CBSE Class 12 Business Studies Question Paper 2020 with Solution PDF-Set 66/C/1

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 comprises **five** sections — **A, B, C, D and E**. There are **34** questions in the question paper. **All questions are compulsory**.

(ii) **Section A** – Question nos. **1 to 20** are very short answer type questions, carrying **1** mark each.

(iii) **Section B** – Question nos. **21 to 25** are short answer type I questions, carrying **3** marks each.

(iv) **Section C** – Question nos. **26 to 28** are short answer type II questions, carrying **4** marks each.

(v) **Section D** – Question nos. **29 to 31** are long answer type I questions, carrying **5** marks each.

(vi) **Section E** – Question nos. **32 to 34** are long answer type II questions, carrying **6** marks each.

(vii) Answers should be brief and to the point.

(viii) There is no overall choice in the question paper. However, an internal choice has been provided in **one** question of **3** marks, **one** question of **4** marks, **three** questions of **5** marks and **two** questions of **6** marks. Only one of the choices in such questions have to be attempted.

Section A (20 marks)

1. The objective of management which consistently creates economic value for various constituents of society is : [1 mark]

(A) Organisational objective

(B) Social objective

(C) Personal objective

(D) Both Social and Personal objective

Correct Answer: (B) Social objective

Solution:

Concept:

- Social objectives involve the creation of benefit or economic value for various constituents of society. Management recognises its obligations towards society beyond the needs of the enterprise alone.
- Organisational objectives are survival, profit and growth; personal objectives relate to individual employees and their needs.

Step 1: Identify whose benefit is emphasised The words "economic value for various constituents of society identify the social objective of management. The focus is the benefit created for different sections of society, rather than only the economic performance of the organisation.

Step 2: Eliminate the other objectives Option (A), organisational objective, focuses on survival, profit and growth of the organisation. Option (C), personal objective, focuses on employees' financial and developmental needs. Option (D) adds personal objectives unnecessarily: the statement concerns society and does not refer to individual employee needs.

Step 3: Conclusion The objective is the social objective of management. Hence, the correct option is (B).

Quick Tip to Solve: Look at the beneficiary: benefit or economic value for constituents of society indicates social objectives; survival, profit and growth indicate organisational objectives.

2. Which of the following is a component of economic environment ? [1 mark]

(A) Concern with quality of life

(B) Rates of saving and investment

(C) Extent of government intervention in business

(D) Birth and death rates

Correct Answer: (B) Rates of saving and investment

Solution:

Concept:

- The economic environment includes economic conditions and variables such as income, savings, investment, interest rates and inflation.
- The dimension is identified by the main factor described, even though business-environment dimensions can influence one another.

Step 1: Identify the economic variable Rates of saving and investment directly describe how income is saved and how funds are committed to productive activity. They affect availability of finance, demand and business expansion, so they belong to the economic environment.

Step 2: Eliminate the other dimensions Concern with quality of life, option (A), reflects the social environment. The extent of government intervention, option (C), reflects the political environment. Birth and death rates, option (D), describe demographic conditions within the social environment.

Step 3: Conclusion Rates of saving and investment are a component of the economic environment. Hence, the correct option is (B).

Quick Tip to Solve: For environment MCQs, classify the factor itself: savings and investment are economic; government stance is political; social values and population trends are social.

3. The principles of management are said to be flexible as : [1 mark]

(A) they aim at influencing behaviour of human beings.

(B) they are general guidelines to action, but do not provide readymade solutions to management problems.

(C) they can be modified by the manager when the situation so demands.

(D) their application is dependent upon the prevailing situation at a particular point of time.

Correct Answer: (C) they can be modified by the manager when the situation so demands.

Solution:

Concept:

- Flexibility means that management principles are adaptable and may be modified by a manager to meet the needs of a situation.
- General guidelines, behavioural nature and contingent application are separate characteristics of management principles.

Step 1: Apply the meaning of flexibility A manager does not apply a principle as an unchangeable rule. The manager can adapt its use when circumstances demand. This ability to modify a principle is

precisely why management principles are called flexible.

Step 2: Separate the related characteristics Option (A) describes their behavioural nature. Option (B) describes their nature as general guidelines. Option (D) describes contingency: application depends on the prevailing situation. These are related features, but option (C) directly states flexibility as modification by the manager.

Step 3: Conclusion Principles are flexible because they can be modified by the manager when the situation demands. Hence, the correct option is (C).

Quick Tip to Solve: Use the deciding word: "modified indicates flexibility, while "depends on the situation indicates contingency.

4. **State, giving reason, whether the following statement is true or false :**

"A rule is the prescribed way or manner in which a task has to be performed considering the objective."

[1 mark]

Solution:

Concept:

- A method is a prescribed way or manner in which a task has to be performed, considering the objective.
- A rule states exactly what must or must not be done in a particular situation and leaves no discretion in its application.

Step 1: Test the definition in the statement The words "prescribed way or manner explain how to perform a task. In the classification of plans, this is the meaning of a method, such as a specified method for valuing stock or training employees.

Step 2: Contrast a rule with a method A rule is a specific statement directing or prohibiting an action, such as "No smoking. It does not describe the manner of completing a task. The statement therefore assigns the definition of a method to a rule.

Step 3: Conclusion The statement is false. The prescribed way or manner of performing a task is a method, not a rule.

Quick Tip to Solve: Ask whether the plan tells you how to do a task or what must or must not be done: the former is a method and the latter is a rule.

5. Which of the following is not a step in the process of planning ? [1 mark]

(A) Making assumptions about the future.

(B) Evaluating different proposals in light of the objectives to be achieved.

(C) Allocation of jobs to members of each department.

(D) Seeing whether activities are performed as per schedule or not .

Correct Answer: (C) Allocation of jobs to members of each department.

Solution:

Concept:

- The planning process includes developing premises, evaluating alternative courses and follow-up action.
- Organising includes division of work, departmentalisation and assignment of duties to members of the organisation.

Step 1: Locate the activity outside planning Allocation of jobs to members of each department is assignment of duties. It occurs in organising, after work has been divided and grouped, rather than in the process of choosing a future course of action.

Step 2: Check the remaining planning activities Making assumptions about the future, option (A), is developing premises. Evaluating proposals against objectives, option (B), is evaluating alternatives. Seeing whether activities are performed as scheduled, option (D), is follow-up action in planning, even though it also connects planning with controlling.

Step 3: Conclusion Allocation of jobs to members of each department is not a step in planning. Hence, the correct option is (C).

Quick Tip to Solve: Job allocation belongs to organising. In a planning-process question, remember that checking implementation is included as follow-up action.

6. For delegation to be effective, it is necessary that authority granted must be commensurate with assigned _____ . [1 mark]

Solution:

Concept:

- Responsibility is the obligation of a subordinate to perform the duty assigned by a superior.
- Authority is the right to take decisions and issue orders. Effective delegation requires authority to be commensurate with responsibility.

Step 1: Identify what is assigned A superior assigns a task and the responsibility for performing it to a subordinate. The blank refers to this assigned obligation, rather than to a reward or a personal objective.

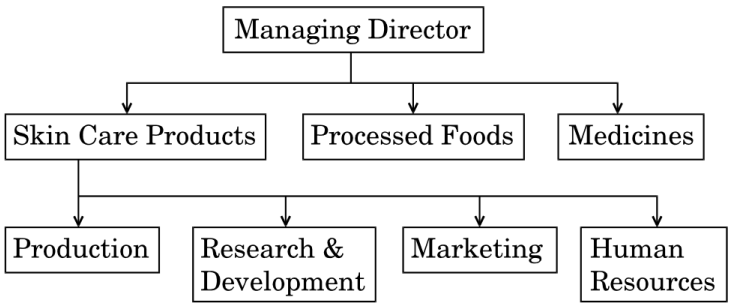
Step 2: Explain the required balance The subordinate must receive enough authority to make the decisions needed to discharge that responsibility. Too little authority prevents effective performance; excessive authority can be misused. Authority and responsibility should therefore be appropriately

matched, while the superior remains accountable for overall performance.

Step 3: Conclusion The missing word is responsibility: authority granted must be commensurate with assigned responsibility.

Quick Tip to Solve: Remember delegation as authority, responsibility and accountability; the balance required here is between authority granted and responsibility assigned.

7. Identify the type of organisation structure from the organisational chart given below of Swastika Industries Ltd. located in Uttarakhand : [1 mark]



Solution:

Concept:

- A divisional structure groups activities on the basis of products or product lines. Each product division has the functions needed for its operations.
- A functional structure groups the whole organisation primarily by functions such as production, marketing and finance.

Step 1: Read the first grouping below the managing director The chart of Swastika Industries Ltd. separates "Skin Care Products, "Processed Foods and "Medicines directly below the Managing Director. These are product groups, showing that the main basis of division is the product line.

Step 2: Confirm the functions within a division The chart then shows Production, Research and Development, Marketing and Human Resources under a product division. Functional departments within a product group confirm a divisional structure; they do not make the overall structure functional.

Step 3: Conclusion Swastika Industries Ltd. has a divisional organisational structure, because its main divisions are based on product lines.

Quick Tip to Solve: Identify the first level below top management: product names indicate divisions, even when each division contains functional departments.

