CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/6/2 - 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 to be conducted in the selection process that is an indicator of a person's learning ability. [2 marks]

Solution:

Concept:

- Staffing includes selection: choosing the most suitable candidate by assessing the qualities needed for a job.
- Intelligence tests measure intellectual ability and indicate a person's ability to learn, understand instructions and make decisions or judgements.

Step 1: Identify the test from the clue The question describes a test that is an indicator of a person's 'learning ability'. This is an **intelligence test**. The emphasis is on the candidate's intellectual capacity rather than on an already acquired occupational skill.

Step 2: State what the test measures An intelligence test measures a person's level of intelligence. It helps assess the ability to learn, comprehend instructions and make decisions and judgements. In selection, these results help the employer judge whether a candidate can understand and handle the intellectual demands of the work. An aptitude test, by comparison, focuses on the potential to acquire a particular new skill, while a trade test checks an existing skill.

Step 3: Conclusion The test is an **intelligence test**: it indicates a person's learning ability by assessing intellectual capacity, including understanding instructions and making decisions and judgements.

Quick Tip to Solve: Link the NCERT phrase 'indicator of learning ability' to intelligence tests; link 'potential to acquire new skills' to aptitude tests.

2. 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 of comparing actual performance with predetermined standards, finding deviations and taking corrective action.
- Judging the accuracy of standards is an importance of controlling: control information helps management check whether its standards are accurate and objective.

Step 1: Identify the management function The function is **controlling**. The clue is 'verifying whether the standards set are accurate and objective'. By checking performance against standards, management obtains information about both actual work and the suitability of the standards used to assess it.

Step 2: Explain the meaning of controlling Controlling means measuring actual performance, comparing it with predetermined standards, analysing the causes of deviations and taking corrective action so that organisational objectives are achieved. This comparison also helps management review whether the standards themselves are realistic and objective. If changing circumstances make a standard unsuitable, management can revise it; if performance is at fault, it can correct the performance.

Step 3: Conclusion **Controlling** is the function concerned. It compares actual performance with predetermined standards and takes corrective action where necessary to ensure achievement of organisational objectives.

Quick Tip to Solve: When a question mentions checking the accuracy of standards, identify controlling and define it through comparison, deviations and corrective action.

3. '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 performs protective, regulatory and developmental functions for the securities market. Developmental functions promote the growth and effective operation of the market.
- Research, useful market information and measures supporting capital-market development are developmental functions, distinct from enforcing rules or preventing malpractices.

Step 1: Recognise the category requested The question already gives 'Training of intermediaries of the securities market' and asks for two **other developmental functions**. Therefore, training should not be repeated, and protective functions such as prohibiting insider trading should not replace the requested developmental functions.

Step 2: State the two other developmental functions **Conducting research and publishing information:** SEBI conducts research and publishes information useful to all market participants. This supports better understanding of the securities market and informed participation.

Undertaking measures to develop capital markets: SEBI undertakes measures to develop the capital markets by adopting a flexible approach. The focus is on facilitating market development rather than merely imposing or enforcing restrictions.

Step 3: Conclusion The two other developmental functions are **conducting research and publishing information useful to all market participants** and **undertaking measures to develop the capital markets by adopting a flexible approach**.

Quick Tip to Solve: For SEBI's developmental functions, remember training, research and information, and flexible measures for capital-market development; omit training here because it is already given.

4. '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 is the movement of an employee from one job, department or branch to another without a substantial change in responsibilities, status or salary.

- Transfers are a source of internal recruitment because an existing employee fills the vacancy. Their usefulness must be weighed against the temporary adjustment that a new assignment requires.

Step 1: Explain how transfers balance the workforce **Adjust surplus and shortage of staff:** An organisation may have excess employees in one department and vacancies in another. Transfers move suitable employees to the department where their services are needed. Thus, vacancies can be filled internally and the existing workforce used more effectively instead of recruiting new staff while suitable employees remain underutilised elsewhere.

Step 2: Explain how transfers prepare employees for different jobs **Broaden experience and provide training:** Transfers expose employees to different jobs and departments. This helps them learn varied operations, develop additional skills and acquire wider experience. Such job rotation can prepare them for future responsibilities and make it easier to place them where their abilities are most useful.

