CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/1/2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 2 hours **Maximum Marks: 40**

General Instructions

(i) This question paper contains **12** questions.

(ii) Question numbers **1 – 4** are of **2** marks. These are Short Answer Type Questions and are to be answered in **30-50** words.

(iii) Question numbers **5 – 8** are of **3** marks. These are Short Answer Type Questions and are to be answered in **50-80** words.

(iv) Question numbers **9 – 12** are of **5** marks. These are Long Answer Type Questions and are to be answered in **80-120** words.

(v) There is no over-all choice in the question paper. However internal-choice has been given in **1** question of **3** marks and **2** questions of **5** marks each.

(vi) This question paper contains Case/Source Based questions.

1. KLM Bank Ltd. is a leading bank with various branches across the country. On 27th Jan. 2022, it faced a sudden temporary shortage in cash balance in one of its branches. On the same day, it was decided by its directors to borrow funds from another bank for two days to maintain its cash reserve ratio.

Identify and explain the money market instrument used by KLM Bank Ltd. to meet its short term funds requirement. [2 marks]

Solution:

Concept:

- The money market provides funds for short-term requirements. Call money is an inter-bank source of short-term finance, repayable on demand, with a maturity period ranging from one day to fifteen days.
- Banks use call money to meet temporary cash shortages and maintain the cash reserve ratio required by the Reserve Bank of India.

Step 1: Identify the instrument from the case The instrument is **call money**. The clues are that KLM Bank decided to "borrow funds from another bank for two days" and did so "to maintain its cash reserve ratio". Thus, this is a temporary inter-bank borrowing rather than a long-term source of business finance.

Step 2: Explain how call money meets the requirement Call money enables a bank with a temporary shortage to borrow from another bank with surplus funds. It is short-term finance repayable on demand, generally for a period of one to fifteen days. KLM Bank's two-day requirement lies within this period, so the borrowing supplies the cash needed to maintain the prescribed cash reserve ratio. The interest charged on such borrowing is called the call rate.

Step 3: Conclusion KLM Bank Ltd. uses **call money**, a short-term inter-bank borrowing instrument, to cover its temporary cash shortage and maintain its cash reserve ratio.

Quick Tip to Solve: Link the three clues "another bank", "two days" and "cash reserve ratio" to call money; together they identify the instrument directly.

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2. Identify and state the function of management which ensures that the organisational resources are being used effectively and efficiently for the achievement of pre-determined goals. [2 marks]

Solution:

Concept:

- Controlling is the management function that ensures activities and results conform to predetermined standards and organisational plans.
- Effectiveness means achieving the desired goals, while efficiency means achieving them with minimum waste of resources. Control helps managers secure both by detecting and correcting deviations.

Step 1: Identify the management function The function is **controlling**. The question's words "resources are being used effectively and efficiently" and "achievement of pre-determined goals"

indicate checking whether actual organisational performance is consistent with what was planned.

Step 2: State the meaning of controlling Controlling means measuring actual performance, comparing it with predetermined standards, identifying deviations and taking corrective action where necessary. Managers first know the expected result, then check actual results against it. If performance departs from the standard, they investigate the cause and correct the activity. This brings work back towards the plan and helps prevent wastage of organisational resources while pursuing the desired goals.

Step 3: Conclusion **Controlling** ensures that actual performance conforms to predetermined standards through measurement, comparison and corrective action, helping the organisation achieve its goals effectively and efficiently.

Quick Tip to Solve: Remember the sequence "measure, compare, correct" to state controlling; checking performance against planned goals is the key clue.

3. Give the meaning of 'Formal Communication'. [2 marks]

Solution:

Concept:

- Communication is the process of exchanging information and understanding between people. In an organisation, the route used to communicate determines whether communication is formal or informal.
- Formal communication follows the official channels and reporting relationships established in the organisation structure; it is concerned with organisational work.

Step 1: Define formal communication **Formal communication** is the flow of information through the official channels prescribed in the organisation structure. The sender and receiver communicate according to their recognised authority and responsibility relationships, rather than merely through personal friendship or social contact.

