CBSE Class 12 Business Studies Question Paper 2018 with Solution PDF-Set 66/3 - Compartment

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) Answer to questions carrying **3 marks** may be from **50-75 words**.

(iii) Answer 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. 'Vani Oil Refinery' is a large company, engaged in processing crude oil and refining it into more useful products like Petroleum, Kerosene, LPG etc. It has build good reputation over the years. It has been consistently earning profits and paying regular dividend to its shareholders. It needs additional working capital immediately to finance a project. It expects to return this amount after seven to eight months. Ashish Batra, the Finance Manager of the company does not want to get into procedural requirements of securing finance from a Commercial Bank.

Suggest how the company can raise the required finance for meeting its additional working capital requirements. [1 mark]

Solution:

Concept:

- Commercial paper is an unsecured, negotiable short-term money-market instrument issued by large, creditworthy companies.
- It can finance working-capital needs for a period between 15 days and one year.

Step 1: Identify the suitable instrument Vani Oil Refinery should issue commercial paper. The case says that it has a 'good reputation' and has been 'consistently earning profits', indicating the creditworthiness needed to raise unsecured funds.

Step 2: Match it to the financing need The required seven-to-eight-month period is within the maturity range of commercial paper. It provides short-term funds without the company having to follow the procedure of obtaining a commercial-bank loan.

Step 3: Conclusion The company can raise the additional working capital by issuing commercial paper.

Quick Tip to Solve: For a reputed company needing unsecured funds for less than a year, consider commercial paper.

2. If the company has enough funds and the management also wants to have greater control on the channel members, which channel of distribution should the company adopt ? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- The financial strength of a company and the degree of control desired influence its distribution-channel choice.
- A shorter channel allows closer supervision and more direct dealings with customers and intermediaries.

Step 1: Choose the channel The company should adopt a short channel of distribution, preferably direct selling where feasible. Its adequate funds allow it to bear the cost of maintaining its own selling and distribution facilities.

Step 2: Explain the control advantage With fewer intermediaries, management can exercise greater control over selling practices and channel activities. A long channel involves more independent middlemen and makes such close control more difficult.

Step 3: Conclusion A short channel of distribution is suitable because the company can finance it and obtain greater control over distribution.

Quick Tip to Solve: Link strong finances and a desire for control with a shorter distribution channel.

3. Give the meaning of Marketing Mix. [1 mark]

Solution:

Concept:

- Marketing mix is the combination of marketing tools a firm uses to achieve its marketing objectives in its target market.
- The four main elements are product, price, place and promotion, commonly called the four Ps.

Step 1: State the meaning Marketing mix means the combination of controllable marketing variables that an enterprise uses to pursue its marketing objectives in the target market.

Step 2: Identify its elements These variables are product, price, place and promotion. The firm coordinates decisions about what it offers, what it charges, how it distributes the offering and how it communicates with customers.

Step 3: Conclusion Marketing mix is the combination of product, price, place and promotion used by a firm to achieve its marketing objectives.

Quick Tip to Solve: Remember the four Ps as the controllable tools combined to serve a target market.

4. 'My Bakery', a biscuit manufacturing company, launched biscuits with different flavours based on quality and features like 'Crunchy biscuits', 'Sweet Potato', 'Coffee Jolly' etc.
The labels on the package of the biscuits are with pictures and different colours indicating and specifying the flavours of the biscuits and their contents.
Identify the two functions of labelling discussed above. [1 mark]

Solution:

Concept:

- Labelling helps customers identify a product or brand and obtain information about the product.
- A label can describe a product and specify its contents, features and other relevant details.

Step 1: Identify the product or brand **Identification of the product or brand:** The pictures and different colours distinguish the biscuit varieties, such as Crunchy biscuits, Sweet Potato and Coffee Jolly, and help buyers recognise the required product.

Step 2: Describe the contents **Describing the product and specifying its contents:** The labels indicate and specify the flavours of the biscuits and their contents. They tell consumers what each packaged variety contains.

Step 3: Conclusion The functions are identification of the product or brand, and describing the

product and specifying its contents.

Quick Tip to Solve: Match distinguishing pictures and colours to identification, and flavour or ingredient information to description.

5. What is meant by 'functional structure' of an organisation ? [1 mark]

Solution:

Concept:

- An organisational structure specifies how activities are grouped and how authority and responsibility are arranged.
- Functional structure groups jobs of a similar nature under major business functions.

Step 1: State the basis of grouping A functional structure is an organisational structure in which activities are grouped into departments according to the functions performed, such as production, marketing, finance and personnel.

Step 2: Explain the resulting arrangement Employees doing similar or related work are placed together under a functional head. This encourages functional specialisation because each department concentrates on its particular area of expertise.

Step 3: Conclusion Functional structure means grouping similar activities into functional departments, such as production, marketing and finance.

Quick Tip to Solve: To recognise functional structure, look for departments named after business functions rather than products.

6. Zamon Ltd. is manufacturer of electronics goods based in Pune. On one hand it deals in items like books, music instruments, videotapes etc., and on the other hand it deals in laptops and mobile phones. The company had a functional structure with separate heads for production, marketing and finance. All the functional heads were looking after the products, but at times their activities overlapped. This led to problems related to coordination and inter-departmental conflicts. To facilitate specialisation Ramit, the CEO of the company decided to group books, music instruments, videotapes etc. under 'Media' and laptops and mobile phones under 'consumer electronics'. While doing so Ramit has performed a step in the process of one of the functions of management. Identify the step. [1 mark]

Solution:

Concept:

- Departmentalisation is the organising step in which similar or related activities are grouped into departments.
- Activities may be grouped on a functional basis or on a product basis to facilitate specialisation.

