CBSE Class 12 Business Studies Question Paper 2017 with Solution PDF-Set 66/2

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. What is meant by 'Capital Structure' ? [1 mark]

Solution:

Concept:

- Capital structure refers to the mix of debt and equity used by a company to finance its operations and long-term investment.
- Debt is borrowed finance, whereas equity represents owners' funds; the relative proportions form the financing mix.

Step 1: Identify the sources being combined A company can obtain long-term funds from owners and from lenders. Equity funds and debt funds therefore constitute two broad components of its capital financing.

Step 2: State what the structure measures Capital structure describes the proportion of these components, rather than the total amount of capital alone. For example, a company financed partly by equity and partly by debt has a particular debt-equity mix.

Step 3: Conclusion Capital structure means the mix or proportion of debt and equity in the total capital employed by a company.

Quick Tip to Solve: For a definition of capital structure, write debt-equity mix; do not confuse the mix of funds with their total amount.

2. Why is 'Aptitude Test' conducted in the process of selection ? [1 mark]

Solution:

Concept:

- An aptitude test is a selection test that measures an individual's potential to acquire skills or abilities.
- It helps predict a candidate's capacity to learn and develop for the job, rather than merely checking existing proficiency.

Step 1: Identify what the employer needs to predict During selection, an employer needs to know whether an applicant can acquire the abilities required for effective performance after suitable training.

Step 2: Connect the test to that purpose An aptitude test measures this capacity for learning and development. Its result helps assess the candidate's likely future success in the work, even when the person has not yet mastered every job skill.

Step 3: Conclusion An aptitude test is conducted to measure a candidate's potential for learning new skills and to indicate the person's capacity to develop for the job.

Quick Tip to Solve: Remember aptitude as potential to learn; a trade or proficiency test checks skills the candidate already possesses.

3. Mansi took her niece, Ridhima, for shopping to 'Mega Stores' to buy her a bag for her birthday. She was delighted when on payment of the bag she got a pencil box along with the bag free of cost. Identify the technique of sales promotion used by the company. [1 mark]

Solution:

Concept:

- Sales promotion uses short-term incentives to encourage customers to buy a product.
- Under product combination, another product is offered as a free gift along with the main product purchased.

Step 1: Locate the incentive in the case Ridhima receives a pencil box along with the bag, and the case explicitly states that the pencil box is provided "free of cost". The extra item is linked to the purchase of the bag.

Step 2: Identify the matching technique The customer gets two products together while paying for the main product. This is product combination. There is no price reduction on the bag, and no lucky draw or competitive event determines who receives the gift.

Step 3: Conclusion The sales-promotion technique is **product combination**: offering a free pencil box with the purchase of a bag.

Quick Tip to Solve: A free different product with the main purchase signals product combination; an extra quantity of the same product signals a quantity gift.

4. Sika Ltd., a reputed industrial machines manufacturer, needs Rupees twenty crores as additional capital to expand the business. Mr. Amit Joshi, the Chief Executive Officer (CEO) of the company wants to raise funds through equity. The Finance Manager, Mr. Narinder Singh, suggested that the shares may be sold to investing public through intermediaries, as the same will be less expensive. Name the method through which the company decided to raise additional capital. [1 mark]

Solution:

Concept:

- Offer for sale is a method of floating securities in the primary market through intermediaries such as issuing houses or stockbrokers.
- The company sells securities to intermediaries, which subsequently resell them to the investing public.

Step 1: Use the case evidence The finance manager suggests that shares be "sold to investing public through intermediaries". Thus the company is using an intermediary route for placing its new shares with the public.

Step 2: Match the method to the evidence In an offer for sale, securities are first sold to intermediaries, generally at an agreed price, and the intermediaries then offer them to investors. This differs from a direct public offer by prospectus and from a rights issue to existing shareholders.

Step 3: Conclusion The method is **offer for sale**, in which shares are offered to the investing public

through intermediaries.

Quick Tip to Solve: For new shares, the words public through intermediaries identify offer for sale; existing shareholders point to a rights issue.

5. Differentiate between 'formal' and 'informal' organisation on the basis of 'flow of communication'.

[1 mark]

Solution:

Concept:

- Formal organisation is deliberately established by management and has prescribed authority relationships and official communication channels.
- Informal organisation develops through social interaction; its communication is not restricted to the official chain of command.

Step 1: Select the requested basis The question asks only about the flow of communication. Compare whether messages must follow the prescribed official route or may move freely among people.

Step 2: Present the distinction

Basis	Formal organisation	Informal organisation
Flow of communication	Follows the official chain of command and prescribed channels.	Can flow in all directions, independently of the official chain of command.

Step 3: Conclusion Formal communication follows prescribed official channels; informal communication can move in any direction through social relationships.

Quick Tip to Solve: Use official chain for formal communication and all directions for informal communication when this single basis is asked.

6. Give the meaning of 'supervision' as an element of directing. [1 mark]

Solution:

Concept:

- Supervision is an element of directing concerned with overseeing the work of subordinates.
- It involves guiding employees and observing their efforts so that work is carried out properly and organisational objectives are achieved.

Step 1: Explain the overseeing role A supervisor maintains direct contact with employees and watches the progress of their work. This makes it possible to see whether activities are being performed according to the instructions given.

Step 2: Explain the guidance involved Supervision also means helping and guiding subordinates while they work, clarifying doubts and correcting difficulties. It therefore combines observation of performance with practical guidance, rather than merely finding faults after completion.

Step 3: Conclusion Supervision means overseeing and guiding the efforts of subordinates to ensure that work is performed properly and organisational goals are achieved.

Quick Tip to Solve: For the meaning of supervision, combine the two actions overseeing and guiding subordinates at work.

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7. Bhagwati Enterprises is a company engaged in the marketing of air-conditioners of a famous brand. The company has a functional structure with four main functions – Purchase, Sales, Finance and Staffing. As the demand for the product grew, the company decided to recruit more employees.

Identify the concept which will help the Human Resource Manager to find out the number and type of personnel available so that he could decide and recruit the required number of persons for each department. [1 mark]

Solution:

Concept:

- Estimating manpower requirements includes analysing the workforce already available and the workload that needs to be performed.
- Workforce analysis identifies the number and types of employees available; workload analysis determines the number and types required.

Step 1: Identify the information sought in the case The Human Resource Manager needs to find the "number and type of personnel available". This asks for an assessment of the company's existing human resources in its departments.

