CBSE Class 12 Business Studies Question Paper 2020 with Solution PDF-Set 66/C/2

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. 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:

- Economic environment consists of economic factors such as income, interest rates, inflation, savings and investment that affect business operations.
- Different dimensions of the business environment are distinguished by the nature of the external factor involved.

Step 1: Identify the economic factor Rates of saving and investment determine how much income is retained and channelled into productive activity. They affect the availability of funds, capital formation and demand in the economy, so they belong to the economic environment.

Step 2: Eliminate the other dimensions Concern with quality of life represents social values. The extent of government intervention in business concerns the political environment. Birth and death rates describe demographic features of society. None is as directly an economic variable as saving and investment rates.

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: Classify savings, investment, income and interest rates under the economic environment; distinguish them from social values and government policy.

2. 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:

- Management principles are flexible guides whose application can be adapted to the needs of a particular business situation.
- Flexibility differs from contingency: flexibility permits modification, whereas contingency makes

application depend on the prevailing situation.

Step 1: Identify the meaning of flexibility A manager can modify a principle when circumstances demand it. Principles do not bind managers to one rigid course of action irrespective of the organisation, its people or the problem faced. This capacity for adaptation is their flexibility.

Step 2: Distinguish the other characteristics Option (A) refers to their behavioural nature. Option (B) describes principles as general guidelines rather than ready-made answers. Option (D) describes their contingent application. Although these characteristics are related, option (C) directly expresses modification to suit the situation.

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: For flexibility, look for the ability to modify a principle; for contingency, look for dependence on prevailing conditions.

3. 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 provides the prescribed way or manner in which a task is to be performed, keeping the objective in view.
- A rule states specifically what must or must not be done and leaves no scope for discretion in its application.

Step 1: Compare the statement with a method The statement speaks about the prescribed manner of performing a task. This is the defining feature of a method: it explains how an activity is to be carried out to achieve an objective, rather than merely requiring or prohibiting an action.

Step 2: State the correct distinction A rule is a specific statement indicating what is to be done or avoided, such as a prohibition on smoking at work. It does not describe the detailed manner of doing 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, whereas a rule specifies what must or must not be done.

Quick Tip to Solve: Ask whether the plan tells you how to perform a task (method) or commands or prohibits an action (rule).

4. 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 of management involve creating benefits and economic value for the various constituents of society.
- Organisational objectives concern survival, profit and growth; personal objectives concern the needs and aspirations of employees.

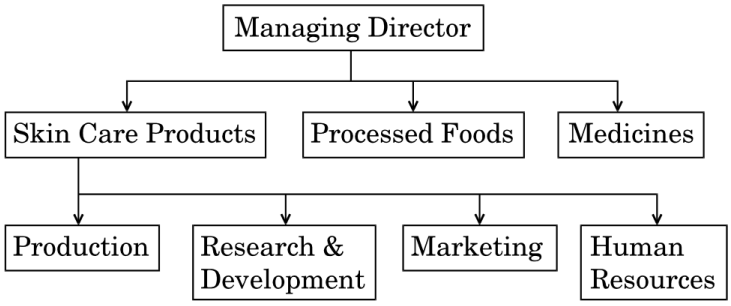
Step 1: Relate the objective to its beneficiary The words "various constituents of society point to the responsibility of business towards society. Creating economic value for these groups, for example through employment opportunities and useful goods, is part of the social objectives of management.

Step 2: Exclude the other objectives An organisational objective centres on the enterprise itself, while a personal objective centres on individual employees. The statement is not specifically about employees' personal needs, so combining social and personal objectives is unnecessary. Social objective alone matches the description.

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

Quick Tip to Solve: Identify the beneficiary: the enterprise suggests organisational objectives, employees suggest personal objectives, and society suggests social objectives.

5. 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 organisational activities around different products or product lines.

- Each product division may contain its own functional departments, such as production, marketing and human resources.

Step 1: Read the first level of grouping Below the Managing Director, the chart groups activities into Skin Care Products, Processed Foods and Medicines. These are different product categories rather than functional departments, showing that the principal basis of grouping is the product.

Step 2: Confirm the structure from the lower level Under the Skin Care Products division, the chart shows Production, Research and Development, Marketing and Human Resources. Functional activities are therefore organised within a product division. This combination is characteristic of a divisional organisation structure.

Step 3: Conclusion Swastika Industries Ltd. has a divisional organisation structure, with divisions based on its different product categories.

Quick Tip to Solve: Read the departments immediately below the chief executive: product names indicate divisional structure, even when functions appear within each division.

6. 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:

- Planning includes developing premises, evaluating alternatives, implementing the plan and following up its execution.
- Organising includes identifying and dividing work, departmentalising activities, assigning duties and establishing reporting relationships.

Step 1: Identify the organising activity Allocation of jobs to members of each department means assigning duties after activities have been grouped. It is a step in organising, because it distributes work among employees and clarifies who will perform each task.

Step 2: Check the remaining planning steps Making assumptions about the future is developing planning premises. Evaluating proposals in light of objectives is evaluating alternative courses of action. Seeing whether activities follow the schedule is follow-up action in the planning process. Thus these three options belong to planning.

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

Quick Tip to Solve: Do not reject follow-up merely because it resembles controlling: follow-up is also the final step of the planning process.

7. 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, defining relationships among people, work and resources.
- Controlling begins by setting performance standards against which actual performance can be compared.

Step 1: Identify what organisation structure provides A sound organisation structure specifies authority and responsibility relationships. By clarifying how people, work and resources fit together, it facilitates coordination and the smooth flow of communication. Options (A), (B) and (C) are therefore consistent with its role.

Step 2: Separate controlling from organising Establishing standards for controlling means deciding the desired levels of performance to be used as benchmarks. This is part of the controlling process, rather than a function of the organisational framework itself. Hence option (D) is the incorrect statement about organisation structure.

Step 3: Conclusion "Establishes standards for controlling is not correct with respect to organisation structure. Hence, the correct option is (D).

Quick Tip to Solve: An organisation structure defines roles and relationships; performance standards are benchmarks established in the controlling process.

8. 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 brings applicants from outside the organisation and widens the pool of available talent.
- It can stimulate existing employees to improve their performance when they face competition from new recruits.

Step 1: Identify the true statements Statement (i) is true: an organisation can choose from a large number of outside applicants with different qualifications and experience. Statement (iii) is also true: capable new entrants can instil a competitive spirit among existing employees.

Step 2: Reject the incorrect statements Statement (ii) is false because screening a larger outside pool does not simplify selection; it generally requires a longer process. Statement (iv) is false because external recruitment does infuse fresh talent. Thus (A) includes the false statement (ii), while (C) and (D) include the false statement (iv).

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

Quick Tip to Solve: External recruitment means a wider outside pool and fresh talent; do not confuse it with the simpler process of internal recruitment.

9. For delegation to be effective, it is necessary that authority granted must be commensurate with assigned _____ .

[1 mark]

Solution:

Concept:

- Delegation involves assigning responsibility, granting the necessary authority and creating accountability.
- The authority given to a subordinate must be commensurate with the responsibility assigned.

