CBSE Class 12 Business Studies Question Paper 2016 with Solution PDF-Set All India Set 3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Answers to questions carrying **1 mark** may be from **one word to one sentence**.
(ii) Answers to questions carrying **3 marks** may be from **50 - 75 words**.
(iii) Answers to questions carrying **4 - 5 marks** may be about **150 words**.
(iv) Answers to questions carrying **6 marks** may be about **200 words**.
(v) Attempt all parts of a question together.

1. Name and state the aspect of financial management that enables to foresee the fund requirements both in terms of 'the quantum' and 'the timings'. [1 mark]

Solution:

Concept:

- Financial planning means estimating the financial requirements of a business and specifying the sources of funds.
- It determines both how much finance is required and when it will be needed, so that adequate funds are available at the right time.

Step 1: Identify the aspect The references to the quantum and timing of fund requirements describe financial planning. It looks ahead at the financial needs of the business.

Step 2: State its meaning Financial planning is the preparation of a financial blueprint for future operations. It estimates the amount and timing of funds and identifies suitable sources, helping the business avoid shortages as well as unnecessary idle funds.

Step 3: Conclusion The aspect is **financial planning**: estimating future fund requirements and deciding their sources so that the required amount is available when needed.

Quick Tip to Solve: When a question mentions both how much money and when it is required, identify financial planning.

2. Name the function of marketing which is concerned with the cost and location of target market. [1 mark]

Solution:

Concept:

- Transportation is the marketing function involving the physical movement of goods from the place of production to the place of consumption.
- The location of the target market and the cost involved help determine the appropriate transport arrangements.

Step 1: Identify the relevant function The question links reaching the target market with cost and location. These considerations govern how goods should be transported to buyers.

Step 2: Connect the clues to the function The firm must select suitable transport arrangements according to where its market is located and the cost of carrying its products there. Transportation creates place utility by making goods available where they are demanded.

Step 3: Conclusion The function of marketing is **transportation**.

Quick Tip to Solve: Use the clues market location and cost of moving goods to identify transportation, which creates place utility.

3. Suman bought a box of cheese of a reputed brand from a local shopkeeper. On opening the box she found a piece of stone in the cheese. She reported the matter to the shopkeeper who forwarded her complaint to the concerned company. Within a week the representative of the company visited Suman's residence with an apology and as a replacement offered her a new cheese pack with four other varieties of cheese as compensation for the inconvenience to her.

State the consumer right which Suman exercised. [1 mark]

Solution:

Concept:

- The right to seek redressal entitles a consumer to relief against unfair trade practices and exploitation.
- Appropriate relief may include replacement of a defective product and compensation for loss or inconvenience.

Step 1: Identify the remedy in the case The company offered Suman "a new cheese pack" and other varieties "as compensation for the inconvenience to her." These are remedies for the defective cheese.

Step 2: Name the exercised right Suman sought correction of the wrong by making a complaint, which resulted in replacement and compensation. The relief obtained identifies the right to seek redressal; the decisive clue is the remedy for the defective product.

Step 3: Conclusion Suman exercised the **right to seek redressal**.

Quick Tip to Solve: When a defective-product complaint leads to replacement or compensation, connect the remedy with the right to seek redressal.

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4. Is Management concerned only with doing the right task, completing activities and achieving goals without taking into consideration the cost benefit ?' Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Effectiveness means doing the right task and achieving the intended objectives.
- Efficiency means performing the task with minimum cost and wastage of resources; successful management requires both.

Step 1: Reject the incomplete view No. Achieving goals and completing the right activities describes effectiveness, but it covers only one aspect of managerial performance.

Step 2: Explain the cost requirement Management must also use money, materials, time and human effort efficiently. A goal achieved through excessive cost or avoidable waste does not represent sound management. Managers therefore balance achievement of objectives with economical use of resources.

Step 3: Conclusion No. Management is concerned with **both effectiveness and efficiency**: attaining goals while minimising cost and wastage.

Quick Tip to Solve: Link reaching the goal with effectiveness, and reaching it with minimum resource cost with efficiency.

5. Name the type of organisational structure which promotes flexibility and initiative. [1 mark]

Solution:

Concept:

- A divisional structure groups activities into separate divisions, generally on the basis of products, with the necessary functions within each division.
- Each division functions as an autonomous unit, promoting flexibility and initiative and enabling faster decision making.

Step 1: Identify the structure The structure is divisional organisational structure. A division has responsibility for its product and the functional resources needed to manage it.

Step 2: Explain the identifying advantage Each division operates as an autonomous unit. Its managers can make decisions and take initiative concerning divisional activities without referring every operating matter to the central office. This freedom enables faster decisions and flexible responses, which is the NCERT advantage described in the question.

Step 3: Conclusion The organisational structure is **divisional structure**.

Quick Tip to Solve: Connect the phrase flexibility and initiative with autonomous product divisions and faster divisional decisions.

6. Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company with his son. His son was keen that the company may start manufacturing of Mobile-phones with some unique features. Rizul Bhattacharya felt that the mobile phones are prone to quick obsolescence and a heavy fixed capital investment would be required regularly in this business. Therefore he convinced his son to start a furniture business.

Identify the factor affecting fixed capital requirements which made Rizul Bhattacharya to choose furniture business over mobile phones. [1 mark]

Solution:

Concept:

- Technology upgradation influences fixed capital requirements because equipment and technology may become obsolete and need replacement.
- Industries exposed to rapid technological change generally require more frequent investment in fixed assets.

Step 1: Identify the clue in the case Rizul felt that mobile phones were “prone to quick obsolescence” and that heavy fixed capital investment would be needed “regularly”. These words indicate rapid technological change.

Step 2: Name the factor and apply it The factor is technology upgradation. Frequent technological change makes existing equipment or production technology outdated, requiring fresh fixed investment. Rizul therefore preferred furniture, which the case contrasts with the rapidly changing mobile-phone business.

Step 3: Conclusion The factor affecting fixed capital requirements is **technology upgradation**.

Quick Tip to Solve: Quick obsolescence and repeated investment in new technology are the strongest clues for technology upgradation.

7. Give the meaning of 'Decentralisation'. [1 mark]

Solution:

Concept:

- Decentralisation is the systematic delegation of decision-making authority throughout the levels of an organisation.
- Top management retains authority over major policy decisions while lower levels receive authority to make decisions within assigned areas.

