CBSE Class 12 Business Studies Question Paper 2019 with Solution PDF-Set 66/1/3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question-paper contains **five** Sections – A, B, C, D and E.

(ii) Section – A contains questions **1** to **8** carrying **one** mark each. Answer to these questions may be given in **one word** or a sentence.

(iii) Section – B contains questions **9** to **13** carrying **three** marks each, answers to these questions may be in **50** to **75 words**.

(iv) Section – C contains questions **14** to **19** carrying **four** marks each. Answers to these questions may be in about **120 words**.

(v) Section – D contains questions **20** to **22** carrying **five** marks each. Answers to these questions may be in about **150 words**.

(vi) Section – E contains questions **23** to **25** carrying **six** marks each. Answer to these questions may be in about **200 words**.

(vii) There is no over-all-choice in the question paper, however an internal choice has been provided in **3** questions of **one** mark, **2** questions of **three** marks, **2** questions of **four** marks, **1** question of **five** marks and **1** question of **six** marks. You have to attempt only **one** of the choices in such questions.

Section A (8 marks)

1. Varsha Jain after completing her fashion designing course from Indian Institute of Fashion Technology planned to enter into designer clothing venture. She had to address issues like her target customers, channel of distribution to be used, pricing policy etc. Identify the type of plan that Varsha Jain needs to develop to provide direction and scope to her organization in the long run. [1 mark]

Solution:

Concept:

- Strategy is a comprehensive plan that determines the long-term direction and scope of an organisation.
- It combines long-term objectives, a course of action and the allocation of resources needed to achieve those objectives.

Step 1: Identify the planning requirement Varsha must make connected decisions about 'target customers, channel of distribution to be used, pricing policy etc.' These decisions determine how her designer clothing venture will compete and reach its customers.

Step 2: Match the clue with the type of plan The decisive words are 'direction and scope to her organization in the long run'. Such an overall plan is a strategy. A policy provides a general guide for decisions on a particular matter, while a procedure specifies a sequence of activities; neither alone covers this overall strategic direction.

Step 3: Conclusion The type of plan Varsha Jain needs to develop is a **strategy**.

Quick Tip to Solve: Link long-term direction, scope and a coordinated course of action with strategy; a single guiding rule is only a policy.

2(a). State any two 'Developmental Functions' of Securities and Exchange Board of India. [1 mark]

Solution:

Concept:

- SEBI protects investors and promotes the development and regulation of the securities market.
- Developmental functions strengthen market participants and spread the knowledge needed for an informed securities market.

Step 1: State the training function **Training of intermediaries:** SEBI promotes the training of intermediaries of the securities market, such as brokers, so that they can perform their work competently and improve market services.

Step 2: State the investor education function **Investor education:** SEBI undertakes measures to educate investors and develops their awareness of the securities market. Informed investors can understand investment opportunities and make better decisions. These are developmental activities, rather than punitive action against unfair trading practices.

Step 3: Conclusion Two developmental functions of SEBI are **training intermediaries of the**

securities market and **undertaking investor education measures**.

Quick Tip to Solve: For developmental functions, recall training and education; keep these separate from regulatory inspections and protective action against fraud.

OR

2(b). What is meant by 'Allocative Function' of Financial Markets ? [1 mark]

Solution:

Concept:

- Financial markets link savers who have surplus funds with business firms that require funds for investment.
- The allocative function directs scarce financial resources towards productive investment opportunities.

Step 1: Identify the resources being allocated Households and other savers supply funds, while firms demand them to finance investment. Financial markets provide a mechanism through which these savings can move to the firms that need capital.

Step 2: Explain how allocation improves the use of funds Financial markets help direct savings towards the most productive investment opportunities. Savers and firms are brought together, enabling funds to move into uses that can generate productive returns rather than remain idle. Thus the function concerns the destination and productive use of savings, not simply the physical exchange of securities.

Step 3: Conclusion The **allocative function** of financial markets means facilitating the transfer of savings from savers to investors and channelling them into the most productive investment opportunities.

Quick Tip to Solve: Use the chain savers, financial market, productive investment to recall what the allocative function does.

3. Beena has been using 'Klean', a famous detergent available in the market. On watching numerous advertisements in the television, she decided to try a new brand of detergent. When she went to the near-by store to purchase the same, she saw detergents of other producers making similar claims of whiteness and stain removing abilities. Hence she could not make up her mind as which detergent to purchase.

Name the objection of advertising being discussed in this case. [1 mark]

Solution:

Concept:

- One objection to advertising is that it confuses buyers by making similar claims for competing products.
- The objection is identified from the effect on the consumer in the case, rather than merely from the frequency of advertisements.

Step 1: Find the effect on the buyer Beena sees detergents of different producers 'making similar claims of whiteness and stain removing abilities'. The competing messages do not give her a clear basis for choosing a detergent.

Step 2: Identify the objection The result is that she 'could not make up her mind as which detergent to purchase'. This is the objection that advertising confuses buyers. The case does not emphasise an increase in price or an inferior product; its focus is the buyer's difficulty in choosing among similar advertised claims.

Step 3: Conclusion The objection discussed is **advertising confuses the buyers**.

Quick Tip to Solve: When rival advertisements make similar claims and leave the consumer unable to choose, identify the objection as confusion of buyers.

4(a). Give the meaning of 'Physical Distribution' as an element of Marketing Mix. [1 mark]

Solution:

Concept:

- Physical distribution concerns the physical movement and availability of finished goods.
- It is part of the place or distribution element of the marketing mix and connects the producer with the customer.

Step 1: Identify what is distributed The subject is the actual finished product, rather than an advertisement or a financial payment. After production, goods must be moved and made available where customers wish to buy them.

Step 2: State the movement covered Physical distribution involves the activities needed to move finished goods from the point of production to the point of consumption. It includes transportation, warehousing, inventory control and order processing. These activities ensure that goods reach customers in the required place and at the required time.

Step 3: Conclusion **Physical distribution** means the activities concerned with the physical movement of finished goods from the point of production to the point of consumption.

Quick Tip to Solve: For physical distribution, start with movement of finished goods, then recall transport, storage, inventory and order processing.

OR

4(b). What is meant by 'Marketing Management' ? [1 mark]

Solution:

Concept:

- Marketing management applies management activities to the marketing of goods and services.
- It focuses on choosing target markets and creating, delivering and communicating superior customer value.

Step 1: Identify the target-market focus A business must decide which customers it wishes to serve. Marketing management therefore begins with choosing target markets instead of trying to satisfy every possible buyer in the same way.

Step 2: Explain the customer relationship focus The business then seeks to get, keep and grow customers by creating, delivering and communicating superior customer value. This includes understanding customers and offering value that satisfies their needs. It is broader than selling alone, since it covers the whole process of building valuable customer relationships.

Step 3: Conclusion **Marketing management** is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.

Quick Tip to Solve: Recall choose target markets, then get, keep and grow customers; superior customer value links all parts of the definition.

5(a). Define 'Workforce Analysis'. [1 mark]

Solution:

Concept:

- Workforce analysis is part of estimating the manpower requirements of an organisation.
- It examines the number and types of employees already available so that their adequacy can be assessed.

Step 1: Examine the existing employees The organisation analyses its existing workforce in terms of both the number of employees and their types, including the skills or categories of personnel available for its work.

Step 2: Relate the analysis to staffing needs This assessment helps the organisation determine whether it is understaffed or overstaffed. It concerns the supply of personnel already available. Workload analysis, in contrast, assesses the number and type of personnel required to perform the work; the two assessments are compared when estimating manpower needs.

Step 3: Conclusion **Workforce analysis** is an assessment of the number and types of employees available, which helps determine whether the organisation is understaffed or overstaffed.