Step 2: Clarify its official route It may flow vertically between a superior and a subordinate, or horizontally between persons at the same organisational level. For example, a departmental manager issuing work instructions to a subordinate through the prescribed channel is using formal communication. It may be oral or written: the defining feature is the official channel, not the use of a written document alone. Reports submitted by subordinates through their reporting hierarchy also follow this system.

Step 3: Conclusion Formal communication means communication that flows through the official channels laid down in the organisation structure and follows established authority and responsibility relationships.

Quick Tip to Solve: Use "official channels in the organisation structure" in the definition; formal communication can be oral as well as written.

4. Identify and state the step in the process of staffing under which the charge of the job is given to the selected employee and he/she is introduced to his/her superiors, subordinates and colleagues.

[2 marks]

Solution:

Concept:

- Staffing includes placing a selected employee in the appropriate job and helping the employee become familiar with the organisation.
- Placement means giving the selected employee charge of the job. Orientation means introducing the employee to the organisation and its people.

Step 1: Identify placement from the job assignment The step is **placement and orientation**. The words "the charge of the job is given to the selected employee" describe **placement**. The selected person is assigned the position for which he or she has been selected, with responsibility for performing that job.

Step 2: Explain orientation from the introductions The words "introduced to his/her superiors, subordinates and colleagues" describe **orientation**. The employee is familiarised with the workplace, the organisation's rules and policies, and the people with whom he or she will work. This introduction helps the newcomer adjust to the job and work environment.

Step 3: Conclusion The required staffing step is **placement and orientation**: placement gives the selected employee charge of the job, while orientation introduces the employee to the organisation and fellow employees.

Quick Tip to Solve: Link "charge of the job" with placement and "introduced to colleagues" with orientation; both clues identify the combined staffing step.

5. Explain how controlling helps in 'accomplishing organisational goals' and 'judging accuracy of standards'.

[3 marks]

Solution:

Concept:

- Controlling compares actual performance with predetermined standards, identifies deviations and takes corrective action where necessary.
- It helps managers accomplish organisational goals and judge whether the standards used to assess performance are accurate and realistic.

Step 1: Explain accomplishment of organisational goals **Accomplishing organisational goals:** Controlling measures progress towards the organisation's goals by comparing actual performance with the standards set during planning. It brings deviations to light so that managers can identify their causes and take corrective action. For example, if actual output is below the production target, management can investigate delays and remove their causes. Activities are thus brought back towards the planned course, helping the organisation achieve its objectives.

Step 2: Explain the assessment of standards **Judging accuracy of standards:** An efficient control

system enables management to verify whether standards are accurate and objective. While comparing results with standards, managers examine whether the standards remain realistic under prevailing conditions. They also review and revise standards in the light of changes in the organisation and its environment. This helps ensure that performance is assessed against suitable benchmarks rather than outdated or unrealistic expectations.

Step 3: Connect feedback with future performance **Using control feedback:** Managers distinguish a shortfall caused by poor performance from one caused by an unsuitable standard. They correct performance in the former case and review the benchmark when evidence shows it needs revision. Thus controlling supports both achievement of the goals and accuracy of the standards used to monitor progress.

Step 4: Conclusion Controlling helps accomplish organisational goals through measurement of progress and corrective action. It also helps judge the accuracy of standards by checking their objectivity and suitability and reviewing them when conditions change.

Quick Tip to Solve: For goals, explain comparison, deviations and corrective action; for standards, explain checking objectivity and reviewing benchmarks when conditions change.

6. Nandita Srivastava is the Human Resource Manager of 'TM Infrastructure Ltd.' It is one of the largest construction companies in India. The company handles projects worth more than ₹ 18,000 crore.

The responsibilities of Nandita Srivastava include searching and hiring suitable people for different posts in the organisation.

To measure certain characteristics of potential candidates, who apply for various vacancies, she is required to conduct a series of selection tests appropriate for different posts. These tests will help her to predict for which job the applicant will be successful, if hired.

Explain any two types of selection tests that may be conducted by Nandita Srivastava to select the most suitable persons. [3 marks]

Solution:

Concept:

- Selection tests are tools used in the staffing process to measure characteristics of candidates and help predict their suitability for a job.
- An intelligence test measures general intellectual ability, whereas an aptitude test measures the potential to acquire particular skills. These tests assess different qualities and should be chosen according to the requirements of the post.

