CBSE Class 12 Business Studies Question Paper 2016 with Solution PDF-Set 66/1/2

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. 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 the allocation of the firm's funds among different investment proposals or assets.
- Long-term investment decisions, called capital budgeting decisions, determine the fixed assets and future earning capacity of the business.

Step 1: Identify the financial decision The reference to the size of assets points to the investment decision: management decides which assets or projects should receive the available funds.

Step 2: State its meaning The investment decision is the decision about how the firm's funds are invested in different assets or investment proposals. Its long-term component commits funds to fixed assets and therefore affects profitability and competitiveness over time.

Step 3: Conclusion The decision is the **investment decision**: deciding how the firm's funds are invested in different assets or investment proposals.

Quick Tip to Solve: Link the acquisition and size of assets with investment decisions; raising funds is a financing decision.

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

Solution:

Concept:

- Marketing functions include activities that make a product available and communicate its value to prospective buyers.
- Promotion informs customers about a firm's products and persuades them to purchase them.

Step 1: Identify the clue The question emphasises informing customers about the firm's products. This is a communication activity directed at existing and potential customers.

Step 2: Name the marketing function The function is promotion. It communicates product availability, features and benefits through tools such as advertising, personal selling, sales promotion and public relations.

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

Quick Tip to Solve: When the question focuses on informing or persuading buyers, identify promotion as the marketing function.

3. 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:

- Fixed capital requirements refer to funds needed for investment in long-term assets such as machinery and equipment.
- Collaboration allows businesses to share facilities or assets and can reduce each firm's separate fixed capital requirement.

Step 1: Identify the evidence in the case Radhika proposed buying a photocopier "jointly which could be used by both of them without making separate investment. Thus, two businesses would share one asset instead of each buying its own machine.

Step 2: Name the factor The factor is the level of collaboration. By jointly acquiring and using the photocopier, Fashionate Pvt. Ltd. can meet its needs with a smaller individual commitment of fixed capital.

Step 3: Conclusion The factor affecting fixed capital requirements is the **level of collaboration**.

Quick Tip to Solve: Shared use of facilities by separate firms points to collaboration, even when the case also mentions a small scale of operations.

4. 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 into specialised departments, such as production, marketing and finance.
- Functional specialisation promotes efficient utilisation of manpower by concentrating related expertise and avoiding unnecessary duplication.

Step 1: Relate efficiency to specialisation Employees performing similar work are grouped under the same functional department. They develop expertise and receive guidance from specialists in their area.

Step 2: Name the organisational structure This grouping is a functional organisational structure. It permits better coordination of related tasks and efficient use of the people assigned to each specialised function.

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

Quick Tip to Solve: Associate efficient use of specialised manpower with functional departments such as production, finance and marketing.

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

Solution:

Concept:

- Management achieves organisational goals through a series of related activities rather than through a single isolated act.
- These interrelated functions are planning, organising, staffing, directing and controlling.

Step 1: Explain the word process A process is a series of interrelated activities or functions performed to achieve a desired result. In management, these activities guide the efforts of people towards organisational objectives.

Step 2: Identify the connected activities Managers plan, organise, staff, direct and control. These functions are linked: plans guide action, organisation and staffing arrange resources, directing activates people and controlling checks progress.

Step 3: Conclusion Here, **process** means the series of interrelated management functions—planning, organising, staffing, directing and controlling—performed to achieve organisational objectives.

Quick Tip to Solve: Define process through the linked management functions instead of treating it as only one activity.

6. 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 a consumer the opportunity to voice complaints and have consumer interests receive due consideration.
- The right to be informed concerns access to product information; making a complaint exercises the right to be heard.

Step 1: Identify Manuj's action Manuj found the ingredients illegible and "complained about it to the company. The company considered the complaint and responded with an apology and a promise of corrective action.

Step 2: Name the exercised right By voicing his grievance and obtaining the company's attention, Manuj exercised the right to be heard. The defective information explains the complaint, but the act asked about is his raising the complaint.

Step 3: Conclusion Manuj exercised the **right to be heard**.

Quick Tip to Solve: Distinguish the problem from the action: an unclear label concerns information, while voicing a complaint exercises the right to be heard.

7. Give the meaning of 'responsibility' as an element of delegation. [1 mark]

Solution:

Concept:

- Delegation involves assigning duties, granting authority and establishing accountability within an organisation.
- Responsibility is the obligation of a subordinate to perform properly the duty or task assigned by a superior.

Step 1: Connect responsibility with the assigned task When a superior assigns a task to a subordinate, the subordinate becomes obliged to carry out that task properly. Responsibility therefore relates to the work that has been entrusted to the person.

Step 2: State the meaning precisely Responsibility is the subordinate's obligation to perform the assigned duty to the best of their ability. It should be supported by appropriate authority so that the subordinate can fulfil the duty.

