CBSE Class 12 Business Studies Question Paper 2015 with Solution PDF-Set 66/2/1

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 'Privatisation' ? [1 mark]

Solution:

Concept:

- Privatisation is an economic reform that increases the role of the private sector in business.
- It involves reducing government ownership, management or control of public-sector enterprises.

Step 1: Identify the change in ownership Privatisation shifts an enterprise or an activity from government ownership or control towards private ownership or control. It therefore expands the participation of private business in the economy.

Step 2: State how it is brought about The government may sell all or part of its equity in a public-sector enterprise to private investors. Sale of government equity is called disinvestment; complete transfer is one form of privatisation.

Step 3: Conclusion Privatisation means giving a greater role to the private sector by reducing government ownership and control of business enterprises.

Quick Tip to Solve: Link privatisation with private ownership or control; disinvestment is a means of bringing it about.

2. Why is it said that principles of management are mainly behavioural in nature ? [1 mark]

Solution:

Concept:

- Management principles guide managers in influencing people at work.
- People differ in their needs, attitudes and responses, so these principles are applied with judgement.

Step 1: Identify what the principles deal with Management principles primarily concern human behaviour in organisational situations. They guide such matters as authority, discipline, cooperation and relations between employees and managers.

Step 2: Explain the behavioural character Their central purpose is to understand and influence how people work together to achieve organisational objectives. Although they may also concern resources, their main focus remains the behaviour of people rather than only physical objects.

Step 3: Conclusion Principles of management are mainly behavioural because they are primarily concerned with human behaviour in organisations.

Quick Tip to Solve: For behavioural nature, identify the people whose conduct a management principle guides.

3. Define 'Method' as a type of plan. [1 mark]

Solution:

Concept:

- A method is a prescribed way of performing a particular task.
- It is a type of standing plan that standardises how work is carried out.

Step 1: Identify the task-specific plan A method specifies the prescribed manner in which a particular task is to be performed. It tells employees how to do the activity rather than merely what objective they should achieve.

Step 2: Distinguish the manner from the sequence For example, an organisation may prescribe a particular method of selecting applicants. A procedure gives the sequence of activities, whereas a method describes how an individual activity in that sequence is performed.

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

Quick Tip to Solve: Remember: a procedure gives the sequence; a method gives the way of doing a task.

4. 'Bawa Cycles' was in the business of manufacturing racing-cycles and had a monopoly in the market. The business was doing very well and the company was consistently meeting its objective of 10% increase in sales every year. Encouraged by the good track record, the Managing Director of the company kept an ambitious target of 15% increase in sales for the next year. The same year two competitors also entered the market and because of this the company was not able to meet its target. Identify the limitation of one of the functions of management because of which the company was not able to achieve its target. [1 mark]

Solution:

Concept:

- Planning sets objectives and decides courses of action for the future.
- A dynamic business environment can change the assumptions on which a plan is based.

Step 1: Identify the function and the changed condition The function involved is planning: Bawa Cycles set a future target of increasing sales. Its earlier success occurred under monopoly conditions, but the case says that 'two competitors also entered the market'.

Step 2: Connect the change with the limitation Entry of competitors changed the business environment and affected the ability to achieve the planned sales increase. Such external changes cannot be fully predicted or controlled by the company, so a plan based on past conditions may become ineffective.

Step 3: Conclusion The limitation is that planning may not work in a dynamic environment. New competition changed the conditions underlying the sales target.

Quick Tip to Solve: When an unexpected external change defeats a plan, look for the dynamic-environment limitation.

5. How do 'Floatation costs' affect the choice of capital structure of a company ? State. [1 mark]

Solution:

Concept:

- Capital structure is the mix of debt and equity used for long-term financing.
- Floatation costs are the expenses incurred in raising funds through an issue of securities.

Step 1: Compare the costs of raising funds Issuing shares or debentures involves expenses such as underwriting commission, brokerage and preparation of issue documents. These floatation costs differ between financing sources and must be considered when choosing the financing mix.

Step 2: Explain the effect on the financing choice A source with high floatation costs becomes relatively less attractive because a smaller amount of the funds raised is available for business use. For example, raising a bank loan generally involves lower floatation costs than a public issue of shares.

Step 3: Conclusion Other things being equal, the company prefers sources with lower floatation costs; high issue costs discourage greater use of that source in its capital structure.

Quick Tip to Solve: Compare the expense of raising funds, not only the interest or dividend paid afterwards.

6. 'Reliable Transport Services Ltd.' specialises in transporting fruits and vegetables. It has a good reputation in the market as it delivers the fruits and vegetables at the right time and at the right place.

State with reason whether the working capital requirements of 'Reliable Transport Services' will be high or low. [1 mark]

Solution:

Concept:

- Working capital finances day-to-day business operations.
- The nature of business affects the amount tied up in inventories and other current assets.

Step 1: Identify the nature of the business Reliable Transport Services provides a transport service rather than manufacturing goods. The case states that it 'specialises in transporting fruits and vegetables'; those goods are being carried for customers rather than held as the company's manufacturing inventory.

Step 2: Relate service operations to working capital A service business ordinarily needs less working capital because it does not have to maintain large stocks of raw materials, work-in-progress or finished goods. It still incurs operating expenses such as fuel and wages, but inventory investment is comparatively small.

