CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/4/1

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) Questions Number **1 – 4** are of **2 marks**. These are Short Answer Type Questions and are to be answered in **30 – 50** words.

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

(iv) Questions Number **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 overall choice in the question paper. However, internal choice has been given in **1** question of **3 marks** and **2** questions of **5 marks**.

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

1. Virat has 2500 shares of Suraj Bulb Ltd. He received an offer from Suraj Bulb Ltd. to purchase two shares for every ten shares held by him.

Identify and explain the method of floatation of new issue reflected in the above lines. [2 marks]

Solution:

Concept:

- A rights issue is a method of raising capital in the primary market by offering new shares to the company's existing shareholders.
- Existing shareholders receive the privilege of subscribing to the new issue in proportion to the shares they already hold, before the shares are offered to others.

Step 1: Identify the method from the offer The method is a **rights issue**. Virat already owns shares of Suraj Bulb Ltd., and the company offers him "two shares for every ten shares held by him". The offer is therefore linked to his existing shareholding rather than being an invitation to the general public.

Step 2: Explain how the issue operates In a rights issue, a company offers its existing shareholders the right to purchase additional shares in a specified proportion to their present holdings. This gives them the first opportunity to subscribe to fresh capital and enables them to maintain their proportionate ownership if they take up the offer. Here Virat may subscribe to 500 additional shares, since the offer is two new shares for each group of ten of his 2500 shares. It is an offer to purchase shares, rather than an allotment of free bonus shares.

Step 3: Conclusion The method of floatation is a **rights issue**: Suraj Bulb Ltd. offers new shares first to its existing shareholders in proportion to their current holdings.

Quick Tip to Solve: An offer of new shares to existing shareholders in a stated holding ratio points to a rights issue; check that the shares must be purchased rather than given free.

2. Identify and state the step of selection process which helps the Human Resource Manager in eliminating unqualified job seekers on the basis of information supplied in the application form. Also, list the next two steps involved in the process of selection. [2 marks]

Solution:

Concept:

- Selection is the process of choosing the most suitable candidates for a job from those who have applied for it.
- Preliminary screening removes unsuitable applicants early; the remaining applicants proceed to the subsequent stages in the prescribed selection sequence.

Step 1: Identify and state the screening step The step is **preliminary screening**. It helps the Human Resource Manager eliminate unqualified or unfit job seekers on the basis of the information supplied in their application forms. The manager compares this information with the job requirements, so applicants who do not meet the basic eligibility conditions need not proceed through the remaining stages.

Step 2: List the next two steps in order The next two steps are: **(i) Selection tests**, followed by

(ii) Employment interview. Selection tests assess relevant attributes such as aptitude, intelligence, proficiency or personality, according to the job. The employment interview is a formal, in-depth conversation used to evaluate the applicant's suitability and to clarify information. These follow preliminary screening; reference checks and the final selection decision occur later in the process.

Step 3: Conclusion The step is **preliminary screening**, which filters out unqualified applicants using application-form information. The next steps are **selection tests** and then the **employment interview**.

Quick Tip to Solve: Remember the opening selection sequence as screening, tests, interview; an application-form filter indicates the first of these stages.

3. 'Staffing is considered as a very important managerial function in all types of organisations.' In the light of the above statement, state any two benefits of staffing. [2 marks]

Solution:

Concept:

- Staffing means finding the right people for the right jobs through recruitment, selection, placement, training and development.
- Its importance lies in acquiring competent personnel and using human resources effectively so that the organisation can achieve its objectives.

Step 1: State the benefit of obtaining competent personnel **Obtaining competent personnel:** Staffing helps an organisation discover suitable people and select them for different jobs. By matching the requirements of each post with the qualifications, abilities and experience of candidates, it makes competent employees available for the work to be performed. The organisation can therefore fill positions with people capable of meeting their responsibilities.

Step 2: State the benefit of higher performance **Higher performance through the right person at the right job:** Staffing places employees in positions suited to their abilities. A person whose skills match the assigned work can perform it more effectively and efficiently. This improves the individual's contribution and, in turn, the organisation's overall performance. Thus staffing is necessary in all types of organisations because plans and other resources require suitable people to put them into action.