Step 1: State what is distributed Decentralisation distributes decision-making authority to lower levels instead of keeping every decision at the top. Managers closer to operations can decide matters within their responsibilities.

Step 2: Clarify its organisational scope It is a systematic policy of delegation across levels, rather than an isolated assignment of work. Top management still exercises overall control and takes major decisions; decentralisation does not mean surrendering all authority or accountability.

Step 3: Conclusion **Decentralisation** means systematic delegation of decision-making authority to lower levels throughout the organisation, while major policy authority remains with top management.

Quick Tip to Solve: Remember decentralisation as an organisation-wide policy of sharing decision authority with lower levels.

8. State the role of 'Gang Boss' in functional foremanship. [1 mark]

Solution:

Concept:

- Functional foremanship divides supervisory work among specialists, so each supervisor guides workers in a particular activity.
- The gang boss is a supervisor on the production side and is responsible for making the necessary arrangements before actual production starts.

Step 1: Identify the gang boss's responsibility The gang boss keeps the machines, materials, tools and other equipment ready for the workers to begin their work. This ensures that the production workplace is properly prepared.

Step 2: State how this role supports production By ensuring that the required facilities and inputs are available, the gang boss enables the workers to start their assigned operations without avoidable delay. Supervising the speed of work is the speed boss's responsibility, rather than the gang boss's primary role.

Step 3: Conclusion The gang boss keeps machines, materials, tools and other equipment ready for operation by the workers.

Quick Tip to Solve: Associate the gang boss with readiness for production and the speed boss with the pace of production.

9. Explain any three points that highlight the importance of planning. [3 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it, so that organisational objectives guide managerial action.
- Its importance lies in giving direction, preparing for future changes and providing a basis for checking actual performance.

Step 1: Explain how planning directs effort **Planning provides directions:** Planning clearly states the objectives to be achieved and the actions required to achieve them. Employees therefore know what the organisation expects them to do. Different departments can align their activities with the same goals instead of pursuing unrelated tasks. For example, a sales target helps production and marketing determine the work needed from each of them.

Step 2: Explain how planning prepares the organisation **Planning reduces the risks of uncertainty:** Planning requires managers to look ahead and anticipate changes in business conditions. By forecasting possible events and preparing suitable courses of action, managers can respond more effectively when conditions change. Planning cannot eliminate uncertainty, but it reduces the impact of unexpected developments by encouraging advance preparation.

Step 3: Explain how planning enables control **Planning establishes standards for controlling:** A plan specifies the results expected, such as an output target or a cost limit. These become standards against which actual performance can be compared. The comparison reveals deviations and enables managers to take corrective action. Without planned standards, managers would lack a clear basis for judging whether performance is satisfactory.

Step 4: Conclusion Three points highlighting the importance of planning are that it provides directions, reduces the risks of uncertainty and establishes standards for controlling.

Quick Tip to Solve: For each importance point, state its NCERT heading and then explain how it helps the organisation achieve its objectives.

10. What is meant by a 'consumer' as per the provisions of Consumer Protection Act, 1986 ? [3 marks]

Solution:

Concept:

- Under the Consumer Protection Act, 1986, the meaning of consumer covers both a person who buys goods and a person who hires or avails of services for consideration.
- Consideration may be paid, promised, partly paid and partly promised, or payable under a system of deferred payment. Approved users and beneficiaries are also included.

Step 1: Define a consumer of goods **Buyer of goods:** A consumer is a person who buys goods for consideration which has been paid or promised, partly paid and partly promised, or provided under a system of deferred payment. The term includes a user of those goods, other than the buyer, when the goods are used with the buyer's approval. A person obtaining goods for resale or for a commercial

purpose is excluded. However, goods bought and used exclusively to earn one's livelihood through self-employment are not treated as being for a commercial purpose.

Step 2: Define a consumer of services **Hirer or user of services:** A consumer is also a person who hires or avails of services for consideration paid or promised, partly paid and partly promised, or under a system of deferred payment. This includes a beneficiary of those services, other than the person who hires them, when the services are availed of with that person's approval. A person who avails of services for a commercial purpose is excluded. Thus, payment need not be made in full at the outset for a person to be a consumer.

Step 3: Conclusion A consumer is a buyer of goods or a hirer or user of services for consideration, including the approved user or beneficiary, subject to the Act's exclusions for resale and commercial purposes and its livelihood through self-employment exception for goods.

Quick Tip to Solve: Cover both goods and services, mention consideration and approved users or beneficiaries, and then state the exclusions.

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11. Mr. Fernandes is the owner of Unibie Enterprises, carrying on the business of manufacturing electrical appliances. There is a lot of discontentment in the organisation and targets are not being met. He asked his son, Michel, who has recently completed his MBA, to find out the reason.

Michel found that all decision making of the enterprise were in the hands of his father. Moreover, his father did not have confidence in the competency of the employees. Thus the employees were not happy. [3 marks]

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

Solution:

Concept:

- Organisational barriers arise from the policies, rules and authority relationships of an organisation. A policy that discourages free interaction can prevent employees from communicating effectively.
- Personal barriers arise from the attitudes and beliefs of the people communicating, including a superior's lack of confidence in subordinates.

Step 1: Identify the organisational barrier **Organisational policy:** Michel found that 'all decision making of the enterprise were in the hands of his father.' This highly centralised approach discourages employees from expressing suggestions or participating freely. It indicates an organisational policy that restricts effective communication.

Step 2: Identify the personal barrier **Lack of confidence of superior in his subordinates:** The case says his father 'did not have confidence in the competency of the employees.' When a superior distrusts their ability, he may not seek their advice or encourage their suggestions. Employees consequently become unwilling to communicate openly.

Step 3: Conclusion The barriers are organisational policy, an organisational barrier, and lack of confidence of the superior in his subordinates, a personal barrier.

Quick Tip to Solve: Classify centralised policies under organisational barriers and distrust of employee competence under personal barriers.

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

Solution:

Concept:

- Communication barriers must be classified by their source: organisational barriers belong to the structure and working arrangements, while personal barriers originate in individual attitudes.
- An additional example must belong to the same category as each barrier identified in part (a), rather than merely repeat the two barriers already identified.

