# CBSE Class 12 Business Studies Question Paper 2016 with Solution PDF-Set 66/1/1

## 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. 'Management is the process of getting things done.' State the meaning of the term 'process' used in this statement.** [1 mark]

**Solution:**

**Concept:**

- Management is a process consisting of interrelated functions performed to achieve organisational objectives.
- The functions are planning, organising, staffing, directing and controlling.

**Step 1:** Identify what the word describes Here, process describes a series of basic functions that managers perform. Getting work done involves related activities rather than a single isolated act.

**Step 2:** State the connected functions Managers plan the work, organise resources, staff positions, direct people and control performance. These functions are interrelated and are performed to achieve the desired objectives.

**Step 3:** Conclusion The term process means the series of interrelated management functions: planning, organising, staffing, directing and controlling.

**Quick Tip to Solve:** For the meaning of management as a process, recall the five functions in their usual order.

**2. Give the meaning of 'authority' as an element of delegation.** [1 mark]

**Solution:**

**Concept:**

- Authority is the right of an individual to command subordinates and take action within the scope of the position.
- In delegation, the superior grants authority so that a subordinate can carry out the assigned responsibility.

**Step 1:** Identify the right attached to the position A person assigned work must also have the right to give necessary directions and make decisions within the permitted limits. This formal right comes from the organisational position.

**Step 2:** Relate the right to delegation The superior delegates the power needed to perform the task. Authority enables the subordinate to direct relevant employees and use resources for the assigned work; it is distinct from the obligation to perform that work.

**Step 3:** Conclusion Authority means the right to command subordinates and take action within the scope of one's position.

**Quick Tip to Solve:** Distinguish the right to act (authority) from the duty to perform (responsibility).

**3. Name the type of 'organisational structure' which promotes efficiency in utilisation of manpower.** [1 mark]

**Solution:**

**Concept:**

- A functional structure groups jobs of a similar nature under specialised functions such as production, finance and marketing.
- Functional specialisation promotes efficiency in the utilisation of manpower.

**Step 1:** Recognise the basis of grouping The clue is efficient utilisation of manpower through functional specialisation. Employees performing similar work are placed together and supervised by specialists.

**Step 2:** Identify the organisational structure This grouping is a functional structure. Repeated performance of related tasks develops expertise, while concentrating similar activities reduces duplication of effort and improves the use of employees' skills.

**Step 3:** Conclusion The organisational structure is the functional structure.

**Quick Tip to Solve:** Link functional structure with specialisation; link divisional structure with separate product divisions.

**4. State the role of 'gang boss' in functional foremanship.** [1 mark]

**Solution:**

**Concept:**

- Taylor's functional foremanship assigns specialised supervisory duties to different foremen.
- The gang boss works under the production in-charge and prepares the workplace for production.

**Step 1:** Identify the gang boss's area The gang boss is a production-side supervisor. The role concerns readiness of workers and the necessary production facilities before operations begin.

**Step 2:** State the specific duty The gang boss keeps machines, materials, tools and related arrangements ready for operation by the workers. This enables work to begin without avoidable delay; supervision of the required operating speed belongs to the speed boss.

**Step 3:** Conclusion The gang boss keeps machines, materials, tools and other necessary arrangements ready for workers to start production.

**Quick Tip to Solve:** Remember gang boss as readiness for work; speed boss supervises the required speed of operation.

**5. The size of assets, the profitability and competitiveness are affected by one of the financial decisions. Name and state the decision.** [1 mark]

**Solution:**

**Concept:**

- An investment decision concerns how the funds of a firm are invested in different assets.
- Long-term investment decisions, or capital budgeting decisions, affect the asset base, earning capacity and competitiveness.

**Step 1:** Identify the decision from its effects The question links the size of assets with profitability and competitiveness. These effects arise from selecting the assets and projects in which the firm commits its funds.

**Step 2:** State what the decision involves The investment decision determines how funds are allocated among assets. In its long-term form, it selects fixed assets and projects expected to generate returns over several years. It therefore shapes future earning capacity.

**Step 3:** Conclusion It is the investment decision: deciding how the firm's funds are invested in different assets. Its long-term form is called a capital budgeting decision.

**Quick Tip to Solve:** Investment decides where funds go; financing decides where funds come from.

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**6. Radhika and Vani who are young fashion designers left their job with a famous fashion designer chain to set-up a company 'Fashionate Pvt. Ltd.' They decided to run a boutique during the day and coaching classes for entrance examination of National Institute of Fashion Designing in the evening. For the coaching centre they hired the first floor of a nearby building. Their major expense was money spent on photocopying of notes for their students. They thought of buying a photocopier knowing fully that their scale of operations was not sufficient to make full use of the photocopier.**

**In the basement of the building of 'Fashionate Pvt. Ltd.' Praveen and Ramesh were carrying on a printing and stationery business in the name of 'Neo Prints Pvt. Ltd.' Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them without making separate investment, Praveen agreed to this.**

**Identify the factor affecting fixed capital requirements of 'Fashionate Pvt. Ltd.'** [1 mark]

**Solution:**

**Concept:**

- The level of collaboration affects a firm's fixed capital requirements.
- Sharing an asset with another business reduces the investment each business must make separately.

**Step 1:** Locate the decisive case evidence Radhika approaches Praveen with a proposal to "buy a photocopier jointly" which "could be used by both of them without making separate investment". These words establish cooperation between the two firms.

**Step 2:** Connect the arrangement to fixed capital The firms share one asset instead of each buying a separate photocopier. Fashionate therefore needs a smaller investment of its own in this fixed asset. The limited scale explains why sharing is useful, but the joint-use arrangement identifies the factor asked.

**Step 3:** Conclusion The factor is the level of collaboration: joint purchase and use of the photocopier reduces Fashionate's fixed capital requirement.

