CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/2/3

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 (Q8, Q9, Q12); attempt only one of the alternatives in such questions.

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

1. 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 takes corrective action where necessary.
- Improving employee motivation is an importance of controlling: employees know the standards against which their work will be assessed.

Step 1: Explain how clear standards motivate employees **Clarifies expected performance:** An effective control system communicates the standards of performance in advance. Employees therefore know what they are expected to do and the level of performance on which they will be appraised. This clarity reduces uncertainty and encourages them to work towards the stated targets.

Step 2: Link appraisal with better effort **Encourages improved performance:** Employees know that their performance will be evaluated against these predetermined standards. When appraisal and the related recognition or rewards are based on such standards, they are encouraged to make a greater effort and improve their work. Feedback on deviations also helps them understand where improvement is needed.

Step 3: Conclusion Controlling motivates employees by making expected standards clear and providing an objective basis for evaluating their work. This encourages them to give better performance and achieve the organisation's goals.

Quick Tip to Solve: Link motivation with two ideas: employees know what is expected, and they know the standards on which their performance will be appraised.

2. 'Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries' 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 performs regulatory, developmental and protective functions to promote an orderly securities market and safeguard investors.
- Calling for information, inspections, enquiries and audits of stock exchanges and intermediaries are regulatory functions because they supervise market institutions and enforce rules.

Step 1: Identify the category described The words "inspection, conducting enquiries and audits of stock exchanges and intermediaries" describe SEBI's supervision of securities-market participants. Therefore, the question refers to its **regulatory functions**. Two other functions in this same category are stated below.

Step 2: State two other regulatory functions **Registration of brokers and other market players:** SEBI registers brokers, sub-brokers and other participants in the securities market, bringing these

intermediaries within its regulatory framework.

Registration and regulation of collective investment schemes: SEBI registers collective investment schemes and mutual funds and regulates their working. This provides oversight of institutions that pool investors' money for investment in securities.

Step 3: Conclusion Two other regulatory functions of SEBI are registering brokers, sub-brokers and other market players, and registering and regulating collective investment schemes and mutual funds.

Quick Tip to Solve: First identify inspection and audit as regulation; then choose registration or regulation functions, rather than investor education or training functions.

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 existing employee moves to a higher position carrying greater responsibility, status and usually pay.
- Although internal recruitment limits the entry of fresh talent, it offers benefits such as employee motivation and simpler selection and placement.

Step 1: State the motivational benefit **Improves motivation and commitment:** Opportunities for promotion give existing employees a chance to advance in their careers. Employees are encouraged to improve their performance because good work can lead to a higher position. This can also strengthen their loyalty to the organisation. Thus, despite the stated limitation that promotion "stops infusion of new blood", it can encourage the existing workforce to perform better.

Step 2: State the selection benefit **Simplifies selection and placement:** The organisation already knows the qualifications, abilities and work record of its existing employees. It can assess their suitability for the vacant higher post more reliably than that of an unfamiliar outside applicant. This makes selection easier and reduces the cost and uncertainty associated with searching for and selecting an external candidate.

Step 3: Conclusion Promotion remains a useful internal source because it motivates employees through career advancement and makes selection and placement simpler, since existing employees' performance and abilities are already known.

Quick Tip to Solve: For merits of promotion, connect career advancement with motivation and the known employee record with simpler, more reliable selection.

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

Solution:

Concept:

- Staffing is the managerial function of obtaining, utilising and maintaining a satisfactory and satisfied workforce.
- Optimum utilisation means making effective use of employees' abilities while avoiding both shortage of personnel and unnecessary surplus staff.

Step 1: Place the right person on the right job **Matching people with job requirements:** Through recruitment and selection, staffing identifies competent employees and places them in jobs suited to their qualifications, skills and experience. Their abilities are therefore used productively instead of being wasted in unsuitable positions. The right person-job match also improves performance and reduces avoidable errors.

Step 2: Prevent overstaffing and understaffing **Maintaining the required workforce:** Staffing assesses personnel requirements and compares them with the employees available. This avoids overmanning, which raises labour costs and leaves people underutilised, as well as shortage of personnel, which causes disruption and excessive workloads. The organisation can thus obtain the required output with an appropriate number of employees.