Step 1: State another organisational barrier **Organisational facilities:** Inadequate arrangements for meetings, suggestion schemes, complaints or social interaction can obstruct communication. Without suitable opportunities or channels, employees find it difficult to convey useful information or obtain clarification. This is another organisational barrier because it concerns facilities provided by the enterprise.

Step 2: State another personal barrier **Fear of challenge to authority:** A superior may suppress information or ignore suggestions because he fears that a well-informed subordinate could challenge his authority. This prevents a free exchange of ideas. It is a personal barrier because it arises from the superior's insecurity rather than the physical facilities or communication rules.

Step 3: Conclusion An additional organisational barrier is inadequate organisational facilities; an additional personal barrier is fear of challenge to authority.

Quick Tip to Solve: For a request for one more barrier of each type, give a new example in each of the categories already identified.

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12. Atul-The Assistant Manager, Vikas-The Marketing Head and Leena-The Human Resource Manager of 'Montac Enterprises Ltd.' decided to leave the company.

The Chief Executive officer of the company called the Human Resource Manager, Leena and requested her to fill up the vacancies before leaving the organisation. Leena suggested that her subordinate Miss Rama Wadhwa is very competent and trust worthy, if she could be moved up in the hierarchy, she would do the needful. The Chief Executive Officer agreed for the same. Miss Rama Wadhwa contacted 'Smith Recruiters' who advertised for the post of marketing head for 'Montac Enterprises Ltd'. They were able to recruit a suitable candidate for the company. Atul's vacancy was filled up by screening the database of unsolicited applications lying in the office. [3 marks]

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

Solution:

Concept:

- Recruitment means searching for prospective employees and encouraging them to apply. An internal source draws on existing employees, whereas an external source brings in applicants from outside the organisation.
- Promotion is upward movement in the hierarchy. Placement agencies help employers obtain

suitable applicants; casual callers are people whose unsolicited applications are retained for future vacancies.

Step 1: Identify the internal source **Promotion – Leena's vacancy:** Rama Wadhwa is already Leena's subordinate. The words "if she could be moved up in the hierarchy" show promotion to a higher position. This is an internal source because the organisation fills the vacancy from its existing staff. It is not a transfer, which would move the employee to a similar level.

Step 2: Identify the two external sources **Placement agency – Vikas's vacancy:** Rama "contacted 'Smith Recruiters' who advertised for the post of marketing head". The specialised recruiting firm found a suitable candidate, so the source is a placement agency, even though the agency used advertising.

Casual callers – Atul's vacancy: The firm used the "database of unsolicited applications lying in the office". These applications were submitted voluntarily and retained for future use. Thus the external source is casual callers.

Step 3: Conclusion The sources are promotion for the Human Resource Manager, a placement agency for the Marketing Head, and casual callers for the Assistant Manager.

Quick Tip to Solve: Match each clue to a source: upward movement is promotion, a recruiting firm is a placement agency, and stored unsolicited applications are casual callers.

12(b). Also state any one merit of each of the above identified source of recruitment.

Solution:

Concept:

- The merit of a recruitment source should be linked to the particular source identified in the case: promotion, a placement agency and casual callers.
- Internal promotion encourages career advancement; specialised agencies assist in finding suitable candidates; a database of unsolicited applications can avoid fresh advertising expenditure.

Step 1: State the merit of the internal source **Promotion motivates employees:** The case proposes that Rama be "moved up in the hierarchy". The prospect of such advancement encourages employees to improve their performance and develop their abilities. Employees see that good work and competence can lead to positions of greater responsibility within the same organisation.

Step 2: State one merit of each external source **Placement agency saves time and effort:** The case names "Smith Recruiters" as the agency contacted to locate a suitable candidate. A specialised agency can recommend applicants from its knowledge and records, reducing the employer's effort in searching for and screening candidates.

Casual callers reduce recruitment cost: Atul's vacancy was filled by "screening the database of unsolicited applications". Using an existing pool of applicants avoids fresh expenditure on advertisements to invite applications for that vacancy. This is a merit of maintaining and consulting unsolicited applications.

Step 3: Conclusion The respective merits are employee motivation through promotion, assistance in

finding suitable candidates through an agency, and reduced recruitment cost through casual callers.

Quick Tip to Solve: Give one distinct merit for each source in the same order as part (a): motivation, saved search effort, and reduced advertising cost.

13. Mr. Vikas Mehra was the Chairman of 'IBM 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 the taking over of 'UK Bank'. Mr. Vikas Mehra knew that the share price of 'IBM 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 Mukand and asked him to invest ₹ 4 crores in shares of his bank promising him the capital gains.

As expected after the announcement, the share prices went up by 50% and the market price of Mukand's shares was now ₹ 6 crores. Mukand earned a profit of ₹ 2 crores. He gave ₹ 1 crore to Vikas Mehra and kept ₹ 1 crore with him. 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 imposed a heavy penalty on Vikas Mehra.

Quoting the lines from the above para identify and state any two functions performed by SEBI in the above case. [3 marks]

Solution:

Concept:

- SEBI protects investors and regulates the securities market. Its protective functions prevent unfair practices, including insider trading, while its regulatory functions supervise market participants through inspection and enquiry.
- Insider trading involves dealing in securities on the basis of privileged information available to an insider, before that information becomes available to the investing public. Using another person's account does not remove the unfair advantage.

Step 1: Identify the protective function from the penalty **Prohibition of insider trading:** The case states, "SEBI imposed a heavy penalty on Vikas Mehra." Vikas knew of the proposed takeover before its public announcement and arranged for Mukand to invest on that information. The words "promising him the capital gains" and the subsequent sharing of the profit show that Vikas used his privileged position for personal gain. By detecting and penalising this conduct, SEBI performs its protective function of controlling insider trading and protecting ordinary investors from the unfair advantage enjoyed by insiders. The fact that the shares were bought by Mukand rather than directly by Vikas does not make the use of confidential information fair.

Step 2: Identify the regulatory function from the investigation **Calling for information, undertaking inspection, and conducting 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." Under this regulatory function, SEBI examines the activities and records of market intermediaries, such as brokers, and calls for information to check compliance with securities-market rules. Here its inspection and enquiries reveal the connection between the informed purchase, the price rise and the improper gain. This is supervision of existing market activity rather

than a developmental activity such as training intermediaries.