Step 3: Conclusion Transfers remain useful because they balance staff between surplus and shortage departments and provide employees with wider experience and training. These benefits explain their continued use despite the possible short-term loss of productivity while employees adjust.

Quick Tip to Solve: For a question asking why transfers are useful, connect each reason to an organisational need: balancing staff or developing employees through varied experience.

5. 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 process of increasing the knowledge, skills and abilities of employees for performing a specific job effectively.
- Training is job-oriented: it improves the employee's ability to carry out the duties of the present job. Development has a wider scope and concerns the employee's overall growth and capacity for future responsibilities.

Step 1: Identify the process from the clues The process is **training**. The expressions 'job-oriented' and 'perform a specific job' show that the purpose is to improve competence in a particular assignment. Therefore, the question refers to training rather than the broader process of development.

Step 2: State what training involves Training is a systematic process of imparting the knowledge and practical skills needed for a job so that an employee can perform it correctly and efficiently. It familiarises the employee with relevant methods, procedures, tools and standards of work. For example, teaching a machine operator the correct operating and safety procedures for a particular machine is training: the instruction is directly related to the task that the employee must perform.

Step 3: Link training to improved job performance Through instruction, demonstration and practice, training reduces the gap between the skills an employee possesses and the skills the job requires. The employee becomes better able to perform the assigned duties, avoid mistakes and meet the expected work standard. Its immediate focus is effective performance of the specific job.

Step 4: Conclusion The process is **training**, a job-oriented process that increases employees' knowledge, skills and abilities to perform a particular job effectively and efficiently.

Quick Tip to Solve: Use the clue 'specific job' to identify training; use 'overall growth' or preparation for future responsibilities to identify development.

6. 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 to raise capital. Methods of floatation describe how these securities are first made available to investors.
- An offer for sale uses an intermediary to reach the investing public, whereas a rights issue gives the first opportunity to subscribe to existing shareholders.

Step 1: Explain offer for sale **Offer for sale:** The issuing company does not issue the securities directly to the public. Instead, it sells them at an agreed price to intermediaries, such as issuing houses or stockbrokers. These intermediaries then resell the securities to the investing public, generally at a higher price. Thus, the intermediary provides the route through which the new securities reach public investors. For example, a company may sell an entire new issue to an issuing house, which subsequently offers it to investors.

Step 2: Explain rights issue **Rights issue:** An existing company offers new shares first to its existing equity shareholders. Each shareholder receives the right to subscribe in proportion to the shares already held, according to the terms of the issue. For example, a one-for-five rights offer gives a holder of 100 shares the right to buy 20 new shares. This preferential opportunity allows existing shareholders to maintain their proportionate ownership if they subscribe. The offer therefore approaches the company's present shareholders before offering the shares to outsiders.

Step 3: Conclusion Offer for sale raises capital through intermediaries who resell the new securities to the public. A rights issue offers new shares to existing shareholders in proportion to their present holdings.

Quick Tip to Solve: Remember the first recipient: an intermediary in an offer for sale, and an existing shareholder in a rights issue.

7. 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 vacant positions. Tests, interviews, reference checks and the selection decision are followed by formal steps that complete the appointment.
- The case states that the 'final decision has been made in consultation with the heads of the nursing department'. Therefore, the remaining steps are medical examination, job offer and contract of employment.

Step 1: Conduct the medical examination **Medical examination:** After the selection decision and before making the job offer, the selected nurses should undergo a medical fitness examination. The offer depends on their being declared fit for the work. This establishes whether the candidates meet the health and physical fitness requirements of the nursing positions. Hemant should arrange this examination rather than repeat the tests and interviews that the case says have already been conducted.

Step 2: Make the job offer **Job offer:** The hospital should make an offer to each selected and medically fit candidate through a letter of appointment. The letter should confirm the selection and specify the date by which the candidate must report for duty. The candidate should receive reasonable time to accept the offer and join, particularly if notice must be served with a previous employer.

Step 3: Complete the contract of employment **Contract of employment:** After the candidate accepts the offer, the employer and employee complete the employment documents and agree to the terms of appointment. These include the job title and duties, remuneration, working hours, leave entitlement, joining date and the conditions governing employment and its termination. The written agreement makes the obligations of both parties clear and completes the formal appointment process.