Step 3: Conclusion **Responsibility** is the obligation of a subordinate to properly perform the duty or task assigned by a superior.

Quick Tip to Solve: Remember the distinction: authority is the right to act; responsibility is the obligation to perform the assigned duty.

8. State the role of 'speed boss' in functional foremanship. [1 mark]

Solution:

Concept:

- Functional foremanship divides factory supervision among specialists, each responsible for a particular aspect of the work.
- The speed boss is a production-side specialist who ensures that workers use suitable tools and attain the required speed of work.

Step 1: Identify the specialist responsible for speed Under Taylor's functional foremanship, the speed

boss supervises the pace of production rather than preparing the route or maintaining discipline.

Step 2: State the role The speed boss ensures timely and accurate completion of jobs by checking that workers have the appropriate tools and are working at the required speed. This helps the prescribed work to be completed within the stipulated time.

Step 3: Conclusion The speed boss ensures that work is completed accurately and on time, using suitable tools and the required operating speed.

Quick Tip to Solve: Associate the speed boss with timely production; associate the repair boss with keeping machines and tools fit for work.

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

[3 marks]

Solution:

Concept:

- Consumer organisations and NGOs are voluntary bodies that protect consumer interests and help consumers exercise their rights.
- Their work includes spreading awareness, providing legal assistance and representing consumers before the appropriate redressal agencies.

Step 1: Explain the awareness function **Educating consumers:** NGOs organise training programmes, seminars and workshops to make consumers aware of their rights, responsibilities and available remedies. An informed buyer can check product information, preserve proof of purchase and recognise unfair practices instead of accepting exploitation as unavoidable.

Step 2: Explain the assistance function **Providing legal assistance:** They advise consumers on the remedies available when goods are defective or services are deficient. They help consumers prepare their cases and seek suitable relief through consumer redressal agencies, especially when an individual lacks the knowledge to pursue a complaint.

Step 3: Explain the representation function **Filing complaints on behalf of consumers:** Consumer organisations can take up consumer grievances and file complaints in the appropriate consumer forum on their behalf. Collective representation strengthens consumer protection and helps secure redress against unfair trade practices.

Step 4: Conclusion Three functions are educating consumers, providing them with legal assistance and filing complaints on their behalf before consumer redressal agencies.

Quick Tip to Solve: For NGO functions, connect awareness with prevention and legal assistance or representation with obtaining redress.

10. 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 protects investors and promotes orderly functioning of the securities market by preventing malpractices and regulating market intermediaries.
- Insider trading means using unpublished price-sensitive information to obtain an unfair advantage in dealing in securities. SEBI also undertakes inspections, enquiries and audits of stock exchanges and intermediaries.

Step 1: Identify the protective function and quote the evidence **Prohibiting insider trading in securities:** The case states, "The SEBI imposed a heavy penalty on Mr. Sanjay Nehra." He knew of the proposed takeover before its public announcement and used that knowledge through Sudhir to benefit from the expected rise in the share price. Penalising this misuse of confidential price-sensitive information performs SEBI's protective function of checking insider trading and safeguarding investors.

Step 2: Identify the regulatory function and quote the evidence **Undertaking inspections and conducting enquiries:** The case states, "On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity." Inspection and enquiry into intermediaries' activities enable SEBI to discover violations and enforce compliance with securities-market rules.

Step 3: Conclusion SEBI performed the protective function of prohibiting insider trading and the regulatory function of undertaking inspections and conducting enquiries into the brokers' activities.

Quick Tip to Solve: Link the penalty for misuse of secret takeover information to insider trading; link checking brokers and investigating transactions to inspection and enquiry.

11. 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. [3 marks]

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

Solution:

Concept:

- Effective communication requires the sender and receiver to understand a message in the same sense. Barriers interrupt this shared understanding.
- Organisational barriers arise from the organisation's policies or arrangements; psychological barriers arise from the state of mind and attitudes of the people communicating.

Step 1: Identify the organisational barrier **Organisational policy:** The case states that "all decision making of the enterprise were in the hands of his father." This centralised policy does not support a free flow of communication from employees. When employees have little opportunity to participate or express their views, useful information and suggestions may not reach the owner. Thus the policy becomes an organisational barrier to effective communication.

Step 2: Identify the psychological barrier **Distrust:** The statement "His father didn't believe in his employees" points to distrust, a psychological barrier. A lack of mutual confidence makes people unwilling to share information openly or accept a message in its proper sense. The owner's attitude therefore prevents effective exchange with employees and helps explain their discontent and the failure to meet targets.

Step 3: Conclusion The two barriers are **organisational policy**, an organisational barrier, and **distrust**, a psychological barrier. The centralisation of decisions and the father's lack of belief in employees provide the respective evidence.

