below the top executive would show a functional structure instead.

21. Explain any five points of importance of directing function of management. [5 marks]

Solution:

Concept:

- Directing is the management function of instructing, guiding, counselling, motivating and leading people so that their efforts contribute to organisational objectives.
- Plans and organisation provide the framework for work; directing activates that framework through supervision, motivation, leadership and communication.

Step 1: Explain how directing activates and coordinates work

- **Initiates action:** Directing converts plans into actual performance. Managers explain duties, give instructions and guide employees in carrying out their assignments. Thus, work begins at every level instead of remaining only a statement of what should be done.
- **Integrates employees' efforts:** Different employees perform different activities, which must contribute to a common purpose. Through guidance and communication, directing connects individual efforts and helps employees work as a team. It prevents work in one department from conflicting with the work of another.

Step 2: Explain how directing develops people and supports the organisation

- **Realises employees' potential:** Effective leadership and motivation encourage employees to use their abilities fully. A manager recognises their needs, guides them and provides encouragement, helping them contribute more effectively than they would without such support.
- **Facilitates introduction of changes:** Employees may resist a new method or policy because of uncertainty. Directing explains the purpose and benefits of change, listens to concerns and provides guidance. This builds cooperation and helps the organisation introduce necessary changes smoothly.
- **Brings stability and balance:** Good communication, leadership and motivation promote cooperation and commitment. Directing helps reconcile individual needs with organisational interests, reduces misunderstanding and maintains a balanced working relationship among employees and management.

Step 3: Conclusion Directing is important because it initiates action, integrates employees' efforts, realises their potential, facilitates change and brings stability and balance. These five contributions turn organisational plans into coordinated and willing performance.

Quick Tip to Solve: Remember the sequence: start work, unite efforts, develop potential, accept change and maintain stability; explain the practical effect of each point.

22. 'i-phone India Ltd.' is a manufacturer of advanced category of mobile phones. The company trained its engineers from Japan. It markets its mobile phones domestically as well as internationally. The company had a substantial market share and had a loyal customer following because of quality of its i-phone. From the last financial year the company had been unable to achieve its targets because of competition in the market. The company is planning to revamp its controlling system.

(i) Identify the concepts of management involved in the above para.

(ii) State the steps of the revamped controlling process to be followed by the company to solve this problem.

(iii) Also, state any one value which the company wants to communicate to the society. [5 marks]

Solution:

Concept:

- Controlling means comparing actual performance with planned standards, finding the causes of deviations and taking corrective action to ensure that organisational objectives are achieved.
- Training develops employees' knowledge and skills as part of staffing. Marketing concerns meeting customer needs through products and their sale, while controlling checks whether actual results meet targets.

Step 1: Identify the management concepts from the case **Training, as part of staffing,** is shown by the statement that the company "trained its engineers from Japan". This develops the engineers' knowledge and skills for producing advanced mobile phones.

Marketing is reflected in the statement that it "markets its mobile phones domestically as well as internationally" and in its attention to product quality and customers. Its international operations also show the wider global market in which it competes.

Controlling is the main concept in the problem: the company has been "unable to achieve its targets" and is planning to "revamp its controlling system". Actual performance must therefore be checked against planned results and the shortfall corrected.

Step 2: State the steps of the revamped controlling process

1. **Set performance standards:** Establish clear targets against which performance can be judged, such as sales, market share and product-quality standards. These should be specific and measurable wherever possible.
2. **Measure actual performance:** Collect reliable information about actual sales, customer response, quality and other relevant results at suitable intervals.
3. **Compare actual performance with standards:** Compare the measured results with the targets to identify the extent of the shortfall or other deviations.
4. **Analyse deviations:** Find why significant deviations have arisen, concentrating on critical areas and exceptions. In this case, examine how competition has affected results instead of merely observing that targets were missed.
5. **Take corrective action:** Act on the identified causes, for example by improving the relevant marketing effort or product offering where the analysis shows this is needed. If standards themselves are unrealistic in changed conditions, review them appropriately. Follow up to see whether the action improves performance.

Step 3: State one value communicated to society **Concern for consumers through quality** is

one value. The case says that the company had loyal customers "because of quality of its i-phone". Providing quality products shows respect for customers' needs and the value they receive for their money.

