CBSE Class 12 Business Studies Question Paper 2018 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. An investor wanted to invest ₹ 20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.

Identify the reason why the investor could not invest in the Treasury Bill. [1 mark]

Solution:

Concept:

- Treasury Bills are short-term money-market instruments issued by the Government of India through the Reserve Bank of India.
- In the prescribed textbook treatment, their minimum investment amount is Rs 25,000 and further investment is in multiples of that amount.

Step 1: Recall the minimum denomination A Treasury Bill cannot be purchased for any arbitrary small amount. The minimum amount required for investment is Rs 25,000.

Step 2: Compare the proposed amount The investor has only Rs 20,000, which is below the required minimum. The 91-day maturity is a valid Treasury Bill maturity; the amount is the obstacle.

Step 3: Conclusion The investor could not invest because Rs 20,000 is less than the minimum investment of Rs 25,000 required for Treasury Bills.

Quick Tip to Solve: For a Treasury Bill case, check the minimum investment separately from the maturity period.

2. 'Buy one get one free' is printed on the label of the package of a mosquito repellant.

State the labelling function being performed by this statement. [1 mark]

Solution:

Concept:

- A label gives information about a product and can also help promote its sale.
- Promotional messages on labels draw attention to special offers and encourage a purchase.

Step 1: Identify the message The words "Buy one get one free advertise an additional benefit to the buyer. They communicate a sales promotion offer rather than directions for using the mosquito repellant.

Step 2: Relate the offer to the label function Printing this offer on the package attracts prospective customers and encourages them to buy the product. The relevant function is helping in promotion of products.

Step 3: Conclusion The labelling function is helping in promotion of products, by announcing the "Buy one get one free offer.

Quick Tip to Solve: Identify whether the label describes the product, grades it, identifies it or promotes a special offer.

3. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods.

Identify the factor affecting the working capital requirements of this industry. [1 mark]

Solution:

Concept:

- Working capital finances day-to-day operations, including stocks of raw materials.
- Irregular availability and a longer procurement lead time require a business to maintain larger raw-material inventories.

Step 1: Locate the decisive case evidence The question states that one raw material is "not readily and regularly available and that there is a time lag between placing the order and receiving it. These words describe difficulty in obtaining the input.

Step 2: Identify its working-capital effect The firm needs to hold a larger buffer stock to avoid interruption of production. This ties up more funds in inventory even though conversion into finished goods takes little time.

Step 3: Conclusion The factor is availability of raw material. Irregular supply and a longer lead time increase the working capital needed for raw-material stocks.

Quick Tip to Solve: Distinguish procurement delay from production time: difficulty obtaining inputs points to availability of raw material.

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4. Saurabh decided to start a chocolates manufacturing business. He set the target of earning 10% profit on sales in the first year. As a good businessman, he was concerned about the future of the business, which was uncertain. He gathered information that the demand for chocolates is increasing day-by-day. He used this information as the base for future planning and shared it with his team. On the basis of the gathered information, he scheduled a meeting in the following week to find innovative ways to achieve the objectives.

List the first two steps, which have been followed by Saurabh that are related to the process of one of the functions of management. [1 mark]

Solution:

Concept:

- Planning begins by deciding what the organisation intends to achieve.
- Developing premises establishes assumptions about the future on which plans are based.

Step 1: Identify setting objectives Saurabh "set the target of earning 10% profit on sales in the first year. This specifies the desired result and time period, so the first step is setting objectives.

Step 2: Identify developing premises He gathered information that demand for chocolates was increasing and "used this information as the base for future planning. This assumption about future

demand is a planning premise shared with his team.

Step 3: Conclusion The first two steps followed are (i) setting objectives and (ii) developing premises.

Quick Tip to Solve: A target states an objective; an assumption about future conditions provides a planning premise.

5. Give the constitution of the District Consumer Disputes Redressal Forum under the Consumer Protection Act, 1986. [1 mark]

Solution:

Concept:

- The Consumer Protection Act, 1986 provides a district-level forum for redressal of consumer disputes.
- Its constitution describes the persons who form the forum, rather than the value of complaints it hears.

Step 1: State the membership The District Consumer Disputes Redressal Forum consists of a President and two other members. Thus, the forum has three members in all.

Step 2: State the required representation Of the two other members, one must be a woman. The President is a person who is, has been, or is qualified to be a District Judge, under the statutory constitution of the forum.

Step 3: Conclusion The District Forum consists of a President and two other members, one of whom must be a woman.

Quick Tip to Solve: For constitution, state who sits on the forum; do not substitute its monetary jurisdiction or appeal procedure.

6. Give the meaning of 'Method' as a type of plan. [1 mark]

Solution:

Concept:

- A method is a standing plan that specifies the prescribed way of performing a task.
- It deals with how an individual activity is to be carried out, keeping its objectives in view.

Step 1: Explain the meaning A method provides the prescribed manner in which a particular task has to be performed. It guides employees in choosing the way of doing the work rather than leaving it entirely to personal preference.

Step 2: Clarify its focus Its focus is the manner of carrying out an activity. For example, the method selected for training workers specifies how that training is conducted. A procedure, by comparison, sets out the sequence of activities.

Step 3: Conclusion A method is a type of plan that prescribes the way or manner in which a particular task is to be performed, considering its objectives.

Quick Tip to Solve: Remember method as how to do a task; procedure is the sequence in which activities are performed.

