CBSE Class 12 Business Studies Question Paper 2025 with Solution PDF-Set 66/7/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions

(i) This question paper contains **34** questions. **All** questions are **compulsory**.
(ii) Marks are indicated against each question.
(iii) Answers should be brief and to the point.
(iv) Answers to questions carrying **3** marks may be from 50 to 75 words.
(v) Answers to questions carrying **4** marks may be in about 150 words.
(vi) Answers to questions carrying **6** marks may be in about 200 words.
(vii) Attempt all parts of a question together.

1. Which of the following is *not* a protective function of Securities and Exchange Board of India ?

[1 mark]

(A) Controlling insider trading and imposing penalties for such practices

(B) Training of intermediaries of securities market

(C) Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulation, etc.

(D) Promotion of fair practices and code of conduct in securities market

Correct Answer: (B) Training of intermediaries of securities market

Solution:

Concept:

- SEBI protects investors, develops the securities market and regulates its participants. The categories describe the purpose of each activity.
- Protective functions prevent investor exploitation; developmental functions improve the capabilities and functioning of the market.

Step 1: Identify the activity that develops market participants Training intermediaries improves their knowledge, competence and professional efficiency. It builds the securities market rather than directly stopping an abusive practice, so it is a developmental function.

Step 2: Rule out the protective functions Controlling insider trading in (A) protects investors from misuse of privileged information. Prohibiting fraudulent or unfair practices in (C) prevents manipulation and misleading statements. Promoting fair practices and a code of conduct in (D) safeguards investor interests. Thus these three are protective functions, whereas training intermediaries is not.

Step 3: Conclusion Training of intermediaries of securities market is a developmental function of SEBI. Hence, the correct option is (B).

Quick Tip to Solve: For a question asking which function is not protective, separate investor safeguards from activities that build the skills of market participants.

2. Shreyansh and Sudhir were close friends and were studying in a reputed engineering college. During campus recruitment in the final year of engineering, both of them got their dream jobs. Shreyansh's consultancy firm was in India and Sudhir's was a manufacturing firm situated out of India. Both looked forward to join their respective organisations after completing their engineering degree.

One month after joining the organisation, Sudhir came to India on an assignment and both friends decided to meet. Shreyansh looked happy and was all praise for the management of his company. He told Sudhir that there was complete orderliness in his organisation and that all employees were happy and satisfied with the work and the working environment. Targets of the organization too were met as per the plans. Sudhir, in contrast was unhappy with his job and was thus on the lookout for another job.

The characteristic of management being highlighted in the above case by Shreyansh is : [1 mark]

(A) Management is a group activity.

(B) Management is a dynamic function.

(C) Management is an intangible force.

(D) Management is all pervasive.

Correct Answer: (C) Management is an intangible force.

Solution:

Concept:

- Management is an intangible force: it cannot be seen directly, but its presence is felt through the results of its efforts.
- Orderliness, satisfied employees and achievement of targets are observable effects of effective management.

Step 1: Connect the case evidence with the characteristic Shreyansh reports "complete orderliness and that employees were "happy and satisfied. He also says targets were met "as per the plans. These results allow people to feel the presence of good management even though management itself is not a physical object.

Step 2: Distinguish the other characteristics Group activity in (A) emphasises coordinated individual effort towards a common goal. Dynamic function in (B) concerns adaptation to a changing environment. All pervasive in (D) concerns management being required in all kinds of organisations. Although the case mentions different firms, the question specifically asks what Shreyansh highlights through orderliness and employee satisfaction.

Step 3: Conclusion The characteristic highlighted by Shreyansh is that management is an intangible force. Hence, the correct option is (C).

Quick Tip to Solve: Orderliness, satisfied workers and targets achieved are the textbook clues for management as an intangible force.

3. Read the following statements carefully :

Statement I : Any deviation, whether significant or insignificant, should be brought to the notice of the management.

Statement II : Control should focus on those Key Result Areas which are critical to the success of an organisation.

In the light of the above statements, choose the correct alternative from the options given below :

[1 mark]

(A) Statement I is true and Statement II is false.

(B) Statement I is false and Statement II is true.

(C) Both Statement I and Statement II are false.

(D) Both Statement I and Statement II are true.

Correct Answer: (B) Statement I is false and Statement II is true.

Solution:

Concept:

- Management by exception brings only significant deviations beyond acceptable limits to management attention, preserving managerial time.
- Critical point control concentrates attention on key result areas that are essential to organisational success.

Step 1: Evaluate Statement I Statement I says that "any deviation, whether significant or insignificant should be reported. This contradicts management by exception: insignificant variations within the accepted tolerance need not demand management attention. Statement I is therefore false.

Step 2: Evaluate Statement II and eliminate alternatives Statement II correctly states that control should focus on critical key result areas. Failure in such areas can threaten organisational success, so Statement II is true. Option (A) reverses both truth values; (C) wrongly rejects Statement II; and (D) wrongly accepts Statement I.

Step 3: Conclusion Statement I is false and Statement II is true. Hence, the correct option is (B).

Quick Tip to Solve: Associate significant deviations with management by exception, and vital key result areas with critical point control.

4. Read the following statements : Assertion (A) and Reason (R).

Assertion (A) : The cost of debt is lower than the cost of equity for a firm.

Reason (R) : Lender's risk is lower than the shareholder's risk. Additionally, interest paid on debt is a deductible expense for computation of tax liability, whereas dividends are paid out of after tax profit.

Choose the correct alternative from the options given below : [1 mark]

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is ***not*** the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Solution:

Concept:

- The financing decision compares the costs and risks of debt and equity. In the textbook comparison, debt is the cheaper source of finance.
- Interest is tax deductible, whereas equity dividends are paid from after-tax profits. Lenders also bear less risk than shareholders.

Step 1: Evaluate the assertion The assertion is true: the cost of debt is lower than the cost of equity in the given financing comparison. Shareholders require compensation for their higher risk, while interest also gives the firm a tax advantage.

Step 2: Evaluate the reason The reason is true. Lenders have a contractual claim to interest and repayment and rank ahead of shareholders, who are residual claimants. Interest paid is deductible when computing taxable profit, reducing the effective cost to the company. Dividends do not create the same deduction.

Step 3: Test the explanatory connection Both lower lender risk and the interest tax shield explain why debt costs less than equity. Thus the reason directly supports the assertion. Option (B) wrongly denies this link; (C) wrongly calls the reason false; and (D) wrongly calls the assertion false.

Step 4: Conclusion Both Assertion (A) and Reason (R) are true, and Reason (R) correctly explains Assertion (A). Hence, the correct option is (A).

Quick Tip to Solve: For debt versus equity cost questions, check both lender risk and the tax deductibility of interest before judging the explanatory link.

5. 'Apex Shoes', a popular footwear brand had grown rapidly over the years. It decided to open its own retail outlets across major cities. To ensure smooth operations, the retail outlets were managed by store managers who were responsible for day-to-day operations like inventory management, customer service and sales targets etc. However, for key decisions such as offering discounts or processing refunds etc., managers had to seek approval from corporate headquarters.

Quite often, customers would ask for a discount or want to return the shoes and get a refund. The store managers did not have the authority to approve this. They had to call the head office for approval, which caused a delay. These delays affected both customer satisfaction and footwear sales.

Realizing the need for faster decisions, the Chief Executive Officer of the company, Atul, decided to selectively disperse the authority to the store managers to approve discounts, returns and other customer-related decisions. He believed that store managers could assume responsibility for effective implementation of their decisions. This led to faster service, satisfied customers and an increase in sales.

The concept used by Atul to improve customer satisfaction and store performance was : [1 mark]

(A) Responsibility

(B) Authority

(C) Delegation

(D) Decentralisation

Correct Answer: (D) Decentralisation

Solution:

Concept:

- Decentralisation is the systematic dispersal of decision-making authority to lower levels, except authority that can be exercised only at central points.
- It gives managers closer to operations freedom to take appropriate decisions, encouraging quick decisions and effective implementation.

Step 1: Identify the organisational change Atul decided to "selectively disperse the authority to the store managers for discounts, returns and other customer-related decisions. Earlier these decisions required head-office approval. Moving such decision-making freedom to store level is decentralisation.

Step 2: Distinguish the other options Responsibility in (A) is the obligation to perform assigned work, not the dispersal of decision-making power. Authority in (B) is the right to take decisions and command action, but merely names the power itself. Delegation in (C) transfers authority from a superior to a subordinate for assigned duties; here the emphasis is the wider policy of dispersing authority across retail outlets. Decentralisation best describes that policy and the resulting faster customer service.

Step 3: Conclusion Atul used decentralisation to improve customer satisfaction and store performance. Hence, the correct option is (D).

Quick Tip to Solve: Look for a deliberate policy spreading operational decision-making to lower levels across units; that is the clue for decentralisation.

6. The Go-Vegan Movement has been an integral part of western nations owing to its numerous health and environmental benefits. India too has witnessed a propelling vegan food market. Concerned with the quality of life, people have shifted to a variety of plant-based food alternatives that offer great taste and health benefits and strengthen the immune system.

The dimension of business environment discussed above is : [1 mark]

(A) Economic environment

(B) Social environment

(C) Technological environment

(D) Political environment

Correct Answer: (B) Social environment

Solution:

Concept:

- The social environment includes values, attitudes, traditions, lifestyles and expectations prevalent in society.
- Changes in health consciousness and consumer lifestyles change the demand for products and create opportunities for business.

Step 1: Identify the social change in the case The case stresses people being "concerned with the quality of life and shifting towards "plant-based food alternatives. The Go-Vegan Movement reflects changing consumer attitudes, health awareness and lifestyle choices. These are elements of the social environment.

