# CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/6/1 - Compartment

## 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. Identify and state the type of test in the selection process that measures the potential of an employee for learning new skills.** [2 marks]

**Solution:**

**Concept:**

- Selection tests assess a candidate's suitability for a particular job by measuring relevant abilities and characteristics.
- An aptitude test measures a person's potential to learn new skills, rather than merely the skills already acquired.

**Step 1:** Identify the test from the clue The decisive words are "potential of an employee for learning new skills". They point to an **aptitude test**, which assesses the capacity to develop the abilities needed for a job after suitable training.

**Step 2:** State what the test measures An aptitude test measures the individual's potential for learning new skills. It indicates the person's capacity to develop and is therefore useful in predicting future performance and trainability. A trade test, in contrast, measures existing job knowledge and proficiency, so it does not fit the given clue.

**Step 3:** Conclusion The test is an **aptitude test**. It measures the employee's potential for learning new skills and developing the abilities required for future job performance.

**Quick Tip to Solve:** Match "potential to learn" with aptitude; match "skills already possessed" with a trade test.

**2. 'Training of intermediaries of the securities market' is a development function performed by Securities and Exchange Board of India. State two other development functions.** [2 marks]

**Solution:**

**Concept:**

- SEBI's development functions aim to develop the securities market and improve the knowledge and competence of its participants.
- Development functions are distinguished from protective measures against malpractice and regulatory measures for controlling market intermediaries.

**Step 1:** Exclude the function already stated The question already gives "Training of intermediaries of the securities market". We must state two other development functions rather than repeat training or substitute a protective function such as prohibiting insider trading.

**Step 2:** State two other development functions **Conducting research:** SEBI conducts research concerning the securities market and publishes information useful to market participants. This supports informed decisions and the development of the market.

**Undertaking measures to develop capital markets:** SEBI takes measures that facilitate the growth and efficient functioning of capital markets. For example, permitting internet trading through registered stockbrokers makes market participation more convenient and supports market development.

**Step 3:** Conclusion Two other development functions of SEBI are **conducting research and publish-**

**ing useful market information**, and **undertaking measures to develop capital markets**, such as facilitating internet trading through registered stockbrokers.

**Quick Tip to Solve:** For SEBI development functions, recall training, research and measures that facilitate capital-market growth.

**3. 'Frequent transfer of employees often reduces the productivity of the organisation, still it is being used as a good source of filling the vacancies internally.' Why ? State any two reasons.** [2 marks]

**Solution:**

**Concept:**

- A transfer shifts an employee from one job, department or location to another without a substantive change in status or responsibilities.
- Transfers are a source of internal recruitment because an existing employee fills the vacancy instead of an outsider being appointed.

**Step 1:** Recognise the issue in the statement The statement accepts that "frequent transfer of employees often reduces the productivity" of the organisation. Even so, a properly planned transfer is useful for filling vacancies internally because it can serve both employee development and organisational staffing needs.

**Step 2:** Explain two reasons for using transfers **Training and development:** Transfers give employees experience of different jobs and departments. This broadens their knowledge, develops new skills and prepares them to handle a wider range of responsibilities in the organisation.

**Balancing the workforce:** Transfers allow an organisation to move employees from departments with surplus staff to departments facing a shortage. Thus, existing human resources are used more effectively and vacancies can be filled without recruiting outsiders.

**Step 3:** Conclusion Transfers remain useful because they **train employees through varied job experience** and **balance staff between surplus and shortage departments**. These benefits explain their continued use as an internal source of recruitment despite the disruption caused by frequent transfers.

**Quick Tip to Solve:** For the benefits of transfer, connect movement between jobs with learning, and movement between departments with balancing staff.

**4. Identify and give the meaning of the function of management that helps in verifying whether the standards set are accurate and objective or not.** [2 marks]

**Solution:**

**Concept:**

- Controlling is the management function that checks whether actual activities and results conform to predetermined standards.
- One importance of controlling is judging the accuracy of standards: the comparison provides

evidence about whether standards are realistic, accurate and objective.

