CBSE Class 12 Business Studies Question Paper 2025 with Solution PDF-Set 66/7/2

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. 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:

- Debt and equity are sources of long-term finance, but their providers bear different levels of risk.
- Interest on borrowed funds is deductible in computing taxable profit, whereas equity dividends are paid from profit after tax.

Step 1: Evaluate the assertion The assertion is true. Lenders generally require a lower return than shareholders because their contractual claims have priority over the residual claims of equity owners. Consequently, the cost of debt is normally lower than the cost of equity for a firm.

Step 2: Evaluate the reason The reason is also true. Lower lender risk reduces the return demanded by lenders. In addition, deductibility of interest produces a tax saving and lowers the effective cost of borrowing; dividends do not give the firm this tax advantage.

Step 3: Connect the statements Both features in the reason explain the lower cost stated in the assertion. Option (B) incorrectly denies this explanatory link, while (C) and (D) incorrectly treat one of the true statements as false.

Step 4: Conclusion Both statements are true, and the reason correctly explains the assertion. Hence, the correct option is (A).

Quick Tip to Solve: For finance assertion-reason questions, check both investor risk and the tax treatment of the payment.

2. '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 of management throughout an organisation.
- Delegation concerns transfer of authority from a superior to a subordinate; decentralisation extends that arrangement across organisational levels.

Step 1: Identify the change in authority Earlier, store managers had to obtain headquarters approval for discounts and refunds. Atul then decided to 'selectively disperse the authority to the store managers', enabling decisions close to customers across the outlets.

Step 2: Distinguish the alternatives This systematic distribution of decision-making power is decentralisation. Responsibility is the obligation to perform assigned work, and authority is the right to decide; neither alone names the organisational policy. Delegation is the underlying superior-subordinate process, while the case stresses dispersal throughout the stores.

Step 3: Conclusion Atul adopted decentralisation to enable prompt customer-related decisions. Hence, the correct option is (D).

Quick Tip to Solve: Look for systematic dispersal across lower levels or units to distinguish decentralisation from an individual act of delegation.

3. 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 customs, traditions, values, social trends and society's attitudes towards quality of life.
- A change in consumer preferences arising from health and lifestyle concerns reflects the social dimension.

Step 1: Locate the social trend The case states that people are 'Concerned with the quality of life' and have shifted towards plant-based alternatives. The vegan movement represents changing attitudes, lifestyles and consumption preferences.

Step 2: Exclude the other dimensions Economic environment concerns matters such as incomes, interest rates and economic conditions; these are not the focus. Technological environment concerns new techniques or innovations, which the case does not describe. Political environment concerns political institutions and government attitudes, also absent here. The growth of a market is the result of the social trend, rather than evidence that the central dimension is economic.

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

Quick Tip to Solve: Identify the cause of a market change: preferences and quality-of-life concerns point to the social environment.

4. 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 candidates from outside the organisation through sources such as casual callers, direct recruitment, campuses and employee recommendations.
- Match the identifying procedure in each statement with its recruitment source before choosing the combined option.

Step 1: Match statements 1 and 2 Statement 1 describes unsolicited applications retained for future vacancies: these applicants are casual callers, so 1 matches (iv). Statement 2 describes applicants gathering at the premises after a notice and being selected on the spot: this is direct recruitment, so 2 matches (iii).

Step 2: Match statements 3 and 4 Statement 3 describes liaison with universities and vocational or management institutions: this is campus recruitment, so 3 matches (ii). Statement 4 describes applicants introduced by existing employees, friends or relatives: this is recommendation of employees, so 4 matches (i).

Step 3: Select the complete combination Only option (C) gives all four matches correctly. Options (A) and (D) wrongly match the unsolicited-applicant database with direct recruitment; option (B) wrongly assigns it to campus recruitment.

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

Quick Tip to Solve: Use the distinctive clue first: unsolicited applications mean casual callers; institutional liaison means campus recruitment.

5. 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 hazardous to life and health.
- Consumer rights address different concerns: product information, access to choice, safe use and awareness of consumer remedies.

Step 1: Identify the harm The toaster 'caught fire' and Radhika's fingers 'got partially burnt'. This is a danger to her health while using the product, so protection against unsafe goods is directly involved.

Step 2: Compare the rights The right to be informed concerns information such as ingredients, price and instructions; the right to be assured concerns access to a variety of goods at competitive prices. Consumer education concerns knowledge of rights and remedies. None identifies the immediate physical hazard as precisely as the right to safety.

Step 3: Conclusion Radhika is protected under the right to safety. Hence, the correct option is (C).

Quick Tip to Solve: When a product causes burns, injury or another health hazard, first consider the right to safety.

6. 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 supplies identifying and descriptive information, such as ingredients and nutritional facts, on the package.

Step 1: Read the visual evidence The picture shows a consumer examining information printed on a food container, including the nutrition facts and ingredients. The container performs packaging, while the printed information is a label describing the product.

Step 2: Distinguish the other functions Product designing and development concerns product features and improvement rather than the printed description shown. Branding assigns a distinctive name, symbol or identity; the picture specifically emphasises detailed product information. Marketing planning sets marketing objectives and programmes, which cannot be inferred from reading a container label.

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

Quick Tip to Solve: Nutrition facts, ingredients and usage information on a wrapper are direct clues to labelling.

7. 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 compares actual performance with standards and takes corrective action when deviations occur.
- An effective control system ensures order and discipline by checking undesirable behaviour and making employees aware that their activities are monitored.

Step 1: Identify the behavioural problem Employees were 'reporting late and leaving early' and taking excessive lunch time. The firm made recording entry and exit compulsory through card punching, so irregular attendance could be detected and addressed.

Step 2: Choose the most specific importance The measure directly ensures order and discipline. Accomplishing organisational goals and efficient resource use are broader benefits, but the distinctive mechanism here checks employee conduct. Judging accuracy of standards would involve assessing whether the production target itself was appropriate; the case instead corrects attendance irregularities.

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

Quick Tip to Solve: Choose the most specific clue: attendance monitoring and checks on misconduct indicate order and discipline.

8. 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:

- Selection is a sequence of screening and assessment steps designed to identify the candidate best suited to a job.
- After selection tests, the remaining steps must follow their prescribed NCERT sequence.

Step 1: Recall the steps after testing After the selection test, candidates attend the employment interview. The employer then conducts reference and background checks to verify the information given and assess suitability. The selection decision follows these checks.

Step 2: Complete and compare the sequence After the selection decision, medical examination checks fitness for the job. A job offer is then made, followed by a contract of employment. Option (A) preserves this complete order. Option (B) puts the medical examination before the selection decision; (C) offers the job before reference checks and the decision; (D) decides before reference checks and offers the job before medical examination.

Step 3: Conclusion The order is employment interview, reference and background checks, selection decision, medical examination, job offer and contract of employment. Hence, the correct option is (A).