Quick Tip to Solve: Workforce means employees available; workload means employees required. Compare the two to identify a staffing shortage or surplus.

OR

5(b). Define 'Selection'. [1 mark]

Solution:

Concept:

- Selection is the staffing activity through which suitable applicants are chosen for the jobs available in an organisation.
- It follows recruitment: recruitment attracts applicants, while selection examines their suitability and chooses among them.

Step 1: State the definition Selection is the process of choosing from among the pool of prospective job candidates developed at the stage of recruitment those who are best suited to the organisation's jobs.

Step 2: Identify the basis of choice The organisation matches the applicants' qualifications, abilities and experience with job requirements. Thus selection aims to appoint the right person to the right job, rather than merely increasing the number of applicants.

Step 3: Conclusion Selection means choosing the best-suited candidates from the pool of prospective applicants for the jobs in an organisation.

Quick Tip to Solve: Remember the sequence: recruitment attracts a pool; selection chooses the best fit from that pool.

6. Appliances India Ltd. is engaged in manufacturing and distribution of home appliances since 1987. It has a good name in the market as the company is producing good quality appliances. It has separate departments for manufacturing, finance, sales, maintenance services and technical services to achieve specialization.

Since the areas of operations of the company have increased and customers have become more demanding, the company decided to modify the existing principle of management to meet the changing requirements of the environment.

State the general principle of management which the company wants to modify to meet the changing requirements. [1 mark]

Solution:

Concept:

- Fayol's principle of division of work states that work should be divided into specialised tasks and assigned to people with suitable expertise.
- Principles of management are flexible guidelines: their application may be modified to suit changes in the business environment.

Step 1: Identify the principle from the case The company has "separate departments for manufacturing, finance, sales, maintenance services and technical services to achieve specialization". This division of activities by specialised functions reflects the principle of **division of work**.

Step 2: Connect the proposed modification to the question As operations expand and customers become more demanding, the company proposes to modify its existing division of work. Flexibility explains why a principle can be adapted, but the particular principle already applied through specialised departments is division of work.

Step 3: Conclusion The general principle of management is **Division of Work**.

Quick Tip to Solve: Use the case clue "separate departments ... to achieve specialization" to identify division of work.

7. How does Financial Market facilitate 'Price Discovery' of financial assets ? [1 mark]

Solution:

Concept:

- A financial market brings together suppliers of funds, the investors, and users of funds, such as business firms.
- Price discovery is the determination of a financial asset's price through the interaction of its demand and supply.

Step 1: Identify the forces that meet in the market Investors seeking to buy a financial asset create demand for it, while issuers or existing holders offering it create supply. The financial market provides a mechanism through which these buyers and sellers interact.

Step 2: Explain the resulting price Their bids and offers reveal the price at which they are willing to transact. The interaction of demand and supply establishes the price of the financial asset; it is therefore discovered in the market rather than fixed merely by the asset's face value.

Step 3: Conclusion A financial market facilitates price discovery by enabling the forces of demand and supply to interact and determine the price of financial assets.

Quick Tip to Solve: For price discovery, always connect the market price with demand from buyers and supply from sellers.

8. Biru Nandan, Chairman of Lalit group of companies founded 'Biru University' for undergraduate and postgraduate courses in diverse disciplines. The Information Technology department of the 'Lalit Power Ltd., had few vacancies related to Cyber Security. The Human Resource Department of the Company decided to recruit fresh engineering graduates from 'Biru University' for the same. Identify the type of source of recruitment. [1 mark]

Solution:

Concept:

- External recruitment obtains prospective employees from outside the existing workforce of an organisation.
- Campus recruitment is the recruitment of candidates from educational institutions, such as universities, engineering colleges and management institutes.

Step 1: Locate the source in the case The Human Resource Department decides to recruit "fresh engineering graduates from Biru University". The university is the educational institution from which prospective employees will be obtained.

Step 2: Classify the recruitment source This is **campus recruitment**, an external source of recruitment. Although the chairman founded the university, the fresh graduates are not existing employees being promoted or transferred within Lalit Power Ltd.; they are being hired from an educational institution.

Step 3: Conclusion The source is **campus recruitment**, which is an **external source of recruitment**.

Quick Tip to Solve: Fresh graduates hired from a university or college indicate campus recruitment, even when the institution has links with the business.

Section B (15 marks)

9. Mita has a successful ice cream business at Bikaner, namely 'Smartflavours'. Her ice creams are utterly delicious. She makes ice creams from fresh milk and the same are available in a wide range of flavours and packs. She sets viable business objectives and works with the same in mind in order to ensure that the customers will come back for purchasing.

Having the first mover advantage, her business was doing well. To earn higher profits, she started cutting costs. This would sometimes lead to delay in delivery and the ice cream was not reaching the market in time. Over a period of time, the demand for her ice cream declined and because of it the competitors entered the market. She lost some of her market share to competitors.

At the beginning of summer season, she got back to back orders for supply of 4,000 ice cream packs of different flavours for special occasions. To ensure that the task was completed and orders delivered in time she hired additional workers. She was, thus able to produce and deliver the ice cream packs but at a high production cost. While completing activities and finishing the given task for achieving goals, Mita realized that she was ignoring one of the important aspects of management.

Identify the aspects of management that has been ignored by Mita. Also explain the same with the help of an example. [3 marks]

Solution:

Concept:

- Effectiveness means completing the assigned task and achieving the desired objective within the stipulated time.
- Efficiency means performing a task correctly with minimum cost and optimum use of resources. A manager must achieve goals while avoiding unnecessary resource use.

Step 1: Identify the neglected aspect in the final order Mita has ignored **efficiency**. She hires additional workers and supplies the 4,000 ice cream packs on time, but "at a high production cost". Timely completion shows effectiveness; the high resource cost indicates that efficiency has been neglected.

Step 2: Explain efficiency and its relation to effectiveness Efficiency concerns the relationship between inputs and outputs: the aim is to obtain the required output with minimum resources and cost, without

compromising the task. Simply finishing the work is not enough. Earlier, Mita's cost cutting caused delivery delays, showing why cost reduction must also preserve effectiveness. Management requires both aspects together.

Step 3: Give a suitable example For example, suppose two producers each deliver 4,000 ice cream packs of the required quality by the promised date. One uses careful production scheduling and avoids idle time and wastage, so it incurs a lower cost than the other, which uses unnecessary overtime and extra labour. Both are effective, but the first is more efficient because it achieves the same required output with fewer resources. Mita should similarly plan labour and production so that delivery commitments are met economically.

Step 4: Conclusion The aspect neglected when Mita completes the order at a high production cost is **efficiency**. She must achieve timely delivery while making optimum use of resources.

Quick Tip to Solve: "Completed on time" signals effectiveness; "at a high cost" signals a failure of efficiency. Check both clues together.

10. State 'Job Enrichment' and 'Employee Participation' as non-financial incentives. How do they motivate employees ? [3 marks]

Solution:

Concept:

- Non-financial incentives satisfy psychological, social and higher-level needs rather than rewarding an employee directly through money.
- Job enrichment improves the content of the work itself, while employee participation gives employees a role in decisions affecting their work.

Step 1: Explain job enrichment and its motivational effect **Job enrichment:** It means designing jobs to include greater variety of work content, a higher level of knowledge and skill, greater autonomy and responsibility, opportunities for personal growth and a meaningful work experience. Instead of merely repeating a narrow routine, the employee gets work that uses abilities and offers a challenge. Such a job motivates by satisfying needs for achievement, recognition and self-development. Greater freedom and responsibility also give the employee a sense of ownership of the work and satisfaction from completing it successfully.