**Quick Tip to Solve:** When two firms share an asset, identify level of collaboration as the fixed capital factor.

**7. Name the marketing function which is concerned with informing the customers about the firm's products.** [1 mark]

**Solution:**

**Concept:**

- Promotion is the marketing function concerned with informing customers about a firm's products and persuading them to buy.
- The promotion mix includes advertising, personal selling, sales promotion and public relations.

**Step 1:** Identify the purpose described The question describes communication with customers about the firm's products. Making potential buyers aware of products is the informative role of promotion.

**Step 2:** Name the broad marketing function The appropriate function is promotion. Advertising may perform this task, but it is one promotional tool rather than the broad function requested. Promotion communicates product availability, features and benefits to the target customers.

**Step 3:** Conclusion The marketing function is promotion.

**Quick Tip to Solve:** Use promotion for the broad communication function; advertising is one tool within it.

**8. Manuj bought a packet of chips from a local shopkeeper and found that the ingredients given on the label were not legible. He complained about it to the company. The company sent a written apology stating that they will make sure that existing packets are withdrawn from the market and new packets with legible labels are soon made available.**

**State the consumer right which Manuj exercised.** [1 mark]

**Solution:**

**Concept:**

- The right to be heard gives consumers the right to raise a complaint and have their interests considered by a business.
- The right to be informed concerns access to product information; identifying the right exercised requires attention to the consumer's action in the case.

**Step 1:** Identify Manuj's action Manuj found that the ingredients on the label were not legible and "complained about it to the company." He brought his grievance to the producer's attention instead of remaining silent.

**Step 2:** Link the complaint to the right The company heard his complaint, apologised and promised corrective action. Thus, the right he exercised was the right to be heard. Illegible information is the reason for the complaint, whereas being heard is the right exercised through making it.

**Step 3:** Conclusion Manuj exercised the **right to be heard** by complaining to the company about the illegible label.

**Quick Tip to Solve:** In a consumer-rights case, identify the action asked about: lodging a complaint points to the right to be heard.

**9. Explain any three features of 'Planning.'** [3 marks]

**Solution:**

**Concept:**

- Planning means deciding in advance what to do and how to do it. It connects the present position of an organisation with the future position it seeks to reach.
- Its features explain how this function guides management: it focuses on objectives, precedes other functions and operates at every level.

**Step 1:** Explain its focus and priority **Planning focuses on achieving objectives:** An organisation plans for a definite purpose. Objectives provide the end to be achieved, while plans specify the activities and methods needed to reach it. For example, a sales objective guides decisions about selling efforts and distribution. Activities without a connection to the objective do not constitute purposeful planning.

**Planning is a primary function of management:** It lays the foundation for organising, staffing, directing and controlling. Managers first decide what is to be achieved and how; they can then assign work, arrange personnel and guide action. Control also needs the standards laid down by plans to compare actual performance with expected performance.

**Step 2:** Explain its presence throughout management **Planning is pervasive:** Every level of management and every department undertakes planning. Top management prepares plans for the organisation as a whole, while middle and lower levels prepare departmental and operational plans. The scope and nature of these plans differ, but the need to decide future action exists at all levels.

**Step 3:** Conclusion Three features of planning are its focus on objectives, its primacy among management functions and its pervasive nature throughout the organisation.

**Quick Tip to Solve:** Explain each feature with its implication: objectives give direction, primacy gives a foundation and pervasiveness extends planning to every level.

**10. Mr. Shubhendu Bose is the owner of 'Bikmac Enterprises' carrying on the business of manufacturing various kinds of biscuits. There was a lot of discontentment in the organisation and the targets were not being met. He asked his son, Naval, who had recently completed his MBA, to find out the reason.**

**Naval found that all decision making of the enterprise were in the hands of his father. His father didn't believe in his employees. As a result both the employer and the employees were not able to understand each others messages in the same sense. Thus, the employees were not happy and targets were not met.**

**(a) Identify any two communication barriers because of which Bikmac Enterprises was not able to achieve its target.**

**(b) State one more barrier each of the types identified in (a) above.** [3 marks]

**Solution:**

**Concept:**

- Effective communication requires the receiver to understand a message in the sense intended by the sender. Barriers can prevent this shared understanding.
- Organisational barriers arise from policies, structure and rules, while psychological barriers arise from the mental state and attitudes of the communicating parties.

**Step 1:** Identify the barriers in the case **(a) Organisational barrier - organisational policy:** Naval found that "all decision making of the enterprise were in the hands of his father." This highly centralised policy does not support the free flow of communication and participation from employees. It therefore creates an organisational barrier.

**Psychological barrier - distrust:** The statement "His father didn't believe in his employees" shows distrust between employer and employees. When parties lack trust, they do not accept or interpret one another's messages openly, so the message may not be understood in the intended sense.

**Step 2:** State one additional barrier of each type **(b) Another organisational barrier - rules and regulations:** Rigid rules requiring messages to pass only through specified channels and procedures may delay communication and discourage employees from communicating freely.

**Another psychological barrier - premature evaluation:** A receiver may judge a message before listening to it completely. Such an early judgement obstructs understanding because the receiver forms an opinion without considering the complete information.

**Step 3:** Conclusion The case shows organisational policy and distrust, belonging to organisational and psychological barriers respectively. Rules and regulations and premature evaluation are one additional example of the respective types.

**Quick Tip to Solve:** Separate the specific barrier from its type: centralised policy is organisational; lack of trust is psychological.