Step 1: Identify the assigned obligation Responsibility is the obligation of a subordinate to perform the task or duty entrusted by a superior. Delegation begins when this duty is assigned to the subordinate.

Step 2: Match the power to the duty Authority is the right to give orders, take decisions and obtain the resources needed to carry out that duty. If the subordinate receives responsibility without adequate authority, effective performance becomes difficult. Therefore the power granted must match the task assigned.

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

Quick Tip to Solve: In delegation, match authority with responsibility: the person expected to do a task must have sufficient power to perform it.

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

Solution:

Concept:

- Financial management aims at maximising the wealth of the shareholders.
- For a company, shareholders' wealth is reflected in the market price of its equity shares.

Step 1: State the objective The primary objective of financial management is to maximise shareholders' wealth. Financial decisions should therefore contribute to increasing the value of the owners' investment in the company.

Step 2: Explain the measure of wealth When sound investment, financing and dividend decisions improve the expected benefits to shareholders, the market value of the company's shares is enhanced. The objective is expressed as maximisation of the market price of equity shares, rather than merely increasing current accounting profit.

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

Quick Tip to Solve: For the objective of financial management, write wealth maximisation and connect it with the market value of equity shares.

11. '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 a firm's funds among assets and projects.
- A long-term investment or capital-budgeting decision commits funds to assets that provide benefits over several years.

Step 1: Locate the decision in the case The decisive words are 'decided to open two new branches'. Opening branches requires investment in premises, equipment and other long-term facilities. These commitments increase the business's operating capacity for future years.

Step 2: Distinguish the alternatives This is therefore a long-term investment decision. A short-term investment decision concerns working-capital assets such as inventory and receivables. A dividend decision determines how profit is distributed or retained. A financing decision concerns the sources from which funds are raised; the case describes the use of funds for branches, rather than their source.

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

Quick Tip to Solve: Ask whether the case describes raising funds or using funds. New branches are a long-term use of funds, so they indicate capital budgeting.

12. _____ 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:

- Selection tests help assess whether an applicant has characteristics suitable for a job.
- An aptitude test measures an individual's potential for learning new skills.

Step 1: Match the description with the test The question specifically refers to the potential for learning new skills. An aptitude test is designed to indicate whether a candidate has the capacity to acquire a particular skill through training.

Step 2: Separate the other tests A personality test examines traits such as emotional balance and temperament. An intelligence test measures intellectual abilities such as reasoning and memory. An interest test identifies the activities or occupations a person prefers. These do not specifically measure the potential to learn new skills in the sense asked here.

Step 3: Conclusion The blank is **Aptitude**. Hence, the correct option is (B).

Quick Tip to Solve: Link aptitude with the capacity to learn, interest with preferences, intelligence with mental ability, and personality with personal traits.

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

[1 mark]

Solution:

Concept:

- Fixed capital refers to funds invested in long-term assets such as buildings, plant and machinery.
- Diversification means extending business operations into additional products or lines of activity, increasing the need for fixed assets.

Step 1: Identify the effect of diversification An organisation that diversifies its operations adds new products or business activities. To support these activities, it may require additional production facilities, equipment and other long-term assets.

Step 2: Compare the capital requirement As the range and scale of operations expand, the investment committed to fixed assets generally increases. Diversification therefore requires more fixed capital. It does not reduce the requirement merely because the organisation already owns assets for its existing business.

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

Quick Tip to Solve: For fixed-capital questions, connect diversification with additional facilities and equipment; an expansion of activities usually raises the requirement.

14. 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 a key factor affecting price determination and generally sets the lower limit of price.

- The utility and demand associated with the product influence the upper price a buyer is willing to pay.

Step 1: Identify the seller's lower limit The seller incurs costs in producing and marketing a product. The price must ordinarily cover these costs over time if the firm is to remain viable. Hence product cost sets the lower limit referred to in the question.

Step 2: Distinguish the buyer's upper limit The utility provided by the product represents the benefit perceived by the customer. It influences how much the buyer is prepared to pay and thus the upper limit. The blank asks for the seller's cost consideration, not the buyer's utility consideration.

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

Quick Tip to Solve: Remember the two boundaries together: cost provides the lower limit, while perceived utility influences the buyer's upper limit.

15. 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:

- Advertising is an impersonal form of communication paid for by an identified sponsor to promote goods, services or ideas.
- Sales promotion consists of short-term incentives intended to encourage immediate purchase.

Step 1: Identify the technique described The decisive expressions are "short term incentives and "immediate purchase. They refer to sales promotion, such as a discount, free sample or quantity offer that gives the buyer an extra inducement to buy now.

Step 2: Distinguish it from advertising Advertising communicates a promotional message through media on payment by an identified sponsor. It may inform or persuade buyers, but the definition in the statement describes a temporary buying incentive rather than this paid communication.

Step 3: Conclusion The statement is false. Short-term incentives designed to encourage immediate purchase constitute sales promotion, not advertising.

Quick Tip to Solve: Link a temporary extra benefit for buying now with sales promotion; link paid impersonal communication with advertising.

16. 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 a consumer an opportunity to present complaints and have consumer interests considered.
- A business can support this right by maintaining a consumer service and grievance cell.

Step 1: Identify the clue in the case The label asks a dissatisfied buyer to "write to our Customer Care Cell. Aarushi can report the stale biscuits to the company, so the arrangement provides a channel through which her complaint can be heard.

Step 2: Eliminate the other rights Safety concerns protection against hazardous goods; information concerns facts about quality, quantity, price and similar particulars; consumer education concerns knowledge of consumer rights and remedies. Although a label can give information, the question specifically asks about the purpose of the grievance cell, which receives complaints.

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

Quick Tip to Solve: When a case highlights a complaint cell, helpline or opportunity to voice a grievance, identify the right to be heard.

17. 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 classifies products into groups on the basis of important characteristics such as size or quality.
- Standardisation establishes product standards or specifications against which products can be assessed.

Step 1: Match the definition The question speaks of "classification of products into different groups. This is grading: products with similar important characteristics are placed in the same grade, making comparison and buying easier.

Step 2: Distinguish the alternatives Standardisation sets specifications rather than sorting products into groups. Product designing concerns a product's form, features and appearance. Marketing planning sets marketing objectives and decides activities to achieve them. None of these alternatives names the classification process described.

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

Quick Tip to Solve: Remember: standardisation sets the standards, while grading sorts products into classes using their characteristics.

18. 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 involving interrelated functions such as planning, organising, staffing, directing and controlling.
- These functions recur and may be performed simultaneously as managers pursue organisational objectives.

Step 1: Connect the case to the feature Arnav performs "a series of composite but separate functions simultaneously, and the case adds that managers perform them "at all times. The emphasis is on the ongoing performance of management functions to deliver computers as ordered.

Step 2: Rule out other characteristics Pervasiveness means management is needed in all kinds of organisations and at all levels. Dynamism means adapting to changes in the environment. Group activity concerns coordinating the efforts of people towards common goals. These are valid characteristics, but the quoted clues specifically establish continuity.

