CBSE Class 12 Business Studies Question Paper 2015 with Solution PDF-Set 66/2/3

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. 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 applicable to this paper, an appeal against a State Commission order is made to the National Commission.
- The normal time limit for this appeal is 30 days from the date of the order.

Step 1: Recall the appeal rule A consumer dissatisfied with a State Commission decision may appeal to the National Commission within 30 days. Dissatisfaction alone does not remove this prescribed time limit.

Step 2: Apply the time limit Pankaj decided to appeal only after two months. This exceeds the normal 30-day period. The case gives no sufficient cause for condonation of delay, so he cannot appeal in the ordinary course merely because he is disturbed.

Step 3: Conclusion No. Pankaj has exceeded the 30-day time limit for appealing to the National Commission against the State Commission decision. A delayed appeal requires acceptance of sufficient cause for the delay.

Quick Tip to Solve: For an appeal question, identify both the next higher commission and the time limit; here the decisive fact is the two-month delay.

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

Solution:

Concept:

- Financial Management: capital structure is the proportion of debt and equity used to finance a company.
- Floatation costs are the costs of raising funds, including issue, underwriting and brokerage expenses.

Step 1: Compare the issue expenses Raising equity through a public issue generally involves substantial floatation costs, such as preparation of the prospectus, underwriting and brokerage. Funds actually available to the company are reduced by these costs.

Step 2: Relate the costs to financing choice Where equity issue costs are high, the company may prefer a source with lower floatation costs, such as borrowing. Thus the relative costs of raising debt and equity influence their proportions in the capital structure.

Step 3: Conclusion Higher floatation costs of issuing equity may favour the use of debt with lower fund-raising costs, thereby affecting the debt-equity mix.

Quick Tip to Solve: Compare the cost of raising each source of finance, not only its recurring interest or dividend cost.

3. '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:

- Financial Management: working capital finances current assets and day-to-day operations.
- The nature of business affects working capital: a service enterprise generally needs less inventory than a manufacturing or trading enterprise.

Step 1: Identify the nature of operations Reliable Transport Services "specialises in transporting fruits and vegetables". This identifies it as a service enterprise. It carries customers' fruits and vegetables rather than buying and holding these goods as its own trading stock. The case describes timely delivery as its service.

Step 2: Infer the current-asset requirement As a service business, it does not normally require large stocks of raw materials or finished goods. Its main investment in vehicles is fixed capital; expenditure on fuel, wages and routine operations still requires some working capital.

Step 3: Conclusion Its working capital requirement will be relatively low because it is a service enterprise and does not need substantial investment in inventory.

Quick Tip to Solve: Separate the transporter's vehicles, which are fixed capital, from the goods it carries for customers, which are not its own stock.

4. '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:

- Marketing Management: the societal marketing concept combines customer satisfaction with the long-term welfare of society.
- A business following this concept considers environmental protection along with its own objectives and consumer needs.

Step 1: Find the customer focus Glow and Shine offers beauty products that satisfy its customers. This establishes a consumer-oriented approach, but customer satisfaction alone would indicate only the marketing concept.

Step 2: Identify the wider social concern The case adds that the company believes in the "overall protection of the planet" and uses plant-based materials. This concern for environmental and social well-being extends its approach beyond immediate customer satisfaction.

Step 3: Conclusion Glow and Shine Ltd. follows the societal marketing concept, balancing customer satisfaction with the long-term interests of society and the environment.

Quick Tip to Solve: When a case adds society or environmental welfare to customer satisfaction, identify the societal marketing concept.

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

Solution:

Concept:

- Principles of Management: management principles guide managerial decisions and the actions of people in organisations.
- They are mainly behavioural because they seek to influence human behaviour, both individually and in groups.

Step 1: Identify what managers direct Managers work with and through people to achieve organisational objectives. Principles such as unity of command and equity guide how managers relate to employees and how employees act within the organisation.

Step 2: Explain the behavioural nature The principles aim to influence human conduct and relationships at work. Since people differ in their needs, attitudes and responses, these principles provide flexible guidance rather than exact mechanical predictions.

Step 3: Conclusion Management principles are mainly behavioural in nature because they aim to influence the behaviour of people and their relationships in the organisation.

Quick Tip to Solve: Link the word "behavioural" to people and working relationships rather than to machines or production techniques.

6. '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: plans are based on forecasts and assumptions about future conditions.
- Planning may not work in a dynamic environment because economic and competitive conditions can change beyond the organisation's control.

Step 1: Identify the change in the environment Bawa Cycles set its higher sales target using its successful record in a monopoly market. However, "two competitors also entered the market", changing the competitive conditions in which the plan had to operate.