**11. Ashish, the Marketing Head, Raman, the Assistant Manager and Jyoti, the Human Resource Manager of 'Senor Enterprises Ltd.' decided to leave the company.**

**The Chief Executive Officer of the company called Jyoti the Human Resource Manager and requested her to fill up the vacancies before leaving the organisation. Informing that her subordinate Miss Alka Pandit was very competent and trustworthy, Jyoti suggested that if she could be moved up in the hierarchy, she would do the needful. The Chief Executive Officer agreed for the same. Miss Alka Pandit contacted 'Keith Recruiters' who advertised for the post of marketing head for 'Senor Enterprises Ltd., They were able to recruit a suitable candidate for the company.**

**Raman's vacancy was filled up by screening the database of unsolicited applications lying in the office.**

**(a) Name the internal / external sources of recruitment used by 'Senor Enterprises Ltd.' to fill up the above stated vacancies.**

**(b) Also state any one merit of each of the above identified source of recruitment.** [3 marks]

**Solution:**

**Concept:**

- Recruitment identifies and attracts prospective employees. Internal sources draw on existing staff, while external sources bring candidates from outside the organisation.
- Promotion moves an existing employee upward in the hierarchy. Placement agencies and labour contractors and casual callers are external sources recognised in staffing.

**Step 1:** Identify the source used for each vacancy **(a) Jyoti's vacancy - promotion, an internal source:** Alka was already Jyoti's subordinate, and Jyoti suggested that she be "moved up in the hierarchy." Moving an existing employee to a higher position is promotion.

**Ashish's vacancy - placement agencies and management consultants, an external source:** Alka contacted "Keith Recruiters," who found a suitable Marketing Head. The firm used the services of a recruitment agency; the agency's advertisement was part of its search process.

**Raman's vacancy - casual callers, an external source:** The company screened its "database of unsolicited applications." Such applications are received without a specific invitation and kept for use when a vacancy arises.

**Step 2:** State one merit of each source **(b) Promotion - motivation:** Opportunities for advancement encourage existing employees to improve their performance because they can see a career path within the organisation.

**Placement agencies and management consultants - specialised assistance:** An agency helps locate suitable talent for managerial positions, reducing the employer's effort in searching for and screening candidates.

**Casual callers - economy:** A ready database of unsolicited applications can supply candidates at low recruitment cost, since the company need not launch a fresh search to obtain those applications.

**Step 3:** Conclusion The sources were promotion for Jyoti's vacancy, placement agencies and management consultants for Ashish's vacancy, and casual callers for Raman's vacancy. Their respective merits include motivation, specialised recruitment assistance and economy.

**Quick Tip to Solve:** Trace how the candidate is obtained: an existing subordinate moving up means promotion, a recruiter means an agency and unsolicited applications mean casual callers.

**12. Mr. Sanjay Nehra was the Chairman of 'Taran Bank.' The bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their shares was also steadily rising. The bank was about to announce taking over of 'Vena Bank.' Mr. Sanjay Nehra knew that the share price of 'Taran Bank' would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of his rich friends Sudhir and asked him to invest ₹ 5 crores in shares of his bank promising him the capital gains.**

**As expected the share prices went up by 40% and the market price of Sudhir's shares was now ₹ 7 crores. He earned a profit of ₹ 2 crores. He gave ₹ 1 crore to Mr. Sanjay Nehra and kept ₹ 1 crore with himself. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity. The SEBI imposed a heavy penalty on Mr. Sanjay Nehra.**

**By quoting the lines from the above para identify and state any two functions that were performed by SEBI in the above case.** [3 marks]

**Solution:**

**Concept:**

- SEBI performs regulatory functions to supervise the securities market and protective functions to safeguard investors against unfair trading practices.
- Insider trading means using unpublished price-sensitive information, available because of one's position in a company, to obtain an unfair gain from dealing in its securities.

**Step 1:** Identify the regulatory function from the investigation **Conducting inspections, enquiries and audits:** The relevant words are "On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity." SEBI inspects market participants and enquires into their dealings to check compliance with securities-market rules. Here, inspection and enquiries into the brokers' transactions revealed the irregular dealing. This is a regulatory function because it involves supervision and examination of market activities.

**Step 2:** Identify the protective function from the insider dealing **Prohibiting insider trading:** The relevant words are "The SEBI imposed a heavy penalty on Mr. Sanjay Nehra." Nehra knew about the proposed takeover before its public announcement and arranged for Sudhir to buy shares on that information. The subsequent sharing of the gain shows how an insider used another person to benefit from unpublished price-sensitive information. SEBI's action checks such insider trading and protects ordinary investors, who do not have access to this confidential information, from an unfair disadvantage.

**Step 3:** Conclusion The two functions are conducting inspections and enquiries, a regulatory function, and prohibiting insider trading, a protective function. The first helped SEBI detect the transactions; the second explains its action against Nehra's unfair use of confidential takeover information.

**Quick Tip to Solve:** Link inspection and enquiries to regulation; link misuse of confidential company information to SEBI's protection against insider trading. Quote the case for each function.

**13. State any three functions performed by non-governmental organisations for consumer protection.**

[3 marks]

**Solution:**

**Concept:**

- Consumer organisations and non-governmental organisations work to protect consumers from exploitation and to help them exercise their rights.
- Their role includes educating buyers, spreading reliable information and assisting consumers in seeking redressal. These are activities of voluntary organisations rather than the selling activities of a business.

**Step 1:** State how NGOs educate consumers **Educating the public about consumer rights:** NGOs organise training programmes, seminars and workshops to make consumers aware of their rights and responsibilities. They explain why buyers should check labels and quality marks, obtain a cash memo and take action against unfair practices. An informed consumer can recognise exploitation and make a more careful purchase decision instead of accepting every claim made by a seller.

**Step 2:** State how NGOs provide consumer information **Publishing useful consumer material:** They publish periodicals and other publications that spread knowledge about consumer problems, reliefs available and other matters of consumer interest. Such material helps buyers understand common malpractices and the avenues available when a product or service is unsatisfactory. It also takes consumer awareness beyond the people who attend a particular workshop.

**Step 3:** State how NGOs help consumers obtain redressal **Providing legal assistance and advice:** They guide consumers in seeking redressal for grievances and provide legal advice or assistance where needed. For example, they can help an aggrieved buyer understand the complaint procedure and organise the purchase bill and other evidence. This support is especially useful when an individual consumer lacks knowledge or confidence to pursue a complaint against a seller.