Step 3: Conclusion Two benefits of staffing are **obtaining competent personnel** and **improving performance by putting the right person on the right job**.

Quick Tip to Solve: For benefits of staffing, name each benefit first and then link it to people, job requirements and the resulting organisational performance.

4. 'Analysing deviations' and 'taking corrective actions' are the steps in the process of one of the significant functions of management. Identify the function and list the first three steps of the process of the function identified. [2 marks]

Solution:

Concept:

- Controlling is the management function that ensures that actual activities conform to planned standards. It reveals deviations and enables management to take suitable remedial action.
- The controlling process follows an order: standards must be established before performance can be measured and compared with them.

Step 1: Identify the function The function is **controlling**. The phrases 'analysing deviations' and 'taking corrective actions' refer to its fourth and fifth steps. Managers first establish what should be achieved, check actual achievement and then examine differences before deciding how to remove their causes.

Step 2: List the first three steps in order

- **Setting performance standards:** Establish the criteria or targets against which actual performance will be judged.
- **Measurement of actual performance:** Measure the work actually accomplished using appropriate, reliable methods.
- **Comparing actual performance with standards:** Compare measured results with the predetermined standards to discover deviations.

Step 3: Conclusion The function is **controlling**. Its first three steps are setting performance standards, measuring actual performance, and comparing actual performance with standards, in that sequence.

Quick Tip to Solve: Recall controlling as standard, measure, compare, analyse and correct; the two steps named in the question come after the first three.

5. GDFS Limited are the manufacturers of consumer goods. The demand for their products was continuously declining after the outbreak of COVID-19. In spite of fall in demand, the company assured its employees that no worker will be retrenched from the job. Name the category of incentive and the incentive offered to the employees. Also explain any two more incentives of the same category. [3 marks]

Solution:

Concept:

- Non-financial incentives motivate employees by satisfying psychological, social and emotional needs, such as security, recognition and responsibility, rather than primarily providing a monetary reward.
- Job security means stability of employment and income. It reduces anxiety about the future and encourages employees to work with commitment.

Step 1: Identify the category and the incentive in the case The category is **non-financial incentives**,

and the particular incentive is **job security**. The decisive words are that the company assured employees that 'no worker will be retrenched from the job', despite declining demand after COVID-19. This assurance protects continuity of employment and satisfies the employees' need for security. It does not announce a bonus, wage increase or other direct monetary payment.

Step 2: Explain two other non-financial incentives

- **Employee recognition programmes:** Management acknowledges an employee's good performance, for example through appreciation, a certificate or public recognition. Such acknowledgement satisfies esteem needs, makes the employee feel valued and encourages continued good performance.
- **Employee participation:** Employees are involved in decisions affecting their work, such as through joint committees or consultation. The opportunity to contribute ideas gives them a sense of belonging and importance, improves acceptance of decisions and motivates them to work towards organisational goals.

Step 3: Conclusion GDFS Limited offers **job security**, a **non-financial incentive**. Employee recognition programmes and employee participation are two other incentives in this category, satisfying esteem and involvement needs respectively.

Quick Tip to Solve: Match 'no retrenchment' with job security; then choose two different non-financial incentives and explain the need each one satisfies.

6. State any three factors affecting the capital budgeting decision of a company. [3 marks]

Solution:

Concept:

- Capital budgeting is the decision to invest funds in long-term assets or projects. Such investments involve large amounts, affect earnings over many years and are often difficult to reverse.
- A company evaluates a project's expected cash flows and returns in relation to the investment required and the investment criteria it follows.

Step 1: State the cash-flow factor **Cash flows of the project:** When a company invests in a project, it expects a series of cash receipts and payments over its life. The amount and timing of these cash flows must be assessed carefully. A project should generate adequate cash inflows to justify the funds committed to it; accounting profit alone does not show when cash will become available.

Step 2: State the return factor **Rate of return:** The expected rate of return from each investment proposal is estimated and compared with the company's required return and the returns of other proposals. Other things being equal, a proposal offering a higher satisfactory return is preferred, because the investment should contribute to the firm's earning capacity and value.