Step 2: Eliminate the other dimensions Economic environment in (A) concerns matters such as income, inflation and interest rates, rather than the lifestyle shift described. Technological environment in (C) concerns innovations and methods; no technological breakthrough is the focus here. Political environment in (D) concerns government attitudes and political conditions; the case describes no such policy change. Health benefits explain consumers' preference, which remains a social factor.

Step 3: Conclusion The dimension discussed is the social environment. Hence, the correct option is (B).

Quick Tip to Solve: Classify a shift in consumer lifestyle or health consciousness as social environment even when businesses earn revenue from the resulting demand.

7. **Match the statements given in Column I with the external source of recruitment given in Column II.**

Column I	Column II
1. Many reputed business organisations keep a database of unsolicited applicants in their offices. A list of such job-seekers can be prepared and can be screened to fill the vacancies as they arise.	(i) Recommendation of employees
2. A notice is placed on the notice board of the enterprise specifying details of the jobs available. Job-seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot.	(ii) Campus recruitment
3. Many big organisations maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs.	(iii) Direct recruitment
4. Applicants introduced by present employees or their friends and relatives.	(iv) Casual callers

Choose the correct option from the following : [1 mark]

(A) 1-(iii), 2-(ii), 3-(i), 4-(iv)

(B) 1-(ii), 2-(i), 3-(iii), 4-(iv)

(C) 1-(iv), 2-(iii), 3-(ii), 4-(i)

(D) 1-(iii), 2-(i), 3-(ii), 4-(iv)

Correct Answer: (C) 1-(iv), 2-(iii), 3-(ii), 4-(i)

Solution:

Concept:

- External recruitment brings applicants from outside the organisation. Sources differ in how candidates first come into contact with the employer.
- Casual callers apply unsolicited; direct recruitment selects assembled job-seekers on the spot; campus recruitment uses educational institutions; employee recommendations use personal referrals.

Step 1: Match the first two descriptions Statement 1 mentions a "database of unsolicited applicants, so it is casual callers, (iv). Statement 2 describes a notice and job-seekers assembling at the premises for on-the-spot selection, which is direct recruitment, (iii).

Step 2: Match the remaining descriptions and check the codes Statement 3 refers to a "close liaison with the universities, vocational schools and management institutes, identifying campus recruitment, (ii). Statement 4 concerns applicants introduced by existing employees or their friends and relatives, identifying recommendation of employees, (i). Only (C) contains all four correct links. Options (A), (B) and (D) each incorrectly match the unsolicited-applicant description; their full codes therefore cannot be correct.

Step 3: Conclusion The correct matching is 1-(iv), 2-(iii), 3-(ii), 4-(i). Hence, the correct option is (C).

Quick Tip to Solve: Use the entry route: unsolicited application means casual caller; a crowd at the gate means direct recruitment; an institute link means campus recruitment.

8. Radhika purchased an attractive new toaster for her house. In the beginning it worked fine and she enjoyed using it every morning. However, one morning as she was using the toaster, it caught fire and her fingers got partially burnt.

Identify the 'Right' under which she can be protected. [1 mark]

(A) Right to be informed

(B) Right to be assured

(C) Right to safety

(D) Right to consumer education

Correct Answer: (C) Right to safety

Solution:

Concept:

- The right to safety protects consumers against goods and services that are hazardous to life and health.
- A consumer right is identified from the particular harm described in the case, rather than from the attractiveness of the product.

Step 1: Identify the danger in the case The toaster 'caught fire' and Radhika's 'fingers got partially burnt'. The product has caused a physical injury during use, directly raising the issue of consumer safety.

Step 2: Eliminate the other rights The right to be informed concerns information such as quality, quantity, ingredients and price. The right to be assured concerns access to a variety of goods at competitive prices, while consumer education concerns knowledge of consumer rights and remedies. These do not directly describe protection against the physical danger here.

Step 3: Conclusion Radhika can be protected under the right to safety because the toaster endangered her health. Hence, the correct option is (C).

Quick Tip to Solve: When a product causes burns, injury or another threat to health, look for the right to safety.

9(a). **Identify the marketing function displayed in the picture given below :** [1 mark]



(A) Product designing and development

(B) Branding

(C) Marketing planning

(D) Packaging and labelling

Correct Answer: (D) Packaging and labelling

Solution:

Concept:

- Packaging involves designing and producing the container or wrapper of a product; labelling provides identifying and descriptive information on it.
- Labels can state ingredients, nutritional information and directions for use, helping consumers evaluate a product.

Step 1: Read the information shown The picture shows a consumer examining a label headed Nutrition Facts on a container. The information printed on the package describes the product, so the marketing function illustrated is packaging and labelling.

Step 2: Distinguish the other functions Product designing and development concerns the features and design of the product itself. Branding gives a product a distinctive name, sign or symbol, whereas marketing planning determines marketing objectives and programmes. None of these is specifically the function represented by reading nutritional information on the package.

Step 3: Conclusion The picture displays packaging and labelling, particularly the descriptive role of the label. Hence, the correct option is (D).

Quick Tip to Solve: Nutrition facts, ingredients and usage instructions printed on a container are clues to labelling.

OR

Note: *The following question is for the* ***Visually Impaired Candidates*** *only in lieu of Q. No.* ***9****.*

9(b). Which of the following functions of marketing gives detailed information to the consumers about the product, ensures safety of product and also serves as a promotional tool ? [1 mark]

(A) Product designing and development

(B) Branding

(C) Marketing planning

(D) Packaging and labelling

Correct Answer: (D) Packaging and labelling

Solution:

Concept:

- Packaging means designing and producing the container or wrapper of a product. It protects the product and helps attract buyers.
- Labelling describes and identifies the product through information such as ingredients, directions and warnings; a label can also promote it.

Step 1: Match all the clues to the function The question combines three roles: giving detailed information, ensuring product safety and serving as a promotional tool. Packaging protects the contents during storage and transport, while the label supplies information for consumers and can highlight the product's benefits. Together these roles identify packaging and labelling.

Step 2: Eliminate the other alternatives Product designing and development deals with the product's features and design, rather than the container and descriptive information. Branding supplies a distinctive name, sign or symbol to identify the seller's product. Marketing planning involves setting marketing objectives and programmes. Each performs a different task and does not cover the particular combination of information, protection and promotion stated here.

Step 3: Conclusion The marketing function is packaging and labelling. Hence, the correct option is (D).

Quick Tip to Solve: Connect protection to packaging and detailed consumer information to labelling; both can also promote a product.

10. A garment manufacturing firm had set a target of manufacturing 1000 garments per day. The manager of the firm saw that the production consistently fell short of the target. It was observed that employees were spending too much time taking lunch, reporting late and leaving early on one pretext or the other.

A control mechanism was installed to address the issue. Card punching was implemented in the organisation. It was made mandatory for employees to record their entry or exit every time they enter or leave. Their working hours were monitored and irregularities addressed. This helped the organisation to meet its daily production targets.

Identify the point of importance of 'Controlling' highlighted in the above case. [1 mark]

(A) Judging accuracy of standards

(B) Accomplishing organisational goals

(C) Making efficient use of resources

(D) Ensuring order and discipline

Correct Answer: (D) Ensuring order and discipline

Solution:

Concept:

- Controlling ensures order and discipline by checking employee activities and discouraging dishonest or irresponsible behaviour.
- A control system compares actual performance with expected conduct and allows management to correct deviations.

Step 1: Connect the case to employee conduct Employees were 'reporting late and leaving early'. Card punching made it mandatory to record every entry and exit, and 'irregularities' were addressed. Monitoring attendance discourages such indiscipline.

Step 2: Select the most specific importance Ensuring order and discipline directly explains the attendance control mechanism. Judging accuracy of standards would involve reviewing whether the target itself is appropriate, which is not described. Accomplishing organisational goals and efficient use of resources are broader benefits, but the distinctive emphasis here is regulating employee behaviour and working hours.

Step 3: Conclusion The point of importance highlighted is ensuring order and discipline. Hence, the correct option is (D).

Quick Tip to Solve: Attendance checks, prevention of misconduct and monitoring employee behaviour indicate order and discipline.

11. Selection test is a mechanism that attempts to measure certain characteristics of individuals ranging from aptitudes, to intelligence, to personality. It is one of the steps in the process of selection. Place the subsequent steps of process of selection in an organisation in the correct order. [1 mark]

(A) Employment interview, reference and background checks, selection decision, medical examination, job offer, contract of employment

(B) Employment interview, reference and background checks, medical examination, selection decision, job offer, contract of employment

(C) Employment interview, medical examination, job offer, reference and background checks, selection decision, contract of employment

(D) Employment interview, selection decision, reference and background checks, job offer, medical examination, contract of employment

Correct Answer: (A) Employment interview, reference and background checks, selection decision, medical examination, job offer, contract of employment

Solution:

Concept:

- The selection process screens candidates systematically to identify the person best suited to a job.
- After selection tests, NCERT places the employment interview and reference and background checks before the selection decision; the medical examination follows that decision.

Step 1: Arrange the subsequent stages The correct sequence is employment interview, reference and background checks, selection decision, medical examination, job offer and contract of employment. The interview and checks provide evidence for the selection decision; fitness is then assessed before the offer and formal contract.

Step 2: Check each competing sequence Option (B) reverses the selection decision and medical examination. Option (C) puts the job offer before reference checks and the selection decision. Option (D) places reference checks after the decision and the medical examination after the job offer. These departures from the prescribed sequence make them incorrect.

Step 3: Conclusion Option (A) gives the prescribed order of all stages following selection tests. Hence, the correct option is (A).

Quick Tip to Solve: Remember the sequence: interview, reference checks, decision, medical examination, offer, contract.

12. Identify the *incorrect* statement with respect to 'importance of consumer protection' from the business point of view. [1 mark]

(A) Enlightened businesses realise that it is in their long-term interest to satisfy their customers.

(B) It is the moral duty of any business to take care of consumer's interest and avoid any form of their exploitation.