**Step 4:** Conclusion Three functions of NGOs are educating consumers through awareness programmes, publishing information on consumer issues and available reliefs, and providing legal assistance and advice for the redressal of grievances.

**Quick Tip to Solve:** Remember education, information and assistance: explain one distinct activity under each heading instead of repeating awareness in three different forms.

**14. Explain any four points of importance of management.** [4 marks]

**Solution:**

**Concept:**

- Management is the process of getting work done effectively and efficiently through planning, organising, staffing, directing and controlling.
- Its importance lies in coordinating individual effort, using resources well, adapting the organisation to change and reconciling individual and organisational objectives.

**Step 1:** Explain how management achieves results with available resources

- **Management helps in achieving group goals:** An organisation brings together people with different skills and personal aims. Management gives them a common direction and coordinates their efforts towards organisational objectives. For example, production and sales employees must work together to deliver the goods promised to customers; isolated departmental effort would not ensure the common result.
- **Management increases efficiency:** Managers plan activities, organise resources and supervise work to obtain the best possible results with minimum cost and wastage. Proper use of people, materials, machines and money reduces unnecessary effort and duplication. Thus management helps the organisation complete work economically while maintaining the required output and quality.

**Step 2:** Explain how management supports adaptation and people

- **Management creates a dynamic organisation:** Organisations operate in an environment that keeps changing. People often resist changes in methods, technology or responsibilities. Management helps employees understand and adapt to these changes so that the organisation can continue to compete and survive instead of remaining tied to outdated practices.
- **Management helps in achieving personal objectives:** Through motivation and leadership, managers help employees meet personal needs while contributing to organisational goals. Fair rewards, recognition and opportunities for development connect individual satisfaction with organisational performance. This cooperation sustains commitment and reduces conflict between personal and group interests.

**Step 3:** Conclusion Management helps achieve group goals, increases efficiency, creates a dynamic organisation and helps employees achieve personal objectives. Each benefit supports effective collective work and the continuing success of the organisation.

**Quick Tip to Solve:** State each NCERT heading and explain how management produces that benefit; do not merely list management functions.

**15. A recent rate cut in the interest on loans announced by the Banks encouraged Amit, a science student of Progressive School to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the Science Fair organised by Directorate of Education. He was awarded first prize for his invention.**

**Identify and explain the dimensions of business environment discussed in the above case.** [4 marks]

**Solution:**

**Concept:**

- Business environment comprises the external forces that affect the functioning of an enterprise. Its dimensions include economic, social, technological, political and legal forces.
- Interest rates form part of the economic environment. Scientific improvements and innovations that provide new ways of producing goods or using resources form part of the technological environment.

**Step 1:** Identify and explain the economic environment **Economic environment:** The evidence is the

"recent rate cut in the interest on loans announced by the Banks", which encouraged Amit to borrow from State Bank of India. The economic environment includes interest rates, income levels, inflation, money supply, economic policies and other economic conditions influencing business.

A lower lending rate reduces the interest cost of borrowed funds. It can make an investment more affordable and encourage people to undertake projects that were less attractive at a higher borrowing cost. In this case, the bank's rate cut encouraged Amit to take a loan to finance his experimentation. The relevant economic force is the change in interest rates, rather than the fact that the borrower is a student.

**Step 2:** Identify and explain the technological environment **Technological environment:** The evidence is Amit's effort to "experiment and develop cars to be powered by fuel produced from garbage" and the statement that he "developed such a car". The technological environment includes scientific improvements and innovations that create new products, new production methods and new ways of using resources.

Using fuel obtained from garbage to power a car illustrates an innovation in fuel use and automobile technology. Such developments can create opportunities for new products and processes and can also make existing methods less competitive. The exhibition of the car and the prize recognise Amit's invention, but the technological dimension is established by the development of the new car itself. Merely naming the Directorate of Education as the organiser does not, without a policy or regulatory change, establish a separate political or legal dimension.

**Step 3:** Conclusion The dimensions discussed are the **economic environment**, reflected in the reduction in loan interest rates, and the **technological environment**, reflected in the development of a car powered by fuel produced from garbage.

**Quick Tip to Solve:** Match an interest-rate change to the economic environment and an invention to the technological environment; support each identification with the case's own words.

**16. 'Steelo Ltd.' decided to set-up its steel manufacturing factory in the backward area of Orissa where very less job opportunities were available. People of that area welcomed this effort of 'Steelo Ltd.' To attract people to work in its factory it also decided to provide many other facilities like school, hospital, market etc. in the factory premises.**

**'Steelo Ltd.' started earning huge profits. Another competing company asked its production manager 'Aslam' to investigate the reasons of earning huge profits by 'Steelo Ltd.'**

**Aslam found that in both the companies there was systematic co-ordination among the various activities to achieve organisational goals. Every employee knew who was responsible and accountable to whom. The only difference was that in his organisation communication took place only through the scalar chain whereas 'Steelo Ltd.' was allowing flow of communication in all the directions as per the requirement which lead to faster spread of information as well as quick feedback.**

**(a) Identify the type of organisation which permits 'Steelo Ltd.' the flow of communication in all the directions.**

**(b) State another advantage of the type of organisation identified in (a) above.**

**(c) State any two values which 'Steelo Ltd.' wanted to communicate to the society.** [4 marks]

**Solution:**

**Concept:**

- Informal organisation is the network of social relationships that arises spontaneously through interaction among employees, alongside the formally prescribed authority structure.
- Its communication is not restricted to the scalar chain. Social contact also meets employees' needs for belongingness, while socially responsible business decisions can promote employment and community welfare.

**Step 1:** Identify the organisation in part (a) The answer is **informal organisation**. The decisive clue is that Steelo Ltd. allows communication to flow "in all the directions as per the requirement". Such communication can cut across officially prescribed reporting relationships and spread information rapidly. The systematic coordination and defined accountability mentioned for both companies describe formal organisation; they do not explain the additional freedom of communication at Steelo Ltd.