Step 3: State the evaluation factor **Investment criteria involved:** The company applies suitable capital-budgeting techniques to evaluate the proposals. These criteria consider the investment outlay, expected cash flows, return and risk associated with each project. The result of this evaluation helps management accept or reject a proposal and select among competing uses of its funds.

Step 4: Conclusion The three factors are the project's cash flows, its expected rate of return and the investment criteria used to evaluate it.

Quick Tip to Solve: Recall capital-budgeting factors as cash flows, return and evaluation criteria; explain each in relation to a long-term project.

7(a). State any three features of motivation. [3 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to take action to accomplish desired goals. It links an individual's needs with willingness to make an effort at work.
- Motivation explains why employees act, but their needs and responses differ. Managers therefore use suitable incentives and encouragement to direct effort towards organisational objectives.

Step 1: State the internal nature of motivation **Motivation is an internal feeling:** The urge to act arises within an individual from needs, desires, aspirations and feelings. For example, a person's desire for recognition can encourage better performance. A manager may provide an incentive, but the resulting willingness to act depends on the need felt by the employee.

Step 2: Explain its effect on behaviour **Motivation produces goal-directed behaviour:** It induces people to behave in a manner that helps them attain their goals. If an employee wants promotion, that employee may work harder and improve performance to obtain it. Management should link such personal goals with organisational goals so that motivated effort benefits both the employee and the organisation.

Step 3: State its positive and negative forms **Motivation can be positive or negative:** Positive motivation offers incentives such as higher pay, recognition or promotion to encourage desired behaviour. Negative motivation uses the fear of undesirable consequences, such as a warning or demotion, to influence behaviour. Both seek to stimulate action, although they use different means to do so.

Step 4: Conclusion Three features of motivation are that it is an internal feeling, produces goal-directed behaviour and can be positive or negative.

Quick Tip to Solve: For a features question, name the nature of motivation first and then explain it; do not merely list monetary incentives.

OR

7(b). Identify the function of management which is concerned with instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. Also, state any two features of the identified function of management. [3 marks]

Solution:

Concept:

- Directing is the management function of instructing, guiding, counselling, motivating and leading employees so that their efforts contribute to organisational objectives.
- Its features describe how this function operates: it initiates action, takes place at every management level, continues throughout organisational life and flows down the hierarchy.

Step 1: Identify the function from its activities The function is **directing**. The question's words "instructing, guiding, counselling, motivating and leading people" describe the manager's active influence on employees. Plans specify what is to be done and organising allocates duties, but directing gets people to perform those duties towards the organisation's objectives.

Step 2: State two features of directing

- **Directing initiates action:** Directing converts plans into performance by guiding and motivating employees to start work. While planning, organising and staffing prepare the conditions for work, directing sets the activities of the organisation in motion.
- **Directing takes place at every level of management:** Every manager, from a top executive to a supervisor, directs the subordinates reporting to that manager. Its scope differs with authority and responsibility, but the function is performed wherever a superior–subordinate relationship exists.

Step 3: Conclusion The identified function is **directing**. Two of its features are that it **initiates action** and **takes place at every level of management**.

Quick Tip to Solve: Link "guiding and motivating people" to directing; state its features as characteristics of the function rather than listing its elements.

8. Abhishek Limited is engaged in manufacturing of Air Purifiers. The target production is 500 Air Purifiers in a week. Over the last few months, it has been observed by the Production Manager that the weekly production target was not achieved.

Identify the function and explain any two points of its importance. [3 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, analysing deviations and taking corrective action so that organisational objectives are achieved.
- The importance of controlling includes accomplishing organisational goals and making efficient use of resources by detecting shortcomings and correcting performance.

Step 1: Identify the function from the production comparison The function is **controlling**. Abhishek

Limited's standard is the production of **500 Air Purifiers in a week**. The observation that "the weekly production target was not achieved" shows a comparison of actual output with this predetermined standard and reveals a negative deviation. The manager must analyse its causes and take suitable corrective action; merely noticing the shortfall does not complete the control process.