Step 2: Name the planning limitation The entry of competitors was an external change that undermined the assumptions supporting the target. This illustrates that planning may not work in a dynamic environment: a plan cannot fully anticipate or control every change in business conditions.

Step 3: Conclusion The limitation is that planning may not work in a dynamic environment. New competitors changed market conditions and prevented achievement of the planned sales target.

Quick Tip to Solve: A target upset by an external market change points to the dynamic-environment limitation of planning.

7. What is meant by 'Globalisation' ? [1 mark]

Solution:

Concept:

- Business Environment: globalisation concerns the integration of a country's economy with the world economy.
- It increases cross-border connections through trade, investment, technology and the movement of resources.

Step 1: State the central meaning Globalisation means integrating the national economy with the world economy. Domestic producers and consumers become more closely connected with international markets rather than operating only within national boundaries.

Step 2: Explain how integration develops It involves freer movement of goods, services, capital, technology and people across countries, supported by a reduction in barriers. Businesses increasingly plan production, sourcing and selling with a worldwide perspective.

Step 3: Conclusion Globalisation is the integration of the national economy with the world economy through greater cross-border flows of goods, services, capital, technology and people.

Quick Tip to Solve: Use "integration with the world economy" as the core definition; freer international flows explain how it takes place.

8. Give the meaning of 'Strategy' as a type of plan. [1 mark]

Solution:

Concept:

- A strategy is a comprehensive plan for achieving the objectives of an organisation.
- It links long-term objectives with a course of action and the allocation of resources, taking account of the business environment.

Step 1: State the meaning Strategy is a comprehensive plan which determines the long-term objectives of an enterprise, adopts the course of action needed to achieve them and allocates the necessary resources.

Step 2: Identify its scope It provides the broad direction within which other plans are prepared. Management considers opportunities and threats in the external environment while deciding how the enterprise will attain its objectives.

Step 3: Conclusion Thus, strategy combines long-term objectives, a chosen course of action and resource allocation into an overall plan for the enterprise.

Quick Tip to Solve: Remember strategy through three connected elements: objectives, course of action and resources.

9. Give the meaning of 'Divisional Structure of an organisation' with the help of a diagram. [3 marks]

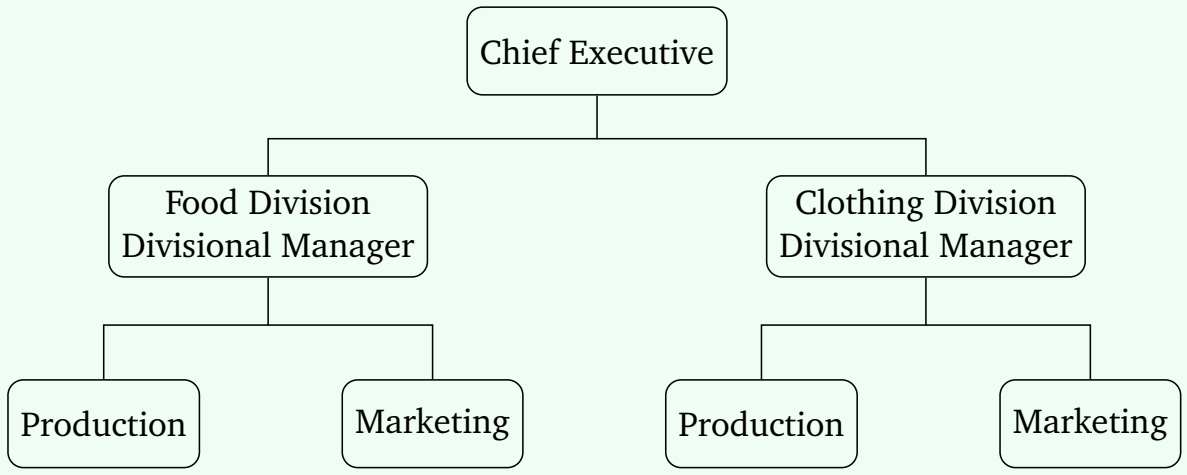
Solution:

Concept:

- Divisional structure groups activities into divisions on the basis of products or product lines.
- Each division contains the functions needed for its own product and is headed by a divisional manager accountable for its performance.

Step 1: Explain the basis of grouping A divisional structure is an organisational structure in which activities related to one product or product line are grouped into a separate division. It is suitable for a large enterprise manufacturing several different products. For example, an enterprise producing food and clothing may create a Food Division and a Clothing Division, rather than putting all production activities into one common production department.

Step 2: Describe the arrangement shown Each division has its own functional departments, such as Production and Marketing, to carry out the work of its product line. These departments report to their respective divisional manager, while the divisional managers report to the Chief Executive. The division can therefore be treated as a relatively self-contained unit whose performance and results can be assessed separately. The diagram shows product divisions at the first level below the Chief Executive and functional departments within each division.