Step 3: Conclusion The two functions are the protective function of prohibiting insider trading, evidenced by the penalty for misuse of takeover information, and the regulatory function of inspection and enquiry, evidenced by SEBI's examination of the brokers involved.

Quick Tip to Solve: Quote the action before naming the function: penalising insider trading is protective; inspecting brokers and conducting enquiries is regulatory.

14. Define Management. Explain the features that establish it as a social science. [4 marks]

Solution:

Concept:

- Management is the process of getting things done with the aim of achieving organisational goals effectively and efficiently. Effectiveness means completing the required task and achieving the goal; efficiency means doing so with minimum cost and wastage of resources.
- Science is a systematised body of knowledge explaining relationships through principles. Management is a social science because it studies people and their behaviour in organisations, rather than dealing with entirely predictable physical objects.

Step 1: Explain the systematic body of knowledge **Systematised body of knowledge:** Management has an organised body of knowledge containing its own theories, concepts and principles. These deal with functions such as planning, organising, staffing, directing and controlling. For example, principles of management guide managers in allocating work and coordinating employees. Its knowledge can therefore be studied and taught systematically; it is not merely a collection of unrelated personal opinions.

Step 2: Explain the basis of its principles **Principles based on experimentation:** Management principles have developed through observation, repeated practical experience and experimentation in different organisations. For example, Taylor's studies of work helped develop scientific management. However, management deals with human beings, whose behaviour varies between situations and individuals. Its principles cannot be tested under perfectly controlled conditions like those of the physical sciences, so their predictions are less exact.

Step 3: Explain the extent of universal validity **Universal validity with modification:** Management principles provide broad guidelines that can be applied in different types of organisations. Their application is flexible: managers adapt them to the needs of a particular situation, workforce and environment. Thus, the same principle may produce different results under different circumstances. This limited universality, arising from the variable nature of human behaviour, makes management an inexact social science.

Step 4: Conclusion Management coordinates resources to achieve organisational goals effectively and efficiently. Its systematic knowledge, principles developed through observation and experimentation, and broad but flexible applicability establish it as a social science rather than an exact physical science.

Quick Tip to Solve: Use the three tests of science: organised knowledge, experimentation and universality. For management, qualify the last two by explaining that human behaviour varies.

15. 'A.S. Environs Ltd.' is dealing in Environment-Consultancy. 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 team leader used to travel by air whereas his team travelled by road/train. It was not only time consuming but also at times forced the female team members to travel alone.

As a result, the subordinates were not acting in a desired manner to achieve organisational goals. The CEO of the company 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 in future all the members including the leader would travel together and usefully utilise the travelling time in discussion about the 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 used by the CEO. It means stimulating people to take action towards achieving desired goals by influencing their willingness to work.
- The decisive clue is that the changed travel policy "made a positive impact" and team members began "acting in a manner as desired by the team leader". The CEO addressed a source of dissatisfaction and encouraged willing effort.

Step 1: State the internal and behavioural features **Motivation is an internal feeling:** It arises from needs, desires and aspirations within a person. Management can create conditions that stimulate these feelings, but cannot directly impose willingness. In this case, travelling together addressed employees' concerns about an arrangement that "forced the female team members to travel alone", helping them feel more secure and included.

Motivation produces goal-directed behaviour: It directs a person's energy and effort towards desired objectives. The case expressly says that every member started "acting in a manner as desired by the team leader". Using the journey to discuss the presentation linked their effort with the company's business objectives.

Step 2: State the nature and complexity of motivation **Motivation can be positive or negative:** Positive motivation uses rewards, recognition, appreciation or supportive working conditions to encourage desired behaviour. Negative motivation uses fear, punishment or threats to discourage undesirable behaviour. The CEO used a positive approach here: "all the members including the leader would travel together". The case does not describe a punishment or threat.

Motivation is a complex process: Individuals differ in their needs, expectations and responses, so the same incentive does not motivate everyone equally. A manager must understand the people and the situation before selecting a suitable approach. Here the CEO "discussed the matter" with the team leader and changed the specific travel policy causing dissatisfaction, rather than assuming that a general instruction alone would secure willing performance.

Step 3: Conclusion The element is **motivation**. Its four 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 supportive travel-policy change positively motivated the team towards organisational goals.

Quick Tip to Solve: When a case changes employees' willingness to work, identify motivation. State its four features and use the case's shift from dissatisfaction to desired behaviour as evidence.

16. A company was marketing 'Juicers' which were very popular due to their quality and after-sale-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 in the public was damaged. 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. As a result the goodwill of the company improved in the society. [4 marks]

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

Solution:

Concept:

- Public relations is a promotion-mix tool concerned with building good relations with the organisation's various publics and maintaining a favourable corporate image.
- It seeks favourable publicity, creates goodwill and deals with unfavourable reports, rumours or events that may damage the organisation's reputation.

Step 1: Identify the communication tool from the case The tool is **public relations**. The decisive clue is that the company "took all possible measures to protect and promote its favourable image." Its concern is the reputation of the company among customers and the public, rather than merely announcing a product offer.

Step 2: State the meaning of public relations Public relations means undertaking a variety of programmes to promote and protect the image of a company and its products in the eyes of the public. It builds goodwill through constructive communication and good relations with customers and other groups. Here, neglect of after-sales service damaged those relations; the company's effort to restore its favourable image is therefore public relations.

Step 3: Conclusion The communication tool is **public relations**: programmes undertaken to promote and protect the company's image and its products and to build favourable relations with its publics.

Quick Tip to Solve: In a case, link "protect and promote its favourable image" with public relations; a product discount or special offer instead points to sales promotion.

16(b). Also explain role of the tool as identified in Part (a).

Solution:

Concept:

- Public relations helps a business establish and maintain favourable relations with customers, employees, investors, intermediaries and the wider public.
- A favourable image supports marketing because people are more willing to deal with an organisation they understand and trust; adverse publicity can weaken that trust.

Step 1: Explain its role in protecting the company's image **Building awareness and credibility:**

Public relations communicates information about the organisation and its products to the public. Favourable, credible publicity helps people know and understand the business and strengthens its goodwill.

Dealing with adverse publicity: It helps manage rumours and unfavourable events by communicating the company's position and its corrective efforts. In the case, relations "got spoiled" and the company's public image "was damaged" after it neglected after-sales service, so rebuilding confidence is central to its role.