Step 3: Conclusion Staffing ensures optimum utilisation of human resources by matching employees to suitable jobs and maintaining the right number of people, avoiding both surplus staff and personnel shortages.

Quick Tip to Solve: Link utilisation to two questions: Is each person in the right job, and does the organisation have the right number of people?

5. 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 issued by companies to raise capital. Methods of floatation describe how these new securities are offered to investors.
- Private placement identifies a selected group of investors, whereas an e-IPO uses the online system of a stock exchange for a public issue.

Step 1: Explain private placement **Meaning:** Private placement is the allotment of securities by a company to institutional investors and some selected individuals, instead of offering them to the general public. Thus, the issue is placed with a limited group of investors.

Usefulness: A company can raise capital more quickly through this method. It is less expensive than a public issue, which involves substantial flotation costs and various mandatory and non-mandatory expenses. Companies unable to afford a public issue may therefore use private placement to access

capital, including capital from institutional investors.

Step 2: Explain electronic initial public offers **Meaning and procedure:** An e-IPO is an initial public offer made through the online system of a stock exchange. A company proposing to issue capital to the public through this system enters into an agreement with the stock exchange.

Intermediaries: The company appoints a registrar to the issue with electronic connectivity to the exchange. Brokers registered with SEBI must be appointed to accept applications and place orders with the company. The issuer can apply to list its securities on an exchange other than the one through which it offered them. The electronic platform facilitates the application and order process; the issue remains a primary-market issue of new securities.

Step 3: Conclusion Private placement raises funds by allotting new securities to selected investors. An e-IPO raises funds through a public offer using the online system of a stock exchange and the prescribed intermediaries.

Quick Tip to Solve: Distinguish these methods by asking who receives the offer in private placement and which electronic platform handles applications in an e-IPO.

6. 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 career-oriented process through which employees grow towards maturity and realise their potential capabilities.
- Staffing includes both training and development. Training improves skills for a particular job, whereas development concerns the overall growth of the employee and preparation for wider responsibilities.

Step 1: Identify the process from its purpose The process is **development**. The expressions 'career-oriented' and 'progress towards maturity and actualisation of their potential capabilities' point to the employee's overall growth over a career. The emphasis is on developing the person, rather than merely teaching a particular operation required in the present job.

Step 2: Explain the meaning of development **Overall growth:** Development comprises learning opportunities designed to help employees grow in knowledge, understanding, attitudes and capabilities. It enables them to become more mature and make fuller use of their potential.

Career orientation: Its scope extends beyond the immediate requirements of the current job. It prepares employees to handle future responsibilities and changing managerial demands as they progress in their careers. Thus, it is broader than job-specific training, although training may contribute to development.

Step 3: Conclusion The process is **development**: a career-oriented process of learning and growth that helps employees move towards maturity and realise their potential capabilities, preparing them for broader responsibilities.

Quick Tip to Solve: Link 'present-job skills' with training and 'career, maturity and potential' with development; these words reveal the distinction.

7. 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 rewards measurable in monetary terms that motivate employees to improve performance. They include direct payments as well as benefits having a monetary value.
- Co-partnership or stock option gives employees an opportunity to acquire company shares at a price below the market price, making them participants in ownership.

Step 1: Identify and explain Tanushree's incentive **(a) Co-partnership or stock option:** The company offered Tanushree 'to buy the shares of the company at a price that is less than the market price'. This is the financial incentive called co-partnership or stock option. Employees are offered shares below their market price, giving them an ownership interest in the company. The prospect of benefiting from the company's prosperity encourages commitment and better performance. Appreciation alone might indicate recognition, but the particular incentive asked about here is the discounted share offer.

Step 2: State two other financial incentives **(b) Bonus:** A bonus is a financial incentive offered over and above the wages or salary of an employee. It provides an additional monetary reward and encourages employees to contribute to organisational performance.

Profit sharing: Under profit sharing, employees receive a share in the profits of the organisation. Linking their reward with organisational profits motivates them to work efficiently and help the organisation earn higher profits. These are financial incentives because the benefits can be measured in monetary terms, just like the share-based incentive in the case.