(C) Due to widespread ignorance of consumers about their rights and reliefs available to them, it becomes necessary to educate them about the same, so as to achieve consumer awareness.

(D) A business engaging in any form of exploitative trade practices would invite government intervention which can tarnish the image of the company.

Correct Answer: (C) Due to widespread ignorance of consumers about their rights and reliefs available to them, it becomes necessary to educate them about the same, so as to achieve consumer awareness.

Solution:

Concept:

- From the business viewpoint, consumer protection supports long-term interest, moral responsibility and avoidance of government intervention.
- Consumer ignorance is a reason for consumer protection from the consumer viewpoint: consumers need awareness of their rights and available remedies.

Step 1: Identify the change of viewpoint Option (C) refers to the widespread ignorance of consumers about their rights and reliefs. This explains why consumers need education and protection. It is a consumer-side justification rather than the required business-side reason.

Step 2: Verify the remaining statements Option (A) expresses the long-term interest of business in customer satisfaction. Option (B) states the moral duty of business to avoid exploitation. Option (D) recognises that exploitative practices invite government intervention and damage reputation. All three are valid reasons from the business viewpoint.

Step 3: Conclusion The incorrect statement for the specified business viewpoint is the one about consumer ignorance, option (C). Hence, the correct option is (C).

Quick Tip to Solve: For viewpoint questions, classify each reason first: consumer ignorance belongs to the consumer viewpoint.

13. 'An institution constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in existing securities' is known as : [1 mark]

(A) Securities and Exchange Board of India (SEBI)

(B) Stock Exchange

(C) Capital Market

(D) Money Market

Correct Answer: (B) Stock Exchange

Solution:

Concept:

- A stock exchange is an institution providing a platform for buying and selling existing securities under established rules.
- Trading in existing securities belongs to the secondary market, distinct from the issue of new securities in the primary market.

Step 1: Match the definition The decisive words are buying and selling or dealing in existing securities. They describe the institution that organises and regulates transactions among investors in already-issued securities: a stock exchange.

Step 2: Distinguish the other institutions and markets SEBI is the securities-market regulator with a wider statutory role, rather than the exchange defined here. The capital market is the broader market for medium- and long-term funds, including primary and secondary markets. The money market deals in short-term funds and instruments. Thus none of (A), (C) or (D) matches this institutional definition.

Step 3: Conclusion The institution defined is a stock exchange. Hence, the correct option is (B).

Quick Tip to Solve: An institution for trading existing securities points to a stock exchange; a new issue points to the primary market.

14. Read the following statements : Assertion (A) and Reason (R).

Assertion (A) : Increased life expectancy of people and increased awareness for health care have increased the demand for many health products and services.

Reason (R) : Different elements of business environment are not inter-related.

Choose the correct alternative from the options given below : [1 mark]

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is ***not*** the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (C) Assertion (A) is true, but Reason (R) is false.

Solution:

Concept:

- Business environment comprises external forces that influence business decisions, opportunities and demand.
- Its different elements are inter-related: a change in one element can influence others and affect business together.

Step 1: Evaluate the assertion The assertion is true. Longer life expectancy and greater health awareness increase the need and demand for health products and services. The stated developments can therefore create business opportunities in health care.

Step 2: Evaluate the reason The reason is false. It says that environmental elements are not inter-related, contrary to the NCERT feature of inter-relatedness. Social awareness, demographic changes and demand can influence each other.

Step 3: Determine the assertion-reason relationship Since the assertion is true and the reason false, the reason cannot explain the assertion. Options (A) and (B) require both statements to be true, and option (D) requires a false assertion and true reason; all three are ruled out.

Step 4: Conclusion The assertion is true, but the reason is false. Hence, the correct option is (C).

Quick Tip to Solve: Judge the truth of A and R separately before testing whether R explains A; environmental elements are inter-related.

15. If any of the parties are not satisfied by the order of the District Commission, they can appeal against such order to the State Commission on the grounds of facts or law within a period of _____ from the date of order. [1 mark]

(A) 45 days

(B) 30 days

(C) 60 days

(D) 15 days

Correct Answer: (A) 45 days

Solution:

Concept:

- The Consumer Protection Act, 2019 provides a three-tier redressal machinery: District, State and National Commissions.
- An appeal against the District Commission's order may be made to the State Commission on grounds of facts or law within 45 days from the date of the order.

Step 1: Identify the relevant appeal The question concerns an appeal from the District Commission to the State Commission. Therefore, the time limit for that particular appeal must be applied, rather than a general period used for another level of consumer redressal.

Step 2: Choose the specified period The prescribed period is 45 days, which appears in option (A). The alternatives 30 days, 60 days and 15 days do not state the period applicable to this District-to-State appeal under the Act tested here.

Step 3: Conclusion The appeal can be filed within 45 days from the date of the District Commission's order. Hence, the correct option is (A).

Quick Tip to Solve: Link the appeal period to both commissions named: District to State means 45 days.

16. Identify the *incorrect* statement with respect to financial leverage. [1 mark]

(A) The proportion of debt in the overall capital is called financial leverage.

(B) With the increase in financial leverage, the financial risk increases.

(C) The proportion of equity in the overall capital is called financial leverage.

(D) As the financial leverage increases, the cost of funds declines.

Correct Answer: (C) The proportion of equity in the overall capital is called financial leverage.

Solution:

Concept:

- Financial leverage refers to the proportion of debt in the overall capital of a business.
- Debt involves fixed financial commitments, so greater use of debt raises financial risk. Debt is generally cheaper than equity, including because interest is tax-deductible.

Step 1: Check the definition and risk Option (A) correctly describes leverage in terms of debt. Option (B) is also correct: a higher debt proportion increases fixed interest obligations and the risk of being

unable to meet them. Option (C) incorrectly defines leverage as the proportion of equity.

Step 2: Check the cost statement Option (D) expresses the textbook effect of using the relatively cheaper source, debt: the cost of funds declines as its proportion increases, within the framework of this question. Thus (D) is not the incorrect statement being sought. The definition in (C) reverses debt and equity.

Step 3: Conclusion The proportion of equity in overall capital is not financial leverage; leverage concerns the proportion of debt. Hence, the correct option is (C).

Quick Tip to Solve: Underline "incorrect" first, and remember that financial leverage is linked to debt and fixed interest obligations.

17. Which of the following factors affect the capital budgeting decision of a company ? [1 mark]

(A) Investment criteria involved

(B) Floatation costs

(C) Tax Rate

(D) State of Capital Market

Correct Answer: (A) Investment criteria involved

Solution:

Concept:

- Capital budgeting is the investment decision concerning funds committed to long-term assets and projects.
- The cash flows of the project, rate of return and investment criteria involved are the principal factors affecting this decision.

Step 1: Identify the investment factor Investment criteria involve evaluating proposed projects through methods that compare their returns, cash flows and required investment. These criteria help management choose suitable long-term investments, so option (A) directly affects capital budgeting.

Step 2: Separate financing factors Floatation costs, tax rate and the state of the capital market are listed in the textbook in connection with financing decisions and the choice of sources of finance. They are not the named capital-budgeting factor sought among these alternatives. Therefore options (B), (C) and (D) are rejected.

Step 3: Conclusion Investment criteria involved affect the capital budgeting decision of a company. Hence, the correct option is (A).

Quick Tip to Solve: First distinguish where funds are invested from how they are raised; project evaluation belongs to capital budgeting.

18. Rajni, the Chief Executive Officer of a multinational company, maintained a simple and elegant look. Now she wanted a change, so she decided to colour her hair in a vibrant colour. After reading the label carefully, she purchased a well-known hair colour of good quality. Before applying the colour, she read the instructions carefully.

However, while applying the colour on her hair, she forgot the instructions and without testing it on a patch of her skin, she applied the colour. This led to an allergic reaction with redness and itching on her scalp, ears and neck.

Identify the responsibility that was ignored by Rajni as a consumer while using the hair colour.

[1 mark]

(A) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.

(B) Learn about the risks associated with products and services, follow manufacturer's instructions and use the product safely.

(C) Assert yourself to ensure that you get a fair deal.

(D) Ask for a cash-memo on purchase of goods or services.

Correct Answer: (B) Learn about the risks associated with products and services, follow manufacturer's instructions and use the product safely.

Solution:

Concept:

- Consumers must learn about product risks, follow the manufacturer's instructions and use products safely.
- Reading the label is useful only when the precautions and directions it contains are actually followed while using the product.

Step 1: Use the case evidence Rajni applied the colour "without testing it on a patch of her skin". This is the decisive omission: although she had read the instructions, she did not follow the safety precaution before use. The allergic reaction illustrates why safe-use instructions matter.

Step 2: Eliminate the other responsibilities Option (A) concerns awareness and wise selection; Rajni selected a well-known product after reading its label. Option (C) concerns asserting oneself for a fair deal, and option (D) concerns obtaining a cash memo. Neither is the neglected action described in the case. Option (B) directly covers risks, instructions and safe use.

Step 3: Conclusion Rajni ignored the responsibility to learn about risks, follow the manufacturer's instructions and use the product safely. Hence, the correct option is (B).

Quick Tip to Solve: For consumer-responsibility cases, identify the action omitted during selection, purchase or use; the patch-test omission concerns safe use.

19. Which of the following factors affect the fixed capital requirements of a company ?

1. Financing alternatives

2. Level of collaboration

3. Production cycle

4. Choice of technique

5. Seasonal factors

6. Level of competition

Choose the correct alternatives from the following : [1 mark]

(A) 2, 3 and 6

(B) 3, 4 and 5

(C) 3, 4 and 6

(D) 1, 2 and 4

Correct Answer: (D) 1, 2 and 4

Solution:

Concept:

- Fixed capital is the investment required in long-term assets such as plant, machinery and buildings.
- Financing alternatives, collaboration and the choice of technique affect how much investment a company must make in such assets.