Quick Tip to Solve: Classify the source of the obstacle: a company policy is organisational, while a lack of trust is psychological. Quote a separate case phrase for each.

11(b). State one more barrier each of the types identified in (a) above.

Solution:

Concept:

- Barriers are grouped according to their source. Organisational barriers come from formal working arrangements, while psychological barriers come from people's mental attitudes and responses.
- A further example must belong to each category identified in part (a), rather than merely repeat

organisational policy and distrust.

Step 1: State another organisational barrier **Rules and regulations:** Rigid rules and cumbersome procedures can delay or obstruct communication. For example, if every message must pass through a prescribed formal route and obtain several approvals, information may not reach the person who needs it at the right time. This is an organisational barrier because the restriction comes from the organisation's formal arrangements, rather than from a person's feelings. It is another barrier of the same type as the organisational policy identified in part (a).

Step 2: State another psychological barrier **Premature evaluation:** A receiver may judge the meaning or worth of a message before listening to the sender completely. Such an early judgement can be based on a preconceived opinion and may cause the receiver to miss the actual point. This is a psychological barrier because it arises from the receiver's mental attitude. It is distinct from distrust, while belonging to the same psychological category.

Step 3: Conclusion One additional organisational barrier is **rules and regulations**, and one additional psychological barrier is **premature evaluation**. These are further examples of the two types identified in part (a).

Quick Tip to Solve: When asked for another barrier of each type, keep the category fixed but choose a different named example: rules and regulations for organisational, premature evaluation for psychological.

12. 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 means searching for prospective employees and encouraging them to apply for jobs. Internal recruitment fills a vacancy from within the organisation; external recruitment brings applicants from outside it.
- The recruitment source is identified from how the candidate is obtained. Promotion moves an existing employee upward, placement agencies locate candidates for employers, and casual callers are unsolicited applicants whose records are retained.

Step 1: Identify the source used for Jyoti's vacancy **Promotion – an internal source:** Miss Alka Pandit is already Jyoti's subordinate. The suggestion that she be "moved up in the hierarchy" shows promotion to the higher post of Human Resource Manager, rather than recruitment of a new outsider. **One merit:** Promotion motivates employees by offering career advancement. When employees see that competence can lead to higher positions, they have an incentive to improve their performance and remain with the organisation.

Step 2: Identify the source used for Ashish's vacancy **Placement agencies and management consultants – an external source:** Alka contacted "Keith Recruiters", who advertised and recruited a suitable Marketing Head for the company. The source is the recruitment agency through which the candidate was obtained; the advertisement is part of the agency's search. **One merit:** Such agencies help obtain specialised personnel and save the employer the time and effort of searching for and screening suitable candidates. Their candidate information and recruitment expertise are useful for senior positions.

Step 3: Identify the source used for Raman's vacancy **Casual callers – an external source:** Raman's post was filled by screening the "database of unsolicited applications lying in the office". These applications were sent voluntarily and retained for future vacancies. **One merit:** This source reduces recruitment cost because the organisation can consult its existing application database instead of starting a fresh advertising campaign whenever a suitable vacancy arises.

Step 4: Conclusion Jyoti's vacancy was filled through **promotion**, Ashish's through a **placement agency**, and Raman's through **casual callers**. Their respective merits are employee motivation, access to suitable specialised candidates, and lower recruitment cost.

Quick Tip to Solve: Match the clue to the source: "moved up" means promotion, a recruitment firm means placement agency, and stored unsolicited applications mean casual callers.

13. Explain any three limitations of planning. [3 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it. It provides direction by setting objectives and selecting a course of action, but it does not remove every difficulty faced by management.
- The limitations of planning arise from dependence on predetermined courses of action, uncertainty in the business environment and the cost of preparing plans. A limitation explains why even a carefully prepared plan may not work as expected.

Step 1: Explain how planning leads to rigidity **Planning leads to rigidity:** A plan specifies objectives, methods and the course to be followed. Managers may feel bound to follow it even when circumstances require a different response. Strict adherence can therefore reduce initiative and flexibility. For example, a predetermined production plan may become unsuitable after consumer preferences change, yet employees may continue to follow the old instructions.

Step 2: Explain the difficulty of planning in a changing environment **Planning may not work in**

a dynamic environment: Business operates amid changing economic, political, legal, social and technological conditions. Plans are based on assumptions about future conditions, but these conditions cannot be predicted with complete accuracy. An unexpected change, such as a new government regulation or a competing technology, may make the original assumptions and the resulting plan ineffective.

