CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/3/1

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. Identify and state the step in the process of staffing which creates a pool of prospective job seekers for vacancies in the organisation. [2 marks]

Solution:

Concept:

- Staffing places the right person in the right job through activities such as recruitment and selection.
- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.

Step 1: Identify the staffing step The step is **recruitment**. The words 'creates a pool of prospective job seekers' indicate attracting people to apply for available vacancies, rather than choosing a person from those who have already applied.

Step 2: State what recruitment involves Recruitment involves identifying suitable sources of labour supply, assessing those sources and inviting applications from potential employees. It brings together a pool of interested applicants from which the organisation can later select suitable candidates. Thus, it is a positive process of encouraging applications; the screening and final choice belong to selection.

Step 3: Conclusion The required step is **recruitment**: searching for prospective employees and encouraging them to apply for vacancies in the organisation.

Quick Tip to Solve: Link 'pool of applicants' with recruitment; link 'choosing the best applicant' with selection.

2. 'Gujarat Textiles Ltd.' needs to raise a fund of ₹ 80 crore. It cannot afford the cost of a public issue, so it was decided to allot its equity shares to institutional investors like LIC and some selected investors.
Identify and explain the method of floating new issues used by 'Gujarat Textiles Ltd'. [2 marks]

Solution:

Concept:

- The primary market enables a company to raise fresh capital by issuing new securities.
- 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.

Step 1: Identify the method from the case Gujarat Textiles Ltd. uses **private placement**. The decisive evidence is that it allots equity shares to 'institutional investors like LIC and some selected investors'. This is a restricted group of subscribers rather than a public invitation to subscribe.

Step 2: Explain why this method suits the company Under private placement, the company raises funds by directly allotting its securities to selected investors. It avoids the substantial expenses associated with a public issue, such as preparing a prospectus, advertising and flotation costs. Since the company 'cannot afford the cost of a public issue', this less expensive method allows it to raise the required Rs 80 crore from a limited group of investors.

Step 3: Conclusion The method is **private placement**: allotting new securities to institutional investors and selected individuals, which saves the costs of a public issue.

Quick Tip to Solve: An allotment to LIC and selected investors signals private placement; an invitation to the general public signals a public issue.

3. Give the meaning of 'Autocratic style of Leadership'. [2 marks]

Solution:

Concept:

- Leadership is the process of influencing the behaviour of people to make them strive willingly towards organisational goals.
- Autocratic leadership centralises decision-making authority in the leader, who directs subordinates through orders and expects compliance.

Step 1: State the meaning of the style In the **autocratic style of leadership**, the leader gives orders and expects subordinates to obey them. The leader determines the policies and makes decisions concerning the work without consulting subordinates or involving them in the decision-making process.

Step 2: Explain the relationship with subordinates The leader retains authority and close control over how tasks are carried out, rather than sharing decision-making power with the group. Communication is primarily one-way, from the superior to subordinates, as instructions are issued for implementation. Thus, employees have little freedom to decide what is to be done or how it should be done; they are expected to follow the leader's directions.

Step 3: Conclusion Autocratic leadership means a leader-centred style in which the leader takes decisions, gives orders and expects obedience from subordinates.

Quick Tip to Solve: Remember autocratic leadership through three linked ideas: centralised authority, one-way orders and expected obedience.

4. One of the functions of management completes one cycle of management process and improves planning in the next cycle in the light of the problems that were identified in the existing plans. Identify and state the function of management discussed above. [2 marks]

Solution:

Concept:

- Controlling is the management function that ensures that actual activities conform to the plans and standards laid down by the organisation.
- Planning and controlling are interdependent: plans provide standards for control, while control provides feedback for future planning.

Step 1: Identify the function from its feedback role The function is **controlling**. The clue is that it 'completes one cycle of management process' and improves the next cycle's planning by identifying problems in the existing plans. Control compares what actually happened with what was intended and brings these problems to management's attention.

Step 2: State the meaning of controlling Controlling means measuring actual performance, comparing it with predetermined standards, analysing deviations and taking corrective action so that organisational goals are achieved. The information revealed by this comparison also helps managers revise unsuitable standards or improve future plans.