7. Define 'Decentralisation'. [1 mark]

Solution:

Concept:

- Decentralisation concerns the distribution of decision-making authority across levels of management.
- It extends delegation systematically through the organisation, while matters necessarily reserved for the centre remain with top management.

Step 1: Identify what is dispersed Decision-making authority is passed to lower levels so managers nearer operational activities can take decisions within their assigned areas. It concerns authority, rather than merely locating offices in different places.

Step 2: State the scope The dispersal is systematic throughout the organisation, extending to its lower levels. It is broader than one superior delegating one task to a subordinate and does not mean that top management gives up every decision.

Step 3: Conclusion Decentralisation is the systematic delegation of authority throughout all levels of an organisation, except authority that can be exercised only at central points.

Quick Tip to Solve: Use the words systematic dispersal of authority to distinguish decentralisation from an isolated act of delegation.

8. Why is the understanding of 'Marketing Management Philosophies' important ? [1 mark]

Solution:

Concept:

- Marketing Management: marketing philosophies provide alternative orientations for an organisation, such as production, product, selling, marketing and societal marketing.
- The chosen philosophy determines the relative importance assigned to the organisation, customers and society when marketing decisions are made.

Step 1: Identify the decision involved A business must decide whose interests will guide its marketing activities: its own objectives, customer satisfaction and the well-being of society can call for different priorities.

Step 2: Explain the importance Understanding the philosophies helps the marketer choose the approach that gives the desired weight to the interests of the organisation, its customers and society, and guides marketing efforts accordingly.

Step 3: Conclusion Understanding marketing management philosophies is important because they determine the relative weight given to the interests of the organisation, consumers and society in marketing decisions.

Quick Tip to Solve: For a question on the importance of marketing philosophies, focus on the balance among organisation, consumer and societal interests.

9. State the steps in the selection procedure, after the employment interview and before the job offer. [3 marks]

Solution:

Concept:

- Staffing: selection is the process of choosing the most suitable candidate for a vacant job through a sequence of screening and assessment stages.
- In the NCERT sequence, the stages between the employment interview and the job offer are reference and background checks, selection decision and medical examination.

Step 1: State reference and background checks **Reference and background checks:** The employer contacts the persons named as references, such as previous employers, teachers or other reliable persons, to verify the information supplied by the applicant and obtain additional evidence about character, ability and past performance. This checks the reliability of the application after the interview.

Step 2: State the selection decision **Selection decision:** After the candidate has passed the earlier stages, the final choice is made from the candidates found eligible. The concerned manager, who will be responsible for the selected employee's performance, takes the final decision in consultation with those involved in selection.

Step 3: State medical examination **Medical examination:** The selected candidate undergoes a medical fitness test to establish that the person is physically fit for the job. The job offer is made only after the candidate is declared fit. Thus, medical examination precedes the offer; the employment contract follows the offer and is outside the interval asked for.

Step 4: Conclusion The required sequence is: reference and background checks, selection decision, and medical examination. These follow the employment interview and precede the job offer.

Quick Tip to Solve: Recall the selection sequence as interview, references, final decision, medical fitness, then offer; include only the stages inside the stated endpoints.

10. Sandhya is a successful manager at Manisons Enterprises. She has a team of twelve people working under her. She encourages them to set their own objectives and take decisions. She respects their opinions and supports them, so that they can perform their duties and accomplish organisational objectives. To manage and exercise effective control she uses forces within the group.

As an intelligent manager, at times, she also makes use of positive aspects of informal communication. This way, she is able to unify diverse interests and ensure that targets are met.

(a) There are many theories and styles of influencing people's behaviour. Identify the style used by Sandhya which is based on the use of authority.

(b) State two positive aspects of the communication discussed above, which Sandhya is using as an intelligent manager. [3 marks]

Solution:

Concept:

- Directing: a democratic or participative leader involves subordinates in decision-making, respects their opinions and uses group participation to achieve organisational objectives.
- Informal communication, also called the grapevine, develops through social interaction rather than the prescribed official chain; its positive aspects include speedy transmission and insight into employee reactions.

Step 1: Identify Sandhya's leadership style **(a) Democratic or participative leadership:** Sandhya encourages team participation, respects members' opinions and supports them in achieving organisational objectives. The decisive case clue is that she *"uses forces within the group* to manage and exercise effective control. These features match democratic leadership: members help establish objectives, contribute to decisions and develop commitment to their achievement. Free-rein leadership would give the group a high degree of independent control over its work, with the manager mainly supplying information; the case instead stresses active participation and control through the group.

Step 2: State the first positive aspect **(b) Speedy transmission:** Informal communication cuts across formal levels and prescribed channels, so information can travel quickly. Sandhya can use this speed to spread useful information promptly and support coordination among team members.

Step 3: State the second positive aspect **Feedback on employee reactions:** Informal communication helps a manager know employees' reactions to managerial decisions and policies. Sandhya can use this understanding to address concerns and reconcile diverse interests. Informal feedback therefore allows her to respond to concerns that may not reach her through official channels.

Step 4: Conclusion (a) Sandhya uses democratic or participative leadership. (b) Two positive aspects of informal communication are its speed and its usefulness in knowing employee reactions to decisions and policies.

Quick Tip to Solve: Read all the leadership clues together: respect for opinions, participation and control through group forces identify democratic leadership.

11. Differentiate between formal and informal organisations on the basis of (i) origin, (ii) authority, and (iii) flow of communication. [3 marks]

Solution:

Concept:

- Organising: a formal organisation is the deliberately established structure of jobs and authority relationships created to achieve organisational objectives.
- An informal organisation is the network of personal and social relationships that emerges spontaneously among people working together; it is not designed by management.

