

CBSE 12 Business Studies (66/1/3) Question Paper with Solutions

Time Allowed :3 hours	Maximum Marks :80	Total questions :34
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General Instructions

Read the following instructions very carefully and strictly follow them :

1. This question paper contains 34 questions. All questions are compulsory.
2. Marks are indicated against each question.
3. Answers should be brief and to the point.
4. Answers to questions carrying 3 marks may be from 50 to 75 words.
5. Answers to questions carrying 4 marks may be in about 150 words.
6. Answers to questions carrying 6 marks may be in about 200 words.
7. Attempt all parts of a question together.

1. In the _____ market, prices are determined and decided by the management of the company.

- (A) Primary
- (B) Secondary
- (C) Money
- (D) Stock

Correct Answer: (A) Primary

Solution:

Step 1: In the primary market, securities are issued directly by the company, and the prices are set by the issuing company.

Step 2: The primary market facilitates the raising of capital through initial public offerings (IPOs) and other means.

Thus, the correct answer is option A.

Quick Tip

The primary market is where securities are issued for the first time, and prices are determined by the issuer.

2. Statement I: A financial market facilitates the transfer of savings from savers to investors.

Statement II: It gives savers the choice of different investments and helps to channelize surplus funds into the most productive use.

Choose the correct option from the following:

- (A) Statement I is true and Statement II is false.
- (B) Statement II is true and Statement I is false.
- (C) Both the Statements are true.
- (D) Both the Statements are false.

Correct Answer: (C) Both the Statements are true.

Solution:

Step 1: Financial markets play a crucial role in mobilizing savings and channeling them to productive investments.

Step 2: They offer various investment choices and enable investors to allocate resources efficiently.

Thus, both statements are true, and the correct answer is option C.

Quick Tip

Financial markets act as intermediaries between savers and investors, facilitating economic growth.

3. ‘Dovex’ was a large company with a renowned name in healthcare industry, specializing in the development and production of life-saving medications and medical devices. With a strong reputation for ethical practices, ‘Dovex’ attracted a large number of investors who had great faith in the company’s future. This allowed ‘Dovex’ to raise capital easily from the market whenever expansion or new projects were to be undertaken. As a result, it could pay high dividends to the shareholders.

The factor affecting dividend decision discussed above, which allowed ‘Dovex’ to pay high dividends to the shareholders is:

- (A) Cash flow position
- (B) Stock market reaction
- (C) Legal constraints
- (D) Access to capital market

Correct Answer: (D) Access to capital market

Solution:

Step 1: A company’s ability to access capital from the market plays a crucial role in dividend decisions. If a company can raise funds easily, it has the flexibility to pay higher dividends.

Step 2: Since ‘Dovex’ had a strong reputation and could attract investors easily, it could afford to pay higher dividends without compromising its financial stability.

Thus, the correct answer is option D.

Quick Tip

Companies with better market access can afford to pay higher dividends without affecting their liquidity.

4. Match the terms given in Column I with their meanings in Column II:

Column I	Column II
1. Placement	(i) Introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation
2. Recruitment	(ii) It refers to the employee occupying the position or post for which he/she has been selected
3. Orientation	(iii) Evaluating an employee's current and/or past performance as against certain predetermined standards
4. Performance Appraisal	(iv) The process of searching for prospective employees and stimulating them to apply for jobs in the organization

Choose the correct option from the following:

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

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

Solution:

Step 1: Understanding the terms:

- **Placement:** Refers to the employee occupying the assigned position.
- **Recruitment:** The process of attracting prospective employees to apply for jobs.
- **Orientation:** Introducing the new employee to the work environment and policies.
- **Performance Appraisal:** Evaluating employee performance based on set standards.

Thus, the correct answer is option C.

Quick Tip

Matching terms correctly requires a clear understanding of HRM processes like recruitment, orientation, and appraisal.

