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

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

**Time Allowed: 3 Hours** **Maximum Marks: 40**

### General Instructions

(i) This question paper contains 12 questions. All questions are compulsory.

(ii) There is no overall choice. An internal choice is provided in 3 questions (Q6, Q9, Q12); attempt only one of the alternatives in such questions.

(iii) Marks for each question are indicated against it.

**1. 'Staffing ensures optimum utilisation of human resources.' Justify the statement by giving any two points.** [2 marks]

**Solution:**

**Concept:**

- Staffing involves finding the right people for the right jobs and developing their abilities so that organisational work is performed effectively.
- Optimum utilisation of human resources means using employees' capabilities fully while avoiding both shortage and unnecessary surplus of staff.

**Step 1:** Explain how staffing prevents overstaffing **Avoidance of overmanning:** Staffing estimates the number and type of employees required and compares this with the employees available. It prevents the appointment of more people than the work requires. Thus, employees do not remain idle and the organisation avoids unnecessary labour costs.

**Step 2:** Explain how staffing prevents understaffing **Avoidance of undermanning:** Staffing identifies shortages and fills vacancies with suitably qualified people at the right time. Work can therefore be distributed properly instead of overburdening a few employees or leaving positions vacant. Matching the person's abilities with the job helps make full use of those abilities.

**Step 3:** Conclusion Staffing ensures optimum utilisation of human resources by preventing overmanning as well as undermanning, thereby placing the required people in suitable jobs.

**Quick Tip to Solve:** Link optimum utilisation with the two staffing imbalances: too many employees create idleness, while too few create overwork and unfilled jobs.

**2. 'Promotion of fair practices and code of conduct in securities market' is a function performed by 'Securities and Exchange Board of India'.**

**State any two other functions of the same category.** [2 marks]

**Solution:**

**Concept:**

- SEBI's protective functions safeguard investors' interests and protect the securities market against dishonest and unfair practices.
- The phrase 'Promotion of fair practices and code of conduct in securities market' refers to the protective category of SEBI's functions. The other functions must therefore belong to this category.

**Step 1:** State the function relating to fraudulent practices **Prohibition of fraudulent and unfair trade practices:** SEBI checks and prohibits practices such as price rigging and misleading statements in the securities market. Such practices can artificially influence prices and induce investors to transact on false information. Preventing them protects investors from manipulation.

**Step 2:** State the function relating to insider trading **Control of insider trading:** SEBI controls insider trading and imposes penalties for it. Insider trading involves dealing in securities by persons possessing privileged, unpublished price-sensitive information. Restricting this practice prevents insiders from gaining an unfair advantage over ordinary investors who do not have that information.

**Step 3:** Conclusion Two other protective functions of SEBI are prohibiting fraudulent and unfair trade practices, and controlling insider trading and imposing penalties for it.

**Quick Tip to Solve:** First identify the category as protective; choose functions that prevent investor exploitation rather than functions that train intermediaries or register market participants.

**3. 'Promotion stops infusion of new blood in the organisation.' However, it is still being used as a good source of filling the vacancies internally. State any two reasons for the same.** [2 marks]

**Solution:**

**Concept:**

- Promotion is an internal source of recruitment in which an employee moves to a higher position involving greater responsibility, status and usually higher pay.
- Although promotion limits the entry of fresh talent into the promoted post, it remains useful because it motivates existing employees and makes selection more reliable.

**Step 1:** Explain the motivational benefit **Motivation and commitment:** Opportunities for promotion encourage employees to improve their performance because they can see a possibility of advancement within the organisation. Recognition of their work improves morale and commitment. Employees are encouraged to develop their abilities instead of seeking advancement only outside the organisation.

**Step 2:** Explain the reliability of internal selection **Simpler and more reliable selection:** The organisation already knows its employees' performance, abilities and work habits. It can assess their suitability for the higher post with greater confidence than in the case of unfamiliar external applicants. Employees also know the organisation and its procedures, so adjustment to the new role is easier.