**Step 1:** Identify the management function The function is **controlling**. The clue is that it "helps in verifying whether the standards set are accurate and objective or not." This refers to judging the accuracy of standards, an importance of controlling. By checking actual results against the prescribed standards, managers can assess the soundness of the standards themselves.

**Step 2:** State its meaning **Controlling means ensuring that activities in an organisation are performed according to plans.** It involves comparing actual performance with the standards laid down, finding deviations and taking corrective action wherever necessary. Thus it helps the organisation achieve its goals and ensures that resources are used effectively and efficiently. If comparison shows that a standard is unsuitable, management can review it in the light of the changed circumstances.

**Step 3:** Conclusion The required function is **controlling**: checking actual performance against planned standards and taking corrective action so that organisational activities proceed according to plans.

**Quick Tip to Solve:** Link "judging the accuracy of standards" with controlling; then define the function through comparison, deviations and corrective action.

**5. Hemant is working as a Human Resource Manager in AO chain of hospitals in Mumbai. He had to appoint nurses for the hospitals. For this, he has conducted various tests and interviews and verified the information of the applicants. The final decision has been made in consultation with the heads of the nursing department.**

**Hemant still has to take some more steps to complete the process of appointment of nurses.**

**Name and explain these steps.** [3 marks]

**Solution:**

**Concept:**

- Selection is the process of choosing the most suitable candidates for jobs. Its sequence continues beyond the final selection decision until the appointment terms are formalised.
- In the NCERT selection process, medical examination, job offer and contract of employment follow the selection decision.

**Step 1:** Locate the stage already completed Hemant has conducted "various tests and interviews and verified the information of the applicants." These correspond to selection tests, employment interviews and reference/background checks. The statement that "the final decision has been made in consultation with the heads of the nursing department" shows that the **selection decision** has also been completed. Therefore, the remaining steps are the following stages of the selection process, rather than repeating recruitment or interviews.

**Step 2:** Explain the remaining appointment steps

- **Medical examination:** After the selection decision and before the job offer, selected candidates undergo a medical fitness test. The offer is conditional on their being declared medically fit for the

work. This checks their suitability in terms of the health requirements of the nursing job.

- **Job offer:** The hospital makes a job offer to the candidates who pass the preceding stages. It communicates the offer through a letter of appointment, specifying the date by which the candidate must report for duty. A reasonable time is allowed for the candidate to respond and make the necessary arrangements to join.
- **Contract of employment:** After the candidate accepts the offer, the employer and candidate exchange the relevant documents and execute the employment contract. It records the agreed terms and conditions, such as job title, duties, remuneration, working hours, leave, notice period and disciplinary procedures, so that both parties understand their obligations.

**Step 3:** Conclusion Since the selection decision has already been made, Hemant must complete **medical examination, job offer and contract of employment**, in that order, to finish appointing the nurses.

**Quick Tip to Solve:** Find the last selection stage explicitly completed in the case, then list only the stages that follow it: medical test, offer and contract.

**6(a). Give the meaning of formal and informal communication.** [3 marks]

**Solution:**

**Concept:**

- Communication is the process of exchanging ideas, views, facts and feelings between people to create common understanding.
- Organisational communication is classified as formal or informal according to whether the message follows the officially prescribed channels or personal social relationships.

**Step 1:** Explain formal communication **Formal communication:** It flows through the official channels prescribed in the organisation chart. Communication takes place between people in their official capacities and follows the established authority relationships. It may be written or oral: the defining feature is its official route, rather than the medium used. For example, a production manager issuing work instructions to a supervisor through the prescribed reporting line is formal communication. It may flow vertically, between superiors and subordinates, or horizontally, between employees or departments at the same level.