Step 1: Identify the grouping described Ramit groups books, music instruments and videotapes under

Media, and laptops and mobile phones under consumer electronics. The decisive action is grouping related activities into identifiable units.

Step 2: Name the organising step This is **departmentalisation**, a step in the organising process. Here the grouping is on a product basis, enabling each division to concentrate on its own related product range and facilitating specialisation.

Step 3: Conclusion The step performed is departmentalisation, with activities grouped on a product basis.

Quick Tip to Solve: When a case describes grouping related activities into units, name departmentalisation as the organising step.

7. How does planning reduces the risks of uncertainty ? [1 mark]

Solution:

Concept:

- Planning looks ahead and anticipates future conditions before deciding a course of action.
- It reduces uncertainty-related risks by preparing the organisation for possible changes, although it cannot eliminate uncertainty.

Step 1: Anticipate future conditions Planning requires managers to assess the future and anticipate possible changes in the business environment. They examine likely opportunities and threats instead of waiting for events to occur.

Step 2: Prepare a suitable response Managers then decide in advance what action to take and how to meet likely situations. This preparedness reduces the adverse effects of unforeseen events and helps the organisation cope with change, though the future can never be predicted with complete certainty.

Step 3: Conclusion Planning reduces the risks of uncertainty by anticipating future changes and preparing suitable courses of action in advance.

Quick Tip to Solve: Explain risk reduction through anticipation and preparedness; do not claim that planning removes all uncertainty.

8. VXL Ltd. is a company dealing in dairy products. It procures these products from Rajasthan and sells them to various parts of Delhi. A month before 'Merio Ltd.', a Haryana based company entered Delhi market with a similar range of products. State the impact of entry of Haryana based 'Merio Ltd.' on the working capital requirements of VXL Ltd. Also, name the factor affecting the working capital requirements of VXL Ltd. [1 mark]

Solution:

Concept:

- Working capital finances day-to-day operations, including inventories and credit sales.
- The level of competition affects working capital: stronger competition may require additional stock

and more liberal credit terms to retain customers.

Step 1: Identify the factor Merio Ltd. has entered the same Delhi market with a 'similar range of products'. Therefore, VXL Ltd. now faces a higher level of competition.

Step 2: State the likely impact VXL Ltd.'s working capital requirement will increase. To meet competition it may have to maintain a wider or larger inventory and offer customers more liberal credit, both of which tie up additional funds in current assets.

Step 3: Conclusion The working capital requirement of VXL Ltd. will increase; the factor is the level of competition.

Quick Tip to Solve: When a rival enters the same product market, link competition to additional inventory and credit offered to customers.

9. Explain any three points of importance of consumer protection from the point of view of consumers.

[3 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices and provides a means of obtaining redressal.
- From the consumer viewpoint, NCERT explains its importance through consumer ignorance, unorganised consumers and widespread exploitation.

Step 1: Explain ignorance and lack of organisation **Consumer ignorance:** Many consumers are unaware of their rights and the remedies available to them. They may not know how to check product information, recognise misleading claims or complain about a defective purchase. Protection and consumer education make them aware of their rights so that they can use them effectively.

Unorganised consumers: Individual consumers are scattered and often lack the resources or bargaining strength to confront an organised business. Consumer organisations and protective arrangements enable them to act collectively and obtain assistance in seeking redressal.

Step 2: Explain the need to prevent exploitation **Widespread exploitation of consumers:** Consumers may face adulterated or unsafe goods, inferior quality, short weights and measures, overcharging and misleading advertisements. Such practices can cause financial loss and even harm health. Consumer protection checks these practices and provides a mechanism for complaints and relief, instead of leaving each buyer dependent entirely on the seller's goodwill.

Step 3: Conclusion Consumer protection is important because consumers may be ignorant of their rights, remain unorganised and face widespread exploitation by unscrupulous sellers.

Quick Tip to Solve: For the consumer viewpoint, organise the answer around ignorance, lack of organisation and exploitation; explain the need created by each.

10. State any three financial incentives other than 'Pay and Allowances' to motivate employees.

[3 marks]

Solution:

Concept:

- Financial incentives are rewards expressed in money or measurable in monetary terms, used to motivate employees.
- Besides pay and allowances, NCERT includes productivity-linked wage incentives, bonus and profit sharing among financial incentives.

Step 1: State performance-linked rewards **Productivity-linked wage incentives:** Payment is linked to an employee's or a group's output or productivity. An employee who produces more under the incentive scheme earns an additional financial reward. This encourages greater effort and improvement in work performance because the employee can see a connection between increased productivity and increased earnings.

Bonus: A bonus is an incentive paid over and above wages or salary. It is an additional monetary reward and can motivate employees by recognising their contribution and supplementing their regular earnings. It is distinct from the normal pay and allowances excluded by the question.

Step 2: State participation in profits **Profit sharing:** Employees are given a share in the profits of the organisation. This encourages them to work efficiently, reduce avoidable waste and help improve organisational results. Since their financial benefit is linked to the firm's profitability, employees acquire an interest in its success and are encouraged to cooperate towards common goals.

Step 3: Conclusion Three financial incentives other than pay and allowances are productivity-linked wage incentives, bonus and profit sharing.

Quick Tip to Solve: Choose incentives with a monetary benefit; praise, recognition and job enrichment are non-financial incentives.

11. Distinguish between 'delegation' and 'decentralization' on the basis of (i) Freedom of action; (ii) Status and (iii) Purpose.

[3 marks]

Solution:

Concept:

- Delegation means entrusting authority by a superior to a subordinate to perform assigned tasks, while the superior remains accountable.
- Decentralisation is the systematic delegation of authority throughout the organisation, giving lower levels greater scope to take decisions.