Step 3: Explain the cost involved in preparing plans **Planning involves huge costs:** Preparing a plan may require collecting and analysing information, consulting specialists, conducting investigations and holding management discussions. These activities consume money and other resources before implementation even begins. The expected benefits should justify these expenses; an elaborate planning exercise can be uneconomical when its cost exceeds the benefit it provides.

Step 4: Conclusion Three limitations are that planning can create **rigidity**, may become ineffective in a **dynamic environment**, and involves **high preparation costs**. These limitations require managers to review plans and exercise judgement while implementing them.

Quick Tip to Solve: For each limitation, state the textbook heading and then explain its cause and effect: fixed course reduces flexibility, changing conditions weaken assumptions, and information gathering raises cost.

14. 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 managing relations with the public and protecting a favourable image of the business.
- Public confidence depends on the firm's conduct as well as communication. Listening to customers and responding to their grievances supports lasting goodwill.

Step 1: Identify and state the communication tool **(a) Public relations.** It means undertaking a variety of programmes to promote or protect a company's image and its individual products in the eyes of the public. The decisive words are that the company took measures to 'protect and promote its favourable image in the eyes of the public'. The problem arose when it neglected after-sales service, so repairing public confidence, rather than merely announcing another sales offer, is central to its response.

Step 2: Explain the role of public relations **(b) Building a positive image:** Public relations creates and maintains goodwill by informing the public about the organisation and its responsible activities. In this case it helps restore confidence damaged by the neglect of customer service.

Handling unfavourable publicity: It deals with adverse reports, rumours and events that could harm the firm's reputation. By responding honestly to the service problem and communicating corrective action, the company can reduce the damage to its image.

Supporting product promotion: Public relations can build awareness of a product and generate public interest and credibility. A favourable reputation for the company also supports acceptance of its water purifiers.

Maintaining relations with stakeholder groups: It establishes constructive relations with customers, the media, employees and other public groups. Customer feedback helps management understand concerns and adapt its conduct, strengthening trust over time.

Step 3: Conclusion The tool is **public relations**. Its role is to build and protect goodwill, manage adverse publicity, support product acceptance and maintain constructive relations with the public. In the case, these efforts improved the company's image after its after-sales service failure.

Quick Tip to Solve: Link 'protect and promote a favourable image' with public relations; link a short-term incentive such as a discount with sales promotion.

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15. '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:

- An informal organisation is a network of personal and social relations that arises spontaneously among employees within the formal organisation.
- Formal authority defines responsibility and accountability; informal relations allow people to interact beyond prescribed reporting channels and can satisfy their social needs.

Step 1: Identify the organisation from its communication pattern **(a) Informal organisation.** The clue is that Steelo Ltd. permits communication 'in all the directions as per the requirement', producing rapid information and feedback. Informal communication is not confined to the scalar chain. Both firms also possess a formal organisation, as their systematic coordination and clear responsibility show; it is the additional informal network that accounts for the stated difference.

Step 2: State another advantage **(b) Fulfilment of social needs:** Informal organisation allows employees to develop friendly personal relations and a sense of belonging. The opportunity to interact and obtain support from colleagues satisfies social needs and gives members psychological satisfaction. This is an advantage other than the faster communication already described in the case.

Step 3: Relate two values to the company's decisions **(c) Social responsibility and concern for disadvantaged people:** Steelo Ltd. locates its factory in a 'backward area of Orissa where very less job opportunities were available'. Providing employment opportunities there shows concern for the livelihood and economic development of the local community.

Employee welfare and concern for community well-being: Its decision to provide a 'school, hospital, market etc.' demonstrates concern for education, health and everyday living facilities. These amenities support workers and the surrounding community, expressing a commitment to their quality of life rather than viewing labour only as a production input.

Step 4: Conclusion Steelo Ltd. benefits from an **informal organisation**, which also satisfies employees' social needs and provides a sense of belonging. Its decisions convey **social responsibility towards a disadvantaged community** and **concern for employee and community welfare**.

Quick Tip to Solve: Distinguish the formal framework from the informal network: fixed accountability is formal, while unrestricted personal communication indicates informal organisation.

16. 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:

- The business environment consists of external forces that affect business decisions and opportunities. Its dimensions are identified from the particular external change described in a case.
- The economic environment includes interest rates, income, credit availability, inflation and other economic conditions. The technological environment includes scientific improvements, innovations and new methods of production.

Step 1: Identify and explain the economic dimension **Economic environment:** The clue is the "rate cut in the interest on loans announced by the Banks". Interest rates are an important component of the economic environment because they determine the cost of borrowing. A reduction in the rate

makes loans less expensive and can encourage people and enterprises to borrow for investment. In this case it encouraged Amit to obtain a loan from State Bank of India for his experiment. Thus the change in financial conditions created an opportunity to finance his project; it is the interest-rate change, rather than merely the name of the bank, that identifies this dimension.