**Step 2:** Explain informal communication **Informal communication:** It takes place without following the formal lines of communication. It arises out of the personal and social relationships among members of the organisation, rather than from their positions in the organisation chart. The network through which it spreads is commonly called the grapevine. For example, employees discussing workplace news during lunch are communicating informally. Such messages can travel quickly in different directions because they are not restricted to the official chain of command.

**Step 3:** Conclusion Formal communication follows the organisation's prescribed official channels, whereas informal communication arises from social interaction and flows outside those prescribed channels.

**Quick Tip to Solve:** Classify communication by the route it follows: an official reporting channel is formal; a personal social network is informal. Written versus oral is a separate distinction.

OR

**6(b). Explain the first two steps in the process of controlling.** [3 marks]

**Solution:**

**Concept:**

- Controlling ensures that organisational activities are performed according to plans by comparing actual performance with standards and taking corrective action where necessary.
- The process begins with setting performance standards and then measuring actual performance. A standard provides the benchmark; measurement establishes what has actually been achieved.

**Step 1:** Set performance standards **Setting performance standards:** Standards are the criteria against which actual performance will be measured. They serve as benchmarks towards which the organisation strives to work. Standards should be stated clearly and, wherever possible, in measurable terms so that performance can be assessed objectively. For example, a production standard may specify the number of units to be produced in a day, while a cost standard may specify the permitted cost per unit. Qualitative standards, such as improving employee motivation, must also be defined so that the relevant performance can be assessed. Standards should be flexible enough to be modified when changes in the business environment require it.

**Step 2:** Measure actual performance **Measurement of actual performance:** After standards have been established, actual performance is measured in an objective and reliable manner. The measurement should use the same units as the standards so that a meaningful comparison can subsequently be made. For instance, actual daily production should be recorded in units if the production standard is expressed in units per day. Techniques such as personal observation, sample checking and performance reports can be used. Measurement should take place at appropriate intervals, and, where possible, while work is in progress so that emerging problems can be detected promptly.

**Step 3:** Conclusion The first step is setting clear performance standards. The second is measuring actual performance objectively in comparable units. Comparing the two is the next step and follows these initial activities.

**Quick Tip to Solve:** Remember the order: first decide the benchmark, then record actual achievement. Do not replace the second step with comparison, which comes afterwards.

**7. Explain 'Offer for Sale' and 'Rights Issue' 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 fresh capital. Offer for sale and rights issue are two methods through which these securities reach investors.
- The distinction depends on who first purchases or is offered the securities: an intermediary in an offer for sale, and existing shareholders in a rights issue.

**Step 1:** Explain offer for sale **Offer for sale:** The company does not issue the securities directly to

the public. Instead, it sells them to an intermediary, such as an issuing house or a stockbroker, at an agreed price. The intermediary then resells those securities to the investing public, generally at a higher price. Thus, the intermediary provides the route through which the company's new securities are made available to public investors.

**Step 2:** Explain rights issue **Rights issue:** An existing company offers its new shares to its existing shareholders in proportion to the shares already held by them. This gives shareholders the privilege of subscribing to the fresh issue before the shares are offered to outsiders. For example, an offer of one new share for every four shares held is a proportionate offer. Shareholders can exercise the right by subscribing, thereby maintaining their proportionate ownership if all subscribe on the same basis.

**Step 3:** Conclusion Offer for sale raises funds through an intermediary that resells the securities to the public, whereas a rights issue first offers new shares proportionately to the company's existing shareholders.

**Quick Tip to Solve:** Link "offer for sale" with an issuing intermediary, and "rights issue" with the existing shareholder's proportionate entitlement.

**8. Name and state the process which is job-oriented and is used to increase the skills and abilities of employees to perform a specific job.** [3 marks]

**Solution:**

**Concept:**

- Training is the job-oriented component of employee learning. It is directed towards improving the knowledge, skills and abilities required to perform a particular job effectively.
- Training focuses on the employee's present work requirements, whereas development concerns broader personal and professional growth and preparation for future responsibilities.