Divisional structure based on product lines

Step 3: Conclusion Divisional structure organises the enterprise around products, with the necessary functional activities grouped within each product division under its own manager.

Quick Tip to Solve: In the diagram, put products below the Chief Executive and functions below each product division; this distinguishes divisional from functional structure.

10. '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:

- Organisational barriers arise from the structure, policies, rules or facilities of an organisation that obstruct the exchange of messages.
- Organisational facilities, including suggestion boxes and social gatherings, help employees communicate freely and develop effective relationships.

Step 1: Identify the barrier in the case **(a) Lack of organisational facilities:** The barrier is the absence or inadequacy of organisational facilities for communication. The case says that there is 'no suggestion box' for suggestions or grievances and that the company 'rarely organises a social or cultural gathering'. These missing facilities deny employees opportunities to express their views and interact, explaining the restricted flow of communication.

Step 2: State the category **(b) Organisational barrier:** Lack of organisational facilities belongs to the category of organisational barriers to communication. The difficulty arises from the arrangements provided by KPM Ltd., rather than from the language of a particular message or an individual employee's ability to understand it.

Step 3: Explain another barrier in the same category **(c) Status:** Status differences between a superior and a subordinate can obstruct free communication. A status-conscious manager may discourage subordinates from expressing their feelings and suggestions openly. Subordinates may fear criticism or an adverse reaction and may therefore hesitate to communicate problems or unfavourable information to the superior. As a result, useful information does not move freely through the organisation.

Step 4: Conclusion The case illustrates lack of organisational facilities, an organisational communication barrier. Status differences are another barrier in the same category.

Quick Tip to Solve: Suggestion boxes and social gatherings point to organisational facilities; identify the specific barrier before naming its broader category.

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

(a) Participants

(b) Instruments [3 marks]

Solution:

Concept:

- Financial markets channel funds from savers to users. The capital market deals in medium- and long-term funds, while the money market deals in short-term funds with maturity up to one year.
- Participants are the institutions and investors who supply or obtain funds; instruments are the securities through which those funds are raised or invested.

Step 1: Identify the two bases of comparison The question asks specifically for participants and instruments. Therefore, compare who operates in each market and the securities they use, rather than substituting other differences such as risk or liquidity.

Step 2: Present the differences in a comparative table

Basis	Capital Market	Money Market
Participants	Financial institutions, banks, corporate entities, foreign investors and individual or retail investors participate.	The principal participants are the Reserve Bank of India, commercial banks, financial institutions and finance companies. Individual investors generally do not directly participate.
Instruments	The main instruments are equity shares, preference shares, debentures and bonds. These provide medium- and long-term finance.	The main instruments are Treasury bills, commercial paper, call money, certificates of deposit and commercial bills. These meet short-term funding needs.

Step 3: Conclusion The capital market has a wider investor base, including individual investors, and uses shares, debentures and bonds. The money market is predominantly institutional and uses short-term instruments such as Treasury bills and commercial paper.

Quick Tip to Solve: For this comparison, remember: capital market includes shares and retail investors; money market centres on institutions and short-term bills or deposits.

12. 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:

- Leadership is the process of influencing people so that they willingly work towards organisational objectives. Different styles depend on how authority and decision-making are exercised.
- An autocratic or authoritarian leader centralises authority, gives orders and expects obedience. Rewards and penalties are used to secure the required performance.

Step 1: Identify the style from the case Aarav adopts the **autocratic or authoritarian leadership style**. The decisive evidence is that he 'always gives orders and insists that they are obeyed'. This indicates that instructions flow from the supervisor and that subordinates are expected to follow his decisions.

Step 2: Describe its main features **Centralised decision-making:** The leader retains authority and determines what work must be done and how it is to be carried out. Subordinates have little opportunity to participate in decisions.

One-way communication and obedience: Instructions generally move downwards from the leader to workers. The emphasis is on compliance with orders rather than discussion and joint decision-making.

Control through rewards and penalties: The leader supervises performance and uses rewards for satisfactory work and penalties for poor performance. This is reflected in Aarav's belief that 'reward or punishment both can be given depending upon the performance'. His desire to maintain uninterrupted production supports this emphasis on close control.

Step 3: Conclusion Aarav is an autocratic leader: he retains control, issues orders, expects obedience and uses rewards or punishment to obtain the required performance from workers.

Quick Tip to Solve: Identify autocratic leadership from the combination of orders, compulsory obedience and centralised authority; a production target alone does not determine the style.

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

[3 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the ultimate consumer. Direct channels avoid intermediaries, while indirect channels use wholesalers, retailers or other middlemen.
- Market-related factors concern the nature, number, location and buying behaviour of customers. A

suitable channel makes the product conveniently available to the target market.