Step 2: Identify and explain the technological dimension **Technological environment:** The clue is Amit's development of cars "powered by fuel produced from garbage". This dimension comprises forces relating to scientific improvements and innovations that create new ways of producing goods and services, new products and new techniques of operating a business. Using fuel derived from garbage to power a car represents an innovation in the product and its energy technology. Amit's experiment and successful development therefore illustrate a technological development that can open a new business opportunity and influence existing methods of automobile production.

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

Quick Tip to Solve: In environment cases, link interest rates and credit to the economic dimension, and inventions or new production methods to the technological dimension. Quote the exact clue before explaining it.

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:

- Leadership is the process of influencing the behaviour of people so that they strive willingly and enthusiastically towards the achievement of organisational goals. It is an element of directing.
- Leadership operates through interpersonal relations and communication between a leader and followers. It is a continuous process through which a leader guides people towards common objectives.

Step 1: Identify leadership from the change in behaviour The element is **leadership**. The CEO discussed the travel problem with the team leader and arranged for the leader and team to travel together and discuss client presentations. The decisive clue is that the change "made a positive impact" and team members began acting "in a manner as desired by the team leader". It shows influence over

people to secure their willing contribution towards organisational goals, rather than merely issuing a travel instruction.

Step 2: State the features of leadership

- **Ability to influence others:** Leadership indicates the ability of an individual to influence the behaviour of other people. Here the improved approach encouraged the team members to behave in the desired manner.
- **Interpersonal relations:** Leadership tries to bring about a change in the behaviour of others through interpersonal relations. Travelling together and discussing presentations provided opportunities for interaction between the leader and subordinates.
- **Common organisational goals:** Leadership is exercised to achieve common goals of the organisation. In this case the leader and members worked together on presentations intended to obtain business for Alfa Ltd.
- **Continuous process:** Leadership is a continuous process, rather than an isolated action. Under the revised policy, travelling and discussing work together in future allowed the leader to guide and influence the team on an ongoing basis.

Step 3: Conclusion The CEO used **leadership**, an element of directing. It involves influencing behaviour through interpersonal relations, focuses on common organisational goals, and continues as an ongoing process of guidance and influence.

Quick Tip to Solve: When a case stresses influencing people's behaviour to secure willing effort towards common goals, identify leadership; connect each feature with the interaction between the leader and followers.

18. Explain any four points of importance of principles of management. [4 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. Their importance lies in helping managers use experience and knowledge systematically.
- These principles are flexible guides rather than rigid rules. Managers apply them according to the circumstances of the organisation and the problem being faced.

Step 1: Explain their contribution to managerial understanding and resource use

- **Providing managers with useful insights into reality:** Principles improve managers' knowledge and understanding of managerial situations. They indicate the likely results of particular actions on the basis of accumulated experience, helping managers learn from others' mistakes instead of relying only on trial and error.
- **Optimum utilisation of resources and effective administration:** Principles help managers put human and material resources to the best possible use. By guiding the allocation of duties and the exercise of authority, they reduce waste and support orderly administration, allowing organisational objectives to be achieved efficiently.

Step 2: Explain their contribution to decisions and adaptation

- **Scientific decisions:** Principles encourage managers to base decisions on facts, logic and a considered assessment of a situation rather than personal bias or guesswork. Decisions therefore have a reasoned basis and can be explained in terms of the organisation's objectives.
- **Meeting changing environment requirements:** Management principles are general and flexible, so their application can be modified to suit changing business conditions. They help managers adapt their practices when technology, competition or employee expectations change, without treating an old practice as an unalterable rule.

Step 3: Conclusion Four points of importance are useful insights into reality, optimum utilisation of resources and effective administration, scientific decisions, and meeting changing environment requirements.

Quick Tip to Solve: For each point, name the textbook heading and explain how it helps a manager; four headings without their significance do not fully answer an explain question.

19. State the functions of financial market. [4 marks]

Solution:

Concept:

- A financial market brings together savers who have surplus funds and borrowers who require funds. It facilitates the creation and exchange of financial assets, such as shares and debentures.
- Its main functions concern the movement of savings, determination of security prices, liquidity and the cost of carrying out financial transactions.

Step 1: State the functions relating to funds and prices

- **Mobilisation of savings and channelling them into the most productive uses:** A financial market transfers savings from savers to investors. It gives savers a choice of investment opportunities and helps direct their funds towards productive business uses, connecting the supply of funds with the demand for them.
- **Facilitating price discovery:** The interaction of the demand for and supply of financial assets determines their prices. Savers supply funds and business firms demand them; their interaction in the financial market helps establish the price at which a financial asset can be bought or sold.