Step 1: Relate selection tests to the case Nandita is responsible for "searching and hiring suitable people for different posts". The case also says that the tests will "predict for which job the applicant will be successful, if hired". Therefore, she needs tests that reveal candidates' relevant abilities and potential. Any two suitable types can be explained; intelligence and aptitude tests are described below.

Step 2: Explain an intelligence test **Intelligence test:** This is a psychological test that measures

an individual's intelligence quotient and indicates the ability to make decisions and judgements. It assesses abilities such as memory, reasoning and comprehension. Nandita may use it to assess a candidate's capacity to understand problems and exercise judgement when the post calls for such intellectual abilities.

Step 3: Explain an aptitude test **Aptitude test:** This measures an individual's potential to learn new skills. It indicates the person's capacity for development and helps predict how well the applicant may perform after training. Nandita may use a job-appropriate aptitude test to judge whether a candidate can acquire the particular skills required for a vacancy. It tests learning potential rather than merely the proficiency already acquired.

Step 4: Conclusion Nandita can conduct intelligence tests to assess intellectual ability and judgement, and aptitude tests to assess the potential to learn job-related skills. Together, these provide evidence about suitability for different posts.

Quick Tip to Solve: Distinguish intelligence from aptitude: intelligence concerns reasoning and judgement; aptitude concerns the potential to learn a particular skill.

7(a). What is meant by non-monetary incentives ? State any two non-monetary incentives. [3 marks]

Solution:

Concept:

- Motivation involves stimulating people to act towards organisational goals. An incentive is a means of encouraging the desired work behaviour.
- Non-monetary or non-financial incentives meet psychological, social and emotional needs rather than directly rewarding employees through money. They include status, recognition, job enrichment and employee participation.

Step 1: Define non-monetary incentives **Meaning:** Non-monetary incentives are rewards and measures that are not expressed directly in monetary terms and that motivate employees by satisfying psychological, social or emotional needs. They appeal, for example, to the desire for respect, appreciation, responsibility or personal growth. Their motivational value comes from the needs they satisfy rather than a direct cash payment.

Step 2: State employee recognition as an incentive **Employee recognition programmes:** Recognition means acknowledging and appreciating an employee's good performance or contribution. Public appreciation of good work, a certificate of achievement or displaying the employee's achievement on a notice board can make the employee feel valued. Such appreciation satisfies the need for esteem and encourages continued effort.

Step 3: State status as an incentive **Status:** Status refers to an employee's rank or position in the organisation. The authority, responsibility, recognition and prestige associated with a position can satisfy social and esteem needs. Giving an employee an appropriately valued position and recognising its importance can therefore motivate the employee without making a direct monetary payment the basis of the incentive.

Step 4: Conclusion Non-monetary incentives motivate by satisfying needs other than a direct financial

reward. Employee recognition programmes and status are two such incentives.

Quick Tip to Solve: For non-monetary incentives, first define the needs being satisfied, then name examples such as recognition and status rather than salary or a bonus.

OR

7(b). State any three benefits of training to the organisation. [3 marks]

Solution:

Concept:

- Training is the systematic process of increasing an employee's knowledge and skills for a particular job. Its organisational benefits arise when employees learn correct work methods and perform their duties more effectively.
- The benefits to the organisation include economy in learning, improved productivity and profits, and improved employee morale. These are distinct from personal benefits such as better career prospects for an employee.

Step 1: Explain the economy of systematic learning **Systematic learning reduces wastage:** Training teaches employees the correct method of doing a job in an organised manner. It is better than learning only through trial and error, which can waste materials, time and effort. Employees therefore learn their work with less avoidable wastage of the organisation's resources.

Step 2: Explain the improvement in productivity **Higher productivity and profits:** Trained employees possess the knowledge and skills needed to perform their jobs efficiently. They can produce a greater quantity of output and improve its quality. Better performance and more effective use of resources contribute to higher productivity and, consequently, higher profits for the organisation.