Quick Tip to Solve: Remember the final sequence as decision, medical fitness, offer and then contract; reference checks come before the decision.

9. 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:

- Consumer protection is important both from the point of view of consumers and from the point of view of business.
- The question asks for the statement that does not belong to the business point of view, even if the statement itself is valid.

Step 1: Classify the business arguments Option (A) expresses the long-term interest of business: satisfied customers support continued sales. Option (B) states its moral justification: business must avoid exploiting consumers. Option (D) concerns avoiding government intervention and the damage that exploitative practices can cause to business reputation.

Step 2: Identify the consumer argument Option (C) deals with consumer ignorance and the need to educate consumers about rights and reliefs. This explains the importance of protection from the consumer point of view. It is therefore the incorrect statement in the specific category asked, rather than a false statement about consumer protection in general.

Step 3: Conclusion Consumer ignorance and the need for consumer awareness belong to the consumer point of view. Hence, the correct option is (C).

Quick Tip to Solve: In a classification question, check the viewpoint named: a true statement may still be the incorrect member of that category.

10. '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 provides an organised mechanism for buying and selling existing securities.
- The secondary market deals in securities already issued, while the primary market deals in new issues.

Step 1: Recognise the definition The decisive words are "buying and selling or dealing in existing securities. An institution constituted to assist, regulate or control this business is a stock exchange. It provides the organised trading framework for transactions in existing securities.

Step 2: Rule out the other institutions and markets SEBI in option (A) is the regulator of the securities market, rather than the trading institution defined here. Capital market in option (C) is the broader market for medium- and long-term funds, including primary and secondary markets. Money market in option (D) deals in short-term funds and instruments. Neither broad market is the specific institution described.

Step 3: Conclusion The institution described is a Stock Exchange. Hence, the correct option is (B).

Quick Tip to Solve: Link "existing securities with secondary-market trading and the institution that organises it: the stock exchange.

11. 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:

- The business environment includes economic, social, technological, political and legal elements.
- Inter-relatedness means that its different elements influence one another and cannot be understood in complete isolation.

Step 1: Evaluate the assertion Assertion (A) is true. Increased life expectancy and greater health awareness lead people to seek more health products and services. The stated changes therefore create demand and business opportunities in health care.

Step 2: Evaluate the reason Reason (R) is false. Different elements of the business environment are inter-related. For example, changing social attitudes towards health can influence demand and economic activity, while advances in technology can support new health services.

Step 3: Match the truth values to the options Since the assertion is true and the reason is false, option (C) fits. Options (A) and (B) both incorrectly treat the reason as true. Option (D) incorrectly treats the assertion as false and the reason as true. A false reason cannot explain the true assertion.

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

Quick Tip to Solve: Test the assertion and reason separately first; the word “not makes the reason contradict the feature of inter-relatedness.

12. 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 redressal machinery provides an appeal from the District Commission to the State Commission.
- For the appeal described in this question, the prescribed period is forty-five days from the date of the District Commission order.

Step 1: Identify the appellate level The question concerns a party dissatisfied with an order of the District Commission who wishes to appeal to the State Commission on grounds of facts or law. The originating forum and the appellate forum must both be identified before choosing the time limit.

Step 2: Select the applicable period The prescribed period for this District-to-State appeal is 45 days from the date of the order, matching option (A). Options (B), (C) and (D), giving 30, 60 and 15 days respectively, do not state the period applicable to the appeal described. Time limits for other stages must not be substituted for this one.

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

Quick Tip to Solve: Associate the District Commission to State Commission appeal with 45 days; identify the route before recalling its period.

13. 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 employed by a business.
- Debt entails fixed financial commitments; using more debt increases financial risk, although debt is generally cheaper than equity.

Step 1: Check the definition and the equity statement Option (A) correctly identifies financial leverage with the proportion of debt in overall capital. Option (C) instead identifies it with the proportion of equity. This reverses the relevant financing component and is the incorrect statement sought.

Step 2: Check the other consequences Option (B) is correct because more debt creates greater fixed interest and repayment commitments, increasing financial risk. Option (D) reflects the textbook cost advantage of debt: debt is normally cheaper than equity, and interest has a tax advantage. In that textbook comparison, increasing the debt proportion reduces the cost of funds. Neither consequence changes the definition of leverage.

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

Quick Tip to Solve: For a leverage definition, look for debt and fixed financial commitments; an option substituting equity is the key error.

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14. 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:

- A consumer must learn about product risks, follow the manufacturer's instructions and use the product safely.
- Reading instructions alone does not fulfil this responsibility unless the safety directions are followed during use.

Step 1: Connect the case to safe use Rajni read the instructions but applied the colour "without testing it on a patch of her skin. Omitting the patch test shows that she failed to follow the safety

instructions and precautions associated with the product. The resulting allergic reaction makes this neglected responsibility clear.

Step 2: Distinguish the other responsibilities Option (B) directly combines awareness of risks, following the manufacturer's instructions and safe use. Option (A) concerns informed choice among products; Rajni had selected a well-known product after reading its label. Option (C) concerns asserting oneself for a fair deal, and (D) concerns obtaining purchase evidence through a cash memo. Neither addresses the failure to carry out the patch test.

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

Quick Tip to Solve: Match the ignored action to the responsibility: omitting a patch test concerns safe use, even when the product was carefully selected.

15. 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 in long-term assets such as land, buildings and machinery. Its requirement depends on how these assets are acquired and used.
- Financing alternatives, collaboration and choice of technique affect the amount a business must invest in its own fixed assets.

Step 1: Identify the fixed-capital factors Financing alternatives (1), such as leasing instead of purchasing an asset, can reduce the funds needed to acquire fixed assets. Level of collaboration (2) also matters: sharing facilities with other organisations reduces the need to own separate facilities. Choice of technique (4) matters because a capital-intensive technique requires more investment in machinery than a labour-intensive technique.

Step 2: Eliminate the working-capital factors Production cycle (3), seasonal factors (5) and level of competition (6) are listed as factors affecting working-capital requirements. They affect funds tied up

in day-to-day operations, inventories or customer credit. Options (A), (B) and (C) each include such factors, whereas (D) contains only the fixed-capital factors 1, 2 and 4.

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 the factor changes investment in long-term assets or funds locked in daily operations; this separates fixed capital from working capital.

16. 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 the aptitudes, skills and abilities needed by employees to perform specific jobs effectively.
- Training is job-oriented: it focuses on skills for a particular task. Development has a wider focus on overall growth and future responsibilities.

Step 1: Evaluate Statement I Statement I is true. It describes training as the process of increasing the aptitudes, skills and abilities of employees to perform specific jobs. For example, learning to operate a particular machine helps an employee perform the assigned job more effectively.