Step 2: State the functions relating to trading facilities

- **Providing liquidity to financial assets:** Financial markets enable financial assets to be bought and sold readily. Investors can convert their investments into cash when they need funds, rather than having to retain every investment until its final repayment date.
- **Reducing the cost of transactions:** Financial markets provide information about securities, their prices, and potential buyers and sellers. This reduces the time, effort and money that participants would otherwise spend searching for a counterparty and arranging the exchange of financial assets.

Step 3: Conclusion The four functions of a financial market are mobilisation and productive allocation of savings, price discovery, provision of liquidity to financial assets, and reduction in transaction costs.

Quick Tip to Solve: Recall the four functions as funds, price, liquidity and cost. Keep price discovery separate from liquidity: one sets the trading price, while the other permits conversion into cash.

20. 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 flows through officially prescribed channels within the organisation; informal communication arises from social interaction and personal relationships.
- The medium does not determine the channel: a text message can carry either formal or informal communication. Informal communication is also called the grapevine.

Step 1: Identify the formal communication and quote the evidence **Formal communication:** "When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings." This is an official instruction from a superior regarding action to be taken at the workplace. It flows down the recognised authority structure and relates to the organisation's responsibilities.

Step 2: Identify the informal communication and quote the evidence **Informal communication:** "One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain'." The colleague passes on personal information about Arun's illness out of concern for him. This social communication about a colleague's health is outside the prescribed official work communication. The subsequent appeal for blood also expresses personal concern; the fact that it uses text messages does not by itself make it formal.

Step 3: State two features of informal communication

- **No prescribed route:** It does not follow the formally established chain of command. Information can pass across levels and departments through personal contacts and social relationships.
- **Rapid spread:** Information travels quickly through the network of personal contacts. Employees can share news with several others without waiting for each official link in the hierarchy.

Step 4: Identify two values communicated by the case

- **Care and compassion for others:** The request to "donate blood for Arun" reflects concern for a person in medical distress and willingness to help save his life.
- **Concern for health and hygiene:** The order for "fumigation" and "cleanliness of the surroundings" demonstrates responsibility for preventing disease and protecting employees and the community.

Step 5: Conclusion The General Manager's official order illustrates formal communication, while the colleague's personal message about Arun illustrates informal communication. The case promotes compassion and responsibility for health and hygiene.

Quick Tip to Solve: Classify communication by whether it follows an official work channel, not by whether the message is spoken, written or sent by phone.

21. 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:

- Plans specify desired results and the courses of action for achieving them. Objectives state the ends; policies, procedures, methods and rules guide action in different ways.
- A budget expresses expected results in numerical terms. Numerical statements may concern money, quantities, labour requirements or sales targets.

Step 1: Identify the objective and policy

- **Objective:** "To earn 10% profit on the amount invested in the first year." An objective is the desired future position or end result that management seeks to achieve. Here it specifies both the profit target and the period, providing direction and a standard for judging performance.
- **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 managerial thinking and decisions. This purchasing policy guides the choice of suppliers and credit terms while allowing individual purchases to be decided within its limits.

Step 2: Distinguish the procedure from the method

- **Procedure:** "Follow the steps required for marketing of the products through her own outlets." A procedure lays down the sequence of activities to be performed. It tells employees the order in which the marketing work is to be done, making recurring operations systematic.
- **Method:** Mohan "decides the exact manner in which the production activities are to be carried out." A method prescribes the way in which a particular task is performed. Whereas the procedure specifies a sequence of activities, the method tells workers how an activity within that sequence should be carried out.

Step 3: Recognise the numerical plans as budgets **Budget:** "Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year." A budget is a statement of expected results expressed in numerical terms. This is a manpower budget: it quantifies labour requirements for a specified period and helps arrange the necessary staff. Likewise, Madhu's

"sales target for different products, areawise for the forthcoming quarter" describes a sales budget. A budget need not be restricted to a statement of money; quantities and manpower can also be budgeted.

Step 4: Identify the rule governing protective clothing **Rule:** "A penalty of Rs 100 per day for not wearing the caps, gloves and apron was announced." A rule specifies exactly what must or must not be done in a particular situation and allows no discretion in its application. The workers must wear the specified protective clothing; the stated penalty enforces compliance. Unlike a policy, this instruction does not leave the worker free to choose whether to follow it.

Step 5: Conclusion The plans illustrated are an objective, a purchasing policy, a marketing procedure, a production method, manpower and sales budgets, and a rule requiring protective clothing. Each serves a different purpose in implementing Madhu's business plan.

Quick Tip to Solve: Use the clue words: desired result = objective; guideline = policy; sequence = procedure; exact way = method; numerical statement = budget; compulsory instruction = rule.

22. Explain the steps in the controlling process. [5 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with planned standards, identifying deviations and taking corrective action so that organisational objectives are achieved.
- Standards arise from planning. Control closes the loop by providing feedback for improved performance and, where necessary, more realistic future plans.