Step 1: Examine the nature and location of buyers **Nature of the market:** Industrial buyers usually prefer direct dealings with producers because they purchase for business use and may need technical information or specialised service. For consumer goods, indirect channels are often appropriate because intermediaries bring goods close to final consumers.

Geographical concentration: When buyers are concentrated in a small area, a direct or short channel can serve them economically. If buyers are widely scattered, wholesalers and retailers help cover different locations and make the goods accessible.

Step 2: Consider the number and size of purchases **Number of buyers:** A small number of customers can be contacted and served directly. A large number of buyers generally requires intermediaries, since reaching every customer directly would be costly and difficult.

Size of the order: Large individual orders favour direct or shorter channels because the producer can economically deal with each buyer. Small, frequent purchases favour longer channels: intermediaries buy larger quantities and break bulk into the smaller quantities consumers need.

Step 3: Conclusion Direct or short channels generally suit industrial buyers, concentrated markets, few customers and large orders. Indirect channels are more suitable for numerous, dispersed consumers making small purchases.

Quick Tip to Solve: Ask four questions about the market: who buys, where buyers are, how many there are, and how large each order is. Link each answer to a shorter or longer channel.

14. State any four points that highlight the importance of business environment. [4 marks]

Solution:

Concept:

- Business Environment concerns the external forces, institutions and conditions that affect a business enterprise's decisions and performance.
- Understanding these forces helps managers recognise favourable opportunities and adverse threats and respond to changes in time.

Step 1: Recognise opportunities and threats

- **Identifying opportunities and getting the first-mover advantage:** Environmental understanding helps a firm recognise positive external trends that can improve its performance. By identifying an emerging customer need before competitors, the enterprise can act early, introduce a suitable product and gain an advantage in the market.
- **Identifying threats and early warning signals:** Awareness of the environment alerts managers to adverse developments, such as new competitors, changing customer preferences or technological substitutes. Timely recognition enables the firm to take corrective action and reduce the possible harm instead of reacting only after losses occur.

Step 2: Obtain resources and adapt to change

- **Tapping useful resources:** A business draws finance, materials, labour and other inputs from its

environment and supplies goods and services in return. Understanding what the environment offers and expects helps it acquire suitable resources and provide outputs that customers and other stakeholders value.

- **Coping with rapid changes:** Markets, technology and competitive conditions change continuously. Environmental scanning helps management understand these changes and formulate appropriate responses, such as modifying products, adopting new technology or revising operating methods, so the enterprise remains effective.

Step 3: Conclusion Business environment is important because it enables early identification of opportunities and threats, access to useful resources and timely adjustment to rapid external changes.

Quick Tip to Solve: State each importance point as a separate heading, then connect environmental awareness to the managerial action it makes possible.

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

(a) Right to be informed

(b) Right to be heard [4 marks]

Solution:

Concept:

- Consumer Protection safeguards consumers against unfair practices and enables them to make informed choices and seek attention to their grievances.
- Under the Consumer Protection Act, 1986, the right to be informed concerns access to essential product information, while the right to be heard concerns representation of consumer interests and complaints.

Step 1: Explain the right to be informed **(a) Right to be informed:** A consumer has the right to obtain complete information about the product he or she intends to buy, including its quality, quantity, potency, purity, standard and price. Such information protects the consumer against unfair trade practices and helps the consumer compare available products and make an informed purchase decision.

For example, the label of a packaged product should communicate relevant details such as its contents, net quantity, price, manufacturing and expiry dates, and directions or precautions for use, where applicable. A buyer can use this information to check whether the product meets the required needs and whether it can be used safely. Concealment or misleading presentation of material details undermines this right.

Step 2: Explain the right to be heard **(b) Right to be heard:** A consumer has the right to have a complaint heard and to have consumer interests receive due consideration at appropriate forums. If dissatisfied with a product or service, the consumer must have an opportunity to present the grievance rather than have it ignored by the seller or service provider.

Business firms therefore need arrangements for receiving and addressing customer complaints, such as a consumer service or grievance cell. Consumers may also approach the appropriate consumer forum, and consumer organisations can assist in representing their interests. The essential point is

that the consumer's viewpoint and complaint receive a fair hearing; being heard is distinct from the separate right to obtain redressal for a justified claim.

Step 3: Conclusion The right to be informed ensures access to material product information for an informed choice. The right to be heard ensures that consumer complaints and interests are considered by the relevant business or forum.

Quick Tip to Solve: Link "informed" to product details before purchase and "heard" to consideration of the consumer's grievance; do not confuse a hearing with the award of compensation.