Step 1: Choose the requested bases Compare the two organisations on precisely the three bases named in the question. Origin concerns how the relationship structure arises; authority concerns the source of influence; and communication concerns the route followed by messages. These bases should not be confused with purpose, membership or stability.

Step 2: Present the differences

Basis	Formal organisation	Informal organisation
(i) Origin	It arises deliberately as a result of the rules, policies and organisation structure established by management.	It arises spontaneously through social interaction among employees within the formal organisation.
(ii) Authority	Authority comes from the position held by a person in the management hierarchy and the powers attached to that position.	Influence comes from personal qualities and acceptance by the group, rather than from an officially assigned position.
(iii) Flow of communication	Communication flows through prescribed channels and the formal chain of command.	Communication flows through independently developed social channels; it has no fixed prescribed route.

Step 3: Conclusion Formal organisation is deliberately created, derives authority from official position and uses prescribed communication channels. Informal organisation emerges spontaneously, derives influence from personal acceptance and communicates through social channels.

Quick Tip to Solve: For these three bases, remember: designed versus spontaneous; position versus personal acceptance; prescribed route versus social network.

12. Explain briefly any two points of importance of consumer protection from the point of view of business. [3 marks]

Solution:

Concept:

- Consumer Protection: a business should safeguard consumers against unfair practices and provide goods and services that satisfy their needs.
- From the business point of view, consumer protection serves its long-term interest and fulfils its social responsibility towards an important stakeholder group.

Step 1: Explain the long-term interest of business **Long-term interest of business:** Enlightened businesses realise that protecting consumers is in their own long-term interest. Satisfied customers make repeat purchases and tell others about their favourable experience. This builds goodwill and a

loyal customer base, enabling the business to survive and grow in a competitive market. Supplying safe, reliable products and dealing fairly with complaints therefore support continuing sales and profitability; exploiting consumers may bring a temporary gain but damages this relationship.

Step 2: Explain the business's social responsibility **Social responsibility:** Business has responsibilities towards different groups, including consumers, who buy and use its products. It must look after their interests by supplying appropriate quality, giving truthful information and avoiding unfair trade practices. Since consumers sustain the business through their purchases, the business should protect their health, safety and economic interests. Meeting these obligations is part of responsible business conduct, rather than treating profit as its only concern.

Step 3: Conclusion Consumer protection is important to business because it promotes its **long-term interest** through satisfied customers and goodwill, and enables it to fulfil its **social responsibility** towards consumers.

Quick Tip to Solve: For the business viewpoint, link each heading to the firm's responsibility or lasting success; do not merely list consumers' legal rights.

13. The Return on Investment (ROI) of a company ranges between 10 – 12% for the past three years. To finance its future fixed capital needs, it has the following options for borrowing debt :

Option 'A' : Rate of interest 9%

Option 'B' : Rate of interest 13%

Which source of debt, 'Option A' or 'Option B', is better ? Give reason in support of your answer. Also state the concept being used in taking the decision. [3 marks]

Solution:

Concept:

- Financial Management: the effect of debt on shareholders' returns depends on the relationship between the return on investment and the rate of interest payable on debt.
- Trading on equity means using fixed financial charge bearing funds, such as debt, in the capital structure to increase the earnings available to equity shareholders.

Step 1: Compare Option A with the return earned **Select Option A:** The company has earned an ROI of 10–12% during the past three years, while Option A requires interest at only 9%. Thus, the return earned on the funds is higher than their interest cost throughout the stated range. After paying the fixed interest charge, the surplus earned by using borrowed funds is available to equity shareholders. This makes Option A the favourable borrowing alternative on the information provided.

Step 2: Explain why Option B is unsuitable **Reject Option B:** Its interest rate of 13% exceeds even the upper end of the company's stated ROI range of 12%. The return earned would therefore be insufficient to cover the interest cost attributable to those borrowed funds. Instead of increasing the earnings available to equity shareholders, such borrowing would reduce them. A loan is not beneficial simply because it provides funds; its cost must be compared with the return those funds can earn.

Step 3: State the financial concept used **Trading on equity:** The decision uses the principle of trading on equity, also called favourable financial leverage when the return on investment exceeds the cost of

debt. Option A satisfies this relationship, whereas Option B would create an unfavourable leverage effect at the stated returns. The comparison assumes the company's future investment earns returns consistent with the range given in the question.

Step 4: Conclusion **Option A, with interest at 9%, is better**, because the company's ROI of 10–12% exceeds this borrowing cost and leaves a surplus for equity shareholders. The concept used is **trading on equity (financial leverage)**.

Quick Tip to Solve: Compare ROI with the interest rate first: ROI above the debt cost favours trading on equity; ROI below it makes the leverage effect adverse.

14. Ram Murthy, the CEO of 'Goodcare Hospitals', a leading chain of hospitals, decided to reward the good work of the doctors of his organisation. For this he instituted two running trophies. A 'Healthcare Achievers Trophy' to acknowledge and appreciate the tireless efforts of the doctors who rendered selfless services to the patients and another 'Beti Bachao Trophy' to recognise the outstanding work done by the doctors in saving the girl child.

The CEO also wanted to improve the health services in rural areas all over the country. He decided that all doctors must work in rural areas for at least six months. He also decided that the paramedical staff should be employed locally.

(a) Identify the incentive provided by 'Goodcare Hospitals' to its doctors through running trophies.