8. Which statement is not correct, with respect to 'Organisation Structure' ? [1 mark]

(A) Ensures coordination among human and physical resources.

(B) Ensures smooth flow of communication.

(C) Specifies relationship between people, work and resources.

(D) Establishes standards for controlling.

Correct Answer: (D) Establishes standards for controlling.

Solution:

Concept:

- Organisation structure is the framework within which managerial and operating tasks are performed. It specifies jobs, authority and reporting relationships.
- Establishing performance standards belongs to planning and provides the basis for controlling; it is not a function of organisation structure.

Step 1: Identify what the framework does An organisation structure links people, work and resources. By defining responsibility and channels of authority, it helps resources work together and enables communication to flow smoothly.

Step 2: Select the statement outside its scope Options (A), (B) and (C) all describe these relationships or their benefits, so they are correct statements about structure. Option (D), establishing standards for controlling, concerns deciding the expected level of performance against which actual results will be compared.

Step 3: Conclusion The statement that is not correct is Establishes standards for controlling. Hence, the correct option is (D).

Quick Tip to Solve: For a negative question, first identify the function named in each option: setting standards belongs to planning, while defining relationships belongs to organising.

9. Using external sources for filling vacant positions :

(i) Gives a wider choice.

(ii) Simplifies the process of selection.

(iii) Instils a competitive spirit among the existing employees.

(iv) Does not infuse fresh talent in the organisation. Choose the correct option from the following :

[1 mark]

(A) (i) and (ii)

(B) (i) and (iii)

(C) (i), (iii) and (iv)

(D) (ii) and (iv)

Correct Answer: (B) (i) and (iii)

Solution:

Concept:

- External recruitment attracts applicants from outside the organisation and gives management access to a larger pool of candidates.
- It can bring fresh talent and stimulate existing employees, but screening a wider pool generally makes selection more time-consuming.

Step 1: Evaluate the benefits Statement (i) is correct: outside applicants give the employer a wider choice. Statement (iii) is also correct: entry of capable outsiders can instil a competitive spirit among existing employees.

Step 2: Reject the incorrect statements Statement (ii) is incorrect because external recruitment does not simplify selection; more applicants must be evaluated. Statement (iv) is incorrect because outside recruitment does infuse fresh talent. Thus (A) wrongly includes (ii), (C) wrongly includes (iv), and (D) consists of two incorrect statements.

Step 3: Conclusion Only statements (i) and (iii) are correct. Hence, the correct option is (B).

Quick Tip to Solve: Associate external recruitment with wider choice and fresh talent, then reject any combination containing the opposite claim.

10. _____ test is a measure of an individual's potential for learning new skills. [1 mark]

(A) Personality

(B) Aptitude

(C) Intelligence

(D) Interest

Correct Answer: (B) Aptitude

Solution:

Concept:

- An aptitude test measures an individual's potential for learning new skills and developing proficiency after training.
- Selection tests examine different qualities, so the precise quality named in the question determines the appropriate test.

Step 1: Match the description with the test The key phrase is potential for learning new skills. It concerns the ability to acquire a skill in future, rather than an existing interest or a personality characteristic. This is the purpose of an aptitude test.

Step 2: Distinguish the other tests A personality test examines traits such as emotional balance and maturity; an intelligence test measures intellectual capacity, including reasoning and judgement; an interest test identifies activities or occupations a person prefers. Therefore (A), (C) and (D) do not match this specific definition.

Step 3: Conclusion An aptitude test measures the potential for learning new skills. Hence, the correct option is (B).

Quick Tip to Solve: Remember aptitude as future skill-learning potential; distinguish it from interest, which tells you what a person likes.

11. State the objective of financial management. [1 mark]

Solution:

Concept:

- Financial management aims to maximise shareholders' wealth by taking sound investment, financing and dividend decisions.
- In a company, shareholders' wealth is reflected in the market price of its equity shares.

Step 1: State the objective The primary objective is wealth maximisation, that is, maximising the wealth of the shareholders. Financial decisions should be judged by their contribution to the value of the owners' investment.

Step 2: Explain how it is reflected A rise in the market price of equity shares increases the value of shareholders' holdings. Financial management therefore seeks to maximise this share value through decisions that balance expected returns and risk, rather than merely increasing short-term accounting profit.

Step 3: Conclusion The objective of financial management is to maximise shareholders' wealth, reflected in maximisation of the market price of the company's equity shares.

Quick Tip to Solve: When asked for the objective, write shareholders' wealth maximisation and connect it to the market price of equity shares.

12. Organisations which choose to diversify their operations require _____ fixed capital. (more/-less)

[1 mark]

Solution:

Concept:

- Fixed capital is the investment in long-term assets such as land, buildings, plant and machinery.
- Diversification means entering new products or lines of business, which generally requires additional long-term assets and facilities.

Step 1: Link diversification with investment A firm diversifying its operations must create or acquire facilities for the new activities. This can involve additional premises, equipment and other fixed assets beyond those used for its existing business.

Step 2: Choose between more and less The additional long-term asset requirement raises the fixed capital needed. Therefore more is the appropriate completion; less would indicate a reduction in fixed-asset investment and does not describe the normal effect of diversification.

Step 3: Conclusion Organisations which choose to diversify their operations require more fixed capital.

Quick Tip to Solve: For fixed capital questions, ask whether the decision adds long-term assets: expansion and diversification normally increase the requirement.

13. 'Temptations' is a food joint in Imperial Mall in Bengaluru. It is becoming popular among students and working people due to healthy, on-the-go dishes on its menu like 'Paneer Wrap', 'Chickpeas Salad', 'Grilled Sandwiches', etc.

It has now decided to open two new branches in other parts of Bengaluru.

Which financial decision has been discussed in the above case ? [1 mark]

(A) Long-term investment decision

(B) Short-term investment decision

(C) Dividend decision

(D) Financing decision

Correct Answer: (A) Long-term investment decision

Solution:

Concept:

- An investment decision concerns the allocation of funds to assets. A long-term investment decision, also called capital budgeting, involves assets that serve the business for several years.
- Opening new branches is expansion requiring investment in long-term business facilities, rather than a decision about obtaining finance or distributing profits.

Step 1: Identify the evidence in the case The decisive words are "decided to open two new branches in other parts of Bengaluru." Opening branches commits funds to the business's expansion and to facilities that generate benefits over a long period.

Step 2: Distinguish the alternatives Option (A) fits this long-term allocation of funds. Option (B) concerns short-term assets and working capital, such as inventories and cash. Option (C) concerns distributing profits to shareholders. Option (D) concerns choosing sources of funds, such as debt and equity; the case does not describe such a choice.

Step 3: Conclusion The decision to open two new branches is a long-term investment decision. Hence, the correct option is (A).

Quick Tip to Solve: Separate the use of funds from their source: buying or creating long-term facilities is investment, while choosing debt or equity is financing.

14. The process of classification of products into different groups on the basis of their important characteristics refers to which of the following marketing functions ? [1 mark]

(A) Grading

(B) Standardisation

(C) Product designing

(D) Marketing planning

Correct Answer: (A) Grading

Solution:

Concept:

- Grading means classifying products into different groups according to important characteristics such as quality, size or weight.
- Standardisation establishes predetermined product specifications; grading groups products according to their characteristics.

Step 1: Identify the defining action The question describes classification of products into different groups. This action is grading: products with similar characteristics are placed together so that buyers can recognise the grade offered.

Step 2: Rule out the other marketing functions Option (B), standardisation, is about setting specifications and ensuring conformity, rather than sorting products into grades. Option (C), product designing, concerns product features and appearance. Option (D), marketing planning, sets marketing objectives and programmes. Only option (A) matches classification into groups.

Step 3: Conclusion The marketing function described is grading. Hence, the correct option is (A).

Quick Tip to Solve: Use the verb as the clue: setting specifications is standardisation; sorting products into groups is grading.

15. While the product _____ sets the lower limit of the price, the utility provided by the product sets the upper limit of price, which a buyer would be prepared to pay. [1 mark]

Solution:

Concept:

- Product cost is an important factor in price determination: the seller normally needs to recover the costs of producing and selling the product.
- The utility and demand for a product influence how much a buyer is willing to pay; perceived utility sets the upper price limit.

Step 1: Identify the lower price limit A firm incurs costs to produce, distribute and sell a product. The product cost therefore establishes the lower limit for its price in the pricing framework described in the question.

Step 2: Complete the sentence Insert **cost** after the word product. This contrasts the seller's cost-based lower limit with the buyer's utility-based upper limit; the two limits arise from different sides of the exchange.

Step 3: Conclusion The missing word is **cost**: product cost sets the lower limit of the price.

Quick Tip to Solve: For the two price limits, link cost with the seller's floor and utility with the buyer's ceiling.

16. State, giving reason, whether the following statement is true or false :

"Advertising refers to short term incentives which are designed to encourage the buyers to make immediate purchase of a product." [1 mark]

Solution:

Concept:

- Sales promotion consists of short-term incentives designed to encourage buyers to make an immediate purchase.
- Advertising is a paid form of impersonal presentation and promotion of ideas, goods or services by an identified sponsor.

Step 1: Identify the tool described The decisive expressions are "short term incentives and "immediate purchase. These describe sales promotion, such as a temporary discount or a purchase-related offer.