Step 2: Evaluate Statement II and select the combination Statement II is also true because the purpose of training is improvement in performance of a specific job. It is therefore job-oriented. Option (A) incorrectly rejects Statement II, option (B) incorrectly rejects Statement I, and option (D) rejects both true statements.

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

Quick Tip to Solve: Link training with the present job and specific skills; link development with broader growth and future responsibilities.

17. Which of the following factors affects the choice of capital structure of a company ? [1 mark]

(A) Cost of equity

(B) Investment criteria involved

(C) Nature of business

(D) Scale of operations

Correct Answer: (A) Cost of equity

Solution:

Concept:

- Capital structure is the proportion of debt and equity used to finance a business. The financing decision considers their costs and the risk associated with their use.
- Cost of equity is affected by financial risk: excessive debt can increase the return shareholders require.

Step 1: Connect the factor to the financing decision Cost of equity affects the choice of capital structure. Although debt can be cheaper, increasing the debt proportion raises fixed interest commitments and financial risk borne by equity shareholders. Beyond a point, shareholders demand a higher return, increasing the cost of equity. Management must consider this while choosing the debt-equity mix.

Step 2: Distinguish the other financial decisions Investment criteria involved concerns evaluation of investment proposals, such as the return and cash flows from an asset. Nature of business and scale of operations are standard factors affecting the amount of fixed capital required. Thus (B), (C) and (D) do not give the capital-structure factor sought in this question.

Step 3: Conclusion Cost of equity affects the choice of capital structure. Hence, the correct option is (A).

Quick Tip to Solve: For capital structure, think about the debt-equity mix, financing cost and financial risk; keep the amount invested in assets separate.

18. 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 and promotes the development and regulation of the securities market.
- Protective functions guard investors against unfair practices. Training market intermediaries is a

developmental function that improves the market's capabilities.

Step 1: Classify the training activity Training of intermediaries of the securities market is a developmental function of SEBI. It improves the knowledge and competence of the people and institutions that facilitate securities transactions. The question asks for the activity that is not a protective function, so this is the required choice.

Step 2: Check the remaining options Controlling insider trading and imposing penalties, option (A), protects investors from misuse of unpublished price-sensitive information. Prohibiting fraudulent and unfair practices, option (C), protects them from manipulation and misleading statements. Promoting fair practices and a code of conduct, option (D), also safeguards their interests. These three are protective functions.

Step 3: Conclusion Training of intermediaries is a developmental function, not a protective function of SEBI. Hence, the correct option is (B).

Quick Tip to Solve: In SEBI questions, training builds market capability, while preventing insider trading, fraud and unfair practices protects investors.

19. 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 can be felt through the way an organisation functions.
- Orderliness, satisfied employees and achievement of targets are observable results that indicate effective management.

Step 1: Identify the evidence in the case Shreyansh reports "complete orderliness", employees who were "happy and satisfied", and targets met "as per the plans". These are the effects of good management. The case identifies management through its results rather than through a physical object that can be seen or touched.

Step 2: Match the evidence to the characteristic The characteristic is management as an intangible force, option (C). Group activity, option (A), concerns coordinated efforts of people towards common goals. A dynamic function, option (B), concerns adjustment to changing conditions. All pervasive, option (D), concerns management being required in different organisations and at different levels. Although the case mentions two types of firms in different countries, the specific evidence reported by Shreyansh highlights the felt effects of management.

Step 3: Conclusion Management is an intangible force, evidenced by orderliness, employee satisfaction and achievement of targets. Hence, the correct option is (C).

Quick Tip to Solve: When a case describes how good management is felt through orderliness and satisfaction, identify management as an intangible force.

20. 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 means that only significant deviations beyond permissible limits should be brought to management's attention.
- Critical point control focuses control efforts on key result areas that are critical to organisational success.

Step 1: Evaluate Statement I Statement I is false. Reporting every deviation, however insignificant, would burden management and waste attention on minor variations. Under management by exception, deviations within permissible limits do not need to be referred to management; significant deviations require attention and corrective action.

Step 2: Evaluate Statement II and select the combination Statement II is true. Critical point

control concentrates attention on key result areas whose performance is crucial for the success of the organisation. It is neither economical nor practical to control every activity with the same intensity. Therefore option (A) reverses the 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: Remember the distinction: management by exception asks which deviations matter; critical point control asks which activities matter most.

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21. '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 ideas and information so that the receiver understands the intended meaning.
- Noise is any obstruction or hindrance to communication. It can distract the receiver and prevent the message from being properly received or understood.

Step 1: Identify the obstructing element in the case **(a) Noise:** The element is noise, meaning an obstruction or hindrance to communication. Shrinivas sat near the door, where there was 'constant movement'. This disturbance diverted his attention, so he 'could not attentively focus on the meeting' and missed important points. Noise includes distractions of this kind; it need not consist only of a loud sound. The problem is the interference with reception of the message, rather than the company's decision to hold the meeting.

Step 2: State two other elements of communication **(b) Sender:** The sender is the person who conveys thoughts or ideas to the receiver. The sender starts the communication process by deciding what is to be communicated and expressing it in a suitable form. In this meeting, the Chief Technical Officer communicates the proposed programmes to the technical heads.

Message: The message is the content of the ideas, feelings, suggestions or information to be communicated. Here, it concerns programmes encouraging employees to generate ideas for value addition and changing the company's image. A message is the content being conveyed, while the

sender is the person conveying it.

Step 3: Conclusion The obstruction responsible for Shrinivas missing the discussion is **noise**. Two other elements are the **sender**, who communicates the ideas, and the **message**, which is the content communicated.

Quick Tip to Solve: When a case mentions distraction or interference during communication, identify noise; distinguish it from the sender and the content of the message.

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

(i) Planning is continuous.

(ii) Planning is futuristic. [3 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it. It bridges the gap between the present position and the position the organisation wants to reach.
- Planning is continuous because plans must be renewed and revised; it is futuristic because it anticipates future events and selects courses of action for achieving desired results.

Step 1: Explain why planning is continuous **(i) Planning is continuous:** Plans are prepared for a specific period, such as a month, a quarter or a year. At the end of that period, new plans are required in view of new requirements and future conditions. During implementation, managers also monitor results and revise plans when circumstances change. Thus, preparing plans, implementing them and following them up form a continuing cycle. Planning does not end merely because the first plan has been written. For example, after a year's sales plan is implemented, the next year's sales plan is prepared using the results and new expectations.

Step 2: Explain why planning is futuristic **(ii) Planning is futuristic:** Planning involves looking ahead and preparing for the future. Managers anticipate events and conditions, such as future demand, competition and availability of resources, and decide the actions needed to achieve objectives. Forecasting provides a basis for these decisions: a sales forecast may guide the production plan. Planning therefore determines in advance how the organisation should act in the future. It does not make the future certain, but helps managers respond to expected opportunities and difficulties in an organised manner.