Step 3: Conclusion Tanushree has been offered **co-partnership or stock option**, under which employees may buy company shares below the market price. Two other financial incentives are **bonus** and **profit sharing**.

Quick Tip to Solve: Discounted company shares identify co-partnership or stock option. For 'same type', list financial incentives such as bonus and profit sharing, rather than non-financial recognition.

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

Solution:

Concept:

- Leadership is an element of directing. It concerns influencing people so that their efforts are directed towards the achievement of organisational goals.
- A leadership style describes the leader's approach to making decisions, exercising authority and involving subordinates in the work of the group.

Step 1: Explain the meaning of leadership **Leadership:** Leadership is the process of influencing the

behaviour of people by making them strive voluntarily towards achievement of organisational goals. A leader guides and motivates subordinates, rather than merely issuing orders, and encourages them to contribute willingly to the common objective. The essential features in the definition are influence, voluntary effort and the attainment of organisational goals.

Step 2: State two leadership styles

- **Autocratic or authoritarian leadership:** The leader makes decisions, gives orders and expects subordinates to obey them. Decision-making authority is concentrated in the leader, with little participation by subordinates.
- **Democratic or participative leadership:** The leader consults subordinates and encourages their participation in decision-making. Their suggestions are considered while deciding how the group's work should be performed.

These are two distinct styles because they differ in the extent to which subordinates participate in decisions.

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

Quick Tip to Solve: Remember the definition through influence, voluntary effort and organisational goals; distinguish styles by who participates in decisions.

OR

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

Solution:

Concept:

- Controlling ensures that actual activities conform to the standards established in plans. The process identifies deviations and provides a basis for improving performance.
- After setting standards, measuring actual performance and comparing it with the standards, management analyses deviations and takes corrective action. These are the final two steps.

Step 1: State the step of analysing deviations **Analysing deviations:** Management examines the deviations revealed by the comparison of actual performance with standards. It determines which deviations require attention and identifies their causes. Critical point control focuses attention on key result areas that are essential to organisational success, while management by exception concentrates on significant deviations beyond acceptable limits. For example, management should investigate a substantial shortfall in output to determine whether it arose from defective machinery, inadequate training or another cause. Identifying the cause helps management choose an appropriate remedy.

Step 2: State the step of taking corrective action **Taking corrective action:** Where deviations exceed the acceptable range, management takes action to remove their causes and bring actual performance into line with standards. The action depends on the problem identified: machinery may need repair, employees may need training, or supervision may need improvement. If the standards themselves are unrealistic, they may need revision. No corrective action is necessary when the deviation is within

acceptable limits. Thus, this step converts the findings of control into practical improvements.

Step 3: Conclusion The last two steps in the controlling process are **analysing deviations** and **taking corrective action**, in that order.

Quick Tip to Solve: After comparing actual performance with standards, first find why an important deviation occurred; then act on its cause.

9(a). Explain the following rights of a consumer provided under The Consumer Protection Act, 2019 :
(i) Right to be Informed
(ii) Right to be Heard [5 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices and enables them to protect their interests when buying goods or hiring services.
- The right to be informed gives consumers the material information needed for an informed purchase, while the right to be heard ensures that their complaints and interests receive consideration.

Step 1: Explain the right to be informed **(i) Right to be Informed:** A consumer has a right to complete information about the product or service intended to be purchased. This includes its quality, quantity, potency, purity, standard and price. Such information protects the consumer against unfair trade practices and helps the buyer compare alternatives before making a choice.

Relevant product particulars: For example, the package of a food product should provide information such as its ingredients, quantity, date of manufacture, expiry or best-before information and maximum retail price, as applicable. A consumer can use these details to judge suitability and avoid an expired or overpriced product.

Informed decision: Information about proper use, precautions and relevant terms of a service also enables the consumer to use the purchase appropriately. The essential point is that the buyer should have the facts needed to decide, rather than depend on incomplete or misleading claims by the seller.