Step 2: Name the relevant analysis Workforce analysis provides this information about available employees. The manager can compare it with the staff required for the increased workload and then decide how many additional people to recruit. The decisive clue is available staff, rather than required staff alone.

Step 3: Conclusion The concept is **workforce analysis**, which identifies the number and types of personnel already available in the organisation.

Quick Tip to Solve: Available employees means workforce analysis; employees needed for the work means workload analysis.

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8. Isha Machines was a renowned name for quality sewing machines since 1960. Mr. Suresh, the owner of Isha Machines, was worried as the production had declined during the last three months. He directed the Production Manager to find out the reason. The Production Manager ordered the different supervisors to prepare a performance report of the workers working under them.

Identify the step taken by the Production Manager that is related to one of the functions of management.

[1 mark]

Solution:

Concept:

- Controlling involves ensuring that actual performance conforms to planned standards.
- Measurement of actual performance obtains reliable information about what employees have actually achieved; performance reports are one method of measurement.

Step 1: Identify the action in the case The Production Manager ordered supervisors to 'prepare a performance report of the workers working under them'. This collects information about the workers' actual output.

Step 2: Relate the action to the controlling process Preparing these reports is measurement of actual performance. The reports will provide the information subsequently needed for comparison with standards and analysis of deviations; ordering reports does not itself perform those later steps.

Step 3: Conclusion The step is **measurement of actual performance**, under the controlling function.

Quick Tip to Solve: Identify what the manager actually does: collecting performance reports indicates measurement, while checking those results against targets indicates comparison.

9. Explain briefly 'Initiative' and 'Esprit de Corps' as principles of general management. [3 marks]

Solution:

Concept:

- Fayol's principles of general management are broad guidelines for managerial decisions and behaviour; they are applied with regard to the situation.
- Initiative encourages employee participation, while esprit de corps develops unity and cooperation within the group.

Step 1: Explain initiative **Initiative:** Employees should be encouraged to think out and execute plans for improvement. Managers should invite useful suggestions, allow employees reasonable freedom to contribute and encourage them to carry a proposal through within the limits of authority and discipline. Taking the first step with self-motivation strengthens interest, confidence and involvement in work. Managers should avoid suppressing a useful suggestion merely because they did not originate it.

Step 2: Explain esprit de corps **Esprit de corps:** Management should promote team spirit, unity and harmony among employees. Group effort should serve common organisational objectives instead of being weakened by needless divisions or rivalry. Managers should replace an attitude of "I with "we,

encourage cooperation and recognise the contribution of the team. This develops mutual trust and a sense of belonging, making coordinated work easier. It is particularly valuable where success depends on many people working together.

Step 3: Conclusion Initiative gives employees scope to contribute and implement ideas; esprit de corps builds the unity and team spirit needed to work towards common objectives.

Quick Tip to Solve: Remember initiative as encouraging ideas and action, and esprit de corps as encouraging unity and team spirit.

10. State any three points of importance of planning. [3 marks]

Solution:

Concept:

- Planning decides in advance what is to be done, how, when and by whom, so that organisational objectives can be achieved.
- Its importance arises from giving purposeful direction to action, preparing for future conditions and coordinating the use of resources.

Step 1: State how planning gives direction **Planning provides directions:** It states the objectives and the course of action for achieving them. Employees know what they must do, where their efforts should lead and how their work contributes to organisational goals. This brings different activities into a common direction instead of leaving individuals to pursue unrelated aims.

Step 2: State how planning prepares for uncertainty **Planning reduces the risks of uncertainty:** Managers look ahead, assess likely future conditions and anticipate changes or difficulties. They can prepare suitable courses of action before problems arise. Planning cannot eliminate uncertainty, but it reduces its adverse effects by making the organisation better prepared to respond.

Step 3: State how planning prevents waste **Planning reduces overlapping and wasteful activities:** A clear plan coordinates the work of departments and individuals. It clarifies responsibilities and the sequence of activities, helping avoid unnecessary duplication, confusion and repeated effort. Resources can therefore be used more economically towards the agreed objectives.

Step 4: Conclusion Three points of importance are that planning provides directions, reduces the risks of uncertainty, and reduces overlapping and wasteful activities.

Quick Tip to Solve: For a question asking for points of importance, name each NCERT heading first and then show its distinct benefit; do not substitute steps of the planning process.

11. Explain briefly any three organisational barriers to communication. [3 marks]

Solution:

Concept:

- Communication is the transfer of information and understanding between people; a message is effective when its intended meaning is understood.
- Organisational barriers arise from the policies, rules, authority relationships or structure within which communication takes place.

Step 1: Explain the effect of organisational policy **Organisational policy:** An explicit or implicit policy may discourage the free flow of communication. For example, if management discourages upward communication, employees may avoid reporting problems or making suggestions. Important information then fails to reach the people who need it, even though employees are capable of expressing it.

Step 2: Explain the effect of rules and regulations **Rules and regulations:** Rigid rules may require messages to pass only through prescribed channels or to follow lengthy procedures. Such formalities can delay the message and restrict flexibility in communication. Insisting on a strict chain of authority for every routine message may prevent information from reaching the concerned person promptly.

Step 3: Explain the effect of status **Status:** Differences in the formal position of superiors and subordinates can create a communication barrier. Employees may hesitate to communicate openly with a higher official because of that person's authority and position. As a result, they may withhold suggestions or difficulties, and the superior may not receive a complete and accurate picture of operations.

Step 4: Conclusion Organisational policy, rigid rules and regulations, and status differences are three organisational barriers that can obstruct effective communication.

Quick Tip to Solve: Keep organisational barriers separate from semantic and psychological ones: focus on company policy, formal rules and authority relationships.

12. Hemant, Guddu and Toshita were friends from college days and presently they were doing different kinds of business. They regularly meet and discuss their business ideas, and exchange notes on customer satisfaction, marketing efforts, product designing, selling techniques, social concerns, etc. In one of such meetings, Hemant drew the attention of Guddu and Toshita towards the exploitation of consumers. He told that most of the sellers were exploiting the consumers in various ways and were not paying attention towards the social, ethical and ecological aspects of marketing, whereas he was not doing so. Guddu told that they were under pressure to satisfy the consumers but stated that the consumers would not buy or not buy enough unless they were adequately convinced and motivated for the same. Toshita stressed that a company cannot achieve its objectives without satisfying the needs of the customers. It was the duty of the businessmen to keep consumer satisfaction in mind, because business is run by the resources made available by the society. She further stated that she herself was taking into consideration the needs of the customers. Identify the various types of thinking that guided Hemant, Guddu and Toshita in the marketing efforts of their business. Also, state one more feature each of the various types of thinking identified that is not given in the above paragraph. [3 marks]

Solution:

Concept:

- Marketing management philosophies are the different orientations that guide a firm's marketing efforts: they determine what the firm emphasises and how it seeks to achieve its objectives.
- The societal marketing concept balances consumer satisfaction with society's long-term welfare; the selling concept emphasises persuasion; and the marketing concept centres on satisfying the target market.