Step 3: Conclusion Planning is **continuous** because successive plans and necessary revisions keep the process going. It is **futuristic** because it anticipates future conditions and decides present courses of action for desired future results.

Quick Tip to Solve: Link continuous planning with the repeated planning cycle, and futuristic planning with looking ahead through forecasts and anticipated conditions.

OR

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

(i) Objectives

(ii) Rules [3 marks]

Solution:

Concept:

- Plans guide organisational action. Objectives specify the desired ends, whereas rules prescribe particular actions that must or must not be taken.
- Objectives provide the direction for other plans. Rules are standing plans applied consistently to recurring situations and allow no discretion in their application.

Step 1: Explain objectives as a type of plan **(i) Objectives:** Objectives are the ends that management seeks to achieve through its operations. They express the desired future position of the organisation and provide direction to activities. Other plans, such as policies, strategies and budgets, are formulated to help attain these ends. Objectives should be stated clearly and, wherever possible, in measurable terms within a specified time so that performance can be evaluated. For example, an enterprise may aim to increase its annual sales by ten per cent during the next year. This gives managers a definite result towards which production and marketing efforts can be directed.

Step 2: Explain rules as a type of plan **(ii) Rules:** Rules are specific statements that inform people what is to be done or what is not to be done in a particular situation. They reflect a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plan and are rigid, allowing no discretion or flexibility in their application. For example, a rule prohibiting smoking on factory premises requires everyone concerned to comply. Unlike a broad policy that leaves room for judgement, a rule specifies the required or prohibited action directly and is enforced uniformly whenever the relevant situation arises.

Step 3: Conclusion **Objectives** define the results the organisation wants to attain. **Rules** specify mandatory or prohibited actions and leave no scope for discretion in the situation to which they apply.

Quick Tip to Solve: Identify an objective by the target or end result it states; identify a rule by a definite instruction that permits no choice in application.

23. 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:

- Return on investment is the operating return earned on total capital employed. Thus, the same capital employed and ROI give both companies the same earnings before interest and tax (EBIT).
- Earnings per share (EPS) is the profit available to equity shareholders divided by the number of equity shares. Interest is deducted before calculating tax; debt can raise EPS when ROI exceeds its interest rate.

Step 1: Calculate the operating profit of each company Both companies employ Rs 80,00,000 and earn an ROI of 10%. Therefore, each earns the following EBIT, before financing costs and tax:

$$\text{EBIT} = 80,00,000 \times \frac{10}{100} = \text{Rs } 8,00,000.$$

This common operating profit must now be adjusted for their different capital structures.

Step 2: Calculate Amrit Ltd.'s EPS Amrit uses debt of Rs 40,00,000 at 6%, so its annual interest is Rs 2,40,000. Earnings before tax are Rs 8,00,000 minus Rs 2,40,000, or Rs 5,60,000. Tax at 50% is Rs 2,80,000, leaving profit after tax of Rs 2,80,000 for 40,000 equity shares.

$$\text{EPS}_{\text{Amrit}} = \frac{2,80,000}{40,000} = \text{Rs } 7 \text{ per share.}$$

Step 3: Calculate Nimrit Ltd.'s EPS and compare Nimrit has no debt, so no interest is deducted. Its profit before tax is Rs 8,00,000. Tax at 50% is Rs 4,00,000, leaving Rs 4,00,000 for its 80,000 equity shares.

$$\text{EPS}_{\text{Nimrit}} = \frac{4,00,000}{80,000} = \text{Rs } 5 \text{ per share.}$$

Amrit's 10% ROI exceeds the 6% cost of debt. The earnings generated with borrowed funds exceed their interest cost, benefiting the smaller number of equity shareholders. This favourable effect is called trading on equity.

Step 4: Conclusion (a) Amrit Ltd.'s EPS is Rs 7 and Nimrit Ltd.'s EPS is Rs 5. (b) Amrit Ltd. has the better EPS because it benefits from favourable financial leverage: ROI is greater than the interest rate on its debt.

Quick Tip to Solve: For EPS, deduct interest first, then tax, and finally divide by equity shares only; never divide by total capital employed.

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

Solution:

Concept:

- Business environment consists of the external forces and institutions that influence an enterprise's performance. These forces include economic, social, technological, political and legal conditions.
- Understanding the environment helps managers recognise opportunities, anticipate threats and adjust decisions to changes outside the enterprise. Any three distinct points of its importance can be stated.

Step 1: State how environmental understanding reveals opportunities **It enables the firm to identify opportunities and get the first-mover advantage:** Opportunities are favourable external changes that can help a business improve performance. By observing changing needs, preferences and technology early, the firm can recognise a promising opening and act before competitors. For example, identifying demand for environmentally friendly products can guide the timely introduction of such products.

Step 2: State how it provides early warning of threats **It helps the firm to identify threats and early warning signals:** Threats are unfavourable external trends or changes that can hinder performance. Environmental understanding alerts managers to emerging competition, substitute products or adverse policy changes. They can prepare a suitable response in time, instead of waiting until the change has already damaged the business.

Step 3: State how it supports adjustment to rapid change **It helps in coping with rapid changes:** Markets, technology and customer expectations change rapidly. Continuous environmental scanning keeps managers aware of these developments so that they can revise products, methods and business practices. This makes the enterprise more responsive and helps it operate effectively in a changing environment.

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

Quick Tip to Solve: Keep the points distinct: an opportunity is a favourable opening, a threat is a danger, and coping with change means adapting business decisions.

OR

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

Solution:

Concept:

- Demonetisation is the withdrawal of the legal-tender status of specified currency notes. The demonetisation announced in India in November 2016 concerned the then existing Rs 500 and Rs 1,000 notes.
- Its features relate to tax administration, bringing savings into the formal financial system, and

encouraging a less-cash economy. These describe the nature and intended role of the measure, rather than guaranteeing that every objective was fully achieved.

Step 1: Explain its role in tax administration **A tax-administration measure:** People holding cash out of income that had escaped taxation had to bring it into the banking system for conversion or deposit under the applicable arrangements. Such deposits could be reported and examined by the tax authorities. The measure therefore sought to expose unaccounted income, strengthen tax compliance and convey that tax evasion would not be tolerated.

Step 2: Explain the movement of savings into formal finance **Channelising savings into the formal financial system:** Cash held outside banks was brought into bank accounts. This increased the scope for savings to enter the organised financial system instead of remaining as idle cash holdings. Deposited funds could then be mobilised through banks and used for lending and other financial activities under formal institutional arrangements.

Step 3: Explain the encouragement of a less-cash economy **Creating a less-cash economy:** Demonetisation encouraged the use of alternative payment channels, including bank transfers and digital payments, in place of cash. The aim was to route more transactions through recorded banking and electronic channels. A less-cash economy means reducing dependence on physical currency; it does not mean that every cash transaction is prohibited.