Step 4: Conclusion Hemant must complete the medical examination, issue the job offer and finalise the contract of employment. These follow the selection decision already described in the case.

Quick Tip to Solve: Locate the last completed selection step in the case; after the selection decision, recall medical examination, job offer and employment contract in that order.

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

Solution:

Concept:

- Communication is the exchange of facts, ideas, opinions and feelings between people to create common understanding. In an organisation, its route may be formal or informal.
- Formal communication follows the channels and authority relationships established by the organisational structure; informal communication arises from social interaction among employees.

Step 1: State the meaning of formal communication **Formal communication:** It is communication that flows through the official channels designed in the organisation chart. The sender and receiver communicate in their official capacities, following established reporting relationships. For example, a production manager giving a work instruction to a supervisor through the prescribed channel is formal communication. It may move vertically between superior and subordinate, or horizontally between people or departments at the same level. It may be oral or written; its defining feature is the authorised route, rather than the medium used.

Step 2: State the meaning of informal communication **Informal communication:** It is communication that takes place without following the formal lines of communication. It emerges from employees' personal and social relationships and their interaction at work. For example, employees from different departments discussing workplace news during a lunch break communicate informally, even though no reporting relationship connects them. This network is commonly called the grapevine. It can spread information quickly across levels and departments, but the information may be incomplete or unverified because it does not pass through an authorised channel.

Step 3: Conclusion Formal communication follows officially prescribed organisational channels, while informal communication develops through social relationships outside those prescribed channels. Both can be oral or written; the basis of the distinction is the route and relationship through which information flows.

Quick Tip to Solve: Identify the channel, not the medium: a spoken official instruction can be formal, while a written personal message can be informal.

OR

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

Solution:

Concept:

- Controlling ensures that actual activities conform to planned activities. It begins by defining the expected performance and then obtaining reliable information about actual performance.
- The first two steps are setting performance standards and measurement of actual performance. Comparing actual results with standards follows these two steps.

Step 1: Explain setting performance standards **Setting performance standards:** Standards are the criteria against which actual performance will be measured. They provide the benchmark for judging

whether work has achieved the desired result. Standards should be clear and, wherever possible, expressed in specific and measurable terms. For example, a manufacturing unit may prescribe a daily output of 500 units, a maximum cost per unit, or a permissible level of defects. Qualitative aspects, such as employee morale or customer satisfaction, also require standards and suitable indicators. The standards should be realistic and sufficiently flexible to accommodate relevant changes in the business environment, so that they remain useful for control.

Step 2: Explain measurement of actual performance **Measurement of actual performance:** Once standards are established, actual performance is measured objectively and reliably. Managers may use personal observation, sample checking, performance reports and accounting information, depending on the activity being controlled. Measurement should use the same terms as the corresponding standard; if the standard is daily output in units, actual daily output must also be recorded in units. Performance is measured at suitable intervals and, where possible, while the activity is taking place so that a difficulty can be detected promptly. For instance, a production report may record that 470 units were actually produced in the day. This record supplies the factual basis for the later comparison with the standard.

Step 3: Conclusion Thus, controlling first establishes performance standards and then measures actual performance. The first step specifies what should be achieved, and the second determines what has actually been achieved, providing the inputs for subsequent comparison and corrective action.

Quick Tip to Solve: Keep the sequence clear: first define the benchmark, then measure the actual result. Comparing the two is the next step, not part of the first two.

9(a). State any five reliefs available to a consumer as per the Consumer Protection Act, 2019. [5 marks]

Solution:

Concept:

- Consumer Protection concerns safeguarding consumers against defective goods, deficient services and unfair practices. Under the Consumer Protection Act, 2019, a consumer can seek redress through the appropriate Consumer Disputes Redressal Commission.
- Relief is the remedy that the Commission can order after being satisfied that the complaint is justified. Depending on the circumstances, it may direct the opposite party to provide one or more remedies; the consumer does not automatically receive every remedy in every complaint.