Step 1: Clarify the relationship Delegation operates in the relationship between a superior and a subordinate. Decentralisation extends decision-making authority systematically across levels. Both involve passing authority downwards, but they differ in the extent of freedom and in their organisational role.

Step 2: Compare the three specified bases

Basis	Delegation	Decentralisation
Freedom of action	Subordinates have less freedom, since authority is granted for assigned tasks and remains subject to the superior's supervision and control.	Lower-level managers enjoy greater freedom of action and initiative in taking decisions within their areas of authority.
Status	It is a process followed by managers to share tasks and the authority needed to perform them.	It is a policy decision of top management concerning the dispersal of authority throughout the organisation.
Purpose	Its purpose is to reduce the burden of the manager by enabling subordinates to carry out assigned work.	Its purpose is to increase the role of subordinates by giving them greater autonomy in decision-making.

Step 3: Conclusion Delegation gives relatively less freedom, is a managerial process and reduces the superior's workload. Decentralisation gives greater freedom, is a policy decision and expands the role and autonomy of subordinates.

Quick Tip to Solve: Use the exact requested bases as table rows: freedom, status and purpose; distinguish an individual delegation process from an organisation-wide policy.

12. Lakhan, an expert in the area of Financial Management, sent an e-mail to his subordinate Thomas about a new project for a client in France. Though, the mail was in English, a language known to Thomas, he was not able to understand the actual meaning of many words used in the mail. He was also not a specialist in the field of Financial Management. Not only this, some portions of the mail were translated from French to English in such a manner that many mistakes crept in, causing different meaning to the message.

(a) Identify two specific barriers to communication in Lakhan's e-mail.

(b) State any two measures which can be taken by Lakhan to overcome the barriers identified in part (a) above to improve in future the effectiveness of his communication. [3 marks]

Solution:

Concept:

- Semantic barriers arise when the words or symbols used in a message do not convey the intended meaning to the receiver.
- Effective communication requires language suited to the receiver's knowledge and accurate expression of the intended message.

Step 1: Identify the two semantic barriers **Technical jargon:** Lakhan uses specialised financial-management words which Thomas cannot understand because he is "not a specialist in the field of Financial Management". Knowing English does not necessarily mean understanding the technical vocabulary of a particular profession.

Faulty translations: Some portions were translated from French to English with "many mistakes", giving the message a different meaning. Thus, the intended message is distorted during translation, even though the receiver knows the language into which it has been translated.

Step 2: State two measures for effective future communication **Communicate according to the receiver's needs:** Lakhan should assess Thomas's knowledge and understanding, use familiar, simple words and explain unavoidable financial terms. This makes the message understandable to a non-specialist.

Be aware of language, tone and content: Lakhan should use clear, unambiguous language and check the French-to-English translation for accuracy before sending the message, taking competent language assistance where needed. The translated version must preserve the original meaning rather than merely substitute words.

Step 3: Conclusion The two barriers are technical jargon and faulty translations. Adapting the message to Thomas's understanding and ensuring clear, accurately translated language will address these barriers.

Quick Tip to Solve: Separate unfamiliar specialist words from errors in changing languages: the former signal technical jargon, while the latter signal faulty translations.

13. Neelabh Sarin, the Finance Manager and Atul Chopra, the Managing Director of Ghokerns Ltd. were discussing regarding the source of finance to be raised for modernisation of their existing plant. Quoting that 'Sensex has soared by 5078 points' in the last three years, Neelabh Sarin suggests that equity should be preferred while Atul Chopra wanted to opt for debt.

Keeping in mind the high operating costs of the company, suggest the source of finance that should be used for modernisation of existing plant. Also, explain the two factors highlighted above which should be kept in mind for taking this decision. [3 marks]

Solution:

Concept:

- Capital structure is the relative proportion of debt and equity used to finance a business. Its choice depends on risk as well as the conditions in the securities market.
- Debt creates a compulsory interest obligation, whereas equity dividends are not a fixed contractual charge on earnings.

Step 1: Recommend the appropriate source of finance Ghokerns Ltd. should prefer **equity finance** for modernising its plant. The company already has high operating costs, exposing its earnings to considerable operating or business risk. Adding debt would create compulsory interest payments and increase its financial risk. Equity avoids an additional fixed interest burden and is therefore more appropriate in the circumstances stated.

Step 2: Explain the two factors indicated in the case **Stock market conditions:** The statement that the "Sensex has soared by 5078 points" indicates a buoyant stock market. During a rising market, investors are more willing to invest in equity, making an equity issue more attractive. In a depressed market, debt may be relatively preferable. Thus, current capital-market conditions influence the financing choice.

Risk consideration: High operating costs indicate substantial operating risk. Financial risk arises from the obligation to pay interest on debt and repay it according to its terms. When business risk

is already high, the company should keep financial risk low by using less debt and more equity. Combining high operating risk with a large fixed interest burden could strain the company's ability to meet its obligations if earnings decline.

Step 3: Conclusion Equity is the suitable source: favourable stock market conditions support its issue, while the company's high operating risk calls for avoiding additional financial risk from debt.

Quick Tip to Solve: Link a rising Sensex to stock market conditions, and high operating costs to risk consideration; then explain how both support the financing recommendation.

14. Explain the steps to be followed in the process of controlling function of management after 'Setting Standards.' [4 marks]

Solution:

Concept:

- Controlling ensures that actual activities conform to the standards set in the plan. Standards provide benchmarks against which performance is evaluated.
- After setting standards, the process proceeds through measurement, comparison, analysis of deviations and corrective action. Its purpose is to bring future performance into line with the plan.