Step 1: Set performance standards **Setting performance standards:** Establish the criteria against which actual performance will be judged. Standards should be clear, measurable wherever possible, and achievable. They may be quantitative, such as units produced, costs or sales, or qualitative, such as customer satisfaction and employee motivation. For example, fixing a monthly production target gives the production manager a definite basis for control.

Step 2: Measure actual performance **Measurement of actual performance:** Collect reliable information about work actually accomplished. Personal observation, sample checking, performance reports and accounting records are possible methods. Measurement should use the same units as the standards so that comparison is meaningful. It should take place at appropriate intervals; where feasible, progress is checked while work is under way so that errors are discovered early.

Step 3: Compare results with standards **Comparing actual performance with standards:** Place the measured results against the predetermined targets and determine the deviations. For instance, if the target is 1,000 units and actual output is 900 units, the shortfall is 100 units. A deviation may be favourable or unfavourable; the comparison identifies where management attention may be needed.

Step 4: Analyse significant deviations **Analysing deviations:** Identify the causes of important differences, such as inadequate resources, defective machinery or unrealistic targets. Critical-point control directs attention to key result areas, while management by exception concentrates on deviations beyond acceptable limits. Not every small variation requires intervention, but a serious departure in a

critical activity must be investigated promptly.

Step 5: Take corrective action **Taking corrective action:** Remove the causes of significant deviations. Suitable action may include training employees, repairing equipment, improving supervision or reallocating resources. If the standard itself is unrealistic, it may be revised after investigation. Follow up the action to ensure that performance returns to the desired course rather than merely recording the deviation.

Step 6: Conclusion The controlling process proceeds through setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action. Together, these steps keep actual work aligned with organisational plans.

Quick Tip to Solve: Remember the sequence: set, measure, compare, analyse and correct. Keep comparison separate from investigating the cause of a deviation.

23. '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. Debenture interest is deducted before calculating tax, whereas equity dividends are not a deductible financing expense.
- Financial leverage uses fixed-charge debt in the capital structure. Its effect on EPS depends on operating earnings, borrowing cost and the number of equity shares; a share-capital amount alone does not specify that number.

Step 1: Calculate profit available to shareholders The case says that Viyo Ltd. raised Rs 40 lakhs through 10% debentures and earned Rs 8 lakhs on capital employed. Treat the latter as earnings before interest and tax. Annual interest is therefore Rs 4 lakhs. Deduct this fixed financing charge first, then calculate tax on the remaining profit.

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

This is the amount available for equity shareholders, there being no preference capital specified.

Step 2: Compare EPS with the previous year The printed question gives share capital of Rs 60 lakhs, but neither the number of equity shares nor their face value. Let the unchanged number of equity shares be N. As the additional funds were raised through debentures, no new equity shares are issued in this transaction.

$$\text{Current EPS} = \frac{2,40,000}{N} \text{ rupees.}$$

Compare this with the previous EPS of Rs 0.50. Shareholders gain if $N < 4,80,000$, lose if $N > 4,80,000$, and are unchanged if $N = 4,80,000$. Thus the information printed does not establish a unique numerical EPS or an unconditional gain or loss. If the Rs 60 lakhs represents fully paid equity capital at face value v rupees, then $N = 60,00,000/v$ and current EPS is $0.04v$ rupees. For example, *if* the shares have face value Rs 10, EPS is Rs 0.40, a fall of Rs 0.10; that face value is an additional assumption, not a stated fact.

Step 3: State three conditions favouring debentures **Strong and stable cash flows:** Debt requires regular interest payments and repayment of principal. Predictable cash flows enable the company to meet these commitments without financial distress; weak cash flows make fixed-charge finance risky.

High tax rate: Interest on debentures is deductible in determining taxable profit, reducing the effective cost of debt. At the stated 40% tax rate, a 10% borrowing cost becomes 6% after tax, provided the interest deduction can be used. This tax advantage favours debt finance.

Retention of control: Debenture holders are creditors and ordinarily have no voting rights in company management. Raising additional funds through debentures therefore avoids the dilution of the existing equity shareholders' voting control that a fresh equity issue could cause.

Step 4: Conclusion Profit available to equity shareholders is Rs 2,40,000 and EPS is Rs $2,40,000/N$. A definite gain or loss against Rs 0.50 requires the missing share count or face value; with Rs 10 shares, shareholders would lose Rs 0.10 per share. Stable cash flows, the interest tax shield and retention of control are three factors favouring debentures.

Quick Tip to Solve: Deduct interest before tax, and divide the remaining profit by the number of shares, not by share capital. Never infer the face value solely from a capital amount.