Step 1: Identify Hemant's orientation **Hemant: Societal marketing concept.** He criticises sellers who ignore the "social, ethical and ecological aspects of marketing" and says that he does not act in that manner. These words show that his concern extends beyond an immediate sale to the welfare of consumers and society.

One additional feature: The firm aims to earn profits through customer satisfaction together with social welfare in the long run. Thus, it seeks a balance between the firm's profitability, consumers' wants and society's enduring interests, rather than treating short-term sales as the sole objective.

Step 2: Identify Guddu's orientation **Guddu: Selling concept.** His belief that consumers will not buy enough unless they are "adequately convinced and motivated" identifies a selling orientation. The emphasis is on persuading people to purchase.

One additional feature: Its starting point is the factory and the existing product. The business first produces what it can make and then seeks buyers for that output, instead of beginning by investigating the target customers' needs.

Step 3: Identify Toshita's orientation **Toshita: Marketing concept.** She states that a company cannot achieve its objectives "without satisfying the needs of the customers" and says she considers those needs herself. Customer satisfaction is therefore the basis of her marketing effort.

One additional feature: It uses integrated marketing: product design, pricing, promotion and distribution are coordinated to serve the identified target market. All these activities work together to deliver the satisfaction promised to customers.

Step 4: Conclusion Hemant follows societal marketing, Guddu follows the selling concept, and Toshita follows the marketing concept. Their additional features are, respectively, long-term profitability with social welfare, a factory-and-existing-product starting point, and integrated marketing activities.

Quick Tip to Solve: Match the case's emphasis: society and ecology suggest societal marketing; persuasion suggests selling; satisfying identified customer needs suggests marketing.

13. Ramnath Ltd. is dealing in import of organic food items in bulk. The company sells the items in smaller quantities in attractive packages.

Performance of the company has been up to the expectations in the past.

Keeping up with the latest packaging technology, the company decided to upgrade its machinery. For this, the Finance Manager of the company, Mr. Vikrant Dhull, estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis.

Therefore, Mr. Vikrant Dhull began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources. For the remaining funds he is trying to find out alternative sources.

Identify the financial concept discussed in the above paragraph. Also, state any two points of importance of the financial concept, so identified. [3 marks]

Solution:

Concept:

- Financial planning is the preparation of a financial blueprint for an organisation's future operations. It estimates the amount of funds needed and when they will be needed, and considers the possible sources of those funds.
- Its objective is to ensure that adequate funds are available at the right time, while avoiding unnecessary excess financing and the cost of idle funds.

Step 1: Identify the concept from the case **Financial planning** is the concept discussed. Mr. Vikrant Dhull "estimated the amount of funds required and the timings" for upgrading the machinery. He prepares a sales forecast and profit estimates, checks the availability of internal funds, and searches for alternative sources for the balance. These are connected parts of planning future financial requirements and their financing; the exercise goes beyond merely choosing one source of capital.

Step 2: Explain how it prepares the firm for future situations **Helps in facing eventualities:** Financial planning forecasts what may happen under different business situations. By estimating future receipts, payments and financing needs, management can prepare alternative arrangements in advance. It can therefore respond more effectively if actual conditions differ from expectations, rather than discovering a cash shortage only when payment is due.

Step 3: Explain how it improves coordination **Coordinates different business functions:** Financial planning links the financial implications of production, sales, investment and other activities. For example, a sales plan determines the production and purchasing requirements, which in turn determine the funds needed. A common financial plan aligns these departmental plans and helps ensure that proposed activities are financially consistent with one another.

Step 4: Conclusion The concept is financial planning. Two points of its importance are that it helps the business face future eventualities and coordinates the financial requirements of different business functions.

Quick Tip to Solve: When a case estimates both the amount and timing of funds and studies future sources, identify financial planning before explaining its benefits.

14. Sanket, after completing his entrepreneurship course from U.S.A. returned to India and started a coffee shop 'Fioma Coffee' in a famous mall in Mumbai. The speciality of the coffee shop was the special aroma of coffee and a wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular. Sanket was keen to find out the reason. He appointed Riya, an MBA from a reputed management institute as a manager to find out the causes of the business not doing well.

Riya, took a feedback from the clients and found out that though they loved the special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed and found out that there were many unnecessary obstructions which could be eliminated. She fixed a standard time for processing the order. She also realised that there were many flavours whose demand was not enough. So, she also decided to discontinue the sale of such flavours. As a result, within a short period Riya was able to attract the customers.

Identify and explain any two techniques of scientific management used by Riya to solve the problem.

[4 marks]

Solution:

Concept:

- Scientific management uses a systematic study of work to improve efficiency instead of relying on trial and error. Taylor's techniques help management remove waste and establish suitable standards.
- Time study determines the standard time required for a well-defined task. Simplification of work eliminates unnecessary varieties of products so that resources can be concentrated on useful varieties.

Step 1: Identify and explain time study **Time study:** The decisive words are "She fixed a standard time for processing the order." Time study determines the standard time needed to perform a well-defined job under specified working conditions. The different elements of the job are timed through repeated observations, and a suitable standard is fixed. This helps management estimate the time and workers needed to complete the work and frame appropriate performance targets. At Fioma Coffee, fixing the order-processing time gives employees a clear service standard and helps Riya reduce the long waiting time that customers disliked. The standard concerns the time for completing the task, rather than merely increasing the number of flavours offered.

Step 2: Identify and explain simplification of work **Simplification of work:** Riya found "many flavours whose demand was not enough" and decided "to discontinue the sale of such flavours." Simplification means eliminating superfluous varieties, sizes or dimensions of products. It reduces an unnecessarily large assortment while retaining varieties that meet customer needs. This avoids wasteful stocking, reduces inventory and equipment requirements, makes operations easier to manage and lowers costs. By dropping flavours with insufficient demand, Riya can concentrate the shop's ingredients and employees' efforts on the flavours customers actually want. The case thus shows a reduction in unnecessary variety, which is the distinguishing feature of simplification.