Step 2: Distinguish it from advertising Advertising communicates information and persuades an audience through paid impersonal messages. It is not defined as the short-term incentive itself. The statement incorrectly names advertising in place of sales promotion.

Step 3: Conclusion The statement is **false**. It defines **sales promotion**, not advertising.

Quick Tip to Solve: When the wording stresses incentives for immediate buying, identify sales promotion; paid impersonal communication identifies advertising.

17. Who among the following is not considered a consumer under the Consumer Protection Act, 1986 ? [1 mark]

(A) A person who buys any goods for a consideration which has been paid.

(B) A person who avails of any service for a consideration which has been promised.

(C) A person who avails of a service for a commercial purpose.

(D) Any user of goods when such use is made with the approval of the buyer.

Correct Answer: (C) A person who avails of a service for a commercial purpose.

Solution:

Concept:

- For this question under the Consumer Protection Act, 1986, consideration may be paid or promised; immediate payment is not essential.
- A person obtaining a service for a commercial purpose is excluded from the consumer category described here, while an approved user of purchased goods is included.

Step 1: Apply the commercial-purpose exclusion Option (C) expressly states that the person avails

of a service "for a commercial purpose. This is the exclusion being tested, so that person is not considered a consumer in the question.

Step 2: Check the remaining alternatives Option (A) involves goods bought for paid consideration. Option (B) involves services for promised consideration, which also qualifies. Option (D) is an approved user of goods, who is included along with the buyer. Thus none of these three is the excluded category.

Step 3: Conclusion A person availing of a service for a commercial purpose is the excluded category. Hence, the correct option is (C).

Quick Tip to Solve: Do not eliminate a buyer merely because payment is promised; first check for the commercial-purpose exclusion.

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18. Aarushi purchased a pack of biscuits. When she opened it, she felt the biscuits were stale. She carefully read the label on the pack of biscuits which mentioned :

"If you are not satisfied with the product quality, write to our Customer Care Cell at

Bell Foods Pvt. Ltd.

B/321, Jalandhar, Punjab."

The biscuit company has set up its own consumer service and grievance cell to promote and protect the following right : [1 mark]

(A) Right to Safety

(B) Right to be Heard

(C) Right to be Informed

(D) Right to Consumer Education

Correct Answer: (B) Right to be Heard

Solution:

Concept:

- The right to be heard gives consumers an opportunity to voice complaints and have their interests considered.
- A consumer service or grievance cell provides a channel through which a dissatisfied buyer can communicate a complaint.

Step 1: Identify the case evidence The label says, "If you are not satisfied with the product quality, write to our Customer Care Cell. The invitation to write a complaint creates a channel for Aarushi to raise her grievance about the stale biscuits.

Step 2: Distinguish the other rights The right to safety concerns protection from hazardous goods. The right to be informed concerns access to product facts, while consumer education develops knowledge of rights and remedies. Although a label can provide information, the specific act highlighted here is setting up a grievance cell to hear complaints.

Step 3: Conclusion The consumer service and grievance cell promotes the **Right to be Heard**. Hence, the correct option is (B).

Quick Tip to Solve: Match the action to the right: a complaint channel points to being heard, whereas product particulars point to being informed.

19. The package of KRM Rawa Idli Mix describes the procedure of cooking idlis in three easy steps. It also specifies its ingredients, instructions for storage and serving.

The function performed by the label in the above case is : [1 mark]

(A) Describing the product and specifies its contents.

(B) Identification of the product or brand.

(C) Helping in promotion of products.

(D) Providing information required by law.

Correct Answer: (A) Describing the product and specifies its contents.

Solution:

Concept:

- A label describes the product and specifies its contents by giving ingredients, directions for use and other relevant product details.
- Labelling also identifies a product, supports promotion and supplies statutory information, but the case evidence determines which function is highlighted.

Step 1: Link the details to the function The package "describes the procedure of cooking idlis in three easy steps and "specifies its ingredients, instructions for storage and serving. These details explain what the product contains and how it should be used.

Step 2: Rule out the other functions Identification in (B) emphasises the name or brand, not detailed cooking and storage directions. Promotion in (C) emphasises attracting buyers. Option (D) requires a focus on legally mandated particulars; the case instead groups preparation, ingredients, storage and serving as product description. Therefore (A) best matches the given details.

Step 3: Conclusion The function is **describing the product and specifying its contents**. Hence, the correct option is (A).

Quick Tip to Solve: Ingredients together with use, storage and serving directions indicate the descriptive function of a label.

20. Arnav has recently started a business to sell computers. He hired a shop in Nehru Place in New Delhi, where he assembles various components to make computers and supplies them as per order. He performs a series of composite but separate functions simultaneously and ensures that computers are delivered in time as per orders. These functions are performed by all managers at all times.

The feature of management highlighted above is : [1 mark]

(A) Management is a continuous process.

(B) Management is pervasive.

(C) Management is dynamic.

(D) Management is a group activity.

Correct Answer: (A) Management is a continuous process.

Solution:

Concept:

- Management is a continuous process consisting of interrelated functions such as planning, organising, staffing, directing and controlling.
- Managers perform these functions on an ongoing basis; one activity may overlap another as organisational work continues.

Step 1: Identify the decisive words The case says Arnav performs "a series of composite but separate functions simultaneously and that these functions are performed "at all times. These words describe the continuing and interrelated nature of managerial work.

Step 2: Distinguish the alternatives Pervasiveness in (B) means management is needed in different organisations and at different levels, rather than merely describing functions continuing over time. Dynamism in (C) concerns adaptation to environmental changes. Group activity in (D) concerns coordinated effort towards shared goals. The emphasis on simultaneous functions performed at all times therefore selects (A).

Step 3: Conclusion The highlighted feature is **management is a continuous process**. Hence, the correct option is (A).

Quick Tip to Solve: Use the key phrase: ongoing interrelated functions indicate continuity; adaptation indicates dynamism, and universal applicability indicates pervasiveness.

Section B (15 marks)

21. Vaibhav Sharma was working as the Production Manager in Crescent Pharmaceuticals Pvt. Ltd. To get his son admitted in school he wanted to take leave from the office but on the same day, an important meeting with the Chief Executive Officer (CEO) of the company was scheduled to discuss about some new medicines to be manufactured. Considering the significance of the meeting, he did not take leave. The CEO appreciated his exemplary behaviour as he gave priority to the organisational interest over his personal interest.

Name and explain the principle of management being followed by Vaibhav Sharma in the above case. [3 marks]

Solution:

Concept:

- Fayol's principle of subordination of individual interest to general interest requires the interests of the organisation as a whole to take priority over those of an individual employee or group.
- Managers should reconcile individual and organisational interests wherever possible. If they conflict, the common organisational interest should prevail so that personal objectives do not obstruct collective goals.

Step 1: Identify the principle from the case **Subordination of individual interest to general interest:** Vaibhav wanted leave to get his son admitted to school, but an important meeting concerning new medicines was scheduled for the same day. The deciding words are that he "gave priority to the organisational interest over his personal interest." These directly indicate Fayol's principle.

Step 2: Explain the priority it establishes **Give precedence to the common objective:** An organisation consists of people with different personal needs, but they must work towards its shared objectives. No individual's preference should be allowed to harm the organisation's legitimate interest. Managers should set a good example by following this priority themselves and should seek fair reconciliation of interests wherever practicable.

Step 3: Apply the principle to Vaibhav's decision **Connect conduct with organisational needs:** The meeting with the CEO was to discuss new medicines to be manufactured, making Vaibhav's participation important as Production Manager. The case says, "Considering the significance of the meeting, he did not take leave." He therefore placed the company's work before his personal wish for leave, demonstrating the required priority.

Step 4: Conclusion Vaibhav followed **subordination of individual interest to general interest**, as he attended the important company meeting instead of taking leave for his personal purpose.

Quick Tip to Solve: When a case contrasts a personal need with the organisation's goal, look for which interest receives priority; this identifies Fayol's subordination principle.

22(a). Explain the following as significance of 'organising' function of management :

(a) Benefits of specialisation (b) Clarity in working relationships (c) Development of personnel

[3 marks]

Solution:

Concept:

- Organising identifies and divides the work needed to carry out plans, groups related activities, assigns duties and establishes reporting relationships.
- A sound organisation structure enables people to specialise, understand authority and responsibility, and develop their abilities through delegation.

Step 1: Explain benefits of specialisation **(a) Benefits of specialisation:** Organising systematically divides work into specific jobs. Repeated performance of a particular task allows employees to gain skill and experience in it. It also avoids duplication of effort, because each job is assigned clearly. Greater proficiency and more efficient use of time improve productivity and help the organisation achieve its objectives.

Step 2: Explain clarity in working relationships **(b) Clarity in working relationships:** Organising specifies who reports to whom and defines each employee's authority and responsibility. Employees know from whom they should receive instructions, to whom they are accountable, and which people they may direct. This removes ambiguity about roles, facilitates communication and coordination, and reduces confusion and conflict over responsibility.

Step 3: Explain development of personnel **(c) Development of personnel:** Through delegation, managers entrust routine work and the necessary authority to subordinates. Subordinates gain experience in taking decisions and handling responsibility, which develops their initiative and capabilities. Managers obtain time to deal with important problems and explore new areas, while employees are prepared to assume more demanding roles in future.