**Step 3:** Conclusion Promotion remains a useful internal source because it motivates employees through career advancement and enables simpler, more reliable selection using known employee performance.

**Quick Tip to Solve:** When a question gives a limitation but asks why promotion is used, state its advantages: encouragement to employees and reliable selection from known staff.

**4. How does 'Controlling' function of management motivate the employees and help them in giving better performance ? State.** [2 marks]

**Solution:**

**Concept:**

- Controlling compares actual performance with predetermined standards and initiates corrective action wherever needed.
- One importance of controlling is improving employee motivation: clear performance standards tell employees what is expected and provide an objective basis for appraisal.

**Step 1:** Explain how standards clarify expectations **Clear standards motivate effort:** An effective

control system communicates the standards of performance to employees in advance. They know the work they are expected to do and the level of achievement required. This gives their efforts a definite direction and encourages them to work towards the stated targets instead of guessing what management expects.

**Step 2:** Link performance appraisal with better performance **Objective appraisal encourages improvement:** Employees also know the standards on the basis of which their performance will be appraised. Actual results can be compared with these standards fairly. Awareness of this objective basis encourages employees to give better performance. Feedback about a shortfall helps them recognise where improvement is needed and focus their efforts accordingly.

**Step 3:** Conclusion Controlling motivates employees by making the expected performance and the basis of appraisal clear beforehand. This encourages them to direct their efforts towards the standards and perform better.

**Quick Tip to Solve:** Link motivation under controlling to two ideas: employees know what to achieve and know how their performance will be appraised.

**5. Tanushree is working in a multinational company. Her performance is appreciated by everyone in the company. As an incentive, the company offered her to buy the shares of the company at a price that is less than the market price.**

**(a) Name and give the meaning of the incentive offered to Tanushree.**

**(b) State any two more incentives of the same type.** [3 marks]

**Solution:**

**Concept:**

- Financial incentives are incentives that can be calculated in monetary terms. They satisfy employees' financial needs and may be offered directly or indirectly.
- Co-partnership or stock option is a financial incentive under which employees are offered company shares at a price lower than the market price, creating a sense of ownership.

**Step 1:** Identify and explain Tanushree's incentive **(a) Co-partnership or stock option:** The incentive is identified by the words "offered her to buy the shares of the company at a price that is less than the market price". Under this incentive, employees are offered shares of the company at a price below the market price. It makes them part owners and gives them a feeling of ownership. It also encourages them to contribute to the company's growth, since their interests become connected with its success. This is a financial incentive because the benefit has a monetary value.

**Step 2:** State two other financial incentives **(b) Bonus:** A bonus is an incentive offered over and above the wages or salary paid to employees. It provides an additional monetary benefit and encourages employees to perform well.

**Profit sharing:** Under profit sharing, employees are given a share in the profits of the organisation. It motivates them to improve their performance and contribute to higher profits, because an increase in the organisation's profits can increase their own share.

**Step 3:** Conclusion Tanushree has been offered **co-partnership or stock option**, a financial incentive

involving the purchase of shares below their market price. Two other financial incentives are **bonus** and **profit sharing**.

**Quick Tip to Solve:** Discounted company shares indicate co-partnership or stock option. For other incentives of the same type, choose monetary benefits such as bonus and profit sharing.

**6(a). What is meant by 'Leadership' ? State any two leadership styles.** [3 marks]

**Solution:**

**Concept:**

- Leadership is the process of influencing the behaviour of people by making them strive voluntarily towards the achievement of organisational goals.
- A leadership style describes the pattern of behaviour a leader adopts while directing subordinates, particularly in making decisions and allowing their participation.

**Step 1:** Explain the meaning of leadership Leadership involves influencing people so that they willingly work towards common organisational objectives. A leader guides, motivates and inspires followers, rather than relying merely on the authority of a position. The emphasis is on voluntary effort: employees accept the leader's guidance and cooperate in achieving the group's goals.