Step 3: Conclusion The two techniques are **time study**, shown by setting a standard order-processing time, and **simplification of work**, shown by discontinuing flavours with inadequate demand. Together they address slow service and unnecessary product variety.

Quick Tip to Solve: Link "standard time" to time study and "discontinue unnecessary varieties" to simplification; quote the relevant action before explaining the technique.

15. Rishitosh Mukerjee has recently joined AMV Ltd, a company manufacturing refrigerators. He found that his department was under-staffed and other departments were not cooperating with his department for smooth functioning of the organisation. Therefore, he ensured that his department has the required number of employees and its cooperation with other departments is improved.

(a) Identify the level at which Rishitosh Mukerjee was working.

(b) Also, state three more functions required to be performed by Rishitosh Mukerjee at this level.

[4 marks]

Solution:

Concept:

- Middle management links the organisation's top management with its operational management. Departmental heads implement the overall plans and policies formulated by top management in their own departments.
- Middle managers organise departmental resources, guide employees and coordinate with other departments. Their role can be identified by the scope of responsibility described in a case, rather than by an unstated job title.

Step 1: Identify the management level from the case **(a) Middle-level management:** Rishitosh Mukerjee works at the middle level. He ensures that "his department has the required number of employees" and that "its cooperation with other departments is improved." Both actions are departmental responsibilities of middle managers. He is concerned with implementing work through his department and coordinating its activities with other departments. The case does not describe the enterprise-wide policy formulation of top management or the direct supervision of individual workers characteristic of supervisory management.

Step 2: State three additional functions at this level **(b) Interpret the policies framed by top management:** He must explain the overall policies and objectives to the people in his department and translate them into departmental plans. This helps employees understand how their work contributes to the company's goals.

Assign necessary duties and responsibilities: He must allocate the tasks required to implement departmental plans to suitable personnel and make their responsibilities clear. Each employee should know the work expected, so that the required activities are carried out systematically.

Motivate employees to achieve the desired objectives: He must encourage departmental employees to perform their duties effectively, guide them when difficulties arise and support their efforts to attain planned targets. Motivation helps turn the availability of staff into effective performance. These are additional functions, separate from ensuring sufficient staff and achieving interdepartmental cooperation already described in the case.

Step 3: Conclusion Rishitosh Mukerjee is a **middle-level manager**. Besides the two functions stated in the case, he must interpret top management's policies, assign duties and responsibilities, and motivate employees to achieve the desired objectives.

Quick Tip to Solve: A departmental head who arranges staff and coordinates with other departments is a middle manager. When asked for "more" functions, avoid repeating the functions already given.

16. Give the meaning of 'Policy' and 'Budget' as types of plans. [4 marks]

Solution:

Concept:

- Planning specifies in advance what is to be done and how it is to be done. Different types of plans serve different purposes within this process.
- A policy provides a general guide for decisions, whereas a budget states expected results in numerical terms. Both translate organisational objectives into a usable basis for action.

Step 1: Explain the meaning of policy **Policy:** A policy is a general statement or understanding that guides thinking and channels decision-making towards the achievement of organisational objectives. It defines the broad boundaries within which a manager can exercise discretion. Thus, it promotes consistency in decisions without prescribing every individual action.

For example, an enterprise may adopt a policy of filling senior positions through promotion from within the organisation. When a vacancy arises, this policy guides the manager's choice of the source of recruitment. It is a guide to deciding, rather than a detailed sequence of recruitment activities or a rigid rule allowing no discretion.

Step 2: Explain the meaning of budget **Budget:** A budget is a statement of expected results expressed in numerical terms for a specified period. It quantifies a plan and sets out what the organisation expects to achieve or use. For example, a sales budget may show expected sales in units and rupees, while a production budget may state the number of units to be produced.

Since it converts expectations into measurable targets, a budget also provides a standard against which actual performance can later be compared. Its defining feature is numerical expression: it need not contain only money figures, because quantities such as units of output or labour hours can also be budgeted.

Step 3: Conclusion A policy is a broad guide that directs managerial thinking and decisions within defined limits. A budget is a numerical statement of expected results for a specified period. The former guides the choice of action; the latter quantifies the planned outcome or resources.

Quick Tip to Solve: Link policy with a general decision guideline and budget with quantified expectations; budgets may use physical units as well as money.

17. These days, the development of a country is also judged by its system of transferring finance from the sector where it is in surplus to the sector where it is needed the most. To give strength to the economy, SEBI is undertaking measures to develop the capital market. In addition to this, there is another market in which unsecured and short-term debt instruments are actively traded every day. These markets together help the savers and investors in directing the available funds into their most productive investment opportunity. [4 marks]

17(a). Name the function being performed by the market in the above case.

Solution:

Concept:

- Financial markets perform the function of mobilising savings and channelling them into the most productive uses.
- They link savers who have surplus funds with investors who require funds for productive business activities.

Step 1: Identify the clue in the case The case describes a system of transferring finance from the sector where it is in surplus to the sector where it is needed the most. This shows the financial market connecting suppliers of savings with users of funds rather than leaving savings idle.

Step 2: Name and explain the function The function is **mobilisation of savings and channelling them into the most productive uses**. The words 'directing the available funds into their most productive investment opportunity' identify this function directly. By offering savers different investment opportunities, the market helps savings reach enterprises that can employ the funds productively. It thereby supports capital formation and economic development.

Step 3: Conclusion The function performed is mobilisation of savings and channelling them into the most productive uses.

Quick Tip to Solve: Look for the movement of funds from surplus holders to productive users: this identifies mobilisation and allocation of savings.

17(b). Name the market segment other than the capital market segment in which unsecured and short-term debt instruments are traded. Also, give any three points of difference between the two.

Solution:

Concept:

- The money market deals in short-term funds and monetary assets whose maturity is up to one year.
- The capital market deals in medium-term and long-term funds, including equity shares and long-term debt securities.

Step 1: Identify the other market segment The segment is the **money market**. The case specifically describes 'unsecured and short-term debt instruments' traded actively. Money-market instruments meet temporary financing needs, whereas the capital market supplies finance for longer periods. The short maturity is the decisive identification clue.

Step 2: Compare the two market segments Three points of difference are as follows.