Step 3: Conclusion Its working capital requirement will be low because it is a service enterprise and does not need to maintain substantial inventories.

Quick Tip to Solve: For a transport service, focus on the service nature of its operations rather than treating customers' goods as its inventory.

7. 'Glow and Shine Ltd.' is a famous beauty brand offering organic beauty products for men and women. The company uses plant-based materials for its products and is the No. 1 beauty brand in the country. It not only satisfies its customers but also believes in overall protection of the planet.

Identify the marketing management philosophy being followed by 'Glow and Shine Ltd.' [1 mark]

Solution:

Concept:

- The societal marketing concept balances customer satisfaction, business objectives and society's long-term welfare.
- It requires a business to consider environmental and social effects as well as consumer needs.

Step 1: Identify evidence of customer satisfaction Glow and Shine offers beauty products for men and women and the case states that it 'satisfies its customers'. Meeting consumer needs is therefore an explicit concern of the company.

Step 2: Identify the concern for social welfare The company uses 'plant-based materials' and believes in 'overall protection of the planet'. Its concern extends beyond immediate customer satisfaction to environmental protection and the long-term interests of society.

Step 3: Conclusion Glow and Shine follows the societal marketing concept, combining customer satisfaction with protection of the environment and society's long-term welfare.

Quick Tip to Solve: Customer satisfaction plus explicit concern for society or the environment indicates societal marketing.

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8. Pankaj purchased a car from 'Abhishek Motors' for ₹ 50 lakhs. The company offered many attractive gifts to Pankaj like — free insurance for first two years, free pick-up and drop facilities for free servicing upto 20,000 km, etc. But after a few days Pankaj noticed that the pick-up of the car was not good and there was some problems in the engine. The company serviced the car free of cost but even then Pankaj was not satisfied with its performance. 'Abhishek Motors' is not giving him the due response. So he filed a complaint in the State Commission but was not satisfied with its decision also. He was very much disturbed and after two months decided to appeal against it.

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

Solution:

Concept:

- Consumer Protection: under the Consumer Protection Act, 1986 framework applicable to this question, an appeal against a State Commission order lies to the National Commission.
- The prescribed period for filing that appeal is 30 days from the date of the order.

Step 1: Apply the appeal period Pankaj was dissatisfied with the State Commission decision, so the next appellate forum would be the National Commission. However, the right to appeal must be exercised within the prescribed 30-day period.

Step 2: Compare the delay in the case The case says that he decided to appeal 'after two months'.

This exceeds 30 days. Therefore, on the facts given, he cannot file an appeal within the ordinary prescribed period; being disturbed does not itself establish an accepted extension of time.

Step 3: Conclusion No. Pankaj decided to appeal after two months, whereas an appeal against the State Commission decision should be filed before the National Commission within 30 days of the order.

Quick Tip to Solve: For a consumer appeal, identify both the next higher forum and the filing period; here the decisive fact is the two-month delay.

9. What is meant by divisional structure of an organisation ? State its any two disadvantages.

[3 marks]

Solution:

Concept:

- Organising: a divisional structure groups activities into separate divisions on the basis of products or product lines.
- Each division is relatively self-contained and generally has its own functional departments, such as production, finance and marketing, under a divisional head.

Step 1: Explain the meaning A divisional structure is an organisational arrangement in which activities relating to each major product or product line are grouped into a separate division. Each division carries out the functions needed for its product and is responsible for its performance. For example, different product lines may each have their own production and sales teams. This is different from grouping all production activities together across the organisation.

Step 2: State two disadvantages

- **Duplication and higher costs:** Similar functions and facilities are repeated in different divisions. Separate production, sales and other departmental arrangements require more personnel and resources, increasing operating costs.
- **Conflict over resource allocation:** Divisions may compete for funds, staff and facilities. Each divisional head may seek more resources for their own division, creating disagreements and making coordination in the interest of the whole organisation difficult.

Step 3: Conclusion A divisional structure creates product-based units. Two disadvantages are duplication of activities and costs, and conflicts among divisions over the allocation of resources.

Quick Tip to Solve: Link divisional structure to products: repeating functional departments explains cost duplication, while separate divisional interests explain resource conflicts.

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

[3 marks]

Solution:

Concept:

- Marketing Management: channels of distribution connect the producer with the buyers, directly or through intermediaries.
- Market-related factors include the number and location of buyers, the size of orders and the buying habits of customers; the channel should make purchasing convenient.

Step 1: Assess the number and location of buyers

- **Number of buyers:** When there are few buyers, a producer can contact them directly and use a short channel. When buyers are numerous, intermediaries help reach and serve them, so a longer channel is generally suitable.
- **Geographical concentration:** Buyers concentrated in a small area can be served directly or through a short channel. Widely scattered buyers generally require intermediaries with local coverage, making a longer channel more appropriate.

Step 2: Consider order size and buying habits

- **Size of orders:** Large orders make direct selling economical because the value of each transaction can justify direct contact and delivery. For many small orders, wholesalers or retailers can collect, distribute and supply goods more economically.
- **Buying habits:** The channel must match customers' preferences, such as buying from convenient nearby shops, seeking personal attention, or expecting credit. Intermediaries are useful when they provide these services at the place and time customers want them.