16. '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 a money-market instrument through which large and creditworthy companies raise short-term funds directly from investors.
- Bridge financing meets a temporary need for funds while a company is waiting to obtain its planned long-term finance. Commercial paper can finance flotation expenses in this interval.

Step 1: Identify and explain the instrument in part (a) **Commercial paper:** Zaira Ltd. can issue commercial paper, an unsecured promissory note with a fixed maturity, issued by a large and creditworthy company to raise short-term funds. It is a negotiable instrument and is generally issued at a discount and redeemed at its face value on maturity. Since no collateral backs it, the issuer's creditworthiness is important to investors.

The clue is that Zaira is a "large and creditworthy company" and needs to meet the "expenses of floatation cost". The equity issue provides the long-term finance for the machines; commercial paper temporarily finances the expenses incurred in raising that finance. This use is called **bridge financing**.

Step 2: State the duration in part (b) **Maturity period:** The company can obtain funds through commercial paper for a period ranging from **15 days to one year**. Thus, it is suitable for the company's temporary financing gap rather than the entire long-term investment in machinery. Its fixed maturity requires the company to arrange repayment when the paper becomes due.

Step 3: Give another use in part (c) **Working-capital finance:** Commercial paper can also be used to meet short-term working-capital requirements, such as financing inventories and accounts receivable. Such needs arise during the operating cycle and are distinct from the permanent investment in new machines. This is an additional purpose; it does not replace the bridge-financing purpose described in the case.

Step 4: Conclusion (a) Zaira Ltd. can issue **commercial paper**, an unsecured short-term promissory note, to obtain bridge finance for flotation expenses. (b) Its maturity ranges from **15 days to one year**. (c) It can also finance **working-capital requirements**.

Quick Tip to Solve: Link a large creditworthy issuer and flotation expenses to commercial paper and bridge financing; keep this short-term borrowing separate from the equity raised for machinery.

17. '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 employees. Cooperation enables the group to work towards a common objective.
- Management is a group activity and is all pervasive: it coordinates collective effort and is required in different kinds of organisations.

Step 1: Identify the principle in part (a) **Esprit de corps:** The principle applied is esprit de corps, meaning team spirit. Fayol advocated unity and harmony among members of an organisation. Managers should encourage mutual confidence and belongingness so that members contribute willingly to the collective objective.

The case specifically describes a "spirit of unity and harmony" and says that all members supported one another with "mutual trust and belongingness". These words directly establish esprit de corps. The ten prefects worked together to make the function successful rather than allowing individual rivalry to obstruct their efforts.

Step 2: State two features of management in part (b) **1. Management is a group activity:** Management brings together the efforts of different individuals towards a common goal. Here, a "committee of ten prefects" planned different aspects of the function and supported one another. Their coordinated group effort resulted in systematic execution of the programme.

2. Management is all pervasive: Management is required in all types of organisations, whether business or non-business. The school prefects applied management in organising a school function, while Arvind's father said that he was already applying the same principle in his business. Its use in

both the school and the business illustrates its universality.

Step 3: Identify two values in part (c) **1. Environmental responsibility:** The decision to "use recycled paper for decoration" communicates concern for conservation of resources and protection of the environment. It encourages reuse instead of unnecessary consumption of fresh resources.

2. Cooperation and mutual respect: The emphasis on "team building" and the members' "mutual trust and belongingness" communicates the value of helping and respecting others. Working harmoniously towards a shared objective teaches students to cooperate rather than pursue success at the expense of their teammates.

Step 4: Conclusion (a) The principle is **esprit de corps**. (b) The two features are **management as a group activity** and **its all-pervasive nature**. (c) Two values communicated are **environmental responsibility** and **cooperation and mutual respect**.

Quick Tip to Solve: Keep principles, features and values separate: unity points to esprit de corps, school plus business shows pervasiveness, and recycled paper shows environmental concern.

18. 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 systematic process of improving an employee's knowledge and skills for performing a particular job effectively.
- Training benefits employees by improving their career prospects, earning capacity and ability to use equipment safely and confidently.

Step 1: Recommend job-specific training The supervisor should arrange **training** for the workers in the operation of the new computerised machines. The case says they are "unable to work on new computerised machines" and repeatedly seek extra guidance. This indicates a gap between the skills the new job requires and the skills the workers currently possess. Demonstrations, guided practice and feedback on operating procedures would increase their knowledge and competence. Once they can operate the machines correctly, they can handle routine work independently instead of repeatedly calling the supervisor.

Step 2: State three benefits to the workers **Better career prospects:** Training improves workers' skills and knowledge, equipping them to take on more responsible work. It therefore improves their prospects of career growth and promotion.