Step 1: Select the fixed-capital factors Item 1, financing alternatives, matters because leasing can reduce the immediate investment in purchased assets. Item 2, the level of collaboration, matters because sharing facilities reduces separate asset investment. Item 4, choice of technique, matters because capital-intensive production requires more machinery than labour-intensive production.

Step 2: Reject the other combinations Production cycle (3), seasonal factors (5) and level of competition (6) are textbook factors affecting working capital requirements, such as funds tied up in inventory, receivables and daily operations. Options (A), (B) and (C) include these working-capital factors. Only option (D) contains 1, 2 and 4 together.

Step 3: Conclusion The factors are financing alternatives, level of collaboration and choice of technique: 1, 2 and 4. Hence, the correct option is (D).

Quick Tip to Solve: Ask whether a factor changes investment in long-term assets or funds needed for day-to-day operations; this separates fixed from working capital.

20. Read the following statements carefully :

Statement I : Training is the process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased.

Statement II : Training is a job-oriented process.

In the light of the above statements, choose the correct alternative from the options given below :

[1 mark]

(A) Statement I is true and Statement II is false.

(B) Statement I is false and Statement II is true.

(C) Both Statement I and Statement II are true.

(D) Both Statement I and Statement II are false.

Correct Answer: (C) Both Statement I and Statement II are true.

Solution:

Concept:

- Training increases employees' aptitudes, skills and abilities to perform specific jobs effectively.
- Training is job-oriented: it focuses on the knowledge and skills required for the employee's present work, whereas development has a broader growth orientation.

Step 1: Evaluate Statement I Statement I correctly describes training as the process through which job-related aptitudes, skills and abilities are increased. It focuses on improving performance in specific jobs, which is the textbook meaning of training. Therefore Statement I is true.

Step 2: Evaluate Statement II and choose Statement II is also true because training is directed towards the requirements of a particular job. Since both statements are true, options (A) and (B), which each declare one statement false, are ruled out. Option (D), which declares both false, is also ruled out. Option (C) matches the evaluation.

Step 3: Conclusion Both Statement I and Statement II are true. Hence, the correct option is (C).

Quick Tip to Solve: Associate training with the present job and development with broader employee growth to evaluate such statements quickly.

21(a). State any three points of importance of business environment. [3 marks]

Solution:

Concept:

- Business environment consists of the external forces, institutions and conditions that influence a business enterprise's performance.
- Understanding the environment enables managers to relate business decisions to changes outside the enterprise and to respond in time.

Step 1: Identify opportunities and gain the first-mover advantage **Identifying opportunities and getting the first-mover advantage:** Opportunities are positive external changes that can help a firm improve its performance. Awareness of environmental developments enables a business to recognise

such opportunities early and exploit them before competitors. For example, noticing a growing preference for healthier food can help a producer introduce suitable products ahead of rivals.

Step 2: Identify threats and obtain early warning signals **Identifying threats and early warning signals:** Threats are external trends or changes that can hinder a firm's performance. Studying the environment alerts management to emerging competition, changes in customer preferences or other adverse developments. Early warning gives the enterprise time to prepare a response and reduce the likely damage.

Step 3: Cope with rapid changes **Coping with rapid changes:** Markets, technology and business conditions change rapidly. Continuous environmental scanning helps managers understand these changes and develop appropriate courses of action. They can adapt products, methods and strategies to the emerging situation instead of continuing with decisions based on outdated conditions.

Step 4: Conclusion Three points of importance of business environment are identifying opportunities and gaining the first-mover advantage, identifying threats and early warning signals, and helping the enterprise cope with rapid changes.

Quick Tip to Solve: For an importance question, state what environmental awareness enables managers to do: seize an opportunity, prepare for a threat, or adapt to change.

OR

21(b). State any three features of demonetisation. [3 marks]

Solution:

Concept:

- Demonetisation means withdrawal of the legal-tender status of currency notes. The affected notes cease to serve as ordinary legal tender under the government's announcement.
- Its features include its role as a tax-administration measure, its signal against tax evasion, and its effort to bring savings into the formal financial system.

Step 1: State its tax-administration character **A tax-administration measure:** Demonetisation can be viewed as a measure of tax administration. Cash holdings arising from declared income can be deposited in bank accounts and exchanged as permitted. Holders of cash representing unaccounted income, however, face the need to explain the source of that money. Thus, the measure seeks to expose cash that has escaped the tax system.

Step 2: State the signal against tax evasion **A signal that tax evasion will not be tolerated:** Demonetisation is interpreted as a shift in which the government communicates that concealment of income and evasion of taxes will not be accepted. It encourages people to disclose income, maintain proper records and comply with tax requirements rather than keep unaccounted wealth in cash.

Step 3: State its role in formalising savings **Channelling savings into the formal financial system:** When currency is deposited in banks, savings held outside organised financial channels enter the banking system. Some of the new deposit base can then be used by banks to provide loans. This increases the role of formal financial institutions in mobilising savings and financing economic

activities.

Step 4: Conclusion Three features of demonetisation are that it is a tax-administration measure, conveys that tax evasion will not be tolerated, and channels savings into the formal financial system.

Quick Tip to Solve: Link demonetisation's features to unaccounted cash, tax compliance and bank deposits; merely saying that old notes are withdrawn gives its meaning alone.

22(a). Explain the following features of 'Planning' :

(i) Planning focuses on achieving objectives.

(ii) Planning is a mental exercise. [3 marks]

Solution:

Concept:

- Planning involves deciding in advance what is to be done and how it is to be done. It bridges the gap between the present position and the desired future position.
- Planning is purposeful and intellectual: objectives guide the selection of actions, while thinking and analysis help managers choose an appropriate course of action.

Step 1: Explain the focus on achieving objectives **(i) Planning focuses on achieving objectives:** Organisations have definite objectives that they wish to achieve. Planning starts by specifying these objectives and then determining the actions and methods needed to attain them. Every plan therefore has a purpose; it directs effort towards a desired result instead of allowing activities to take place without direction. For example, if a business aims to increase sales, its sales plan specifies the actions required to work towards that objective. The objective provides the basis for choosing suitable activities and judging whether the proposed plan is relevant.

Step 2: Explain the intellectual nature of planning **(ii) Planning is a mental exercise:** Planning requires thinking, foresight, intelligent imagination and sound judgement. Managers collect and analyse information, anticipate future conditions, consider alternative courses of action and assess their consequences. They then choose the course most suited to the organisation's objectives and circumstances. Thus, planning rests on logical and systematic thinking rather than on guesswork or wishful thinking. The thinking takes place before action so that the proposed actions have a reasoned basis.

Step 3: Conclusion Planning focuses on objectives because plans specify the means of achieving predetermined results. It is a mental exercise because choosing those means requires analysis, foresight and judgement before action.

Quick Tip to Solve: Keep the two features distinct: the first explains the purpose of a plan, while the second explains the thinking process used to prepare it.

OR

22(b). Explain the following types of plans :

(i) Strategy

(ii) Policy [3 marks]

Solution:

Concept:

- Planning specifies in advance what is to be done and how it is to be done. Different types of plans guide decisions at different levels of detail.
- A strategy gives the broad direction for achieving organisational objectives, whereas a policy provides general guidance for decisions and action within that direction.

Step 1: Explain strategy **(i) Strategy:** A strategy is a comprehensive plan for accomplishing an organisation's objectives. It has three dimensions: determining long-term objectives, adopting a particular course of action, and allocating the resources necessary to achieve those objectives. It therefore connects the organisation's desired position with the broad actions and resources needed to reach it. Strategies are formulated after considering the business environment, including opportunities, threats and competitors' actions; they provide a framework for other plans.

Step 2: Explain policy **(ii) Policy:** A policy is a general statement that guides thinking or channels efforts towards a particular direction. It defines the broad parameters within which a manager may make decisions, helping achieve consistency without prescribing every detailed action. A policy leaves scope for managerial judgement within those limits. For example, a policy of giving preference to internal candidates guides recruitment decisions but still requires managers to assess the suitability of individual applicants.

Step 3: Conclusion A strategy integrates objectives, courses of action and resource allocation into a comprehensive plan. A policy guides recurring decisions within broad boundaries, ensuring that individual decisions support organisational objectives.

Quick Tip to Solve: Link strategy with the organisation's overall route and resources; link policy with the boundaries that guide a manager's decisions.

23. 'Capro Ltd.', an IT services firm was perceived as a passive provider focusing on fulfilling clients' orders without much innovation. In an attempt to change its image, the Chief Technical Officer of 'Capro Ltd.' called a meeting of technical heads in the conference room. The meeting was important as it was regarding launching programmes to encourage employees to generate ideas for value addition that their clients would appreciate and would help in changing the company's image.

Shrinivas, a technical head was last to enter the conference room for the meeting and got a seat near the door of the conference room. As there was constant movement near the conference room, he could not attentively focus on the meeting, missing out on important points discussed in the meeting.

(a) Identify and state the elements in the communication process that led to Shrinivas missing out on important points discussed in the meeting.

(b) State any two other elements of the communication process other than the one identified in (a) above. [3 marks]

Solution:

Concept:

- Communication is the process of exchanging information and understanding between people. Its elements include the sender, message, encoding, media, decoding, receiver, feedback and noise.
- Noise means an obstruction or hindrance that interferes with communication. It can prevent a receiver from correctly receiving or understanding a message even when a sender has communicated it.

Step 1: Identify the obstructing element **(a) Noise:** This is the element responsible for Shrinivas missing important points. The case states that there was 'constant movement near the conference room' and that he 'could not attentively focus on the meeting'. The movement distracted him from the discussion and obstructed effective reception of the message. Noise is any hindrance or obstruction to communication, such as distractions, poor attention or interference with the message.