Step 3: Conclusion A short or direct channel generally suits a few concentrated buyers placing large orders. Numerous scattered buyers and small purchases favour intermediaries; the final choice must also fit customer buying habits.

Quick Tip to Solve: Check four market clues in order: how many buyers, where they are, how much they buy at a time and how they prefer to buy.

11. Aarav was working as a supervisor with 'Neer Purifier Ltd.' which was producing water purifiers. The target of the company was to produce 200 water purifiers every day. His job was to make sure that work goes on smoothly and there was no interruption in production. To achieve this, he always gives orders and insists that they are obeyed. He believes that reward or punishment both can be given depending upon the performance.

Identify and describe the leadership style being adopted by Aarav.

[3 marks]

Solution:

Concept:

- Directing: leadership is the process of influencing people so that they willingly work towards organisational goals.

- An autocratic or authoritarian leader centralises decision-making, gives orders and expects subordinates to carry them out with little participation in decisions.

Step 1: Identify the style from the case Aarav adopts an autocratic or authoritarian leadership style. The decisive clue is that he 'always gives orders and insists that they are obeyed'. He determines what workers must do instead of consulting them about decisions. His production target explains the context, but issuing commands and demanding obedience identify the leadership style.

Step 2: Describe its features

- **Centralised authority:** The leader makes decisions and determines the work to be done. Subordinates receive directions rather than sharing substantially in decision-making.
- **One-way communication:** Instructions mainly flow downwards from the leader to employees. Workers are expected to follow the prescribed orders and methods.
- **Control through reward and punishment:** The leader closely monitors performance and uses incentives or penalties to obtain compliance. Aarav's belief that 'reward or punishment both can be given depending upon the performance' supports this feature.

Step 3: Conclusion Aarav is an autocratic leader: he retains authority, issues orders, expects obedience and uses performance-based rewards or punishments to secure compliance.

Quick Tip to Solve: Identify leadership style from decision-making and communication: commands plus expected obedience indicate autocratic leadership, even when rewards are also used.

12. Distinguish between Capital Market and Money Market on the basis of the following :

(a) Participants

(b) Instruments [3 marks]

Solution:

Concept:

- Financial Markets: the capital market channels medium-term and long-term funds, whereas the money market deals in short-term funds whose maturity is up to one year.
- Participants are the institutions and investors buying or supplying funds. Instruments are the securities through which those funds are raised and transferred.

Step 1: Identify the two requested bases Compare who participates in each market and which instruments are traded. Keep these bases separate: a bank or a company is a participant, whereas a share or a treasury bill is an instrument. The capital market accommodates individual as well as institutional investment; the money market is predominantly an institutional market involving large transactions.

Step 2: Present the distinction

Basis	Capital Market	Money Market
Participants	Development banks, commercial banks and financial institutions, foreign investors, companies and the general public participate. Individual investors can invest their savings in securities.	The main participants are the Reserve Bank of India, commercial banks, non-banking financial institutions, financial institutions and corporate houses. It is primarily an institutional market.
Instruments	Equity shares, preference shares, debentures and bonds are the principal instruments. These provide medium-term or long-term finance.	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills are the principal instruments. These meet short-term financing needs.

Step 3: Conclusion The capital market includes the general investing public along with institutions and trades instruments such as shares and debentures. The money market mainly involves institutional participants and trades short-term instruments such as treasury bills and commercial paper.

Quick Tip to Solve: Put people and institutions under Participants; put securities under Instruments. Do not treat a commercial bank as a money-market instrument.

13. 'KPM Ltd.' is manufacturing breads and biscuits for many years. It has approximately 150 employees and most of them are not happy with the working environment. Because of this the labour turnover rate is very high. Therefore the company appoints a new Human Resource Manager, Naveen, to analyse the situation. Naveen finds that there is no free flow of communication, and there is no suggestion box for the employees to voice their suggestions or grievances. The company rarely organises a social or cultural gathering, the employees just come, finish their work and leave the organisation.

(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:

- Directing: organisational barriers to communication arise from an organisation's policies, rules, structure, status relationships or communication facilities.
- Organisational facilities such as suggestion boxes, complaint boxes, meetings and social or cultural gatherings encourage employees to communicate freely. Inadequate provision of these facilities obstructs effective communication.

Step 1: Identify the barrier from the case **(a) Lack of organisational facilities:** KPM Ltd. has not provided adequate facilities that support communication. The case says there is "no suggestion box" for employees to voice suggestions or grievances and that the company "rarely organises a social or cultural gathering". These missing opportunities prevent employees from sharing views and interacting freely. The absence of such facilities, rather than the number of employees itself, identifies the particular barrier.

Step 2: State the category **(b) Organisational barrier:** Lack of organisational facilities belongs to the organisational category of communication barriers. It arises from the arrangements provided by the company for communication. The employees' dissatisfaction and high labour turnover are consequences described in the case; they are not the name of this communication barrier.