Step 2: Explain employee participation and its motivational effect **Employee participation:** It means involving employees in decision-making on issues related to them, for example through joint management committees or work committees. Employees can express their views and contribute suggestions about matters affecting their jobs. Being consulted makes them feel that their knowledge and opinions are valued, satisfying their need for recognition and involvement. Participation also creates a sense of belonging and commitment: employees are more willing to support and carry out decisions in whose formulation they have taken part.

Step 3: Conclusion Job enrichment motivates through challenging, meaningful work and opportunities for growth; employee participation motivates through involvement, recognition and commitment to decisions. Both satisfy employees' non-financial needs.

Quick Tip to Solve: For each incentive, pair its meaning with the need it satisfies: enriched work gives growth and achievement; participation gives involvement and recognition.

11(a). Give the meaning of Financial Management. State its main objective. [3 marks]

Solution:

Concept:

- Financial management deals with the efficient acquisition and use of finance so that the business can meet its requirements economically.
- The main objective of financial management is to maximise shareholders' wealth, reflected in the market price of the company's equity shares.

Step 1: State the meaning of financial management **Meaning:** Financial management is concerned with the optimal procurement and usage of finance. It involves obtaining funds at the lowest possible cost, keeping the associated risk under control, and investing those funds effectively. It therefore covers both the sources from which money is raised and the uses to which it is put. For example, management must decide how much finance to raise through owners' funds or borrowings and which assets or projects should receive it. The aim is to ensure that adequate funds are available when needed and that they are neither unnecessarily idle nor invested wastefully.

Step 2: State and explain its main objective **Shareholders' wealth maximisation:** The main objective is to maximise the wealth of the shareholders, which means maximising the market price of the company's equity shares. A shareholder's wealth depends on the number of shares held and their market price. Financial decisions should therefore add value to the investment of shareholders. The price of a share reflects expectations about future earnings and the risk associated with those earnings; merely increasing a short-term accounting profit is not sufficient. Sound investment, financing and dividend decisions should improve the value of the company and consequently the value of its shares.

Step 3: Conclusion Financial management means optimal procurement and utilisation of funds. Its principal objective is shareholders' wealth maximisation through maximisation of the market price of equity shares.

Quick Tip to Solve: In the objective, write shareholders' wealth and market price of equity shares explicitly; do not stop at the less precise phrase profit maximisation.

OR

11(b). State any three points of importance of financial planning. [3 marks]

Solution:

Concept:

- Financial planning estimates a business's financial requirements and specifies the sources of finance for meeting them.
- It seeks to make funds available in the right amount at the right time, avoiding both shortages and unnecessary surpluses.

Step 1: Explain how planning prepares for future requirements **Forecasting future financial requirements:** Financial planning forecasts what may happen in the future under different business situations. It estimates the funds needed for planned activities, allowing management to arrange

finance before the need arises. By considering alternative possibilities, the business is better prepared to face unexpected financial situations. A forecast of a shortage, for example, gives management time to consider suitable sources rather than borrowing hastily when payment is already due.

Step 2: Explain how planning prevents waste and shortages **Avoiding shortages and surplus funds:** Financial planning attempts to ensure the availability of sufficient funds whenever required. Inadequate finance can interrupt operations or prevent a profitable investment. Excessive finance, on the other hand, may remain idle and add unnecessary cost. Estimating the amount and timing of requirements helps the business procure an appropriate amount of finance and use it economically.

Step 3: Explain how planning coordinates business activities **Coordinating various business functions:** Financial planning links the financial requirements of activities such as production, sales and investment. For instance, a sales expansion must be supported by sufficient production capacity and funds for inventories and receivables. A common financial plan helps departments frame consistent proposals instead of making conflicting demands for resources. Thus, planned activities can be integrated with the finance available to carry them out.

Step 4: Conclusion Financial planning is important because it forecasts future financial needs, helps avoid both a shortage and a surplus of funds, and coordinates the financial requirements of the various functions of the business.

Quick Tip to Solve: State three separate benefits, each followed by its effect: preparation for the future, right-sized funds, and coordination between business functions.

12(a). 'Co-ordination is the essence of management.' Explain. [3 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to provide unity of action in achieving organisational goals.
- It is the essence of management because it is inherent in every managerial function, at every level, and binds separate efforts into a purposeful whole.

Step 1: Explain its place in managerial functions **Coordination runs through all functions:** In planning, departmental plans must support the overall organisational plan. In organising, work and authority must be related so that different departments cooperate. Staffing places suitable people in the required positions; directing aligns their efforts through supervision, motivation and communication; controlling compares performance with plans and coordinates corrective action. Thus coordination is not an isolated function performed only after other functions are complete.

Step 2: Explain its integrating role throughout the organisation **Coordination is needed at all levels:** Top management integrates the work of major departments, middle management coordinates departmental activities, and supervisory management coordinates the work of individual employees.

Coordination creates unity of action: Individuals and specialised departments have different responsibilities and may pursue their own priorities. Coordination reconciles these efforts and their timing so that they contribute to a common organisational objective rather than work at cross-purposes.

It is a continuous and deliberate responsibility of every manager.

Step 3: Conclusion Coordination is called the essence of management because it permeates all managerial functions and levels, integrating individual and departmental efforts into unified action towards common goals.

Quick Tip to Solve: Support "essence" with three links: every function, every management level, and unity of action towards the same goal.

OR

12(b). 'Art is concerned with personal application of knowledge.' In the light of this statement compare all the features of management with art and prove that it is an art. [3 marks]

Solution:

Concept:

- Art is the skilful and personal application of existing knowledge to achieve desired results. Its features are the existence of theoretical knowledge, personalised application, and practice and creativity.
- Management qualifies as an art because a manager uses knowledge of management principles with personal skill and judgement to obtain results in a particular situation.

Step 1: Compare the knowledge and its personal application **Existence of theoretical knowledge:** Every art has basic principles and a body of knowledge which experts develop. Management also has a considerable body of knowledge, including principles, theories and techniques developed by management thinkers. A manager can study these through books and other learning resources, just as an artist learns the fundamentals of an art.

Personalised application: An artist interprets knowledge in an individual way. Similarly, each manager applies management knowledge according to personal understanding, experience and judgement. Managers may therefore deal differently with the same problem while using the same broad principles; no single mechanical method suits every situation.

Step 2: Relate practice and creativity to managerial work **Practice and creativity:** Art is refined through repeated practice and creative effort. A manager also improves through experience, dealing with problems and adapting general principles to changing circumstances. For example, motivating employees requires the manager to choose a suitable approach for the people and situation, rather than simply repeat a textbook definition. This creative use of learned knowledge to achieve organisational objectives makes managerial performance an art.

Step 3: Conclusion Management possesses all three features of art: theoretical knowledge, personalised application, and practice and creativity. Hence it is an art involving the skilful personal application of knowledge to achieve results.

Quick Tip to Solve: Compare each feature of art with its managerial counterpart; merely listing the features does not establish that management is an art.

13. JTM Ltd. launched 'Buddyline', an exercise book and comprehensive stationery brand name comprising of ball pens, gel pens and geometry boxes after identifying the target market and understanding the needs and wants of the consumers of that market. All their products were of good quality and eco-friendly but expensive. They wanted to distinguish their products from that of their competitors. They spent lot of efforts, time and money in creating the brand name, as they knew that without a brand name, they can only create awareness for the generic products and can never be sure of the sale of their products. The effort paid off and the demand for the products started growing. The customers liked the brand and became habitual to it. They did not mind paying a higher price. Over a period of time, it became a status symbol to buy 'Buddyline' brand because of its quality. The consumers felt pride in using them.

(i) Identify the marketing management philosophy followed by JTM Ltd.