Step 2: Explain two points of importance

- **Accomplishing organisational goals:** Controlling measures progress towards goals, brings deviations to light and indicates the action needed to correct them. Here, identifying why production falls below the weekly target enables the manager to remove the causes and bring subsequent production closer to the planned output.
- **Making efficient use of resources:** Controlling compares work with predetermined standards and helps reduce wastage and spoilage. By examining the production shortfall, the manager can detect inefficient use of materials, machines or labour and correct the relevant problem. This helps use the available resources effectively to obtain the desired output; the case does not establish which particular resource caused the shortfall.

Step 3: Conclusion The function is **controlling**. It helps Abhishek Limited **accomplish organisational goals** and **make efficient use of resources** through performance measurement and corrective action.

Quick Tip to Solve: A stated target followed by an actual-performance shortfall signals controlling. Connect each importance point to measurement or correction, without inventing the cause of the deviation.

9. State any five functions of a Stock Exchange. [5 marks]

Solution:

Concept:

- A stock exchange is an organised market where existing securities are bought and sold under prescribed rules. It is an important institution of the secondary market.
- Its functions help investors trade their holdings, discover prices and undertake transactions within a regulated framework. These facilities also support the productive use of savings in the economy.

Step 1: State the trading and pricing functions

- **Providing liquidity and marketability to existing securities:** A stock exchange gives investors a continuous market in which they can buy and sell securities already issued by companies. An investor can convert a holding into cash by selling it to another investor without requiring the company to return its capital. This ability to leave an investment makes securities more marketable.
- **Pricing of securities:** The forces of demand and supply operating through buying and selling orders determine security prices. These prices reflect investors' assessments of a company's performance and prospects. Publicly available quotations help investors judge the value of their holdings and make investment decisions.

Step 2: State the safety, growth and ownership functions

- **Safety of transactions:** Stock-exchange dealings take place within a defined legal and regulatory framework. Listed companies must meet the exchange's requirements, and trading members must

follow its rules. These controls promote fair dealing and help protect the investing public; they do not remove the possibility of a loss caused by changes in market prices.

- **Contributing to economic growth:** Trading permits the disinvestment and reinvestment of savings as investors reassess different securities. Through this process, savings are directed towards more productive investment proposals. The secondary market therefore supports capital formation and economic growth even though the trading itself concerns existing securities.
- **Spreading of equity cult:** Stock exchanges encourage wider share ownership by educating people about investments, regulating new issues and promoting better trading practices. Greater awareness and confidence encourage more members of the public to invest in equity shares.

Step 3: Conclusion Five functions of a stock exchange are providing liquidity and marketability, pricing securities, ensuring safety of transactions, contributing to economic growth and spreading the equity cult.

Quick Tip to Solve: Link each heading to its purpose: liquidity enables exit, pricing establishes value, safety regulates dealings, growth reallocates savings, and the equity cult widens share ownership.

10(a). Explain the following redressal mechanisms available to a consumer under The Consumer Protection Act, 2019 :

(i) District Commission

(ii) National Commission [5 marks]

Solution:

Concept:

- Consumer Protection provides a three-tier quasi-judicial machinery: District Commission, State Commission and National Commission. These bodies hear consumer complaints and grant relief against defective goods, deficient services and unfair trade practices.
- The level at which a complaint is filed depends on its pecuniary jurisdiction. A higher commission also hears appeals against orders of the commission immediately below it.

Step 1: Explain the District Commission **Establishment and composition:** The State Government establishes a District Consumer Disputes Redressal Commission in each district. It consists of a President and at least two members, with at least one woman member.

Original jurisdiction: Under the original pecuniary limits of the Consumer Protection Act, 2019, it entertains complaints where the value of goods or services paid as consideration does not exceed Rs 1 crore. It is therefore the first level for complaints falling within that limit.

Hearing and relief: It gives the parties an opportunity to present their case and may send goods to an appropriate laboratory for testing when required. On finding the complaint justified, it can order removal of a defect, replacement, refund or compensation, as appropriate, and direct discontinuance of an unfair trade practice.