Step 3: Explain another barrier of the same category **(c) Status:** Status differences between superiors and subordinates may become an organisational barrier. A status-conscious manager may not allow subordinates to express their feelings freely. Subordinates may hesitate to communicate problems or suggestions because they fear displeasing a superior. Thus an otherwise useful message may be withheld, and free exchange of information is obstructed. This is another organisational barrier; it is distinct from inadequate communication facilities.

Step 4: Conclusion The specific barrier is lack of organisational facilities, which is an organisational barrier. Status differences are another barrier in this category because they can prevent subordinates from communicating openly with superiors.

Quick Tip to Solve: Missing suggestion boxes and gatherings point to organisational facilities. Name the specific barrier first, then its category; dissatisfaction alone does not identify the barrier.

14. State any four points that highlight the significance of principles of management. [4 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour, developed from observation and experimentation.
- Their significance lies in helping managers understand situations, use resources efficiently and make reasoned decisions. They guide action while allowing adaptation to the circumstances.

Step 1: State how principles improve understanding and resource use

- **Providing managers with useful insights into reality:** Principles improve managers' knowledge, ability and understanding of managerial situations. Managers learn from accumulated experience rather than begin every decision by trial and error. For example, unity of command helps a manager recognise why conflicting instructions confuse employees.
- **Optimum utilisation of resources and effective administration:** Principles guide the economical use of human and material resources, reducing waste. Scientific division of work and clear authority help employees know their responsibilities and avoid duplication. Effective administration results when managerial decisions are objective and duties are clearly understood.

Step 2: State how principles improve decisions and adaptation

- **Scientific decisions:** Principles encourage thoughtful, logical decisions based on facts, cause-and-effect relationships and objective assessment. This reduces dependence on personal prejudice, arbitrary judgement or blind guesswork. A manager still considers the actual situation before applying a principle.
- **Meeting changing environmental requirements:** Principles are flexible guidelines rather than rigid rules. Managers modify their application to suit changes in technology, competition and

employee expectations. For instance, an appropriate balance of centralisation and decentralisation can change as an organisation grows and its circumstances change.

Step 3: Conclusion Four points highlighting their significance are useful insights into reality, optimum resource utilisation and effective administration, scientific decisions, and meeting changing environmental requirements.

Quick Tip to Solve: For a significance question, name each benefit in NCERT terms and explain how that benefit helps a manager act effectively.

15. Explain the following rights of a consumer as provided under Consumer Protection Act, 1986 :

(a) Right to Safety

(b) Right to Consumer Education [4 marks]

Solution:

Concept:

- The Consumer Protection Act, 1986 recognises consumer rights to protect consumers against exploitation and to help them make informed choices.
- The right to safety concerns protection from hazardous goods and services. The right to consumer education concerns acquiring knowledge and skills to act as an informed consumer.

Step 1: Explain the right to safety **(a) Right to Safety:** A consumer has the right to be protected against the marketing of goods and services that are hazardous to life and health. Products must meet the relevant safety requirements so that their normal use does not expose the consumer to avoidable danger. An unsafe electrical appliance, for example, may cause an electric shock or fire; this right protects the consumer against such hazards.

Consumers should seek quality assurance and, wherever applicable, purchase standardised goods carrying a recognised quality mark, such as the ISI mark for electrical appliances. They should also follow the manufacturer's operating instructions and safety precautions. The central meaning of the right is protection of life and health, rather than merely receiving a low price or a wide choice.

Step 2: Explain the right to consumer education **(b) Right to Consumer Education:** A consumer has the right to acquire the knowledge and skills needed to be an informed consumer throughout life. This includes knowing consumer rights and responsibilities, recognising unfair trade practices and understanding the remedies available when those rights are violated.

Education enables consumers to check labels, quality marks and relevant product information, insist on a cash memo, and know how to seek redressal. Government agencies, educational institutions and consumer organisations can spread this awareness through publications, campaigns and other educational programmes. Awareness equips a person to make sensible purchases and to take appropriate action against exploitation instead of remaining unaware of the protection available.

Step 3: Conclusion The right to safety protects consumers from goods and services hazardous to life and health. The right to consumer education equips them with knowledge and skills to exercise their rights and seek remedies effectively.

Quick Tip to Solve: Link safety with hazards to life and health; link consumer education with learning rights, responsibilities and ways to obtain redressal.

16. Harsh started a company 'Tiny-Toys Ltd.' to manufacture economical toys for the Indian rural market, with 20 employees. The company did very well in its initial years. As the products were good and marketed well, the demand of its products went up. To increase the production the company decided to recruit additional employees. Harsh who was earlier taking all decisions for the company had to selectively disperse the authority. He believed that subordinates 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 Harsh through which he was able to steer his company to greater heights.

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

Solution:

Concept:

- Decentralisation means the systematic dispersal of decision-making authority throughout the organisation, down to the levels where work is performed.
- Its importance includes developing initiative among subordinates, developing managerial talent for the future and enabling quick decision-making.

Step 1: Identify the concept from the case The concept in part (a) is **decentralisation**. Harsh, who previously took all decisions himself, now had to "selectively disperse the authority". His belief that subordinates are "competent, capable and resourceful" shows his willingness to let them exercise judgement and accept responsibility. This is the broader sharing of decision-making power across the organisation as it grows.