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

Quick Tip to Solve: Use the clue "at all times or recurring, simultaneous management functions to identify management as a continuous process.

19. 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:

- Under the Consumer Protection Act, 1986, consideration for goods or services may be paid, promised, partly paid or partly promised.
- The textbook definition excludes a person who avails of services for a commercial purpose.

Step 1: Identify the excluded person Option (C) expressly states that the service is availed of "for a commercial purpose. This falls within the exclusion specified in the question's statutory definition, so that person is not treated as a consumer.

Step 2: Check the remaining descriptions A buyer who has paid consideration is covered by the definition. A person who avails of a service for promised consideration is also covered; immediate payment is not essential. An approved user of goods is included along with the buyer. Thus (A), (B) and (D) describe persons included in the definition rather than the commercial-purpose exclusion.

Step 3: Conclusion A person who avails of a service for a commercial purpose is not considered a consumer in the stated definition. Hence, the correct option is (C).

Quick Tip to Solve: In a consumer-definition MCQ, separate the timing of payment from the purpose: promised payment can qualify, while the stated commercial purpose is excluded.

20. 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, uses and directions for handling or consumption.
- Other functions of labelling include identifying a product or brand, promoting it and providing

legally required information.

Step 1: Read the information provided The pack describes "the procedure of cooking idlis in three easy steps and gives ingredients and storage and serving instructions. These details explain what the product contains and how the consumer should prepare and use it.

Step 2: Match the function and reject alternatives These are descriptive details, so (A) fits directly. Identification would chiefly tell the buyer the product or brand name. Promotion would emphasise attracting buyers through an offer or persuasive appeal. Legally required information refers specifically to statutory disclosures; the case instead stresses preparation, contents and use.

Step 3: Conclusion The label describes the product and specifies its contents. Hence, the correct option is (A).

Quick Tip to Solve: Cooking directions, ingredients and storage instructions are clues to the descriptive function of a label.

Section B (15 marks)

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

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

Solution:

Concept:

- Staffing involves putting suitable people on jobs and developing, evaluating and rewarding them so that organisational and individual objectives are achieved.
- Performance appraisal, promotion and career planning, and compensation are continuing staffing activities after recruitment, selection and placement.

Step 1: Explain performance appraisal **(a) Performance appraisal:** It means evaluating an employee's current or past performance against predetermined standards. Management communicates the standards, measures actual performance and compares the two to assess how well the employee has performed. Feedback helps the employee understand strengths and areas needing improvement; it also provides a basis for decisions about training, promotion and rewards.

Step 2: Explain promotion and career planning **(b) Promotion and career planning:** Promotion means movement to a higher position carrying greater responsibility, status and usually higher pay. Managers should provide opportunities for employees to progress in their careers. Career planning identifies suitable future roles and prepares employees through experience and development. Such opportunities encourage employees to improve their performance and realise their potential within the organisation.

Step 3: Explain compensation **(c) Compensation:** It refers to all forms of pay or rewards given to employees for their work. It includes direct financial payments such as wages, salaries, incentives, commissions and bonuses, and indirect benefits such as insurance and paid leave. An appropriate compensation system should be fair and suited to the job so that the organisation can attract, retain and motivate capable employees.

Step 4: Conclusion Appraisal evaluates performance, promotion and career planning provide avenues for advancement, and compensation rewards employees for their services. Together these staffing activities support employee development and effective performance.

Quick Tip to Solve: Remember the sequence as evaluate, advance and reward: appraisal checks performance, career planning supports progress, and compensation provides remuneration.

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

(a) Planning provides direction.

(b) Planning reduces the risk of uncertainty.

(c) Planning establishes standards for controlling. [3 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it. It sets objectives and determines a course of action for achieving them.
- Planning guides activities, prepares the organisation for future changes and supplies standards against which controlling measures actual performance.

Step 1: Explain how planning provides direction **(a) Planning provides direction:** By stating in advance how work is to be done, planning gives direction to employees' efforts. Clear objectives tell departments and individuals what the organisation wants to achieve and what they are expected to contribute. Employees can therefore act purposefully instead of working at cross purposes. Their activities are coordinated towards common organisational goals.

Step 2: Explain how planning reduces uncertainty **(b) Planning reduces the risk of uncertainty:** Planning involves looking ahead and anticipating future events and changes. Managers assess likely changes in the business environment and decide suitable responses beforehand. This preparation helps them deal with difficulties and use opportunities when they arise. Planning cannot eliminate uncertainty or guarantee that forecasts will be correct, but it reduces the risk by preparing the organisation for possible developments.

Step 3: Explain how planning supports controlling **(c) Planning establishes standards for controlling:** The objectives and targets decided during planning become the standards for evaluating performance. Controlling measures actual results, compares them with these planned standards and identifies deviations requiring corrective action. For example, a planned sales target provides a basis for judging actual sales. Without plans, management would have no clear benchmark for assessing whether performance is satisfactory.

Step 4: Conclusion Planning directs effort towards objectives, reduces exposure to uncertainty through advance preparation, and establishes the standards that make effective control possible.

Quick Tip to Solve: Link each benefit to a distinct outcome: direction tells people where to go, preparation reduces uncertainty, and planned targets enable comparison in controlling.

OR

22(b). Explain the following as importance of delegation :

(a) Effective management (b) Better coordination (c) Facilitation of growth [3 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to perform assigned tasks. It involves assigning responsibility, granting authority and creating accountability.
- Through delegation, managers share work while retaining ultimate accountability. Clear authority relationships help the organisation function effectively and expand its activities.

Step 1: Explain effective management **(a) Effective management:** Delegation allows managers to share their workload with subordinates instead of personally handling every task. By giving subordinates the authority to take decisions within defined limits, managers obtain more time to concentrate on important matters such as planning, policy decisions and overall supervision. Subordinates can deal with the work entrusted to them promptly, making management more effective.

Step 2: Explain better coordination **(b) Better coordination:** Delegation clearly defines the powers, duties and accountability of each position. Employees know what work they must perform, what decisions they may take and to whom they must report. This clarity establishes effective superior-subordinate relationships and avoids confusion, overlapping activities and duplication of effort. The defined relationships help integrate the work of different people towards organisational objectives.

Step 3: Explain facilitation of growth **(c) Facilitation of growth:** Delegation develops employees' ability to handle responsibility and exercise judgement. By giving them experience in decision-making, it creates a pool of trained and experienced managers. When the organisation expands, these employees can take charge of new units, departments or projects. The availability of capable managerial personnel therefore makes expansion easier and supports organisational growth.

Step 4: Conclusion Delegation promotes effective management by sharing workload, improves coordination through clear relationships, and facilitates growth by preparing capable managers for future responsibilities.

Quick Tip to Solve: Keep the three links distinct: workload sharing enables effective management, defined relationships aid coordination, and trained managers support expansion.

23. 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 the interests of an individual employee or group.
- When personal and organisational interests conflict, management must reconcile them so that the common organisational objective is not sacrificed for personal advantage.

Step 1: Identify the competing interests in the case **Individual interest:** Vaibhav wanted leave to arrange his son's school admission. This was a personal responsibility and explains his wish to be absent from the office.