(b) Which need of the doctors will be satisfied through the incentive identified in part (a) ? State.

(c) State any two values that the CEO of 'Goodcare Hospitals' is trying to communicate to the society.

[4 marks]

Solution:

Concept:

- Directing: non-financial incentives motivate employees by satisfying psychological and social needs rather than by increasing their monetary earnings.
- Employee recognition programmes acknowledge contributions through appreciation, awards or trophies. They satisfy esteem needs, including recognition, respect and appreciation.

Step 1: Identify the incentive in part (a) **Employee recognition programme:** Goodcare Hospitals provides a non-financial incentive through running trophies. The words "acknowledge and appreciate the tireless efforts" and "recognise the outstanding work" show that its purpose is appreciation of the doctors' performance. The Healthcare Achievers Trophy recognises selfless service, while the Beti Bachao Trophy recognises work in saving the girl child. These awards acknowledge achievement rather than provide a salary increase or cash bonus.

Step 2: State the need satisfied in part (b) **Esteem needs:** Recognition through a trophy satisfies the doctors' desire for respect, appreciation and recognition of their contribution. Such acknowledgement makes them feel that their work is valued by the organisation. In Maslow's hierarchy, these are esteem needs; the incentive does not primarily meet basic physical needs or job-security needs.

Step 3: State two values for part (c) **Concern for gender equality and the girl child:** The Beti Bachao Trophy promotes the protection of girls and respect for their lives by recognising doctors who

save the girl child.

Social responsibility towards rural communities: Requiring doctors to serve in rural areas for at least six months communicates concern for accessible healthcare and the welfare of underserved people. Medical service should reach rural society as well as urban patients.

Step 4: Conclusion (a) The incentive is an employee recognition programme, a non-financial incentive. (b) It satisfies esteem needs. (c) Two values are protection and equal treatment of the girl child, and social responsibility towards rural communities.

Quick Tip to Solve: Link trophies and appreciation to employee recognition, then connect recognition to esteem needs. Cite a specific action in the case for each value.

15. Sumit purchased an ISI marked washing machine of a famous brand 'MG' from TG Electronics Ltd. The shopkeeper asked him to wait for two days for installation of the machine. His friend, Vivek, was very fond of experimenting with new electronic products. He told Sumit that there is no need to wait for the company's representative to install the machine and that he could do it. So, both of them installed the machine without following the manufacturer's instructions. Initially, the machine worked effectively and the wash was good. But after two days, the machine started stopping in between the wash cycle. Sumit and Vivek tried their best to start the machine but failed in their efforts. Sumit, therefore, approached TG Electronics Ltd., which refused to provide any service on the plea that the installation of the machine was not done by the company.

(a) State the responsibility which Sumit had to fulfil as an aware consumer to get the services of the company.

(b) Explain briefly any two rights which Sumit could have exercised had he fulfilled his responsibility identified in part (a). [4 marks]

Solution:

Concept:

- Consumer protection includes both consumer rights and responsibilities. A consumer should read labels and instructions carefully and follow the manufacturer's directions for installation and safe use.
- The right to be heard enables consumers to present complaints, while the right to seek redressal enables them to seek relief against defective goods or deficient services.

Step 1: State Sumit's responsibility for part (a) **Read and follow the manufacturer's instructions:** As an aware consumer, Sumit should have followed the directions for installation and use of the washing machine. The shopkeeper had asked him to wait two days for installation. Instead, Sumit and Vivek installed it "without following the manufacturer's instructions". He should have waited for the authorised company representative and observed the prescribed procedure, rather than experimented with the machine. Buying an ISI-marked product alone did not discharge this responsibility.

Step 2: Explain the right to be heard for part (b) **Right to be heard:** Had Sumit fulfilled his responsibility, he could have lodged a complaint about the machine stopping during the wash cycle and required his grievance to receive due consideration. He could approach the company's customer-

care or grievance cell and, where necessary, an appropriate consumer forum. This right ensures that a consumer's interests and complaint are heard; it is more than merely obtaining information about the product.

Step 3: Explain the right to seek redressal for part (b) **Right to seek redressal:** If the machine was defective or the promised service was deficient despite proper installation and use, Sumit could seek appropriate relief. Depending on the facts established, relief could include removal of the defect, replacement, refund or compensation for loss suffered. Thus he could pursue a remedy rather than accept the refusal of service. The remedy would depend on the merits of the complaint; a breakdown does not automatically establish entitlement to every form of relief.

Step 4: Conclusion Sumit should have followed the manufacturer's installation instructions and waited for the authorised representative. Had he done so, he could have exercised the right to be heard and the right to seek redressal in relation to the defective machine or deficient service.

Quick Tip to Solve: Separate the duty to follow instructions from the rights that follow: being heard gives the complaint a hearing; redressal provides an appropriate remedy.

16. Aradhana and Gandharv are heads of two different departments in 'Yumco Ltd.' They are efficient managers and are able to motivate the employees of their respective departments to improve performance. However, their drive to excel in their own sphere of activity instead of giving emphasis on objectives of the enterprise has hindered the interaction between the departments that Aradhana and Gandharv are heading. Often there are inter-departmental conflicts and they have become incompatible. This has proved to be harmful in the fulfilment of the organisational objectives. The situation has deteriorated to such an extent that the CEO of 'Yumco Ltd.' has hired a consultant, Rashmi, to resolve the problem. After studying the situation closely, Rashmi found that the problem has arisen due to inflexibility and a narrow perspective on the part of both Aradhana and Gandharv. She is of the view that this situation is a result of the type of organisational structure 'Yumco Ltd.' has adopted.