Step 4: Conclusion Organising improves efficiency through specialisation, makes authority and reporting relationships clear, and develops employees by giving them opportunities to exercise responsibility.

Quick Tip to Solve: Link each benefit to its organising mechanism: division of work gives specialisation, reporting lines give clarity, and delegation develops personnel.

OR

22(b). Explain the following types of plans :

(a) Objectives (b) Strategy

[3 marks]

Solution:

Concept:

- A plan specifies a future course of action. Different types of plans serve different purposes: objectives state the desired results, while strategy provides a broad course for achieving them.

- Objectives guide organisational activities and provide standards for evaluating performance. Strategy integrates objectives, action and resources after considering the business environment.

Step 1: Explain objectives **(a) Objectives:** Objectives are the desired future positions or results that management seeks to achieve through its activities. They are the end points towards which all organisational efforts are directed and form the starting point of planning. They should be clear and, as far as possible, stated in measurable terms within a time period. For example, increasing sales by a specified percentage during the next year is an objective. Objectives guide decisions at different levels and provide a basis for comparing actual performance with planned results.

Step 2: Explain strategy **(b) Strategy:** A strategy is a comprehensive plan for accomplishing an organisation's objectives. It includes determining long-term objectives, adopting a particular course of action and allocating the resources necessary to achieve those objectives. It takes account of the external environment, including competitors, as well as the organisation's own strengths and limitations. For example, a business seeking higher sales may choose to enter a new market and allocate funds to distribution and promotion. Thus, strategy provides a broad framework within which more detailed plans are made.

Step 3: Conclusion Objectives specify **what results are to be achieved**; strategy sets the broad direction, course of action and resource allocation for achieving them in the business environment.

Quick Tip to Solve: Identify an objective by the result it specifies. Identify a strategy by the broad actions and allocation of resources chosen to achieve that result.

23. Explain the following steps in the process of staffing :

(a) Performance Appraisal (b) Promotion and Career Planning (c) Compensation [3 marks]

Solution:

Concept:

- Staffing includes developing, evaluating and retaining people after they have been selected and placed. Its later steps connect employee performance with future responsibilities and remuneration.
- Performance appraisal, promotion and career planning, and compensation serve different purposes: assessing present work, providing future advancement, and determining the reward for work.

Step 1: Explain performance appraisal **(a) Performance appraisal:** This means evaluating an employee's current or past performance against predetermined standards. Standards are communicated to employees, actual performance is assessed, and feedback is provided. This helps identify strengths and weaknesses and the need for further training. The assessment also supplies a sound basis for decisions about advancement and rewards rather than relying on personal impressions.

Step 2: Explain promotion and career planning **(b) Promotion and career planning:** Promotion is movement to a higher position involving greater responsibilities and usually higher status and pay. Managers should provide employees with opportunities for growth and plan their careers within the organisation. A clear career path helps employees understand how they can advance and encourages them to improve their skills and performance.

Step 3: Explain compensation **(c) Compensation:** This refers to all forms of pay or rewards given

to employees in return for their work. It includes direct financial payments, such as wages, salaries, incentives, commissions and bonuses, as well as indirect payments or benefits, such as employer-paid insurance. An appropriate and equitable compensation system helps attract, motivate and retain suitable employees.

Step 4: Conclusion Performance appraisal evaluates employees against standards; promotion and career planning provide opportunities for advancement; compensation determines the financial rewards and benefits employees receive for their services.

Quick Tip to Solve: Distinguish the three steps by their purpose: assess performance, plan advancement, and reward work.

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24. Currently, the banking sector in the Indian economy is facing lots of problems. The rates of interest that banks are paying on deposits have sharply decreased; as a result banks are able to collect lesser amounts of deposits.

Due to the policies of the Reserve Bank of India, lending rates have also decreased. The automobile industry is also facing a lot of problems and thus they have also reduced the prices of cars. This has encouraged people to take car loans from banks as the interest rates on loans, along with prices of cars in the automobile sector are declining.

Due to this position of tight liquidity, 'The Oberoi Bank Ltd.' decided to raise funds by issuing an unsecured, short-term instrument which could be purchased by corporations, companies and individuals.

(a) Identify and explain the money market instrument used by 'The Oberoi Bank Ltd.' to raise funds.

(b) Also explain the money market instrument used by the banks to maintain Cash Reserve Ratio.

[3 marks]

Solution:

Concept:

- The money market deals in short-term funds and financial instruments with a maturity of up to one year. Different instruments meet the liquidity needs of different institutions.
- Certificates of deposit enable banks to mobilise short-term funds, while call money provides short-term inter-bank finance, including funds needed to meet cash reserve requirements.

Step 1: Identify the instrument issued by Oberoi Bank **(a) Certificate of deposit:** The clues are an instrument issued by a bank during a period of "tight liquidity" which is "unsecured" and "short-term" and can be purchased by "corporations, companies and individuals." These features identify a certificate of deposit. It is an unsecured, negotiable short-term instrument issued by commercial banks and development financial institutions. In the textbook description it is issued in bearer form, against deposits, when the demand for credit is high and deposit growth is slow. It helps the issuing institution mobilise a large amount of funds for a short period. Commercial paper, by comparison, is used principally by large creditworthy companies to raise short-term funds.

Step 2: Explain the inter-bank instrument for reserve needs **(b) Call money:** Banks use call money to obtain short-term inter-bank finance, including finance required to maintain the Cash Reserve Ratio.

This ratio is the proportion of deposits that a bank must maintain as cash reserves with the Reserve Bank of India. A bank with a temporary shortage borrows from another bank with surplus funds. Call money is repayable on demand and is used for a very short period, from one day up to fifteen days in the textbook account. The interest charged is called the call rate; it varies with the demand for and supply of funds.

Step 3: Conclusion Oberoi Bank uses a **certificate of deposit** to raise funds from the stated investors. The money market instrument used by banks to meet short-term reserve requirements is **call money**.

Quick Tip to Solve: Link a bank's unsecured negotiable deposit instrument with a certificate of deposit; link borrowing between banks for reserve needs with call money.

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25. 'Stay Fit', a probiotic drink was launched in the market by Dabal India Ltd. and is available in various cities across the country. Doctors are recommending it as it is very useful for the stomach. The company is also using various tools to inform and persuade customers about its product.

It has recently started free distribution of its samples to encourage the customers to know about its benefits to buy this probiotic drink in future.

The company has also appointed a large number of salespersons, who contact the prospective buyers and communicate with them to make sales. This way, the company is able to develop personal rapport with its customers.

In order to create awareness and to increase its popularity among school children, it also organises workshops for students and teachers. It also arranged visits of students and teachers to the factory to create awareness about the standards of hygiene adopted in processing and packaging, etc. This helps the company to build a positive image of its product in the society. This way the company is using a combination of communication tools to inform and persuade customers about their firm's product.

Identify and explain these tools. [3 marks]

Solution:

Concept:

- Promotion consists of communication activities used to inform and persuade potential customers about a firm's products. The combination of promotional tools used by a business is its promotion mix.
- Sales promotion encourages an immediate purchase or trial, personal selling uses direct interaction to make sales, and public relations builds a favourable image and relationships with the public.

Step 1: Identify sales promotion through sampling **Sales promotion:** The case states that the company has started "free distribution of its samples" to encourage customers to experience the benefits and buy the drink in future. Sales promotion means the use of short-term incentives to encourage the purchase of a product. Free samples are one such technique: consumers can try an unfamiliar product without initially paying for it, reducing their hesitation and encouraging a later purchase.

Step 2: Identify personal selling through salespersons **Personal selling:** The company employs

salespersons who "contact the prospective buyers and communicate with them to make sales," developing "personal rapport." Personal selling involves direct personal interaction between a salesperson and a prospective customer for the purpose of making a sale. The salesperson can explain the product, respond to questions and adapt the message to the buyer's needs. The personal relationship also supports repeat business.

Step 3: Identify public relations through community activities **Public relations:** The company "organises workshops for students and teachers" and arranges factory visits to show its hygiene standards. The case explicitly links these activities to building "a positive image of its product in the society." Public relations involves activities designed to build good relations with different publics and protect or enhance the company's image. Workshops and factory visits create awareness, understanding and goodwill by showing how the product is processed and packaged.

Step 4: Conclusion The three tools are **sales promotion** through free samples, **personal selling** through direct contact by salespersons, and **public relations** through workshops and factory visits that build goodwill.

Quick Tip to Solve: Match each case action to its purpose: free trial means sales promotion, salesperson contact means personal selling, and goodwill-building visits mean public relations.

Section C (12 marks)

26. The Government of India, in an effort to eliminate plastic waste, imposed a nationwide ban on single-use plastic. The ban would most likely target plastic cutlery, straws, cups and glasses.

As a result of this ban, the businesses have been forced to change their practices. 'Viman Airlines' decided to stop giving small water bottles on its flights.

Various firms have come up in the country that are making biodegradable plastic out of starch, wheat hay or petrochemicals. Thus competition in this upcoming industry is immense.

Businesses are also focusing on developing techniques to produce alternatives for plastic bags. 'Carlos Technologies Ltd.', a leading engineering company, has planned to design and deliver hi-tech machines that can scale up production of bags made from newspaper to replace plastic bags. Many companies are placing orders for such machines. This has added challenges before smaller firms making paper bags.