(ii) Explain the advantages of branding to the marketeers highlighted in the above case. [3 marks]

Solution:

Concept:

- The marketing concept starts with a selected target market and identifies customers' needs and wants. The business seeks success through satisfying those needs rather than merely selling whatever it has already produced.
- Branding gives a product a distinctive name or identity. It helps the marketer differentiate the product, promote that particular product and charge a different price when buyers value its identity and quality.

Step 1: Identify the philosophy from the starting point **(i) Marketing concept:** JTM Ltd. followed the marketing management philosophy. The decisive evidence is that it launched the products "after identifying the target market and understanding the needs and wants of the consumers of that market." Its product offering therefore began with customer requirements. Good quality and eco-friendliness are product attributes in the case; the stated customer-oriented starting point identifies the marketing concept rather than a philosophy centred only on production or product quality.

Step 2: Explain the branding benefits shown in the case **(ii) Product differentiation:** JTM wanted to "distinguish their products from that of their competitors." The Buddyline name gives its stationery a separate identity, allowing customers to recognise and ask for its products instead of treating all stationery as interchangeable.

Help in advertising and selling: The firm recognised that without a brand it could create awareness only of "generic products." A brand makes promotion specific to the firm's own offering, so awareness and customer preference can translate into demand for Buddyline. Customers liking the brand and becoming "habitual to it" shows the resulting repeat preference.

Differential pricing: Customers "did not mind paying a higher price," and the brand became "a status symbol" because of its quality. This distinct identity and customer loyalty let the marketer charge a premium over less differentiated competing products.

Step 3: Conclusion JTM followed the marketing concept. Branding helped it differentiate Buddyline, direct advertising and selling efforts towards its own products, and charge a higher price supported by customer preference and perceived quality.

Quick Tip to Solve: Identify the philosophy from where the business starts; then pair each branding advantage with the exact case evidence, such as identity, generic promotion or a higher price.

Section C (24 marks)

14(a). Price of a product is influenced by many factors. Explain any four such factors. [4 marks]

Solution:

Concept:

- Price is the amount a buyer pays to obtain a product. In marketing management, price determination balances the firm's costs and objectives with the value perceived by buyers and the competitive situation.
- Costs ordinarily set the lower limit of a sustainable price, while customer demand and perceived utility influence the upper limit. The final price must be considered in the market in which the firm operates.

Step 1: Explain product cost and customer demand

- **Product cost:** The cost of producing, distributing and selling a product influences its price. In the long run, the price should recover total costs and provide a reasonable profit. Fixed costs do not change with output within a given capacity, whereas variable costs change with production. A firm therefore considers both types when deciding what price can sustain the business.
- **Utility and demand:** The utility or satisfaction the product offers determines how much customers are prepared to pay. Demand also limits the price that can be charged. If demand is elastic, a price increase may cause a substantial fall in quantity demanded, so the firm has less freedom to raise its price. With less elastic demand, buyers are relatively less sensitive to price changes.

Step 2: Explain competition and pricing objectives

- **Extent of competition in the market:** A firm examines competitors' prices and the quality and features of their products. Close substitutes and intense competition restrict its freedom to charge a high price, because customers can switch to another seller. A product with distinctive benefits may command a higher price if buyers value those benefits.
- **Pricing objectives:** The price depends on the objective the firm wishes to achieve. For example, increasing market share may call for a relatively low price to attract more customers, whereas obtaining product-quality leadership may require a higher price to cover the cost of superior quality. The firm must choose a price consistent with its stated objective rather than treating immediate profit as its only aim.

Step 3: Conclusion Four factors influencing a product's price are **product cost, utility and demand, extent of competition, and pricing objectives**. Together they explain the cost requirement, customers' willingness to pay, market constraints and the firm's purpose in setting its price.

Quick Tip to Solve: Organise pricing factors as cost, customer, competitors and company objective; explain how each changes the freedom to set a price.

OR

14(b). Distinguish between 'Product' and 'Production' concepts of marketing philosophies on the following bases :

(i) Starting Point ;

(ii) Main Focus ;

(iii) Means ;

(iv) Ends. [4 marks]

Solution:

Concept:

- Marketing management philosophies describe the approach a business follows in carrying out its marketing activities. The product concept and the production concept both begin with what the firm makes, but emphasise different routes to attracting buyers.
- The product concept assumes that buyers favour products offering superior quality, performance and features. The production concept assumes that buyers favour products that are readily available and affordable, making efficient large-scale production central to the approach.

Step 1: Compare the four specified bases

Basis	Product concept	Production concept
Starting point	Factory: the firm begins with its product and its improvement.	Factory: the firm begins with its production facilities and output.
Main focus	Improving the quality, performance and features of the product.	Increasing the quantity of production and making products widely available at low cost.
Means	Product improvement, including better design and features.	Improving production efficiency through large-scale production and efficient operations.
Ends	Earning profits through superior product quality.	Earning profits through a large volume of production and sales.

Step 2: Relate each approach to its underlying belief **Product concept:** If buyers are assumed to prefer the best quality and features, the firm concentrates on making its existing product better. Product improvement is therefore its main means, and quality is the route by which it expects to earn profit.

Production concept: If buyers are assumed to prefer low-priced and easily available goods, the firm concentrates on producing efficiently in large quantities. Lower unit costs and wider availability support greater sales volume, through which the firm expects to earn profit. Thus, the common factory starting point does not mean that the two philosophies have the same main focus.

Step 3: Conclusion The **product concept** seeks profit through improved product quality, while the **production concept** seeks profit through efficient large-scale production and a larger sales volume. Both start at the factory, but their focus and means differ as shown on the four prescribed bases.

Quick Tip to Solve: Remember: product means quality improvement; production means quantity and efficiency. Both concepts start at the factory, so distinguish them using focus, means and ends.

15. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical fertilizers free vegetables. They conducted a survey to find out consumer preferences for such vegetables.

They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found that 90% of the households were searching for its alternatives. The company contacted a group of agriculture experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimensions of business environment highlighted in the above para.

[4 marks]

Solution:

Concept:

- Business environment consists of external forces that affect business decisions and performance. Its dimensions help a firm recognise changes in demand and methods of production.
- Social environment concerns society's values, attitudes and expectations, whereas technological environment concerns scientific improvements and new ways of producing goods and services.

Step 1: Identify and explain the social environment **Social environment:** This includes social forces such as customs, traditions, values, social trends and society's expectations from business. Changes in consumers' attitudes influence what they wish to buy, creating opportunities for firms that respond to them.

The case states that most consumers were "concerned about the harmful chemicals" used in growing vegetables and that "90% of the households were searching for its alternatives." These words show growing health awareness and a preference for chemical-free vegetables. Mahinder Agro Ltd.'s survey identified this change in consumer expectations, which provided the opportunity for its new venture.

Step 2: Identify and explain the technological environment **Technological environment:** This includes forces relating to scientific improvements and innovations that provide new ways of producing goods and services, and new methods and techniques of operating a business. Adopting appropriate technology can improve the production process and the quality of its output.

The company decided to "train the farmers in new technology" to grow vegetables through "new innovative methods." The experts also suggested "soil management techniques" to obtain an abundant and lasting harvest. These references concern improved cultivation techniques and the application of expert knowledge, so they highlight the technological dimension.

Step 3: Conclusion The two dimensions are the **social environment**, reflected in consumers' concern for health and demand for chemical-free vegetables, and the **technological environment**, reflected in innovative cultivation and soil-management techniques.

Quick Tip to Solve: In an environment case, link changing consumer attitudes to the social dimension and new production methods to the technological dimension; support each identification with the case's own words.