From the above information, identify the organisational structure adopted by 'Yumco Ltd.' and state any three advantages of the structure so identified. [4 marks]

Solution:

Concept:

- A functional structure groups jobs of a similar nature under major functions, such as production, marketing, finance and personnel. Each functional department is headed by a specialist.
- Functional specialisation brings expertise and efficiency, but departmental interests can overshadow organisational objectives. A narrow functional outlook may then make coordination between departments difficult.

Step 1: Identify the structure from the case Yumco Ltd. has adopted a **functional organisational structure**. Aradhana and Gandharv head different departments and concentrate on excelling in their own sphere of activity. The case states that this happens "instead of giving emphasis on objectives of the enterprise" and that Rashmi finds "inflexibility and a narrow perspective". These are characteristic

limitations of the functional structure: managers may pursue functional objectives at the expense of overall organisational goals, leading to inter-departmental conflict.

Step 2: State three advantages of functional structure

- **Functional specialisation:** Employees repeatedly perform tasks belonging to the same function and work under managers with expertise in that field. This develops specialised knowledge and skills and improves the quality of their performance.
- **Better control and coordination within a department:** Similar activities are grouped under one functional head. Their supervision becomes easier, and the head can coordinate related tasks effectively because the employees share a common area of work.
- **Greater operational efficiency and lower costs:** Specialisation and an orderly grouping of activities reduce duplication of effort. Resources can be used more efficiently within each function, producing economies of scale and helping the organisation operate at a lower cost.

Step 3: Conclusion The structure is **functional**. Its advantages include functional specialisation, easier control and coordination within departments, and operational efficiency through reduced duplication and economies of scale.

Quick Tip to Solve: When a case describes specialist departments pursuing their own goals and developing a narrow outlook, identify functional structure; distinguish coordination within a department from conflicts between departments.

17. Explain any four points of importance of the controlling function of management. [4 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, finding deviations and taking corrective action. It ensures that activities proceed in accordance with plans.
- Control converts plans into a continuing guide for action. Its importance lies in achieving goals, maintaining realistic standards, using resources efficiently and motivating employees through clear performance expectations.

Step 1: Explain its contribution to goals and standards

- **Accomplishing organisational goals:** Controlling measures progress towards planned objectives and brings deviations to management's notice. Managers can investigate their causes and take corrective action before the deviation becomes serious. In this way, control keeps organisational activities on the right track and helps the enterprise achieve its goals.
- **Judging the accuracy of standards:** An effective control system enables managers to examine whether the standards set during planning are accurate and realistic. It reviews standards in the light of actual experience and changes in the organisation or its environment. When a standard is unsuitable, managers can revise it, making future plans and performance comparisons more meaningful.

Step 2: Explain its contribution to resources and employees

- **Making efficient use of resources:** Control compares the use of materials, money, time and effort with expected performance. This discourages wastage and misuse and helps managers locate inefficient operations. Corrective measures then enable the enterprise to use its resources economically and efficiently.
- **Improving employee motivation:** Clear performance standards tell employees what they are expected to do and the basis on which their work will be assessed. When employees know these expectations, they can direct their efforts towards them. The resulting clarity of responsibility and objective performance assessment encourage them to perform better.

Step 3: Conclusion Controlling is important because it helps accomplish organisational goals, judge the accuracy of standards, make efficient use of resources and improve employee motivation. These benefits arise from continuously comparing performance with plans and acting on the findings.

Quick Tip to Solve: For each importance point, connect the heading to the control process: what is compared or clarified, what action follows, and how the organisation benefits.

18. In 2015, Naveen left his luxurious life in Mumbai, where he worked as a manager for Blue Birds Ltd. He shifted to Begampur, Chhattisgarh to fulfil his grandmother's dream of converting their 25-acre ancestral land into a fertile farm. For this he set out specific goals along with the activities to be performed to achieve the goals.

Every activity was a challenge since he was clueless about farming. He learnt every activity from filling the land to sowing the seeds. To aid farmers he launched his own company 'Innovative Agriculture Solutions Pvt. Ltd'.

It was difficult initially as no one trusted an urban youth telling farmers about farming. But when everything was discussed in detail the farmers started taking interest. He wanted to ensure that the future events meet effectively the best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales.

He also found that the farmers grew only paddy, which was an activity of 3 – 4 months and the land remained idle for the rest 8 – 9 months of the year. He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year. Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated. He presented a plan to the farmers, where after harvesting paddy, vegetables could be grown.

The above case highlights the features of one of the functions of management. By quoting lines from the above identify and explain these features. [4 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done and how it is to be done. It connects the present position with the desired future position.
- Its features include a focus on objectives, a concern with the future, choosing among alternatives

and the use of logical thought. Each feature must be linked to evidence in Naveen's case.

Step 1: Identify the focus on objectives **Planning focuses on achieving objectives:** "For this he set out specific goals along with the activities to be performed to achieve the goals." Planning begins with clearly specified objectives and determines the actions needed to attain them. Here, Naveen's goals guide the activities for converting the ancestral land into a fertile farm; the activities are purposeful rather than unrelated efforts.

Step 2: Identify the concern with future events **Planning is futuristic:** "He wanted to ensure that the future events meet effectively the best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales." Planning involves looking ahead, anticipating events and preparing for them. Sales forecasts give Naveen a basis for deciding future production and sales activities before those activities take place.