Step 2: Explain how favourable relations support marketing **Supporting product acceptance:** A favourable corporate image helps the introduction and promotion of products because customers are more receptive to an organisation they trust.

Maintaining relations with different publics: Communication and constructive relations with customers and other groups help the organisation function smoothly and support its marketing efforts. The case's outcome, "the goodwill of the company improved in the society," illustrates this benefit. Public relations supports genuine corrective action; communication alone cannot replace satisfactory customer service.

Step 3: Conclusion Public relations builds awareness and credibility, protects the company against adverse publicity, supports product acceptance and maintains favourable relations with its publics. In this case its immediate role is to rebuild the juicer company's damaged image and goodwill.

Quick Tip to Solve: Explain public relations through its effects on awareness, credibility, reputation and relations, then connect those effects to the damaged image in the case.

17. With change in the consumption habits of people, Neelesh, who was running a sweets shop shifted to chocolate business. On the eve of Diwali he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got lot of orders online and earned huge profit by selling chocolates.

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

Solution:

Concept:

- The social environment consists of social forces such as customs, traditions, values, social trends and people's tastes and preferences. Changes in these forces influence what consumers buy.
- The technological environment includes changes in methods, techniques and scientific improvements that provide new ways of producing or distributing goods and services and communicating with customers.

Step 1: Identify and explain the social environment **Social environment:** The words "With change in the consumption habits of people" show a change in consumers' tastes and preferences. Neelesh responds by shifting from sweets to chocolates. Consumption habits are social forces; a business must adapt its products to them to remain relevant to its customers.

The case also says, "On the eve of Diwali he offered chocolates in attractive packages". Diwali is a festival associated with the custom of exchanging gifts. This illustrates how traditions and customs

affect demand and provide business opportunities. Neelesh combines the existing gift-giving tradition with the changing preference for chocolates. Both illustrations belong to the same social dimension.

Step 2: Identify and explain the technological environment **Technological environment:** The evidence is that he "created a website chocolove.com for taking orders online". The internet provides a new means of reaching customers and receiving orders. Using a website to sell products is an application of technological developments to marketing and distribution.

By adopting online ordering, Neelesh allows customers to place orders without having to visit his shop to do so. The case reports that he received many online orders and earned a large profit. This shows how timely adoption of technology can help a business exploit demand. The website, rather than the mere fact that he earned a profit, is the evidence that identifies this dimension.

Step 3: Conclusion The dimensions discussed are **social environment**, shown by changing consumption habits and the Diwali gifting custom, and **technological environment**, shown by the website used for online orders.

Quick Tip to Solve: Match each dimension to a case phrase: habits and festivals indicate the social environment; a website and online ordering indicate the technological environment.

18. 'My Car Ltd.' decided to set-up its new car manufacturing factory in the backward area of West Bengal where very less job opportunities were available. People of that area welcomed this effort of 'My Car Ltd.' The company also decided to provide facilities like school, hospital, market etc. in the factory premises so that the people are attracted to join the factory as workers.

'My Car Ltd.' started earning huge profit. Another competing company asked its production manager 'Arvind' to investigate the reasons of earning huge profits by 'My Car Ltd.'

Arvind 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, where as 'My Car 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 feed-back. [4 marks]

18(a). Identify the type of organisation which permits the flow of communication in all the directions in 'My Car Ltd.'.

Solution:

Concept:

- Informal organisation is the network of social relationships that arises spontaneously through interaction among employees.
- Its communication need not follow the prescribed scalar chain; members can communicate according to their social contacts and needs.

Step 1: Locate the deciding clue The case says My Car Ltd. was 'allowing flow of communication in all the directions as per the requirement'. This freedom distinguishes its informal network from communication restricted to an official chain of command.

Step 2: Name the organisation **Informal organisation** permits this multidirectional communication.

It can coexist with the formal organisation: clear responsibility and accountability in the case do not eliminate the informal relationships among employees.

Step 3: Conclusion The organisation identified is informal organisation.

Quick Tip to Solve: Look for free communication across ranks: a formal structure and an informal network can exist in the same company.

18(b). Also state an advantage of the type of organisation identified in part (a) above.

Solution:

Concept:

- Informal organisation provides communication through personal contacts without requiring each message to pass through every official level.
- An advantage should explain the benefit of this network rather than confuse it with the authority relationships of formal organisation.

Step 1: State the advantage **Faster communication:** Informal communication does not have to follow a fixed scalar chain. Employees can contact the people concerned directly through their social relationships, so relevant information can circulate quickly.

Step 2: Relate it to the case The passage itself says this 'lead to faster spread of information as well as quick feed-back'. Thus, employees can obtain timely responses and coordinate their work promptly; this is a benefit of the informal organisation identified in part (a).

Step 3: Conclusion One advantage is faster communication, with quick feedback through the informal network.

Quick Tip to Solve: Use the case's own outcome, faster information and feedback, to explain the advantage instead of just naming the network.

18(c). State any two values which 'My Car Ltd.' wants to communicate to the society.

Solution:

Concept:

- Business values are the desirable social commitments reflected in a company's actions, beyond the pursuit of profit.
- A value identified from a case must be connected to a stated action, so that the answer does not introduce an unsupported activity.

Step 1: Identify concern for employment **Employment generation and balanced regional development:** The company selected a 'backward area of West Bengal where very less job opportunities were available'. Establishing its factory there shows concern for livelihood opportunities in a disadvantaged region.

Step 2: Identify concern for community welfare **Concern for employees and community welfare:**

The company decided to provide 'facilities like school, hospital, market etc.' These facilities support education, health and everyday needs, showing a commitment to the welfare of the people associated with the factory.

Step 3: Conclusion Two values are employment generation in a backward region and concern for the welfare of employees and the community.

Quick Tip to Solve: Pair each social value with its evidence: the backward-area factory supports jobs, while the school and hospital support welfare.

19. State any four methods of floatation of new issues in the primary market. [4 marks]

Solution:

Concept:

- The primary market deals in new securities issued by companies to raise fresh capital. The methods of floatation describe how these securities are offered to prospective investors.
- New issues may be offered to the public, placed through intermediaries, allotted privately to selected investors, or offered to existing shareholders. These methods differ in the investors approached and the route used to sell the securities.