Higher earning capacity: Greater competence enables workers to perform their work more efficiently and improve their performance. Better performance can help them earn more through improved wages or performance-related rewards.

Greater safety: Training teaches workers the correct methods of operating the imported machines and the precautions to follow. They can handle equipment more efficiently and become less prone to accidents, protecting themselves while performing their jobs.

Step 3: Conclusion The appropriate decision is to train the workers in operating the computerised machines. Three employee benefits are improved career prospects, increased earning capacity and safer handling of machinery.

Quick Tip to Solve: When a case links unfamiliar machines with repeated requests for guidance, identify training; then state benefits to employees rather than benefits to the company.

---

19. 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 levels of an organisation, allowing decisions to be taken near the point of action.
- It reflects confidence in subordinates' competence and capacity to assume responsibility. Its importance includes developing initiative, enabling quick decisions and facilitating growth.

Step 1: Identify decentralisation from the case The concept is **decentralisation**. Harsh earlier took all decisions himself but, as the company grew, "had to selectively disperse the authority". His belief that subordinates are "competent, capable and resourceful" and can assume responsibility shows that decision-making is being shared across the organisation. This goes beyond retaining every decision at the top and permits lower levels to act within the authority entrusted to them.

Step 2: Explain three points of importance **Develops initiative among subordinates:** Employees gain opportunities to make decisions and use their judgement instead of merely carrying out orders. This builds confidence and self-reliance and encourages them to take initiative and accept responsibility for results.

Enables quick decision-making: Decisions can be taken by those close to the operational problem. Communication need not travel repeatedly to Harsh for approval, reducing delays and allowing the company to respond promptly to production and market requirements.

Facilitates growth: Sharing decision-making authority gives lower-level managers experience in

handling responsibility. These capable managers can take charge of additional operations as the business expands. In Tiny-Toys Ltd., this supported the increase in production and expansion of the product range with different features, as described in the case.

Step 3: Conclusion Harsh used decentralisation. It helped by developing initiative among subordinates, allowing faster decisions and creating the managerial capacity needed for the company's growth.

Quick Tip to Solve: Use the clue "disperse the authority" to identify decentralisation, and connect each benefit to decision-making at lower levels.

20. State the features of 'Formal Organisation'. [5 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately created by management to achieve organisational objectives.
- It specifies the work to be done, the person responsible for it and the reporting relationships, so coordinated effort replaces uncertainty about duties.

Step 1: State how the structure is created and defined

- **Deliberate creation:** Formal organisation is consciously designed by top management. It is created through the organising process rather than emerging spontaneously from employees' social interaction.
- **Specified relationships:** It clearly lays down relationships among jobs and positions. Each employee knows the duties assigned, the authority available and the superior to whom the employee is accountable; this clarifies who reports to whom.

Step 2: State its purpose, basis and coordinating role

- **Achievement of organisational objectives:** The structure is designed to accomplish the goals in the organisational plans. It prescribes rules and procedures to guide employees' behaviour and directs their efforts towards these objectives.
- **Emphasis on work:** It places greater importance on the work to be performed than on interpersonal relationships. Authority belongs to a position in the structure, and official dealings follow prescribed roles rather than personal friendships.
- **Integration of departments:** The efforts of different departments are coordinated through the formal structure. Their interdependent activities are linked so that individual and departmental contributions serve the organisation as a whole.

Step 3: Conclusion Formal organisation is deliberately created, defines authority and reporting relationships, pursues organisational objectives, emphasises work and integrates departmental efforts. These features make it the official framework within which employees perform their assigned responsibilities.

Quick Tip to Solve: Recall five headings: deliberate creation, defined relationships, organisational goals, work emphasis and departmental integration. Do not substitute advantages such as reduced duplication for these features.

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, inspiring and leading people to work towards organisational objectives.
- Motivation is the process of stimulating people to act in a desired manner to accomplish desired goals. Employee participation is a non-financial incentive that can motivate an employee by recognising the employee's contribution.

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

Step 2: Identify the element in part (b) The element that improves Kavya's behaviour is **motivation**. Kavya becomes demoralised when the promotion goes to an outsider. Garima starts "involving Kavya in decision-making" and makes her a member of a "high-level joint management committee." This employee participation is a non-financial incentive: it gives Kavya recognition and involvement, stimulating her to work willingly again. The resulting punctuality and improved performance show the effect of motivation.

Step 3: State three features of motivation for part (c)

- **Internal feeling:** Motivation arises from a person's needs, desires and aspirations. Management provides incentives that stimulate these feelings; it cannot observe motivation directly, but can observe its effect on behaviour. Participation addresses Kavya's need to feel valued.
- **Goal-directed behaviour:** Motivation induces people to act towards desired goals. A motivated employee channels effort towards the required performance. Kavya's improved punctuality and performance illustrate this movement towards organisational goals.
- **Positive or negative:** Positive motivation offers incentives such as recognition, participation or promotion, whereas negative motivation uses fear of consequences such as punishment. Garima uses positive motivation by giving Kavya an opportunity to participate in important decisions.