Step 3: Conclusion The function discussed is **controlling**: it checks performance against planned standards and takes corrective action, thereby supplying feedback for the next planning cycle.

Quick Tip to Solve: Link 'standards, deviations and corrective action' to controlling; feedback from control becomes an input to the next plan.

5. The Human Resource Department of 'Oberoi's Airlines Pvt. Ltd.' has recently selected 11 pilots. The new pilots have to handle sophisticated equipment. For this, the Human Resource Manager wants to design an off-the-job training programme which will help them to improve their performance on their jobs.

Identify and explain the method of training that can be used by the company in the given situation.

[3 marks]

Solution:

Concept:

- Training improves an employee's knowledge and skills for performing a particular job. Off-the-job training takes place away from the actual work position.
- Vestibule training reproduces the actual work environment in a training setting, where employees learn to use the equipment they will handle on the job.

Step 1: Identify the suitable off-the-job method The method is **vestibule training**. The pilots must 'handle sophisticated equipment', and the manager wants an 'off-the-job training programme'. These clues indicate practice in a reproduced work environment rather than learning while carrying out normal flight duties.

Step 2: Explain how the training is arranged In vestibule training, the actual work environment is reproduced in a classroom or separate training area. Trainees use the same kind of equipment and materials that they will use at work, under the guidance of trainers. For the newly selected pilots, a simulated cockpit can reproduce the controls and operating situations of an aircraft so that they can practise procedures before undertaking actual flying duties.

Step 3: Explain why it suits the pilots This method is appropriate when employees must handle sophisticated machinery or equipment. It lets the pilots learn the controls, repeat procedures and correct errors in a controlled setting without disrupting regular airline operations or exposing passengers and aircraft to the risks of initial practice. The practice improves their ability to operate the equipment when they move to the actual job.

Step 4: Conclusion Oberoi's Airlines Pvt. Ltd. should use **vestibule training**, reproducing the pilots' working environment in a separate training setting to develop skill in handling sophisticated equipment.

Quick Tip to Solve: When off-the-job training recreates the workplace and its sophisticated equipment, identify vestibule training rather than apprenticeship or classroom lectures alone.

6(a). What is meant by financial incentives ? State any two financial incentives. [3 marks]

Solution:

Concept:

- Directing includes motivating employees to contribute willingly towards organisational objectives. Incentives are rewards offered to encourage better performance and satisfy employees' needs.
- Financial incentives are incentives that can be measured in monetary terms. They may be paid directly as money or provided indirectly through benefits having a monetary value.

Step 1: Define financial incentives **Meaning:** Financial incentives are monetary rewards or benefits offered to employees to motivate them to improve their performance. They help satisfy financial needs and may supplement the employee's regular remuneration. Their distinguishing feature is that their value can be expressed in money.

Step 2: State two financial incentives

- **Pay and allowances:** Salary is a basic monetary incentive. It includes basic pay and allowances, such as dearness allowance, together with other applicable components of remuneration. An increase in pay or allowances raises the employee's monetary earnings and can encourage improved performance.
- **Productivity-linked wage incentives:** Under these schemes, wages or incentive payments are linked to an employee's productivity. An employee who produces more, according to the scheme's specified conditions, earns a higher reward. The direct connection between output and earnings encourages the employee to improve productivity.

Step 3: Conclusion Financial incentives are rewards measurable in money. Pay and allowances and productivity-linked wage incentives are two examples that can motivate employees by improving their monetary earnings.

Quick Tip to Solve: First define the monetary nature of the incentive, then name and briefly explain two distinct schemes; do not substitute a non-financial reward such as recognition.

OR

6(b). State any three benefits of training to employees. [3 marks]

Solution:

Concept:

- Training is the systematic process of increasing an employee's knowledge and skills for doing a particular job. It develops the competence needed to perform work effectively.
- Training benefits employees personally as well as improving organisational performance. Employee benefits include career growth, higher earnings and safer working practices.

Step 1: Explain the benefit for career growth

- **Better career opportunities:** Training improves employees' skills and knowledge. With greater competence, they become better equipped to handle their present responsibilities and undertake

more demanding work. These improved abilities can help them obtain promotion and better career opportunities in the future.