Basis	Money market	Capital market
Maturity	Deals in short-term funds, for periods up to one year.	Deals in medium-term and long-term funds, generally for periods longer than one year.
Instruments	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills are important instruments.	Equity shares, preference shares, debentures and bonds are important instruments.
Participants	Mainly institutional participants, such as the RBI, banks, financial institutions and corporate entities.	Includes financial institutions, banks, companies and individual investors, including the investing public.

Step 3: Conclusion The other segment is the money market; it differs from the capital market in maturity, instruments and participation.

Quick Tip to Solve: Use three separate bases in a comparison table; short-term maturity identifies the money market before you compare it with the capital market.

18. Avdhesh is the Managing Director of Delta Ltd. The company had established a good name for itself and had been doing well. It was known for timely completion of orders. The Production Manager, Ms. Priyanka was efficiently handling the processing of orders and had a team of ten motivated employees working under her. Everything was going on well. Unfortunately, Priyanka met with an accident. Avdhesh knew that in the absence of Priyanka, the company may not be able to meet the deadlines. He also knew that not meeting the deadlines may lead to customer dissatisfaction with the risk of loss of business and goodwill. So, he had a meeting with his employees in which accurate and speedy processing of orders was planned. Everybody agreed to work as a team because the behaviour of Avdhesh was positive towards the employees of the organisation. Everyone put in extra time and efforts and the targets were met on time. Not only this, Avdhesh visited Priyanka and advised her to take adequate rest.

(a) Identify the leadership style of Avdhesh and draw a diagram depicting the style.

(b) Also, identify any two values highlighted by the behaviour of Avdhesh. [4 marks]

Solution:

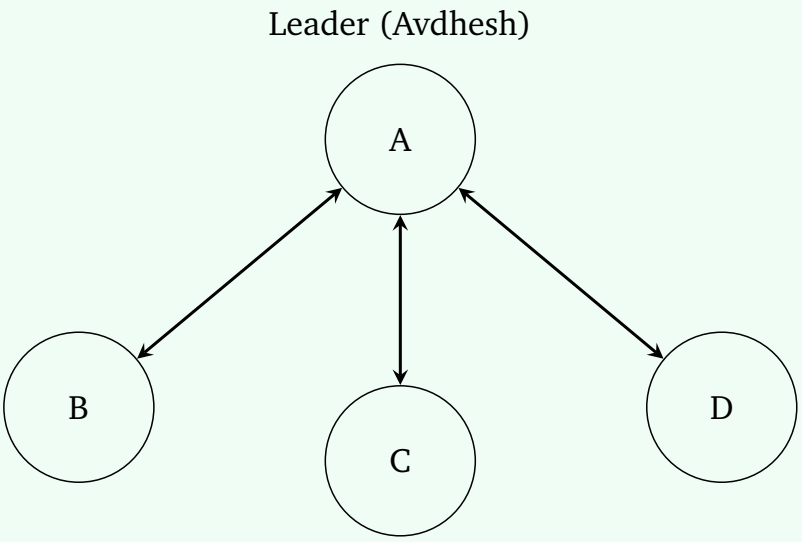
Concept:

- **Directing: leadership styles.** Leadership influences employees to contribute willingly towards organisational goals. A democratic or participative leader develops plans in consultation with subordinates and encourages their involvement.
- Under democratic leadership, communication flows in both directions: the leader guides employees, and employees share suggestions and feedback. Participation builds confidence, cooperation and commitment to the agreed plan.

Step 1: Identify the leadership style in part (a) Avdhesh follows the **democratic or participative leadership style**. Instead of imposing an order in Priyanka's absence, he "had a meeting with his employees" in which accurate and speedy processing of orders was planned. The employees therefore participate in planning how to meet the deadlines. The statement "Everybody agreed to work as a team" shows acceptance of the jointly discussed plan. His positive attitude encourages willing

cooperation, and employees put in extra time and effort to achieve the targets. This is participative leadership rather than an autocratic style, where the leader decides alone, or a free-rein style, where subordinates are largely left to act independently.

Step 2: Depict participation and two-way communication In the diagram, A represents Avdhesh, the leader, while B, C and D represent members of the employee group. The double-headed arrows show that the leader both communicates with employees and receives their views and suggestions. The smaller group is a schematic representation of employee participation; it does not mean that the case has only three employees. Avdhesh continues to provide direction while involving his team in planning the work.



Democratic leadership: A is the leader; B, C and D represent employees. Arrows show two-way communication and participation.

Step 3: Identify two values in part (b) **Cooperation and team spirit:** Avdhesh brings employees together to plan the work, and "Everybody agreed to work as a team". His supportive conduct encourages joint effort towards the common target rather than isolated individual action.

Care and concern for employees: He "visited Priyanka and advised her to take adequate rest". This shows compassion and concern for her health and welfare, even when her absence creates pressure on the company to complete orders. He treats her as a valued person and gives importance to recovery.

Step 4: Conclusion (a) Avdhesh is a **democratic/participative leader**, as shown by consultation, employee involvement and two-way communication in the diagram. (b) Two values reflected in his behaviour are **cooperation and team spirit**, and **care and concern for employees**.

Quick Tip to Solve: Link "meeting with employees" and joint planning to democratic leadership. For values, quote one action showing teamwork and another showing concern for Priyanka's welfare.

19. Explain briefly 'Casual Callers' and 'Labour Contractors' as external sources of recruitment.

[4 marks]

Solution:

Concept:

- Recruitment means searching for prospective employees and stimulating them to apply for jobs. External recruitment obtains candidates from outside the existing workforce of the organisation.
- Casual callers are unsolicited applicants whose details form a database for future vacancies. Labour contractors supply workers through their own contacts, particularly when labour is required at short notice.

Step 1: Explain casual callers **Casual callers:** Many reputed business organisations receive applications from people who seek employment even when no vacancy has been advertised. The applicants may visit the office or send in their details on their own initiative. The organisation maintains a database of such unsolicited applications. When a suitable vacancy arises, it screens this database and invites the shortlisted candidates for selection. Thus, a ready list of potential recruits is available without issuing a fresh advertisement each time. Maintaining and screening such a record can reduce the time and cost of recruitment; however, submitting an application does not guarantee appointment.

Step 2: Explain labour contractors **Labour contractors:** These are intermediaries who maintain close contacts with workers and bring them to an organisation when required. They are themselves employees of the organisation and can provide the required number of workers at short notice through their contacts. This source is particularly useful for recruiting unskilled labour. The organisation depends on the contractor to make workers available rather than inviting each worker through a public advertisement. A limitation is that workers may follow the contractor when the contractor leaves the organisation; therefore, excessive dependence on one contractor can disrupt the supply of labour.