Step 4: Conclusion (a) Garima performs directing. (b) Motivation, through the non-financial incentive of employee participation, improves Kavya's behaviour. (c) Motivation is an internal feeling, produces goal-directed behaviour and may be positive or negative.

Quick Tip to Solve: Identify the broad function first, then the element responsible for the change. Involving a demoralised employee in decisions is employee participation, a non-financial incentive under motivation.

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, discovers the causes of deviations and initiates corrective action so that organisational objectives can be achieved.
- Staffing fills positions with suitable people. It includes estimating manpower requirements and selecting candidates whose abilities match the requirements of their jobs.

Step 1: Identify the two functions in part (a) **Controlling:** The company examines why its actual output falls short of the target of 500 panels per day and recognises the need for alternative arrangements. This is performance review followed by action to remove the causes of the shortfall.

Staffing: It assesses the additional personnel needed, lists qualifications and job specifications, and tries to match applicants' abilities with the work to be performed. These activities concern obtaining suitable people for organisational positions.

Step 2: State the two controlling steps for part (b) **Analysing deviations:** The words 'on analysis it was found that the workers were not at fault' show investigation of the output shortfall. The identified causes are non-availability of raw materials and shortage of workers; merely blaming the existing employees would therefore not solve the problem.

Taking corrective action: The statement that 'alternative arrangements were needed' indicates action to eliminate these causes and restore performance towards the target. Arranging adequate materials and addressing the personnel shortage are the relevant directions for correction.

Step 3: State the two staffing steps for part (b) **Estimating manpower requirements:** The assessment that 'approximately 66 additional workers were required', together with the distribution of six departmental heads and ten subordinates under each, establishes both the number and categories of personnel needed. Enlisting qualifications and job specifications defines the required quality of manpower.

Selection: The words 'match the ability of the applicants with the nature of work' indicate choosing suitable applicants for the jobs. Selection seeks the best fit between a person's competence and the demands of a position; it is distinct from merely attracting applications through recruitment.

Step 4: List two values for part (c) **Gender equality:** Encouraging women to assume responsible positions communicates equal opportunity and recognition of their capability.

Social inclusion: Relaxation for people from backward and rural areas and persons with special abilities communicates concern for disadvantaged groups and their participation in responsible employment.

Step 5: Conclusion The functions are controlling and staffing. The controlling steps are analysing deviations and taking corrective action; the staffing steps are estimating manpower requirements and selection. Gender equality and social inclusion are two values conveyed by the company's employment policy.

Quick Tip to Solve: Separate diagnosis of an output shortfall from the search for suitable employees: the former signals controlling, while matching applicants to jobs signals selection within staffing.

23. Explain the following principles of management :

(a) Co-operation, not Individualism

(b) Subordination of Individual Interest to General Interest [6 marks]

Solution:

Concept:

- Principles of management guide managerial decisions and behaviour. They promote coordinated effort and the achievement of organisational objectives rather than conflict between individual participants.
- 'Co-operation, not individualism' is a principle of F.W. Taylor's scientific management. 'Subordination of individual interest to general interest' is a principle of Henri Fayol's administrative management.

Step 1: Explain co-operation, not individualism **Replace competition with cooperation:** Taylor advocated complete cooperation between management and workers instead of individualism. Both groups depend on one another for the success of the enterprise, so they should work jointly towards greater efficiency and prosperity rather than treat one another as adversaries.

Encourage participation and recognise suggestions: Management should listen to constructive suggestions from workers and involve them in decisions affecting their work. Suggestions that substantially reduce costs or improve efficiency should receive recognition and suitable reward. This makes employees partners in improvement rather than passive recipients of orders.

Accept reciprocal responsibilities: Management should share the gains of improved productivity and provide proper working conditions. Workers should cooperate with management, accept useful changes and avoid unreasonable demands or disruptive conduct. Open communication and mutual confidence reduce conflict and make the efforts of both sides more productive.

Step 2: Explain subordination of individual interest to general interest **Give organisational interest priority:** Fayol stated that the interest of the organisation should take precedence over the interest of any one employee or group. Individuals have their own objectives, but decisions must serve the common purpose for which the enterprise exists.

Reconcile interests and resolve conflicts fairly: Managers should try to align personal goals with organisational goals. Where the two conflict, the general interest must prevail. For example, a purchasing manager should choose a supplier on the basis of quality, price and reliability for the enterprise, rather than favour a relative's firm for personal benefit.