Step 2: State two other elements **(b)(i) Sender:** The sender is the person who conveys thoughts or ideas to the receiver and initiates communication. Here, the Chief Technical Officer 'called a meeting of technical heads' to communicate about programmes for generating ideas and value addition.

(b)(ii) Message: The message is the content of the ideas, feelings or suggestions intended to be communicated. Here, it concerns 'launching programmes to encourage employees to generate ideas for value addition', so that clients would appreciate the firm's contribution and its image would improve.

Step 3: Conclusion Noise, in the form of distracting movement near Shrinivas's seat, obstructed his attention. Sender and message are two other elements: the person initiating communication and the content being conveyed, respectively.

Quick Tip to Solve: When a case describes distraction or interference that stops a listener following a discussion, identify noise, then distinguish it from the message itself.

24. Amrit Ltd. and Nimrit Ltd. are two companies manufacturing automotive parts for automobile companies. Amrit Ltd. had a capital employed of ₹ 80 lakhs comprising of equity share capital of ₹ 40 lakhs divided into 40,000 shares of ₹ 100 each and debt of ₹ 40 lakhs at 6%. Nimrit Ltd. also had capital employed of ₹ 80 lakhs divided into 80,000 equity shares of ₹ 100 each.

Return on Investment (ROI) of both the companies is 10% and tax rate is 50%.

(a) Calculate Earning Per Share (EPS) for both the companies.

(b) Which of the two companies has better Earning Per Share and why ? [3 marks]

Solution:

Concept:

- Earnings per share (EPS) is the profit available to equity shareholders after interest and tax, divided by the number of equity shares. Interest is deducted before calculating tax.
- Trading on equity can raise EPS when the return on investment exceeds the rate of interest on debt. Fixed-interest finance then leaves a greater return for the equity shareholders, although financial risk also increases.

Step 1: Calculate Amrit Ltd.'s earnings per share **(a) Amrit Ltd.:** The case gives 'capital employed of Rs 80 lakhs' and ROI of 10%. Hence earnings before interest and tax are 10% of Rs 80,00,000, or Rs 8,00,000. The 'debt of Rs 40 lakhs at 6%' entails annual interest of Rs 2,40,000. Deducting this interest leaves profit before tax of Rs 5,60,000. Tax at 50% is Rs 2,80,000, leaving Rs 2,80,000 available to equity shareholders. Dividing Rs 2,80,000 by 40,000 equity shares gives **EPS of Rs 7 per share**.

Step 2: Calculate Nimrit Ltd.'s earnings per share **(a) Nimrit Ltd.:** Its capital employed is also Rs 80,00,000, so earnings before interest and tax are also Rs 8,00,000. However, its capital is 'divided into 80,000 equity shares'; it has no debt interest to deduct. Profit before tax is therefore Rs 8,00,000. Tax at 50% is Rs 4,00,000, leaving profit after tax of Rs 4,00,000. Dividing this by 80,000 equity shares gives **EPS of Rs 5 per share**.

Step 3: Compare the financing effect **(b) Amrit Ltd. has the better EPS.** Its ROI of 10% is higher than its borrowing cost of 6%. The use of debt therefore provides favourable financial leverage, also called trading on equity. After meeting the fixed interest charge, the remaining earnings are distributed over fewer equity shares. Nimrit earns a larger total profit after tax, but that profit is spread over twice as many shares, so its EPS is lower.

Step 4: Conclusion Amrit Ltd.'s EPS is Rs 7, whereas Nimrit Ltd.'s EPS is Rs 5. Amrit's EPS is Rs 2 higher because borrowing at 6% to earn a 10% ROI creates favourable trading on equity.

Quick Tip to Solve: Deduct interest before tax, then divide the remaining profit by equity shares only. A larger total profit need not mean a larger EPS.

25. 'Mefco Ltd.' has been in online grocery e-commerce business for the last six years. Recently, it started facing increasing competition in the market. Understanding that speed of delivery in the key differentiator amongst online business firms, 'Mefco Ltd.' planned to launch 'Mefco Fast', a service designed to deliver the products to the customers within 10 minutes. It studied the market and made assumptions about the future regarding the convenience offered by such a service to the consumers who are increasingly seeking faster delivery options.

(a) Identify the step of the planning process highlighted in the above case.

(b) State the next three steps to be followed by 'Mefco Ltd.' after the step identified in (a) above.

[4 marks]

Solution:

Concept:

- Planning involves deciding in advance what to do and how to do it. After objectives are set, managers develop premises, identify alternatives, evaluate them and select the best alternative before implementation and follow-up.
- Developing premises means making assumptions about the future conditions in which a plan will operate. Such assumptions provide a common foundation for evaluating possible courses of action.

Step 1: Identify the highlighted step **(a) Developing premises:** The case says that Mefco Ltd. "studied the market and made assumptions about the future" regarding the convenience of faster delivery. These forecasts about future customer preferences are the premises on which its proposed Mefco Fast service will be based. The decisive clue is making assumptions, rather than merely announcing the delivery objective.

Step 2: State the next three steps in order **(b)(i) Identifying alternative courses of action:** Once premises are established, management identifies the different possible ways of achieving its objective. It should consider the available courses of action rather than commit immediately to the first possibility.

(ii) Evaluating alternative courses: Management weighs the positive and negative aspects of each alternative in the light of the objective and premises. The expected benefits, costs, feasibility and risks are considered to determine which course can best achieve the desired result.

(iii) Selecting an alternative: After evaluation, management chooses the most suitable and feasible course of action. The selected plan should best serve the objective in the circumstances; in some situations, a combination of alternatives may be chosen.

Step 3: Conclusion The highlighted step is **developing premises**. It is followed, in order, by **identifying alternative courses of action, evaluating alternative courses, and selecting an alternative**.

Quick Tip to Solve: In a planning case, "assumptions about the future" identifies premises. Then recall the sequence: identify options, evaluate options, choose the best option.

26. 'Heights Engineering College' is one of the top engineering colleges in India known for its excellent academic programmes and strong industry connections. The college has a separate placement cell which maintains a close liaison with the universities, vocational schools and management institutes to recruit qualified persons for various jobs. It works tirelessly to connect students with some of the best companies for job opportunities.

Shikhar, a brilliant Environmental Engineering student was excited when he was chosen by 'Nero', a major car manufacturing company for the post of Production Manager. He received the employment contract which included the terms, conditions and date of joining. Shikhar happily accepted the employment offer. On his first day at the company, Shikhar was given a brief presentation about the company and was introduced to his superiors, subordinates and colleagues. He was taken around the workplace and given charge of the job for which he was selected. Three months later, after settling into the job, Shikhar was called by his superior and given positive feedback about his current performance as per certain pre-determined standards.

State four steps of the staffing process discussed in the above case. [4 marks]

Solution:

Concept:

- Staffing is the management function concerned with obtaining, placing and developing suitable people for organisational positions. Its steps cover both entry into employment and assessment after joining.
- Recruitment attracts prospective candidates; selection chooses suitable candidates. Placement and orientation introduce the selected employee to the job and organisation, while performance appraisal evaluates actual performance against standards.

Step 1: Identify the steps leading to employment **1. Recruitment:** It means searching for prospective employees and encouraging them to apply for jobs. The case describes a placement cell which "maintains a close liaison with the universities, vocational schools and management institutes to recruit qualified persons for various jobs". This illustrates attracting suitable candidates through educational institutions, that is, campus recruitment.

2. Selection: It means choosing the most suitable person from the prospective candidates for a particular job. Shikhar "was chosen by 'Nero' ... for the post of Production Manager". The employment contract containing the terms, conditions and joining date, followed by his acceptance, confirms the employment decision.

Step 2: Identify the steps after joining **3. Placement and orientation:** Placement gives the employee charge of the job for which he has been selected. Orientation introduces the employee to the organisation and its people. Shikhar was "given a brief presentation about the company" and introduced to his "superiors, subordinates and colleagues". He was also "taken around the workplace and given charge of the job", showing both parts of this staffing step.

4. Performance appraisal: It means evaluating an employee's current or past performance against pre-determined standards and giving feedback. Three months later, Shikhar received "positive feedback about his current performance as per certain pre-determined standards". The comparison with standards makes this appraisal, rather than a training or promotion decision.

Step 3: Conclusion The four staffing steps illustrated are **recruitment, selection, placement**

and orientation, and performance appraisal. The case traces Shikhar's entry into employment, introduction to the workplace and subsequent performance review.

Quick Tip to Solve: Trace the employee's journey: attracting candidates is recruitment, choosing is selection, introduction and job charge are placement and orientation, and feedback against standards is appraisal.

27(a). Explain 'Organisational Climate' and 'Employee Recognition' as non-financial incentives.

[4 marks]

Solution:

Concept:

- Non-financial incentives satisfy employees' psychological, social and emotional needs, such as recognition, belongingness, responsibility and personal growth, rather than rewarding them primarily through money.
- Organisational climate concerns the work environment experienced by employees, whereas employee recognition concerns acknowledging and appreciating their contribution. Both can increase willingness to perform well.

Step 1: Explain organisational climate **Meaning:** Organisational climate refers to the characteristics that describe an organisation and distinguish it from other organisations. These characteristics influence the behaviour of individuals in the organisation.

How it motivates: Features such as individual autonomy, a suitable reward orientation, consideration for employees and support from management create a favourable working atmosphere. For example, when a manager allows initiative and supports employees in performing their work, employees feel trusted and valued. This helps satisfy their needs for belongingness, responsibility and growth, encouraging them to contribute more effectively. Thus, the incentive lies in the quality of the work environment rather than an additional cash payment.

Step 2: Explain employee recognition **Meaning:** Employee recognition means acknowledging an employee's good performance and appreciating the contribution made to the organisation. Such appreciation satisfies the employee's need for recognition and esteem.