Step 3: Conclusion Casual callers provide an organisation with a database of unsolicited applicants from which candidates can be selected later. Labour contractors provide access to workers through their personal contacts, especially for urgent requirements of unskilled labour. Both are external sources because the recruits come from outside the existing workforce.

Quick Tip to Solve: Remember the source of the contact: casual callers approach the employer themselves, whereas a labour contractor brings workers through the contractor's network.

20. 'RO Youth Club' organised a visit of its members to an Old Age Home to inculcate the habit of social work among them. The visit revealed that the living conditions of the inmates of the Old Age Home were not hygienic.

So, the RO Youth Club members decided to clean the premises. During their cleanliness drive, they realised that the Old Age Home also required pest control. But some of the inmates of the Old Age Home were reluctant for it because they believed that the pest control may create health problems for them. RO Youth Club, therefore, decided to provide ethical, safe and odourless pest control. They showed to the inmates of the Old Age Home a pamphlet of the proposed pest control product which promised easy, inexpensive and long-lasting pest control. The inmates happily agreed and the pest control was carried out. The effect of the pest control started wearing off after a fortnight. RO Youth Club contacted the pest control company which kept on postponing their visit. After waiting for a month, RO Youth Club filed a case in the consumer court.

The consumer court was satisfied about the genuineness of the complaint and issued necessary directions to the pest control company. [5 marks]

20(a). State any six directions that might have been issued by the court.

Solution:

Concept:

- When a consumer complaint is found genuine, the consumer court can direct the opposite party to provide remedies for defective goods or deficient services.
- Relief may restore the consumer's payment or service, compensate loss, stop unfair practices and cover litigation expenses.

Step 1: Apply consumer protection to the complaint The club purchased a pest-control service on the promise of easy, inexpensive and long-lasting protection. Its effect wore off after a fortnight and the company postponed the requested visit. Since the court found the complaint genuine, it could issue appropriate directions against the company; the question asks for possible directions, rather than a report of a particular award.

Step 2: State six possible directions

- **Remove the deficiency in service:** Direct the company to rectify the deficient pest-control treatment and provide the promised satisfactory service.
- **Refund the price:** Return the amount paid for the deficient service to the complainant, as appropriate.
- **Pay compensation:** Pay reasonable compensation for loss or injury suffered because of the company's negligence or deficient service.
- **Discontinue the unfair trade practice:** Stop misleading promises about the service and refrain from repeating such practices.
- **Issue a corrective advertisement:** Correct the effect of the misleading advertisement or pamphlet at the company's expense.
- **Pay adequate costs:** Meet the reasonable cost incurred by the complainant in pursuing the complaint.

These are possible statutory remedies; the exact directions and amounts depend on the facts proved before the court.

Step 3: Conclusion The court could order rectification, refund, compensation, discontinuance of the unfair practice, corrective advertising and payment of adequate costs.

Quick Tip to Solve: List distinct remedies: restore the service or money, compensate loss, stop misleading conduct, correct its message and meet complaint costs.

20(b). Identify any two values that are being communicated by RO Youth Club to the society.

Solution:

Concept:

- Values in a case answer should be supported by the actions described rather than by assumptions about motives.
- The club's voluntary work for elderly people and its concern for safe treatment communicate social responsibility and care for others.

Step 1: Identify social responsibility and service **Social responsibility and service to the community:** The club organised the visit 'to inculcate the habit of social work' and its members voluntarily cleaned the unhygienic premises. Their actions show a willingness to contribute time and effort to improving the lives of elderly people. This communicates that members of society should help vulnerable groups and take responsibility for community welfare.

Step 2: Identify concern for health and safety **Concern for the health and safety of others:** Some inmates feared that pest control could create health problems. The club responded by choosing 'ethical, safe and odourless pest control', instead of ignoring their concerns. This communicates sensitivity towards elderly people and respect for their well-being. The value is grounded in the club's effort to obtain a safe solution, regardless of the company's later failure to provide a lasting service.

Step 3: Conclusion Two values are social responsibility through service to the community, and concern for the health and safety of elderly people.

Quick Tip to Solve: For a value-based answer, name each value and link it to a different action explicitly stated in the case.

21. Nandrachal Networks and Technologies Ltd. is a leader in technology innovation in U.S.A. creating products and solutions for a connected world. It has a large Research and Development team which invented the first smart watch W-I, which besides showing the time would also monitor few health parameters like heart beat, blood pressure, etc. While in search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of the fact that licensing requirements had been abolished. The company was also aware that there had been increased level of interaction and interdependence among the various nations of the world and India could be made a base for its international trade. It set up its office in Gujarat with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices, thereby benefitting the customers.

(a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain those concepts.

(b) Also, explain briefly any three impacts of those concepts on Indian business and industry. [5 marks]

Solution:

Concept:

- The economic reforms changed the environment of Indian business by reducing government restrictions and integrating the Indian economy with the world economy.
- Liberalisation means freeing business and industry from unnecessary controls and restrictions. Globalisation means integrating the various economies of the world, leading to greater interaction and interdependence among nations.

Step 1: Identify and explain the two policy concepts

- **Liberalisation:** The statement that the company took advantage of the fact that "licensing requirements had been abolished" identifies liberalisation. It removes unnecessary government controls over business, such as industrial licensing requirements for most industries, and gives enterprises greater freedom to establish and expand operations. This facilitated the company's entry into the Indian market.
- **Globalisation:** The statement that there was an "increased level of interaction and interdependence among the various nations of the world" identifies globalisation. It integrates the domestic economy with the world economy through the movement of goods, services, technology and capital across national boundaries. The American company's decision to make India a base for its international trade illustrates this integration.

Step 2: Explain three impacts on Indian business and industry

- **Increasing competition:** Easier entry and the arrival of foreign firms increase competition for Indian enterprises. In this case, the success of the company "attracted many other players to enter the market." Domestic businesses must compete with such firms in quality, price and service rather than depend on protection from entry.
- **More demanding customers:** Wider choice makes consumers better informed and more demanding about quality, features, price and after-sales service. Here, "competition resulted in reduction

in prices, thereby benefitting the customers." Firms therefore have to provide better value and respond closely to customer expectations.