Step 1: State the reliefs relating to the defective product Any five reliefs may be stated. The following three directly address the defective goods or the amount paid:

- **Removal of the defect:** The Commission may order the opposite party to remove the defect in the goods. This requires correcting the defect so that the product meets the required standard. Where a service is deficient, removal of that deficiency may similarly be ordered.
- **Replacement of the goods:** The opposite party may be directed to replace the defective goods with new goods of similar description that are free from defects. The consumer thereby receives a proper substitute for the defective product.
- **Refund of the price:** The Commission may order return of the price paid by the consumer for the

goods, or the charges paid for the service. This relief restores the amount paid when the complaint justifies a refund.

Step 2: State the reliefs relating to loss and unfair practices Two further reliefs are:

- **Compensation for loss or injury:** The opposite party may be directed to pay a reasonable amount as compensation for loss or injury suffered by the consumer due to its negligence. This remedy addresses the harm caused to the consumer and is distinct from merely returning the purchase price.
- **Discontinuance of unfair or restrictive trade practices:** The Commission may order the opposite party to stop an unfair or restrictive trade practice and not repeat it. This prevents continuation of the wrongful practice, rather than only correcting the individual product involved in the complaint.

Step 3: Conclusion Five reliefs are removal of defects or deficiencies, replacement with defect-free goods, refund of the price or service charges, compensation for loss or injury, and discontinuance of unfair or restrictive trade practices. The appropriate relief depends on the facts established in the consumer's complaint.

Quick Tip to Solve: Keep remedies distinct: repair, replacement and refund concern the purchase; compensation addresses harm, while stopping an unfair practice prevents its repetition.

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:

- Consumer Protection recognises rights that protect consumers against exploitation and enable them to act as informed buyers. The rights asked here are the right to safety and the right to consumer education.
- Safety concerns protection from dangerous goods and services; consumer education concerns the knowledge and skills needed to understand and exercise consumer rights.

Step 1: Explain protection under the right to safety **Right to Safety:** A consumer has the right to be protected against the marketing of goods and services that are hazardous to life and health. Products must be safe for their intended use, since defective goods or unsafe services can cause injury and endanger the consumer's life. For example, a faulty electrical appliance may cause an electric shock or fire; the consumer is entitled to protection from such hazards.

Step 2: Relate safety to quality assurance **Quality and safe use:** To safeguard this right, consumers should look for appropriate quality-assurance marks, such as the ISI mark on electrical appliances, and follow the instructions for use. Such checks help them select products meeting prescribed safety standards instead of judging a product only by its price or appearance.

Step 3: Explain the right to consumer education **Right to Consumer Education:** A consumer

has the right to acquire knowledge and skills to be an informed consumer throughout life. This includes awareness of consumer rights, responsibilities and the remedies available against unfair trade practices. Education enables buyers to understand product information, make informed choices and recognise exploitation.

Step 4: State how education enables action **Awareness and redressal:** Consumers should know how to seek relief when their rights are violated, including the role of consumer organisations and consumer dispute redressal commissions. Educational institutions, government agencies and consumer organisations can spread this awareness through instruction and public information. An educated consumer is better able to retain purchase evidence and pursue a legitimate complaint.

Step 5: Conclusion The right to safety protects consumers from goods and services hazardous to life and health. The right to consumer education equips them with continuing knowledge and skills to make informed purchases and exercise their rights effectively.

Quick Tip to Solve: Link safety with protection from hazards, and consumer education with lifelong awareness of rights, responsibilities and remedies. Explain each right before giving its practical application.

10. Explain 'Commercial Bill' and 'Certificate of Deposit' as instruments of 'Money Market'. [5 marks]

Solution:

Concept:

- The money market deals in short-term funds through monetary assets having a maturity period of up to one year. Its instruments help meet temporary financing needs and provide an avenue for placing short-term surplus funds.
- A commercial bill finances a credit sale, whereas a certificate of deposit enables a commercial bank or development financial institution to raise short-term deposits from investors.

Step 1: Explain the nature and creation of a commercial bill **Meaning and purpose:** A commercial bill is a bill of exchange used to finance the working-capital requirements of business firms. It is a short-term, negotiable and self-liquidating instrument: the proceeds of the underlying sale are expected to provide the funds for its repayment.