Step 3: Identify the choice among alternatives **Planning involves decision making:** "He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year." Planning requires examining alternative courses of action and selecting the most suitable one. Naveen considers ways to use land after the paddy harvest and selects growing vegetables, rather than leaving the land idle.

Step 4: Identify the intellectual process **Planning is a mental exercise:** "Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated." Planning requires conscious thought, judgement and analysis rather than guesswork. Naveen uses facts and foresight to assess alternatives, so his proposed use of the farm results from a rational thinking process.

Step 5: Conclusion The function is planning. The four features highlighted are focus on objectives, futuristic thinking, decision making and mental exercise, as shown by the goals, forecasts, evaluation of alternatives and systematic analysis in the case.

Quick Tip to Solve: Match goals with objectives, forecasts with the future, alternatives with decision making, and logical analysis with mental exercise; quote the relevant case line for each.

19. State the protective functions of Securities and Exchange Board of India. [4 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) protects investors' interests and promotes an orderly securities market. Its protective functions safeguard investors against dishonest practices and misuse of information.
- Protection includes preventing fraudulent trading, prohibiting insider trading, promoting fair practices and educating investors. These functions help investors participate with better information and greater confidence.

Step 1: State the safeguards against unfair transactions **Prohibiting fraudulent and unfair trade practices:** SEBI restrains practices such as misleading statements and price rigging. Artificially

manipulating security prices can induce investors to buy or sell on a false impression of market conditions. Preventing such practices protects investors from deception and supports fair price discovery.

Controlling insider trading: SEBI prohibits trading in securities on the basis of unpublished price-sensitive information. Insiders may have access to important company information before it becomes public; using that advantage for personal gain harms other investors. The prohibition helps prevent this misuse of privileged information.

Step 2: State the safeguards that strengthen investor participation **Promoting fair practices and a code of conduct:** SEBI promotes fair dealings and appropriate standards of conduct in the securities market. Ethical behaviour by market participants reduces exploitation of investors and helps maintain their confidence in transactions and intermediaries.

Educating investors: SEBI undertakes investor education so that investors understand securities, their rights, relevant precautions and the risks involved. An informed investor can assess information more carefully, avoid misleading promises and make a more reasoned investment decision. Education supports protection without implying that investments are free from market risk.

Step 3: Conclusion SEBI's protective functions are prohibiting fraudulent and unfair trade practices, controlling insider trading, promoting fair practices and a code of conduct, and undertaking investor education.

Quick Tip to Solve: For protective functions, recall fraud prevention, insider-trading control, fair conduct and investor education; keep registration and market-development measures separate.

20. 'Konark Ltd.' is an electronic goods manufacturing enterprise situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual firms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc.

(a) Identify and state the feature of the concept discussed in the above paragraph.

(b) Also, state any four points of importance of this concept. [5 marks]

Solution:

Concept:

- Business environment means the totality of individuals, institutions and other forces outside a business enterprise that affect its performance although they are outside its control.
- Specific forces affect individual enterprises directly, whereas general forces influence enterprises indirectly through the wider environment.

Step 1: Identify and state the feature in part (a) The feature is **specific and general forces**. The business environment includes both kinds of forces. Specific forces, such as investors, customers, competitors and suppliers, affect an individual enterprise directly and immediately in its day-to-day

working. General forces, such as economic, social and technological conditions, affect individual enterprises indirectly and influence businesses more broadly.

The case expressly names the firms' "investors, customers, competitors and suppliers" as direct influences unique to their locations. These are the specific forces. Its examples of "money supply in the economy, composition of the families, the technological changes" illustrate economic, social and technological general forces respectively. Thus the feature being tested is the presence of specific and general forces, rather than merely the firms' different locations.

Step 2: State four points of importance for part (b)

- **Identifying opportunities and getting the first-mover advantage:** Awareness of the environment helps a firm identify favourable changes and exploit them ahead of competitors. Recognising an emerging customer need early can help the enterprise establish its position in that market.
- **Identifying threats and early warning signals:** Environmental understanding alerts management to adverse changes, such as new competition or changing customer preferences, in time to prepare a suitable response and reduce their effect.
- **Tapping useful resources:** A business draws finance, materials, labour and other resources from its environment. Understanding what resource suppliers expect enables the enterprise to obtain needed inputs and offer outputs that the environment will accept.
- **Coping with rapid changes:** Continuous environmental awareness helps management respond to changing technology, competition and markets. It enables the enterprise to revise its practices and remain effective as external conditions change.

Step 3: Conclusion The feature is **specific and general forces of the business environment**. Understanding this environment helps an enterprise recognise opportunities, receive warning of threats, tap resources and cope with rapid changes.

Quick Tip to Solve: When a case contrasts named customers or suppliers with economy-wide social or technological conditions, identify specific and general forces; then state the importance of the business environment itself.

21. After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practices that were economically viable, environmentally sound and at the same time protecting public health.

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera products. He also thought that competitors prices and their anticipated reactions must also be considered for this.

After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money which they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a mininum profit.

He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.

(a) Identify the concept.

(b) Explain briefly any four factors discussed in the above case related to the concept so identified.

[5 marks]

Solution:

Concept:

- Price is the amount of money that a buyer pays in consideration of the purchase of a product or service. Pricing is the process of determining that amount.
- Price determination requires consideration of product cost, customers' utility and demand, competition, and the marketing methods used. A firm must balance customers' willingness to pay with its own costs and market conditions.