General interest: On the same day, the CEO had scheduled an important meeting about new medicines to be manufactured. Attending that meeting served the company's production plans and its common objectives.

Step 2: Name and explain the principle followed **Subordination of individual interest to general interest:** The interest of the organisation should prevail over the interest of any one employee whenever the two conflict. An employee must not pursue a personal objective at the expense of the enterprise's common purpose.

The decisive words are that Vaibhav "gave priority to the organisational interest over his personal interest." He did not take leave because he recognised the meeting's significance. Thus, his decision illustrates this principle directly. The principle concerns the priority given to the common interest; it does not mean that employees have no legitimate personal needs.

Step 3: Conclusion Vaibhav followed Fayol's principle of **subordination of individual interest to general interest** by giving the company's important meeting priority over his personal plan to take leave.

Quick Tip to Solve: In a case involving a clash between personal convenience and organisational objectives, identify whose interest receives priority before naming the principle.

24. '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:

- The promotion mix is the combination of communication tools a firm uses to inform and persuade customers about its products.
- Sales promotion encourages immediate buying through short-term incentives; personal selling uses direct personal communication; public relations builds favourable relations and a positive public image.

Step 1: Identify sales promotion and personal selling **Sales promotion:** The company has started "free distribution of its samples." Sales promotion consists of short-term incentives designed to encourage customers to make an immediate purchase. Free samples let customers try the probiotic drink, experience its benefits and become willing to purchase it subsequently. Sampling is the specific sales-promotion technique used here.

Personal selling: The company has appointed salespersons who "contact the prospective buyers and communicate with them to make sales." Personal selling involves an oral presentation or direct conversation with prospective buyers for making a sale. Its personal interaction enables the salesperson to answer questions, adapt the message to the buyer and develop the personal rapport mentioned in the case.

Step 2: Identify public relations from the image-building activities **Public relations:** The company "organises workshops for students and teachers" and arranges factory visits to demonstrate its hygiene standards. Public relations means managing communication and relationships with different sections of the public to build goodwill and a favourable image of the organisation and its products. These activities help people understand the company's practices and develop confidence in its drink. Their focus on a positive image in society identifies them as public relations rather than a short-term purchase incentive.

Step 3: Conclusion The three promotion tools used are **sales promotion** through free samples, **personal selling** through salespersons and **public relations** through workshops and factory visits.

Quick Tip to Solve: Match a free trial incentive to sales promotion, a direct sales conversation to personal selling, and activities building public goodwill to public relations.

25. 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 instruments with maturities up to one year. Its instruments help financial institutions meet temporary liquidity requirements.
- A certificate of deposit is an unsecured, negotiable short-term instrument issued in bearer form by commercial banks and development financial institutions. Call money is short-term interbank finance used, among other purposes, to maintain the cash reserve ratio.

Step 1: Identify and explain the instrument issued by Oberoi Bank **(a) Certificate of deposit (CD):** The clues are that the issuer is a bank and that the instrument is "unsecured" and "short-term" and can be purchased by corporations, companies and individuals.

Certificates of deposit are negotiable money-market instruments issued by commercial banks and development financial institutions against funds deposited for a specified period. They are unsecured, so they do not carry a pledge of particular assets as security. Banks issue them when deposits grow slowly, demand for credit is high and liquidity is tight. Oberoi Bank faces precisely this situation: it receives fewer deposits while demand for car loans rises. A CD therefore allows it to mobilise short-term funds. Commercial paper is not the appropriate identification because the case concerns an instrument issued by a bank to obtain these deposits.

Step 2: Explain the instrument used to maintain the cash reserve ratio **(b) Call money:** Call money is short-term finance repayable on demand, generally with a maturity ranging from one day to fifteen days, used for interbank transactions. A bank with a temporary shortage borrows from another bank with surplus funds to meet its cash reserve ratio requirement. The cash reserve ratio is the prescribed proportion of deposits that a bank must maintain as cash reserves with the Reserve Bank of India.

The interest charged on these interbank funds is called the call rate. It changes with the demand for and supply of immediately available funds. Thus, call money addresses a temporary reserve shortage without requiring the bank to raise long-term capital.

Step 3: Conclusion **(a)** Oberoi Bank uses a **certificate of deposit** to raise unsecured short-term funds. **(b)** Banks use **call money**, or short-term interbank borrowing, to meet temporary cash reserve ratio requirements.

Quick Tip to Solve: For identification, combine the issuer with the purpose: a bank raising short-term deposits points to a CD; borrowing from another bank to meet reserves points to call money.

Section C (12 marks)

26. 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:

- Communication is effective only when the receiver listens to and understands the message in the sense intended by the sender.
- Psychological barriers arise from the state of mind, emotions and attitudes of the sender or receiver. NCERT examples include premature evaluation, lack of attention, loss by transmission and poor retention, and distrust.

Step 1: Identify the barrier in Alka's conversation **(a) Psychological barrier – lack of attention:** Manoj's mind was "preoccupied in some work" as he was checking the Balance Sheet. Consequently, he "did not listen to Alka attentively" and could not understand her request for leave. The obstacle is his mental preoccupation, rather than an unclear word or a formal organisational rule. Thus the broad type is a psychological barrier, and the specific barrier illustrated is lack of attention.

Step 2: Explain three other psychological barriers **(b) Premature evaluation:** A receiver may judge the meaning or acceptability of a message before the sender has finished communicating it. Such a judgement can rest on preconceived notions and prevent a complete and correct understanding of the actual message.

Loss by transmission and poor retention: When a message passes through successive people, some information may be lost or distorted at each stage. In addition, receivers cannot retain all the information communicated to them, especially if they are uninterested or inattentive. The message remembered or passed on can therefore differ from the original.

Distrust: If the sender and receiver do not trust each other, the receiver may doubt, discount or disbelieve the information supplied. Even a correctly expressed message then fails to produce the intended understanding because suspicion obstructs its acceptance.

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

Quick Tip to Solve: State both the broad category and the exact case clue: a preoccupied mind points to psychological barriers, specifically lack of attention. Explain the other barriers separately.

27. 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 enterprises must adapt their policies and operations to changes in the external environment. A government policy can create opportunities for some firms while presenting threats and adjustment requirements for others.
- The case illustrates the NCERT impacts of policy changes: increasing competition, rapidly changing technological environment, the need for developing human resources, and more demanding customers.

Step 1: Relate entry of firms and new machinery to the impacts **Increasing competition:** The case says that "various firms have come up" making biodegradable plastic and that competition is "immense". The new policy creates demand for substitutes, attracting firms into the industry. Existing businesses must improve their products, costs and efficiency to compete with these alternatives.

Rapidly changing technological environment: Carlos Technologies plans hi-tech machines to increase production of newspaper bags. Such technological improvements enable larger-scale output and can change costs and production methods. Smaller paper-bag firms face the challenge of adapting to the new technology to remain competitive.

Step 2: Relate employee training and customer expectations to the impacts **Need for developing human resources:** The case states that employees are "being trained to operate such hi-tech machines". New technology requires new skills and higher competence. Businesses therefore need to develop employees through training so that they can use changed production methods effectively.