How it arises: When goods are sold on credit, the seller draws a bill on the buyer, directing the buyer to pay a specified sum on a specified future date. The buyer accepts the bill, thereby acknowledging the obligation to pay. The accepted bill is called a trade bill.

Step 2: Show how the commercial bill provides immediate funds **Discounting and payment:** Instead of waiting until the bill matures, the seller may discount the accepted trade bill with a bank. The bank pays the seller immediately after deducting its discount. When a trade bill is accepted by a commercial bank, it becomes a commercial bill. The bank receives payment from the buyer on maturity. Thus, the seller obtains working capital without waiting for the credit period to end, while the buyer receives time to pay for the goods.

Step 3: Explain the nature of a certificate of deposit **Meaning and issuers:** A certificate of deposit is an unsecured, negotiable instrument issued in bearer form by a commercial bank or a development financial institution. It is issued in exchange for funds deposited with the institution for a specified

period. Being unsecured means that it is not backed by a specific pledged asset; being negotiable means that it can be transferred.

Step 4: State when and why certificates of deposit are issued **Mobilising short-term funds:** Banks issue certificates of deposit when the liquidity position is tight and the growth of deposits is slow, even though demand for credit is high. They help mobilise a large amount of money for a short period. The issuing institution therefore obtains funds to meet its financing needs, and the holder obtains a transferable money-market instrument for investing short-term funds.

Step 5: Conclusion A commercial bill converts a credit-sale claim into immediate working capital through bank discounting. A certificate of deposit is a negotiable, unsecured instrument through which banks and development financial institutions mobilise short-term deposits. Both are instruments of the money market, but they arise from different financing needs.

Quick Tip to Solve: Link a commercial bill with a credit sale and discounting; link a certificate of deposit with a bank raising short-term deposits when liquidity is tight.

11(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:

- Financial Management: an investment decision concerns how a firm's funds are invested in different assets. A long-term investment decision is also called a capital budgeting decision.
- Capital budgeting involves committing funds to fixed assets or long-term projects. Such decisions affect the firm's earning capacity over a long period and usually involve large funds, considerable risk and difficulty in reversing the commitment.

Step 1: Identify and state the financial decision **(i) Long-term investment decision or capital budgeting decision:** This is the decision to allocate funds to long-term assets and projects so that they generate returns for the business over future years. Here, A.M. Motors Ltd. proposes to invest Rs 2,000 crore in an e-car manufacturing project and has to decide whether to purchase the machines and other assets needed for it.

The words "before purchasing the machines and other assets" show that the issue is the use of funds in productive assets. The statement that the decision "affects the earning capacity of the business over the long run" confirms that this is a long-term investment decision. The finance manager must assess

the project's risk because a large commitment to these assets will influence future earnings and cannot easily be undone. The mere mention of the funds required does not make this a financing decision: the paragraph asks about selecting the project and assets, rather than selecting a source of finance.

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

- **Cash flows of the project:** Buying assets commits funds now in expectation of cash receipts over a series of future periods. The finance manager must assess the expected cash inflows and outflows over the life of the e-car project, including their amount and timing, before deciding whether the investment is worthwhile. Accounting profit alone does not establish when cash will be available; the expected stream of cash flows is the relevant basis for the investment assessment.
- **Rate of return:** The expected return from the proposed project must be assessed in relation to its investment risk. The finance manager should compare the expected rates of return of available investment proposals. Other things being equal, a project offering a higher rate of return is preferable. A.M. Motors must therefore consider whether the expected return from e-car manufacturing justifies the funds committed and the risk borne.

Step 3: Conclusion A.M. Motors Ltd. is considering a **long-term investment or capital budgeting decision**: committing funds to machines and other assets for e-car production. Two factors affecting this decision are the **cash flows of the project** and its **expected rate of return**.

Quick Tip to Solve: Identify the decision by what management is choosing: buying long-term assets signals capital budgeting. Then state investment-specific factors such as cash flows and rate of return, rather than factors about choosing debt or equity.

OR

11(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 the funds invested in fixed assets such as land, buildings, plant and machinery. These assets serve the business over a long period rather than being consumed in its daily operations.
- The fixed capital requirement depends on the nature and scale of operations, technology upgradation, growth prospects and diversification. Each factor must be linked to the investment in long-term assets described in the case.