Step 1: Identify the concept in part (a) The concept is **price**, or **pricing**. The decisive clue is Ashok's concern about "the amount of money paid by the consumers in consideration of the purchase of Aloevera products". Price is a competitive marketing weapon because it affects the attractiveness of the offer and the firm's sales revenue. The case asks which factors Ashok should consider in determining this price, rather than asking for the environmental or social marketing concept also mentioned in the opening paragraph.

Step 2: Explain four pricing factors from the case for part (b)

- **Product cost:** Cost includes the cost of producing, distributing and selling the product. Although a firm may temporarily price below total cost when entering a market, in the long run its price must cover all costs and provide a reasonable profit. The case states that the business cannot survive

unless “all costs are covered in addition to a minimum profit”. Thus cost provides an essential basis for Ashok’s price decision.

- **Utility and demand:** Buyers compare the utility or value of a product with the money they must give up. They normally buy when the perceived value is at least equal to the price. Demand also affects the price that the market will bear: the case notes that the products were expensive because demand exceeded supply. Ashok must therefore consider both customers’ valuation and the level and responsiveness of demand before fixing a price.
- **Extent of competition in the market:** Competitors’ prices, the quality and features of their products, and their anticipated reactions influence the price a firm can charge. The case explicitly says that “competitors prices and their anticipated reactions” must be considered. An offer priced well above comparable competing products needs sufficient additional value to attract buyers.
- **Marketing methods used:** Methods such as distinctive packaging and services provided to customers influence pricing because they affect both the value offered and the expenses incurred. Ashok decides to add “unique features to the packaging” and provide “free home delivery”. These methods must be considered when determining the price even though delivery is not charged separately to the customer.

Step 3: Conclusion The concept is **price/pricing**. Four factors illustrated are **product cost, utility and demand, extent of competition, and marketing methods used**. Each affects the amount Ashok can appropriately charge for his Aloevera products.

Quick Tip to Solve: Link each pricing factor to its clue: costs to product cost, value and demand to utility and demand, rivals to competition, and packaging or delivery to marketing methods.

22. What is meant by co-ordination ? State its any four features. [5 marks]

Solution:

Concept:

- Coordination means integrating the activities of different departments and individuals so that their efforts contribute to common organisational objectives.
- It is the essence of management: planning, organising, staffing, directing and controlling all require the deliberate harmonisation of activities.

Step 1: Define coordination Coordination is the process by which a manager synchronises the activities of different departments and people. It brings unity of action to the pursuit of common goals. For example, the purchasing, production and sales departments must agree on materials, output and customer demand; otherwise each department may perform its own task while the organisation fails to achieve its objective.

Step 2: State four features of coordination

- **It integrates group efforts:** Coordination unifies diverse interests and activities into purposeful work. Individual efforts are linked so that the group works as a team rather than as unrelated individuals.
- **It ensures unity of action:** Coordination acts as a binding force between departments. It gives

their interdependent activities a common direction and ensures that actions are undertaken at the appropriate time to achieve organisational goals.

- **It is a continuous process:** Coordination is required throughout the functioning of an organisation. It begins when plans are prepared and continues through implementation and control; it is not a one-time adjustment made after a conflict arises.
- **It is an all-pervasive function:** Coordination is necessary in every department and at every level of management because activities everywhere are interdependent. Top managers coordinate departments, while supervisors coordinate the work of individuals in their units.

Step 3: Conclusion Coordination synchronises individual and departmental activities towards common objectives. Four of its features are integration of group efforts, unity of action, continuity and an all-pervasive character.

Quick Tip to Solve: Define coordination using "synchronisation" and "common goals", then distinguish the four features: whose efforts, their direction, when it is needed and where it is needed.

23. Explain briefly any four factors affecting the fixed capital requirements of an organisation.

[6 marks]

Solution:

Concept:

- Fixed capital refers to funds invested in fixed assets such as land, buildings, plant and machinery. Such investment supports business operations over a long period.
- Fixed capital requirements depend on the kind of activities undertaken and the quantity and type of long-term assets needed. They must be distinguished from working capital required for everyday operations.

Step 1: Identify the investment being considered The question concerns the amount an organisation must invest in assets that will serve it for several years. A financial manager must assess this requirement before choosing long-term sources of finance. The following four factors explain why different organisations, or the same organisation under different operating conditions, require different amounts of fixed capital.

Step 2: Explain four factors and their effects

- **Nature of business:** A manufacturing enterprise normally requires substantial investment in plant, machinery and factory buildings to convert raw materials into finished goods. A trading concern mainly buys and sells finished products and generally needs less such investment. Thus, other things remaining the same, manufacturing involves a higher fixed capital requirement than trading.
- **Scale of operations:** An organisation operating on a large scale requires greater production capacity, larger premises and more equipment than a small enterprise using similar technology. Consequently, expansion in the scale of operations generally increases the total amount of fixed capital required, even if larger production yields economies per unit.
- **Choice of technique:** A capital-intensive technique uses more machinery and automated equipment, requiring a larger initial investment in fixed assets. A labour-intensive technique relies more

on human effort and generally requires less expenditure on machinery. The chosen production technique therefore directly affects fixed capital requirements.

- **Technology upgradation:** In industries where technology changes rapidly, existing equipment becomes obsolete relatively quickly. Enterprises must invest in new machinery or equipment more frequently to remain competitive. Such businesses need greater provision for fixed capital than businesses whose assets can remain technically useful for longer periods.