5. Which of the following is an element of ‘Social Environment’?

- (A) Rates of saving and investment
- (B) Expectations from the workforce
- (C) The nature of relationship of our country with foreign countries
- (D) Planned outlay in public and private sectors

Correct Answer: (B) Expectations from the workforce

Solution:

Step 1: Understanding Social Environment:

The social environment refers to the cultural and societal aspects that influence businesses, such as social values, work ethics, lifestyle changes, and expectations from the workforce.

Step 2: Analyzing the options:

- Option (A) relates to economic factors rather than social factors.
- Option (B) aligns with social expectations, reflecting the workforce’s changing attitudes and aspirations.
- Option (C) pertains to political or economic environment.
- Option (D) refers to economic planning and development, not social environment.

Thus, the correct answer is option B.

Quick Tip

The social environment includes workforce expectations, cultural shifts, and demographic changes affecting business operations.

6. Identify the tool of promotion used by 'Mehta Sons Garments' to boost its sales:

- (A) Advertising
- (B) Personal selling
- (C) Sales promotion
- (D) Public relations



Correct Answer: (C) Sales promotion

Solution:

Step 1: Sales promotion includes short-term incentives to encourage purchases and boost sales.

Step 2: Examples include discounts, coupons, and special offers.

Thus, the correct answer is option C.

Quick Tip

Sales promotion provides temporary incentives to boost sales and attract customers.

7. Beenu had a bookstore in Sabad called 'Book-mark'. For years, the bookstore was doing reasonably well but with the rise of digital books and online retailers, her sales had declined. Beenu's daughter, who had just completed her MBA with a specialisation in marketing, decided to launch a marketing campaign to revive the bookstore. The campaign's focus was on the joy of reading books in physical form, the joy of turning pages, and the warm atmosphere of the bookstore. She organised story writing and other competitions every weekend. The information of these was given to the parents and children through television, radio, children's magazines, etc. Attractive prizes were offered to the winners. This increased the footfall of the children and their parents and the bookstore soon became popular.

The tool of communication used by Beenu's daughter to revive the bookstore was:

- (A) Advertising
- (B) Personal selling
- (C) Sales promotion
- (D) Public relations

Correct Answer: (D) Public relations

Solution:

Step 1: Public relations focuses on building and maintaining positive relationships with the public through various communication channels.

Step 2: Beenu's daughter used media channels like TV, radio, and magazines to communicate the joy of physical books and engage the community, which is characteristic of public relations efforts.

Thus, the correct answer is option D.

Quick Tip

Public relations builds goodwill and enhances a company's image through strategic communication and community engagement.

8. The marketing management philosophy which uses availability and affordability as a means to achieve the objectives is:

- (A) Marketing concept
- (B) Selling concept
- (C) Product concept
- (D) Production concept

Correct Answer: (D) Production concept

Solution:

Step 1: The production concept emphasizes mass production, availability, and affordability of products to maximize profits.

Step 2: Businesses focus on producing goods efficiently to cater to demand.

Thus, the correct answer is option D.

Quick Tip

The production concept focuses on cost-efficient, high-volume production to meet demand.

9. For taking the company out of losses, Ravi Kumar took over as the Managing Director of the struggling ‘Vova Watch Company’ in January 2020. As soon as he joined, he tried to find out the reason for the company not doing well. He found that the employees were not involved in decision-making and they had to just follow orders, resulting in low morale of employees.

Recognising the need for change, Ravi Kumar started on a journey to bring back the enthusiasm and motivation of the employees. He initiated open dialogues and encouraged them to actively participate in decision-making. Together, they developed action plans to address the company’s challenges regarding outdated designs and inefficient production processes etc.

As time passed, ‘Vova Watch Company’ transformed from a struggling enterprise to a profit-making enterprise. Identify the leadership style of Ravi Kumar:

- (A) Autocratic leadership style

- (B) Democratic leadership style
- (C) Free-rein leadership style
- (D) Both (A) and (B)

Correct Answer: (B) Democratic leadership style

Solution:

Step 1: Understanding Leadership Styles:

Autocratic leadership is characterized by individual control over all decisions with little input from team members. In contrast, democratic leadership involves collaboration and encourages employee participation in decision-making.