Step 4: Conclusion Three features of demonetisation are its use as a tax-administration measure, its role in channelising savings into the formal financial system, and its encouragement of a less-cash economy.

Quick Tip to Solve: Link the three features to tax scrutiny, bank deposits and digital payments; describe less cash as reduced dependence on cash, not a ban on all cash.

25. '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.

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

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

(i) Main focus

(ii) Means

(iii) Ends [4 marks]

Solution:

Concept:

- The production concept assumes that buyers prefer products which are widely available and affordable. It therefore emphasises a large volume of output at low cost.
- The product concept assumes that buyers favour superior quality, performance and innovative features. It therefore emphasises continuous improvement of the product.

Step 1: Identify each company's philosophy from the case **(a) Reliable Appliances follows the production concept.** The decisive evidence is that it believes customers prefer products that are 'widely available and affordable' and uses 'mass production to keep costs low'. Its basic refrigerators target budget-conscious buyers.

Modern Appliances follows the product concept. It believes customers prefer 'superior quality with innovative features' and continuously improves its refrigerators. Wi-Fi connectivity, a touch screen and advanced cooling illustrate its emphasis on the product's quality and features.

Step 2: Compare the concepts on the three specified bases **(b) Differences:**

Basis	**Production concept: Reliable Appliances**	**Product concept: Modern Appliances**
Main focus	Quantity of the product; increasing its availability and affordability.	Quality, performance and features of the product.
Means	Availability and affordability, achieved through mass production and improved production and distribution efficiency.	Product improvement through continuous enhancement of quality and innovative features.
Ends	Profits through a large volume of production.	Profits through product quality.

Step 3: Conclusion Reliable Appliances adopts the **production concept**, whereas Modern Appliances adopts the **product concept**. The former seeks profits through large-scale low-cost production; the latter seeks profits through superior product quality and improvement.

Quick Tip to Solve: Link 'widely available and affordable' to production, and 'quality and innovative features' to product. In a comparison, answer each named basis in both columns.

26. '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:

- Organisational or economic objectives concern the enterprise's survival, profit and growth. Management must earn sufficient revenue, generate a surplus and expand operations over time.
- Social objectives concern benefits to society, such as employment generation and development of backward regions, while conducting business as a responsible member of society.

Step 1: State the organisational objectives shown in the case **1. Survival:** A business must earn enough revenue to cover its costs so that it can continue to exist. Silver Mills initially earned 'just enough revenues to cover its cost'. This shows the basic objective of survival rather than expansion or a substantial surplus.

2. Profit: Profit is the incentive for continuing business and helps meet risks and future needs. When demand increased, Silver Mills 'was able to earn profits', which gave it 'a vital incentive' to continue successful operations. This directly illustrates the profit objective.

3. Growth: An enterprise seeks to improve its prospects and increase the scale of its operations. Silver Mills 'expanded its operations' and added millet flour, millet-based snacks and millet-based beverages. The extension of its product range and business operations demonstrates growth.

Step 2: State the social objective shown in the case **4. Social objective:** Management should create benefits for the community, including employment opportunities and development of backward areas. Silver Mills was established in 'a backward area of Ransdhan' and subsequently 'provided employment opportunities specially to women'. Involving women in dehusking, cleaning and packing generates livelihoods and supports the community. These facts show social responsibility alongside the firm's economic objectives.

Step 3: Conclusion The case highlights the organisational objectives of **survival, profit and growth**, together with the **social objective** of supporting a backward area and providing employment, particularly to women.

Quick Tip to Solve: Match covering costs with survival, earning a surplus with profit, expansion with growth, and community employment with social objectives. Support every identification with a fact from the case.

27(a). Explain 'Job Enrichment' and 'Employee Participation' as non-financial incentives. [4 marks]

Solution:

Concept:

- Non-financial incentives satisfy psychological, social and esteem needs rather than providing a direct monetary reward. They encourage employees by making work meaningful and recognising their contribution.
- Job enrichment improves the content of a job, while employee participation gives employees a role in decisions concerning their work. Both can strengthen commitment and motivation.

Step 1: Explain job enrichment **Job enrichment:** It means designing jobs to include greater variety of work content, a higher level of knowledge and skill, greater autonomy and responsibility, opportunities for personal growth, and a meaningful work experience. Instead of merely repeating a narrow routine, an employee undertakes challenging work and exercises judgement. For example, allowing a worker to plan a task, carry it out and check its quality enriches the job. The opportunity to use abilities and accept responsibility makes the work itself a source of satisfaction and motivation.

Step 2: Explain employee participation **Employee participation:** It means involving employees in decision-making on issues related to them. Management may consult employees through committees, work groups or suggestions before deciding matters concerning their work. Employees can contribute their knowledge and express views about work methods or workplace conditions. Being heard gives them a sense of involvement and importance. Because they have contributed to a decision, they are more likely to accept it and cooperate in implementing it; this improves commitment and motivation.

Step 3: Conclusion Job enrichment motivates through challenging, responsible and meaningful work. Employee participation motivates through involvement in relevant decisions and a sense of belonging to the organisation.

Quick Tip to Solve: Link enrichment to the content and responsibility of the job; link participation to the employee's voice in decisions.

OR

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

Solution:

Concept:

- Personal barriers arise from personal factors of the sender or receiver, such as attitudes, fears and lack of confidence. They prevent information from being expressed, received or understood effectively.
- Effective communication requires a willingness to exchange information and confidence in the person communicating. A superior's fear or distrust can obstruct this exchange even when the communication channel exists.

Step 1: Explain fear of challenge to authority **Fear of challenge to authority:** A superior may fear that a particular communication will adversely affect his or her authority. The superior may

therefore withhold or suppress that information. For example, information about an employee's useful suggestion may not be passed upwards if the superior thinks it will expose the limitations of the superior's own decision. The barrier lies in the superior's personal insecurity: relevant information is prevented from reaching the person who needs it. Consequently, the organisation loses a potentially valuable contribution and communication becomes incomplete.

Step 2: Explain lack of confidence in subordinates **Lack of confidence of a superior in subordinates:** If a superior does not have confidence in the competence of subordinates, the superior may not seek their advice or opinions. Even employees with useful knowledge are then denied an opportunity to contribute. For example, a manager who assumes that workers cannot offer worthwhile suggestions may never ask for their views on a production difficulty. The absence of trust discourages the upward flow of information and deprives management of feedback from employees who directly perform the work.

Step 3: Conclusion Fear of a challenge to authority can make a superior suppress information, while lack of confidence in subordinates can make the superior avoid seeking their views. These are two personal barriers to effective communication.

Quick Tip to Solve: For each personal barrier, state the person's attitude and explain exactly how it prevents information from flowing.

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

Solution:

Concept:

- Leadership is the process of influencing the behaviour of people so that they strive willingly and enthusiastically towards the achievement of organisational goals.
- As an element of directing, leadership guides people into action. It involves a relationship between a leader and followers, rather than merely possessing a formal position of authority.