16. Mega Ltd. holds an Annual Management Programme every year in the month of March in which the top managerial personnel formulate plans for the next year by analyzing and predicting the future to meet future events effectively.

As they are responsible for providing direction to the organization, facts are thoroughly checked using scientific calculations. Detailed plans are prepared after discussion with professional experts. Preliminary investigations are also undertaken to find out the viability of the plan. Since it is an intellectual activity requiring intelligent imagination and sound judgement so it is mainly done by the top management. Usually rest of the members just implement the plans. Middle level managers are neither allowed to deviate from the plans nor are they permitted to act on their own. The top management ensures that the expenses incurred in formulating the plans justify the benefits derived from them.

State any two limitations and any two features of planning discussed above. [4 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done and how it is to be done. It involves setting objectives and choosing a course of action to achieve them.
- Features describe the nature of planning, while limitations explain difficulties that may arise from its preparation or implementation. The case illustrates both.

Step 1: State two limitations illustrated by the case **1. Planning leads to rigidity:** Specific plans lay down the course of action to be followed. Strict adherence may make it difficult to alter that course when circumstances require a change. The case says middle-level managers are "neither allowed to deviate from the plans nor are they permitted to act on their own." This inflexibility illustrates rigidity.

2. Planning reduces creativity: When top management alone makes plans and others merely carry them out, employees at lower levels are discouraged from developing and using their own ideas. Here planning is mainly done by top management, while "rest of the members just implement the plans." Such an arrangement reduces the initiative and creativity of those implementing the plans.

Step 2: State two features illustrated by the case **1. Planning is futuristic:** Planning involves looking ahead, analysing and predicting future conditions, and preparing to deal with future events. Mega Ltd.'s managers "formulate plans for the next year by analyzing and predicting the future to meet future events effectively." Their focus is therefore on what is expected to happen and how to respond.

2. Planning is a mental exercise: Planning requires intellectual effort, foresight, intelligent imagination and sound judgement rather than guesswork. Relevant facts must be evaluated and alternatives considered logically. The case explicitly calls it "an intellectual activity requiring intelligent imagination and sound judgement." The use of scientific calculations and consultation with professional experts further supports this feature.

Step 3: Conclusion The two limitations are **rigidity** and **reduction in creativity**. The two features are that planning is **futuristic** and a **mental exercise**. Each is directly supported by the planning practices described at Mega Ltd.

Quick Tip to Solve: Separate a planning feature from a limitation: looking ahead and thinking logically describe its nature; inflexibility and loss of employee initiative describe its drawbacks.

17. Vinber Ltd. set up a manufacturing unit at Bhiwadi in Himachal Pradesh to manufacture electric geysers and supply them to dealers all over the country. Their production target was 500 geysers per week. It was decided by the management that variation in production upto 10 units would be acceptable.

At the end of the first week, the production was 450 geysers. The next week, production increased to 470 geysers. A week later, production was 460 geysers. On investigation, it was found that fluctuation in production was due to irregular supply of electricity.

(a) The above para discusses some of the steps in the process of one of the functions of management. Explain these steps.

(b) Also, state the step(s) that have not been discussed in the above para. [4 marks]

Solution:

Concept:

- Controlling means ensuring that actual performance conforms to planned performance. Its process establishes standards, measures results, compares them, analyses deviations and takes corrective action.
- A standard is the benchmark for performance. Management by exception directs attention to deviations beyond an acceptable range rather than to every minor variation.

Step 1: Identify the function and explain the steps discussed The function is **controlling**. The following steps are reflected in Vinber Ltd.'s case:

- **Setting performance standards:** Standards specify the expected results against which actual performance will be assessed. The company's "production target was 500 geysers per week". The acceptable variation of up to 10 units also fixes the tolerance limit.
- **Measurement of actual performance:** Actual output must be measured objectively and at suitable intervals. Weekly production records show 450 geysers in the first week, 470 in the next and 460 in the third week. These are the actual results to be assessed.
- **Comparison of actual performance with standards:** Actual output is compared with the weekly target to determine deviations. Against 500 geysers, output falls short by 50, 30 and 40 geysers respectively. All three shortfalls exceed the acceptable variation of 10 units and therefore require management's attention.
- **Analysing deviations:** Significant deviations are investigated to find their causes so that action addresses the actual problem. The case states that "fluctuation in production was due to irregular supply of electricity". This investigation identifies the cause of the shortfalls.

Step 2: State the step not discussed **Taking corrective action** has not been discussed. This final step removes the cause of a significant deviation and helps bring future performance into line with the standard. The paragraph identifies irregular electricity supply but does not state that Vinber Ltd. has acted to remedy it. Arranging a suitable backup power source would be an example of possible corrective action, rather than an action already described in the case.

Step 3: Conclusion The case illustrates setting performance standards, measuring actual performance, comparing actual performance with the standard and analysing deviations. The remaining step is taking corrective action.

Quick Tip to Solve: Link each case clue to a controlling step: target, recorded output, shortfall, cause and remedy. Finding the cause is analysis; implementing a remedy is corrective action.

18(a). What is meant by 'Decentralisation' ? State any three points that highlight the importance of decentralization in an organization. [4 marks]

Solution:

Concept:

- Decentralisation is the systematic delegation of authority throughout the organisation. Decision-making authority is dispersed to lower levels, rather than being concentrated entirely at the top.
- It is an organisational policy extending beyond an isolated delegation of a task. Lower-level managers receive scope to make decisions within their assigned responsibilities, while top management retains overall control.

Step 1: Explain the meaning of decentralisation **Decentralisation** means systematically delegating decision-making authority to the lower levels of management throughout an organisation. Decisions are taken as close as possible to the point at which the action is required. The extent of decentralisation depends on how much authority is passed down: a greater role for lower-level managers in important decisions indicates greater decentralisation. It does not mean that top management gives up its overall responsibility for the organisation.

Step 2: State three points of importance

- **Develops initiative among subordinates:** When managers at lower levels have freedom to decide how to handle their work, they learn to rely on their own judgement. They take initiative, seek solutions and become more confident instead of waiting for instructions on every matter. This helps identify and develop capable employees.
- **Develops managerial talent for the future:** Decentralisation gives lower-level managers practical experience in making decisions and accepting responsibility for their consequences. They learn from both successes and mistakes. This experience prepares a pool of managers who can take up greater responsibilities as the organisation expands or senior positions become vacant.
- **Facilitates quick decision-making:** Decisions need not travel through a long chain of references and approvals to top management. Managers who are close to a problem can use their local knowledge and act promptly within their authority. This reduces delay and helps the organisation respond effectively to changing circumstances.

Step 3: Conclusion Decentralisation systematically disperses decision-making authority to lower management levels. It is important because it develops initiative, prepares managerial talent for the future and facilitates quick decisions.

Quick Tip to Solve: Define decentralisation as systematic dispersal of authority, then explain each benefit by showing what lower-level decision-making enables managers to do.

OR

18(b). Give the meaning of 'Formal Organisation'. State it's any three advantages. [4 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately designed by management to achieve the organisation's objectives.
- It specifies the jobs to be performed, the authority attached to each position and the reporting relationships, so that individual efforts contribute to common goals.

Step 1: Define formal organisation Formal organisation refers to the organisational structure designed by management to accomplish a particular task. It clearly specifies the boundaries of authority and responsibility and provides for coordination among activities. It shows who must report to whom and the nature of relationships between different positions. These relationships arise from officially assigned roles rather than personal friendship.