Step 4: Conclusion The case involves training under staffing, marketing and, centrally, controlling. The company should set standards, measure performance, compare results, analyse deviations and take corrective action. Its emphasis on product quality communicates concern for consumers.

Quick Tip to Solve: In a controlling case, quote the missed targets first, then write the five process steps in order; support the stated value with a fact from the case.

23. Aman, Ahmad and Ally are partners in a firm engaged in the distribution of dairy products in Maharashtra state. Aman is a holder of Senior Secondary School Certificate from Central Board of Secondary Education with Business Studies as one of his elective subjects. Ahmad had done his post graduation in History and Ally in dairy farming. One day their was a serious discussion between Ahmad and Ally regarding the nature of management, Ahmad argued that management was a profession. Where as Ally argued against it saying that the legal and medical profession are the only professions because they fulfill all the conditions of profession.

Aman on the basis of his knowledge of business studies explained the nature of management as a profession to Ahmad and Ally.

Explain, how Aman would have satisfied both Ahmad and Ally ? [6 marks]

Solution:

Concept:

- A profession is an occupation supported by specialised knowledge and formal preparation, with recognised standards governing those who practise it.
- NCERT examines a profession through five features: a well-defined body of knowledge, restricted entry, a professional association, an ethical code of conduct and a service motive. Management satisfies some of these features fully and others only partly.

Step 1: Explain the specialised knowledge that supports Ahmad's view **Well-defined body of knowledge:** Management has an organised body of principles and techniques based on observation and experimentation. These principles can be learnt in management institutions and applied to business situations. Aman can therefore tell Ahmad that management possesses this important characteristic of a profession. His own study of Business Studies provides an introduction to such knowledge, although it is not a legal licence to manage the dairy distribution firm.

Step 2: Compare entry and association requirements with established professions **Restricted entry:** Entry into medicine and law requires prescribed qualifications. In contrast, no particular educational degree is legally compulsory for becoming a manager. The case itself illustrates this: Ahmad studied History, Ally studied dairy farming, and Aman studied Business Studies at school, yet all are partners in the same business. Management education is useful, but it is not an obligatory entry qualification.

Professional association: Professional bodies regulate admission and professional practice in established professions. Management associations, such as the All India Management Association, exist

to promote management knowledge and standards. However, managers are not legally required to become members before practising. Management therefore does not fully meet this condition.

Step 3: Compare ethical obligations and the service motive **Ethical code of conduct:** Medical and legal professionals are bound by codes enforced by their professional bodies. Management associations have formulated ethical standards, but these do not bind every manager through compulsory membership. Ethical conduct is expected, but the profession-wide enforcement found in established professions is absent.

Service motive: A profession places service to clients and society at the centre of its work. Business management seeks to achieve organisational goals, including profit, but good management also serves customers, employees and society. In the dairy business this includes providing dependable products and meeting customer needs. This growing recognition of social responsibility gives management a service orientation, although service is not the sole purpose of every business manager.

Step 4: Conclusion Aman can satisfy Ahmad by explaining that management has a specialised body of knowledge and is moving towards professional standards. He can satisfy Ally by accepting that management does not yet fulfil every requirement of a full-fledged profession, especially compulsory qualifications and membership of a regulating body. Thus management has features of a profession, but it is not a full-fledged profession in the same sense as medicine or law.

Quick Tip to Solve: Test management against all five professional features; distinguish the existence of management education and associations from their being compulsory for every manager.

24. There are number of factors which affect the fixation of the price of a product. Explain any four such factors. [6 marks]

Solution:

Concept:

- Price is the amount a buyer pays for a product. It directly affects sales revenue, demand and the firm's ability to recover costs and earn a profit.
- Pricing requires a balance between the seller's costs and objectives, the value buyers perceive and competitive conditions. Four factors are product cost, utility and demand, competition, and pricing objectives.

Step 1: Explain the influence of product cost and demand **1. Product cost:** The cost of producing, distributing and selling a product is a major consideration in fixing its price. It includes fixed costs, which do not change with the level of activity within a given range, and variable costs, which vary with production. In the long run a firm must recover its total costs and earn a reasonable profit to remain viable. Cost therefore provides the minimum level of price that can ordinarily be sustained over time. A firm may temporarily sell below total cost to use spare capacity or meet difficult market conditions, but it cannot normally continue doing so indefinitely.