**Step 2:** State two leadership styles

- **Autocratic or authoritarian leadership:** The leader makes decisions and gives orders without consulting subordinates. Subordinates are expected to act according to these instructions, and decision-making authority remains concentrated with the leader.
- **Democratic or participative leadership:** The leader consults subordinates and encourages their participation in decision-making. Suggestions are considered before decisions are taken, which promotes cooperation and a sense of involvement among group members.

**Step 3:** Conclusion Leadership means influencing people to strive voluntarily for organisational goals. Two leadership styles are autocratic leadership and democratic leadership.

**Quick Tip to Solve:** Include both influence and voluntary effort in the definition. Distinguish the styles by asking whether the leader decides alone or consults the group.

**OR**

**6(b). State the last two steps in the process of 'Controlling' function of management.** [3 marks]

**Solution:**

**Concept:**

- Controlling ensures that actual performance conforms to planned standards. Managers compare performance with standards, investigate significant differences and take action to achieve the desired results.
- After setting standards, measuring actual performance and comparing performance with standards,

the final two steps are analysing deviations and taking corrective action.

**Step 1:** State and explain analysing deviations **Analysing deviations:** The manager identifies the causes of the differences between actual performance and the established standards. Not every deviation needs equal attention. Through critical point control, attention is focused on key result areas; through management by exception, only significant deviations beyond permissible limits are brought to management's attention. The manager then determines whether the cause is, for example, inadequate resources, defective materials or shortcomings in the methods used. Finding the cause is necessary before choosing an effective remedy.

**Step 2:** State and explain taking corrective action **Taking corrective action:** Where deviations exceed the acceptable range, the manager acts to remove their causes and bring performance in line with standards. Appropriate action may include training employees, repairing machinery, improving supervision or making resources available. No corrective action is required when deviations remain within acceptable limits. If the investigation shows that the standards themselves are unrealistic, they should be revised so that future performance is assessed against suitable standards.

**Step 3:** Conclusion The last two steps in the controlling process are **analysing deviations** and **taking corrective action**. The first identifies why performance differs from the plan; the second remedies significant departures.

**Quick Tip to Solve:** Remember the order as "find the cause, then remove the cause": analysing deviations must precede corrective action.

**7. Explain 'Private Placement' and 'e-IPOs' as methods of floatation of new issues in the primary market.** [3 marks]

**Solution:**

**Concept:**

- The primary market deals in new securities. A company raises fresh capital by issuing securities to investors through an appropriate method of floatation.
- Private placement identifies the investors to whom securities are allotted, whereas an e-IPO uses an electronic system to offer securities to the public.

**Step 1:** Explain private placement **Private placement:** This is the allotment of securities by a company to institutional investors and some selected individuals, instead of offering them to the general public. It enables the company to raise capital more quickly and at a lower cost than a public issue. The elaborate formalities and expenses associated with inviting subscriptions from the public are reduced. Thus, the defining feature is the issue to a selected group of investors.

**Step 2:** Explain electronic initial public offers **e-IPOs:** Under an electronic initial public offer, a company proposing to issue capital to the public enters into an agreement with a stock exchange to use its online system. SEBI-registered brokers are appointed to accept applications and place orders with the company through the system. The issuer also appoints a registrar to the issue with electronic connectivity to the exchange. The online arrangement facilitates the application and order process for the new issue.

**Step 3:** Conclusion Private placement raises capital through allotment to selected institutional and individual investors. An e-IPO raises capital from the public using the stock exchange's online system and its connected intermediaries.

**Quick Tip to Solve:** Remember the distinction by asking two questions: private placement concerns *who subscribes*, while an e-IPO concerns *how the public issue is processed*.

**8. Name and give the meaning of the process which is career-oriented and designed to help the employees in the progress towards maturity and actualisation of their potential capabilities.** [3 marks]

**Solution:**

**Concept:**

- Development is the process of learning and growth through which employees improve their overall capabilities and prepare for greater responsibilities.
- Training generally improves skills for a particular job, while development has a broader, career-oriented focus on the employee's growth and potential.