- **Rapidly changing technological environment:** Greater international integration brings new products and technologies into the domestic market. The company's research team invented a smart watch that also monitors health parameters. Indian enterprises face pressure to upgrade their technology, innovate and develop new products so that their offerings do not become obsolete.

Step 3: Conclusion The two concepts are **liberalisation** and **globalisation**. Three impacts are increasing competition, more demanding customers and a rapidly changing technological environment, all of which require Indian businesses to become more responsive and efficient.

Quick Tip to Solve: Match the exact clue to the policy: removal of licensing means liberalisation; integration and interdependence across countries mean globalisation. Then explain impacts on firms separately from the policy definitions.

22. Describe briefly the steps in the process of controlling. [5 marks]

Solution:

Concept:

- Controlling is the management function of ensuring that actual activities conform to planned activities. It compares actual performance with standards, identifies deviations and takes corrective action.
- The controlling process has five related steps: setting standards, measuring actual performance, comparing performance with standards, analysing deviations and taking corrective action. Standards provide the basis for this comparison.

Step 1: Set standards and measure actual performance

- **Setting performance standards:** Standards are the criteria against which actual performance is measured. They should be clearly stated, realistic and measurable as far as possible. Quantitative standards may specify output, cost or time; qualitative standards may concern employee motivation or customer satisfaction. Standards should be flexible enough to be revised when circumstances require it.
- **Measurement of actual performance:** Managers measure what has actually been achieved through personal observation, sample checking, performance reports and other suitable methods. Measurement should be objective and reliable. Performance must be measured in the same terms as the standards, and at appropriate intervals, so that a meaningful comparison is possible.

Step 2: Compare results, analyse deviations and correct them

- **Comparing actual performance with standards:** Actual results are compared with the predetermined standards to find the extent of any deviation. For example, actual output is compared with the target output for the same period. A difference may be favourable or unfavourable; the comparison establishes the gap requiring examination.
- **Analysing deviations:** Managers determine which deviations are significant and investigate their causes. Through critical point control, they concentrate on key result areas essential to

organisational success. Through management by exception, deviations beyond the permitted limits receive attention. Causes may include unrealistic standards, inadequate resources, defective equipment or deficiencies in performance.

- **Taking corrective action:** Managers remove the causes of significant deviations and bring performance back into line with the plan. Action may include employee training, repairing machinery or improving the supply of materials, depending on the cause. If the standard itself is unrealistic, it should be revised. Correction must address the actual reason for the shortfall rather than merely record it.

Step 3: Conclusion The process proceeds from **setting standards** to **measuring performance**, **comparison**, **analysis of deviations** and **corrective action**. It provides feedback that helps management achieve organisational goals and improve future plans.

Quick Tip to Solve: Remember the order as standard, measure, compare, analyse and correct. Finding a deviation is only the comparison step; explaining its cause and removing that cause are two further steps.

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23. Medi Instruments Ltd. is a company dealing in the distribution of medical instruments. The company recently imported 15000 units of sugar testing machines to test the sugar levels without taking blood samples. For deciding the marketing strategy, the Chief Executive Officer of the company called a meeting of the marketing heads of different zones.

In the meeting, Sanjay, the North Zone Marketing Head, suggested that since the machines were sophisticated they need to visit hospitals personally to explain its working to the hospital staff who would be using the machines. He also suggested that additional trained people may be recruited for the same. Hitesh, another Zonal Head, added that since lot of money had been spent on the import of the machines, the company was short of funds to pay the additional staff, as suggested by Sanjay.

Revansh, a newly appointed Zonal Head of South Zone, suggested that since the size of the order was not large, a detailed study of the factors determining the choice of channels of distribution was required before making the right choice.

(a) Identify the factors influencing the choice of channels of distribution which were discussed in the meeting.

(b) Also, explain briefly the other considerations to be taken care of in each factor identified in part (a). [6 marks]

Solution:

Concept:

- Channels of distribution are the routes through which goods move from the producer to the ultimate user. Choosing a channel requires matching the nature of the product, the company's resources and the characteristics of the market.
- A direct channel involves selling to users without intermediaries; an indirect channel uses intermediaries. The suitability of a channel depends on the circumstances, rather than on one channel being best for every product.

Step 1: Identify product-related factors from Sanjay's suggestion **(a) Product-related factors:** Sanjay says that the machines are "sophisticated" and that staff must "visit hospitals personally to explain its working". The technical nature of the product is therefore influencing the channel choice. Sophisticated medical equipment requires demonstration, installation guidance and service support, so a short or direct channel is generally preferable to a long chain of intermediaries.

Step 2: Identify company characteristics from Hitesh's objection **(a) Company characteristics:** Hitesh points out that "the company was short of funds to pay the additional staff". This indicates the company's financial strength. Establishing its own selling network and employing trained personnel require funds; a financially constrained company may have to depend more on intermediaries and their existing facilities.

Step 3: Identify market-related factors from Revansh's observation **(a) Market-related factors:** Revansh notes that "the size of the order was not large". The quantity purchased per order is a market consideration. Small purchases generally make distribution through intermediaries more economical, whereas large individual orders make direct selling more practical. This consideration must be weighed against the machines' technical requirements.

Step 4: Explain other product-related considerations **(b) Product-related factors:** Besides technical complexity, consider the nature of the product, perishability and unit value. Industrial products are generally distributed through shorter channels, while consumer products may require a wider network. Perishable goods need short channels to reach buyers quickly; durable goods can use longer channels. Standardised goods can pass through intermediaries more easily, whereas customised products generally need direct contact. High-unit-value products can bear the cost of direct selling; low-unit-value goods generally require economical, wider distribution.

Step 5: Explain the other company consideration **(b) Company characteristics:** Besides financial strength, consider the degree of control desired over distribution. A company wishing to control prices, customer service and the way its product is sold generally prefers a direct or shorter channel. If it is willing to surrender some control to independent intermediaries, it can use a longer channel. Thus, the need for control must be balanced against the funds and organisation needed to operate the company's own network.

Step 6: Explain other market-related considerations **(b) Market-related factors:** Besides quantity per order, consider the number of buyers and their geographical concentration. A small number of buyers concentrated in one area can be served directly through a short channel. Numerous buyers scattered over a wide geographical area generally require intermediaries to provide economical market coverage. The type of buyer also matters: institutional or industrial customers commonly need closer contact, while widely dispersed individual consumers are more readily reached through retail outlets.