Step 2: Applying to the given case:

Ravi Kumar encouraged employees to actively participate in decision-making, promoting enthusiasm and motivation. This aligns with democratic leadership, where employees are given a voice in business decisions, fostering a sense of ownership and commitment.

Therefore, the correct answer is option B.

Quick Tip

Democratic leadership fosters better morale and creativity by involving employees in decision-making processes.

10. refers to doing the task correctly and with minimum cost.

- (A) Effectiveness
- (B) Coordination
- (C) Process
- (D) Efficiency

Correct Answer: (D) Efficiency

Solution:

Step 1: Efficiency is defined as performing a task correctly with minimal resource utilization and cost. It focuses on the input-output ratio.

Step 2: In contrast, effectiveness is about achieving goals, whereas efficiency is about optimizing resources to achieve the best results at minimal cost.

Thus, the correct answer is option D.

Quick Tip

Efficiency ensures optimal resource utilization, while effectiveness is about achieving desired outcomes.

11. 'Best Electronics' is led by its visionary Chief Executive Officer, Nikhil. It has a reputation for good quality products and customer service. Nikhil recognised the need to continually innovate and provide customers with the latest products. He wanted the company to be the market leader in electronics. Nikhil knew that to realise his ambitious vision, he needed a clear and well-defined plan that would provide broad contours of the company's business. His team conducted extensive market research to uncover emerging trends, customer preferences, and potential competitors. On its basis, a plan was prepared defining the company's direction and scope in the long run. On the implementation of the plan, 'Best Electronics' became the market leader in two years. The type of plan which helped 'Best Electronics' to become the market leader was:

- (A) Policy
- (B) Rule
- (C) Strategy
- (D) Procedure

Correct Answer: (C) Strategy

Solution:

Step 1: A strategy is a long-term plan designed to achieve specific goals and overcome challenges by utilizing available resources.

Step 2: Nikhil's vision and the extensive market research guided the preparation of a clear, long-term plan, which is characteristic of strategic planning.

Thus, the correct answer is option C.

Quick Tip

A strategy outlines a long-term vision for an organization and guides it towards achieving its goals.

12. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from the options given below:

Assertion (A): Many enlightened business firms have set up their own consumer service and grievance cells.

Reason (R): The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or service.

(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:

Step 1: Businesses establish consumer service cells to address grievances and enhance customer satisfaction.

Step 2: The right to file a complaint is a fundamental consumer right, making it necessary for businesses to have grievance handling mechanisms.

Thus, the correct answer is option A.

Quick Tip

Consumer rights necessitate businesses to set up proper grievance redressal systems.

13. Choose the incorrect statement from the following about functions of a Stock Exchange:

- (A) Provides liquidity and marketability to new securities
- (B) Ensures safety of transactions
- (C) Contributes to economic growth
- (D) Provides scope for speculation

Correct Answer: (A) Provides liquidity and marketability to new securities

Solution:

Step 1: Stock exchanges provide liquidity and marketability to existing securities, not new securities. New securities are introduced in the primary market.

Step 2: Thus, the statement that stock exchanges provide liquidity to new securities is incorrect.

Thus, the correct answer is option A.

Quick Tip

Stock exchanges facilitate the trading of existing securities, while the primary market deals with new securities.

14. Statement I: Delegation is the entrustment of responsibility and authority to another, and the creation of accountability for performance.

Statement II: Irrespective of the extent of delegated authority, the manager shall still be accountable to the same extent as before delegation.

Choose the correct option from the following:

- (A) Statement I is true and Statement II is false.
- (B) Statement II is true and Statement I is false.
- (C) Both the Statements are true.
- (D) Both the Statements are false.

Correct Answer: (C) Both the Statements are true.

Solution:

Step 1: Delegation involves the transfer of authority and responsibility, but accountability remains with the manager. Delegation enhances efficiency by distributing workload without relieving the manager of ultimate responsibility.

Step 2: As a principle of delegation, while responsibility and authority can be shared, accountability cannot be delegated, meaning the manager remains answerable.

Therefore, both statements are true.

Quick Tip

Delegation enhances efficiency, but managers must always remain accountable for the delegated tasks.