**Step 1:** Identify the process from the clues The process is **development**. The expression "career-oriented" points to growth over the employee's working life. Similarly, "progress towards maturity and actualisation of their potential capabilities" indicates the broad growth of the individual, rather than the acquisition of a single skill for an immediate task. These are the identifying features of employee development in the staffing function.

**Step 2:** State its meaning and scope **Meaning:** Development refers to the learning opportunities designed to help employees grow. It covers activities that improve their performance and bring about growth in their personality, attitudes, understanding and capabilities. It helps them progress towards maturity and realise their potential. Its scope extends beyond the requirements of the present job: it prepares employees to handle future responsibilities and challenges as their careers progress. For example, learning to exercise judgement and assume wider managerial responsibility contributes to development, even when it is not confined to one current task.

**Step 3:** Conclusion The career-oriented process is **development**: learning and growth that help employees attain maturity, realise their potential capabilities and prepare for future responsibilities.

**Quick Tip to Solve:** Link "present job skill" with training and "career, maturity and potential" with development when identifying the process in a case.

**9(a). State any five remedies available to a consumer under the provisions of The Consumer Protection Act, 2019.** [5 marks]

**Solution:**

**Concept:**

- Consumer Protection deals with protecting consumers against defective goods, deficient services and unfair trade practices. A consumer whose complaint is established can obtain appropriate relief from the consumer redressal commission.
- A remedy is the relief ordered to correct the consumer's grievance. Removal of a defect, replacement, refund and compensation are distinct remedies; the appropriate order depends on the facts of the complaint.

**Step 1:** State the remedy of removing the defect **Removal of defects in goods:** The commission may order the opposite party to remove the defect pointed out by the appropriate laboratory from the goods in question. This enables the consumer to obtain the goods in the condition and quality that should originally have been supplied.

**Step 2:** State the remedy of replacing the goods **Replacement of defective goods:** The commission may direct that the defective goods be replaced with new goods of a similar description which are free from any defect. This provides a sound product in place of the faulty one, rather than merely attempting to repair the same product.

**Step 3:** State the remedy of refunding the price **Refund of the price or charges paid:** The opposite party may be ordered to return the price paid for the goods or the charges paid for the service, along with interest as appropriate. This restores the payment to the consumer when retaining the defective goods or deficient service does not provide the promised benefit.

**Step 4:** State the remedy of compensating the consumer **Compensation for loss or injury:** The commission may order payment of compensation for loss or injury suffered by the consumer due to the negligence of the opposite party. Compensation addresses the harm caused to the consumer; it is therefore distinct from simply refunding the purchase price.

**Step 5:** State the remedy of removing a service deficiency **Removal of deficiency in services:** The commission may direct the opposite party to remove the deficiency in the service in question. The service provider must rectify the shortcoming so that the consumer receives the service that was due, instead of continuing to bear the consequences of inadequate performance.

**Step 6:** Conclusion Any five available remedies are removal of defects in goods, replacement with defect-free goods, refund of the price or charges paid, compensation for loss or injury, and removal of deficiency in services.

**Quick Tip to Solve:** Remember five distinct reliefs: repair, replace, refund, compensate and rectify the service. State each separately so that refund and compensation are not counted as the same remedy.

OR

**9(b). Explain the following rights of a consumer provided under The Consumer Protection Act, 2019 :**

**(i) Right to Safety**

**(ii) Right to Seek Redressal** [5 marks]

**Solution:**

**Concept:**

- Consumer protection gives buyers rights against unsafe goods and unfair treatment. The right to safety protects life and health, while the right to seek redressal provides a remedy when a consumer suffers a wrong.
- These rights place responsibilities on producers and sellers: products should meet safety standards, and a genuine consumer grievance should receive fair settlement.