Step 1: Measure actual performance **Measurement of actual performance:** Assess the work actually performed through personal observation, sample checking, performance reports or other suitable techniques. Measure it in the same units as the standards so that a meaningful comparison is possible. Wherever feasible, measure performance while work is in progress so that defects are detected promptly.

Step 2: Compare actual performance with standards **Comparison of actual performance with standards:** Compare the measured results with the predetermined benchmarks. This reveals whether performance is above, below or equal to the expected level and identifies the extent of the deviation. For example, compare actual units produced with the planned output for the same period.

Step 3: Analyse the deviations **Analysing deviations:** Determine which deviations need managerial attention and investigate their causes. Critical point control concentrates on key result areas, while management by exception brings significant deviations beyond acceptable limits to managers' notice. Causes may include unrealistic standards, defective material, faulty equipment or inadequate training; identifying the cause is necessary before selecting a remedy.

Step 4: Take corrective action **Taking corrective action:** Act to remove the causes of significant deviations and prevent their recurrence. Appropriate measures may include training employees, repairing equipment or improving supervision. If the standards themselves are unrealistic, revise them after review. No corrective action is necessary when deviations remain within acceptable limits.

Step 5: Conclusion After setting standards, management measures actual performance, compares it with standards, analyses the deviations and takes suitable corrective action, thereby completing the control process.

Quick Tip to Solve: Remember the sequence Measure–Compare–Analyse–Correct; do not repeat setting standards when the question asks for the steps after it.

15. Sara was pursuing her graduation. Everyday she saw her mother working tirelessly at home after coming back from her work-place. She decided to start a tiffin service to increase her family income. To begin with she started supplying tiffin only in the neighbourhood. Everyday she detailed out the menu after consulting her mother. For informing the people about her service she designed a beautiful informative pamphlet, got it printed and started distributing it through the daily newspapers. She also appointed two delivery boys to deliver tiffins.

The business was slow to begin with but picked-up well afterwards. She was able to earn a profit of 20% of the revenue in the first month.

(a) Identify the promotional tool used by Sara to communicate to the customers about her tiffin service.

(b) State any three roles of the promotional tool identified in (a) above in marketing of goods and services. [4 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal presentation and promotion of goods, services or ideas by an identified sponsor. It communicates an offer to potential customers through a chosen medium.
- The roles of advertising in marketing include mass reach, enhancing customer satisfaction and confidence, expressiveness and economy. Any three appropriate roles can be stated.

Step 1: Identify Sara's promotional tool **(a) Advertising:** Sara used advertising to communicate her tiffin service to customers. The evidence is that she designed a "beautiful informative pamphlet", got it printed and distributed it "through the daily newspapers". This is a non-personal printed communication about her service from an identifiable sponsor, Sara. Appointing delivery boys concerns delivery of the service; it is not the promotional tool identified here.

Step 2: State the role of mass reach **(b) Mass reach:** Advertising can communicate with a large number of people over a wide geographical area. A single message carried through a suitable medium reaches many potential customers without the seller contacting each one individually. In Sara's case, distributing pamphlets through newspapers informed many households in her target neighbourhood about the tiffin service.

Step 3: Explain how advertising builds confidence **Enhancing customer satisfaction and confidence:** Advertising makes the product or service and its offer known to customers. Publicly advertised offerings can give customers a sense of assurance and comfort about their purchase, and help them feel more confident in choosing the advertised brand or service. This describes a general role of advertising; the case does not say that Sara provided any particular guarantee.

Step 4: State the role of expressiveness **Expressiveness:** Advertising can dramatise an organisation and its offerings through the artistic use of print, colour, design, sound and other creative techniques, according to the medium. It makes communication attractive and gives the seller scope to present the offering clearly. Sara's beautiful, informative printed pamphlet illustrates how design and written information can attract attention to a service.

Step 5: Conclusion Sara used advertising. Three roles of this promotional tool are mass reach, enhancing customer satisfaction and confidence, and expressiveness.

Quick Tip to Solve: A printed promotional pamphlet distributed through newspapers points to advertising; keep its marketing role separate from the delivery boys' distribution work.

16. After passing his secondary school examination, David left the school at the age of 15 years and started getting training under his father. His father, a renowned electrician, had worked for many companies. He everyday started accompanying his father on work and watched him carefully while working. David was a good learner and learnt the techniques of work quickly. Now his father started passing on the tricks of the trade to David. With the passage of time David acquired a high level skill and became a well-known electrician at Indore. Big business-houses started calling him for electrical-wiring.

(a) Name the method of training discussed in the above para.

(b) State any three benefits which David could get on being trained. [4 marks]

Solution:

Concept:

- Apprenticeship training is an on-the-job method in which a learner works under the guidance of a master worker to acquire the practical skills of a specialised trade.
- Training benefits the employee through improved skills, better earning prospects, safer working and greater confidence and satisfaction.

Step 1: Identify the training method from the case **(a) Apprenticeship training:** David learns the electrician's trade under his experienced father, a master worker. The clues are that he "started accompanying his father on work", watched him carefully, and was taught the "tricks of the trade". Learning a skilled trade by working with an expert, rather than merely attending classroom lectures, identifies apprenticeship training. Electricians, plumbers and mechanics commonly acquire specialised practical skills through this method.

Step 2: State three benefits to David as the trainee **(b) Improved skills and career prospects:** Training develops David's technical knowledge and ability to perform electrical work efficiently. The case confirms that he acquired a high level of skill and became well known; such competence improves his prospects of obtaining work and progressing in his occupation.

Higher earnings: Improved performance and specialised skill enable a trained person to earn more. David's reputation brings calls from big business-houses for electrical wiring, giving him opportunities to obtain better-paid assignments.