**Step 1:** Identify the process from the clues **Training:** The process described is training. The question calls it "job-oriented" and says that it increases employees' "skills and abilities" to perform "a specific job". These clues point to improving performance of a particular task, rather than to a general increase in knowledge or preparation for a higher position.

**Step 2:** State the meaning of training **Meaning:** Training is a process of increasing the knowledge, skills and abilities of employees for doing a particular job. It involves organised learning and practice through which employees acquire the abilities needed to carry out their assigned duties. Its purpose is to improve the employee's effectiveness and efficiency in that specific work. For instance, teaching a machine operator the correct operating procedure would build the skill required for the operator's current job; this illustrates the task-specific nature of training.

**Step 3:** Conclusion The process is **training**: increasing employees' knowledge, skills and abilities to perform a particular job effectively. Its focus on a specific job makes it job-oriented.

**Quick Tip to Solve:** When the clues stress a specific job and improvement of present job skills, identify training; broader growth and future responsibilities point to development.

**9(a). Explain how the 'District Commission' helps the consumers in redressing their grievances.**

[5 marks]

**Solution:**

**Concept:**

- The Consumer Protection Act, 2019 provides a three-tier consumer redressal machinery: District Commission, State Commission and National Commission. The District Commission is the district-level forum for deciding consumer complaints.
- Redressal means providing an appropriate remedy when a consumer suffers because of defective goods, deficient services or an unfair trade practice. The Commission examines the complaint and evidence before making its order.

**Step 1:** Explain the district-level forum and its jurisdiction **Composition:** A District Commission consists of a President and at least two members, one of whom should be a woman. This provides an accessible district-level body to hear consumer grievances.

**Jurisdiction:** Under the Consumer Protection Act, 2019 framework prescribed in the textbook, a complaint can be filed with the District Commission when the value of the goods or services paid as consideration does not exceed Rs 1 crore. It is the consideration paid that determines this pecuniary jurisdiction, rather than an arbitrary amount of compensation demanded by the complainant.

**Step 2:** Describe how it examines and decides the complaint **Examination of the complaint:** On receiving a consumer complaint, the Commission refers it to the party against whom it has been filed. Where the complaint concerns goods requiring testing, a sample may be sent to an appropriate laboratory. The Commission considers the laboratory report, the evidence and the submissions of both parties before deciding whether the consumer's grievance is justified.

**Relief to the consumer:** If satisfied that the goods are defective or the service is deficient, it can direct the opposite party to remove the defect, replace the goods, refund the price or charges paid, or pay appropriate compensation for the loss or injury suffered. Depending on the complaint, it may also order removal of a service deficiency, discontinuance of an unfair trade practice, withdrawal of hazardous goods, or payment of the consumer's litigation costs. Thus, its order gives practical redress rather than merely acknowledging the grievance.

**Right of appeal:** A party dissatisfied with the District Commission's order may appeal to the State Commission within 45 days of the order. This provides a further opportunity for review within the consumer redressal machinery.

**Step 3:** Conclusion The District Commission helps consumers by hearing eligible complaints locally, examining the evidence and directing the appropriate remedy, such as repair, replacement, refund or compensation. Its decisions are subject to appeal before the State Commission.

**Quick Tip to Solve:** Organise this answer as composition, jurisdiction, complaint examination, remedies and appeal; connect each feature to the consumer's actual redress.

OR

**9(b). State any five responsibilities of a consumer as per the Consumer Protection Act, 2019.** [5 marks]

**Solution:**

**Concept:**

- Consumer protection is effective when consumers exercise their rights and also act responsibly before, during and after a purchase.
- An informed consumer checks product quality and terms, follows safety instructions, insists on proof of purchase and seeks redress for a genuine grievance.