Step 2: Explain the right to be heard **(ii) Right to be Heard:** A consumer has the right to present a complaint or grievance and to have consumer interests receive due consideration at appropriate forums. The consumer must have an opportunity to raise concerns about unsatisfactory goods, deficient services or unfair treatment.

Complaint mechanism: Business firms should provide complaint cells or other arrangements through which consumers can communicate their problems and have them attended to. For example, a buyer of a defective appliance can report the defect to the company's customer grievance cell and seek consideration of the complaint.

Representation of interests: Consumer organisations help consumers put forward their grievances and represent their interests. The right therefore gives consumers a voice in matters affecting them. It should be distinguished from the right to seek redressal, which concerns obtaining an appropriate remedy or relief for the loss or injury suffered.

Step 3: Conclusion The right to be informed enables a consumer to obtain complete and relevant

product or service information before choosing. The right to be heard enables the consumer to express grievances and have those grievances and interests duly considered at appropriate forums.

Quick Tip to Solve: Link "informed" with product facts such as quality, quantity and price; link "heard" with a voice, complaint cells and consideration of consumer interests.

OR

9(b). (i) Give the meaning of a 'consumer' as per the Consumer Protection Act, 2019.
(ii) State when can a grievance be directly redressed in 'State Commission' and 'National Commission' by the aggrieved party. [5 marks]

Solution:

Concept:

- Consumer Protection concerns the protection of buyers of goods and users of services against defective goods, deficient services and unfair trade practices.
- Under the Consumer Protection Act, 2019, consumer status depends on obtaining goods or services for consideration. The statutory definition also covers specified approved users and beneficiaries.
- The three-tier consumer redressal machinery comprises the District Commission, State Commission and National Commission. Original jurisdiction determines where a complaint can be filed directly, as distinct from an appeal against a lower commission's order.

Step 1: Define a consumer buying goods **Buyer of goods:** A consumer is a person who buys goods for a consideration that has been paid or promised, partly paid and partly promised, or is payable under a system of deferred payment. It includes a user of those goods when the goods are used with the buyer's approval. A person obtaining goods for resale or a commercial purpose is excluded. However, goods bought and used exclusively to earn one's livelihood through self-employment are not treated as a commercial purchase for this exclusion.

Step 2: Include consumers of services **Hirer or recipient of services:** The definition also includes a person who hires or avails of services for a consideration paid or promised, partly paid and partly promised, or payable under deferred payment. It includes a beneficiary who uses the services with the approval of the person hiring or availing of them. Services availed of for a commercial purpose are excluded. Buying goods or obtaining services through electronic means, teleshopping, direct selling or multi-level marketing also falls within the definition; the medium of the transaction does not remove consumer protection.

Step 3: State the State Commission's direct jurisdiction **State Commission:** Under the Consumer Protection Act, 2019 framework prescribed in the textbook for this paper, the aggrieved consumer can directly file a complaint before the State Commission where the value of goods or services paid as consideration **exceeds Rs 1 crore but does not exceed Rs 10 crore**. Thus, the lower boundary is excluded and the upper boundary is included. This is its original pecuniary jurisdiction, rather than its power to hear appeals against District Commission orders.

Step 4: State the National Commission's direct jurisdiction **National Commission:** Under the same framework, a complaint can be filed directly before the National Commission where the value of

goods or services paid as consideration **exceeds Rs 10 crore**. A complaint with a value exactly equal to Rs 10 crore therefore belongs to the State Commission, while a value above that boundary falls within the National Commission's original jurisdiction. The question asks about direct redressal, so the monetary basis for an original complaint is the deciding point.

Step 5: Conclusion A consumer is an eligible buyer of goods or hirer or recipient of services for consideration, including approved users and beneficiaries, subject to the stated exclusions. For direct complaints under the Act's textbook framework, the State Commission covers consideration above Rs 1 crore and up to Rs 10 crore, while the National Commission covers consideration above Rs 10 crore.

Quick Tip to Solve: Separate original complaints from appeals. For this Act-based textbook classification, remember the boundaries as above Rs 1 crore to Rs 10 crore for State, and above Rs 10 crore for National.