Step 3: Explain the improvement in employee morale **Improved morale and reduced employee turnover:** Training makes employees more confident and capable in their work. This improves their morale and job satisfaction. As a result, absenteeism and employee turnover are reduced, helping the organisation retain its workforce and maintain continuity of operations.

Step 4: Conclusion Three benefits of training to the organisation are reduced wastage through systematic learning, higher productivity and profits, and improved morale leading to lower absenteeism and employee turnover.

Quick Tip to Solve: For organisational benefits, connect each training effect to the enterprise: less wastage, better output and profits, or a more stable workforce.

8. State any three factors affecting working capital requirements of a company. [3 marks]

Solution:

Concept:

- Working capital is the excess of current assets over current liabilities. It finances day-to-day business operations through resources such as cash, inventories and receivables.
- A company's working capital requirement depends on how much money must remain invested in its operating activities before sales are converted into cash. Nature of business, scale of operations and the business cycle are three factors affecting it.

Step 1: State the effect of the nature of business **Nature of business:** A trading concern generally requires less working capital than a manufacturing concern, other things remaining the same. It buys goods for resale and does not need to hold raw materials and work-in-progress for a production process. A manufacturing company must finance these inventories as well as finished goods, so its working capital requirement is generally higher.

Step 2: State the effect of the scale of operations **Scale of operations:** A company operating on a larger scale normally requires more working capital than one operating on a smaller scale. Larger operations involve higher levels of inventories, receivables and other current assets, and more cash is needed to meet recurring expenses. Thus, an increase in the volume of business generally increases the funds required for day-to-day operations.

Step 3: State the effect of the business cycle **Business cycle:** During a boom, demand and sales usually increase, requiring higher production and a larger investment in inventories and receivables. Working capital requirements therefore rise. During a depression, demand and production generally fall, reducing the amount needed for these operating activities and lowering working capital requirements.

Step 4: Conclusion Three factors affecting a company's working capital requirements are the nature of its business, its scale of operations and the phase of the business cycle. Each affects the level of funds tied up in current assets and daily operations.

Quick Tip to Solve: Do more than name each factor: state its direction of effect, such as larger operations or a boom generally increasing working capital needs.

9(a). Explain the following rights of a consumer as per the Consumer Protection Act, 2019 :

(i) Right to seek redressal

(ii) Right to consumer education. [5 marks]

Solution:

Concept:

- Consumer Protection recognises the consumer's right to obtain a remedy for an unfair trade practice, restrictive trade practice or exploitation, rather than merely accept the loss suffered.
- Consumer education develops awareness of consumer rights and of the remedies available when those rights are violated. An informed consumer can make better buying decisions and act against exploitation.

Step 1: Explain the right to seek redressal **Meaning:** A consumer has the right to seek redressal against unfair trade practices, restrictive trade practices and unscrupulous exploitation. If goods are defective or a service is deficient, the consumer can complain and seek an appropriate remedy through the consumer redressal machinery. The right makes the seller or service provider answerable for the harm caused.

Step 2: Describe the remedies under this right **Practical protection:** Depending on the complaint and its merits, relief may include removal of the defect, replacement of defective goods, refund of the price paid or compensation for the loss or injury suffered. For example, a purchaser of a defective appliance can seek its replacement or refund instead of bearing the loss silently. Redressal is a remedy for a justified complaint, rather than an automatic entitlement to every relief demanded.

Step 3: Explain the right to consumer education **Meaning:** A consumer has the right to acquire knowledge and to be a well-informed consumer throughout life. The consumer should know the rights available, the responsibilities involved in purchasing and using goods or services, and the reliefs available in the event of exploitation. Such awareness helps a buyer recognise misleading claims and identify when a complaint is justified.

Step 4: Show how education enables effective action **Practical protection:** Knowledge of how and where to complain enables the consumer to use the redressal system. Government efforts, consumer organisations and responsible businesses contribute to consumer education through awareness programmes and information. An educated buyer checks relevant product information, keeps the purchase bill as evidence and approaches the appropriate redressal agency when necessary.

Step 5: Conclusion The **right to seek redressal** enables a consumer to obtain appropriate relief against exploitation, while the **right to consumer education** enables the consumer to acquire and use knowledge of rights, responsibilities and remedies. Together they help consumers identify a wrong and take effective action against it.