How it motivates: Recognition can take the form of congratulating an employee, displaying an achievement on the notice board, presenting a certificate or memento, or recognising good suggestions and improved performance. A timely and sincere acknowledgement makes the employee feel that the organisation notices worthwhile effort. It builds self-confidence and encourages the employee to maintain or improve performance; it also gives other employees an example of the behaviour the organisation values.

Step 3: Conclusion A favourable organisational climate motivates through a supportive and satisfying work environment. Employee recognition motivates through appreciation of good performance. Both are non-financial incentives because their main value is psychological and social satisfaction.

Quick Tip to Solve: Link organisational climate with the everyday work environment and employee recognition with appreciation of a particular contribution; explain the need satisfied by each.

OR

27(b). Explain any two psychological barriers to effective communication. [4 marks]

Solution:

Concept:

- Psychological barriers arise from the state of mind, emotions and attitudes of the sender or receiver. A message can be correctly expressed yet fail to produce understanding because these factors interfere with its reception or interpretation.
- Two psychological barriers are premature evaluation and lack of attention. The first distorts judgement before the message is complete; the second prevents the receiver from properly registering the message.

Step 1: Explain premature evaluation **Meaning:** Premature evaluation means judging the meaning of a message before the sender completes it. Instead of listening to all the facts and then interpreting them, the receiver reaches a conclusion too early, often because of existing prejudice or a fixed attitude.

Effect on communication: The incomplete information may be misunderstood, and the receiver may reject or respond to a message that the sender never intended. For example, a supervisor may assume that an employee approaching with a production difficulty is merely making excuses and dismiss the employee before hearing the actual cause. The relevant information then fails to reach the supervisor even though the employee tried to communicate it. Effective understanding requires listening to the complete message before evaluating it.

Step 2: Explain lack of attention **Meaning:** Lack of attention occurs when the receiver is mentally preoccupied and does not listen carefully to what the sender is communicating. Physical presence does not ensure that the receiver is mentally attentive to the message.

Effect on communication: Important facts, instructions or qualifications may be missed, so the receiver acts on an incomplete understanding. For example, a manager absorbed in preparing a report may not properly hear an employee's explanation of a change in delivery arrangements. The resulting response may therefore be irrelevant or incorrect. The barrier arises from the receiver's distracted state of mind, rather than from the words or technical language used by the sender.

Step 3: Conclusion Premature evaluation obstructs communication by judging a message before hearing it fully. Lack of attention obstructs communication by preventing the receiver from carefully receiving it. Both are psychological barriers because they originate in the receiver's mental state or attitude.

Quick Tip to Solve: For each barrier, state its meaning and then show how it prevents understanding: premature evaluation is early judgement, while lack of attention is distracted listening.

28(a). State any four features of 'Motivation' as an element of Directing. [4 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to act in a desired manner to accomplish desired goals. As an element of directing, it encourages employees to contribute willingly to organisational objectives.
- Motivation concerns the relationship between an individual's needs, the behaviour through which those needs are satisfied, and the goals towards which that behaviour is directed.

Step 1: State that motivation is an internal feeling **Motivation is an internal feeling:** The urge to act originates within an individual. Needs, desires, aspirations and drives influence human behaviour. A manager can offer incentives or create favourable conditions, but these motivate an employee when they appeal to that employee's felt needs.

Step 2: Explain its goal-directed character **Motivation produces goal-directed behaviour:** Motivation induces people to behave in a way that helps them achieve a goal. For example, an employee seeking promotion may work more diligently to improve performance. The desired goal gives direction to the employee's effort rather than merely increasing activity without purpose.

Step 3: Recognise positive and negative motivation **Motivation can be either positive or negative:** Positive motivation uses rewards such as higher pay, appreciation or recognition to encourage desired behaviour. Negative motivation uses the prospect of an adverse consequence, such as a warning or disciplinary action, to discourage undesirable behaviour. Both influence conduct, though through different incentives.

Step 4: Explain why motivation is complex **Motivation is a complex process:** Individuals differ in their needs, expectations and reactions. A reward that strongly motivates one employee may have little effect on another, and a person's needs can also change over time. Managers therefore cannot assume that one incentive will motivate every employee in the same way.

Step 5: Conclusion The four features are that motivation is an internal feeling, produces goal-directed behaviour, can be positive or negative, and is a complex process involving differences among individuals.

Quick Tip to Solve: Recall the four headings as internal feeling, goal-directed behaviour, positive or negative, and complex process; add a short explanation to each.

OR

28(b). State any four points of importance of 'Directing' function of management. [4 marks]

Solution:

Concept:

- Directing means instructing, guiding, counselling, motivating and leading people in an organisation to achieve its objectives. It translates plans and the organisational structure into purposeful employee action.
- Directing is important because management achieves results through people. Their individual efforts must be initiated, coordinated and sustained in the direction of common organisational goals.

Step 1: Explain how directing initiates action **Directing initiates action:** Planning, organising and staffing prepare the conditions for work, but directing starts the actual performance of that work. Managers give instructions, guide employees and supervise their activities so that assigned tasks are carried out. It therefore converts decisions and preparations into action towards the desired objectives.

Step 2: Explain how directing integrates employee efforts **Directing integrates employees' efforts:** Individuals and departments perform different tasks, which must contribute to a common purpose. Through guidance, communication and leadership, directing brings these efforts together. It helps prevent employees from pursuing conflicting activities and ensures that their work contributes to the achievement of organisational objectives.

Step 3: Show how directing develops employees' potential **Directing motivates employees to realise their potential:** Effective motivation and leadership encourage employees to use their abilities fully. By understanding their needs and offering suitable incentives, appreciation and guidance, managers obtain willing cooperation. Employees become more committed to their work and can improve their performance instead of merely doing the minimum required.

Step 4: Explain how directing facilitates change **Directing facilitates introduction of needed changes:** Employees may resist changes because of uncertainty or concern about their consequences. Effective communication, motivation and leadership explain the reasons for change, address doubts and secure cooperation. This helps the organisation introduce necessary changes in methods, technology or procedures more smoothly.

Step 5: Conclusion Directing is important because it initiates action, integrates employees' efforts, motivates employees to realise their potential and facilitates the introduction of needed changes in the organisation.

Quick Tip to Solve: For importance of directing, connect each heading to an outcome: work starts, efforts unite, potential is used and needed change gains acceptance.

29. 'Reliable Appliances' and 'Modern Appliances' are two reputed companies, both manufacturing refrigerators. They have been in this business for many years, have a good reputation and a large customer base. The companies follow different marketing management philosophies and cater to different kinds of customers.

'Reliable Appliances' focuses on producing large quantities of affordable basic refrigerators that meet the essential needs of customers. It follows a belief that customers will prefer products that are widely available and affordable. The company focuses on mass production to keep costs low. As a result, it attracts budget conscious consumers. On the other hand, 'Modern Appliances' operates in the premium segment of the refrigerator market, attracting affluent buyers. It focuses on manufacturing refrigerators with advanced features such as Wi-Fi connectivity, built-in touch screen interface and advanced cooling systems, etc. It believes that customers will prefer products that offer superior quality with innovative features. For this, the company continuously improves its products' features and quality to differentiate itself from its competitors. [4 marks]

29(a). Identify the 'Marketing Management Philosophies' of 'Reliable Appliances' and 'Modern Appliances'.

Solution:

Concept:

- The production concept assumes that consumers prefer products that are widely available and affordable.
- The product concept assumes that consumers prefer products offering superior quality, performance and innovative features.

Step 1: Identify the philosophy of Reliable Appliances **Production concept:** Reliable Appliances focuses on 'mass production to keep costs low' and believes that customers prefer products 'widely available and affordable'. Its emphasis is on efficient large-scale production and low cost, rather than adding premium features.

Step 2: Identify the philosophy of Modern Appliances **Product concept:** Modern Appliances believes that customers prefer 'superior quality with innovative features'. Its continuous improvement of quality and features such as Wi-Fi connectivity demonstrates the product concept.

Step 3: Conclusion Reliable Appliances follows the production concept, while Modern Appliances follows the product concept.

Quick Tip to Solve: Availability and low price indicate production orientation; superior quality and innovative features indicate product orientation.

Differentiate between the marketing management philosophies identified in (a) above on the basis of the following:

29(b)(i). Main focus

Solution:

Concept:

- Marketing management philosophies explain how a business approaches its market and earns profit.
- Reliable Appliances follows the production concept; Modern Appliances follows the product concept. Compare the two on the exact basis asked.

Step 1: Relate the basis to the case Reliable Appliances emphasises 'producing large quantities' of affordable refrigerators, so its main focus is large-scale production. Modern Appliances stresses 'superior quality with innovative features', so its focus is product quality rather than simply producing more units.

Step 2: Present the distinction

Basis	Production concept	Product concept
Main focus	Large-scale production.	Quality, performance and features of the product.

Step 3: Conclusion The production concept focuses on large-scale production; the product concept focuses on product quality and features.

Quick Tip to Solve: Compare the central concern of each philosophy: production volume versus the product itself.

29(b)(ii). Means

Solution:

Concept:

- Marketing management philosophies explain how a business approaches its market and earns profit.
- Reliable Appliances follows the production concept; Modern Appliances follows the product concept. Compare the two on the exact basis asked.

Step 1: Relate the basis to the case Reliable Appliances uses 'mass production to keep costs low', making refrigerators available and affordable. Modern Appliances 'continuously improves its products' features and quality', so product improvement is the means used to attract buyers.

Step 2: Present the distinction

Basis	Production concept	Product concept
Means	Availability and affordability of the product.	Product improvements.

Step 3: Conclusion Availability and affordability are the means under the production concept; product improvements are the means under the product concept.

Quick Tip to Solve: For means, state how each philosophy attracts buyers: access and price versus continuous improvements.

29(b)(iii). Ends

Solution:

Concept:

- Marketing management philosophies explain how a business approaches its market and earns profit.
- Reliable Appliances follows the production concept; Modern Appliances follows the product concept. Compare the two on the exact basis asked.