Step 1: State the methods involving a public offer

- **Offer through prospectus:** The company invites the general public to subscribe to its securities by issuing a prospectus. The prospectus contains relevant information about the company and its proposed issue, helping prospective investors decide whether to invest. The issue may be underwritten and must comply with the prescribed disclosure requirements.
- **Offer for sale:** The company does not issue the securities directly to the public. Instead, it sells them to an intermediary, such as an issuing house or stockbroker, at an agreed price. The intermediary then offers these securities for sale to the investing public, ordinarily at a higher price.

Step 2: State the methods directed at selected or existing investors

- **Private placement:** The company allots securities to institutional investors and selected individuals rather than inviting subscriptions from the general public. It allows the company to raise funds through a limited group of investors and can save the cost and procedural effort associated with a public issue.
- **Rights issue:** An existing company offers new shares first to its existing shareholders, normally in proportion to the shares they already hold. Shareholders receive a right to subscribe to the additional shares before these are offered to outsiders. This gives them an opportunity to maintain their proportionate ownership in the company.

Step 3: Conclusion Four methods of floatation of new issues are **offer through prospectus, offer for sale, private placement and rights issue**. Each is a primary-market method because it is used in placing a new issue of securities, rather than trading securities already issued.

Quick Tip to Solve: Distinguish the routes by their immediate audience: prospectus reaches the public, offer for sale uses an intermediary, private placement targets selected investors, and rights issue targets existing shareholders.

20. Prateek is working in a multi-national company in Noida. He was running temperature for the last many days. When his blood was tested, he was found positive for malaria. He was admitted in the hospital and a blood transfusion was advised by the doctors as his condition was very serious. One of his colleagues sent a text message to his superior 'Mr. B. Chatterjee'. Mr. B. Chatterjee, immediately sent a text message to the employees of the organisation requesting them to donate blood for Prateek. When the General Manager came to know about it he ordered for fumigation in the company premises and for cleaning the surroundings. [5 marks]

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

Solution:

Concept:

- Formal communication passes through prescribed official channels and authority relationships to conduct organisational work.
- Informal communication arises through personal or social interaction, independently of prescribed official channels; the use of a text message alone does not decide its category.

Step 1: Quote formal communication **Formal communication:** 'When the General Manager came to know about it he ordered for fumigation in the company premises and for cleaning the surroundings.' The General Manager is issuing an official work instruction under his authority, so this is formal downward communication.

Step 2: Quote informal communication **Informal communication:** 'One of his colleagues sent a text message to his superior Mr. B. Chatterjee.' This is a personal message about Prateek's illness and urgent need for help, transmitted through human concern rather than as a prescribed official report. The subsequent appeal for blood donation similarly reflects the informal personal network.

Step 3: Conclusion The General Manager's official fumigation and cleaning order shows formal communication; the colleague's personal message about Prateek shows informal communication.

Quick Tip to Solve: Classify communication by its channel and purpose, rather than by whether it is spoken, written or sent as a text message.

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

Solution:

Concept:

- Informal communication is the exchange of information through personal and social relationships rather than the officially prescribed channels.
- The informal communication network is often called the grapevine, because information spreads among people through their contacts.

Step 1: Explain freedom from prescribed channels **No prescribed path:** Informal communication does not necessarily follow the official chain of command. It may move upward, downward or horizontally according to the relationships among employees. The people communicating need not be linked through a direct reporting relationship, and no fixed route is prescribed for every message.

Step 2: Explain rapid transmission **Rapid spread of information:** Messages can pass quickly through personal contacts because they need not wait for each formal level to forward them. In this case, the colleague's text about Prateek was followed immediately by an appeal for blood donation. This illustrates how personal concern can activate the network promptly.

Step 3: Conclusion Two features are the absence of a prescribed communication path and the rapid spread of information through personal contacts.

Quick Tip to Solve: Remember the grapevine as a flexible network of personal contacts: it bypasses fixed routes and can spread information quickly.

20(c). Identify any two values that are being communicated to the society in the above case.

Solution:

Concept:

- Values are reflected in decisions and behaviour that protect or assist other people.
- The answer should identify distinct values and link each one to evidence in the case, rather than retell the entire incident.

Step 1: Identify compassion and mutual assistance **Compassion and concern for others:** Mr. B. Chatterjee immediately sent a message 'requesting them to donate blood for Prateek'. The urgent appeal shows a willingness to help a colleague in serious medical difficulty. It also encourages cooperation among employees for a humanitarian purpose.

Step 2: Identify concern for health and hygiene **Concern for health and a clean environment:** The General Manager 'ordered for fumigation in the company premises and for cleaning the surroundings'. This preventive action demonstrates responsibility for employees' health and the cleanliness of the workplace and nearby surroundings, rather than concern only for immediate output.

Step 3: Conclusion Two values are compassion and mutual assistance, and concern for health, hygiene and a clean environment.

Quick Tip to Solve: Connect the blood-donation appeal with compassion and the fumigation order with health and environmental cleanliness.

21. Two years ago Mayank obtained degree in food technology. For some time he worked in a company manufacturing Bread and Biscuits. He was not happy in the company and decided to have his own Bread and Biscuits manufacturing unit. For this he decided the objectives and the targets and formulated action plan to achieve the same.

One of his objective was to earn 50% profit on the amount invested in the first year. It was decided that raw materials like flour, sugar, salt etc. will be purchased on two months credit. He also decided to follow the steps required for marketing the products through his own outlets. He appointed Harsh as a Production-Manager who decided the exact manner in which the production activities are to carried out. Harsh also prepared a statement showing the requirement of workers in the factory throughout the year. Mayank informed Harsh about his sales target for different products, areawise for the forth coming quarter. While working on the production table, a penalty of Rs 150 per day was announced for not wearing the helmet, gloves and apron by the workers.

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

[5 marks]

Solution:

Concept:

- Planning specifies the desired results and the course of action for achieving them. NCERT distinguishes objectives, strategy, policy, procedure, method, rule and budget by the purpose each serves.
- In a case, identify each plan by its wording: a target is an objective, general decision guidance is a policy, an ordered sequence is a procedure, a prescribed way of doing a task is a method, and a compulsory instruction is a rule.

Step 1: Identify the objective and overall strategy **Objective:** "One of his objective was to earn 50% profit on the amount invested in the first year." An objective is the end result that management seeks to achieve. The desired return and the first-year period make Mayank's objective specific; purchasing, production and marketing decisions should support this result.