**Step 1:** Explain the right to safety **Protection against hazards:** A consumer has the right to be protected against goods and services that are hazardous to life and health. For example, a defective electrical appliance may cause an electric shock or fire; protection is needed against such risks, even if the product appears inexpensive or convenient.

**Assurance of quality and safe use:** Goods should conform to the relevant safety standards. Consumers should prefer quality-assured products carrying appropriate standardisation marks, such as the ISI mark on electrical appliances. They should also follow the manufacturer's operating and safety instructions. Thus, the right concerns the safety of the product or service, and not merely whether the buyer receives the promised quantity.

**Step 2:** Explain the right to seek redressal **Fair settlement of grievances:** A consumer has the right to seek relief against unfair trade practices, restrictive trade practices and unscrupulous exploitation. A genuine complaint should receive a fair hearing and settlement, even when the loss involved is small. A buyer need not silently accept defective goods, deficient services or an unfair charge.

**Appropriate relief:** Depending on the grievance, redressal may include removal of a defect, replacement of defective goods, refund of the price or compensation for the loss or injury suffered. For instance, if a new appliance is defective, the consumer can seek an appropriate remedy rather than bear the loss personally.

**Use of the redressal machinery:** If the seller does not resolve the grievance, the consumer can approach the appropriate consumer disputes redressal commission. Keeping the bill, warranty and relevant correspondence helps substantiate the complaint. Consumer organisations may also assist consumers in seeking relief.

**Step 3:** Conclusion The **right to safety** protects the consumer's life and health against hazardous goods and services. The **right to seek redressal** enables the consumer to obtain a fair remedy for defective goods, deficient services and unfair treatment. Together, they provide protection before harm and relief when a grievance arises.

**Quick Tip to Solve:** Link safety with prevention of hazards to life and health; link redressal with a fair remedy such as repair, replacement, refund or compensation.

**10. What is meant by a 'Stock Exchange' ? State any three functions of a 'Stock Exchange'.** [5 marks]

**Solution:**

**Concept:**

- A stock exchange is an institution that provides a platform for the purchase and sale of existing securities. It is an organised secondary market, where investors trade securities already issued by companies.
- Its functions support investment by making securities marketable, helping determine their prices and providing an orderly framework for transactions.

**Step 1:** Define a stock exchange A **stock exchange** is a body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling, or dealing in, securities. Thus, it provides an organised market in which existing shares, debentures and other eligible securities can be bought and sold. The money in these secondary-market transactions passes between investors, rather than representing a fresh issue of capital by the company.

**Step 2:** State three functions of a stock exchange

- **Providing liquidity and marketability to existing securities:** A stock exchange gives investors a ready, continuous market in which they can sell their existing securities and convert their investment into cash. A person need not hold a security indefinitely merely because the company continues to use the capital. This liquidity makes investment in securities more attractive.
- **Pricing of securities:** Security prices are determined by the forces of demand and supply through trading on the exchange. These prices reflect information about the company's performance and the general economic situation. The quoted prices help investors assess the value of their holdings and decide whether to buy, hold or sell.
- **Safety of transactions:** Dealings on a stock exchange take place within a defined legal framework and under its prescribed rules and regulations. The exchange admits listed securities subject to requirements and regulates transactions through its members. This framework promotes fair dealing and protects investors against malpractices; it does not guarantee that an investment cannot lose value.

**Step 3:** Conclusion A stock exchange is an organised institution facilitating and regulating dealings in existing securities. Three of its functions are providing liquidity and marketability, determining security prices through demand and supply, and ensuring a regulated framework for safer transactions.

**Quick Tip to Solve:** For stock-exchange functions, connect each heading to its benefit: liquidity lets investors exit, pricing guides decisions, and regulation supports fair trading.