Step 2: State three advantages

- **Fixes responsibility:** Duties and responsibilities are clearly specified for each position. It is therefore easier to identify who is accountable for a particular task, avoid overlapping work and determine responsibility when the task is not completed.
- **Avoids ambiguity:** The role of each person and the authority available to perform it are defined. Employees know what they are expected to do and whom they must approach for instructions, reducing confusion and duplication of effort.
- **Maintains unity of command:** A clearly established chain of command identifies the superior to whom each subordinate reports. This clarifies official communication and helps prevent the conflicting directions that arise when reporting relationships are uncertain.

Step 3: Conclusion Formal organisation is management's deliberately designed structure of jobs and authority relationships. Three advantages are easier fixation of responsibility, reduced ambiguity in roles and maintenance of unity of command.

Quick Tip to Solve: Begin with the deliberately designed structure, then connect each advantage to clear duties, clear authority or clear reporting relationships.

19. Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelized into their most productive investment avenues. To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. It also ensures wider share of ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

Various functions performed by the Stock Exchange are discussed in the above para. By quoting lines from the above para, state any four functions of stock exchange. [4 marks]

Solution:

Concept:

- A stock exchange provides an organised market in which existing securities can be bought and sold under specified rules.
- Its functions include providing liquidity and marketability, contributing to economic growth, ensuring safety of transactions and spreading the equity cult.

Step 1: Identify liquidity and the contribution to economic growth

- **Providing liquidity and marketability to existing securities:** The lines "It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest" identify this function. Investors can sell their existing holdings to obtain cash and buy other securities; the availability of an organised secondary market makes such investments marketable.
- **Contributing to economic growth:** The line "Through this process of disinvestment and reinvestment, savings get channelized into their most productive investment avenues" identifies this function. Trading permits investors to reassess investments and move funds towards more productive opportunities, supporting capital formation and economic growth.

Step 2: Identify safety and wider equity ownership

- **Safety of transactions:** The lines "the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework" identify this function. Regulated membership and dealings within the law help ensure a safe and fair deal for the investing public.
- **Spreading of equity cult:** The line "It also ensures wider share of ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments" identifies this function. Education and sound trading practices encourage more people to invest in shares, widening equity ownership.

Step 3: Conclusion The four functions are providing liquidity and marketability to existing securities, contributing to economic growth, ensuring safety of transactions and spreading the equity cult. Each is supported by the quoted statement from the paragraph.

Quick Tip to Solve: Match "continuous market" to liquidity, "productive investment" to growth, "legal framework" to safety and "wider ownership" to the equity cult.

Section D (15 marks)

20. Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like televisions, refrigerators and air conditioners, often leaving them in a permanently damaged condition. N-Guard Company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220 V to 230 V. Once the demand for North India was taken care of, they decided to launch stabilizers of varying voltages from 90 V – 260 V for meeting the requirements of voltage fluctuations in other regions of India also. Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions. Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.

(a) Identify the organisational structure of N-Guard Company.

(b) State any two advantages and two limitations of the structure identified in the above para.

[5 marks]

Solution:

Concept:

- Divisional structure groups activities around different products or product lines. Each division is responsible for its own product and has the resources needed to carry out its operations.
- Product specialisation helps an organisation handle a diversified range, but repeating activities across divisions can increase costs and create conflicts over resources.

Step 1: Identify the structure from the case (a) N-Guard Company follows a **divisional organisational structure**. Its stabilizers are differentiated to suit regional voltage requirements. The case says that "the product differed from region to region" and that separate engineers were appointed for South, West and East India. Thus, responsibility is assigned for distinct stabilizer product ranges suited to different regional markets. The key is the differentiated products, rather than grouping all employees solely under common functions such as production, marketing and finance.

Step 2: State two advantages of divisional structure (b) **Accountability for results:** Revenues and costs associated with each division can be identified separately. Consequently, divisional performance can be assessed and responsibility for poor results can be fixed. For N-Guard, the performance of each regional stabilizer range can be monitored, helping management take corrective action where necessary.

Facilitates expansion and growth: Additional product divisions can be introduced without seriously disturbing the functioning of existing divisions. N-Guard can add a stabilizer range for a new market while the existing divisions continue to serve their customers. Each division can concentrate on the requirements of its own product and market.

Step 3: State two limitations of divisional structure **Duplication of activities and higher costs:** Similar functions may have to be performed separately in different divisions. Repetition of personnel, equipment and other resources prevents full economies of scale and raises operating costs.

Conflict over resource allocation: Divisional heads may compete for funds, staff or other resources. They may pursue the interests of their own division at the expense of the organisation's overall objectives, making coordination among divisions more difficult.

Step 4: Conclusion N-Guard uses a divisional structure for its differentiated regional stabilizer ranges.

Accountability and easier expansion are two advantages; duplication of activities and conflicts over resources are two limitations.

Quick Tip to Solve: Look for separate responsibility for distinct products or product ranges to identify divisional structure; then pair each advantage or limitation with its organisational effect.

21. Nisha Sethi was working as a Human Resource Manager in a famous consultancy firm, KLI Global Services. Her job included preparing job descriptions, recruitment, developing compensation and incentive plans and facilitating employee learning. They had entered into alliances with institutes to ensure continuous learning of their employees. With the jobs becoming more and more complex, KLI Global Services invested large amount of money in making the employees learn the skills necessary to complete the jobs.

State by giving any five points, how this investment is likely to benefit the organisation ? [5 marks]

Solution:

Concept:

- Training is the systematic process of improving an employee's knowledge and skills for a particular job. Development prepares employees for wider responsibilities and future growth.
- Under staffing, expenditure on employee learning is an investment because better capabilities improve the organisation's present performance and its readiness for future requirements.

Step 1: Relate the investment to employee training KLI Global Services is investing in **training and development**. The words "making the employees learn the skills necessary to complete the jobs" point directly to job-related training, while alliances with institutes provide opportunities for continuous learning. The following five benefits explain how the investment helps the organisation, rather than merely listing personal advantages to individual employees.

Step 2: Explain benefits for learning and productivity **1. Systematic learning reduces waste:** Planned training enables employees to acquire the required skills through an organised process instead of relying only on trial and error. They can avoid preventable mistakes while carrying out consultancy assignments, reducing wastage of organisational effort and resources.

2. Higher employee productivity: Training improves both the quality and quantity of employees' work. Employees who understand their jobs and possess the necessary skills can complete assignments more efficiently, contributing to better performance and higher profits for the firm.

Step 3: Explain benefits for future staffing and adaptability **3. Prepares future managers:** Training and development build employees' capabilities for more responsible positions. When managerial vacancies or emergencies arise, the organisation has trained personnel who can take over, helping maintain continuity of operations.

4. Improves morale and reduces employee turnover: Learning opportunities increase employees' confidence and show that the organisation values their growth. Better morale and satisfaction encourage employees to stay, reducing the disruption and cost associated with replacing them.

5. Supports an effective response to change: Continuous training equips employees to deal with changes in technology, working methods and the business environment. This is especially relevant

because the case states that jobs are becoming "more and more complex". Updated skills help KLI Global Services adjust to new demands instead of allowing employees' knowledge to become outdated.

Step 4: Conclusion The investment benefits KLI Global Services through systematic learning with less waste, higher productivity, preparation of future managers, improved morale with lower turnover, and a stronger ability to respond to a changing environment.

Quick Tip to Solve: When a question asks for benefits to the organisation, explain the effect on waste, output, managerial succession, employee retention and adaptation to change.

22(a). Explain the following techniques of scientific management :

(a) Motion Study ; and

(b) Time Study ; [5 marks]

Solution:

Concept:

- Scientific management replaces rule-of-thumb methods with a systematic study of work to improve efficiency. Motion study and time study are complementary techniques developed under Taylor's approach.
- Motion study examines the movements involved in doing a job, whereas time study determines the standard time required to perform a well-defined job under standard conditions.