15. “It is a career-oriented process designed to help the employees in the progress towards maturity and actualization of their potential capabilities.” Identify the process:

- (A) Staffing
- (B) Selection
- (C) Development
- (D) Training

Correct Answer: (C) Development

Solution:

Step 1: Employee development is a continuous process aimed at enhancing an individual’s knowledge, skills, and abilities to prepare them for future roles and responsibilities.

Step 2: Unlike training, which is job-specific, development focuses on overall career progression and potential realization.

Thus, the correct answer is option C.

Quick Tip

Employee development focuses on long-term career growth, while training is job-specific and short-term.

16. Which of the following is not a component of 'Physical Distribution'?

- (A) Inventory control
- (B) Standardisation and grading
- (C) Order processing
- (D) Transportation

Correct Answer: (B) Standardisation and grading

Solution:

Step 1: Physical distribution involves logistics activities such as transportation, warehousing, and order processing.

Step 2: Standardisation and grading relate to product quality, not physical movement of goods.

Thus, the correct answer is option B.

Quick Tip

Physical distribution focuses on logistics and movement, while standardisation relates to product quality.

17. Plans are prepared for a specific period of time, may be for a month, a quarter or a year. At the end of that period, there is a need for a new plan to be drawn on the basis of new requirements and future conditions. The feature of planning reflected in the above lines is:

- (A) Planning is futuristic
- (B) Planning is continuous
- (C) Planning is pervasive
- (D) Planning is a mental exercise

Correct Answer: (B) Planning is continuous

Solution:

Step 1: Planning is a continuous process as it requires constant monitoring and revision according to new conditions and requirements.

Step 2: Since new plans are created after evaluating past plans, it reflects the continuous nature of planning.

Thus, the correct answer is option B.

Quick Tip

Planning is an ongoing process that adjusts with changing business environments.

18. Online retailer ‘Bizen’ has grown to be the biggest provider worldwide in the field of e-commerce. Its revenues are growing steadily year after year. It owes its success to the rapid rate of digitisation and its organisational structure. ‘Bizen’s Managing Director, Mohit makes strategic decisions and has control over the entire organisation. In ‘Bizen’, jobs of similar nature are grouped together into Human Resource Department, Marketing Department, Purchase Department and Research and Development Department. These departments are further divided into sections and all departmental heads report to Mohit who is the co-ordinating head. This ensures efficiency in the utilization of manpower and minimizes duplication of efforts. The type of organizational structure of ‘Bizen’ is:

- (A) Informal organisational structure
- (B) Divisional organisational structure
- (C) Functional organisational structure
- (D) Both (B) and (C)

Correct Answer: (C) Functional organisational structure

Solution:

Step 1: A functional organisational structure groups similar jobs into departments based on their functions, such as HR, marketing, and finance.

Step 2: In the case of ‘Bizen,’ jobs have been grouped based on their nature (HR, marketing, etc.), indicating a functional structure where departmental heads report to a single managing director.

Thus, the correct answer is option C.

Quick Tip

A functional organisational structure helps in specialization, better coordination, and reducing duplication of efforts.

19. The process of estimating fund requirements of a business and specifying the sources of funds is called:

- (A) Capital structure
- (B) Financial planning
- (C) Financial management
- (D) Capital budgeting

Correct Answer: (B) Financial planning

Solution:

Step 1: Financial planning involves determining the financial resources required for achieving business goals.

Step 2: It includes estimating the amount of funds required and identifying sources for obtaining these funds.

Thus, the correct answer is option B.

Quick Tip

Financial planning helps businesses allocate funds efficiently and achieve financial stability.

20. 'SK Builders' became the market leader in the designer house segment as it was the first to recognize the need of using Artificial Intelligence in designing houses in the changing environment of technological advancement. This highlights the following point of importance of business environment:

- (A) It helps to identify threats and early warning signals.
- (B) It enables the firm to identify opportunities and getting the first mover advantage.
- (C) It helps in tapping useful resources.

(D) It helps in improving performance.