Step 2: Explain three points of its importance For part (b), any three points are:

- **Develops initiative among subordinates:** Giving subordinates freedom to take decisions helps them use their own judgement and find solutions. They learn to depend on their abilities rather than refer every matter to Harsh, and gain confidence through responsibility.
- **Develops managerial talent for the future:** Lower-level managers get practical experience in taking decisions and evaluating their results. Such experience improves their managerial abilities and prepares them to shoulder higher responsibilities when the company expands.
- **Quick decision-making:** Decisions can be taken near the point of action by people familiar with local operating conditions. Fewer matters need to travel through the full hierarchy for approval, so delays are reduced and the growing business can respond promptly.

Step 3: Conclusion Harsh used decentralisation. It develops subordinate initiative and future managerial talent and speeds up decisions, supporting the company's increased scale of operations.

Quick Tip to Solve: Look for systematic dispersal of decision-making power and confidence in lower levels to identify decentralisation; link each importance point to how that freedom improves work.

17. The workers of 'Swastik 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 process of increasing employees' knowledge, skills and abilities for performing a specific job effectively.
- Training benefits employees through better career prospects, improved performance and earnings, and safer handling of machines.

Step 1: Suggest training for operating the new machines The supervisor should arrange **training** for the workers. The case states that they are "unable to work on new computerised machines" and repeatedly seek guidance. This is a gap in the job-specific knowledge and operating skills needed for the new equipment. Systematic instruction, demonstration and supervised practice will teach them the correct operating procedures and enable them to carry out their work independently. The supervisor's repeated individual explanations can thus be replaced by organised learning followed by practice and feedback.

Step 2: State three benefits to the workers The workers will derive the following benefits:

- **Better career prospects:** Improved knowledge and skills make employees more capable of accepting higher responsibilities. Training therefore helps them develop for future growth and promotion within their careers.
- **Increased performance and earnings:** Trained workers perform their jobs more efficiently and accurately. Improved individual performance can help them earn more where remuneration and rewards are linked to their performance.
- **Greater safety:** Workers learn correct procedures for handling the computerised machines, including necessary precautions. This makes them less prone to accidents and protects them from the risks of incorrect operation.

Step 3: Conclusion Training will equip the workers to operate the new machines independently. It will also improve their career prospects and performance-related earning opportunities and make machine handling safer.

Quick Tip to Solve: When the problem is inability to use new equipment, suggest training; if benefits to workers are asked, focus on their careers, earnings and safety rather than the firm's profits.

18. 'Adharshila Vidyalaya' believes in holistic development of students and encourages team building through a mix of curricular, co-curricular and sports activities. On its Founders' Day a stage performance had to be put up. A committee of ten prefects was constituted to plan different aspects of the function. They all decided to use recycled paper for decoration. As there was a spirit of unity and harmony and all members supported each other with mutual trust and belongingness, the programme was systematically planned and executed. Arvind, one of the prefects, realised that unknowingly the group had applied one of the principles of management while planning and executing the programme. He was so inspired by the success of the function, that he asked his father to apply the same principle in his business. His father replied that he was already using this principle.

(a) Identify the principle of management applied for the success of the programme.

(b) State any two features of management highlighted in the above paragraph.

(c) Identify any two values which 'Adharshila Vidyalaya' communicated to the society. [4 marks]

Solution:

Concept:

- Fayol's principle of esprit de corps promotes team spirit, unity and harmony among members of an organisation.
- Management is a group activity and is pervasive: coordinated effort is needed in organisations with different objectives, including schools and businesses.

Step 1: Identify the principle in part (a) The principle is **esprit de corps**. The case expressly mentions a "spirit of unity and harmony" and members supporting one another with "mutual trust and belongingness". These are the defining signs of team spirit. A manager should replace an individualistic attitude with a feeling of "we" so that members contribute together to common objectives. The prefects' cooperation enabled the programme to be planned and executed systematically.

Step 2: State two features for part (b) **Management is a group activity:** The words "A committee of ten prefects was constituted" show that several people worked together to plan different aspects of one function. Their individual contributions were coordinated towards the common objective of a successful Founders' Day programme.

Management is all pervasive: Management is required in all types of organisations and at all levels. The words "His father replied that he was already using this principle" show that the same principle operated in both the school and his business. Thus its application extends to both an educational institution and a commercial organisation.

Step 3: Identify two values for part (c) **Environmental responsibility:** The decision to use "recycled paper for decoration" communicates conservation of resources and concern for the environment.

Cooperation and mutual respect: The words "all members supported each other with mutual trust and belongingness" communicate the value of working harmoniously with others. These values follow directly from the school's actions in the case.

Step 4: Conclusion The principle is esprit de corps. The case highlights management as a group activity and as all pervasive, and communicates environmental responsibility and cooperation with mutual respect.

Quick Tip to Solve: Link "unity and harmony" to esprit de corps; distinguish the principle from features such as group activity and pervasiveness.

19. 'Zaira Ltd.' is a large and creditworthy company manufacturing air-conditioned buses for the Indian market. It now wants to export these buses 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:

- Commercial paper is an unsecured, negotiable, short-term promissory note issued by large, creditworthy companies to raise funds in the money market.
- It can provide bridge financing for flotation expenses while a company raises longer-term finance through securities such as equity shares.