2. Utility and demand: The utility or value a buyer perceives and the intensity of demand influence the highest price customers are willing to pay. Buyers must consider the benefits worth the sacrifice involved in paying the price. Price elasticity also matters: when demand is elastic, a small price

increase can cause a relatively large fall in quantity demanded, so the firm has limited freedom to raise price. When demand is relatively inelastic, a price increase causes a smaller proportionate decline in quantity demanded. The seller must therefore assess consumer preferences and responsiveness rather than fix price from cost alone.

Step 2: Explain the influence of competition and pricing objectives **3. Extent of competition in the market:** Competitors' prices, product quality and features constrain the price a firm can charge. With close substitutes and many rivals, a price substantially above competing products may drive buyers away unless the firm offers additional value. With little competition or a strongly differentiated product, the firm has greater pricing freedom. The firm must compare the whole competing offer, including quality and benefits, rather than merely copying a rival's price.

4. Pricing objectives: The objective sought through pricing influences the chosen price. For maximum market share, a firm may fix a relatively low price to attract a large number of buyers. When product quality leadership is the objective, a higher price may be needed to cover superior quality and research and development. During adverse conditions a survival objective may justify price reductions that help maintain sales and meet operating requirements. Even profit maximisation requires a choice between immediate profits and profits over the longer term; the desired time horizon therefore affects pricing decisions.

Step 3: Conclusion Product cost, utility and demand, the extent of competition, and pricing objectives are four major factors affecting price fixation. A suitable price must permit sustainable cost recovery, reflect customers' willingness to pay, remain appropriate to competing offers and support the firm's chosen objective.

Quick Tip to Solve: Organise the four factors as the seller's cost, the buyer's value, rival offers and the firm's objective; explain how each can change the price.

25. Distinguish between money market and capital market on the basis of :

(a) Participants

(b) Instruments

(c) Safety and

(d) Expected return [6 marks]

Solution:

Concept:

- The money market deals in short-term funds and monetary assets with a maturity of up to one year. It helps institutions meet their temporary financing and liquidity requirements.
- The capital market deals in medium- and long-term funds through instruments such as shares, debentures and bonds. Its participants and risk-return characteristics differ from those of the money market.

Step 1: Compare the participants and instruments Compare the two markets on the first two specified bases:

Basis	Money market	Capital market
(a) Participants	The major participants are the Reserve Bank of India, financial institutions, banks and corporate entities.	Participants include financial institutions, banks, corporate entities, foreign investors and retail investors.
(b) Instruments	Instruments include Treasury bills, commercial paper, certificates of deposit, call money and commercial bills.	Instruments include shares, debentures and bonds.

The money market is largely an institutional market involving large transactions. The capital market also provides investment opportunities to individual retail investors. Money-market instruments meet short-term funding needs; capital-market instruments enable businesses to raise funds for longer-term investment.

Step 2: Compare safety and expected return The remaining two bases concern the investor's risk and reward:

Basis	Money market	Capital market
(c) Safety	Money-market securities are comparatively safer. Their short duration and the financial standing of the usual issuers reduce the risk involved.	Capital-market securities are comparatively riskier because their returns and market values are exposed to business and market uncertainties over longer periods.
(d) Expected return	Money-market securities generally yield a comparatively lower return.	Capital-market securities generally offer a higher expected return than money-market securities.

Comparative safety does not mean that every money-market instrument is risk-free. Similarly, the higher expected return in the capital market is not a guaranteed return: it is associated with greater risk.

Step 3: Conclusion Thus, the money market mainly serves institutional short-term finance through instruments such as Treasury bills and commercial paper, with relatively greater safety and lower expected returns. The capital market includes retail and foreign investors, trades shares, debentures and bonds, and generally involves greater risk with higher expected returns.

Quick Tip to Solve: Use the four requested bases as table rows. Under safety and return, write "comparatively safer" and "higher expected return" rather than claiming absolute safety or guaranteed profits.