Correct Answer: (B) It enables the firm to identify opportunities and getting the first mover advantage.

Solution:

Step 1: Business environment analysis helps firms identify emerging opportunities. By leveraging technological advancements, businesses can gain a competitive edge.

Step 2: In this case, 'SK Builders' recognized an opportunity early, giving them the first-mover advantage in the market.

Thus, the correct answer is option B.

Quick Tip

Identifying opportunities early allows businesses to stay ahead of competitors and gain market leadership.

21. A renowned car company named 'BB Motors' was known for producing high performance cars. They were committed to ensure that its employees had the skills and knowledge to build these innovative high-performance cars. To achieve this, they implemented a unique approach for training. The company transformed a section of its factory into what they called the 'Learning Floor'. Actual work environment was created by allotting a specialized space. The space was equipped with a range of car components, tools and sophisticated car equipment identical to those used on the factory floor, where the company's employees would undergo their training. Identify and explain the method of training used by 'BB Motors' to ensure that its employees had the skills and knowledge to build innovative high-performance cars.

Solution:

Method: Vestibule training

- Vestibule training is a method of training where employees learn their jobs on the equipment they will be using, but the training is conducted away from the actual work floor.

- This method is used when employees need to handle sophisticated machinery and equipment.

Quick Tip

Vestibule training provides practical training on actual equipment away from the production environment, ensuring better learning outcomes.

22 (a). State any three protective functions of Securities and Exchange Board of India.

Solution:

Protective functions of Securities and Exchange Board of India (SEBI) are:

- (i) It prohibits fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
- (ii) It controls insider trading and imposing penalties for such practices.
- (iii) It undertakes steps for investor protection.
- (iv) It promotes fair practices and code of conduct in securities market.

Quick Tip

SEBI plays a crucial role in ensuring transparency and fairness in the securities market, protecting both investors and market integrity.

22 (b). Differentiate between 'Money Market' and 'Capital Market' on any three bases.

Solution:

Difference between 'Money Market' and 'Capital Market':

Basis	Money Market	Capital Market
Participants	Institutional participants such as RBI, banks, financial institutions	Financial institutions, banks, corporate entities, foreign investors, retail investors
Instruments	Short-term debt instruments like T-bills, trade bills, commercial paper, CDs	Long-term instruments like equity shares, debentures, bonds, preference shares
Investment outlay	Requires large sums of money, as instruments are expensive	Doesn't necessarily require huge investment, accessible to small investors
Duration	Deals with instruments with a maximum tenure of one year	Deals with medium and long-term securities

Liquidity	Higher liquidity due to short-term nature	Liquid, but may not always be actively traded
Safety	Safer with lower risk of default	Riskier with respect to returns and principal repayment
Expected return	Relatively lower returns	Higher returns for investors

Quick Tip

The money market provides liquidity with short-term investments, while the capital market supports long-term funding for businesses.

23 (a). State any three features of business environment.

Solution:

Features of business environment are:

- (i) Business environment is the sum total of all factors/things external to business firms and, as such, is aggregative in nature.
- (ii) Business environment includes both specific such as customers, investors, etc and general forces such as political, social, etc.
- (iii) Different elements or parts of business environment are closely inter-related.
- (iv) Dynamic nature: Business environment is dynamic and keeps on changing whether in terms of technological improvement, shifts in consumer preferences, etc.
- (v) Business environment is uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently.
- (vi) Business environment is complex as it consists of numerous interrelated and dynamic conditions or forces that are relatively easier to understand in parts but difficult to grasp in its totality.
- (vii) Business environment is a relative concept since it differs from country to country and even region to region.

Quick Tip

The business environment is constantly evolving and affects business decisions in various ways.

23 (b). State any three features of 'Demonetization'.

Solution:

Features of demonetization are:

- (i) Demonetisation is viewed as a tax administration measure and people with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
- (ii) Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
- (iii) Demonetisation led to tax administration channelizing savings into the formal financial system, to enable banks with deposits to provide a base for loans, at lower interest rates.
- (iv) It creates a less-cash or cash-lite economy, i.e., channelizing more savings through the formal financial system and improving tax compliance.