**Step 2:** State another advantage for part (b) **Fulfilment of social needs:** Informal organisation allows employees to form friendly relationships and interact beyond their official duties. Membership of such groups gives them a sense of belongingness, recognition and satisfaction. This can improve their morale. This is an advantage other than the faster communication and feedback already stated in the question.

**Step 3:** Connect two social values to the case for part (c) **Employment generation and balanced regional development:** Steelo Ltd. establishes its factory in a "backward area of Orissa" where very few job opportunities exist. Providing work there reflects concern for the economic upliftment of the local community.

**Concern for employees' and community welfare:** The decision to provide a "school, hospital, market etc." shows concern for education, health and basic living facilities. It makes the locality a better place to live and supports workers and their families, rather than considering profit alone.

**Step 4:** Conclusion (a) The organisation is informal organisation. (b) Another advantage is fulfilment of employees' social needs and a sense of belongingness. (c) The values include employment generation in a backward region and concern for employee and community welfare.

**Quick Tip to Solve:** For a case with both formal reporting and free social communication, identify the informal network from the communication clue; support each value with a separate business action.

**17. 'Alfa Ltd.' was dealing in renewable energy. To get the business, the team leader and his team used to travel to different states to give presentation to their clients. As per the policy of the company, the leader used to travel by air, whereas his team travelled by road / train. It was not only time consuming but also at time forced female team members to travel alone.**

**As a result, the subordinates were not acting in a desired manner to achieve organisational goals. The CEO came to know about it. He called the team leader, discussed the matter with him and decided to change the travel policy of the company. It was decided that all the members including the leader would travel together in future and would usefully utilise the travelling time in discussion with the subordinates about presentation to be given to the clients. This made a positive impact and every member of the team started acting in a manner as desired by the team leader.**

**State the features of the element of the function of management used by the CEO.** [4 marks]

**Solution:**

**Concept:**

- Motivation is the element of directing that stimulates people to act in a desired manner to accomplish organisational goals. It links employees' needs with their willingness to work.
- Motivation is an internal feeling, produces goal-directed behaviour, may be positive or negative, and is a complex process because individuals differ in their needs and reactions.

**Step 1:** Identify the element from the change in behaviour The element used by the CEO is **motivation**. The unequal travel arrangements had discouraged the team. By arranging for all members to travel together and use the journey for discussion, the CEO addressed their concerns and made them more willing to cooperate. The decisive outcome is that "every member of the team started acting in a manner as desired by the team leader". The question asks for the features of this element, rather than the qualities or styles of a leader.

**Step 2:** State its first two features **Internal feeling:** Motivation originates within an individual. Needs, desires, aspirations and feelings influence the person's willingness to act. Management can create suitable conditions, as the CEO does by improving travel arrangements, but the resulting willingness comes from the employee.

**Produces goal-directed behaviour:** Motivation encourages people to direct their effort towards an objective. Here the improved willingness helps team members prepare and deliver presentations to clients and contribute to organisational goals, instead of remaining dissatisfied with the travel policy.

**Step 3:** State its remaining two features **Can be positive or negative:** Positive motivation uses rewards, appreciation, recognition or other benefits to encourage desired behaviour. Negative motivation uses fear of adverse consequences, such as a warning or penalty. In this case, the CEO adopts a positive approach by improving the team's working and travel conditions; the case does not describe a threat or punishment.

**Complex process:** Individuals have different needs, expectations and reactions, so the same incentive may not motivate everyone equally. Managers must understand employees and choose suitable measures. The CEO first discusses the problem and then changes the policy to address the actual difficulty, rather than merely assuming that an instruction to work harder will be sufficient.

**Step 4:** Conclusion The element is motivation. Its features are that it is an internal feeling, produces goal-directed behaviour, can be positive or negative, and is a complex process. The CEO's positive

measure restores the team's willingness to work towards the company's objectives.

**Quick Tip to Solve:** When a case stresses that employees begin acting in the desired manner after their concerns are addressed, identify motivation and state its features rather than listing leadership styles.

**18. A company was marketing 'water purifiers' which were very popular due to their quality and after sales services provided to the customers. The company was a leading company in the market and earning huge profits. Because of huge profits the company ignored the after sales services. As a result its relations with the customers got spoiled and the image of the company was damaged in the public. Top management became concerned when the profits for the current quarter fell steeply. On analysis it was revealed that ignoring the after sales services was its reason. Therefore the company took all possible measures to protect and promote its favourable image in the eyes of the public. As a result the goodwill of the company improved in the society.**

**(a) Name and state the communication tool used by the marketer in the above case to improve its image.**

**(b) Also explain role of the tool as identified in part (a).** [4 marks]

**Solution:**

**Concept:**

- Public relations is the promotion-mix tool concerned with maintaining good relations with the public and protecting the organisation's favourable image.
- The public includes customers and other groups whose opinion affects the company's goodwill. Public relations supports marketing by building confidence, rather than merely seeking an immediate sale.

**Step 1:** Identify and state the communication tool **(a) Public relations:** It involves a variety of programmes designed to promote or protect a company's image and its individual products in the eyes of the public. The decisive words in the case are that the company took measures to "protect and promote its favourable image in the eyes of the public." Its improved goodwill confirms this purpose. The problem arose because after-sales service was neglected, damaging relations with customers; therefore rebuilding public confidence was essential.

**Step 2:** Explain the role of public relations **(b) The role of this tool includes the following:**

- **Building awareness:** Public-relations programmes can bring the company and its products to public attention through news, events and other communications. They help people learn about the organisation without relying exclusively on paid advertisements.
- **Building credibility:** Information communicated through a credible public-relations effort can make people more willing to trust the company. For the purifier company, confidence in its quality and customer care is vital after the damage to its reputation.
- **Stimulating the sales force and dealers:** Favourable publicity and a better company image encourage the sales force and dealers. Their greater confidence in the company supports their efforts to market its products.
- **Reducing promotion costs:** A well-planned public-relations programme can achieve useful public

exposure at a lower cost than a comparable advertising campaign. It is therefore a cost-effective support to the company's promotional effort.