Step 2: Explain the earnings and safety benefits

- **Increased earnings:** Training improves employees' efficiency and performance. Employees who can carry out their work more effectively are in a better position to earn higher remuneration, particularly where rewards are linked to performance. Thus, the benefit is the opportunity for improved earnings arising from improved competence.
- **Greater safety:** Training teaches employees the correct methods of handling machines, equipment and materials. It helps them recognise and avoid unsafe practices while working. Consequently, employees become less prone to workplace accidents and can perform their duties more safely.

Step 3: Conclusion Three benefits of training to employees are better career opportunities, the opportunity for increased earnings through improved performance, and greater safety through correct working methods.

Quick Tip to Solve: For employee benefits, focus on the worker's career, earnings and safety; avoid replacing these with organisational benefits such as lower wastage or higher profits.

7. State any three factors affecting dividend decision of a company. [3 marks]

Solution:

Concept:

- A dividend decision determines how much of a company's profit is distributed to shareholders and how much is retained in the business for future requirements.
- While deciding the dividend, management considers the earnings available, the need for stability in distributions and the availability of cash. Profit and cash are related but are not the same thing.

Step 1: State the earnings-related factors **Amount of earnings:** Dividends are paid out of current and past earnings. Therefore, the amount of earnings available is a major determinant of the dividend decision. Other things remaining the same, a company with higher earnings can declare a higher dividend, whereas limited earnings restrict its capacity to distribute profits.

Stability of earnings: A company with relatively stable earnings is better placed to declare a higher dividend than one with fluctuating earnings. Stable earnings make future profits more predictable, so management can be more confident about maintaining distributions. A company with uncertain earnings generally retains a larger part as a safeguard.

Step 2: State the liquidity-related factor **Cash flow position:** Payment of dividend involves an outflow of cash. Hence, the company must have adequate cash available to pay it. Even a profitable company may be unable to declare a large dividend if its funds are tied up in receivables or other assets. A sound cash flow position supports dividend payment.

Step 3: Conclusion Three factors affecting the dividend decision are the amount of earnings, stability of earnings and cash flow position. Together, they determine the capacity to distribute profits and sustain the proposed dividend.

Quick Tip to Solve: Keep amount of earnings separate from stability of earnings: one concerns how much profit exists, while the other concerns how reliably it recurs. Cash availability is a third, distinct factor.

8. Explain how controlling helps in 'making efficient use of resources' and 'improving employee motivation'. [3 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, analysing deviations and taking corrective action so that organisational objectives are achieved.
- By specifying performance standards and examining how work is done, controlling guides both the use of organisational resources and employees' efforts towards the desired results.

Step 1: Explain efficient use of resources **Making efficient use of resources:** Controlling requires each activity to be performed according to predetermined standards. Actual use of resources and actual output are compared with these standards. Deviations reveal waste, excessive consumption or other inefficiencies, allowing management to identify the cause and take corrective action.

As a result, resources are used in the most effective and efficient manner. For example, if material used for a given level of output exceeds the standard, management can investigate and reduce avoidable wastage. Controlling therefore helps prevent waste and spoilage and makes better use of physical, financial and human resources.

Step 2: Explain improvement in employee motivation **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and the standards of performance against which they will be appraised. Clear expectations reduce uncertainty about their responsibilities and the results required of them.

Employees can direct their efforts towards meeting these known standards. An objective basis for appraisal also helps them understand how their performance will be judged. This clarity encourages them to perform better and thus improves their motivation.

Step 3: Conclusion Controlling promotes efficient resource use by detecting deviations and preventing waste. It improves employee motivation by clearly communicating expected performance and the standards used for appraisal, encouraging employees to work towards them.

Quick Tip to Solve: For resource efficiency, connect standards with reduced waste; for motivation, connect clear expectations and known appraisal standards with better employee effort.

9(a). State any five reliefs available to a consumer if the consumer court is satisfied about the genuineness of the complaint. [5 marks]

Solution:

Concept:

- Consumer Protection: The consumer redressal machinery provides remedies when a consumer's complaint about defective goods, deficient services or other unfair treatment is found to be genuine.
- A relief is the corrective order that the consumer court can pass against the opposite party. The appropriate remedy depends on the defect, the loss suffered and the circumstances of the complaint.