Step 1: Name and explain the instrument for part (a) Zaira Ltd. can issue **commercial paper**. It is an unsecured promissory note, transferable by endorsement and delivery, through which a financially sound company borrows for a short period. It is issued at a discount and redeemed at its face value on maturity; the difference provides the investor's return. Since it has no collateral security, the issuer's creditworthiness is essential, matching the description of Zaira Ltd. as a "large and creditworthy company".

Its use here is **bridge financing**. The company proposes to raise long-term funds by issuing equity shares, but must first pay the expenses of that issue. Commercial paper provides temporary funds to meet the flotation cost until the long-term funds are received. The money-market borrowing meets this short-term financing gap, rather than constituting the long-term equity finance itself.

Step 2: State the duration for part (b) Funds can be raised through commercial paper for a period ranging from **15 days to one year**. It therefore belongs to the money market, which deals in short-term funds. The company chooses an appropriate maturity within this range in keeping with when it expects to receive its equity-issue proceeds.

Step 3: State another purpose for part (c) Commercial paper can also be used to meet **working-capital requirements**, for example financing inventories and other day-to-day operating needs. This is another short-term requirement, distinct from the flotation expenses described in the case. Its maturity must be planned so that the business has funds available to repay the paper when it falls due.

Step 4: Conclusion Zaira Ltd. should use commercial paper as bridge finance for its flotation expenses. Its maturity can range from 15 days to one year, and it may also finance working-capital requirements.

Quick Tip to Solve: A creditworthy company needing temporary funds before a share issue points to commercial paper used as bridge finance.

20. Give the meaning of 'Formal Organisation'. State its any four advantages. [5 marks]

Solution:

Concept:

- Formal organisation is the deliberately designed structure of authority and responsibility created by management to achieve organisational objectives.
- It specifies each person's duties, reporting relationships and the extent of authority, so individual efforts can be coordinated towards common goals.

Step 1: Explain the meaning A formal organisation is the structure of relationships among jobs and positions established by management. It clearly lays down who performs each task, who reports to whom and who has authority to make decisions. Employees are expected to work within these officially prescribed relationships and rules. Thus, the structure is consciously created to accomplish the organisation's objectives rather than arising spontaneously from personal friendships.

Step 2: State four advantages

- **Easy fixation of responsibility:** Duties and mutual relationships are clearly defined. Management can identify the person responsible for a particular task and hold that person accountable for its performance.
- **No ambiguity in roles:** Each member knows the work to be done and the authority available to do it. This prevents uncertainty, unnecessary duplication of activities and overlapping duties.
- **Unity of command:** A clearly established chain of command tells an employee whose instructions must be followed. Orders and reporting relationships become definite, reducing confusion arising from conflicting directions.
- **Achievement of organisational goals:** The framework specifies the operations to be performed and the rules governing them. It coordinates the work of different people and departments and channels their efforts towards the organisation's planned objectives.

Step 3: Conclusion Formal organisation is management's planned structure of jobs, authority and responsibility. Its advantages include clear responsibility, unambiguous roles, unity of command and coordinated achievement of organisational goals.

Quick Tip to Solve: Begin with a planned structure, then link each advantage to a clear duty, a clear superior or a common organisational goal.

21. Kavya had been working with 'Reliable Ltd.' 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 Kavya would be promoted. But to everyone's surprise the vacant post was filled by an outsider 'Miss Garima'. Because of this, Kavya felt demoralised and her performance started declining. She would absent herself often and could not meet her targets.

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

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

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

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

Solution:

Concept:

- Directing is the management function of instructing, guiding, motivating and leading employees to achieve organisational objectives.
- Motivation stimulates people to act in a desired manner. Employee participation in decision-making is a non-financial incentive that can satisfy employees' needs for recognition and involvement.

Step 1: Identify the management function in part (a) Garima is performing **directing**. The case says that she would "not only instruct her subordinates but also guide and inspire them". These activities activate employees' efforts and guide their work towards organisational objectives, which is the purpose of directing.

Step 2: Identify the element in part (b) The element is **motivation**. Kavya felt demoralised when she was not promoted. Garima began "involving Kavya in decision-making" and made her a member of a "high-level joint management committee". This employee participation is a non-financial incentive: it gives Kavya a sense of importance, recognition and involvement. It stimulates her willingness to work, as shown by her improved punctuality and performance. Although Garima is described as a good leader, the particular action that restores Kavya's willingness to perform illustrates motivation.

Step 3: State three features for part (c)

- **Motivation is an internal feeling:** The urge to act arises within a person from needs, desires and aspirations. Management can offer incentives, but they motivate only by affecting the employee's inner feelings. Participation helps satisfy Kavya's need to feel valued.
- **Motivation produces goal-directed behaviour:** It induces people to behave in ways that help them attain their goals. Motivated employees apply effort to their work; Kavya's renewed punctuality and improved performance show the desired change in behaviour.
- **Motivation is a complex process:** Individuals differ in their needs, expectations and reactions. The same incentive may not motivate everyone, so a manager must understand what matters to a particular employee. Garima responds to Kavya's demoralisation with meaningful involvement rather than merely issuing more instructions.

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

Quick Tip to Solve: Identify the specific action that changes the employee's willingness to work: participation and recognition point to motivation within directing.