Step 7: Conclusion The three factors discussed are **product-related factors**, **company characteristics** and **market-related factors**. Medi Instruments must jointly consider the machines' technical nature, its resources and control requirements, and the number, location and purchasing pattern of customers before choosing its channel.

Quick Tip to Solve: Link each clue to its category: sophisticated product means product factors; shortage of funds means company factors; size of order means market factors. Then explain other considerations within those same categories.

24. Anoop Gaur started 'Cat's Eye', a company for providing cyber security solutions to businesses. Its objective is to prevent, detect, respond to cyber attacks and protect critical data. He was a hardworking software engineer and an expert in cyber security. His reputation grew by leaps and bounds as he was not only a person of integrity but also did his work with utmost honesty and sincerity. The business started growing day by day.

He was delighted when he was offered a big project by the Ministry of Science and Technology. While working on the project he found that the volume of work made it impractical for him to handle all the work by himself. Therefore, he decided to expand the team. The company maintained a close liaison with an engineering college in the State. During a campus placement, Aarav and Pranshi were appointed to work for the new project.

He found the new employees capable, enthusiastic and trustworthy. Anoop Gaur was thus, able to focus on the objectives and with the help of Aarav and Pranshi, the project was completed on time. Not only this, Anoop Gaur was also able to extend his area of operations. On the other hand, Aarav and Pranshi also got opportunities to develop and exercise initiative.

(a) Identify and explain briefly the concept used by Anoop Gaur in the above case which helped him in focussing on the objectives.

(b) Also, explain any four points of importance of the concept identified in part (a). [6 marks]

Solution:

Concept:

- Delegation is the downward transfer of authority from a superior to a subordinate so that assigned work can be performed. It enables a manager to obtain assistance while retaining ultimate accountability for the work.
- Its elements are assignment of responsibility, grant of adequate authority and creation of accountability. The subordinate must have the power needed to perform the task and is answerable to the superior for its proper completion.

Step 1: Identify and explain the concept in the case **(a) Delegation of authority:** Anoop found that the volume of work made it "impractical for him to handle all the work by himself". He therefore obtained the assistance of Aarav and Pranshi and entrusted work to them. This is delegation: assigning duties to subordinates, giving them sufficient authority to carry out those duties and holding them answerable for performance. Anoop could concentrate on important objectives while his subordinates handled the work entrusted to them. Merely recruiting employees is staffing; entrusting work and the necessary authority to them is the concept that enabled him to focus on objectives.

Step 2: Explain effective management **(b) Effective management:** Delegation relieves a manager of routine and less critical tasks. This gives the manager more time to concentrate on important decisions and overall organisational objectives. It also lets subordinates perform the tasks assigned to them, making better use of managerial and employee abilities. In the case, Anoop was "able to focus on the objectives", and the team completed the project on time.

Step 3: Explain employee development **Employee development:** When employees receive authority and responsibility, they gain practical experience in performing tasks and making decisions. They learn to exercise judgement, solve problems and accept responsibility for results, preparing them for

more challenging positions. The case states that Aarav and Pranshi got opportunities to "develop and exercise initiative", which directly shows this benefit.

Step 4: Explain employee motivation **Motivation of employees:** Entrusting employees with meaningful responsibility conveys the superior's confidence in their competence. It provides recognition, strengthens their sense of belonging and encourages them to use their abilities and take initiative. Aarav and Pranshi were considered "capable, enthusiastic and trustworthy"; assigning them responsible work could reinforce their confidence and willingness to contribute. Delegation therefore supports commitment as well as completion of tasks.

Step 5: Explain facilitation of organisational growth **Facilitation of growth:** Delegation develops a pool of capable employees who can assume larger responsibilities as the organisation expands. The business does not remain dependent on one manager for every decision or task. More activities can therefore be handled effectively. This is illustrated when Anoop was "able to extend his area of operations" after sharing work with his team.

Step 6: Conclusion Anoop used **delegation of authority**. By assigning work and the authority needed to perform it, he gained time to focus on objectives while retaining ultimate accountability. Its importance includes effective management, employee development, employee motivation and facilitation of organisational growth.

Quick Tip to Solve: First distinguish hiring from delegation: recruitment adds employees, whereas delegation entrusts them with work and authority. Explain each benefit separately and use the case's references to focus, initiative and expansion as evidence.

25. Explain briefly any four factors that affect the fixed capital requirements of a company. [6 marks]

Solution:

Concept:

- Fixed capital means the funds invested in fixed assets such as land, buildings, plant and machinery. These assets serve the business over a long period and are not bought for resale in its ordinary operations.
- A company's fixed capital requirement depends on the kind and size of its operations and the production method it adopts. The requirement concerns long-term investment in assets, rather than day-to-day expenses such as wages or purchases of stock.

Step 1: Relate the requirement to the nature and scale of business

- **Nature of business:** A manufacturing company generally needs substantial investment in land, factory buildings, plant and machinery to convert inputs into finished products. It therefore normally requires more fixed capital than a trading company, which purchases and sells finished goods and does not need a manufacturing plant. The assets needed for the company's particular activity determine the investment required.
- **Scale of operations:** A company operating on a large scale needs greater production capacity, larger premises and more equipment than a similar company operating on a small scale. Consequently,

a larger scale generally increases its total fixed capital requirement. For example, a large factory requires more machinery than a small production unit. This comparison concerns the total investment, even where large-scale operations reduce cost per unit.

Step 2: Examine the production technique and the need to upgrade assets

- **Choice of technique:** A capital-intensive technique relies heavily on machinery and automated equipment. It therefore requires a larger investment in fixed assets. A labour-intensive technique uses relatively more human labour and less machinery, so its fixed capital requirement is generally lower for comparable operations. Management's choice of production technique thus directly affects the funds that must be committed to plant and equipment.
- **Technology upgradation:** In industries where technology changes rapidly, equipment becomes obsolete sooner and must be upgraded or replaced more frequently to remain competitive. Companies in such industries need more funds for fixed assets than comparable companies using relatively stable technology. For example, a business using rapidly changing computer technology must provide for regular replacement of equipment even when the old equipment is still physically usable.

Step 3: Conclusion Four factors affecting a company's fixed capital requirements are the nature of its business, its scale of operations, its choice of production technique and the need for technology upgradation. Manufacturing, larger operations, capital-intensive production and frequent technological replacement generally increase the investment needed in fixed assets.

Quick Tip to Solve: For each factor, link the business condition to a specific fixed asset and state whether it increases or reduces the investment required. Keep stock, receivables and routine expenses separate as working capital items.