**Step 3:** Conclusion The tool is **public relations**. By building awareness and credibility, encouraging the sales force and dealers, and supporting promotion economically, it helps protect the purifier company's image and restore goodwill.

**Quick Tip to Solve:** When a case stresses protecting a company's image or rebuilding goodwill among the public, identify public relations and explain its role separately from the product's sales features.

**19. State any four functions of 'Stock Exchange.'** [4 marks]

**Solution:**

**Concept:**

- A stock exchange is an institution that provides a platform for buying and selling existing securities according to established rules and regulations.
- It forms an organised secondary market. Its functions help investors deal in securities and support the effective working of the capital market.

**Step 1:** State the functions supporting investors

- **Providing liquidity and marketability to existing securities:** The stock exchange creates a continuous market in which investors can buy and sell securities already issued. An investor can convert an investment into cash by selling it to another investor, without withdrawing funds from the company. This ready market makes securities more attractive to investors.
- **Pricing of securities:** The forces of demand and supply operating in the stock exchange help determine security prices. Regularly available market quotations enable investors to judge the value of their holdings and make informed purchase or sale decisions. The prices also indicate the market's assessment of a company's performance and prospects.

**Step 2:** State the functions supporting orderly markets and growth

- **Safety of transactions:** Dealings take place within a well-defined legal framework and under the rules and regulations of the exchange. Listing requirements, regulated membership and supervision of transactions help protect investors and promote fair dealing. This institutional protection reduces the risks associated with an unorganised market, although it does not guarantee investors against changes in security prices.
- **Contributing to economic growth:** Securities of different companies are traded and evaluated in the stock exchange. Investors tend to direct funds towards companies with more promising prospects, so savings are channelled towards productive investments. The ability to sell existing holdings and reinvest supports capital formation and the efficient allocation of financial resources in the economy.

**Step 3:** Conclusion Any four functions are: providing liquidity and marketability, pricing securities, ensuring safety of transactions within a regulated framework, and contributing to economic growth through productive allocation of savings.

**Quick Tip to Solve:** For four stock-exchange functions, use four distinct headings: liquidity, price discovery, transaction safety and economic growth. Explain how each function works rather than only listing its name.

**20. Two years ago Madhu completed her degree in food technology. She worked for sometime in a company manufacturing chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated action plan to achieve the same.**

**One of her objective was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices etc. will be purchased on three months credit from farmers cultivating organic crops only. She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as a Production Manager who decides the exact manner in which the production activities are to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her sales target for different products, areawise for the forthcoming quarter. While working on the production table a penalty of ₹ 100 per day for not wearing the caps, gloves and apron was announced.**

**Quoting lines from the above para identify and explain the different types of plans discussed.**

[5 marks]

**Solution:**

**Concept:**

- Planning specifies the results to be achieved and the course of action for achieving them. Objectives provide the ends, while other types of plans guide their implementation.
- Policies, procedures, methods and rules are standing plans for recurring situations. A budget expresses expected results or resource requirements in numerical terms.

**Step 1:** Identify the desired result and the purchasing guideline **Objective:** "One of her objective was to earn 10% profit on the amount invested in the first year." An objective is the desired future position or end result which management seeks to achieve. Here the return on investment and the first-year deadline make the objective specific and measurable.

**Policy:** "Raw materials like fruits, vegetables, spices etc. will be purchased on three months credit from farmers cultivating organic crops only." A policy is a general guideline that channels thinking and decision-making. This purchasing policy guides the choice of suppliers and credit terms whenever materials are bought.

**Step 2:** Distinguish the sequence of activities from the way of performing them **Procedure:** "She also decided to follow the steps required for marketing of the products through her own outlets." A procedure lays down the sequence of steps for carrying out an activity. The marketing work is to follow a prescribed order rather than being undertaken arbitrarily.

**Method:** "Mohan ... decides the exact manner in which the production activities are to be carried out." A method specifies the prescribed way of performing a particular task. Unlike a procedure, which describes a sequence of activities, a method describes how an individual activity is to be performed.

**Step 3:** Identify numerical statements and the compulsory instruction **Budget:** "Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year." The line "Madhu informed Mohan about her sales target for different products, areawise for the forthcoming quarter" also indicates a budget. A budget is a statement of expected results expressed in numerical terms; it may specify physical quantities such as workers and sales units, and need not be

expressed only in money.

**Rule:** "A penalty of Rs 100 per day for not wearing the caps, gloves and apron was announced." A rule specifies what must or must not be done, allowing no discretion in the stated situation. Wearing the protective clothing is compulsory, and the announced penalty reinforces compliance.

**Step 4:** Conclusion The case illustrates objectives, policy, procedure, method, budget and rule. The profit target states the end, purchasing and marketing plans guide action, numerical manpower and sales statements provide budgets, and the protective-clothing requirement is a rule.

**Quick Tip to Solve:** Match "what result" to objective, "guideline" to policy, "sequence" to procedure, "exact way" to method, "numbers" to budget and "no discretion" to rule.

**21. Arun is working in a multinational company in Gurgaon. He was running temperature for the last many days. When his blood was tested, he was found positive for dengue with a very low platelet count. Therefore, he was admitted in the hospital and a blood transfusion was advised by the doctors. One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain'. 'Mr. Narain' in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.**

**(a) From the above para quote lines that indicate formal and informal communication.**

**(b) State any two features of informal communication.**

**(c) Identify any two values that are being communicated to the society in the above case.** [5 marks]

**Solution:**

**Concept:**

- Formal communication passes through prescribed official channels and arises from organisational authority and work requirements. It can be written or oral.
- Informal communication arises from social interaction and personal relations rather than the prescribed organisational chain. Its informal character depends on the channel and purpose, not merely on whether a text message is used.