Appeal: A party aggrieved by its order may appeal to the State Commission within 45 days, subject to the Act's requirements.

Step 2: Explain the National Commission **Establishment and composition:** The Central Government establishes the National Consumer Disputes Redressal Commission. It consists of a President and at least four members, including at least one woman member.

Original and appellate jurisdiction: Under the original pecuniary limits of the 2019 Act, it entertains complaints where the value of goods or services paid as consideration exceeds Rs 10 crore. It also hears appeals against orders of State Commissions; thus it is the highest commission in this three-tier machinery.

Relief and further appeal: After examining the complaint and evidence, it can grant suitable relief such as replacement, refund or compensation. An aggrieved party may appeal to the Supreme Court against its order made in original jurisdiction within 30 days, subject to the Act's requirements.

Distinguish the Act's original limits from later rules: The 2021 jurisdiction rules revised the District Commission's limit to consideration not exceeding Rs 50 lakh and the National Commission's original jurisdiction to consideration exceeding Rs 2 crore. The commission structure and appellate hierarchy explained above remain the relevant redressal mechanisms.

Step 3: Conclusion The District Commission provides district-level consumer redressal, while the National Commission handles the highest-value original complaints and appeals from State Commissions. Both can issue enforceable orders to remedy consumer grievances; the State Commission is the intervening appellate level between them.

Quick Tip to Solve: Explain each commission under composition, jurisdiction, relief and appeal. Keep the District-to-State and State-to-National appeal routes distinct, and identify whether a question refers to the Act's original monetary limits or later jurisdiction rules.

OR

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

(i) Right to Consumer Education

(ii) Right to Safety [5 marks]

Solution:

Concept:

- Consumer protection recognises rights that enable buyers to make informed decisions and protect them against exploitation by sellers.
- The right to consumer education develops awareness of consumer rights and the remedies available, while the right to safety protects life and health against hazardous goods and services.

Step 1: Explain the right to consumer education

- **Knowledge and awareness:** A consumer has the right to acquire knowledge and to be a well-informed consumer throughout life. This includes knowing the rights available under consumer-protection law and the responsibilities involved in buying and using products.
- **Ability to obtain protection:** Consumers should know the reliefs available when they suffer loss or injury and the procedure for seeking redressal. Awareness helps them recognise an unfair practice,

preserve purchase records and approach the appropriate redressal agency instead of accepting exploitation.

- **Sources of education:** Educational institutions, consumer organisations, government agencies and the media can spread this knowledge through teaching, publications and awareness programmes. An educated consumer can compare products and make a reasoned purchase rather than depend only on a seller's claims.

Step 2: 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. The right is particularly significant for products such as electrical appliances, medicines and food, where defects or unsafe quality may cause physical harm.
- **Quality assurance:** Goods should meet prescribed safety and quality standards. Consumers should prefer products carrying appropriate standardisation or certification marks, such as the ISI mark for relevant electrical products, because these help identify products conforming to specified standards.
- **Safe use:** Buyers should check safety instructions and use products as directed. For example, selecting a properly certified electrical appliance and following its operating precautions reduces the risk of electric shock or fire. The protection concerns safety of life and health, rather than merely the price or appearance of a product.

Step 3: Conclusion The right to consumer education enables a consumer to understand and exercise rights and remedies. The right to safety provides protection against goods and services that endanger life or health. Together, they support informed buying and safer consumption.

Quick Tip to Solve: Link education with awareness of rights and remedies; link safety with protection of life and health and appropriate quality certification.

11(a). 'Technology upgradation' and 'Level of collaboration' affect one of the types of capital requirements of the company. Identify the type of capital requirement affected with reference to the above statement. Also, explain any other two factors, apart from the ones stated above affecting the type of capital requirement identified. [5 marks]

Solution:

Concept:

- Fixed capital refers to funds invested in fixed assets such as land, buildings, plant and machinery. These assets serve the business for more than one accounting period.
- A firm's fixed capital requirement depends on the investment needed to establish, operate and expand its long-term productive facilities. It differs from working capital used for day-to-day operations.