Step 1: Relate the basis to the case Reliable Appliances seeks to sell basic refrigerators in large quantities by keeping them affordable, indicating profits through volume of production. Modern Appliances attracts affluent buyers with improved quality and features, indicating profits through product quality. Both seek profit, but the route differs.

Step 2: Present the distinction

Basis	Production concept	Product concept
Ends	Profit through volume of production.	Profit through product quality.

Step 3: Conclusion The production concept seeks profit through volume of production; the product concept seeks profit through product quality.

Quick Tip to Solve: The end is profit in both concepts; distinguish the source of that profit: volume or quality.

30. 'Silver Mills' started their business as a B2B supplier of high quality millet seeds. The firm was set up in a backward area of Ransdhan. The firm was earning just enough revenues to cover its cost. Over a period of time, due to rising awareness amongst people about the health benefits of millets and with the year 2023 declared as 'International Year of Millets', the demand for millets increased and the firm was able to earn profits. This gave a vital incentive to the firm to continue its successful operations. It then expanded its operations and introduced millet flour, millet-based snacks and millet-based beverages. With increase in its operations, it provided employment opportunities specially to women, involving them in dehusking, cleaning and packing of millets.

State the objectives of management highlighted in the above case. [4 marks]

Solution:

Concept:

- Management seeks organisational objectives: survival, profit and growth. These maintain the existence of the business, provide a reward for risk and expand its operations over time.
- Social objectives concern the benefits a business provides to society. Generating employment, particularly for disadvantaged sections, is one such objective, distinct from earning a return for the business.

Step 1: Identify the initial survival objective **Survival:** An enterprise must earn enough revenue to cover its costs and remain in business. The case says that Silver Mills was "earning just enough

revenues to cover its cost". This shows survival: the firm was meeting the minimum requirement for continued existence, even though it was not yet earning a surplus.

Step 2: Identify the profit objective **Profit:** Profit is the surplus of revenue over cost. It provides a vital incentive for the continued successful operation of an enterprise and helps cover business risks. The case states that increased demand meant that "the firm was able to earn profits", which gave it "a vital incentive" to continue. Thus, profit is the second organisational objective highlighted.

Step 3: Trace the expansion to the growth objective **Growth:** A business seeks to increase its scale of operations and improve its prospects over time. Silver Mills "expanded its operations and introduced millet flour, millet-based snacks and millet-based beverages". This expansion beyond its original business of supplying millet seeds demonstrates growth through a wider range of products and increased operations.

Step 4: Identify the contribution to society **Social objective:** A business should create benefits for the community in which it operates. Silver Mills was set up in a "backward area" and "provided employment opportunities specially to women", involving them in dehusking, cleaning and packing. Providing employment to people in a backward area, particularly women, demonstrates its social objective and supports their livelihood.

Step 5: Conclusion The objectives highlighted are survival, profit and growth, which are organisational objectives, together with the social objective of generating employment opportunities, especially for women in a backward area.

Quick Tip to Solve: Match covering costs with survival, a surplus with profit, expansion with growth, and benefits to the community with social objectives. Quote the corresponding case line for each.

31(a). Explain the following principles of Scientific Management :

(i) Science not Rule of Thumb

(ii) Harmony, not Discord

(iii) Development of Each and Every Person to His or Her Greatest Efficiency and Prosperity [6 marks]

Solution:

Concept:

- Scientific management means applying systematic study and scientific methods to the analysis of work instead of depending on individual judgement or established habits.
- Taylor's principles connect efficient methods with cooperation and worker development. Higher productivity should contribute to the prosperity of both employees and the organisation.

Step 1: Explain science, not rule of thumb **Science, not rule of thumb:** Each element of a job should be studied scientifically to discover the best way of performing it. Managers should replace trial-and-error methods, personal judgement and traditional practices with methods developed through observation, analysis and experimentation. For example, rather than letting every worker use a personally preferred method, management can study the sequence of operations, tools and time required and establish a standard method. The method should use resources efficiently and reduce unnecessary effort. Thus, decisions about work are supported by evidence rather than by guesswork;

Taylor believed that there was one best method for maximising efficiency.

Step 2: Explain harmony, not discord **Harmony, not discord:** Management and workers should recognise that they depend on one another and should avoid conflict over their respective interests. Prosperity of the enterprise cannot be sustained if either side tries to gain entirely at the expense of the other. Taylor advocated a **mental revolution**, meaning a complete change in the attitude of both management and workers towards each other. Management should share the gains of increased productivity with workers, while workers should cooperate with management and work for the prosperity of the organisation. Both should aim to increase the size of the surplus through higher productivity rather than quarrel over its division. Mutual trust and a sense of common purpose replace suspicion and industrial discord.

Step 3: Explain the development of every person **Development of each and every person to his or her greatest efficiency and prosperity:** Every employee should be selected scientifically and assigned work suited to his or her physical, mental and intellectual capabilities. Selection alone is insufficient: the worker must also receive the training and development needed to perform the task using the best method. Management should identify each person's abilities, provide appropriate instruction and improve the person's knowledge and skills. A suitably selected and properly trained worker can become more efficient, earn better remuneration and enjoy greater prosperity. The organisation benefits through higher output and better utilisation of human resources. Scientific management therefore seeks the development of workers as well as improvement in production methods.

Step 4: Conclusion Taylor's three principles require scientifically established work methods, a mental revolution that creates harmony between workers and management, and scientific selection and training that develop every worker's potential. Together they link organisational efficiency with the prosperity of employees.

Quick Tip to Solve: For these principles, connect science with the best method, harmony with mental revolution, and individual development with scientific selection and training.

OR

31(b). Explain the following features of principles of management :

(i) Universal applicability

(ii) Cause and effect relationships

(iii) General guidelines [6 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They develop through observation, experimentation and experience in managing organisations.
- Management deals with people and changing business situations. Its principles are widely useful, but managers must exercise judgement when applying them to a particular problem.

Step 1: Explain universal applicability **Universal applicability:** Principles of management can be applied to all types of organisations, whether business or non-business, small or large, public or private. They guide all managerial levels and functions. For example, division of work can help a manufacturing company, a hospital or a school organise its activities efficiently. However, the **extent of application varies** with the nature and size of the organisation, the activity being performed and the situation faced. Universal applicability therefore means broad relevance; it does not mean mechanically applying every principle in exactly the same manner everywhere.

Step 2: Explain cause and effect relationships **Cause and effect relationships:** Principles of management seek to establish relationships between managerial actions and their likely results. They help managers understand the consequences that may follow a particular decision and therefore make more informed choices. For example, specialisation can improve efficiency because repeated performance develops skill. Nevertheless, such relationships are **not absolute or exact** in every case. Human behaviour is complex, and an outcome may be affected by several conditions, including employee attitudes. Management principles indicate a probable relationship between cause and effect; they do not guarantee an identical result under all circumstances.

Step 3: Explain general guidelines **General guidelines:** Management principles provide broad guidance for dealing with managerial problems rather than ready-made, rigid solutions. Business situations are complex and dynamic; principles cannot prescribe every detail of a decision. A manager must analyse the particular problem and adapt the relevant principle to its circumstances, using experience and judgement. For example, unity of command guides a manager to establish one reporting superior for each subordinate. Principles thus guide decision-making without replacing managerial judgement.

Step 4: Conclusion Principles of management are universally relevant, explain probable cause and effect relationships, and serve as general guidelines. Their effective application requires managers to consider the organisation, the people involved and the specific situation rather than treat them as fixed prescriptions.

Quick Tip to Solve: Remember the qualification with each feature: universal does not mean identical application; cause and effect is not absolute; guidelines require managerial judgement.

32. 'TnG' is a leading manufacturer of baby care and feminine care products and has a good market reputation. It has Production, Marketing, Human Resources, Customer Service and Research and Development departments. To capitalise on its brand name and to take advantage of new business opportunities, the company decided to diversify into manufacturing of new range of products like 'Beauty and Wellbeing', 'Home Care', 'Personal Care', 'Nutrition', etc. For this, the company had to add more employees and create more departments and choose a good organisational structure which would help the company in achieving its objectives. [6 marks]

32(a). Explain the organisational structure that 'TnG' should choose after it decided to diversify. Also give reason in support of your answer.

Solution:

Concept:

- Divisional structure groups activities around distinct products or product lines. Each division contains the functions necessary to manage its own product.
- It suits large organisations manufacturing a variety of products because the products require focused managerial attention and coordination.

Step 1: Identify the appropriate structure **Divisional structure:** TnG should adopt a divisional organisational structure after diversification. The case says it decided to manufacture new ranges such as 'Beauty and Wellbeing', 'Home Care', 'Personal Care' and 'Nutrition'. These distinct product lines make product-based grouping suitable.

Step 2: Explain how the structure works **Product-based divisions:** Activities concerning a particular product or product line are grouped into a separate division headed by a divisional manager. Each division has the functional resources it needs, such as production, marketing and finance, to manage that line. The division coordinates the functions related to its product, while the overall organisation retains direction over the divisions.

Step 3: Support the choice with the case **Reason for suitability:** TnG previously had functional departments, but now proposes several new product categories. A single functional arrangement becomes harder to coordinate as product variety increases. Divisional structure gives each product line a clear focus and responsibility for its performance, making expansion and coordination easier. The case's decision to 'diversify into manufacturing of new range of products' is the key reason for choosing it.

Step 4: Conclusion TnG should choose a divisional structure because its diversification creates distinct product lines needing separate product-focused management and coordination.

Quick Tip to Solve: When a business diversifies into several product lines, connect divisional structure with product-based grouping and focused accountability.

32(b). State how the organisational structure explained in (a) above will help the organisation and the heads of different departments. Give two points in favour of each.