More demanding customers: Customers have "become more demanding due to increased awareness" and insist on bags not made of plastic. Businesses must respond to these expectations by supplying suitable alternatives. Meeting customers' changing requirements becomes essential for retaining demand and customer satisfaction.

The airline's decision to stop supplying small water bottles provides the overall context: the ban compels firms to revise existing practices. The four impacts above explain the specific changes described in the rest of the case.

Step 3: Conclusion The policy results in increasing competition, a rapidly changing technological environment, a need for developing human resources, and more demanding customers. Each requires businesses to adapt their operations to the changed environment.

Quick Tip to Solve: Match each impact with its case evidence: new entrants indicate competition, hi-tech machines indicate technology, training indicates human resource development, and aware buyers indicate demanding customers.

28(a). Give any four points explaining the role of financial management. [4 marks]

Solution:

Concept:

- Financial management concerns the acquisition and effective use of funds. Its investment, financing and dividend decisions shape the financial health of a business.
- Its role can be explained through the financial characteristics it determines, such as the size and composition of assets, financing and the profit and loss position.

Step 1: Explain its role in assets **Size of fixed assets:** Financial management determines the amount invested in long-term assets such as land, buildings, plant and machinery. Investment decisions therefore determine the scale of operations and the funds committed for a long period. For example, a decision to install a larger plant increases the fixed assets of the business.

Composition of current assets: Financial management determines how much is held in cash, inventories and receivables. These working-capital decisions must support smooth daily operations while avoiding excessive funds being locked in idle cash or stocks. Thus, it influences both liquidity and the efficient use of short-term funds.

Step 2: Explain its role in financing and earnings **Amount of long-term and short-term funds:** Financial management determines the proportion of funds raised for different periods. Fixed assets normally require long-term finance, while current assets require an appropriate combination of short-term and long-term finance. This financing decision affects the firm's liquidity and the cost of funds.

Items in the profit and loss account: Financial decisions influence expenses and earnings. Borrowing creates an interest expense, investment in fixed assets creates depreciation, and the level of working capital affects operating costs and income. Consequently, financial management influences profitability as well as the financial position reflected in the balance sheet.

Step 3: Conclusion Financial management determines the size of fixed assets, the composition of current assets, the amount of long-term and short-term finance, and major items in the profit and loss account. These four roles show how financial decisions shape the business's operations and financial health.

Quick Tip to Solve: Link each role to a financial statement: fixed and current assets and sources of funds affect the balance sheet, while interest and depreciation affect the profit and loss account.

OR

28(b). What is meant by financial planning ? Explain its objectives. [4 marks]

Solution:

Concept:

- Financial planning is the process of estimating the financial requirements of a business and specifying the sources from which those requirements will be met.
- It seeks to make funds available in the right amount and at the right time. Its two objectives are to ensure availability when required and to avoid unnecessary raising of finance.

Step 1: State the meaning of financial planning Financial planning involves estimating the funds required for the proposed operations of a business and determining the possible sources for obtaining them. It considers the investment needed in fixed assets, the working capital needed for daily activities, and the timing of these requirements. It then provides a plan for raising the required finance from suitable sources. Thus, it connects anticipated financial needs with a practical arrangement for meeting them.

Step 2: Explain the objectives **Ensure availability of funds whenever required:** Financial planning estimates how much money the business needs and when it needs it. It also identifies the sources from which the funds can be obtained. This helps the enterprise arrange finance in advance so that purchases, production, payments and expansion are not interrupted by a shortage of money. For instance, planning for a new plant includes both its purchase cost and the funds needed to operate it.

Ensure that finance is not raised unnecessarily: Financial planning seeks to avoid excess funds as well as shortages. Raising more finance than needed adds to the cost of finance and may leave funds idle, reducing profitability. The plan therefore matches the amount raised with the estimated requirement. If a temporary surplus arises, it should be put to suitable use rather than left unproductively idle. In this way the business avoids both inadequate finance and wasteful overcapitalisation of its immediate needs.

Step 3: Conclusion Financial planning estimates financial requirements and identifies their sources. Its objectives are to make adequate funds available at the required time and to avoid raising unnecessary finance, thereby supporting continuity of operations and economical use of funds.

Quick Tip to Solve: Remember the two objectives as avoiding opposite problems: shortage interrupts operations, while excess finance creates unnecessary cost and idle funds.

Section D (15 marks)

29(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 relative proportion of debt and equity used to finance a business. Market conditions and the costs of the two sources influence the financing decision.
- Financial risk is the risk of being unable to meet fixed financial obligations. Debt creates compulsory interest and repayment obligations, whereas equity dividends are not compulsory.

Step 1: Justify the choice in the prevailing market **(a) Stock market conditions:** Yes, issuing debentures is justified on the market-condition ground given in the case. The Finance Manager states that the stock markets are undergoing a "bearish phase". During a depressed market, investors may be less willing to subscribe to equity shares, and an equity issue may have to be made at an unfavourable price. Debt is therefore generally the more suitable source in these conditions. This supports the proposed choice; the company must still ensure that its cash flows can service the debt.

Step 2: Explain the change in financial risk **(b) Higher financial risk:** Presently Sun Industries is financed entirely by equity. Issuing debentures adds fixed interest obligations, payable even when profits are low or the company makes a loss. The principal must also be repaid according to the terms of issue. These commitments increase the possibility of default if operating cash flows are inadequate. Thus the proposed borrowing increases financial risk, although it does not by itself change the business risk arising from steel operations.

Step 3: Relate the costs of debt and equity to the financing mix **(c) Cost of debt:** When a company can borrow at a lower cost, it can employ more debt in its capital structure. Interest is a tax-deductible expense, so the effective cost of debt is reduced by the tax saving. However, borrowing cannot be increased without regard to repayment capacity and risk.

Cost of equity: Equity shareholders bear greater risk as debt increases, because interest has to be paid before earnings are available to them. They consequently expect a higher return, increasing the cost of equity. Debt is cheaper only up to a point: excessive debt can raise the cost of equity enough to offset its benefit. The company should therefore choose a judicious debt-equity mix that balances cost

and financial risk.

Step 4: Conclusion Debentures are justified by the bearish stock market, but their compulsory servicing increases Sun Industries' financial risk. A lower cost of debt favours borrowing, while the rise in shareholders' required return as leverage increases limits the desirable proportion of debt.

Quick Tip to Solve: Separate the three issues: market conditions explain the choice of source, fixed payments explain financial risk, and shareholders' required return explains the effect on the cost of equity.

OR

29(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 through current assets such as inventories, debtors and cash. Its requirement depends on the volume of business and the time for which funds remain tied up in operations.
- Seasonal demand and credit allowed are factors directly illustrated in this case. Nature of business, scale of operations and operating efficiency are other determinants of working capital.

Step 1: Identify two factors illustrated by the case **1. Seasonal factors:** The case states that "in the month of November" pollution causes an increase in demand for air purifiers. A business facing seasonal demand needs more working capital during the peak season to build inventories and support increased production and sales. Inderprastha Technologies proposes to raise its investment in stock to meet this demand, so its working capital requirement increases during this period.