Step 1: Identify the capital requirement from the clues The capital requirement affected is **fixed capital requirement**. The words 'Technology upgradation' point to the replacement of plant, machinery or other equipment when technology becomes obsolete. Industries in which assets quickly become obsolete need greater funds for such replacements. Similarly, 'Level of collaboration' affects

investment in fixed assets: firms that share facilities through collaboration may require less investment in their own fixed assets. Both clues concern long-term facilities rather than routine expenditure on wages or materials.

Step 2: Explain the effect of the nature of business **Nature of business:** A manufacturing concern generally needs a higher investment in fixed assets than a trading concern. Manufacturing requires plant, machinery, factory buildings and related facilities to convert inputs into finished products. A trading concern purchases finished goods for resale and usually does not need production machinery. Thus, other things being equal, a manufacturing enterprise has a greater fixed capital requirement, while a trading enterprise has a comparatively lower requirement. For example, a firm manufacturing furniture needs production equipment, whereas a furniture trader mainly needs premises for storage and sale.

Step 3: Explain the effect of the scale of operations **Scale of operations:** An organisation operating on a larger scale needs more fixed capital than one operating on a smaller scale. A larger volume of operations requires greater production capacity and usually more plant, machinery, buildings and supporting facilities. A small enterprise can operate with a smaller asset base. Therefore, expansion from a small unit to a large production unit increases the funds tied up in fixed assets. The relevant comparison is the investment in long-term facilities needed to support each scale of operations.

Step 4: Conclusion The identified requirement is **fixed capital**. Apart from technology upgradation and level of collaboration, the **nature of business** and the **scale of operations** affect it: manufacturing and larger-scale operations generally require greater investment in fixed assets.

Quick Tip to Solve: Link fixed capital factors to land, buildings or machinery. For each factor, state which kind of firm needs more investment and explain the asset requirement causing that difference.

OR

11(b). When the 'Return on Investment' of the company is higher than 'Interest Rate on debt', it can use more debt in the capital structure of the company in order to increase its 'Earning Per Share'. Explain the given situation with the help of a suitable example. [5 marks]

Solution:

Concept:

- **Capital structure** is the mix of owners' funds and borrowed funds used to finance a business. Debt carries a fixed interest charge, whereas equity shareholders receive the residual earnings after interest and tax.
- **Trading on equity** means using fixed-charge funds such as debt to increase the earnings per equity share. This is favourable financial leverage when the return on the funds invested exceeds the rate of interest payable on debt.

Step 1: Explain why the interest-rate comparison matters The statement describes **trading on equity**. The words 'Return on Investment ... higher than Interest Rate on debt' indicate that the company earns more from the borrowed funds than it pays for using them. After meeting the fixed interest

charge, the surplus belongs to equity shareholders. Financing part of a given investment with debt also means issuing fewer equity shares than under an entirely equity-financed plan. Consequently, the residual profit is shared among fewer shares and earnings per share can rise.

Step 2: Set out two comparable financing plans Consider a company requiring total capital of Rs 10,00,000 and earning a return on investment of 15%, measured by profit before interest and tax on the total capital employed. Its annual profit before interest and tax is therefore Rs 1,50,000. Assume debt is available at 10% interest, equity shares are issued at Rs 10 each, and the tax rate is 40%. There are no preference shares. Compare an all-equity plan with a plan containing Rs 5,00,000 equity and Rs 5,00,000 debt, keeping the business investment and operating earnings identical.

Step 3: Compare the earnings available per share

Particulars	All-equity plan	Debt-equity plan
Equity capital (Rs)	10,00,000	5,00,000
Debt capital (Rs)	Nil	5,00,000
Profit before interest and tax (Rs)	1,50,000	1,50,000
Less: interest at 10% (Rs)	Nil	50,000
Profit before tax (Rs)	1,50,000	1,00,000
Less: tax at 40% (Rs)	60,000	40,000
Profit for equity shareholders (Rs)	90,000	60,000
Number of equity shares	1,00,000	50,000
Earnings per share (Rs)	0.90	1.20

In the all-equity plan, Rs 90,000 is divided among 1,00,000 shares, giving Rs 0.90 per share. Under the debt-equity plan, Rs 60,000 is divided among only 50,000 shares, giving Rs 1.20 per share. Although total profit after tax is lower because interest must be paid, earnings per equity share are higher.