Step 1: State the features concerning influence and relationships

- **Influences the behaviour of people:** Leadership indicates the ability of an individual to influence others. A leader guides employees' efforts and encourages them to contribute willingly; leadership is therefore more than issuing an order or compelling obedience through authority.
- **Involves interpersonal relations:** Leadership exists between a leader and followers. The leader understands and interacts with the followers, and the followers respond to the leader's guidance. Without followers, an individual cannot exercise leadership.

Step 2: State the features concerning purpose and continuity

- **Aims at common goals:** Leadership is exercised to achieve the common goals of the organisation. The leader directs the efforts of individuals towards these shared objectives, rather than allowing personal efforts to remain unrelated to the group's purpose.
- **Is a continuous process:** Leadership is an ongoing process of influencing behaviour. A leader must keep guiding, encouraging and supporting followers as tasks, circumstances and problems change; influence is not exercised only once when work is assigned.

Step 3: Conclusion Four features of leadership are influence on people's behaviour, interpersonal relations between leader and followers, pursuit of common organisational goals, and continuity of the influencing process.

Quick Tip to Solve: Recall the four cues: influence, leader–follower relationship, common goals and continuity. State features of leadership, rather than qualities such as confidence or integrity of a good leader.

OR

28(b). State any four assumptions on which Maslow's Hierarchy of Needs theory is based. [4 marks]

Solution:

Concept:

- Maslow's hierarchy of needs theory explains motivation in terms of human needs. It arranges needs from basic physiological needs through safety, affiliation and esteem to self-actualisation.
- A need is a felt deficiency that can prompt a person to act. The theory relates motivation to the satisfaction of needs and to their order of importance.

Step 1: State the assumptions about needs and their order

- **Behaviour depends on needs:** People's behaviour is based on their needs. The satisfaction of these needs influences their behaviour, so an unsatisfied need can induce a person to make an effort towards an objective that will satisfy it.
- **Needs are arranged in a hierarchy:** People's needs are in a hierarchical order, starting with basic needs and extending to higher-level needs. Physiological needs occupy the lowest level, followed by safety, affiliation, esteem and self-actualisation needs.

Step 2: State the assumptions about satisfaction and progression

- **A satisfied need no longer motivates:** Once a particular need is satisfied, it ceases to be a motivator. A manager therefore cannot rely indefinitely on satisfying the same already-satisfied need to stimulate additional effort from an employee.
- **Higher needs arise after lower needs are satisfied:** A person moves to the next higher level of the hierarchy only when the lower-level need has been satisfied. For example, after basic physiological needs are satisfied, safety needs become important in motivating behaviour.

Step 3: Conclusion The four assumptions are that behaviour is based on needs, needs follow a hierarchy, a satisfied need ceases to motivate, and a person moves to a higher-level need after satisfying the lower-level need.

Quick Tip to Solve: Distinguish assumptions from the five levels: explain how needs motivate and how a person progresses through the hierarchy, instead of only listing physiological, safety, affiliation, esteem and self-actualisation needs.

29. '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. Plans are based on assumptions about the conditions in which they will operate.
- Developing premises means making assumptions about the future. After this, the planner identifies alternative courses of action, evaluates them and selects the best alternative.

Step 1: Identify the step highlighted in the case **(a) Developing premises:** Mefco Ltd. "studied the market and made assumptions about the future" regarding customers' convenience and their preference for faster delivery. These assumptions provide the base on which its plan for Mefco Fast will be developed. The decisive clue is the explicit reference to future assumptions, rather than the mere announcement of a new service.

Step 2: State the next three steps in their correct sequence **(b) Identifying alternative courses of action:** Once the premises are established, Mefco Ltd. should identify the different possible ways of achieving its delivery objective. All feasible alternatives should be considered so that management does not restrict itself to the first method that occurs to it.

Evaluating alternative courses: The company should examine the positive and negative aspects of each alternative in the light of its objectives and premises. It should compare their likely costs, benefits, risks and feasibility, considering the resources available for the proposed service.

Selecting an alternative: After evaluation, management should choose the most suitable course of action. The selected plan should best serve the company's objective and be feasible and profitable in the expected circumstances; sometimes a combination of alternatives may be adopted.

Step 3: Conclusion The highlighted step is **developing premises**. The next three steps are **identifying alternative courses of action, evaluating alternative courses, and selecting an alternative**, in that order.

Quick Tip to Solve: In a planning case, "assumptions about the future" points to developing premises. Continue the sequence with identify, evaluate and select alternatives.

30. '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 puts the right person on the right job through recruitment, selection, placement and orientation, and subsequent employee development and assessment.
- The stage is identified by the action performed: attracting candidates is recruitment, choosing a candidate is selection, introducing and assigning the job is placement and orientation, and judging performance against standards is performance appraisal.

Step 1: Identify the steps before Shikhar joins the company **1. Recruitment:** Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation. The case refers to a placement cell maintaining a "close liaison with the universities, vocational schools and management institutes to recruit qualified persons". Connecting students with companies for job opportunities illustrates recruitment; campus recruitment is the source described here.

2. Selection: Selection is the process of choosing the most suitable candidate from the applicants for a job. Shikhar "was chosen by 'Nero' ... for the post of Production Manager". The employment contract containing the terms, conditions and date of joining, and his acceptance of the offer, follow the company's choice of him for the position.

Step 2: Identify the steps after Shikhar joins the company **3. Placement and orientation:** Placement means putting the selected candidate in the position for which he has been selected. Orientation introduces the employee to the organisation, workplace and people. The presentation about the company and introduction to his "superiors, subordinates and colleagues" show orientation. Being taken around the workplace and "given charge of the job for which he was selected" shows placement. These form one combined step in the staffing process.

4. Performance appraisal: This means evaluating an employee's current or past performance against pre-determined standards and communicating the results. Three months later Shikhar was "given positive feedback about his current performance as per certain pre-determined standards". Both comparison with standards and feedback identify performance appraisal.

Step 3: Conclusion The four staffing steps discussed are **recruitment, selection, placement and orientation, and performance appraisal**.

Quick Tip to Solve: Match each case action to a staffing verb: attract, choose, introduce and assign, then assess. Treat placement and orientation as one combined step here.

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

(i) Fatigue study

(ii) Method study

(iii) Differential Piece Rate Wage system [6 marks]

Solution:

Concept:

- Scientific management, developed by F.W. Taylor, replaces rule-of-thumb methods with systematic investigation to improve efficiency and prosperity for both employers and workers.
- Fatigue study and method study improve the conditions and manner of work, while the differential piece rate wage system links remuneration to scientifically determined performance standards.

Step 1: Explain fatigue study **(i) Fatigue study:** A worker needs rest during the working day to recover from physical and mental tiredness. Fatigue study determines the amount and frequency of rest intervals required to enable workers to maintain their efficiency.