Step 1: State removal of the defect or deficiency **Removal of defect or deficiency:** The court may

direct the opposite party to remove the defect in the goods or the deficiency in the services. Thus, a consumer need not accept defective performance merely because payment has already been made; the supplier can be required to put the goods or service right.

Step 2: State replacement of defective goods **Replacement of goods:** The court may order the replacement of defective goods with new goods of similar description that are free from defects. This relief gives the consumer a proper substitute for the defective product rather than leaving the consumer with an unusable purchase.

Step 3: State refund of the amount paid **Refund of price or charges:** The court may direct the opposite party to return the price paid for the goods or the charges paid for the service. This restores the amount that the consumer spent on the unsatisfactory purchase or service.

Step 4: State compensation for the loss suffered **Compensation for loss or injury:** The court may order payment of a reasonable amount as 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, in addition to any remedy concerning the goods or service itself.

Step 5: State discontinuance of unfair practices **Discontinuance of unfair or restrictive trade practices:** The court may direct the opposite party to discontinue an unfair or restrictive trade practice and not repeat it in the future. This relief checks the offending business conduct and helps prevent consumers from suffering the same unfair treatment again.

Step 6: Conclusion Any five available reliefs are removal of defects or deficiencies, replacement with defect-free goods, refund of the price or service charges, reasonable compensation for loss or injury, and discontinuance of unfair or restrictive trade practices.

Quick Tip to Solve: Remember the remedies as repair, replace, refund, compensate and stop the unfair practice. State each as an order the consumer court can pass.

OR

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

(i) Right to safety

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

Solution:

Concept:

- The Consumer Protection Act, 2019 recognises rights that protect consumers from exploitation and help them make informed purchase and use decisions.
- The right to safety concerns protection against hazardous goods and services, while the right to consumer education concerns the knowledge and skills needed to exercise consumer rights.

Step 1: Explain the right to safety **(i) Right to safety:** A consumer has the right to be protected against the marketing of goods and services that are hazardous to life and property. Goods such as electrical appliances must be safe when used as directed; a defective appliance may cause an electric shock or fire and endanger both the user and property.

The right therefore requires attention to the safety and quality of products, not merely their price or appearance. Consumers should buy quality-marked products where applicable, such as electrical appliances carrying the ISI mark, and read the instructions and safety warnings before use. Such precautions help consumers exercise this right, while the underlying protection is against unsafe goods and services being marketed to them.

Step 2: Explain the right to consumer education **(ii) Right to consumer education:** A consumer has the right to acquire knowledge and skills and to be a well-informed consumer throughout life. Consumers should be aware of the rights and remedies available to them, as well as their responsibilities, so that ignorance does not make them easy targets of exploitation.

Consumer education enables a buyer to recognise misleading claims, examine labels and quality marks, preserve proof of purchase and know where and how to seek redressal when a grievance arises. Government agencies, consumer organisations and educational institutions can spread such awareness through publications, programmes and other educational activities. An educated consumer can make an informed choice and take appropriate action rather than silently accepting an unfair practice.

Step 3: Conclusion The right to safety protects consumers' life and property against hazardous goods and services. The right to consumer education equips them with continuing knowledge and skills to understand and exercise their rights and seek remedies against exploitation.

Quick Tip to Solve: Link safety to hazards to life and property; link consumer education to awareness, informed decisions and knowing how to exercise rights.

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 links savers who supply funds with borrowers or investors who require funds.
- The NCERT functions of financial markets concern the allocation of savings, discovery of financial-asset prices, liquidity and the cost of transactions.

Step 1: Define financial market A **financial market** is a market for the creation and exchange of financial assets, such as shares and debentures. It brings together those who have surplus funds and those who need funds. Thus, savings can move from households and other savers to business enterprises for productive investment.

Step 2: State the mobilisation and price-discovery functions

- **Mobilisation of savings and channelling them into the most productive uses:** A financial market facilitates the transfer of savings from savers to investors. It gives savers a choice of investments and helps direct their surplus funds towards productive activities, rather than leaving the savings idle.
- **Facilitating price discovery:** The interaction of demand and supply determines the price of a financial asset. Savers supply funds, while businesses demand funds; their interaction in the

financial market helps establish the prices at which financial assets are bought and sold.