Step 1: Identify the nature of the business **Nature of business:** The company proposes to set up a plant for "manufacturing urea fertiliser". A manufacturing enterprise needs substantial investment in land, buildings, plant and machinery to produce goods. Its fixed capital requirement is therefore generally higher than that of a trading enterprise, which buys and sells finished goods without establishing a manufacturing plant. The description of the project as "capital intensive" reinforces this requirement.

Step 2: Relate the scale of operations to asset investment **Scale of operations:** The company plans to operate "at a higher scale", requiring "a bigger plant, more space, etc." Large-scale operations require greater production capacity and a larger physical establishment. Consequently, more funds have to be committed to fixed assets than would be needed for a small-scale operation.

Step 3: Explain the effect of technology upgradation **Technology upgradation:** The existing plant and machinery are "prone to obsolescence with the change in technology". Assets that become outdated quickly must be replaced sooner, even if they have not physically worn out. Provision for purchasing technologically improved plant and machinery increases the company's fixed capital requirement.

Step 4: Link growth prospects with additional capacity **Growth prospects:** The case mentions "very high market potential", excess demand over supply and the "growing demand of fertilisers". A company with strong growth prospects needs to create additional capacity to meet its expected future demand. Investment in additional plant, equipment and other fixed assets therefore raises its fixed capital requirement. This factor concerns expected expansion, while scale of operations concerns the size at which the enterprise operates.

Step 5: Identify the effect of diversification **Diversification:** The company plans to "enter in the area of cement manufacturing". Entering a new line of business requires investment in additional facilities and assets suited to that activity, rather than relying only on the existing fertiliser plant. Diversification thus increases its fixed capital requirement; the proposed investment of Rs 3,000 crore illustrates the substantial long-term funds involved.

Step 6: Conclusion The five factors are **nature of business, scale of operations, technology upgradation, growth prospects and diversification**. Manufacturing facilities, larger capacity, replacement of obsolete machinery, expected expansion and entry into cement manufacturing all increase R.K. Fertilisers Ltd.'s need for fixed capital.

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

12. 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 of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. It turns plans and assigned responsibilities into purposeful employee action.
- The importance of directing includes initiating action, integrating employees' efforts and guiding employees towards the realisation of their potential. Its concern is influencing people while work is actually performed.

Step 1: Identify and state the function in part (a) The function is **directing**. Riya asks the managers to "guide the people working in their respective teams" about what work to do, when to do it and how to do it. She also requires them to ensure that instructions are implemented and to "make subordinates act in a desired manner to achieve organisational goals." These clues show that the managers must influence and guide employees in carrying out their work.

Directing means instructing, guiding, counselling, motivating and leading people in an organisation so that organisational objectives are achieved. Mere transmission of information is insufficient: employees must understand the instructions and be encouraged and guided to act on them. Understanding the causes of employees' behaviour helps a manager choose suitable ways to motivate and lead them.

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

- **Initiates action:** Directing helps initiate action by people towards attainment of the desired objectives. Other functions prepare the organisation for work; through instructions and guidance, directing enables employees to begin and carry out the activities assigned to them. Thus, the restaurant managers must guide their teams to put the work plans into practice.
- **Integrates employees' efforts:** Directing integrates individual employees' efforts so that each person's performance contributes to organisational performance. Managers guide people with different tasks towards a common purpose and coordinate their contributions. This prevents isolated efforts from pulling in different directions and helps the restaurants achieve their objectives.
- **Helps employees realise their potential:** Effective directing through motivation and leadership helps employees identify and use their abilities fully. A manager provides encouragement and

guidance appropriate to employees' needs, enabling them to improve their performance. Riya's advice to understand the causes of people's behaviour supports the managers in encouraging their teams effectively.

Step 3: Conclusion (a) The function is **directing**: instructing, guiding, counselling, motivating and leading people to achieve organisational objectives. (b) It initiates action, integrates employees' efforts and helps employees realise their potential through effective motivation and leadership.

Quick Tip to Solve: In a management case, connect clues such as guiding, influencing behaviour and making employees act with directing; then state distinct importance headings and explain each separately.