The study examines the causes of fatigue, such as long working hours, unsuitable working conditions, inappropriate tools or lack of cordial relations. Necessary rest pauses are then introduced and avoidable causes are removed. For example, a suitably timed short break can restore concentration before tiredness causes errors or accidents. Thus, rest is scientifically planned rather than treated as wasted working time.

Step 2: Explain method study **(ii) Method study:** Its objective is to find the one best way of doing a job. There may be several possible methods of performing an operation, so each is examined systematically to select the method that minimises the cost of production and maximises quality and customer satisfaction.

The scope includes the entire process, from procurement of raw materials to delivery of the finished product. The chosen method may improve the sequence of operations, factory layout or handling of materials. For example, arranging machines in the order in which operations are performed can reduce unnecessary movement. The best method is selected by investigation, rather than by the personal preference of an individual worker.

Step 3: Explain the differential piece rate wage system **(iii) Differential Piece Rate Wage system:** Taylor advocated different piece rates for efficient and inefficient workers. First, scientific work study establishes a fair standard of output. Workers who achieve or exceed that standard receive a higher rate per unit, whereas those who fall below it receive a lower rate per unit.

The distinction is in the rate paid for each unit, not merely in the number of units produced. Thus, an efficient worker earns more both because of greater output and because of the higher piece rate. The system rewards efficiency, discourages low performance and motivates workers to reach the

prescribed standard. The standard and rates should be clearly communicated so that workers know the performance required for the higher rate.

Step 4: Conclusion Fatigue study determines suitable rest intervals, method study identifies the best way to perform work, and the differential piece rate wage system rewards workers who achieve the standard with a higher payment per unit. Together, these techniques seek higher efficiency through scientific analysis and incentives.

Quick Tip to Solve: Link fatigue study with rest, method study with the best way, and differential piece rates with two rates based on achieving a standard.

OR

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

(i) Flexible

(ii) Mainly behavioural

(iii) Contingent [6 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They help managers understand situations and choose suitable courses of action.
- Since management deals with people and changing organisational situations, its principles require judgement in application. Flexibility, behavioural orientation and contingency explain why they cannot be applied mechanically.

Step 1: Explain flexibility **(i) Flexible:** Principles of management are not rigid prescriptions that must be followed in exactly the same way in every situation. Managers can modify their application according to the needs of the organisation and the circumstances they face.

For example, centralisation and decentralisation have relative importance. A manager may retain more decision-making authority when an urgent or sensitive decision requires close control, but delegate authority when employees are capable of handling local decisions. Flexibility allows the manager to choose the appropriate degree instead of insisting on a fixed arrangement. The principle provides guidance; it does not remove the need for managerial discretion.

Step 2: Explain their mainly behavioural nature **(ii) Mainly behavioural:** Management principles are mainly concerned with human behaviour in organisations. They guide managers in influencing the conduct of individuals and groups so that their efforts contribute towards organisational objectives.

Human behaviour is complex, and people differ in their needs, attitudes and reactions. Therefore, the effects of applying a management principle are less exact and predictable than those of a principle of physical science. For example, fair remuneration can motivate employees, but different employees may respond differently to the same reward. The principles also help in understanding relationships between people and available material resources, since work is performed by people using those resources.

Step 3: Explain contingency **(iii) Contingent:** The application and usefulness of a management principle depend upon the prevailing situation and the requirements of the organisation at a particular point of time. A manager must study the circumstances before deciding how a principle should operate.

For example, the principle of remuneration recommends fair and reasonable wages. What is fair cannot be decided in isolation: it depends on factors such as the organisation's paying capacity, the employee's contribution and prevailing wage rates. The general principle remains a guide, but the actual decision varies with relevant conditions. A course of action that is appropriate for one organisation or situation may therefore be unsuitable for another.

Step 4: Conclusion Management principles are flexible because their application can be adapted, mainly behavioural because they chiefly guide human conduct at work, and contingent because their application depends on prevailing circumstances. Managers must therefore combine these guidelines with an understanding of people and the particular situation.

Quick Tip to Solve: Remember the distinction: flexible means adaptable, behavioural means concerned with people, and contingent means dependent on the situation.

32. 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:

- Marketing mix is the combination of product, price, place and promotion decisions that a firm uses to achieve its marketing objectives in a target market.
- A product may be a service as well as a physical good. The elements of the mix must work together to satisfy the needs of the selected customers.

Step 1: Identify and explain product **Product:** "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 or services offered to customers to satisfy their needs and wants. Product decisions cover the nature, quality, features and range of the offering, as well as related services. Here the product is the concierge service: Ramneek Bros. organises personalised

experiences and arrangements for its wealthy clients. Its customised, exclusive service is the benefit customers buy, even though the offering is intangible.

Step 2: Identify and explain price **Price:** "Ramneek Bros. charges premium prices for their services reflecting the exclusive and top quality offerings they provide." Price is the amount of money customers must pay to obtain the product or service. Pricing decisions include the basic price, discounts, payment terms and other concessions, keeping in view costs, customer demand, competition and the firm's objectives. The company chooses a premium price in keeping with its exclusive service and the purchasing capacity of its target clients. Thus the amount charged supports the high-quality positioning of the service.

Step 3: Identify and explain promotion **Promotion:** "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 comprises activities that communicate the availability, features and merits of a product to target customers and persuade them to purchase it. A firm selects an appropriate combination of promotional tools such as advertising, personal selling, sales promotion and public relations. In this case, magazine advertising informs the desired clientele about the service, while recommendations by satisfied clients help persuade prospective customers. These communications support the company's marketing effort.

Step 4: Conclusion Three elements of the marketing mix evident in the case are **product**, through the customised concierge services; **price**, through the premium charges; and **promotion**, through magazine advertising and client recommendations. Each identification is supported by the corresponding line from the case.

Quick Tip to Solve: For a marketing-mix case, ask what is sold, what is charged, how it reaches customers and how buyers hear about it. Quote a separate case line for each element you select.

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

(i) Scale of operations

(ii) Credit allowed

(iii) Level of competition

(iv) Production cycle [6 marks]

Solution:

Concept:

- Working capital finances day-to-day business operations through current assets such as inventories, debtors and cash. Net working capital is the excess of current assets over current liabilities.
- Working capital requirements depend on the volume of activity and the time for which funds remain tied up between purchasing inputs and collecting cash from customers.

Step 1: Explain scale of operations **Scale of operations:** A business operating on a larger scale generally needs a larger absolute amount of working capital. Higher production and sales require more raw materials, work-in-progress, finished goods and cash for wages and routine expenses. A larger volume of credit sales also increases the funds tied up in debtors. A business operating on

a small scale can conduct its operations with a smaller investment in these current assets. Thus, other things remaining the same, an increase in the scale of operations increases working capital requirements.