10. What is meant by 'Financial Market' ? State any four functions of 'Financial Market'. [5 marks]

Solution:

Concept:

- A financial market is a market for the creation and exchange of financial assets. It connects savers who have surplus funds with those who require funds for productive investment.
- The NCERT functions of financial markets are mobilisation of savings and their allocation to productive uses, facilitating price discovery, providing liquidity to financial assets, and reducing the cost of transactions.

Step 1: Define a financial market A **financial market** is a market for the creation and exchange of financial assets, such as shares and debentures. It facilitates the transfer of funds from savers to investors. Thus, a household's savings can be made available to a business that needs finance, while the saver receives a financial asset representing the investment.

Step 2: State the four functions

- **Mobilisation of savings and channelling them into the most productive uses:** Financial markets bring together savers and investors. They provide savers a choice of investment avenues and help transfer surplus funds to productive business activities. This assists capital formation and the efficient allocation of scarce financial resources.
- **Facilitating price discovery:** The demand for funds comes from business firms, while the supply comes from households and other savers. The interaction of demand and supply in a financial market helps determine the price of the financial asset being traded. Buyers and sellers can therefore transact at a price discovered through the market.
- **Providing liquidity to financial assets:** Financial markets provide a ready market in which financial assets can be bought and sold. An investor who needs cash can sell an existing asset rather than wait until its maturity, where such trading is available. This makes financial investments more liquid and encourages savers to invest.
- **Reducing the cost of transactions:** Financial markets supply useful information about securities, their prices and the parties interested in trading. They save buyers and sellers the time, effort and money otherwise spent searching for one another and gathering information, thereby lowering

transaction costs.

Step 3: Conclusion A financial market enables the creation and exchange of financial assets. Its four functions are to mobilise and allocate savings, facilitate price discovery, provide liquidity, and reduce transaction costs.

Quick Tip to Solve: Recall the four functions in the order: savings, price, liquidity and cost. Explain how each helps savers or users of funds rather than merely listing its heading.

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 the systematic development of employees' knowledge, skills and abilities for a particular job. It equips them to perform the work correctly and efficiently.
- Staffing: benefits of training and development to the organisation include economy, higher productivity, future managerial talent, improved morale and adaptation to change.

Step 1: Relate training to the company's expansion The company is "planning to enter into the manufacturing of solar inverters" and, to achieve its target, "requires trained workforce". Training will prepare employees for the processes and skills needed for this expansion. Rahul could send the following five benefits to the Human Resource Manager.

Step 2: State the five organisational benefits with reasons

- **Systematic learning and economy:** Training provides organised learning rather than leaving workers to learn through trial and error. Employees learn correct methods from the outset, reducing wasted effort, materials and money while learning to manufacture the new product.
- **Higher productivity and profits:** Trained employees acquire the skills required to perform their jobs better. Their improved performance increases both the quantity and quality of output, helping the organisation improve productivity and earn higher profits.
- **Preparation of future managers:** Training equips employees with knowledge and capabilities for greater responsibilities. The organisation therefore develops a pool of employees who can take up future managerial positions, helping it meet its personnel needs during expansion.
- **Improved employee morale and lower turnover:** Training builds employees' confidence in their ability to perform their work. This raises morale and job satisfaction, thereby reducing absenteeism and employee turnover and helping the organisation retain a dependable workforce.
- **Effective response to change:** Training helps employees learn to handle new machinery, equipment and methods. Since the case describes a move into solar-inverter manufacturing, such preparation will help the workforce adapt to the technological and other changes involved in the

company's new activity.

Step 3: Conclusion Rahul's reply can therefore recommend training for systematic and economical learning, greater productivity and profits, preparation of future managers, improved morale with lower absenteeism and turnover, and effective adaptation to change. Each benefit supports the organisation's ability to develop the trained workforce needed for its expansion.

Quick Tip to Solve: When asked for benefits to the organisation, pair each textbook heading with its business result: lower waste, higher output, future managers, workforce stability or easier adaptation.