Step 3: State the liquidity and transaction-cost functions

- **Providing liquidity to financial assets:** Financial markets provide a mechanism for the purchase and sale of financial assets. Investors can sell their holdings and convert them into cash when required. This liquidity makes investment more attractive because funds need not remain tied up until the asset's maturity.
- **Reducing the cost of transactions:** Financial markets provide information about the securities being traded, their prices and the availability of buyers and sellers. This saves investors the time, effort and money they would otherwise spend locating counterparties and obtaining information before a transaction.

Step 4: Conclusion A financial market enables the creation and exchange of financial assets. Its four functions are mobilising and productively channelling savings, facilitating price discovery, providing liquidity and reducing transaction costs.

Quick Tip to Solve: Recall the four functions as savings, price, liquidity and cost. Explain the financial market's role under each heading rather than listing only examples of securities.

11. The Human Resource Manager of Alfa Ltd., a leading air-conditioner manufacturer requires employees for various posts. He wanted to opt for a source of recruitment where background of potential candidates is sufficiently known. He knew that applicants introduced by present employees or their friends and relatives may prove to be a good source of recruitment.

(i) Identify the external source of recruitment discussed in the above paragraph.

(ii) State any four advantages of external sources of recruitment. [5 marks]

Solution:

Concept:

- Staffing includes recruitment, which means searching for prospective employees and stimulating them to apply for jobs in the organisation. External recruitment attracts candidates from outside the existing workforce.
- Recommendations of employees is an external source because the candidates recommended by present employees, their friends or relatives are outsiders. Existing employees provide information about such candidates, making their backgrounds better known.

Step 1: Identify the source from the case **(i) Recommendations of employees.** The clue is that "applicants introduced by present employees or their friends and relatives" may be a good source. The Human Resource Manager wants candidates whose background is sufficiently known. Employees can recommend people they know and give information about their suitability. The recommended applicants are external candidates even though existing employees introduce them.

Step 2: State four advantages of external recruitment **(ii) The four advantages are:**

- **Qualified personnel:** Management can attract qualified and trained people from outside the organisation. This helps it fill positions requiring qualifications or skills that may not be available

among existing employees.

- **Wider choice:** External sources provide a large pool of applicants. The organisation can compare their qualifications, experience and suitability and select the candidates best suited to its requirements.
- **Fresh talent:** Recruiting outsiders brings new ideas and new ways of doing things into the organisation. This allows it to benefit from the skills and experience of people developed elsewhere.
- **Competitive spirit:** When existing employees see that the organisation recruits capable outsiders, they are encouraged to improve their performance and capabilities. Competition with new employees can motivate them to work harder.

Step 3: Conclusion The source is **recommendations of employees**. External recruitment offers qualified personnel, a wider choice, fresh talent and a competitive spirit among employees. These advantages concern recruiting from outside the organisation, while the case identifies the particular source used to reach those outsiders.

Quick Tip to Solve: In a recruitment case, identify who becomes the applicant: an outsider recommended by an employee is external recruitment; moving an existing employee is an internal source.

12(a). NB Ltd. is India's largest manufacturer of cement. Its operations are spread throughout the country with 17 modern cement factories. It has a work force of 9,000 persons.

Since its inception, the company has been a trendsetter for the cement industry. The company is planning to grow in the long-run and wants to double its capacity in the next 3 years.

For this the Finance Manager has to decide about the quantum of finance to be raised from various long-term sources. For this he needs to identify various available sources of funds and the proportion of funds from each source.

(i) Identify the financial decision to be taken by the Finance Manager.

(ii) State any four factors which would affect the decision identified in (i) above. [5 marks]

Solution:

Concept:

- Financial Management: a financing decision concerns the amount of finance to be raised from different long-term sources and the relative proportion of these sources in the capital structure.
- Debt normally carries contractual interest and repayment obligations, while equity represents owners' funds. The finance manager balances the cost of funds against risk and the firm's ability to meet financial obligations.