**Step 1:** Act carefully before buying The following are three responsibilities of a consumer:

- **Be aware of available goods and services:** Obtain information about the products available in the market, their prices and features. This helps the consumer make an intelligent and informed choice instead of relying blindly on a seller's claims.
- **Buy standardised goods:** Prefer goods bearing appropriate quality-certification marks, such as the ISI mark for electrical goods, the Hallmark for jewellery and the FPO mark for food products. These marks provide an assurance of prescribed quality and help the buyer avoid substandard products.
- **Read labels carefully:** Check the price, net weight, manufacturing and expiry dates, ingredients and other information on the label. Understanding this information helps the consumer select a suitable product and avoid expired or unsuitable goods.

**Step 2:** Use products safely and retain purchase evidence Two further responsibilities are:

- **Follow safety instructions:** Learn about the risks associated with a product and follow the manufacturer's instructions for its safe use. For example, precautions accompanying an electrical appliance should be observed to prevent injury or damage caused by misuse.
- **Insist on a cash memo:** Ask for and preserve a cash memo or bill when buying goods or services. It records the seller, date, product and amount paid, and serves as proof of purchase if the consumer later needs to complain or seek redress.

**Step 3:** Conclusion Five consumer responsibilities are to make an informed choice, buy standardised goods, read labels carefully, follow safety instructions and insist on a cash memo. These actions help prevent exploitation and support the effective exercise of consumer rights.

**Quick Tip to Solve:** Organise your answer around the purchase: compare and check quality before buying, read the label, use safely, and retain the bill as evidence.

**10. Explain 'Treasury Bill' and 'Call Money' as instruments of 'Money Market'.** [5 marks]

**Solution:**

**Concept:**

- The money market deals in short-term funds and monetary assets with a maturity of up to one year. Its instruments meet temporary financing and liquidity requirements.

- Treasury bills meet the Central Government's short-term borrowing requirements, whereas call money meets banks' temporary requirements for funds.

**Step 1:** Explain Treasury Bills **Issuer and purpose:** A Treasury Bill is a short-term borrowing instrument issued by the Reserve Bank of India on behalf of the Government of India. It enables the government to raise funds for its short-term requirements.

**Maturity and form:** Its maturity is less than one year. It takes the form of a promissory note and is freely transferable. Treasury bills are issued in a minimum amount of Rs 25,000 and in multiples thereof.

**Return to the investor:** Treasury bills carry no stated coupon interest and are therefore also called zero-coupon bonds. They are issued at a price below their face value and repaid at face value on maturity. The difference between the purchase price and the amount received on maturity is the investor's return.

**Safety and liquidity:** Since repayment is backed by the government, Treasury bills have negligible default risk. They are highly liquid and provide a way to invest short-term surplus funds.

**Step 2:** Explain Call Money **Nature and participants:** Call money is short-term finance repayable on demand, with a maturity period of one day, used for inter-bank transactions. A bank with surplus funds lends to a bank facing a temporary shortage.

**Purpose:** Banks use call money to meet temporary cash requirements and maintain the cash reserve ratio prescribed by the Reserve Bank of India. It allows them to manage day-to-day liquidity without obtaining long-term finance.

**Interest rate:** The interest paid on call money is the call rate. It is highly volatile because it changes with the demand for and supply of short-term funds. A shortage of funds tends to raise the rate, while abundant liquidity tends to lower it.

**Relationship with other instruments:** Call rates have an inverse relationship with the prices of other money-market instruments. A rise in the call rate makes call lending more attractive, reducing the demand for other short-term instruments and tending to lower their prices.

**Step 3:** Conclusion Treasury bills provide short-term funds to the government and a liquid investment to holders, with a return earned through the issue discount. Call money transfers funds between banks for one day to meet immediate liquidity and reserve requirements, with interest charged at the call rate.

**Quick Tip to Solve:** Remember the borrower and the return: Treasury Bills mean government borrowing at a discount; call money means one-day inter-bank borrowing at the call rate.