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 business operations, including the holding of raw materials and finished goods. Its requirement depends on the operating conditions of the enterprise.
- For a case-based answer, identify each factor from the situation and explain how it affects the amount of funds tied up in current assets. Five relevant factors for Knitwear Ltd. are explained below.

Step 1: Identify the demand and expansion factors

- **Seasonal factors:** The case states that "the demand of the company's products is seasonal, whereas the production continues throughout the year." Working capital requirements are generally higher during the peak selling season because more funds are needed to support increased business activity. Here, year-round production also means that finished woollen clothes accumulate before the season, tying up funds in inventory until they are sold.
- **Growth prospects:** The company's "business is spreading across the country." An enterprise with higher growth prospects requires more working capital to support the larger volume of production and sales expected in future. Knitwear Ltd. must therefore arrange funds for the additional stocks and other current assets needed as its business expands.

Step 2: Identify the scale and inventory factors

- **Scale of operations:** The company is "operating at a large scale" with regional offices in Northern, Southern, Eastern and Western India. A larger scale normally requires a larger absolute amount of inventory and other current assets, and therefore more working capital, than a small enterprise

needs.

- **Availability of raw material:** The case says, "For uninterrupted availability of raw materials, the company requires high stock levels." Where continuous supplies cannot be ensured without holding a substantial reserve, more money remains invested in raw-material inventory. Knitwear Ltd.'s need to maintain these high stocks increases its working capital requirement; regular and readily available supplies would permit smaller stocks.
- **Level of competition:** The company needs enough finished goods "to face the competition and to meet the urgent orders of the customers." Intense competition may compel a business to maintain larger finished-goods inventories so that orders can be supplied promptly. These stocks tie up funds and increase the working capital required by Knitwear Ltd.

Step 3: Conclusion The five factors are **seasonal factors, growth prospects, scale of operations, availability of raw material, and level of competition**. The seasonal production-sales pattern and the need to finance expansion and substantial inventories explain Knitwear Ltd.'s working capital needs.

Quick Tip to Solve: Link each factor to a distinct clue: seasonal demand, countrywide expansion, large scale, raw-material stocks, and finished-goods stocks held to meet competition.

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 funds required by a business and determining their possible sources. It prepares a financial blueprint for future operations.
- Its twin objectives are to ensure that funds are available whenever required and to ensure that the business does not raise funds unnecessarily. It therefore matches the requirement of funds with their availability.

Step 1: Identify and explain the concept in the case **(i) Financial planning:** The Finance Manager of Abhishek Engineering Ltd. is undertaking financial planning. The case says that he must ensure the "availability of funds whenever required and its possible sources" and that the company "does not raise funds unnecessarily". These statements directly express the two objectives of financial planning. Financial planning means estimating how much finance the business will need and deciding the possible sources from which it can be obtained. For the proposed entry into truck manufacturing, the manager has to estimate future fund requirements and arrange suitable finance in time. Matching

the timing and amount of funds with the business's needs helps avoid both a shortage that delays operations and idle surplus funds that add unnecessary cost.

Step 2: State three points of importance of financial planning **(ii) Importance:**

- **Helps in facing eventualities:** Financial planning forecasts what may happen in the future under different business situations. The firm can prepare alternative financial plans to meet unforeseen circumstances, making it better equipped to deal with uncertainty while entering the new business.
- **Helps avoid business shocks and surprises:** By anticipating future financial requirements and possible shortages or surpluses, financial planning enables the company to prepare in advance. It can arrange the required finance before commitments fall due instead of being caught unprepared by a sudden need for funds.
- **Helps in coordination of various business functions:** Financial planning connects the plans of different functions by making their financial implications explicit. Production, purchases and other operating plans must fit the funds available. This helps the proposed truck-manufacturing activities operate within a coordinated overall plan rather than separate, incompatible departmental plans.

Step 3: Conclusion The concept is **financial planning**, which estimates fund requirements and determines their possible sources so that funds are available when needed without unnecessary fund raising. It helps the company face eventualities, avoid business shocks and surprises, and coordinate its business functions.

Quick Tip to Solve: When a case links timely availability of funds with avoiding unnecessary fund raising, identify financial planning; state its meaning before explaining the requested points of importance.