Greater safety: Proper training teaches the correct handling of tools, equipment and electrical installations. David can work more carefully and reduce the chances of accidents, protecting himself as well as others. This is especially valuable in a trade involving electricity.

Step 3: Conclusion David received apprenticeship training. Three benefits to him are improved skills and career prospects, opportunities for higher earnings, and safer working with a lower risk of accidents.

Quick Tip to Solve: An expert teaching a learner a skilled trade points to apprenticeship; when benefits to the trainee are asked, state employee benefits rather than savings to the employer.

17. A.V.M. Ltd. set-up its electric appliances manufacturing factory in a backward area of Himachal Pradesh where subsidies are provided by the government and labour is available at cheaper rates.

A.V.M. Ltd. was able to produce its products at low cost thereby generating enough profits in the first year itself. It was because of the fact that the limits of authority and responsibility of the employees were clearly defined and the activities of various departments were co-ordinated and integrated. The Production Manager of the company also came to know about the availability of raw-materials at cheaper rates from a vendor. For this he wrote a letter to the Managing Director of the company for getting sanction. But because of procedural delays in getting this sanction and procuring funds from the Finance Manager, the order could not be placed.

(a) Identify the type of organisation, that led to procedural delays and because of which the company could not get the advantage of procuring raw material at cheaper rates.

(b) State an advantage of the type of organisation identified in (a) above other than those discussed in the above case.

(c) Also, state any two values communicated by A.V.M Ltd. to the society. [4 marks]

Solution:

Concept:

- Formal organisation is the structure deliberately designed by management, specifying official authority, responsibility and reporting relationships.
- Prescribed channels and procedures promote orderly work but can delay decisions. Business also communicates social values through its location and employment policies.

Step 1: Identify the organisation responsible for the delay **(a) Formal organisation:** The company follows a deliberately established structure with prescribed official channels. The case states that the "limits of authority and responsibility" were clearly defined. To purchase the cheaper raw materials, the Production Manager had to write to the Managing Director for sanction and obtain funds from the Finance Manager. These formal procedures caused the delay and prevented the purchase at the favourable price.

Step 2: Give a different advantage of formal organisation **(b) Stability of the organisation:** Formal organisation provides stability because employees' behaviour is guided by established rules and procedures. Work does not depend solely on the personal preferences or informal relationships of particular individuals, so activities can continue in an orderly and predictable manner. This is distinct from the clear authority and responsibility and interdepartmental coordination already mentioned in the case.

Step 3: State two social values supported by the factory's location **(c) Balanced regional development:** By establishing its factory in a "backward area of Himachal Pradesh", A.V.M. Ltd. contributes to industrial development in a less developed region. This supports a more balanced spread of economic opportunities rather than concentrating all industry in already developed centres.

Employment generation and concern for local livelihoods: A manufacturing factory creates work opportunities for people in the area. Employing locally available labour helps residents earn a livelihood and can improve their standard of living. The value is the provision of productive employment; the availability of cheaper labour itself is a business advantage, not the social value to state.

Step 4: Conclusion The organisation is formal organisation. One additional advantage is stability through established rules and procedures. The company's location communicates balanced regional development and employment generation for local people.

Quick Tip to Solve: For an additional advantage, exclude the ones already quoted in the case; for social values, explain the benefit to people or the region rather than the firm's subsidy or low costs.

18. Vardan Patel started the business of preparation and supplying sweets through home delivery at a production cum show-room 'Express Sweets' at Ahmedabad.

He made a plan forecasting the sales of different types of sweets in various localities of Ahmedabad for each month of the year to earn a profit of 20% on Capital employed.

He set a sales target of ₹ 20,00,000 in the current year with a 10% increase every year.

He then set the criteria for selecting suppliers from whom he would make purchases of raw material. The planning paid off and the business was able to achieve its targets.

(a) Identify any two types of plans by quoting the lines from the above.

(b) Also give the meaning of the types of plans identified in part (a) above. [4 marks]

Solution:

Concept:

- Planning involves deciding in advance what is to be achieved and how it is to be achieved. Different types of plans perform different roles in this process.
- Objectives specify the desired results, whereas policies provide broad guidelines for decisions and actions directed towards those results.

Step 1: Identify objectives and explain their meaning **Objectives:** The relevant line is: "He set a sales target of Rs 20,00,000 in the current year with a 10% increase every year." This states the result the business intends to attain, rather than a method of working.

Objectives are the desired future positions or end results which management seeks to achieve through its activities. They give direction to the organisation and serve as the starting point for planning: other plans are prepared to help achieve them. Here the sales target specifies the amount to be achieved and the period within which it must be achieved. The expected annual increase also gives future activities a definite direction.

Step 2: Identify policy and explain its meaning **Policy:** The relevant line is: "He then set the criteria for selecting suppliers from whom he would make purchases of raw material." Setting these criteria gives those making purchasing decisions a common basis on which to select suppliers.

A policy is a general guideline that channels thinking and guides action towards the achievement of objectives. It defines the broad boundaries within which decisions may be taken, while leaving scope for judgement in individual situations. Thus, the supplier-selection criteria guide repeated purchase decisions instead of fixing a separate decision for every purchase. They help ensure that purchasing choices remain consistent with the business's aims; the case does not specify the actual criteria, so no particular criterion needs to be assumed.

Step 3: Conclusion The two plans are **objectives**, shown by the stated sales target, and **policy**, shown

by the supplier-selection criteria. Objectives set the results to achieve, while policy guides decisions made to achieve those results.

Quick Tip to Solve: In a planning case, link a stated target to objectives and broad decision criteria to policy. Quote the precise line before defining each identified plan.