In various enterprises, employees are being trained to operate such hi-tech machines. This will provide human resource with higher competence.

Customers have also become more demanding due to increased awareness and are forcing sellers to adopt bags which are not made of plastic.

Identify and explain the impact of the above Government policy on Business and Industry. [4 marks]

Solution:

Concept:

- Business Environment: government policy changes the conditions in which enterprises operate. Firms must respond by adapting their products, technology and human resources.

- The NCERT impacts illustrated here are necessity for change, increasing competition, rapidly changing technological environment, need for developing human resources and more demanding customers.

Step 1: Identify the changes in business practices and competition **Necessity for change:** The words "businesses have been forced to change their practices" show that firms must modify their existing operations to comply with the ban. Viman Airlines' decision to "stop giving small water bottles on its flights" illustrates this response. An enterprise cannot continue with an unsuitable old practice when the external environment changes; it must adapt to survive and grow.

Increasing competition: The case states that "various firms have come up" making biodegradable plastic and that "competition in this upcoming industry is immense". The arrival of these firms increases rivalry among suppliers of substitutes. Existing businesses must therefore improve quality, efficiency and their offerings to retain customers.

Step 2: Explain the technological and human-resource impacts **Rapidly changing technological environment:** Carlos Technologies plans to supply "hi-tech machines that can scale up production of bags made from newspaper". Firms placing orders for these machines can increase production, creating "challenges before smaller firms making paper bags". Enterprises must adopt and upgrade appropriate technology to keep pace with competitors; relying on older production methods can weaken their competitive position.

Need for developing human resources: The words "employees are being trained to operate such hi-tech machines" show that the workforce needs new knowledge and skills. Training develops employees' competence so that the new technology can be used effectively. Investment in machines must be supported by investment in people capable of operating them.

Step 3: Relate customer expectations to business responses **More demanding customers:** The passage explicitly says that customers "have also become more demanding due to increased awareness" and are forcing sellers to use bags "not made of plastic". Better-informed customers expect environmentally suitable alternatives. Businesses must understand these changed expectations and adjust their products and packaging to satisfy buyers and retain their patronage.

Step 4: Conclusion The policy creates a necessity for change, increases competition, accelerates technological change, requires human-resource development and makes customers more demanding. Each impact is visible in the firms' and consumers' responses to the ban.

Quick Tip to Solve: Match each case clue to a separate NCERT heading: changed practices, new rivals, new machines, employee training and aware customers. Quote the clue before explaining its impact.

27. Alka is working in the Accounts Department of 'Modern Locks Ltd'. Her mother is not well and to attend to her she wanted to take leave for one week.

For this, she went to the Senior Accountant, Manoj and discussed her problem. At that time Manoj was simultaneously checking the Balance Sheet of the company. Since his mind was preoccupied in some work, he did not listen to Alka attentively and could not understand her problem.

Alka was quite disappointed with the behaviour of Manoj.

(a) Identify the type of communication barrier discussed above.

(b) Also explain any three barriers of the same type. [4 marks]

Solution:

Concept:

- Directing: psychological barriers to communication arise from the emotional or mental state of the sender or receiver. Even a clearly expressed message may not be understood when the receiver is mentally preoccupied.
- Lack of attention, premature evaluation, loss by transmission and poor retention, and distrust are psychological barriers. They obstruct the reception, interpretation or acceptance of a message.

Step 1: Identify the type and the specific barrier in the case **(a) Psychological barrier—lack of attention:** Manoj's "mind was preoccupied in some work" and he "did not listen to Alka attentively". His attention was on checking the Balance Sheet rather than on her request. Consequently, he could not understand her problem, even though she approached him to discuss it. This is a psychological barrier because his mental preoccupation prevents effective reception of the message; it is not a difficulty caused by technical words or the organisational hierarchy.

Step 2: Explain three other psychological barriers **(b)(i) Premature evaluation:** This means judging a message before the sender has completed it. A receiver who forms an opinion from an incomplete account may miss the actual meaning or intention. Preconceived notions can make the receiver stop listening, so an otherwise useful message is misunderstood or rejected without proper consideration.

(ii) Loss by transmission and poor retention: When a message passes through several people, some information may be omitted, distorted or misunderstood at each stage. The final receiver may therefore receive an inaccurate version. In addition, people cannot retain everything they hear, especially if they are inattentive or uninterested, so important details can be forgotten and subsequent action may be incorrect.

(iii) Distrust: Lack of mutual confidence between sender and receiver makes communication ineffective. A receiver who does not trust the sender may doubt the truth of the information, suspect an ulterior motive or attach an unintended meaning to it. The message is then not accepted in its proper spirit, even when its words are clear.

Step 3: Conclusion Manoj's lack of attention is a psychological barrier. Three other barriers of this type are premature evaluation, loss by transmission and poor retention, and distrust.

Quick Tip to Solve: A clue about a preoccupied mind points to a psychological barrier. Identify lack of attention from the case, then explain three other psychological barriers using distinct headings.

28(a). Explain any four methods of floatation of new issues in the primary market. [4 marks]

Solution:

Concept:

- The primary market deals in securities issued for the first time. It enables companies to raise new capital directly from investors.
- Methods of floatation describe the different ways in which these new securities are offered. Any four methods may be explained; the following are four distinct methods.

Step 1: Explain an offer through a prospectus **Offer through prospectus:** The company invites subscriptions from the public by issuing a prospectus. The prospectus discloses information about the company, its financial position, the purpose of the issue and the terms of the securities so that investors can make an informed decision. The issue may be underwritten and is generally offered through intermediaries such as brokers and bankers.

Step 2: Explain an offer for sale **Offer for sale:** The issuing company does not offer the securities directly to the public. Instead, it sells them at an agreed price to intermediaries, such as issuing houses or stockbrokers. These intermediaries then resell the securities to the investing public, generally at a higher price. Thus, the intermediary stands between the company and the ultimate investors.

Step 3: Explain private placement **Private placement:** The company allots securities to selected investors, such as financial institutions and a few individuals, rather than inviting the general public to subscribe. This method helps it raise funds quickly and at a lower cost than a public issue, since it avoids many expenses associated with a wide public offer.

Step 4: Explain a rights issue **Rights issue:** An existing company offers new shares first to its existing shareholders in proportion to the shares they already hold. For example, the offer may entitle a shareholder to buy one new share for every five shares held. It gives existing shareholders an opportunity to subscribe before outsiders and helps them preserve their proportionate ownership if they exercise the right.

Step 5: Conclusion Four methods of floatation of new issues are **offer through prospectus, offer for sale, private placement and rights issue**. Each raises fresh funds, but the route and the investors approached differ.

Quick Tip to Solve: Identify who receives the first offer: the public, an intermediary, selected investors or existing shareholders. This distinguishes the four methods clearly.

OR

28(b). Explain any four factors affecting 'Dividend decision'. [4 marks]

Solution:

Concept:

- A dividend decision concerns how much of the company's earnings should be distributed to shareholders as dividend and how much should be retained for use in the business.

- Management balances shareholders' desire for a return with the company's need for internal finance. The following four factors influence this decision.

Step 1: Consider the amount of earnings **Amount of earnings:** Dividends are paid out of current and past earnings. Therefore, the amount of earnings available is an important determinant of the dividend decision. Other things remaining the same, a company with higher earnings has greater scope to declare a higher dividend, whereas lower earnings restrict the amount that can be distributed. Management must consider the earnings actually available for distribution rather than sales revenue alone.

Step 2: Examine the stability of earnings **Stability of earnings:** A company whose earnings are stable can predict its future profits with greater confidence. It can therefore commit to a higher dividend than a company with unstable earnings, other factors being equal. A company facing wide fluctuations in earnings tends to be cautious, retaining more in profitable years so that it can meet its needs when profits fall.

Step 3: Assess growth opportunities **Growth opportunities:** A company with attractive investment and expansion opportunities needs funds to finance future projects. It may retain a larger share of its earnings and pay a lower dividend because retained earnings provide internal finance. In contrast, a company with fewer growth opportunities can generally distribute a larger proportion of its earnings, since less is required for expansion.

Step 4: Check the cash-flow position **Cash-flow position:** Payment of a cash dividend involves an actual cash outflow. The company must therefore have sufficient cash to pay dividends while continuing to meet its operating and other obligations. A company may report substantial accounting profits but still have inadequate cash because funds are tied up in assets or receivables. A sound cash-flow position makes a higher dividend more feasible.

Step 5: Conclusion Four factors affecting the dividend decision are **amount of earnings, stability of earnings, growth opportunities and cash-flow position**. Together, they determine the scope for distributing earnings and the need to retain them.

Quick Tip to Solve: Distinguish profit from cash: earnings make a dividend possible, but adequate cash is needed to pay it. Expansion opportunities usually increase the need to retain earnings.

Section D (15 marks)

29(a). Explain any five characteristics of coordination. [5 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to achieve the common goals of the organisation.
- It is the essence of management: it binds the separate managerial functions and individual efforts into a unified whole. Coordination is required throughout organisational work, rather than only

after differences arise.

Step 1: Explain the integration of efforts and unity of action **1. Coordination integrates group efforts:** It brings together the separate efforts of individuals and departments. People perform different tasks, but coordination reconciles their interests and connects their contributions so that the group works towards a common purpose. For example, production and sales activities must be linked rather than pursued independently.