Step 2: Explain credit allowed **Credit allowed:** When a company permits customers to buy on credit, cash is not received immediately even though production and selling expenses have already been incurred. Funds remain blocked in debtors until customers pay. A liberal credit policy, involving a longer credit period or a larger proportion of credit sales, therefore raises working capital requirements. A strict credit policy or cash sales enables faster collection and reduces the amount tied up in receivables. This factor concerns credit given to customers, rather than credit received from suppliers.

Step 3: Explain level of competition **Level of competition:** Intense competition may require a company to maintain larger stocks so that it can fulfil customer orders promptly and avoid losing sales to rivals. It may also have to offer more liberal credit terms to attract and retain customers. Additional inventory and higher debtors both absorb funds, increasing working capital requirements. Where competition is weak, the firm may sell with lower inventories and stricter credit terms, reducing the working capital needed, other conditions being unchanged.

Step 4: Explain production cycle **Production cycle:** The production cycle is the time taken to convert raw materials into finished goods. During this period, money is invested in materials, wages and other production expenses without the finished goods yet being ready for sale. A longer production cycle keeps funds locked in work-in-progress for a longer period and increases working capital requirements. A shorter cycle allows faster completion of production and earlier sale of goods, reducing the funds tied up in the process. Efficiently shortening the cycle can therefore release working capital.

Step 5: Conclusion Larger operations, more liberal customer credit, stronger competition and a longer production cycle generally increase working capital requirements. Smaller operations, faster customer collections, lower competitive pressure and quicker production generally reduce these requirements, other things remaining the same.

Quick Tip to Solve: Link each factor to inventory, debtors or the time before cash returns. More funds tied up, or funds tied up for longer, normally means a greater working capital requirement.

OR

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

(i) Taxation policy

(ii) Stock market reaction

(iii) Access to capital market

(iv) Contractual constraints [6 marks]

Solution:

Concept:

- The dividend decision determines the portion of profit distributed to shareholders and the portion retained in the business. It must balance shareholders' income expectations with the company's future financing requirements.
- Taxation, investors' likely response, access to external equity and agreements with lenders influence how much of the available earnings a company can distribute.

Step 1: Explain taxation policy **(i) Taxation policy:** The tax treatment of dividends affects the attractiveness and cost of distributing profits. If a higher tax is imposed on dividend distribution, distributing a given amount becomes more costly and the company may prefer a lower dividend. A lower tax burden encourages a higher payout, other things being equal. The tax treatment of dividend income relative to capital gains also affects shareholders' preferences: shareholders facing a higher tax on dividends may prefer retention and a rise in share value, whereas those for whom dividends have a lower tax burden may prefer cash dividends. Thus the prevailing tax policy must be considered before deciding the payout.

Step 2: Consider the stock market's reaction **(ii) Stock market reaction:** Investors generally regard an increase in dividend as a favourable signal about the company's earnings and prospects. Consequently, a higher dividend may raise the market price of its shares. Conversely, an unexpected reduction in dividend may be interpreted unfavourably and depress the share price. Management therefore considers shareholders' expectations and the likely market response, especially before reducing an established dividend. It should choose a payout that can be sustained rather than raise it merely to create a temporary favourable impression.

Step 3: Assess access to the capital market **(iii) Access to capital market:** A large, reputed company that can readily raise funds in the capital market can afford a relatively higher dividend. It need not rely entirely on retained earnings to finance future investment. A smaller or less established company with limited access to external funds is more dependent on internal financing and generally retains a larger share of profits. Its dividend payout is therefore likely to be lower, even when it has profitable investment opportunities.

Step 4: Check contractual constraints **(iv) Contractual constraints:** Loan agreements may contain conditions restricting dividend payments, for example a ceiling on the proportion of earnings that can be distributed. Such provisions protect lenders by ensuring that sufficient funds remain in the business to meet obligations. The company must comply with these terms while fixing its dividend. The existence of cash or accounting profit alone does not permit a payout that violates a binding loan agreement.

Step 5: Conclusion A company fixes its dividend after considering the tax consequences of distribution, the likely stock market response, its ability to obtain external finance and the restrictions in its financing contracts. These considerations determine how much profit can prudently be paid out and how much should be retained.

Quick Tip to Solve: Link each factor to its effect on payout: costly taxation and restrictive contracts constrain dividends, while easy access to external capital permits a higher payout.

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34. '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.

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

(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. [6 marks]

Solution:

Concept:

- A functional structure groups activities according to functions such as production and marketing. A divisional structure groups them around different products or product lines, with each division undertaking the functions needed for its own products.
- Divisional structure is suitable for a large organisation producing several categories of products. Each division has a divisional head responsible for its performance, while overall policy and coordination remain with top management.

Step 1: Identify and explain the suitable structure **(a) Divisional structure:** TnG should adopt a divisional organisational structure after diversification. It can establish separate divisions for its different product lines, such as Beauty and Wellbeing, Home Care, Personal Care and Nutrition, alongside its existing product businesses. Each product division would have the functional resources needed to manage that product line, such as production and marketing, under a divisional head. A division therefore operates as a relatively self-contained business unit, although it remains part of TnG and follows the company's overall objectives and policies.

Reason: The company has decided to "diversify into manufacturing of new range of products". Different product categories require focused attention to their own customers, production requirements and markets. Grouping all activities only by common functions becomes less suitable as the range expands. Product divisions make responsibility for each product line clear and provide the necessary specialisation.

Step 2: State two benefits to the organisation

- **Accountability and performance measurement:** Each division can be treated as a profit centre. Its revenues and costs can be assessed separately, making it easier to identify profitable and poorly performing product lines and to hold the appropriate divisional head accountable. Top management can use this information to allocate resources and take corrective action.
- **Expansion and growth:** New product lines can be added by creating new divisions without substantially disturbing the existing ones. This gives TnG the flexibility to develop the proposed Home Care, Nutrition and other businesses while its established baby care and feminine care operations continue functioning.

Step 3: State two benefits to the heads of divisions

- **Development of managerial skills:** A divisional head deals with several functions related to a product rather than only one specialised function. Responsibility for production, marketing and other divisional activities develops varied skills and prepares the manager for higher managerial positions.
- **Faster decisions and greater initiative:** Each division functions as an autonomous unit within the company's policies. Its head can decide matters concerning the product promptly instead of referring every operational decision to central functional departments. This encourages initiative and responsiveness to the needs of that product's market.

Step 4: Conclusion TnG should choose a divisional structure because it is expanding into several distinct product lines. It benefits the organisation through clear profit accountability and easier expansion, and benefits divisional heads through broader managerial development and autonomy for faster decisions.

Quick Tip to Solve: For a diversification case, organise by products. Separate company benefits, such as profit accountability and growth, from managerial benefits, such as varied skills and autonomy.