**Step 1:** Quote the formal and informal communication in the case **(a) Formal communication:** "When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings." The General Manager issues an official workplace instruction in exercise of his authority. It therefore represents downward formal communication.

**Informal communication:** "One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain'. 'Mr. Narain' in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun." These personal messages and the appeal for assistance arise from concern for a colleague and social relations. They are not an official instruction concerning assigned organisational work. A message involving a superior need not be formal merely because of the recipient's designation.

**Step 2:** State two features of informal communication **(b) No prescribed route:** Informal communication does not follow a fixed organisational chain of command. Information can pass between

people at different levels or in different departments because they interact socially.

**Rapid spread:** Information commonly travels quickly through the network of personal contacts, often called the grapevine. Employees can relay a message to several colleagues without waiting for each stage of a formal reporting procedure. Speed does not by itself guarantee that every message is accurate.

**Step 3:** Connect two values to the actions described **(c) Compassion and concern for others:** The colleague shares Arun's difficulty and Mr. Narain requests blood donations. These actions show sympathy and a willingness to help a person in need.

**Concern for health, hygiene and a clean environment:** The General Manager orders fumigation of the premises and cleanliness of the surroundings. His action communicates responsibility for employees' welfare and prevention of illness through attention to the working environment.

**Step 4:** Conclusion The General Manager's official order is formal communication, while the personal messages seeking help for Arun illustrate informal communication. Informal communication has no prescribed route and spreads rapidly. The case conveys compassion and concern for health and cleanliness.

**Quick Tip to Solve:** Identify communication from its purpose and channel: an official managerial order is formal, while a personal appeal through social contacts is informal even when a superior participates.

**22. Explain any five points which highlight the importance of controlling function of management.**

[5 marks]

**Solution:**

**Concept:**

- Controlling is the management function of comparing actual performance with established standards, identifying deviations and taking corrective action.
- Its importance lies in keeping organisational activities directed towards planned results and in improving the way resources and people are managed.

**Step 1:** Explain how control supports goals and standards

- **Accomplishing organisational goals:** Controlling measures progress towards organisational goals and brings deviations to light. Managers can then take corrective action to bring performance back on track. Thus, controlling guides activities towards the results established during planning instead of allowing work to drift away from the objectives.
- **Judging accuracy of standards:** An effective control system enables management to verify whether the standards set are accurate and realistic. Repeated deviations may reveal that a standard needs revision because conditions have changed. Control therefore helps managers review and revise standards in the light of experience and changes in the business environment.

**Step 2:** Explain the benefits for resources and employees

- **Making efficient use of resources:** Controlling checks whether activities are performed according to predetermined standards. This reduces wastage and spoilage and helps ensure that materials, machines, money and employees' efforts are used effectively. Detecting inefficient use allows

management to correct it before avoidable losses continue.

- **Improving employee motivation:** A good control system tells employees what they are expected to do and the standards against which their performance will be assessed. This clarity encourages them to perform better. When employees participate in setting standards, they understand and accept the targets more readily and are motivated to achieve them.
- **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline by monitoring activities and holding employees responsible for their work. Regular checks discourage undesirable practices such as dishonesty, theft and uncooperative behaviour. Employees are more likely to follow organisational rules when they know that their conduct and performance are reviewed.

**Step 3:** Conclusion Controlling helps accomplish organisational goals, judge the accuracy of standards, use resources efficiently, improve employee motivation and ensure order and discipline. Each benefit follows from monitoring performance and acting on deviations.

**Quick Tip to Solve:** For each importance point, name the benefit and then explain how comparing performance with standards produces that benefit.

**23. Explain any four characteristics of 'principles of management.'** [6 marks]

**Solution:**

**Concept:**

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They help managers understand and influence organisational situations.
- Their nature reflects the fact that management deals with people and changing circumstances. Principles guide judgement and are applied after considering the particular situation.

**Step 1:** Explain their reach and general character

- **Universal applicability:** Principles of management apply to all types of organisations, whether business or non-business, large or small, and to all levels of management. However, the extent and manner of their application vary with the nature of the organisation, the activity and the situation. For example, division of work can improve specialisation in both a factory and a hospital, although the tasks divided will differ.
- **General guidelines:** Management principles are guidelines for action rather than ready-made solutions to every managerial problem. They cannot be applied mechanically because actual business situations are complex and affected by several factors. Managers must interpret the principle and exercise judgement before applying it. Thus, a principle indicates a useful direction without prescribing an identical response in every case.

**Step 2:** Explain how they develop and adapt

- **Formed by practice and experimentation:** Management principles develop from managers' experience, observation and experimentation. Repeated experience with similar situations provides a basis for generalisation, while experiments help test whether a particular practice improves results. For example, observing the gains from assigning specialised tasks can support the principle

of division of work. They are therefore grounded in practical managerial experience rather than arbitrary opinions.

- **Flexible:** Management principles are not rigid prescriptions. A manager has discretion to modify their application according to the needs of a situation. Since people, organisational requirements and the business environment change, a principle must be adapted with care. For example, centralisation and decentralisation may be combined in different proportions depending on the size of the organisation and the capabilities of its employees.

**Step 3:** Conclusion Four characteristics of principles of management are universal applicability, their role as general guidelines, formation through practice and experimentation, and flexibility. They provide useful guidance while leaving managers to judge how best to apply them in specific circumstances.

**Quick Tip to Solve:** In a characteristics answer, explain the nature of a principle; avoid replacing it with the name of an individual principle such as equity or unity of command.