Step 1: Identify the decision from the source-of-funds clue **(i) Financing decision.** NB Ltd.'s Finance Manager must choose the long-term sources from which funds will be raised and determine the proportion obtained from each. The decisive words are 'quantum of finance to be raised from various long-term sources' and 'the proportion of funds from each source'. Thus, the issue is how to finance the planned expansion. Selecting the assets or projects in which to invest would instead be an investment decision.

Step 2: State four factors affecting the financing decision **(ii) Cost:** The cost of raising funds differs

across sources. The Finance Manager should compare these costs and seek an appropriate combination of sources with the lowest feasible cost, taking other considerations into account.

Risk: Debt involves financial risk because interest must be paid and the principal repaid according to the agreed terms, irrespective of the company's profitability. Greater use of debt increases these fixed obligations; equity does not create the same compulsory interest and repayment burden.

Floatation costs: Raising finance involves expenses such as underwriting commission, brokerage and other issue expenses. These costs vary across sources and must be considered when deciding the amount and composition of finance.

Cash-flow position of the company: A stronger expected cash-flow position makes debt financing more suitable because the company can meet interest and repayment obligations when due. If cash flows are weak or uncertain, greater reliance on debt can create difficulty in meeting these commitments.

Step 3: Conclusion The decision is a **financing decision**. Four relevant factors are **cost, risk, floatation costs and the company's cash-flow position**; together they guide the choice and proportion of long-term funding sources for NB Ltd.'s expansion.

Quick Tip to Solve: In a case question, 'sources of funds' and 'proportion from each source' identify a financing decision; 'which project or asset' identifies an investment decision.

OR

12(b). Myra Ltd., manufacturing televisions, is planning to expand its business and requires ₹ 250 crore for the same. A number of projects are available to the company to invest in and each project has to be evaluated carefully. The Finance Manager of the company, has assessed the projects in terms of the rate of return from each project and wanted to select the one with the higher rate of return. But before selecting the project he has to take into consideration other factors also.

(i) Identify and state the financial decision discussed in the above para graph.

(ii) Explain two other factors that the Finance Manager should consider before selecting the project.

[5 marks]

Solution:

Concept:

- Financial Management: an investment decision concerns the allocation of a firm's funds among investment proposals and assets. Investment in long-term assets is a capital budgeting decision.
- A capital budgeting proposal is assessed using its cash flows, rate of return and the investment criteria used. Long-term commitments require careful evaluation because large amounts are involved and reversing them can be costly.

Step 1: Identify and state the decision **(i) Investment decision (capital budgeting decision):** This is the decision about how the firm's funds are invested in different assets or projects. Here the investment is for business expansion and is therefore a long-term, or capital budgeting, decision. The words 'a number of projects are available to the company to invest in' show that Myra Ltd. must

choose where to invest its funds. The manager's comparison of the 'rate of return from each project' is also an evaluation of investment proposals.

Step 2: Examine the cash flows of each project **(ii) Cash flows of the project:** An investment produces a series of cash receipts and cash payments over its life. The Finance Manager should carefully analyse the amount and timing of the expected cash inflows and outflows of every proposal. The initial investment, later cash requirements and expected cash receipts must all be considered. This comparison helps assess whether a project can generate adequate cash over its life. A higher stated rate of return alone does not reveal the entire pattern of receipts and payments.

Step 3: Apply suitable investment criteria **Investment criteria involved:** Each investment proposal must be evaluated using appropriate capital budgeting techniques. These techniques require calculations concerning the investment amount, expected cash flows, interest rate and rate of return, along with the criteria used to compare proposals. The Finance Manager should apply the selected criteria consistently to the available projects before accepting one. This provides a systematic assessment of their financial desirability instead of selecting a project solely because its quoted return is the highest.

Step 4: Conclusion The decision is an **investment decision**, specifically a **capital budgeting decision** for expansion. Besides the rate of return already considered, the Finance Manager should evaluate the **cash flows of each project** and the **investment criteria involved** before selecting a project.

Quick Tip to Solve: When the case asks where funds should be invested, identify an investment decision. For capital budgeting, remember cash flows, rate of return and investment criteria; explain the two the case has not already discussed.