2. Coordination ensures unity of action: It acts as a binding force between departments and ensures that their actions follow the same organisational direction. Each department may have its own target, but these targets must support the overall objective. Coordinating the quantity produced with the quantity to be sold prevents departmental achievements from conflicting with organisational needs.

Step 2: Explain continuity, pervasiveness and responsibility **3. Coordination is a continuous process:** It is required throughout the life of the organisation. It begins at the planning stage and continues through organising, staffing, directing and controlling. A single meeting cannot secure lasting coordination because tasks, people and conditions keep changing.

4. Coordination is an all-pervasive function: It is needed in every department and at every level of management. Top managers coordinate overall policies, middle managers connect departmental activities, and supervisors coordinate the work of employees. No level can function effectively in isolation.

5. Coordination is the responsibility of all managers: Every manager must synchronise the work of the people and units under that manager's authority and relate it to the work of other units. It cannot be left exclusively to a specialist department or to top management; managers at all levels contribute to coordinated organisational performance.

Step 3: Conclusion The five characteristics are integration of group efforts, unity of action, continuity, pervasiveness and the responsibility of all managers. Together, they explain how coordination converts separate activities into consistent effort towards common organisational goals.

Quick Tip to Solve: Keep integration and unity distinct: integration brings separate efforts together, while unity of action gives those efforts a common direction. Use continuity, pervasiveness and managerial responsibility as the other three headings.

OR

29(b). Is management a profession ? Explain. [5 marks]

Solution:

Concept:

- A profession is an occupation requiring specialised knowledge and training, normally supported by restricted entry, a professional association, an ethical code and a service motive.
- Management can be assessed against these features. It has some characteristics of a profession, but it does not fully satisfy all the requirements of an established profession such as medicine or accountancy.

Step 1: Assess specialised knowledge, entry and associations **1. Well-defined body of knowledge:** A profession rests on a systematic body of knowledge acquired through formal instruction. Management has its own principles and theories, taught in business schools and other institutions. Thus, this characteristic is present, although practical experience also helps managers apply that knowledge.

2. Restricted entry: Entry into an established profession normally requires a prescribed qualification or examination. There is no universally compulsory management qualification or licence for becoming a manager. A person may manage a business without an MBA or similar degree. Management therefore does not fulfil this requirement completely.

3. Professional association: Professions usually have an association that regulates entry and professional conduct. Management associations, such as the All India Management Association, exist and promote professional practice. However, membership is not compulsory for managers and such bodies do not exercise the statutory control found in fully developed professions.

Step 2: Assess ethical codes and service motive **4. Ethical code of conduct:** A profession has a code prescribing standards of conduct for its members. Management associations have formulated ethical standards, but their membership and codes are not binding on every manager. Consequently, a universal and enforceable professional code is not an essential condition for practising management.

5. Service motive: The basic purpose of a profession is to serve clients and society, while earning a livelihood. Managers are increasingly expected to serve employees, consumers and the community as well as owners. Effective management helps provide useful goods and services and meets social responsibilities. Nevertheless, the objectives of business management also include organisational survival, profit and growth, and a compulsory professional service obligation does not govern all managers.

Step 3: Conclusion Management is not a fully fledged profession because compulsory qualifications, restricted entry, compulsory association membership and a universally binding ethical code are absent. It has a systematic body of knowledge and is moving towards greater professionalisation, with increasing emphasis on ethical conduct and service to society.

Quick Tip to Solve: Judge management against each professional feature separately. The presence of management courses alone does not make it a full profession; check whether entry, membership and ethical regulation are compulsory.

30(a). State any five benefits of training to the organisation. [5 marks]

Solution:

Concept:

- Training is the systematic process of improving an employee's knowledge and skills for performing a particular job. It enables employees to use the methods and equipment required by the organisation effectively.
- Benefits to the organisation concern its costs, productivity, future staffing needs and stability. These should be distinguished from benefits to an employee, such as better career prospects or higher earnings.

Step 1: Explain the benefits for efficiency and results

- **Systematic learning reduces wastage:** Training provides planned instruction in correct work methods. Employees need not learn mainly through trial and error, so the organisation avoids unnecessary wastage of time, effort, materials and money associated with accidental learning.
- **Higher productivity and profits:** Trained workers perform their tasks with greater skill and efficiency. Their improved individual performance contributes to the productivity of the team, helping the organisation produce better results with its available resources and thus earn higher profits.

Step 2: Explain the benefits for continuity and change

- **Preparation of future managers:** Training equips employees with the knowledge and abilities needed for more responsible positions. It develops an internal pool of capable people who can take over when managerial positions fall vacant, helping maintain continuity of operations.
- **Better morale and lower absenteeism and turnover:** Training gives employees confidence in performing their work. Improved competence and morale reduce avoidable absence and the tendency to leave, enabling the organisation to retain a more stable workforce and reduce replacement difficulties.
- **Effective response to change:** Training helps employees understand and use new technology, equipment and work procedures. A workforce prepared for such changes enables the organisation to adjust to its changing environment instead of allowing unfamiliar methods to disrupt its operations.

Step 3: Conclusion Five organisational benefits are systematic learning with less wastage, higher productivity and profits, preparation of future managers, improved morale with lower absenteeism and turnover, and an effective response to changing technology and work requirements.

Quick Tip to Solve: Keep every benefit focused on the organisation: costs, output, managerial succession, workforce stability and adaptability. Career advancement and increased earnings describe benefits to employees instead.

OR

30(b). State any five duties that are performed by the human resource personnel. [5 marks]

Solution:

Concept:

- Human resource management is concerned with obtaining, developing and maintaining the people required by an organisation. Human resource personnel perform specialised duties that support managers in managing employees effectively.
- Their work covers both bringing suitable people into the organisation and enabling existing employees to contribute effectively. It therefore extends beyond merely maintaining attendance and personnel records.

Step 1: State the duties connected with obtaining employees

- **Recruiting suitable employees:** Human resource personnel attract and search for qualified applicants for available jobs. They help ensure that the organisation has a suitable pool of candidates from which people with the required skills and abilities can be selected.
- **Analysing jobs and preparing job descriptions:** They study the tasks, duties and responsibilities of jobs and prepare descriptions of what each job involves. This clarifies the work to be performed and provides a sound basis for identifying the people needed to carry it out.

Step 2: State the duties connected with developing and maintaining employees

- **Training and development:** They arrange programmes to improve employees' job knowledge and skills and develop their capacity to handle future responsibilities. This helps employees perform present duties efficiently and prepares them for growth within the organisation.
- **Developing compensation and incentive plans:** They help frame appropriate wage, salary and incentive arrangements for employees. Suitable compensation rewards work and provides incentives for better performance, while helping the organisation attract and retain competent people.
- **Maintaining labour relations and handling grievances:** They work to preserve harmonious relations between management and employees, including relations with employee unions. They help deal with employee grievances and complaints so that workplace problems can be addressed constructively.

Step 3: Conclusion Any five duties are recruitment, job analysis and preparation of job descriptions, training and development, development of compensation and incentive plans, and maintenance of labour relations including the handling of employee grievances.

Quick Tip to Solve: Name a distinct human resource activity for each point and explain its purpose. Use recruitment, job analysis, training, compensation and labour relations as five separate headings.

31(a). Sun Industries Ltd. is a leading company in India which manufactures steel. Its plants are located in Jamshedpur and Bokaro.

Currently it produces about three million tonnes of saleable steel. As the demand for steel is growing, it is planning to expand the capacity of the existing steel plants. It is estimated that it will require ₹ 1,800 crore of fixed capital and ₹ 200 crore of working capital.

To raise the funds, the company is considering whether it should issue equity shares or 7% debentures of ₹ 2,000 crore. Presently the capital structure is comprising of equity only. The Finance Manager of the company suggested that since the stock markets are undergoing a bearish phase, it should issue debentures.

(a) Is it justified to raise funds by issuing debentures ? Give reason in support of your answer.

(b) Explain the impact of issue of debentures on the risk faced by the company.

(c) Explain the impact of 'cost of debt' and 'cost of equity' on the capital structure of the company.

[5 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and equity used to finance a business. The choice depends on market conditions, financing costs and the company's capacity to meet fixed financial commitments.
- Debt creates a compulsory interest payment and a repayment obligation. Equity does not require a fixed dividend, but shareholders bear the residual risk and expect a suitable return.

Step 1: Assess the choice in the prevailing market **(a) Stock-market conditions:** Yes, the suggestion to issue debentures is justified by the stated market condition. The case says that "the stock markets are undergoing a bearish phase". During a bearish phase, investors are less willing to buy equity shares, and an equity issue may have to be made at a depressed price. A fixed-interest debenture issue can therefore be preferable to an equity issue in these circumstances. This recommendation concerns the market condition given; the company must also ensure that its cash flows can service the debt.

Step 2: Explain the additional financial risk **(b) Fixed interest obligation:** The company currently has "equity only", but the proposed debentures carry interest of 7%. On Rs 2,000 crore of debentures, annual interest would be Rs 140 crore. It must pay this interest even when its earnings fall; a dividend on equity is not a comparable compulsory payment. The fixed charge makes the return available to equity shareholders more variable.