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**24. 'Viyo Ltd.' is a company manufacturing textiles. It has a share capital of ₹ 60 lakhs. The earning per share in the previous year was ₹ 0.50. For diversification, the company requires additional capital of ₹ 40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of ₹ 8 lakhs on capital employed. It paid tax @ 40%.**

**(a) State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly.**

**(b) Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.** [6 marks]

**Solution:**

**Concept:**

- Earnings per share (EPS) is the profit available to equity shareholders divided by the number of equity shares. Share capital is a rupee amount, whereas the denominator of EPS is a number of shares.
- Debenture interest is a fixed financing charge, deducted before income tax. Financial leverage benefits equity shareholders only when the earnings generated justify the cost of debt.

**Step 1:** Calculate profit available to shareholders The profit of Rs 8 lakhs on capital employed is the earnings before interest and tax. The company borrows Rs 40 lakhs at 10%, so its annual interest is Rs 4 lakhs. No additional equity shares are issued.

$$\begin{aligned} \text{Interest} &= \text{Rs } 40,00,000 \times 10/100 = \text{Rs } 4,00,000, \\ \text{Profit before tax} &= \text{Rs } 8,00,000 - \text{Rs } 4,00,000 = \text{Rs } 4,00,000, \\ \text{Tax} &= \text{Rs } 4,00,000 \times 40/100 = \text{Rs } 1,60,000, \\ \text{Profit after tax} &= \text{Rs } 2,40,000. \end{aligned}$$

**Step 2:** Compare EPS using the number of shares Let the existing number of equity shares be $N$. The

current EPS is $2,40,000/N$ rupees. The question gives share capital of Rs 60 lakhs but gives neither $N$ nor the face value of each share. Thus an unconditional numerical EPS and gain-or-loss verdict cannot be obtained from the printed data alone.

$$\text{Current EPS} = \frac{2,40,000}{N},$$
$$\text{Gain over Rs } 0.50 \iff N < 4,80,000,$$
$$\text{Loss relative to Rs } 0.50 \iff N > 4,80,000.$$

Equality gives unchanged EPS. If shares are taken to have a face value of Rs 10 each, as a conditional illustration, there are 6,00,000 shares and EPS is Rs 0.40. On that assumption shareholders lose Rs 0.10 per share compared with Rs 0.50. The Rs 10 face value is an additional assumption, not a stated fact.

**Step 3:** State three factors favouring debentures **Stable cash flows:** Predictable and adequate cash inflows allow a company to meet interest payments and repay principal when due. Debt is more suitable when the business can service these fixed commitments even during a weaker period.

**High tax rate:** Interest on debentures is deductible in calculating taxable profits. A higher tax rate increases this tax advantage and reduces the effective after-tax cost of debt. The stated 40% tax rate therefore makes this consideration relevant.

**Retention of control:** Debenture holders are creditors and do not ordinarily have voting rights. Raising funds through debentures avoids issuing additional voting equity and therefore helps existing shareholders retain management control.

**Step 4:** Conclusion Profit after interest and tax is Rs 2,40,000. Exact EPS requires the number of equity shares; the printed share-capital amount alone does not provide it. With the explicit additional assumption of Rs 10 shares, EPS falls from Rs 0.50 to Rs 0.40, a loss of Rs 0.10 per share. Stable cash flows, the tax advantage of interest, and preservation of control are three factors favouring debentures.

**Quick Tip to Solve:** Deduct interest before calculating tax, then divide by the number of equity shares, not the rupee value of share capital. Check whether a face value is actually given.

**25. Ashima purchased a bottle of tomato-sauce from the local grocery shop. The information provided on the bottle was not clear. She fell sick on consuming it. She filed a case in the District Forum under Consumer Protection Act and got the relief.**

**(a) Identify the important aspect neglected by the marketer in the above case.**

**(b) Explain briefly the functions of the aspect identified in (a) above.** [6 marks]

**Solution:**

**Concept:**

- Labelling means designing and displaying a label on a product or its container. A label communicates information through words, pictures or other graphic material and forms part of the packaging decision.

- A food label must clearly identify and describe the product and convey necessary information for its safe use. Labelling also helps identification, grading, promotion and compliance with mandatory information requirements.

**Step 1:** Identify the neglected aspect The neglected aspect is **labelling**. The clue is that "the information provided on the bottle was not clear". The issue concerns what the bottle communicates to its buyer; merely putting sauce in a bottle does not ensure that its label supplies readable and adequate information. Ashima's illness and subsequent relief underline the importance of accurate information for consumer protection.

**Step 2:** Explain the descriptive and identification functions **Describes the product and specifies its contents:** A label tells buyers what the product contains and how it should be used. In the case of tomato sauce, relevant details include ingredients, quantity, manufacture and expiry or best-before information, storage directions and necessary warnings. Clear directions help a consumer judge suitability and use the food safely. The case does not say which particular detail was unclear, so no specific omission need be presumed.

**Identifies the product or brand:** The product name, brand name and distinctive design enable consumers to recognise the sauce and distinguish it from competing products on a shop shelf. Identification also helps a buyer recognise the same product on a later purchase.

**Step 3:** Explain the other functions of a label **Grading of products:** Where a marketer offers different grades or quality categories, labels distinguish them through names, letters, numbers or other suitable descriptions. This helps consumers choose a grade appropriate to their needs; grading is a general function and need not mean that this sauce actually had different grades.

**Helps in promotion:** An attractive label draws attention and can communicate genuine product features or offers. Its design helps the product stand out and encourages purchase, while the information and claims must remain clear and truthful.

**Provides information required by law:** Labels carry mandatory declarations applicable to the product, such as manufacturer details, net quantity and other prescribed food or safety information. This makes the seller more accountable and helps buyers make informed choices. A decorative label cannot substitute for these necessary disclosures.

**Step 4:** Conclusion The marketer neglected labelling. Its functions are to describe the product and its contents, identify the product or brand, indicate grades, assist promotion and communicate legally required information. The unclear information on Ashima's sauce bottle directly concerns the descriptive and information functions of labelling.

**Quick Tip to Solve:** When a case stresses unclear information on a container, identify labelling. Organise its functions as description, identification, grading, promotion and mandatory information.