Strategy: "For this he decided the objectives and the targets and formulated action plan to achieve the same." A strategy is a comprehensive plan for achieving organisational objectives, covering long-term objectives, a course of action and allocation of resources. The quoted line indicates the overall direction for establishing and operating the proposed unit; its particular operating decisions are detailed through the plans below.

Step 2: Distinguish policy, procedure and method

- **Policy:** "raw materials like flour, sugar, salt etc. will be purchased on two months credit." A policy is a general guideline that channels thinking and decision-making. The credit-purchase policy guides repeated purchasing decisions instead of requiring a new decision about payment terms on every purchase.
- **Procedure:** "follow the steps required for marketing the products through his own outlets." A procedure lays down the routine steps, in their chronological sequence, for carrying out an activity. This plan concerns the sequence to be followed in marketing through the outlets.
- **Method:** "decided the exact manner in which the production activities are to carried out." A method prescribes the way in which a particular task is to be performed. Harsh specifies how

production work is done, whereas a procedure specifies the sequence of activities.

Step 3: Identify the quantitative budget and compulsory rule

- **Budget:** "Harsh also prepared a statement showing the requirement of workers in the factory throughout the year" and "Mayank informed Harsh about his sales target for different products, areawise for the forth coming quarter." A budget states expected results or requirements in numerical terms for a future period. A manpower budget may express requirements as numbers of workers, while a sales budget specifies sales targets by product, area and period. Budgets need not be expressed only in money; they also help compare actual performance with planned quantities.
- **Rule:** "a penalty of Rs 150 per day was announced for not wearing the helmet, gloves and apron by the workers." A rule states exactly what must or must not be done and allows no discretion in the specified situation. Wearing the protective equipment is compulsory, and the announced penalty reinforces compliance.

Step 4: Conclusion The case illustrates an objective and an overall strategy, a credit-purchase policy, a marketing procedure, a production method, quantitative manpower and sales budgets, and a compulsory safety rule. Each classification follows what the quoted decision is intended to do.

Quick Tip to Solve: Separate procedure from method: procedure answers "in what order?", method answers "how?". A numerical future statement is a budget, even when expressed as workers or units rather than money.

22. State the relationship between planning and controlling functions of management. [5 marks]

Solution:

Concept:

- Planning sets objectives and decides in advance the course of action needed to achieve them; controlling checks whether actual performance conforms to those plans.
- Planning and controlling are interdependent and inseparable functions. Standards originate in plans, while control provides feedback for corrective action and future planning.

Step 1: Explain how planning provides the basis for control **Planning supplies standards:** Plans specify the objectives, targets and expected methods of work. These become the standards against which controlling measures actual performance. Without a predetermined standard, a manager cannot meaningfully decide whether performance is satisfactory or whether a deviation has occurred. Thus, planning is a prerequisite for controlling.

Step 2: Explain why plans need control **Controlling ensures implementation:** Merely making a plan does not ensure that employees will achieve its objectives. Controlling measures performance, compares it with the planned standards and initiates corrective action when necessary. Consequently, planning without controlling is meaningless, because management would have no check on whether its intended results were actually obtained.

Step 3: Connect feedback with the next planning cycle **Control improves future plans:** The analysis of deviations reveals difficulties in execution and may also expose unrealistic targets or faulty assumptions in the plan itself. Managers use this information to improve methods, revise standards where justified and prepare better plans for the next period. Planning initiates the management

process, and controlling completes one cycle while supplying inputs for the next.

Step 4: Relate both functions to the future and the past **Both are forward-looking:** Planning selects future actions, while controlling uses corrective action to prevent future deviations and improve subsequent performance.

Both are backward-looking: Planning draws on past experience and information obtained from previous control exercises. Controlling also looks back to compare actual performance already achieved with standards fixed earlier. Hence, it is incomplete to call planning only forward-looking and controlling only backward-looking.

Step 5: Conclusion Planning and controlling are complementary: planning establishes the standards, controlling checks their achievement, and the resulting feedback strengthens future planning. Neither function can operate effectively in isolation.

Quick Tip to Solve: Organise the answer around standards, implementation, feedback, and the forward-looking and backward-looking aspects of both functions.

23. Vasvi purchased a bottle of pickle 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]

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

Solution:

Concept:

- Labelling is the marketing activity of providing information about a product through a label attached to its package. A label may be a simple tag or a detailed printed statement.
- Packaging supplies the container or wrapper, while labelling communicates information about the product. Identify the activity by the specific defect described in the case.

Step 1: Locate the decisive information in the case The question says that "the information provided on the bottle was not clear". This is a defect in communicating product information. The bottle already exists as the container, and the case does not describe a broken bottle, leakage or failure of physical protection. Therefore the clue points specifically to information on the package.

Step 2: Identify and explain the neglected aspect **Labelling:** The important aspect neglected by the marketer was proper labelling. A readable label tells the buyer what the product is and gives relevant details, precautions and declarations. On a food product such as pickle, clear information helps the buyer judge suitability and use the product appropriately. Vasvi "fell sick on consuming it", reinforcing the importance of clear product information. The case does not identify the precise missing detail, so no particular ingredient, date or warning should be invented. Her obtaining relief from the District forum concerns consumer protection; the marketing aspect asked for remains labelling.

Step 3: Conclusion The neglected aspect was labelling: the information provided on the pickle bottle was unclear, preventing effective communication of relevant product information.

Quick Tip to Solve: When the case stresses unclear information on a bottle, identify labelling; a defect in the container itself would point to packaging.

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

Solution:

Concept:

- Labelling communicates information about a product through its package label. The case clue is that "the information provided on the bottle was not clear.
- NCERT identifies five functions: describing the product, identifying the product or brand, grading products, helping promotion and providing information required by law.

Step 1: Explain information and identification **Describing the product and specifying its contents:** Labels provide details such as ingredients, quantity, method of use, precautions, and manufacturing or expiry information as applicable. This helps consumers understand and use the product properly. The pickle case shows why readable information matters; it does not specify exactly which declaration was missing.

Identifying the product or brand: A label carries the name, symbol or other distinguishing information by which a buyer recognises the product. It differentiates the desired brand from competing offerings and helps consumers make repeat purchases without confusion.