Solution:

Concept:

- A divisional structure gives each product division the functional resources and authority needed to manage its activities.
- Its advantages include accountability for performance, easier expansion, development of managerial skills and faster decisions within divisions.

Step 1: State two benefits for the organisation **Accountability for performance:** Each product division can be assessed as a separate profit centre. Revenue and costs are traceable to it, so responsibility for results can be fixed and better-performing or weaker divisions identified. This helps TnG monitor its different product ranges.

Facilitates expansion and growth: New divisions can be added without substantially disrupting the existing product divisions. Since TnG plans new ranges such as 'Home Care', 'Personal Care' and 'Nutrition', it can expand by forming suitable divisions while existing operations continue.

Step 2: State two benefits for the divisional heads **Development of managerial skills:** A divisional head gains experience across functions such as production, marketing and finance rather than being restricted to one speciality. This develops general management skills and prepares the head for positions involving broader responsibility.

Flexibility and initiative: Each division functions as an autonomous unit within overall organisational policy. Its head can take decisions concerning the product division more quickly instead of referring every operating matter to the top. This promotes initiative and provides flexibility to respond to the division's needs.

Step 3: Conclusion For TnG, divisional structure improves accountability and facilitates expansion. For divisional heads, it develops managerial skills and gives flexibility and initiative in decision-making.

Quick Tip to Solve: Separate organisation-level benefits, such as growth and accountability, from benefits to heads, such as broad managerial experience and decision authority.

33(a). Explain the following factors affecting requirements of working capital of a company :

(i) Nature of business

(ii) Inflation

(iii) Seasonal factors

(iv) Growth prospects [6 marks]

Solution:

Concept:

- Working capital is the investment in current assets needed for day-to-day business operations, such as inventories, trade receivables and cash. Net working capital is current assets less current liabilities.

- The working-capital requirement depends on how much money is tied up in operating activities and for how long. The nature of business, changes in prices, seasonal production or sales, and expected growth affect this requirement.

Step 1: Explain the effect of the nature of business **(i) Nature of business:** A trading business generally needs less working capital than a manufacturing business of comparable scale because it buys finished goods and sells them, without undertaking the production process. A manufacturing company has to finance raw materials, work-in-progress and finished goods, as well as wages and other production expenses, before sale proceeds are received. Therefore, its operating cycle is generally longer and more funds remain tied up in current assets. A service business usually needs still less working capital because it ordinarily carries little or no stock of goods. The actual amount also depends on the operating conditions of the particular business.

Step 2: Relate inflation to the cost of current assets **(ii) Inflation:** Inflation generally increases working-capital requirements. When the prices of raw materials, supplies and other operating inputs rise, the company needs a larger amount of money to maintain the same physical volume of inventory and operations. For example, even when the number of units purchased remains unchanged, their purchase cost may rise. Higher operating expenses must also be financed until cash is collected from customers. The precise increase depends on the effect of inflation on the company's costs and its ability to revise selling prices; the usual direction is an increase in funds required.

Step 3: Identify the additional funds needed in the peak season **(iii) Seasonal factors:** A business with seasonal demand requires more working capital during its peak season because it has to produce or purchase a larger quantity of goods, maintain additional inventories and meet higher operating expenses. Credit sales during the busy period may also increase the amount tied up in receivables. During the lean season, production, stocks and sales generally fall, so its working-capital requirement declines. Thus, the company should plan funds for the seasonal peak rather than assume that the requirement stays constant throughout the year.

Step 4: Connect growth prospects with expanding operations **(iv) Growth prospects:** A company expecting higher growth generally needs a larger amount of working capital. Expansion in production and sales requires more raw materials and finished goods, additional operating expenditure and often more credit to customers. These current assets must be financed while the enlarged operations generate cash. Consequently, a growing company should arrange working capital in advance along with any long-term investment needed for expansion. A company with limited growth prospects is less likely to face this additional requirement, other things remaining the same.

Step 5: Conclusion Manufacturing activity, inflation, peak-season operations and strong growth prospects generally raise a company's working-capital requirement. Trading or service activity, lean-season operations and slower expansion generally involve a smaller requirement, other operating conditions remaining comparable.

Quick Tip to Solve: For each factor, explain which current assets or operating expenses change and then state whether the funds tied up in day-to-day operations increase or decrease.

OR

33(b). Explain the following factors affecting dividend decisions of a company :

(i) Stability of dividend

(ii) Shareholders' preference

(iii) Access to capital market

(iv) Legal constraints [6 marks]

Solution:

Concept:

- A dividend decision determines how much of the company's earnings will be distributed to shareholders and how much will be retained in the business. It therefore balances shareholders' current income with the company's financing needs.
- Stability of dividend, shareholders' preference, access to the capital market and legal constraints influence the amount and pattern of dividend distribution. These factors must be considered together rather than treating the year's earnings alone as the basis of payment.

Step 1: Explain stability of dividend **Stability of dividend:** Companies generally follow a policy of maintaining a stable dividend per share. They do not normally alter the dividend merely because earnings have changed temporarily. A company is likely to increase its dividend only when it is confident that the higher level of earnings can be sustained in the future. Thus, a temporary rise in profit need not produce a corresponding rise in dividend; retaining the existing rate helps avoid an increase that the company may soon have to reverse.

Step 2: Consider shareholders' preference **Shareholders' preference:** The preferences of shareholders are taken into account in deciding the dividend. If shareholders generally desire regular income, the company may favour paying a higher dividend. If they prefer growth in the value of their investment, they may be willing to accept a lower current dividend so that more earnings can be retained and reinvested. The management should therefore consider the expectations of its shareholder group while balancing those expectations with the needs of the business.

Step 3: Assess access to the capital market **Access to capital market:** Large and reputed companies usually have easier access to the capital market and can raise funds from external sources when required. They can consequently afford a higher dividend payout without relying entirely on retained earnings to finance their investment needs. Smaller companies, or companies that find it difficult to raise external funds, tend to depend more on retained earnings. Such companies may distribute a lower dividend and retain a larger share of profit.

Step 4: Apply legal constraints **Legal constraints:** The applicable company law lays down provisions governing the payment of dividends, including the sources from which dividend may be paid. A company must comply with these provisions before making a distribution. Consequently, even if management or shareholders desire a high dividend, the decision must remain within the limits permitted by law. Legal requirements set the boundary within which the company's dividend policy can operate.

Step 5: Conclusion A company seeks a sustainable dividend rate, considers whether shareholders

prefer current income or retained growth, assesses its ability to raise external finance, and complies with legal requirements. Together, these four factors influence the division of earnings between dividend distribution and retention.

Quick Tip to Solve: Link each factor to its effect: sustainable earnings support stable dividends, income preferences favour payout, easier external finance reduces dependence on retention, and law limits permissible payment.

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34. Recognising the growing demand for luxury, convenience and personalised experience due to increased disposable income and busy work schedules, 'Ramneek Bros'. had launched a high end concierge service company two years ago. The company offers customised exclusive services to ultra wealthy clients such as making restaurant reservations, booking private jets, arranging tickets for shows, etc.

Ramneek Bros. charges premium prices for their services reflecting the exclusive and top quality offerings they provide. The company also provides a mobile app allowing their clients to access and request for services from anywhere in the world. To communicate availability and features of their services, Ramneek Bros. advertises in high class magazines and depends upon word of mouth recommendations from existing clients. As a result, the company has successfully established itself as a market leader in their field.

Quoting lines from the above case, identify and explain any three elements of marketing mix.

[6 marks]

Solution:

Concept:

- The marketing mix is the combination of marketing tools used by an organisation to achieve its marketing objectives in its target market. Its four elements are product, price, place and promotion.
- A product can be a service as well as a physical good. In the given case, the business markets concierge services. The following answer identifies and explains three elements, supporting each identification with the relevant words of the case.

Step 1: Identify and explain the product element **Product:** The case states, "The company offers customised exclusive services to ultra wealthy clients such as making restaurant reservations, booking private jets, arranging tickets for shows, etc."

Product refers to the goods, services or anything of value offered to the market to satisfy a need or want. Decisions relating to the product include its features, quality, design and the benefits and services offered to customers. Here, Ramneek Bros.' product is its customised concierge service, rather than the restaurant or private jet itself. Its exclusive assistance and personalisation meet clients' needs for convenience and luxury. The company therefore shapes the service offering to suit its chosen group of ultra wealthy customers.

Step 2: Identify and explain the price element **Price:** The case states, "Ramneek Bros. charges premium prices for their services reflecting the exclusive and top quality offerings they provide."

Price is the amount of money that customers have to pay to obtain a product or service. Pricing decisions concern the price level and related terms, such as discounts and credit terms, while

considering customer demand, costs, competition and the value offered. In this case, the premium price is the monetary charge for the company's exclusive services. It matches the superior quality and personalised benefits promised to the target customers. The statement identifies a pricing choice; it does not merely describe the service itself.

Step 3: Identify and explain the promotion element **Promotion:** The case states, "To communicate availability and features of their services, Ramneek Bros. advertises in high class magazines and depends upon word of mouth recommendations from existing clients."

Promotion means the activities that communicate a product's availability, features and benefits to target customers and persuade them to buy it. Decisions concern an appropriate combination of tools such as advertising, personal selling, sales promotion and public relations. Here, magazine advertising communicates the company's service offering to potential clients, while recommendations from satisfied existing clients help spread information about it. These communication activities make the service known and support demand; they are distinct from the amount charged for the service.

Step 4: Conclusion The three identified elements are **product**, shown by the customised concierge services; **price**, shown by premium charges; and **promotion**, shown by magazine advertising and word of mouth recommendations. Each is supported by a specific line of the case and contributes to the company's marketing mix.

Quick Tip to Solve: For a case on the marketing mix, first mark what is offered, what is charged, how it is made available and how it is communicated. Then quote the line that supports each element you select.