Step 3: Conclusion Four factors affecting fixed capital requirements are the nature of business, scale of operations, choice of production technique and need for technology upgradation. Manufacturing, larger operations, capital-intensive methods and rapid technological change generally increase the requirement.

Quick Tip to Solve: For each fixed-capital factor, name the factor, explain its effect on long-term assets, and compare the condition requiring more investment with the condition requiring less.

24. Karan Nath took over 'D'north Motor Company' from his ailing father three months ago. In the past the company was not performing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as selection of employees in the company were not scientific.

He believed that there was only one best method to maximise efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'.

He asked the Production Manager to develop the best method and carry out the necessary training. The Production Manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage.

Identify and explain the principles and the technique of scientific management followed by the Production Manager in the above case. [6 marks]

Solution:

Concept:

- Taylor's scientific management replaces traditional working practices with a scientifically determined best method for each job.
- Development of each and every person to his or her greatest efficiency and prosperity requires scientific selection, allocation of suitable work and training.
- Method study is a work-study technique used to identify the best way of performing a job, from obtaining inputs to delivering the finished product.

Step 1: Identify science, not rule of thumb **Science, not rule of thumb:** The case states that Karan believed there was "only one best method to maximise efficiency" and asked the Production Manager to develop it. This identifies Taylor's principle that managers should investigate and analyse the available ways of doing work instead of relying on habit, guesswork or a worker's personal judgement. Each element of a job should be studied scientifically so that the method adopted uses resources

efficiently. Here the unscientific production practices are replaced by a carefully developed method, which is then implemented throughout the company.

Step 2: Identify development of every person **Development of each and every person to his or her greatest efficiency and prosperity:** Karan felt that workers should be "trained to learn that 'best method'," and the Production Manager was asked to carry out the necessary training. Under this principle, workers should be selected scientifically, assigned work suited to their physical, mental and intellectual capabilities, and provided the training needed to perform it efficiently. Training enables employees to use the scientifically developed method correctly. Their greater efficiency benefits the organisation through higher output and gives employees opportunities for growth and prosperity.

Step 3: Explain the technique of method study **Method study:** The Production Manager studies the "sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers." These are the case clues identifying method study. Its objective is to find the best way of doing a job. It examines the entire production process, including the arrangement and movement of people and materials, the sequence of operations and the delivery of the product. Unnecessary activities and movements can thereby be removed and resources arranged more efficiently. The resulting method minimises the cost of production and maximises quality and customer satisfaction. In the case, increased output, improved quality and reduced cost and wastage show the benefits of using this technique.

Step 4: Conclusion The principles are **science, not rule of thumb** and **development of each and every person to his or her greatest efficiency and prosperity**. The technique is **method study**, used to determine and implement the best production method.

Quick Tip to Solve: Link "one best method" to science, "training workers" to development of every person, and the study of the complete sequence and layout to method study.

25. 'Moga Industries Ltd.' approached a well established university in the city of Madurai to recruit qualified personnel for various technical and professional jobs. They selected Tanya, Ritu, Garima and Chetan for various vacancies in the organisation.

After the selection and placement, 'Moga Industries Ltd.' felt the need to increase the skills and abilities, and the development of positive attitude of the employees to perform their specific jobs better. The company also realised that learning new skills would improve the job performance of the employees. Hence, the company decided to take action for the same.

(a) Name the step of the staffing process regarding which the company decided to take action.

(b) State the benefits of the action to 'Moga Industries Ltd.' [6 marks]

Solution:

Concept:

- Training and development is the step of staffing that improves employees' knowledge, skills, abilities and attitudes after their selection and placement.
- Training is directed towards better performance of a specific job, while development prepares employees for wider responsibilities and future growth.

Step 1: Name the staffing step in part (a) **Training and development** is the step regarding which Moga Industries Ltd. decided to take action. The company wants to "increase the skills and abilities" and develop a "positive attitude" so that employees can "perform their specific jobs better." These clues particularly describe training within the training and development stage. Selection and placement have already been completed; contacting the university was a recruitment activity and is not the new action asked about.

Step 2: State the benefits to the company in part (b)

- **Systematic learning and reduced wastage:** Training provides an organised way of learning job skills. It is better than learning only by trial and error, because employees avoid unnecessary mistakes, wastage of materials, time and money. Moga Industries can therefore obtain competent performance more economically.
- **Higher productivity and profitability:** Well-trained employees perform their work with greater efficiency and effectiveness. They understand the correct procedures and use their abilities more productively, improving the quantity and quality of output. This contributes to the company's profitability.
- **Preparation of future managers:** Training and development equip employees with knowledge and capabilities needed for greater responsibility. The company develops a pool of employees who can take over managerial positions when vacancies or emergencies arise, supporting continuity of operations.
- **Higher morale and lower employee turnover:** Opportunities to learn increase employees' confidence and show that the organisation values their growth. Higher morale and job satisfaction help reduce absenteeism and employee turnover, so the company can retain a more stable and committed workforce.
- **Faster response to change:** Training prepares employees to understand and use new technology, equipment and methods. A workforce that can acquire new skills enables Moga Industries to respond more quickly to changes in its technological and economic environment.

Step 3: Conclusion (a) The staffing step is **training and development**, particularly job-related training. (b) It benefits Moga Industries through systematic learning with less wastage, higher productivity and profitability, a supply of future managers, improved morale with reduced turnover, and a faster response to change.

Quick Tip to Solve: When benefits are asked for the organisation, explain how each training benefit improves the company's costs, output, staffing continuity, retention or adaptability.