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22. A company was manufacturing solar panels for charging of mobiles which were in great demand. It was found that the target of producing 500 solar panels a day was not being met by the employees. On analysis it was found that the workers were not at fault. Due to non-availability of raw materials and shortage of workers, the company was not able to achieve the set targets and alternative arrangements were needed. To meet the increased demand the company assessed that approximately 66 additional workers were required out of which 6 would work as heads of different departments and 10 would work as subordinates under each head. The required qualifications and job specifications were also enlisted. It was also decided that necessary relaxation should be given to encourage women, persons from backward and rural areas and persons with special abilities to assume responsible positions in the organisation. All efforts were made to match the ability of the applicants with the nature of work.

(a) Identify the functions of management discussed above.

(b) State the two steps in the process of each function dicussed in the above para.

(c) List any two values which the company wants to communicate to the society. [5 marks]

Solution:

Concept:

- Controlling compares actual performance with standards, identifies the causes of deviations and initiates corrective action so that organisational objectives can be achieved.
- Staffing puts the right person in the right job. It includes estimating manpower requirements and selecting applicants whose abilities fit the work.

Step 1: Identify the management functions in the case **(a) Controlling and staffing** are the functions discussed. The failure to meet the target of 500 panels a day is examined to find its causes and decide corrective action; this is controlling. Assessing the need for additional employees and matching applicants' abilities with the jobs is staffing.

Step 2: State the two controlling steps illustrated **(b) Analysing deviations:** The company investigates the production shortfall and finds that workers are not at fault. The causes are "non-availability of raw materials and shortage of workers". This analysis distinguishes the reasons for the deviation from the mere fact that output is below target.

Taking corrective action: The statement that "alternative arrangements were needed" shows the need to remove these causes. Arranging raw materials and additional manpower would enable the company to meet the prescribed output target. Corrective action must address the identified causes rather than punish employees who are not responsible.

Step 3: State the two staffing steps illustrated **Estimating manpower requirements:** The company

assesses that it needs "approximately 66 additional workers", including six heads and ten subordinates under each head. Enlisting qualifications and job specifications determines the number and type of people required through workload and workforce analysis.

Selection: The effort "to match the ability of the applicants with the nature of work" indicates selection. Suitable applicants are chosen against the requirements of the jobs so that each position is filled by a person capable of performing it. The passage describes matching suitability, rather than merely inviting applications.

Step 4: List two values communicated to society **(c) Gender equality and women's empowerment:** Encouraging women to assume responsible positions promotes equal opportunity and their participation in organisational decision-making.

Social inclusion and equal opportunity: Relaxation for people from backward and rural areas and persons with special abilities shows concern for disadvantaged groups and a commitment to making responsible employment accessible to them.

Step 5: Conclusion The functions are controlling and staffing. Their illustrated steps are analysing deviations and taking corrective action, and estimating manpower requirements and selection, respectively. The company also communicates gender equality and social inclusion.

Quick Tip to Solve: In a management case, connect each process step to its exact clue: finding causes signals analysis, while matching applicants to jobs signals selection.

23. Explain the following principles of management :

(a) Harmony, not discord

(b) Discipline [6 marks]

Solution:

Concept:

- Taylor's scientific management principle of harmony, not discord seeks cooperation and mutual understanding between management and workers instead of conflict over the distribution of benefits.
- Fayol's principle of discipline requires obedience to organisational rules and employment agreements, with clear obligations and fair treatment on both sides.

Step 1: Explain harmony, not discord **(a) Mutual interests:** Taylor recognised that conflict between workers and management can prevent either side from prospering. Management and employees should realise that they are members of the same organisation and that their prosperity depends on each other. They should work in harmony towards greater efficiency and output rather than treat each other as opponents.

Mental revolution: Both sides must change their attitudes. Management should share the gains from increased productivity with workers and show concern for their welfare. Workers should accept scientific methods, cooperate with management and contribute sincerely instead of restricting output. Attention should move from fighting over the existing surplus to increasing the surplus available for sharing.

Practical application: Open communication, respect for workers' suggestions and a fair sharing of productivity gains help create trust. For example, management may improve working conditions and reward higher productivity while employees cooperate in adopting an improved production method. The resulting mutual confidence reduces industrial disputes and helps achieve common organisational goals.

Step 2: Explain discipline **(b) Obedience and respect for agreements:** Fayol regarded discipline as respect for the rules and employment agreements necessary for an organisation to function smoothly. Employees should follow legitimate instructions, meet their responsibilities and honour agreed standards of conduct. Discipline supports orderly work and coordination rather than arbitrary punishment.

Conditions for discipline: It requires good superiors at all levels, clear and fair agreements, and judicious application of penalties. Rules and obligations must be understood, and any penalty should be applied fairly according to the circumstances rather than through favouritism. Managers must also set an example by observing the agreements themselves.

Reciprocal responsibility: Discipline binds management as well as workers. For example, if employees agree to work extra time to meet an urgent order in exchange for an agreed payment, they should complete that work and management should honour the payment commitment. Keeping promises on both sides creates confidence and sustains disciplined behaviour.