Quick Tip to Solve: Link redressal with obtaining a remedy after a wrong, and consumer education with knowing one's rights and how to use them. Explain both meanings and add a practical application of each.

OR

9(b). State any five reliefs available to a consumer under the Consumer Protection Act, 2019 when consumer court is satisfied about the genuineness of the complaint. [5 marks]

Solution:

Concept:

- Consumer protection provides remedies against defective goods, deficient services and unfair trade practices. A consumer may seek an appropriate order from the consumer redressal commission after the complaint is established.
- Reliefs can correct the defect, restore the consumer's money, compensate the consumer for loss, or prevent the objectionable practice from continuing. Any five recognised reliefs may be stated here.

Step 1: State the reliefs concerning the goods and their price The consumer court may order the

opposite party to provide the following reliefs:

1. Remove the defect or deficiency: The court can direct removal of the defect in the goods or the deficiency in the service. This requires the seller or service provider to correct the shortcoming established in the complaint so that the consumer receives the promised quality.

2. Replace the defective goods: The court can order replacement of the defective goods with new goods of similar description that are free from defects. The consumer thus receives a sound product in place of the defective one.

3. Refund the price or charges: The court can order return of the price paid for the goods or the charges paid for the service. This restores the amount paid by the consumer rather than requiring the consumer to retain an unsatisfactory product or service.

Step 2: State compensatory and preventive reliefs **4. Pay compensation:** The court can direct payment of reasonable compensation for the loss or injury suffered by the consumer due to the opposite party's negligence. This addresses the harm suffered by the consumer, in addition to the issue of the product's price or repair.

5. Discontinue the unfair or restrictive trade practice: The court can order the opposite party to stop an unfair or restrictive trade practice and not repeat it. This prevents continuation of the objectionable conduct and protects consumers against its recurrence.

Step 3: Conclusion Any five reliefs are removal of defects or deficiencies, replacement of defective goods, refund of the price or service charges, reasonable compensation for loss or injury, and discontinuance of an unfair or restrictive trade practice with a direction not to repeat it.

Quick Tip to Solve: Recall the sequence: correct, replace, refund, compensate and stop the unfair practice. State each relief separately so that five distinct remedies are clear.

10. Differentiate between 'Capital Market' and 'Money Market' on the basis of :

(i) Participants

(ii) Instruments

(iii) Investment Outlay

(iv) Duration

(v) Liquidity [5 marks]

Solution:

Concept:

- The capital market deals in medium-term and long-term funds, whereas the money market deals in short-term funds with a maturity of up to one year.
- The two markets differ in who participates, the securities traded, the usual investment outlay and how readily the securities can be converted into cash.

Step 1: Identify the role of each market The capital market channels savings into medium-term and long-term investment, such as financing the expansion of a business. The money market meets short-term funding needs and provides an avenue for temporarily surplus funds. This difference in

purpose explains the following comparison. Investment outlay refers to the amount normally required to invest; liquidity refers to ease of conversion into cash.

Step 2: Compare the five specified bases

Basis	Capital Market	Money Market
(i) Participants	Financial institutions, banks, corporate entities, foreign investors and ordinary retail investors participate.	The main participants are the Reserve Bank of India, banks, financial institutions and finance companies; institutional participants predominate.
(ii) Instruments	Instruments include equity shares, preference shares, debentures and bonds.	Instruments include treasury bills, commercial paper, call money, certificates of deposit and commercial bills.
(iii) Investment outlay	A relatively small investment is possible: securities can be bought in small units, making participation accessible to individuals.	Transactions generally require a large investment outlay, since the instruments are issued and traded in large denominations.
(iv) Duration	It deals in medium-term and long-term securities, generally for periods exceeding one year.	It deals in short-term funds and securities with maturities of up to one year.
(v) Liquidity	Securities are liquid because they can be sold through the stock exchange, but are generally less liquid than money-market instruments.	Instruments are highly liquid because they have short maturities and many are close substitutes for cash.

Step 3: Conclusion The capital market provides medium-term and long-term finance through securities accessible to a broad range of investors. The money market provides short-term finance, generally through large transactions among institutions, with comparatively greater liquidity.