19. Describe any four functions of Financial Market. [4 marks]

Solution:

Concept:

- A financial market brings together suppliers of funds and those who require funds. It facilitates the creation and exchange of financial assets such as shares and debentures.
- Its main functions are mobilising savings, facilitating price discovery, providing liquidity to financial assets and reducing the cost of transactions.

Step 1: Explain mobilisation of savings and price discovery **1. Mobilisation of savings and channelising them into the most productive uses:** A financial market transfers savings from savers to investors. It gives savers a choice of investments and enables businesses requiring funds to obtain them. By bringing these groups together, it channels surplus funds towards productive investment instead of leaving them idle, helping the economy use its available financial resources.

2. Facilitating price discovery: In a financial market, households supply funds while business firms demand them. The interaction of this demand and supply helps establish the price of financial assets traded in the market. Thus, buyers' and sellers' decisions collectively determine the price rather than either group deciding it in isolation.

Step 2: Explain liquidity and reduction of transaction costs **3. Providing liquidity to financial assets:** Financial markets provide a mechanism through which investors can readily buy and sell financial assets. An investor needing cash can sell a marketable asset and convert the investment into money. This provides liquidity and marketability, so funds need not remain committed to an investment for its entire life.

4. Reducing the cost of transactions: Financial markets provide useful information about securities being traded and make it easier for buyers and sellers to find one another. Without an organised market, they would have to spend more time, effort and money locating counterparties and obtaining information. The market therefore reduces these search and information costs and facilitates transactions.

Step 3: Conclusion The four functions are mobilisation and productive allocation of savings, price discovery, provision of liquidity, and reduction of transaction costs. Together they make the movement of funds between savers and users of funds more efficient.

Quick Tip to Solve: Recall the four functions as funds, price, liquidity and cost. Explain how each helps savers or users of funds rather than merely listing the headings.

20. Aditi set-up a company 'Dantik Ltd.' to manufacture toothpastes using herbs found in her village instead of chemicals that are hazardous to health. The package of the product was eco-friendly and had details like price, quantity, ingredients, directions for use and other relevant information. It also carries the contact details like address, phone number and e-mail id of 'Dantik Consumer Services and Grievance Cell'. The toothpaste became very popular and she started getting orders from reputed traders.

(a) Identify and explain any two Rights of Consumers discussed above.

(b) State any two values being communicated by 'Dantik Ltd.' to the society. [5 marks]

Solution:

Concept:

- Consumer rights protect buyers against unsafe goods and unfair practices. The right to safety and the right to be informed are directly illustrated by the product and its package.
- A business also communicates social values through its decisions concerning consumers' health and the natural environment.

Step 1: Identify and explain the right to safety **(a) Right to safety:** A consumer has the right to be protected against goods and services that are hazardous to life and health. Producers should supply products that are safe when used as directed. Dantik Ltd. uses "herbs found in her village instead of chemicals that are hazardous to health". This choice shows concern for the consumer's health and illustrates the right to safety. The deciding clue is avoidance of harmful ingredients, rather than the popularity of the toothpaste or the orders placed by traders.

Step 2: Identify and explain the right to be informed **Right to be informed:** A consumer has the right to complete information about a product, including its ingredients, quantity, price and directions for use, so that an informed purchase and proper use are possible. The package gives "price, quantity, ingredients, directions for use and other relevant information". These disclosures enable the buyer to compare the product, understand what it contains and use it appropriately. Thus, they directly support the right to be informed. The question asks for any two rights; these two are supported explicitly by the case.

Step 3: State the two social values **(b) Concern for consumers' health:** Replacing hazardous chemicals with herbs communicates a commitment to consumer welfare and the provision of safe products.

Environmental protection: The use of "eco-friendly" packaging communicates care for the environment and responsible use of packaging materials. These values follow from specific actions in the passage; they do not depend on assuming any additional charitable or employment activity by the company.

Step 4: Conclusion The two consumer rights are the **right to safety** and the **right to be informed**. The two values communicated are **concern for consumers' health** and **environmental protection**.

Quick Tip to Solve: Match each right to a separate clue: harmful ingredients point to safety, while price, quantity and ingredients on the package point to information.

21. State any five characteristics of co-ordination. [5 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to bring about unity of action in pursuit of organisational goals.
- Coordination is the essence of management: it binds the efforts involved in the different management functions into a unified whole.

Step 1: State how coordination combines efforts and directs action **1. Coordination integrates group efforts:** Employees and departments perform different tasks and may have different interests. Coordination brings their efforts together and reconciles those differences so that the organisation functions as one unit. For example, production and sales activities must be linked rather than carried out in isolation.

2. Coordination ensures unity of action: Coordination gives a common direction to the efforts of different units. It connects their activities to the overall purpose of the organisation and prevents conflict or duplication of work. Each department's contribution is thereby directed towards the same organisational objectives.

Step 2: State the continuity, scope and responsibility of coordination **3. Coordination is a continuous process:** It is required throughout organisational activity, rather than on a single occasion. It begins with planning and continues through organising, staffing, directing and controlling. Managers must keep adjusting related activities as work progresses and conditions change.

4. Coordination is an all-pervasive function: It is required in every department and at every level of management because activities everywhere depend on one another. Top management links the organisation's overall plans, while middle and supervisory managers coordinate the work within their areas. Its scope therefore extends across the whole organisation.

5. Coordination is the responsibility of all managers: Every manager must coordinate the work of subordinates and relate that work to other units. Top managers coordinate different divisions, middle managers coordinate departmental activities, and supervisors coordinate employees' day-to-day efforts. It cannot be left entirely to a single specialist or department.