2. Credit allowed: The company has started selling on "liberal credit terms" to increase sales. When customers receive more time to pay, a larger amount remains tied up in debtors until collection. Liberal credit therefore increases working capital requirements; stricter credit terms or cash sales reduce the amount so tied up. Higher sales and profitability do not remove the need to finance the gap before cash is received.

Step 2: State three other determinants **3. Nature of business:** A trading organisation generally needs less working capital than a manufacturing organisation because it does not process raw materials into finished goods. Manufacturing ties funds up in raw materials, work-in-progress and finished goods.

Service businesses generally require still less inventory-related working capital.

4. Scale of operations: A company operating on a larger scale requires larger amounts of inventories, debtors and cash to support its operations. Its absolute working capital requirement is therefore generally greater than that of a similar company operating on a smaller scale.

5. Operating efficiency: Efficient management of inventories, production and collections shortens the time for which funds remain blocked in current assets. Better inventory turnover and prompt recovery from debtors reduce working capital needs, whereas delays and inefficient operations increase them.

Step 3: Conclusion Two factors evident in Inderprastha Technologies' case are seasonal factors and credit allowed: peak-season stocking and liberal customer credit both increase its working capital needs. Three other factors are the nature of business, scale of operations and operating efficiency.

Quick Tip to Solve: Link a case factor to its cash effect: extra stock blocks funds in inventory, while liberal credit blocks funds in debtors. Then give three distinct textbook determinants beyond those two.

30(a). State any five merits of internal sources of recruitment. [5 marks]

Solution:

Concept:

- Staffing includes obtaining suitable people for organisational positions. Internal recruitment fills vacancies from employees already working in the organisation, mainly through transfers and promotions.
- A promotion raises an employee to a position involving greater responsibility and usually higher status and pay. A transfer shifts an employee between jobs or departments without a substantial change in responsibility or status.

Step 1: Explain the benefits for employee motivation and selection

- **Motivates employees:** The possibility of promotion encourages employees to improve their performance. They see a career opportunity within the organisation and work harder to earn advancement. This also increases their commitment and loyalty to the enterprise.
- **Simplifies selection and placement:** Existing employees' abilities, qualifications and performance are already known to management. The organisation can judge their suitability more reliably, reducing the uncertainty involved in appointing a person whose work has not previously been observed.

Step 2: State the remaining organisational merits

- **Develops employees for higher positions:** Transfers allow employees to gain experience in different jobs and departments. Such job rotation broadens their understanding and provides training that prepares them to handle higher responsibilities in the future.
- **Balances staffing between departments:** A transfer can move an employee from a department with surplus staff to another with a shortage. The organisation therefore uses its existing workforce more effectively rather than recruiting additional people while employees elsewhere remain underutilised.
- **Economical source:** Recruiting internally avoids much of the expenditure on advertisements,

applications and the extensive selection procedures needed for outside candidates. Existing employees are also familiar with the organisation, reducing the effort needed to introduce them to it.

Step 3: Conclusion Internal recruitment motivates employees, simplifies selection, trains employees for higher jobs, balances surplus and deficient staffing, and reduces recruitment costs. These are five distinct merits of filling vacancies from within the organisation.

Quick Tip to Solve: Recall internal recruitment through promotion and transfer: promotion motivates, while transfer develops experience and balances staffing; known employees also make selection simpler and cheaper.

OR

30(b). Give the meaning of 'motivation'. State any four features of motivation. [5 marks]

Solution:

Concept:

- Motivation is an element of directing. It concerns inducing people to act voluntarily in a desired manner so that their efforts contribute towards organisational objectives.
- A need creates an internal urge to act. Management uses suitable incentives and other measures to connect the satisfaction of employees' needs with the work required by the organisation.

Step 1: Define motivation **Meaning:** Motivation means the process of stimulating people to action to accomplish desired goals. It encourages an employee's willingness to exert effort rather than merely compelling the employee to be physically present at work. A manager identifies employees' needs and uses appropriate incentives or other measures to encourage them to perform the required tasks.

Step 2: Explain four features of motivation

- **Internal feeling:** Motivation is a psychological phenomenon. Needs, desires, aspirations and feelings within an individual influence behaviour. For example, a desire for recognition may encourage an employee to perform particularly well; the manager's incentive works by appealing to that internal desire.
- **Produces goal-directed behaviour:** Motivation induces people to behave in a way that helps them reach a desired goal. An employee seeking promotion may improve performance and acquire new skills. Management seeks to direct such effort towards organisational objectives as well as personal satisfaction.
- **Can be positive or negative:** Positive motivation offers rewards such as additional pay, recognition or promotion for desired performance. Negative motivation uses the fear of an undesirable consequence, such as a warning or demotion, to discourage unwanted behaviour and induce action.
- **Complex process:** Individuals differ in their needs, perceptions and expectations, so the same incentive does not motivate everyone equally. A measure effective for one employee may be ineffective for another, and a person's needs can also change. Managers therefore have to understand people and select suitable motivating measures.

Step 3: Conclusion Motivation is the process of stimulating people to act to accomplish desired goals. Its four features are that it is an internal feeling, produces goal-directed behaviour, may be positive or negative, and is a complex process because people and their needs differ.

Quick Tip to Solve: Keep the meaning separate from the features. For the features, recall the four cues: inside the person, towards a goal, reward or fear, and different needs for different people.

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

Solution:

Concept:

- Coordination is the process of integrating the activities of different departments and individuals so that organisational objectives are achieved through unity of action.
- Coordination is the essence of management: it harmonises specialised and interdependent efforts rather than allowing each person or department to pursue a separate direction.

Step 1: Explain how coordination unifies collective effort

- **Integrates group efforts:** Coordination brings together the efforts of individuals working in different departments. People may have different interests and approaches; coordination reconciles these differences and directs their activities towards the organisation's goals. For example, production and sales must agree on the quantity and delivery schedule required by customers.
- **Ensures unity of action:** Coordination acts as a binding force between departments. It ensures that each department's actions contribute to the common purpose instead of conflicting with the actions of others. Purchasing the inputs, producing the goods and selling them must proceed in a harmonious sequence.

Step 2: Explain its continuity, scope and managerial responsibility

- **Continuous process:** Coordination is needed throughout organisational activity. It begins at the planning stage and continues through organising, staffing, directing and controlling. Managers must regularly adjust interdependent activities when plans, resources or circumstances change; it is not a one-time exercise.
- **All-pervasive function:** Coordination is required at every level of management and in every department. Top management coordinates the organisation's overall plans, while departmental and supervisory managers coordinate the activities within their respective areas.
- **Responsibility of all managers:** Every manager must coordinate the work of subordinates and relate it to other units. Top managers coordinate with departmental heads, middle managers with supervisors, and supervisors with workers. Coordination therefore cannot be left to one separate department or to top management alone.

Step 3: Conclusion The five characteristics are integration of group efforts, unity of action, continuity, all-pervasiveness and responsibility of all managers. Together they explain how coordination harmonises individual and departmental efforts towards common organisational objectives.