Quick Tip to Solve: Compare the same basis across both markets. Remember: capital market means longer duration and wider investor access; money market means short duration, large outlay and high liquidity.

11(a). Anurag Tiwari is a famous news reader. He has recently started a news company 'Axis Media Corporation Ltd.'. The aim of this company is to launch a 24-hour Hindi news channel to broadcast latest news from India and around the world.

For this new venture, the company will have to decide how to invest funds in different assets. The purchase of few assets like equipment, computers, vehicles, etc. will involve committing the finance on a long-term basis. It will affect earning capacity of the business in the long run. Therefore, the company needs to take the decision to invest in such assets with utmost care.

(a) Identify and state the type of investment decision discussed in the above paragraph.

(b) State any three factors which affect the decision identified in (a) above. [5 marks]

Solution:

Concept:

- An investment decision concerns the allocation of a firm's funds among different assets. Long-term investment decisions commit funds to fixed assets and are called capital budgeting decisions.

- Capital budgeting affects the business's earning capacity over a long period. The expected cash flows, the rate of return and the investment criteria used must therefore be considered before selecting a project.

Step 1: Identify the decision from the case **Long-term investment decision (capital budgeting decision):** Axis Media Corporation Ltd. is deciding whether to commit funds to assets such as equipment, computers and vehicles for its new news channel. The case explicitly says that this involves "committing the finance on a long-term basis" and "will affect earning capacity of the business in the long run". These clues identify a capital budgeting decision, rather than a short-term decision about day-to-day current assets.

Step 2: State what capital budgeting means Capital budgeting is the decision to invest funds in long-term assets or projects whose benefits are expected over several years. For Axis Media Corporation Ltd., it means deciding which long-term assets to purchase for the news channel and how much to invest in them. Such decisions require care because they involve substantial funds, influence future profitability and may be difficult or costly to reverse once the investment has been made.

Step 3: State the three factors affecting this decision **1. Cash flows of the project:** An investment generates a series of cash inflows and outflows over its life. Their amount and timing must be carefully analysed. The company should compare the initial expenditure and subsequent cash outflows with the cash inflows expected from operating the channel; accounting profit alone does not reveal when cash will be available.

2. Rate of return: The expected return from each investment proposal must be assessed along with its risk. Other things being equal, the proposal offering the higher rate of return is preferred. The company should therefore compare the returns expected from the available investment alternatives before committing its funds.

3. Investment criteria involved: Capital budgeting techniques evaluate proposals using factors such as the amount of investment, interest rates, expected cash flows and the expected rate of return. The company should apply suitable investment criteria to compare the proposals and select the investment that best serves its financial objective.

Step 4: Conclusion (a) The decision is a **long-term investment or capital budgeting decision**: committing funds to long-term assets that influence future earning capacity. (b) Its three factors are **cash flows of the project, rate of return and investment criteria involved**.

Quick Tip to Solve: Link "long-term assets" and "future earning capacity" with capital budgeting. For its factors, recall cash flows, return and investment criteria; the debt–equity mix belongs to the financing decision.

OR

11(b). 'Reliable Labs Ltd.' is a trusted name in diagnostic services with seven branches spread across the city of Pune. The directors of this company have projected that with the rise in health consciousness in the society and the rising burden of chronic diseases, the demand for diagnostic tests is expected to grow in future. Considering this, they decided to open branches of their diagnostic labs in Ahmedabad.

It was estimated that it will require ₹ 100 crore of additional funds. The directors have to take the decision about how much funds should be raised from equity capital and how much from debt. It will affect the overall cost of capital and the financial risk of the company.

(a) Identify and state the financial decision discussed in the above paragraph.

(b) State any three factors that should be kept in mind by the Board of Directors of 'Reliable Labs Ltd.', while taking the decision identified in (a) above. [5 marks]

Solution:

Concept:

- A financing decision concerns the amount of finance to be raised from the different long-term sources of funds, including shareholders' funds and borrowed funds.
- The financing mix determines the company's capital structure. Its choice involves balancing the cost of finance with financial risk and the ability to meet fixed payment obligations.