Step 1: Explain motion study and its purpose **Meaning:** Motion study studies the movements, such as lifting, putting objects down, sitting and changing position, undertaken while performing a typical job. The work is broken into elementary movements and these are observed carefully.

Method: The movements are classified so that productive movements can be retained and unnecessary or unproductive movements can be eliminated. For example, placing tools within easy reach can remove repeated walking or stretching without affecting the quality of the work.

Objective: Its aim is to eliminate unnecessary movements, combine or simplify the remaining movements, and establish the best way of doing the job. The worker can then complete the task with less effort and in less time. This increases efficiency and reduces avoidable fatigue; it does not mean simply making the worker move faster.

Step 2: Explain time study and its uses **Meaning:** Time study determines the standard time taken by a worker of reasonable skill and efficiency to perform a well-defined job. The job is studied under standard working conditions using appropriate time-measuring devices.

Method: Several observations are taken for the elements of the task to determine a dependable standard. The time allowed must relate to the prescribed method and conditions, rather than an arbitrary estimate by the manager.

Objectives and uses: The resulting standard helps determine the number of workers needed for the work, frame suitable incentive schemes and determine labour costs. It also gives a reasonable time target against which performance can be assessed. Thus, a business can plan its workforce and production schedules on a scientific basis.

Step 3: Conclusion Motion study establishes an efficient pattern of movements by eliminating wasted

effort. Time study establishes the standard time for the defined task, helping managers plan labour requirements, incentives and costs. Together they support efficient performance through scientific analysis of work.

Quick Tip to Solve: Remember the distinction as "movements" for motion study and "standard time" for time study; then connect each meaning to its objective and managerial uses.

OR

22(b). Explain how principles of management help the managers :

(i) in taking scientific decisions ; and

(ii) in providing the managers with useful insights into real world situations. [5 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They have been developed through observation, experience and experimentation in managing organisations.
- Their significance includes helping managers make scientific decisions and providing useful insights into real-world situations. They guide judgement but must be applied flexibly according to the circumstances.

Step 1: Explain how principles support scientific decisions **Decisions based on logic and evidence:** Management principles help managers make decisions through a reasoned assessment of the situation. The manager uses established knowledge and an understanding of likely cause-and-effect relationships instead of relying only on personal bias, intuition or trial and error.

Thoughtful and balanced choice: A scientific decision considers the available facts, alternative courses of action and their likely results. Principles help managers examine these alternatives and choose a course suitable for the organisation. The decision is therefore more objective and capable of being explained to others.

Illustration: The principle of unity of command alerts a manager to the confusion created when an employee receives conflicting orders from different superiors. It gives a logical basis for clarifying reporting relationships. It is a guide to analysing the problem, rather than a mechanical substitute for examining the actual circumstances.

Step 2: Explain how principles provide real-world insights **Knowledge from accumulated experience:** Principles provide managers with useful insights into the way people and organisations work. Because they embody lessons drawn from earlier managerial experience and study, a manager does not have to discover every relationship afresh through costly mistakes.

Understanding and responding to situations: This knowledge improves understanding of a problem, enriches managerial judgement and helps identify an appropriate response. Managers can learn, for example, from the principle of division of work that specialisation can improve proficiency and efficiency, while considering how it suits their own organisation.

Flexible application: Real-world situations differ, so a principle is applied in the light of the organisation's needs and the prevailing circumstances. The insight helps the manager understand the situation and adapt the response; it does not guarantee the same outcome in every setting.

Step 3: Conclusion Principles make managerial decisions more scientific by supplying a logical and objective basis for choosing action. They also give useful real-world insights by placing accumulated managerial knowledge and experience at the manager's disposal, improving understanding and judgement.

Quick Tip to Solve: For scientific decisions, emphasise logic, facts and objectivity. For useful insights, emphasise accumulated knowledge, better understanding and avoiding repeated trial and error.

Section E (18 marks)

23. 'VOICE' is an important consumer organization. It organized workshops in the months of December in Delhi/NCR for consumers. The theme was 'Organic Food – From Farm to Plate', to spread awareness on the importance of organic farming and to encourage consumers to switch from conventional food, that contains chemicals and pesticides to organic food. Expert speakers from farmers' community explained the harmful effects of usage of pesticides in farming and the importance of organic food. People were informed that the organization regularly tests samples to detect adulteration like presence of heavy metals or pesticides. The results of the tests are published in their monthly magazine 'Consumer Voice' to make people aware of quality of different products. It also provides aid and legal advice to the consumers in seeking a remedy.

State the functions performed by the Consumer Voice for the protection and promotion of consumer interest by quoting lines from the above para. [6 marks]

Solution:

Concept:

- Consumer organisations and non-governmental organisations protect consumers by educating them, supplying reliable product information and helping them obtain redressal.
- The functions must be identified from the activities actually described in the case. A workshop, a laboratory test, a publication and legal assistance perform different roles in protecting consumer interests.

Step 1: Identify consumer education through workshops **Educating the general public:** Consumer organisations educate consumers about relevant issues through training programmes, seminars and workshops. The case states that VOICE "organized workshops in the months of December in Delhi/NCR for consumers" on "Organic Food – From Farm to Plate". Experts explained the harmful effects of pesticides and the importance of organic food. This education enables consumers to understand the implications of their food choices and make informed purchases.

Step 2: Identify product testing and information publication **Carrying out comparative testing of consumer products:** Such organisations test products in accredited laboratories to check their quality and provide information useful for informed choices. The relevant line is that the organisation "regularly tests samples to detect adulteration like presence of heavy metals or pesticides". Testing

supplies evidence about product safety and quality rather than leaving consumers dependent on sellers' claims.

Publishing periodicals and publications: Consumer organisations publish information about consumer problems, legal developments and product quality. Here, "The results of the tests are published in their monthly magazine 'Consumer Voice' to make people aware of quality of different products." By making test results available to readers, the magazine spreads reliable information beyond the people who attended the workshops.

Step 3: Identify help in obtaining redressal **Providing legal assistance to consumers:** Consumer organisations help consumers understand and pursue remedies when their interests are harmed. The case states, "It also provides aid and legal advice to the consumers in seeking a remedy." Such assistance helps consumers choose an appropriate course of action and seek redressal. The paragraph establishes legal aid and advice; it does not state that VOICE itself filed a particular complaint, so that additional activity need not be attributed to it.

Step 4: Conclusion The functions shown are educating consumers through workshops, testing consumer products for quality and adulteration, publishing a periodical containing useful product information, and providing legal assistance in seeking redressal. Each function is supported by a specific activity quoted from the paragraph.

Quick Tip to Solve: Match each case verb with a consumer-organisation function: workshops educate, tests check quality, magazines inform, and legal advice assists redressal.

24. Pratap Singh is the Chief Executive Officer of Nissar Enterprises. It is an automobile parts manufacturing company. The enterprise has a functional structure, in which jobs of similar nature have been grouped together as Production, Finance, Marketing and Human Resource. Nissar Enterprises has its manufacturing unit at Manesar. The factory has been plagued with many problems for a long time which was in the knowledge of the Production Manager, Varun Sharma. The workers had internal differences. Time and again, there were misunderstandings between the management and the workers. Keeping the problems in mind, Varun Sharma appointed, Siyaram Singh who had 14 years of experience of working with the actual work force and passing on instructions of the middle management to the workers.

Siyaram Singh met Varun Sharma to understand what the management wanted ?

Thereafter he met the workers and conveyed the ideas of management to them. He also promised the workers to convey their problems to the management. In this way, he cleared the misunderstanding between the management and the workers.

He also sorted out internal differences and was able to unite the workers within a month of his joining. His work was acknowledged by management and he was given a certificate of good performance along with 10% increase in salary.