Quick Tip to Solve: For each characteristic, state its NCERT heading and then explain what it means for interdependent people or departments; do not merely list the headings.

OR

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

Solution:

Concept:

- A profession is an occupation based on specialised knowledge and training, with restricted entry, a professional association, an ethical code and a service motive.
- Management has some features of a profession, but it does not fully meet all professional requirements. Each feature must therefore be compared with actual managerial practice before reaching a conclusion.

Step 1: Compare specialised knowledge and entry requirements

- **Well-defined body of knowledge:** Management has a systematic body of knowledge based on principles and theories. This knowledge can be acquired at colleges and management institutes through instruction and study. Thus, management satisfies this feature of a profession.
- **Restricted entry:** Entry into an established profession is generally restricted through a prescribed educational qualification or examination. There is no compulsory qualification or licence for becoming a manager. Although trained management graduates are preferred by many organisations, anyone may be appointed as a manager. This feature is not fully satisfied.

Step 2: Examine associations, ethics and service

- **Professional association:** Professions usually have associations that regulate entry and professional conduct. Management associations, such as the All India Management Association, exist, but membership is not compulsory for practising as a manager. Such associations do not regulate entry into management in the manner of established professions.
- **Ethical code of conduct:** Professional associations prescribe ethical standards binding on their members. Management associations also prescribe codes for members, but managers are not universally bound by a common professional code because membership is voluntary. Thus, this feature is present only to a limited extent.
- **Service motive:** A profession has a basic motive of serving clients with commitment. Business management seeks to achieve organisational objectives, including profit, but effective management also serves society by providing good-quality products at reasonable prices and meeting social responsibilities. The importance of service is increasing, although it is not the sole motive of all managers.

Step 3: Conclusion Management is not a full-fledged profession at present. It possesses a well-defined body of knowledge and is moving towards professionalisation, but compulsory entry qualifications, mandatory professional membership and a universally binding professional ethical code are absent.

Quick Tip to Solve: Compare management with all five features of a profession. Distinguish a desirable management degree from a legally compulsory qualification for entry.

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. It specifies duties, reporting relationships and the rules governing work.
- Informal organisation is the network of social relationships that arises spontaneously through interaction among people at work. It develops alongside the formal structure to meet employees' social needs.

Step 1: Identify and explain the formal organisation **Formal organisation:** The statement that "rules and procedures to be followed by employees have been clearly laid down by the top management" indicates a formal organisation. The specified duties and clearly defined roles provide further evidence. This structure is consciously created by management: it establishes who is responsible for which task, who reports to whom and the authority available to perform the work. Employees act within these prescribed relationships to achieve the firm's objectives.

Step 2: Identify and explain the informal organisation **Informal organisation:** The employees' spontaneous social interaction in the canteen during lunch indicates an informal organisation. The words "allows them to share their feelings with others" show that these relationships meet social and emotional needs. Such a network is not officially designed by top management; it grows through personal contact, friendship and common interests among employees, irrespective of their prescribed reporting relationships.

Step 3: State two additional advantages of formal organisation **Effective coordination:** The formal structure integrates the activities of different departments and individuals by providing an established framework of relationships. Their separate efforts can therefore be directed towards common organisational goals.

Stability: Formal organisation provides continuity through established procedures and positions. The organisation is less dependent on particular individuals, because a person replacing an employee can work within the same defined structure. These advantages are additional to the clarity of duties

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 need not follow every link of the official scalar chain. This can provide employees and management with timely information and feedback.

Compensation for formal limitations: Informal relationships can help members cooperate and resolve practical problems that rigid formal procedures do not adequately address. Employees may assist one another across official boundaries, helping to accomplish organisational objectives. These advantages are distinct from the sharing of feelings and satisfaction of social needs already mentioned in the paragraph.

Step 5: Conclusion InfoMed Ltd. has both a formal organisation, reflected in its management-designed rules and roles, and an informal organisation, reflected in employees' spontaneous canteen relationships. Additional advantages are coordination and stability for the formal organisation, and faster communication and compensation for formal limitations for the informal organisation.

Quick Tip to Solve: Link prescribed rules and reporting relationships to formal organisation, and spontaneous friendships to informal organisation. When asked for additional advantages, avoid repeating the benefits already stated 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 dispersal of decision-making authority throughout an organisation, down to lower levels and near the point of action. Top management retains authority over major policies and overall control.
- Decentralisation extends delegation across the organisation and reflects confidence in subordinates' competence. It develops managerial capability while allowing different levels to take appropriate decisions.

Step 1: Identify and define the recommended concept The concept is **decentralisation**. The consultant recommends that "decision-making responsibilities may be divided among hierarchical levels" and that authority should be shared "with the lowest levels". These words describe the systematic dispersal of authority throughout the organisation, rather than its concentration at the apex. Managers at lower levels receive authority to make decisions concerning their areas of work, while top management retains major policy decisions and overall control. The belief that employees are "competent, capable and resourceful" also reflects the philosophy underlying decentralisation.

Step 2: Explain how it develops initiative among subordinates **Develops initiative among subordinates:** Decentralisation gives lower-level managers freedom to act within their assigned authority and makes them responsible for results. They learn to depend on their own judgement rather than seek instructions for every issue. The opportunity to make decisions encourages self-confidence, initiative and a willingness to accept challenging responsibilities. At Good Looks Ltd., this would enable managers closer to operations to respond actively to problems instead of waiting for the apex to decide everything.

Step 3: Explain how it develops managerial talent **Develops managerial talent for the future:** Exercising decision-making authority gives managers practical experience in analysing situations, choosing alternatives and accepting responsibility for outcomes. This experience serves as training for positions with greater responsibility. Top management can also assess their abilities through the results of these decisions, creating a pool of capable managers for future needs.

Step 4: Explain how it relieves top management **Relieves top management:** When lower levels are authorised to decide routine and operational matters, top executives need not devote their time to every minor decision. They can concentrate on major policies, strategic plans and important competitive issues. This is particularly relevant to Good Looks Ltd., where the concentration of all decisions at the top has become a weakness as the business has grown and competition has increased.

Step 5: Explain how it facilitates growth **Facilitates growth:** Greater autonomy at lower levels allows departments and divisions to function with more independence and responsibility. Managers can deal with the demands of their own units without continually overloading the centre. This develops the capability needed to manage an expanding business and facilitates diversification and growth. Thus the company can build an organisation able to handle a larger scale of operations.

Step 6: Conclusion Structures Consultants India Ltd. recommends decentralisation: systematic dispersal of decision-making authority to lower organisational levels. Its importance includes developing initiative, developing future managerial talent, relieving top management and facilitating growth.

These benefits complement the quicker decisions and adaptation already highlighted in the case.

Quick Tip to Solve: Authority concentrated at the apex signals centralisation; systematic authority shared down the hierarchy signals decentralisation. Explain each benefit by linking decision-making freedom to a specific managerial or organisational improvement.

33(a). Explain any four points that highlight the importance of 'controlling' function of management.