Step 1: Identify the financial decision from the case **(a) Financing decision:** The directors must decide "how much funds should be raised from equity capital and how much from debt." This directly identifies a financing decision, since the issue is the sources from which the additional Rs 100 crore will be obtained and their relative proportions. A financing decision is the decision about the quantum of finance to be raised from various long-term sources. In this case it involves selecting a suitable combination of equity capital and debt to finance the proposed expansion into Ahmedabad. The reference to its effect on the "overall cost of capital and the financial risk of the company" further supports this identification.

Step 2: State three factors governing the financing decision **(b) The Board should consider the following three factors:**

- **Cost:** The cost of raising funds from different sources differs. The directors should compare the cost of debt with the cost of equity and select an appropriate combination that minimises the overall cost of capital. Debt generally has a lower cost than equity, but this advantage must be considered along with the obligations borrowing creates.
- **Risk:** Debt carries a financial risk because interest must be paid and the principal repaid according to the borrowing terms, irrespective of the level of profits. Equity has no compulsory dividend payment or repayment obligation of this kind. A higher proportion of debt therefore increases financial risk, which the directors must assess before choosing the financing mix.
- **Cash-flow position of the company:** A stronger cash-flow position makes debt financing more feasible because regular interest payments and repayment of principal require cash when they fall due. The directors should assess the expected cash flows of the business and the new branches before committing to these obligations. If cash flows are weak or uncertain, reliance on debt should be lower and greater equity financing may be appropriate.

Step 3: Conclusion The decision is a **financing decision**: choosing how much of the additional Rs 100 crore to raise through equity and how much through debt. Three relevant factors are **cost, risk and the company's cash-flow position**.

Quick Tip to Solve: A choice between equity and debt identifies a financing decision. Explain each financing factor by linking it to the cost of funds or the ability to meet interest and repayment obligations.

12. Gautam Natarajan is the founder of 'Brewed Beans Coffee', a famous chain of 21 outlets in South India, selling high quality filter coffee.

He is known for his leadership and vision. He believes that human resources, are the most important assets of an organisation. He often quotes, "The right people can help you take your business to the top, the wrong people can break your business." This is the reason he considers the function of management that fills the various positions in the organisation structure to be the most critical and fundamental to organisational performance.

(a) Identify the function of management that has been emphasised by Gautam Natarajan.

(b) State any four points of importance of function identified in (a) above. [5 marks]

Solution:

Concept:

- Staffing is the management function concerned with filling and keeping filled the positions in an organisation structure. It involves finding suitable people, placing them in suitable jobs and developing them for effective performance.
- Human resources put the organisation's other resources to productive use. Effective staffing therefore connects the right person with the right job and supports the continuing success of the enterprise.

Step 1: Identify the function from the case **(a) The function is staffing.** The decisive clue is the statement that the function "fills the various positions in the organisation structure". This describes staffing directly. Gautam's belief that "The right people can help you take your business to the top" also highlights the need to obtain suitable employees, rather than merely create positions or issue instructions to existing workers.

Step 2: State four points explaining the importance of staffing **(b) Four points of importance are:**

- **Obtaining competent personnel:** Staffing helps discover and obtain competent people for the different jobs in an organisation. Recruitment attracts suitable applicants, while selection identifies people whose abilities meet the requirements of the posts to be filled.
- **Higher performance:** By putting the right person in the right job, staffing improves individual and organisational performance. Employees can use their qualifications and abilities effectively when the duties assigned to them suit their capabilities.
- **Continuous survival and growth:** Staffing helps ensure the continuing survival and growth of an enterprise through succession planning for managers. It develops a supply of capable people who can take over responsible positions when existing managers leave or when the organisation expands.

- **Optimum utilisation of human resources:** Proper staffing prevents both overstaffing and understaffing. Matching the number and capabilities of employees with the work required avoids unnecessary labour costs as well as disruption caused by a shortage of suitable personnel.

Step 3: Conclusion Gautam Natarajan emphasises **staffing**. It obtains competent employees, improves performance through the right person-job match, supports continuous survival and growth, and ensures optimum utilisation of human resources.

Quick Tip to Solve: The phrase "filling positions in the organisation structure" identifies staffing. For its importance, remember competent people, better performance, continuity and optimum use of people.