**11. Rahul has just completed his B.Tech. and joined a leading company manufacturing inverters. To capture 70% of the market share, the company is planning to enter into the manufacturing of solar inverters. To achieve this target it requires trained workforce. The Human Resource Manager asked Rahul to give any five benefits to the organisation, with reasons, for training the workforce. State the five points of benefits of trained workforce to the organisation that might have been sent by Rahul in his reply to the Human Resource Manager.** [5 marks]

**Solution:**

**Concept:**

- Training is a systematic process of increasing employees' knowledge and skills for performing a particular job. It is an important part of the staffing function.
- The case states that the company plans to enter "the manufacturing of solar inverters" and "requires trained workforce". Rahul should therefore explain organisational benefits of training, linking each benefit to the company's expansion objective.

**Step 1:** Explain systematic learning and lower costs **Systematic learning instead of trial and error:** A planned training programme teaches the workforce the correct methods of doing the job. Workers learn through organised instruction rather than by repeatedly making mistakes on the production line. This reduces wastage of materials and effort and saves the organisation's money. For a company entering solar-inverter manufacturing, learning the required work methods systematically helps avoid avoidable errors while introducing the new product.

**Step 2:** Explain higher productivity and profits **Higher productivity:** Training improves employees' proficiency, so they can produce more output and improve its quality. Better use of resources and fewer defective products reduce the cost per unit and support higher profits. A capable workforce therefore helps the company supply the market effectively while pursuing its stated target to "capture 70% of the market share".

**Step 3:** Explain preparation of future managers **Equipping future managers:** Training develops employees' capabilities and prepares them to take up greater responsibilities. The organisation gains people who can fill managerial positions or take over when an emergency creates a vacancy. This gives the company a prepared pool of personnel and helps maintain continuity of operations during its expansion into solar inverters.

**Step 4:** Explain improved employee morale **Higher morale and lower absenteeism and turnover:** Employees who understand their work and possess the skills to perform it feel more confident and satisfied. Training thus raises employee morale, which helps reduce absenteeism and employee turnover. The company benefits from a more stable workforce and avoids repeated disruption and the associated costs of replacing and preparing employees.

**Step 5:** Explain response to technological change **Effective response to a fast-changing environment:** Training enables employees to acquire the skills needed for new technology and changing work methods. This helps the organisation adjust to technological and other environmental changes instead of being held back by outdated skills. It is particularly relevant to the proposed move into solar-inverter manufacturing, which requires the workforce to learn the demands of the new line of work.

**Step 6:** Conclusion Rahul can recommend training because it provides systematic learning with

lower costs, raises productivity and profits, equips future managers, improves morale while reducing absenteeism and turnover, and enables adaptation to technological change. Together these benefits strengthen the company's capacity to implement its expansion plan.

**Quick Tip to Solve:** For benefits "to the organisation", link every point to a business outcome: cost, productivity, managerial continuity, workforce stability or adaptation to technology.

**12(a). Sahil is the Finance Manager of 'Knitwear Ltd'. The company is engaged in the manufacturing of woolen clothes. The demand of the company's products is seasonal, whereas the production continues throughout the year. Due to the quality of its products, the company's business is spreading across the country. The company is operating at a large scale having its regional offices in Northern, Southern, Eastern and Western India. The performance of its each division is of very high level. For uninterrupted availability of raw materials, the company requires high stock levels. Not only this, to face the competition and to meet the urgent orders of the customers, the company also needs enough stock of finished goods.**

**Considering the above discussion, state five factors affecting working capital requirements of 'Knitwear Ltd'.** [5 marks]

**Solution:**

**Concept:**

- Working capital finances day-to-day operations through current assets such as raw materials, work-in-progress, finished goods and cash. The amount required depends on the scale and operating circumstances of the business.
- Financial Management: factors affecting working capital requirements include seasonal demand, scale of operations, growth prospects, availability of raw materials and the level of competition. Each factor should be linked to the evidence given in the case.

**Step 1:** Identify the demand and size factors

- **Seasonal factors:** The case states that demand is "seasonal, whereas the production continues throughout the year." Knitwear Ltd. must finance production and hold woollen garments until the selling season. Funds remain invested in inventory before sales receipts arrive, increasing its inventory-related working capital requirement.
- **Scale of operations:** The company is "operating at a large scale" with regional offices in Northern, Southern, Eastern and Western India. A larger volume of business generally requires larger stocks and cash balances to support purchases, production and daily expenses. Its overall working capital requirement is therefore higher than that of a comparable small-scale business.