**11. Riya was working as a manager in a hotel. During COVID-19 she lost her job. Now she has started her own restaurant which was providing immunity-boosting food. Her restaurant was a success and she was earning a good profit. To benefit the people of other areas with her immunity-boosting food, she thought of starting three restaurants in three different cities. For this, she appointed three managers. She told all the managers that to be successful it is necessary that they should guide the people working in their respective teams about the work to be done by them, when they should do it and how they should do it. She also added that mere transfer of views or information is not sufficient, it is necessary that their instructions are implemented in the proper perspective, so that the organisation may achieve its objectives. To improve the performance level of employees, she suggested that they develop insights into causes of behaviour of people. They have to make subordinates act in a desired manner to achieve organisational goals.**

**(a) Identify and state the function of management discussed in the above para.**

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

**Solution:**

**Concept:**

- Directing is the management function concerned with instructing, guiding, counselling, motivating and leading people in an organisation to achieve its objectives.
- Directing converts managerial plans into employee action. It involves understanding human behaviour and influencing people so that their efforts contribute to organisational goals.

**Step 1:** Identify and state the function in part (a) The function is **directing**. It is the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. Riya says that managers should "guide the people working in their respective teams about the work to be done by them, when they should do it and how they should do it." This directly describes the guidance and instruction involved in directing. Her statement that managers must "make subordinates act in a desired manner to achieve organisational goals" also shows that directing influences behaviour and ensures that instructions lead to action.

**Step 2:** State three points of importance for part (b)

- **Initiates action:** Directing helps employees begin work towards organisational objectives. Plans and the appointment of managers do not themselves produce results; employees need instructions and guidance about what to do and how to do it. Thus, directing turns the planned restaurant operations into actual work.
- **Integrates employees' efforts:** Employees perform different activities and may have different personal interests. Through directing, managers coordinate and integrate their efforts so that each person's performance contributes to the common organisational objectives. This ensures that individual effort supports the success of the restaurant as a whole.
- **Realises employees' potential:** Effective directing motivates and leads employees to make full use of their abilities. A manager who understands the causes of people's behaviour can encourage initiative, recognise ability and guide employees towards better performance. This helps employees contribute more effectively to the organisation.

**Step 3:** Conclusion The function discussed is **directing**: guiding and influencing people to achieve

organisational objectives. Its importance includes initiating action, integrating employees' efforts and enabling employees to realise their potential.

**Quick Tip to Solve:** In a management case, connect guidance, motivation and implementation of instructions with directing. State the function's definition first, then explain each requested point of importance under its own heading.

**12(a).** **'A.M. Motors Ltd.' is a leading company in car manufacturing. Due to the changing environment and initiatives taken by the Government of India, the company wants to enter into manufacturing of e-cars also. For this project the company requires ₹ 2,000 crore. But before purchasing the machines and other assets, the finance manager has to assess the degree of risk involved in the project as this type of decision affects the earning capacity of the business over the long run. Besides this, there are various other factors which may affect this decision of the finance manager.**

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

**(ii) State any two factors that may affect the decision of the finance manager identified in (i) above.**

[5 marks]

**Solution:**

**Concept:**

- An investment decision concerns how the firm's funds are invested in different assets. A long-term investment decision is also called a capital budgeting decision.
- Capital budgeting commits a large amount of funds to fixed assets and influences the earning capacity, profitability and risk of the business over a long period. Expected cash flows and the rate of return are important factors in evaluating it.

**Step 1:** Identify and state the financial decision **(i) Long-term investment decision or capital budgeting decision:** This is the decision about investing the firm's funds in long-term assets or projects. A.M. Motors Ltd. proposes to invest in machines and other assets for manufacturing e-cars. The words "before purchasing the machines and other assets" and "affects the earning capacity of the business over the long run" show that this is a long-term investment decision. The proposed commitment of Rs 2,000 crore is to a production project rather than merely to day-to-day operating expenses. The finance manager must evaluate the project's likely benefits and risks before committing funds, because such investments usually involve substantial amounts and are difficult to reverse without loss.