(i) Siyaram Singh performed some of the functions which are required to be performed at the position he is working at. State any five other functions Siyaram Singh is expected to perform.

(ii) Name the incentives provided to Siyaram Singh. [6 marks]

Solution:

Concept:

- A supervisor works directly with operatives, guides their work and oversees its progress. Supervision connects management plans with actual performance at the workplace.
- Financial incentives provide monetary benefits. Non-financial incentives satisfy needs such as recognition, appreciation and esteem.

Step 1: Identify Siyaram's position and the functions already shown Siyaram Singh is working as a **supervisor**. His experience of "working with the actual work force and passing on instructions of the middle management to the workers" establishes his supervisory role. The case already shows him acting as a link between management and workers and maintaining group unity by resolving internal differences. Since part (i) asks for five *other* functions, these two should not be repeated as the requested five.

Step 2: State five other supervisory functions

- **Maintain day-to-day contact and friendly relations:** Siyaram should remain in regular personal contact with workers and build a friendly working relationship. Workers can then approach him easily for guidance and help while performing their tasks.
- **Ensure performance of work:** He should oversee assigned work, guide workers and ensure that they complete their duties according to the plans and schedules. Regular attention to progress helps the enterprise achieve its targets.
- **Provide on-the-job training:** He should explain and demonstrate appropriate methods while workers perform their jobs. This improves practical skills and enables workers to handle their tasks more competently.
- **Provide leadership and build morale:** He should motivate workers, influence them positively and encourage cooperation through effective leadership. A supervisor who guides and supports workers helps maintain confidence, enthusiasm and willingness to contribute.
- **Analyse work and give feedback:** He should observe how work is performed, identify errors and wastage, and give constructive feedback. Suggestions for improvement help workers use better methods and improve quality and efficiency.

Step 3: Classify the two incentives provided **Employee recognition programme — a non-financial incentive:** The "certificate of good performance" publicly acknowledges Siyaram's contribution. Appreciation and recognition satisfy his esteem needs and encourage continued good performance.

Pay and allowances — a financial incentive: The "10% increase in salary" raises his monetary remuneration. It is therefore a financial incentive under pay and allowances, rather than merely verbal appreciation or a certificate.

Step 4: Conclusion (i) The five other functions are maintaining regular friendly contact, ensuring performance of work, providing on-the-job training, providing leadership and building morale, and analysing work with constructive feedback. (ii) The certificate is employee recognition, a non-financial incentive; the salary increase is pay and allowances, a financial incentive.

Quick Tip to Solve: When a case asks for other functions, first cross out the functions already demonstrated. Classify a certificate as recognition and a salary rise as pay and allowances.

25(a). 'Determining the overall cost of capital and the financial risk of the enterprise depends upon various factors.' Explain any six such factors. [6 marks]

Solution:

Concept:

- Capital structure means the mix of debt and equity used to finance a business. The financing decision affects both the overall cost of capital and the financial risk borne by shareholders.
- Debt involves compulsory interest and repayment commitments. Equity does not require a fixed dividend, but excessive reliance on equity may make financing more costly. The following six factors help a finance manager choose a suitable mix.

Step 1: Assess the ability to meet debt commitments

- **Cash flow position:** The company must assess the size and timing of its expected cash inflows against its payment obligations. A sound and stable cash flow position permits greater use of debt because interest and principal can be paid when due. Weak or uncertain cash flows favour greater reliance on equity; accounting profits alone do not establish the ability to pay creditors.
- **Interest coverage ratio:** This measures how many times earnings before interest and tax cover the interest obligation. A higher ratio indicates a larger cushion for paying interest and generally permits more debt. A low ratio makes further borrowing risky because a fall in earnings may leave insufficient income to meet interest payments.
- **Debt service coverage ratio:** This considers the cash available to meet both interest and repayment of principal, rather than interest alone. A higher ratio indicates a better ability to service debt and supports a larger debt component. A lower ratio suggests using more equity, even where interest coverage appears satisfactory.

Step 2: Compare returns, borrowing costs and tax effects

- **Return on investment:** The expected return on the funds invested should be compared with the cost of debt. When the return is higher than the interest cost, borrowing can increase earnings available per equity share through trading on equity. If the return is lower, borrowing reduces shareholders' earnings and increases risk, so a lower debt proportion is preferable.
- **Cost of debt:** A company able to borrow at a low interest rate may employ more debt because it reduces the financing cost and makes favourable trading on equity more likely. If the rate is high, compulsory interest payments become burdensome and the company should rely more on equity, subject to the other factors.
- **Tax rate:** Interest on debt is deductible in computing taxable business income, whereas equity dividends are paid from profits after tax. A higher tax rate therefore increases the tax advantage of debt and lowers its effective cost. At a lower tax rate this advantage is smaller, so debt becomes relatively less attractive.

Step 3: Conclusion The six factors are cash flow position, interest coverage ratio, debt service coverage ratio, return on investment, cost of debt and tax rate. They must be considered together to choose a capital structure that balances financing cost with the risk of compulsory debt payments.

Quick Tip to Solve: Separate the ability to service debt from its financial benefit: check cash and coverage first, then compare investment returns, interest cost and the interest tax shield.

OR

25(b). You are the Finance Manager of a newly established manufacturing company. Explain any six factors that you will consider while determining the fixed capital requirements of the company.

[6 marks]

Solution:

Concept:

- Fixed capital is the amount invested in fixed assets such as land, buildings, plant and machinery. These assets support operations over several years and should be financed from long-term sources of funds.
- As Finance Manager, I would estimate the assets required for the manufacturing company's present operations and future plans. The following six factors determine the size of this long-term investment.

Step 1: Examine the company's operating requirements

- **Nature of business:** A manufacturing concern generally requires substantial investment in factory premises, plant and machinery to convert inputs into finished goods. Its fixed capital requirement is usually higher than that of a trading concern, which mainly buys and sells goods. I would therefore identify the production facilities essential to this company's business.
- **Scale of operations:** A company operating on a large scale needs a larger factory, more machinery and supporting facilities than a small-scale concern. Consequently, it requires more fixed capital. I would use the proposed production capacity and operating scale to estimate the amount invested in these assets.
- **Choice of technique:** Capital-intensive production requires a larger investment in machines and equipment and therefore more fixed capital. A labour-intensive technique uses more labour relative to machinery and generally requires less fixed capital. The company's selected manufacturing technique must therefore be considered before acquiring assets.

Step 2: Provide for replacement and future business plans

- **Technology upgradation:** In industries where technology changes rapidly, existing machines become obsolete sooner and need replacement or modernisation. Such businesses require a larger provision of fixed capital for technological renewal than businesses using stable technology. I would consider the likely useful technological life of the proposed production equipment.
- **Growth prospects:** A company expecting substantial growth needs more fixed capital to create additional production capacity and other supporting infrastructure. A business with limited growth prospects requires comparatively less. I would consider the manufacturing company's anticipated expansion while planning its long-term investment, so that growth is not restricted by inadequate facilities.
- **Diversification:** Plans to enter new product lines or new areas of business can require additional plants, machinery and other fixed assets. Diversification therefore generally increases fixed capital requirements. If the company intends to continue with its existing product line without such additions, the corresponding additional investment will not be necessary.

Step 3: Conclusion I would consider the nature of business, scale of operations, choice of technique,

technology upgradation, growth prospects and diversification. These factors establish the manufacturing company's need for fixed assets and help arrange adequate long-term funds before committing to the investment.

Quick Tip to Solve: Link each factor to a change in fixed assets: more capacity, more machinery, earlier replacement or a new product line usually means a higher fixed capital requirement.