**Step 2:** Link expansion and stock requirements to finance

- **Growth prospects:** Its business is "spreading across the country." Expansion increases the funds needed for additional inventories and other current assets before the resulting sales generate cash. Consequently, growing operations call for more working capital.
- **Availability of raw materials:** The company requires "high stock levels" for "uninterrupted availability of raw materials." Holding a large reserve of raw materials ties up more money in

current assets. A business needing such reserves requires more working capital than one that can obtain materials readily in small quantities whenever needed.

- **Level of competition:** To "face the competition and to meet the urgent orders of the customers," the company needs "enough stock of finished goods." Maintaining ready stock permits prompt supply and helps retain customers, but it also locks funds into finished-goods inventory. Thus, the competitive need to keep adequate finished goods increases its working capital requirement.

**Step 3:** Conclusion Five factors affecting Knitwear Ltd.'s working capital requirements are **seasonal factors, scale of operations, growth prospects, availability of raw materials and level of competition**. Each explains why funds must be available to support its production, expansion and inventory holdings.

**Quick Tip to Solve:** Match each case clue to a separate textbook factor: seasonal demand, large scale, expansion, raw-material reserves and competitive ready stock. Explain how each ties up funds in current assets.

OR

**12(b). 'Abhishek Engineering Ltd.', a leading manufacturer of steel rods wants to enter into the business of manufacturing trucks. For this, the Finance Manager has to ensure the availability of funds whenever required and its possible sources. He has to see that the company does not raise funds unnecessarily. In this way he has to match the funds requirement and their availability.**

**(i) Identify and give the meaning of the concept discussed in the above para which will help the Finance Manager to achieve his objectives.**

**(ii) Also, state any three points of importance of the concept identified in (i) above.** [5 marks]

**Solution:**

**Concept:**

- Financial planning is the process of estimating the fund requirements of a business and specifying the sources of funds. It covers both the amount needed and when it will be needed.
- Its twin objectives are to ensure that sufficient funds are available at the right time and that the firm does not raise funds unnecessarily. It therefore matches the availability of funds with their requirements.

**Step 1:** Identify the concept from the case **(i) The concept is financial planning.** The Finance Manager must estimate the finance required for entering the truck-manufacturing business and specify suitable sources from which it can be obtained. The expressions "ensure the availability of funds whenever required and its possible sources" and "does not raise funds unnecessarily" directly identify financial planning. The case also states its purpose: "match the funds requirement and their availability." Thus, the task includes anticipating both a shortage of funds and an unnecessary surplus, rather than merely arranging a loan after a need arises.

**Step 2:** State three points of importance **(ii) Financial planning is important for the following three reasons:**

- **It helps in forecasting what may happen in the future:** Financial planning examines future

situations and prepares the business to face them. By anticipating the financial implications of its plans, the company can respond more effectively when those situations arise.

- **It helps in avoiding business shocks and surprises:** Anticipating financial requirements and considering alternative arrangements makes the firm better prepared to deal with unexpected changes. It can therefore reduce the disruption caused by an unforeseen shortage of finance.
- **It helps in coordinating various business functions:** Financial plans connect the financial requirements of different activities and departments. For example, the proposed production activity and the arrangements for obtaining funds must be consistent, so that the company's plans can be carried out together.

**Step 3:** Conclusion The Finance Manager is undertaking **financial planning**, which estimates fund requirements and specifies their sources to ensure timely availability without unnecessary fund raising. Its importance includes forecasting future situations, avoiding business shocks and surprises, and coordinating the various functions of the business.

**Quick Tip to Solve:** Look for both clues together: arranging funds when needed and avoiding excess funds. This combination identifies financial planning; then state its importance separately from its objectives.