Step 3: Conclusion The five characteristics are that coordination **integrates group efforts**, **ensures unity of action**, **is continuous**, **is all-pervasive**, and **is the responsibility of all managers**.

Quick Tip to Solve: Keep the headings distinct: all-pervasive describes where coordination is needed, while responsibility of all managers identifies who must ensure it.

22. Deewan Ltd. is a multinational consulting company with its headquarters at Washington D.C. It hires young people from different countries of the world.

It is a company in which people dream to work because of its work-environment, pay and growth prospectus. The company has a culture of open communication and people of various nationalities work together in a discrimination free environment. The behaviour of managers of Deewan Ltd. emphasises kindliness and justice which ensures loyality and devotion of workers.

It also promotes mutual trust and belongingness among team members. In this way management of Deewan Ltd. is able to achieve its objectives by promoting team work. By doing so Managers of Deewan Ltd. are following some principles of management.

Identify and explain any two such principles. [5 marks]

Solution:

Concept:

- Fayol's principle of equity requires kindliness and justice in the treatment of employees. Fair treatment creates loyalty and devotion towards the organisation.
- Esprit de corps means team spirit: managers should promote unity, harmony and mutual trust so that employees work together towards common organisational objectives.

Step 1: Identify and explain equity **Equity:** The case states that people of various nationalities work in a "discrimination free environment" and that managers emphasise "kindliness and justice". These words directly identify the principle of equity. Managers should treat employees fairly and impartially, without discrimination on grounds such as nationality, religion, caste or gender. Employees should receive fair opportunities and considerate treatment. This develops their loyalty and devotion, as the case itself describes.

Equity does not mean overlooking poor performance or abandoning discipline. Fairness combines kindness with justice, so that managerial decisions remain reasonable and employees feel respected. At Deewan Ltd., employees from different countries can therefore work with confidence that nationality will not determine their treatment.

Step 2: Identify and explain esprit de corps **Esprit de corps:** The evidence is that the company promotes "mutual trust and belongingness among team members" and achieves its objectives by "promoting team work". Fayol advises management to develop unity and harmony among employees rather than divide them into competing groups. Managers should encourage a spirit of "we" rather than "I" so that individual effort supports the interests of the whole organisation.

Open communication and a sense of belonging help employees cooperate and support one another. By building this team spirit, Deewan Ltd. channels the efforts of its diverse workforce towards shared objectives. Mutual trust also makes coordinated work easier, because employees regard themselves as members of one team.

Step 3: Conclusion The two principles are **equity**, shown by kindliness, justice and freedom from discrimination, and **esprit de corps**, shown by mutual trust, belongingness and teamwork. Together they encourage employee devotion and collective achievement of organisational objectives.

Quick Tip to Solve: Link "kindliness and justice" to equity and "team spirit, trust and belongingness" to esprit de corps; support each name with the matching words from the case.

23. There were two vacancies for the post of Assistant Manager in 'Gyan Electrics Private Ltd.'. 'Parth' the Human Resources Manager identified one suitable candidate 'Vishwas' from within the organisation and promoted him to the post of Assistant Manager. For another post, the Manager 'Parth' took help of a placement agency and selected 'Saleem'. After six months, Parth observed that 'Vishwas's' performance was much better than 'Saleem's' performance though 'Vishwas' was less qualified than 'Saleem'. Hence, 'Parth' decided that in future he will not make any appointment with the help of an outside source.

Explain any four reasons on the basis of which 'Parth' would have taken the above decision. [6 marks]

Solution:

Concept:

- Internal recruitment fills vacancies from within the organisation through promotion or transfer. Vishwas's promotion is an internal source, whereas appointing Saleem through a placement agency is external recruitment.
- The merits of internal recruitment explain why Parth favours it after comparing the two appointments: employee motivation, simpler selection, workforce adjustment and economy.

Step 1: Relate the decision to the case Parth promoted Vishwas "from within the organisation", while Saleem was selected with the help of a placement agency. Vishwas subsequently performed better despite being less qualified. Parth's decision therefore reflects his preference for the advantages of internal recruitment. The following are four reasons that can support that preference; they explain its merits without assuming any additional facts about Saleem's conduct or training.

Step 2: Explain motivation and simpler selection **1. Motivation and improved performance:** Promotion gives existing employees a visible opportunity to improve their status, responsibilities and earnings. The prospect of career advancement encourages them to work harder and improve their performance. Filling senior vacancies internally can therefore strengthen employees' commitment, morale and willingness to contribute, rather than making them feel that advancement is available only to outsiders.

2. Simpler and more reliable selection: The organisation already knows its employees' ability, experience, behaviour and past performance. It can judge their suitability on the basis of an actual service record instead of depending mainly on qualifications and a brief external selection process. Existing employees are also familiar with the organisation's policies and procedures, reducing the need for induction. Vishwas's better performance illustrates why Parth may value demonstrated suitability over higher formal qualifications alone.

Step 3: Explain workforce adjustment and economy **3. Adjustment of surplus and shortage:** Internal transfers allow an organisation to move suitable employees from departments with surplus staff to departments facing a shortage. This helps balance its workforce and use available human resources more effectively. Such internal movement is a merit of internal recruitment, although the appointment specifically described in this case is a promotion.

4. Economy: Internal recruitment normally costs less than recruiting from outside. The organisation can avoid expenditure on advertisements and placement-agency services and reduce the time and effort involved in searching for and assessing unfamiliar applicants. As the employees are already known and familiar with the organisation, the process of filling vacancies can also be quicker. These

savings can make internal sources attractive to Parth for future appointments.

Step 4: Conclusion Parth could favour internal recruitment because it motivates employees through advancement, simplifies selection using known performance, permits adjustment of staff through transfers and is economical. These are merits of internal sources; Vishwas's successful promotion provides the immediate context for his preference.