24. 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. [6 marks]

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

Solution:

Concept:

- Labelling is the part of the product mix concerned with designing and displaying a label on a product or its container. It communicates information about the product to the buyer.
- A label may be a simple tag or a detailed printed statement. It should identify and describe the product clearly so that a consumer can make an informed choice and use it safely.

Step 1: Identify the clue in the case The decisive words are, "The information provided on the bottle

was not clear." This concerns the information displayed on the tomato-sauce bottle, rather than the bottle's ability to contain the sauce. The case therefore points directly to the label supplied with the product.

Step 2: Name and explain the neglected aspect The marketer neglected **labelling**. A food label should clearly communicate relevant details such as its contents, manufacture and expiry information, and directions for use or storage. Unclear information prevents a buyer from understanding these details. Ashima's illness and subsequent consumer complaint show why communicating product information properly matters. The packaging is the container, while the label is the source of the information whose clarity is questioned here.

Step 3: Conclusion The important aspect neglected by the marketer was **labelling**: the product information on the tomato-sauce bottle was not clear to the consumer.

Quick Tip to Solve: In a case about unclear product information, identify labelling; use packaging when the clue concerns the container or protection of the product.

24(b). Explain briefly the functions of the aspect identified in (a) above.

Solution:

Concept:

- A label is a means of communicating product information at the point of purchase and during use. Its functions go beyond displaying the brand name.
- Labelling describes and identifies the product, permits grading, supports promotion and supplies information required by law. These functions help consumers compare products and use them properly.

Step 1: Explain the information and identification functions **Describe the product and specify its contents:** A label gives details such as ingredients, weight, manufacture or expiry dates, and directions for use. On a sauce bottle, clear information helps the consumer understand what is being purchased and any applicable storage instructions.

Identify the product or brand: A label displays the product or brand name, helping a buyer recognise the product and distinguish it from competing products. Identification also makes a repeat purchase easier.

Step 2: Explain the grading, promotional and legal functions **Grade the product:** Where products have different grades or qualities, labels indicate the grade. This helps buyers choose among the variants offered by a marketer and distinguish products of different quality.

Help in promotion: An attractive label, its design and the information about a special offer can draw attention and encourage purchase. A label therefore acts as a promotional tool as well as a source of factual information.

Provide information required by law: Labels must carry the disclosures prescribed for the relevant product, such as mandatory declarations on food products or statutory warnings where applicable. This enables the consumer to obtain essential information and helps the marketer comply with legal requirements. In Ashima's case, clarity of product information is especially relevant because she

consumed the sauce before falling sick.

Step 3: Conclusion Labelling describes the product and its contents, identifies the product or brand, grades products, assists promotion and supplies legally required information. A clear label helps consumers make informed purchasing and usage decisions.

Quick Tip to Solve: Recall the five label functions through describe, identify, grade, promote and disclose; explain each function rather than listing only examples of label information.

25. Explain any four characterics of management. [6 marks]

Solution:

Concept:

- Management is the process of getting work done effectively and efficiently through people to achieve organisational objectives. Its characteristics explain how managers coordinate human effort and other resources.
- Management is goal-oriented, pervasive, multidimensional and continuous. These features apply to the management process rather than to any one individual manager.

Step 1: Explain goal orientation and pervasiveness

- **Management is a goal-oriented process:** Every organisation is established to achieve specific objectives. Management unites the efforts of different individuals and directs them towards these common objectives. For example, in a business, production, sales and finance activities are coordinated to achieve planned sales, profits and growth. Thus management gives purposeful direction to otherwise separate activities.
- **Management is all pervasive:** Management is required in every kind of organisation, whether economic, social or political, and at every level of its hierarchy. A school, hospital and business enterprise all need planning, organising, staffing, directing and controlling. The methods and scale of application may differ, but the need to manage resources and coordinate effort is common to all.

Step 2: Explain multidimensionality and continuity

- **Management is multidimensional:** It involves managing work, people and operations. Managing work translates organisational tasks into goals and methods; managing people brings together individuals with different needs and abilities; managing operations coordinates inputs and the production process to obtain the desired output. These dimensions are closely linked, so a manager must attend to all three rather than only to technical tasks.
- **Management is a continuous process:** Its functions are performed repeatedly and simultaneously as the organisation operates. Managers plan activities, organise resources, appoint and guide people, and check results. Control findings can lead to revised plans, so completion of one activity does not end management. The ongoing interaction of these functions sustains organisational performance.

Step 3: Conclusion The four characteristics are that management is a goal-oriented process, is all pervasive, is multidimensional and is a continuous process. Together they show how management gives direction and coordination to organisational activity.

Quick Tip to Solve: Name each characteristic first, then explain what it means for an organisation. For multidimensionality, explicitly mention work, people and operations.