Step 3: Conclusion Harmony, not discord replaces conflict with a mental revolution and cooperation for mutual prosperity. Discipline ensures that managers and employees honour clear, fair rules and agreements, supported by good supervision and judicious penalties.

Quick Tip to Solve: Associate harmony with Taylor's mental revolution and shared prosperity; associate discipline with Fayol's rules, fair agreements and obligations on both sides.

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24. **'Silkiya Ltd.' is a company manufacturing silk cloth. 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 organisation 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 ₹ 60 lakhs from SBI 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 profit 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:

- The dividend decision determines the part of profit distributed to shareholders and the part retained in the business for future requirements.
- NCERT Financial Management identifies earnings, liquidity, investment opportunities and contrac-

tual restrictions among the factors affecting this decision. A company must consider these together rather than treating all accounting profit as cash available for distribution.

Step 1: Identify the earnings available for distribution **Amount of earnings:** The case states, "This year too, it has been able to generate enough profits." Dividends are paid out of current and past earnings. Other things remaining the same, a company with larger earnings has greater capacity to pay dividends, while low earnings limit the amount that can be distributed. Silkiya's adequate profits therefore provide a basis for a dividend, although the other requirements of the business must still be considered.

Step 2: Check whether the company has cash to pay dividends **Cash flow position:** The relevant words are, "There is availability of enough cash in the company." Payment of dividend involves an actual outflow of cash. A profitable company may still face a cash shortage if funds are tied up in assets or receivables. A sound cash position makes dividend payment easier; Silkiya's available cash supports its ability to distribute a part of its profits.

Step 3: Allow for future investment opportunities **Growth opportunities:** The company has "good prospects for growth in future." Firms with attractive growth opportunities need funds to finance expansion. They may retain a larger portion of earnings so that these opportunities can be financed internally. Accordingly, Silkiya should balance a dividend payment against the funds needed for future growth, rather than distributing all its profit merely because cash is presently available.

Step 4: Apply the loan agreement before fixing the dividend **Contractual constraints:** Silkiya "is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement." Lenders may impose conditions that restrict dividend payments to protect the repayment of their loans. Silkiya must comply with the restrictions attached to the SBI loan when deciding its dividend. Sufficient profits and cash do not remove these contractual limits.

Step 5: Conclusion Four factors illustrated are amount of earnings, cash flow position, growth opportunities and contractual constraints. Together they determine how much Silkiya can prudently distribute and how much it should retain; the case does not supply enough information to calculate an exact dividend amount.

Quick Tip to Solve: Match each quoted clue to a distinct factor: profits to earnings, cash to liquidity, expansion prospects to growth, and loan conditions to contractual constraints.

25. Vasvi was a student of Commerce in class XII. Her father was a farmer, who grew different varieties of wheat and was well versed about various aspects of wheat cultivation. He was also selected by the government for a pilot-project on wheat cultivation. As a project she decided to study the feasibility of marketing good quality wheat at reasonable price. Her father suggested to her to use internet to gather customers' views and opinions. She found that there was a huge demand for organic-packed wheat. She knew that there were no pre-determined specifications in case of wheat, 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 'Mahan-organic-wheat' 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 customer needs and performing the activities required to satisfy them. The relevant functions here are gathering and analysing market information, standardisation and grading, and branding.
- Market information guides product decisions; grading classifies variable agricultural output by quality; branding gives a product a distinctive identity. These functions have different purposes even when they are performed for the same product.

Step 1: Explain gathering and analysing market information **Gathering and analysing market information:** Vasvi's father suggested that she "use internet to gather customers' views and opinions," and she found "a huge demand for organic-packed wheat." This function involves collecting and analysing information about customers' needs, preferences and buying behaviour, as well as market opportunities. The information helps the marketer decide what to offer and assess whether the proposed product can meet demand. Here, the findings guide Vasvi towards organic-packed wheat instead of relying only on what the farm can produce.

Step 2: Explain standardisation and grading **Standardisation and grading:** Standardisation means producing goods according to predetermined specifications so that their quality, size and other characteristics are consistent. Grading means classifying products into groups having similar characteristics or quality. The case notes the difficulty of achieving uniformity in wheat and says Vasvi "classified it into three different varieties namely — Popular, Classic and Supreme, based on the quality." Because agricultural output varies naturally, grading is especially useful: it sorts the wheat into quality categories rather than pretending that every unit is identical. Buyers can then choose a category suited to their needs, and the seller can market the different grades clearly. The paragraph illustrates grading within the combined marketing function of standardisation and grading.

Step 3: Explain branding **Branding:** To differentiate the wheat from competitors' products, Vasvi "gave it the name of 'Mahan-organic-wheat'." Branding is the process of giving a product a distinctive name, sign, symbol or other identity that distinguishes it from competing products. The brand name enables customers to recognise and ask for her product and helps build a separate market identity. Popular, Classic and Supreme identify the quality varieties within her offering; the distinctive product name supports identification and differentiation in the market.

Step 4: Conclusion The three functions are gathering and analysing market information, standardisation and grading, and branding. Vasvi studies customer preferences, groups wheat according to quality, and gives the product a distinctive name to distinguish it from competing wheat.

Quick Tip to Solve: Separate the clues by purpose: customer opinions provide market information, quality categories show grading, and the distinctive product name shows branding.