Repayment and default risk: Debentures must also be redeemed according to their terms. Inadequate cash to meet interest or redemption can put the company into financial difficulty. Consequently, introducing debt raises financial risk above that of its present all-equity capital structure. This is the extra financing risk, distinct from the business risk of manufacturing and selling steel.

Step 3: Relate the two financing costs to capital structure **(c) Cost of debt:** A company can employ more debt when the rate at which it can borrow is relatively low. Debt generally costs less than equity because lenders' claims have priority and interest is deductible when computing taxable business income. These features reduce the effective cost of borrowing. If borrowing becomes expensive, debt becomes less attractive and the company should prefer a lower debt proportion, other factors remaining the same.

Cost of equity: As the proportion of debt increases, equity shareholders face greater financial risk. They therefore expect a higher return, which raises the cost of equity. Beyond a point, this increase can offset the advantage of cheaper debt. The company should balance both costs and the associated risk, rather than keep increasing debt merely because its initial interest rate is lower.

Step 4: Conclusion Debentures are a reasonable choice in the bearish market described, but they introduce compulsory interest and redemption commitments. Sun Industries should choose its debt-equity mix by balancing the relatively low effective cost of debt against the rising financial risk and cost of equity.

Quick Tip to Solve: For a capital-structure case, link market conditions to the choice of security, debt to compulsory payments, and higher leverage to shareholders' higher required return.

OR

31(b). From last many years, in the month of November, due to sudden rise in the pollution levels in Delhi and other parts of northern India, there has been an increase in the demand for air purifiers. Inderprastha Technologies Ltd., a manufacturer of air purifiers wants to encash this opportunity and wants to raise its investment in stock. It is expected that this decision would increase the rate of profitability of the business. Due to this many competitors have recently entered in this industry. In order to increase the sales, the company has started selling air purifiers on liberal credit terms. It is not affecting the profits of the company since the production cycle of the product is short.

Identify and state any two factors that 'Inderprastha Technologies Ltd.' will keep in mind before deciding its working capital requirements. Also state three other factors which should be kept in mind while deciding the working capital requirements of a company. [5 marks]

Solution:

Concept:

- Working capital finances day-to-day operations, including inventories and the credit extended to customers. Funds remain tied up until goods are sold and cash is collected.
- Working-capital needs depend on the timing and volume of operating activities. Seasonal fluctuations and credit allowed are two factors directly illustrated by the air-purifier case.

Step 1: Identify two factors illustrated in the case **1. Seasonal factors:** The case says that "in the month of November" pollution causes "an increase in the demand for air purifiers". A seasonal rise in demand requires larger stocks and a higher level of operating activity during the peak period. More money must therefore be invested in inventories and other current assets, increasing working-capital requirements. In the slack period, lower inventories and activity reduce the requirement. The proposed increase in stock illustrates this need to finance peak-season sales.

2. Credit allowed: The company has started selling on "liberal credit terms". When customers receive more time to pay, the company must finance receivables for longer even though it has already incurred production and selling expenses. Liberal credit therefore increases working-capital requirements. A stricter credit policy or quicker collection releases funds sooner and reduces the requirement. Profitability alone does not remove the need to finance the interval before cash is received.

Step 2: State three other determinants of working capital **3. Nature of business:** A trading concern generally requires relatively more working capital because it must hold merchandise for resale. A service enterprise usually needs less inventory and hence relatively less working capital. A manufacturing business must also finance raw materials, work in progress and finished goods; its operating characteristics determine the funds tied up in current assets.

4. Scale of operations: A business operating on a larger scale generally needs a larger absolute investment in inventories, receivables and other current assets. A smaller scale of operations requires less working capital. Thus, an expansion of operating activity must be accompanied by provision for its day-to-day financing needs.

5. Operating efficiency: Efficient operations shorten the time for which funds are tied up. Prompt collection from debtors, effective inventory control and avoidance of unnecessary material stocks reduce working-capital requirements. Inefficient operations, slow collection and avoidable inventory accumulation increase the funds required to sustain the same level of business.

Step 3: Conclusion Seasonal factors and credit allowed are the two identified case factors: peak November demand calls for stock financing, while liberal credit ties funds up in receivables. Nature of business, scale of operations and operating efficiency are three other factors a company should consider when estimating working capital.

Quick Tip to Solve: Follow the cash cycle: more peak-season stock or a longer customer-payment period ties up more cash. Quote the case clue before explaining each identified factor.

Section E (18 marks)

32(a). InfoMed Ltd. is a growing IT firm with rapidly increasing market share. It has recently been awarded 'The Best Organisation to Work in India – 2019' and is the most sought after by job-seekers.

In this company, rules and procedures to be followed by employees have been clearly laid down by the top management. There is no ambiguity in the role that each member has to play, as the duties are specified.

During lunch time, all employees of the organisation get together in the canteen. This time is much awaited by every employee as it allows them to share their feelings with others. This leads to the success of the organisation.

(a) Identify and explain the types of organisation being discussed in the above case.

(b) State two advantages of each type of the organisation identified in (a) above which have not been discussed in the above para. [6 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately designed by management to accomplish organisational objectives.
- Informal organisation is the network of personal and social relationships that develops spontaneously as people interact at work. Both forms can exist in the same enterprise and complement each other.

Step 1: Identify and explain the formal organisation **(a) Formal organisation:** The statement that "rules and procedures to be followed by employees have been clearly laid down by the top management" identifies formal organisation. It is consciously created by management and defines jobs, authority, responsibility and reporting relationships. Its emphasis is on performing assigned work and achieving the enterprise's objectives. The further statement that "there is no ambiguity in the role that each member has to play" shows that duties have been specified in this planned structure.

Step 2: Identify and explain the informal organisation **Informal organisation:** The description that "all employees of the organisation get together in the canteen" and that this allows them "to share their feelings with others" identifies informal organisation. These social relationships arise through interaction rather than a formal order from management. Members associate because of personal contact and social needs; such a network operates alongside the formal structure, without being defined by the official reporting chart.

Step 3: State two additional advantages of formal organisation **(b) Easier fixing of responsibility:** Since authority and responsibility are assigned to particular positions, management can identify who is accountable for the performance of a task. Accountability can therefore be fixed when work is not completed satisfactorily.

Unity of command: Established superior-subordinate relationships specify the manager to whom an employee reports. This helps an employee receive directions through the prescribed authority relationship and avoids conflicting commands from several superiors. These advantages go beyond the role clarity already described in the case.

Step 4: State two additional advantages of informal organisation **Faster communication:** Information can travel quickly through informal channels because it does not have to follow every prescribed level of the formal hierarchy. Useful information can therefore reach members promptly.

Filling gaps in the formal organisation: Informal relationships can help members cooperate and resolve difficulties that formal rules do not fully cover. For example, a colleague may voluntarily help another employee when the prescribed arrangement is inadequate. This supportive network can facilitate work, while remaining distinct from the opportunity to share feelings already mentioned in the case.

Step 5: Conclusion InfoMed Ltd. has both a deliberately created formal organisation and a spontaneously developed informal organisation. Additional advantages are easier fixing of responsibility and unity of command for the formal structure, and faster communication and filling gaps in the formal structure for the informal network.

Quick Tip to Solve: Link written rules and assigned duties to formal organisation, and voluntary social interaction to informal organisation. When asked for additional advantages, exclude role clarity and social satisfaction already given in the case.

OR

32(b). 'Good Looks Ltd.' are the manufacturers of cosmetics. The company enjoyed a pre-eminent position in the business and has grown in size. Till recently the company had been doing good business; but after the entry of competitors the market share of 'Good Looks Ltd.' has declined. One of the reasons for this was that all decisions were taken by the higher management. This has resulted in the concentration of all decision-making process at the apex of the management hierarchy. Worried about the decline in market share and profit, the company appointed 'Structures Consultants India Ltd.' as a consultant to suggest improvements in the organisation's decision-making process. The consultant suggested that the decision-making responsibilities may be divided among hierarchical levels. They said that if decision-making authority will be shared with the lowest levels and is consequently placed near the point of action, it will help in quick decision-making and this will help the company in adapting itself to the dynamic operating conditions. They stated that the philosophy of dispersal of authority propagates the belief that people are competent, capable and resourceful and can assume the responsibility of effective implementation of their decisions.

(a) Identify and give the meaning of the concept based on which 'Structures Consultants India Ltd.' gave their recommendations to 'Good Looks Ltd.'.

(b) Explain any four points of importance of the concept identified in (a) above. [6 marks]

Solution:

Concept:

- Decentralisation means the systematic delegation of authority throughout all levels of management. Decision-making authority is dispersed down the hierarchy, as far as the levels at which decisions can effectively be made.
- Decentralisation reflects a philosophy of trusting the competence of lower-level managers. It extends delegation across the organisation while top management retains responsibility for overall direction and results.

Step 1: Identify and explain the recommended concept **(a) Decentralisation:** The consultant recommends decentralisation. The words "decision-making responsibilities may be divided among hierarchical levels" and authority "shared with the lowest levels" show a systematic dispersal of decision-making authority throughout the organisation. Good Looks Ltd. previously concentrated decisions at the apex; the recommendation would allow managers nearer the point of action to decide matters within the authority assigned to them. It does not mean that top management abandons its overall control or accountability.