Set an example and apply fair rules: Managers must themselves put the enterprise's interests first and avoid using authority for private advantage. Fair remuneration, clear agreements, impartial treatment and effective supervision help prevent personal ambitions from harming collective objectives. The principle does not justify unfair treatment of employees; it requires that personal advantage should not undermine the organisation's common goals.

Step 3: Conclusion Taylor's principle calls for mutual cooperation between management and workers to improve efficiency and shared prosperity. Fayol's principle requires personal or group interests to be reconciled with, and subordinated to, the general interest of the organisation whenever a conflict arises.

Quick Tip to Solve: Link Taylor to cooperation between workers and management, and Fayol to the priority of the organisation's common interest over a conflicting personal benefit.

---

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 how much of the company's profit is distributed to shareholders and how much is retained for future requirements.
- Dividend payment depends on earnings, available cash, investment opportunities and restrictions

binding the company. Profits alone do not automatically determine the dividend.

Step 1: Identify stability of earnings **Stability of earnings:** The case states, "It has been consistently earning good profits for many years." A company with stable earnings is better placed to declare a higher dividend than one whose earnings fluctuate. Its management can expect a reasonably regular stream of future earnings and is therefore more confident about maintaining dividend payments. Silkiya's consistent profitability supports its capacity to distribute profits without relying on an exceptional year's result.

Step 2: Examine the cash-flow position **Cash-flow position:** The relevant words are, "There is availability of enough cash in the company". A dividend involves an actual outflow of cash. Even a profitable company may have funds tied up in stock or receivables and consequently be unable to pay a large dividend. Silkiya's adequate cash position favours dividend payment, provided the company also retains sufficient liquidity for its operations and other commitments.

Step 3: Consider growth opportunities **Growth opportunities:** The case mentions "good prospects for growth in future". A company with promising investment opportunities needs funds to finance expansion. It may retain a larger proportion of its profits and pay a lower dividend so that internal funds are available for these opportunities. Thus Silkiya must balance the benefit of distributing current income against the need to finance future growth from retained earnings.

Step 4: Apply the contractual constraints **Contractual constraints:** The company "is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement." Lenders may impose restrictions on dividend payment to protect repayment of their loans. Silkiya must comply with the conditions of its SBI loan before deciding its dividend; it cannot distribute profits contrary to those conditions merely because profits and cash are available.

Step 5: Conclusion Four factors are stability of earnings, cash-flow position, growth opportunities and contractual constraints. The first two support dividend payment, growth opportunities favour retention of funds, and the loan agreement limits the dividend the company may declare.

Quick Tip to Solve: Match each quotation with a distinct dividend factor: regular profits with stability, cash with liquidity, expansion with retention, and a loan condition with 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 understanding consumer needs and performing the activities that help a product satisfy those needs. A marketing function must be linked to the action described in the case.
- The three functions illustrated here are gathering and analysing market information, standardisation and grading, and branding. Standardisation and grading together form one marketing function.

Step 1: Explain gathering and analysing market information **Gathering and analysing market information:** Vasvi's father suggested using the 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 a marketer decide what to offer and how to market it. Here the enquiry identifies demand for organic-packed wheat and helps Vasvi assess the feasibility of her proposed product, rather than producing without knowing what buyers want.

Step 2: Explain standardisation and grading **Standardisation and grading:** Standardisation means producing goods according to predetermined specifications so that quality, size or other characteristics are uniform. The case says that wheat has "no pre-determined specifications", making uniform output difficult. Grading means classifying products into groups with similar quality or characteristics; it is particularly useful for agricultural produce where uniformity is difficult to secure. Vasvi performs grading by classifying wheat into "Popular, Classic and Supreme, based on the quality". Buyers can select the quality category they want, and each category can be marketed appropriately. These quality grades do not mean that every grain across the entire output is identical.

Step 3: Explain branding **Branding:** Vasvi "gave it the name of 'Mahan-organic-wheat'" to differentiate the product from competitors. Branding is giving a product a distinctive name, sign, symbol or other identifying feature so that customers can recognise it and distinguish it from competing products. The name creates a separate identity for her wheat and helps customers ask for it and identify it on repeat purchases. The quality categories organise the product range, while the brand name identifies her offering in the market. Branding therefore supports product differentiation and recognition.

Step 4: Conclusion The three marketing functions are gathering and analysing market information through the internet enquiry, standardisation and grading through quality-based classification into

Popular, Classic and Supreme, and branding through the name 'Mahan-organic-wheat'. Each function helps connect the wheat offering with the needs and choices of its buyers.

Quick Tip to Solve: For this case, connect customer opinions to market information, quality categories to grading, and the distinctive product name to branding. Count standardisation and grading as one function.