Quick Tip to Solve: First identify promotion as an internal source, then explain four merits separately. Do not treat higher qualifications as proof of better practical performance.

24. What is meant by 'New Issue Market' ? Explain the various methods of floatation of new securities issues in this market. [6 marks]

Solution:

Concept:

- The primary market, also called the New Issue Market, deals in securities issued for the first time. It channels savings from investors to the enterprises raising funds.
- New securities may be offered to the public, through intermediaries, to selected investors or to existing shareholders. The issue method determines how subscribers are approached.

Step 1: Define the New Issue Market **Meaning:** The New Issue Market is the market in which companies issue new securities to raise fresh capital. Funds flow from subscribers to the issuing company, enabling it to establish a new enterprise, expand operations, diversify or modernise. It differs from the secondary market, where investors trade securities already issued and the sale proceeds normally go to the selling investor.

Step 2: Explain public and intermediary-based issues **Offer through prospectus:** The company invites the general public to subscribe to its securities by issuing a prospectus. The prospectus discloses relevant information about the company, the purpose of the issue and its prospects so that investors can decide whether to apply. The issue may be underwritten and must comply with the applicable disclosure requirements.

Offer for sale: The company first sells or allots securities to intermediaries, such as issuing houses or stockbrokers, at an agreed price. These intermediaries then resell the securities to the investing public at a higher price. Thus, the public is approached through intermediaries rather than through a direct invitation by the company.

Step 3: Explain issues to selected and existing investors **Private placement:** Securities are allotted to selected individuals or institutional investors instead of being offered to the public generally. This method can raise capital more quickly and with lower issue costs, and is especially useful where a public issue would be expensive.

Rights issue: Existing shareholders are given the privilege of subscribing to new shares, normally in proportion to their existing holdings and on specified terms. It gives them an opportunity to maintain their proportionate ownership before the shares are offered elsewhere.

Step 4: Explain the electronic issue method **Electronic Initial Public Offer (e-IPO):** A company can issue securities through the online system of a stock exchange after entering into an agreement with

it. Registered brokers accept applications and place orders through the exchange's electronic platform. A lead manager coordinates the issue, while the registrar handles the records and allotment-related work. Electronic processing facilitates the receipt and handling of subscription applications.

Step 5: Conclusion The New Issue Market raises fresh capital through offer through prospectus, offer for sale, private placement, rights issue and e-IPO. Each method provides a different route by which newly issued securities reach investors.

Quick Tip to Solve: Remember the five routes by asking who is approached: the public directly, intermediaries, selected investors, existing shareholders or investors through an electronic platform.

25. With rapid advancements in the field of replacing manual work with machines, a robot named 'Sujan' has been invented and developed and is likely to get the citizenship of the country of its origin. It has led to a stage where machines are being used in place of human beings.

'Sujan' is doing all types of work whether routine or hazardous and even answering the queries of people. However, this issue has to be carefully looked into keeping in mind the consumer attitude towards product innovations, problem of unemployment and its impact on the quality of life. Through the orders and decisions of various commissions and agencies at Centre, State or local level the Indian Government is playing a very significant role in balancing the use of human and machine power.

Various dimensions of business environment are being discussed in the above para.

By quoting the lines from the above identify and explain any three dimensions. [6 marks]

Solution:

Concept:

- Business environment includes external forces and conditions that affect the functioning of an enterprise. Its dimensions are closely related, although each describes a different kind of influence.
- Technological environment concerns scientific advances and new methods; social environment includes attitudes, values and expectations; legal environment includes laws and binding decisions of governmental bodies.

Step 1: Identify and explain the technological environment **Technological environment:** The relevant words are "With rapid advancements in the field of replacing manual work with machines, a robot named 'Sujan' has been invented and developed".

This dimension includes forces relating to scientific improvements and innovations that provide new ways of producing goods and services and new methods of operating a business. The invention of the robot represents such an advance. Its ability to undertake routine and hazardous work, as well as answer people's queries, illustrates how technology can alter the tasks performed by machines and the methods used by enterprises. Businesses must assess these developments when choosing equipment, processes and employee skills.

Step 2: Identify and explain the social environment **Social environment:** The relevant words are "keeping in mind the consumer attitude towards product innovations, problem of unemployment and its impact on the quality of life".

The social environment consists of social forces such as customs, traditions, values, social trends and society's expectations from business. Consumer attitudes towards innovations affect whether new products and methods are accepted. Concern about unemployment and quality of life reflects society's expectations regarding the consequences of replacing people with machines. An enterprise must therefore consider social acceptance and employee welfare along with the technical advantages of automation. The quoted reference to consumer attitudes is a direct clue to this dimension.

Step 3: Identify and explain the legal environment **Legal environment:** The relevant words are "Through the orders and decisions of various commissions and agencies at Centre, State or local level the Indian Government is playing a very significant role in balancing the use of human and machine power."

This dimension includes legislation, administrative orders, court judgements and decisions of commissions and governmental agencies at central, state and local levels. Such requirements establish the framework within which businesses must operate. Here, the orders and decisions that regulate the balance between human and machine power illustrate legal influences. Enterprises must understand and comply with applicable requirements when adopting technology; the existence of a technical possibility alone does not determine how it may be used.

Step 4: Conclusion The three dimensions are technological environment, shown by the invention and development of the robot; social environment, shown by consumer attitudes and concern for quality of life; and legal environment, shown by the orders and decisions of commissions and government agencies.

Quick Tip to Solve: In an environment case, match the exact clue to its category: invention means technological, attitudes mean social, and orders or decisions of regulatory agencies mean legal.