Step 2: Explain the remaining functions **Grading of products:** When different grades or qualities of a product are sold, the label identifies the grade concerned. It enables buyers to distinguish variants and select a product suited to their requirements.

Helping in promotion: An attractive label draws attention at the point of sale. Its design, description of benefits or information about a special offer can persuade a consumer to consider the product and encourage purchase.

Providing information required by law: A label carries statutory declarations and warnings applicable to that product. Such information helps the seller comply with legal requirements and enables buyers to make informed decisions. Food labels, for example, communicate prescribed product information, while other goods may require specific safety warnings.

Step 3: Conclusion Labelling describes the product and its contents, identifies the product or brand, grades products, helps promotion and provides information required by law.

Quick Tip to Solve: Recall the five label functions as describe, identify, grade, promote and provide legal information; explain what each does for the buyer or seller.

24. Kay Ltd. is a company manufacturing textiles. It has a share capital of ₹ 60 lakhs. In the previous year its earning per share 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 year the company earned profit of ₹ 8 lakhs on capital employed. It paid tax @ 40%. [6 marks]

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

Solution:

Concept:

- Earnings per share is the profit available to equity shareholders divided by the number of equity shares. Debt creates a fixed interest charge before tax is calculated.
- The EPS comparison requires the number of equity shares, not merely their total paid-up capital. Share capital gives the share count only when the paid-up amount per share is also known.

Step 1: Calculate interest and profit after tax The debentures raised Rs 40,00,000 at 10%. Their annual interest is

$$\text{Interest} = 40,00,000 \times 0.10 = \text{Rs } 4,00,000.$$

Treat the stated Rs 8,00,000 profit on capital employed as earnings before interest and tax. Profit before tax is therefore Rs 4,00,000, and tax at 40% is Rs 1,60,000. Thus,

$$\text{Profit after tax} = 4,00,000 - 1,60,000 = \text{Rs } 2,40,000.$$

Step 2: Compare the new earnings per share Let N be the unchanged number of equity shares. The new EPS is Rs $2,40,000/N$, compared with the previous Rs 0.50. It exceeds Rs 0.50 if $N < 4,80,000$, equals it if $N = 4,80,000$, and falls below it if $N > 4,80,000$. The question gives share capital of Rs 60,00,000 but neither the number of shares nor their paid-up amount per share. Therefore it does not determine which of these cases applies. A rupee amount of share capital cannot be used directly as a count of shares.

Step 3: Conclusion Profit after tax is Rs 2,40,000 and new EPS is Rs 2,40,000 divided by the number of equity shares. The printed data do not establish a definite EPS gain or loss; the share count or paid-up amount per share is required.

Quick Tip to Solve: Before dividing profit by share capital, check the denominator: EPS uses the number of equity shares, so their paid-up amount per share matters.

24(b). Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.

Solution:

Concept:

- Capital structure is the mix of owners' funds and borrowed funds used by a company. Debentures are borrowed funds carrying a contractual interest obligation.

- Debt can offer tax and control advantages, but a favourable financing choice must also consider the capacity to meet fixed interest and repayment obligations.

Step 1: Explain cash-flow capacity **Strong and stable cash flows:** Adequate, predictable cash inflows favour debentures because interest and repayment have to be paid on schedule, even when profits fluctuate. A company should assess both the amount and timing of its cash inflows before accepting these fixed commitments. High accounting profit alone does not ensure that cash will be available when payment falls due.

Step 2: Explain the tax advantage **High tax rate:** Interest on debt is deducted before calculating taxable profit, which reduces the effective cost of debt. The case states that Kay Ltd. 'paid tax @ 40%'. At that tax rate, a 10% interest rate has an after-tax cost of 6%, provided the company can use the interest deduction. This makes debt relatively attractive compared with a situation with little or no tax benefit.

Step 3: Explain retention of control **Desire to retain control:** Debentures do not normally confer voting rights in company management. Raising funds through them therefore enables the existing equity shareholders to finance expansion without issuing new voting equity shares and diluting their control. This advantage must still be weighed against the fixed financial obligations created by debt.

Step 4: Conclusion Three factors favouring debentures are stable and adequate cash flows, a high tax rate giving an interest tax benefit, and the desire to retain existing shareholders' control.

Quick Tip to Solve: Choose three distinct debt factors: capacity to service it, the interest tax benefit, and preservation of voting control.

25. Explain any four points which highlight the importance of principles of management. [6 marks]

Solution:

Concept:

- Principles of Management: the significance of management principles lies in their practical use as broad guidelines for managerial decisions and action.
- Principles are based on observation and experience. They guide judgement rather than prescribe a rigid answer for every situation, so managers apply them according to the circumstances.

Step 1: Explain how principles improve decisions and use of resources

- **Providing managers with useful insights into reality:** Principles help managers understand real work situations and anticipate the results of their decisions. They draw on the collective experience of earlier managers, helping a manager avoid learning every lesson through costly trial and error. For example, unity of command highlights the confusion that can arise when an employee receives conflicting instructions from several superiors.
- **Optimum utilisation of resources and effective administration:** Principles help a manager use human and material resources efficiently and reduce avoidable wastage. Division of work, for instance, develops specialisation, while a proper balance between authority and responsibility clarifies what each person must do. Such guidance reduces duplication, makes duties clear and supports orderly administration of the organisation.

Step 2: Explain how principles support reasoning and adaptation

- **Scientific decisions:** Management principles encourage decisions based on facts, thoughtful analysis and an understanding of cause-and-effect relationships, rather than personal bias, guesswork or a rule of thumb. Managers consider the relevant evidence and the likely consequences before acting. This makes their decisions more logical, balanced and capable of being justified.
- **Meeting changing environment requirements:** Principles provide general guidelines that can be modified in application as business conditions change. Managers can adapt the degree of centralisation, supervision or employee participation to the organisation's needs. Their flexibility helps management respond to changes in technology, markets and the workforce while continuing to pursue organisational objectives.

Step 3: Conclusion Four points highlighting the importance of management principles are useful insights into reality, optimum utilisation of resources and effective administration, scientific decisions, and meeting changing environment requirements. Together, these guidelines improve managerial understanding and action while allowing judgement to suit each situation.

Quick Tip to Solve: For each importance point, write the NCERT heading and explain how it improves a manager's work; keep the significance of principles separate from their features.