Step 2: Explain the development of initiative **(b) Develops initiative among subordinates:** When lower-level managers are given authority to make decisions, they gain confidence and learn to rely on their own judgement. They take ownership of decisions instead of waiting for detailed directions for every problem. The case supports this through the belief that people are "competent, capable and resourceful" and can assume responsibility for implementing their decisions. Freedom within defined limits encourages initiative and managerial talent.

Step 3: Explain how managerial talent is developed **Develops managerial talent for the future:** Decentralisation gives lower-level managers practical experience in analysing problems, evaluating alternatives and making decisions. They learn from the consequences of their choices and strengthen their judgement. This experience prepares them for more demanding managerial positions and creates a pool of capable managers for the future, rather than leaving all decision-making experience with a few senior executives.

Step 4: Explain the improvement in decision-making speed **Quick decision-making:** Decisions can be made close to where action is needed, without repeatedly referring routine matters up a long hierarchy. Local managers possess relevant information about the immediate situation, so they can respond promptly within their authority. The case explicitly states that authority placed "near the point of action" will help in "quick decision-making", enabling the firm to respond more readily to changing competitive conditions.

Step 5: Explain the relief provided to top management **Relief to top management:** By authorising lower levels to decide operational matters, decentralisation reduces the load of routine decisions on senior managers. Top management can concentrate on major policy issues, coordination and strategic direction, including the competitive problems facing Good Looks Ltd. Senior managers still exercise overall supervision, but they no longer become a bottleneck through which every operational decision must pass.

Step 6: Conclusion The recommendation is decentralisation: systematic dispersal of authority

throughout management levels. Its importance includes developing subordinates' initiative, building future managerial talent, enabling quick decisions and relieving top management of routine decision-making work.

Quick Tip to Solve: Systematic sharing of decision-making authority across levels indicates decentralisation. Explain each benefit through what changes for managers, such as more judgement at lower levels and more strategic attention at the top.

33(a). Give the meaning of 'Controlling'. Explain the steps in the process of controlling. [6 marks]

Solution:

Concept:

- Controlling is the process of comparing actual performance with predetermined standards, analysing deviations and taking corrective action to ensure that activities conform to plans.
- Planning supplies the standards, while controlling checks their achievement. It is a continuous process because corrective action is followed by a fresh review of performance.

Step 1: Define controlling and set performance standards Controlling means ensuring that organisational activities are performed according to plans so that objectives are achieved. Its process begins with **setting performance standards**. Standards are the criteria against which actual performance will be measured. They should be clear, attainable and, wherever possible, expressed quantitatively, such as units produced, costs or sales. Qualitative standards, such as employee morale, need suitable indicators. Standards may need revision when conditions change.

Step 2: Measure actual performance **Measurement of actual performance:** Management gathers reliable information about what has actually been achieved. Personal observation, sample checking and performance reports are possible methods. Measurement should be objective and use the same units as the standards; otherwise comparison will be misleading. Wherever feasible, performance is measured during the activity so that problems can be corrected promptly.

Step 3: Compare performance with standards **Comparison of actual performance with standards:** Actual results are compared with the predetermined criteria to find deviations. For example, actual output below the planned output reveals an adverse deviation. The comparison shows both the size and direction of the difference. A favourable difference should also be examined rather than automatically assumed to be harmless.

Step 4: Analyse the deviations **Analysing deviations:** Management determines which differences need attention and investigates their causes. Under critical point control, attention focuses on key result areas that are vital to success. Under management by exception, deviations beyond acceptable limits receive priority. Causes may include unrealistic standards, defective materials, inadequate training or inefficient methods; identifying the cause helps select an effective remedy.

Step 5: Take corrective action **Taking corrective action:** Where deviations exceed the acceptable range, management acts to remove their causes. It may provide training, repair equipment, improve supervision or change working methods. If the standard itself is unrealistic, it is revised after careful examination. Where performance is within acceptable limits, no corrective action may be necessary.

Subsequent measurement checks whether the remedy has worked.

Step 6: Conclusion Controlling keeps actual activities aligned with plans through five steps: setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action.

Quick Tip to Solve: Remember the sequence as standard, measure, compare, analyse and correct. Keep finding a deviation separate from investigating its cause.

OR

33(b). Give the meaning of 'Directing'. Explain the points that highlight the importance of directing.

[6 marks]

Solution:

Concept:

- Directing is the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives.
- Directing is the executive function that turns plans into action through people. Supervision, motivation, leadership and communication are its main elements.

Step 1: State the meaning and explain initiation of action Directing means instructing, guiding, counselling, motivating and leading employees towards organisational objectives. Its importance can be explained through the following points. **Directing initiates action:** Planning and organising decide what should be done and how resources should be arranged. Directing sets work in motion by giving employees instructions, explaining their duties and guiding their performance. Thus, it converts decisions and preparations into purposeful activity.

Step 2: Explain integration of employees' efforts **Directing integrates employees' efforts:** Individuals and departments may perform different tasks, but their work must contribute to common organisational objectives. Through guidance, supervision and communication, managers bring their efforts into a coordinated whole. Employees understand how their own work supports the work of others, preventing isolated activity and helping the organisation achieve its goals effectively.

Step 3: Explain how directing realises employees' potential **Directing helps realise employees' potential:** Appropriate motivation and leadership encourage employees to use their abilities fully. A manager identifies their capabilities, guides them in performing tasks and inspires them to contribute their best. Encouragement and suitable incentives can turn an employee's unused capacity into better performance. Directing therefore helps develop and use the human resources available to the organisation.

Step 4: Explain how directing facilitates change **Directing facilitates introduction of needed changes:** Employees may resist new methods, technology or policies because they fear uncertainty or loss. Effective communication explains the reasons for change and its benefits, while leadership and motivation secure their cooperation. Managers can clear doubts and guide employees through new ways of working. This helps the organisation introduce necessary changes more smoothly.

Step 5: Explain stability and balance **Directing brings stability and balance:** Effective directing fosters cooperation and commitment among employees. Persuasive leadership and suitable motivation help reconcile individual interests with organisational interests and resolve differences among groups. Employees become willing to work together towards shared objectives. This creates a more stable working environment and maintains a balance between people's needs and the organisation's requirements.

Step 6: Conclusion Directing guides and motivates people to achieve organisational objectives. It is important because it initiates action, integrates efforts, realises employee potential, facilitates change and brings stability and balance.

Quick Tip to Solve: For importance, explain what directing achieves: action, integrated effort, employee potential, acceptance of change, and stability. Do not replace these benefits with a list of its elements.

34. After completing his studies, Mahesh started working in a Non-Governmental Organisation (NGO) as an Administrative Officer. The organisation is engaged in activities related to consumer welfare. One day when his mother returned home after shopping, she gave him the mixed fruit juice which she had bought. After consuming the juice, Mahesh started feeling uneasy. On checking, he found that the juice packet purchased was without FPO mark.

He realised that there is a strong need to educate consumers about the role of NGOs before buying any good or service.

State any six functions which the NGOs can perform to impart knowledge and educate consumers.

[6 marks]

Solution:

Concept:

- Consumer Protection: consumer organisations and non-governmental organisations protect consumers by creating awareness, providing reliable product information and helping consumers secure redressal.
- The case says that the organisation is engaged in 'activities related to consumer welfare'. The juice packet was 'without FPO mark', which shows why consumers need education about quality certification and precautions before buying.

Step 1: Explain the functions that develop consumer awareness

- **Educating the general public:** NGOs organise training programmes, seminars and workshops to explain consumer rights and responsibilities. They teach buyers to inspect labels, quality certification, expiry dates and other relevant information, and to obtain a cash memo. Such education would help buyers make an informed choice before purchasing a product such as the juice in the case.
- **Publishing periodicals and other publications:** NGOs publish journals, pamphlets and other material to spread knowledge about consumer problems, legal provisions and available remedies. Consumers can learn how unfair trade practices affect them and where to seek help instead of remaining unaware of their rights.

- **Carrying out comparative testing:** NGOs test competing consumer products in accredited laboratories to compare their relative quality. They publish the results for consumers' benefit, giving buyers reliable information for choosing between brands rather than depending only on manufacturers' advertisements.

Step 2: Explain the functions that support consumer action

- **Encouraging consumers to protest against exploitation:** NGOs encourage consumers to strongly protest and take action against unscrupulous, exploitative and unfair trade practices of sellers. This helps buyers recognise that they should question such practices and act collectively rather than silently accepting them.
- **Providing legal assistance:** NGOs assist consumers who seek legal remedies for their complaints. They guide an aggrieved buyer about the available redressal process, the relevant documents and the steps involved in pursuing a claim, enabling the consumer to use legal protection effectively.
- **Filing complaints on behalf of consumers:** NGOs can file complaints in the appropriate consumer forum on behalf of consumers. This gives practical support to people who lack the knowledge or confidence to pursue a complaint themselves and helps them obtain redressal against defective goods or deficient services.

Step 3: Conclusion The six functions are consumer education, publications, comparative product testing, encouraging protest against unfair practices, legal assistance and filing complaints on consumers' behalf. Together, they make consumers better informed before purchase and better equipped to act when their rights are violated.

Quick Tip to Solve: Recall the NGO role in two groups: education, publications and testing inform buyers; protest, legal assistance and complaints help buyers act.