[6 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, analysing deviations and taking corrective action so that organisational objectives are achieved.
- The importance of controlling lies in the feedback it provides: managers learn whether plans are working and where performance or standards need improvement.

Step 1: Explain how control supports goals and standards

- **Accomplishing organisational goals:** Controlling measures progress towards the organisation's goals and brings to light deviations from the planned course. Managers investigate significant differences between actual and expected performance and take corrective action. For example, when production falls below its target, the manager can identify a machine breakdown or an input shortage and remedy it. Thus activities remain directed towards the intended objectives instead of merely continuing without review.
- **Judging the accuracy of standards:** A good control system enables management to verify whether the standards set for performance are accurate and realistic. While comparing results with standards, managers consider changes in the organisation and its environment. Repeated deviations may show that a standard was unrealistic or that conditions have changed. Control therefore helps managers review and revise standards on evidence, rather than retaining unsuitable targets.

Step 2: Explain how control improves resources and motivation

- **Making efficient use of resources:** Control seeks to reduce wastage and spoilage by checking whether work is performed according to predetermined standards. Clear norms for time, quality, materials and costs help managers detect avoidable losses and correct inefficient methods. Resources are consequently used more effectively, with less duplication or waste, while the required output and quality are maintained.
- **Improving employee motivation:** A sound control system communicates the standards by which employees' performance will be assessed. Employees know what is expected of them and can compare their achievements with these expectations. Fair evaluation and feedback help them identify areas for improvement and work towards better performance. This clarity encourages commitment and motivates employees to achieve the prescribed standards.

Step 3: Conclusion Controlling is important because it helps accomplish organisational goals, judge the accuracy of standards, use resources efficiently and improve employee motivation. These four

benefits arise from measuring performance and acting on the feedback obtained.

Quick Tip to Solve: For each importance point, connect a named NCERT heading to what a control system actually does; do not merely list the headings or reproduce the steps of controlling.

OR

33(b). Explain any four non-financial incentives. [6 marks]

Solution:

Concept:

- Non-financial incentives motivate employees by satisfying psychological, social and emotional needs, such as recognition, responsibility, belonging and personal development.
- These incentives are not direct monetary rewards. Their effectiveness depends on the employee's needs and on management providing them sincerely and fairly.

Step 1: Explain status and recognition as incentives

- **Status:** Status means the rank or position of an employee in the organisational hierarchy. The authority, responsibility, rewards, recognition and prestige associated with a job indicate its status. A position carrying greater responsibility and respect can satisfy an employee's esteem needs and encourage better performance. Suitable job titles and acknowledgement of a person's organisational role strengthen the employee's feeling of being valued; the incentive here is the position and prestige, rather than a cash payment.
- **Employee recognition programmes:** Recognition means acknowledging and appreciating an employee's good work. Management may recognise an outstanding contribution through a certificate, a congratulatory message, an award or appreciation before colleagues. Such recognition satisfies the need for esteem and shows that useful contributions are noticed. It encourages the recognised employee to maintain good performance and can inspire others. Recognition should be timely and related to a real achievement so that employees regard it as meaningful and fair.

Step 2: Explain enrichment and participation as incentives

- **Job enrichment:** Job enrichment means designing a job to include a greater variety of work and more challenging tasks, with opportunities for learning and growth. Employees may receive more autonomy and responsibility and a greater opportunity to use their skills. They can see the significance of their work and experience achievement from completing it. This satisfies higher-level needs and makes the work itself a source of motivation instead of relying only on external rewards.
- **Employee participation:** Employee participation means involving employees in decision-making on issues related to them. For example, managers may consult workers when deciding methods of work or invite suggestions through a committee. Participation gives employees an opportunity to express their views and makes them feel that their knowledge and experience matter. The resulting sense of involvement and ownership encourages cooperation and commitment in implementing the decisions taken.

Step 3: Conclusion Four non-financial incentives are status, employee recognition programmes, job

enrichment and employee participation. They motivate through prestige, appreciation, meaningful work and involvement in decisions, respectively, rather than through direct monetary payment.

Quick Tip to Solve: Name a distinct non-financial incentive and explain the need it satisfies. Keep job enrichment (richer work) separate from employee participation (a voice in decisions).

34. Sankalp and Kavi, students of 12th class with 'Business Studies' as an elective subject were discussing the elements of marketing mix. Sankalp said that one of the important elements of marketing mix is related to the amount received for the goods sold or services rendered. Kavi requested Sankalp in knowing the name of that element. Sankalp also added that this element is also affected by various factors. Kavi asked Sankalp to explain these factors for which Sankalp agreed. State any six factors which affect this element of marketing mix as explained by Sankalp to Kavi.

[6 marks]

Solution:

Concept:

- Price is the amount of money paid by a buyer, or received by a seller, in consideration of the purchase of a product or service. It is the revenue-generating element of the marketing mix.
- A pricing decision balances the firm's costs and objectives with customers' perception of value, market demand, competition and applicable government regulation.

Step 1: Identify the element in the discussion The element is **price**. The clue is Sankalp's description, 'the amount received for the goods sold or services rendered'. The following six factors affect its determination.

Step 2: Explain the cost and customer considerations

- **Product cost:** The cost of producing, distributing and selling the product influences its price. The firm must consider fixed costs, variable costs and semi-variable costs. In the long run, price should recover the total cost and provide a reasonable profit; cost therefore sets an important lower limit for a sustainable price.
- **Utility and demand:** The utility a buyer obtains and the intensity of demand affect the price the buyer is willing to pay. Customers generally pay more when they perceive greater value. Demand conditions set an upper limit to price: if demand is elastic, a price rise may substantially reduce sales, whereas relatively inelastic demand gives the seller greater freedom in pricing.

Step 3: Explain the market and regulatory considerations

- **Extent of competition in the market:** Competitors' prices, product quality and features must be considered. Intense competition limits a firm's freedom to charge a high price because buyers can choose substitutes. Where competition is limited, the firm has greater discretion, subject to demand and other constraints.
- **Government and legal regulations:** Government intervention may restrict pricing to protect consumers against unfair practices. For example, the government may regulate prices of essential products or prevent monopolistic pricing. A business must comply with such legal restrictions when deciding its price.

Step 4: Explain the firm's objectives and marketing decisions

- **Pricing objectives:** The desired objective affects the chosen price. A firm seeking market-share leadership may charge a relatively low price to attract buyers. A quality-leadership objective can justify a higher price to cover superior quality, while survival during adverse conditions may require a price sufficient to cover variable costs and part of fixed costs. Profit maximisation must also be considered in relation to its time horizon.
- **Marketing methods used:** Other marketing decisions influence price. The distribution system, sales promotion, advertising, packaging, product differentiation and credit facilities can change both selling costs and the value perceived by customers. For example, superior packaging and extensive advertising may involve costs that must be considered in the price charged.

Step 5: Conclusion Sankalp is discussing **price**. The six factors are product cost, utility and demand, extent of competition, government and legal regulations, pricing objectives, and marketing methods used.

Quick Tip to Solve: Link the clue 'amount received' to price, then organise the six determinants as cost, customers, competition, government, objectives and marketing methods.