Step 4: State the condition and the associated risk Here, the investment earns 15% while debt costs only 10%, so the positive difference benefits equity shareholders. This does not justify unlimited borrowing: interest and repayment obligations remain payable even when operating profits fall. If the return on investment falls below the interest rate, debt can reduce earnings per share instead. The company must therefore consider the stability of earnings and its ability to meet fixed financial commitments before increasing debt.

Step 5: Conclusion The situation is favourable **trading on equity**. In the illustration, substituting Rs 5,00,000 of 10% debt for equity, while earning a 15% return on the same total investment, raises earnings per share from Rs 0.90 to Rs 1.20. Thus, debt can improve the return to equity shareholders when investment returns exceed its interest cost.

Quick Tip to Solve: Compare two plans with the same total capital and operating profit; deduct interest and tax, then divide by each plan's own number of equity shares. Higher total profit and higher earnings per share are different comparisons.

12. After the outbreak of pandemic COVID-19, Yash Publishing Limited is planning to go digital as the teachers and students are now more interested in E-content. After due consultation with the top management, the company decided to publish E-books. For the same, they hired a recruitment agency to tap the right talent for the job.

The company also approached a well-established university in the city of Indore to recruit qualified personnel for various managerial positions. For the post of E-content writer the company is using shine.com and monster.com.

(a) Identify and explain the function of management highlighted above.

(b) Quoting lines from the above, explain the types of external sources of recruitment discussed in the para.

(c) State any two advantages of external sources of recruitment. [5 marks]

Solution:

Concept:

- Staffing is the managerial function of finding the right people for the right jobs and keeping organisational positions filled with suitable personnel.
- Recruitment is a step in staffing: it searches for prospective employees and stimulates them to apply. External recruitment draws applicants from outside the organisation.

Step 1: Identify and explain the management function **(a) Staffing:** Yash Publishing Limited needs suitable people to implement its decision to publish E-books. The references to hiring a recruitment agency, approaching a university and using employment websites show its search for human resources. Staffing involves estimating manpower requirements, recruitment, selection, placement and orientation, training and development, performance appraisal, promotion and career planning, and compensation. It puts competent people into suitable positions so that the organisation can achieve its objectives; here, it supports the move to digital publishing.

Step 2: Link each external recruitment source to the case **(b) Placement agencies and management consultants:** The words "they hired a recruitment agency to tap the right talent for the job" identify this source. Such agencies maintain records of suitable candidates and recommend people who match an employer's requirements, generally for a fee. They help locate the specialised talent needed for new work.

Campus recruitment: The line "approached a well-established university in the city of Indore to recruit qualified personnel for various managerial positions" identifies recruitment through an educational institution. Employers establish contact with universities and professional or technical institutes to select qualified candidates, often for entry-level managerial or professional positions.

Web publishing: The statement "For the post of E-content writer the company is using shine.com and monster.com" identifies recruitment through the internet. An employer posts vacancies on employment websites, and job seekers submit applications or upload their qualifications. These websites bring employers and potential applicants into contact over a wide geographical area.

Step 3: State two advantages of external recruitment **(c) Qualified personnel:** External recruitment enables management to attract qualified and trained people from the wider labour market. Yash Publishing Limited can seek candidates with the digital-publishing and E-content skills required for its new activity.

Fresh talent: People recruited from outside can bring new ideas, different experience and new ways of doing work. Their fresh outlook can improve existing practices and help the company adapt to digital publishing.

Step 4: Conclusion The function is **staffing**. The three external recruitment sources are **placement agencies and management consultants, campus recruitment, and web publishing**. Two advantages are access to qualified personnel and the introduction of fresh talent.

Quick Tip to Solve: In a recruitment case, match the channel to the textbook term: agency to placement agencies, university to campus recruitment, and job portals to web publishing.