**Step 2:** State two factors affecting the decision **(ii) Any two factors are:**

- **Cash flows of the project:** An investment generates a series of cash receipts and cash payments over its life. Their amount and timing must be assessed carefully before selecting a project. The finance manager should examine the expected cash inflows from the e-car project and the cash outflows needed to establish and operate it; accounting profit alone does not show when cash will become available.
- **Rate of return:** The expected return from each investment proposal must be estimated and the risk associated with it assessed. Other things being equal, a project offering a higher rate of return should be preferred. For A.M. Motors Ltd., the expected return on the e-car project must justify the

long-term funds committed, with due regard to the risk of earning that return.

**Step 3:** Conclusion The financial decision is a **long-term investment or capital budgeting decision**, involving investment in the assets needed for the e-car project. Two factors affecting its evaluation are the **cash flows of the project** and its **rate of return**.

**Quick Tip to Solve:** First identify what the funds will buy: machines and other long-term assets signal capital budgeting. Then explain the project's cash flows and expected return as separate evaluation factors.

OR

**12(b). 'R.K. Fertilisers Ltd.' has planned to set up a plant for manufacturing urea fertiliser which has very high market potential as there is excess demand as compared to supply. The company is planning to operate at a higher scale which will require a bigger plant, more space, etc. The company has also planned to replace its plant and machinery as the same are prone to obsolescence with the change in technology. To meet the growing demand of fertilisers that may result in increase in profits, the company is also planning to diversify its operations. It wants to enter in the area of cement manufacturing. Thus, it is a capital intensive project involving an investment of ₹ 3,000 crore.**

**Identify and state any five factors affecting the fixed capital requirements of 'R.K. Fertilisers Ltd.' discussed in the above para.** [5 marks]

**Solution:**

**Concept:**

- Fixed capital refers to investment in long-term assets such as land, buildings, plant and machinery. The amount required depends on the nature and future plans of the business.
- Nature of business, scale of operations, technology upgradation, growth prospects and diversification all influence the investment needed in fixed assets.

**Step 1:** Identify the nature and scale of the business

- **Nature of business:** The company plans to set up a plant for "manufacturing urea fertiliser". A manufacturing concern requires substantial investment in plant, machinery and other fixed assets, unlike a trading concern which primarily buys and sells goods. Hence its fixed capital requirement is high.
- **Scale of operations:** It plans to "operate at a higher scale", requiring "a bigger plant, more space". A larger scale of operations requires more land, buildings, machinery and equipment. Therefore, the company's large-scale operations increase its fixed capital needs.

**Step 2:** Identify the effect of technology and future expansion

- **Technology upgradation:** The company plans to "replace its plant and machinery" because they are "prone to obsolescence with the change in technology". Businesses using assets which become obsolete quickly require higher fixed capital to finance their replacement and technological upgradation.
- **Growth prospects:** The case mentions "very high market potential" and "excess demand as compared to supply", as well as growing demand that may increase profits. An enterprise with

higher growth prospects needs more fixed capital to expand capacity and meet the anticipated increase in demand.

- **Diversification:** The company plans to "diversify its operations" by entering "cement manufacturing". Adding a new product line requires investment in separate production facilities and other long-term assets. Therefore, diversification raises its fixed capital requirement.

**Step 3:** Conclusion The five factors are nature of business, scale of operations, technology upgradation, growth prospects and diversification. Each indicates a high fixed capital requirement for R.K. Fertilisers Ltd.; the proposed capital-intensive project involves an investment of Rs 3,000 crore.

**Quick Tip to Solve:** Match each case clue to a distinct factor: manufacturing to nature, bigger plant to scale, obsolescence to technology, rising demand to growth, and a new product line to diversification.