Quick Tip

Demonetization encourages digital transactions and helps bring unaccounted wealth into the formal financial system.

24. Kanav, after passing out of college with specialization in renewable energy, was determined to start a solar power plant. The venture required heavy investment in plant and machinery and less on manual labour. Kanav invested in the latest solar panel technology and infrastructure and purchased the latest solar panels, inverters and battery storage systems. Despite the high risk and substantial investment, Kanav's business had good expansion possibilities. The world was increasingly moving towards clean energy solutions, and there was a growing demand for sustainable power sources. So, Kanav decided to create a higher capacity to meet the anticipated demand quickly. This entailed further investment in fixed assets which Kanav was able to arrange. As

the years passed, the solar power plant did very well and played a pivotal role in the city's transition towards a greener and more sustainable future.

Identify and explain the two factors affecting the fixed capital requirements discussed in the above case.

Solution:

The factors affecting the fixed capital requirements in the case are:

(i) Choice of technique:

- A capital-intensive organization requires higher investment in plant and machinery as it relies less on manual labour, thus higher fixed capital.
- Labour-intensive organisations require less investment in fixed assets. Hence, their fixed capital requirement is lower.

(ii) Growth prospects:

- When growth is expected, a company may choose to create higher capacity in order to meet anticipated higher demand quicker.
- This entails larger investment in fixed assets and consequently larger fixed capital.

Quick Tip

The type of production process (capital-intensive vs. labour-intensive) and expected growth determine the fixed capital requirements.

25. Anuj, after a lot of research, paid 'SS Developers' an advance of 2 crore to build a lavish house for him. They promised to deliver the property within 18 months. At the end of 18 months, Anuj asked for the delivery of the property many times but the developer did not respond. Anuj realized that 'SS Developers' was not in a position to hand over the property to him. Anuj asked for a refund of the money with interest, which 'SS Developers' refused. Anuj approached the consumer court with his complaint.

(i) Which grievance redressal agency had Anuj approached?

Solution:

(i) Anuj had approached the State Commission.

The **State Commission** is one of the key levels in the consumer grievance redressal mechanism. It is a quasi-judicial body that resolves consumer disputes in cases where the claim amount exceeds 20 lakhs but is below 1 crore. The State Commission handles complaints related to unfair trade practices, deficient services, and defective goods, and provides relief to consumers.

In this case, Anuj's complaint against 'SS Developers' for not delivering the property as promised and refusing to refund the advance payment comes under the jurisdiction of the State Commission because it involves a substantial amount of money and a clear violation of consumer rights. The commission would examine the complaint, evaluate the facts, and pass an appropriate judgment to provide relief to Anuj.

Quick Tip

The State Commission handles consumer disputes involving significant financial claims and is a key agency in the consumer grievance redressal system. It offers relief for issues related to goods or services not provided as promised.

(ii) State any three reliefs Anuj is likely to get, if the consumer court is satisfied with the complaint.

Solution:

Reliefs Anuj is likely to get, if the consumer court is satisfied with the complaint are:

- (a) To refund the price paid for the product, or the charges paid for the service.
- (b) To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the opposite party.
- (c) To pay punitive damages in appropriate circumstances.

Quick Tip

In case of consumer disputes, the consumer can approach the State Commission for relief, which may include a refund, compensation, and even punitive damages in cases of negligence or unfair practices.

26 (a). State any four characteristics of coordination.

Solution:

Characteristics of coordination are:

- (i) Coordination integrates group efforts by unifying unrelated or diverse interests into purposeful work activity.**
- (ii) Coordination ensures unity of action and acts as a binding force between departments and ensures that all action is aimed at achieving the goals of the organisation.**
- (iii) Coordination is a continuous process as it begins at the planning stage and continues till controlling.**
- (iv) Coordination is an all pervasive function as it is required in all departments and at all levels of management due to the interdependent nature of activities of various departments.**
- (v) Coordination is the responsibility of all managers as it is the function of every manager at the top, middle and operational level in the organisation.**
- (vi) Coordination is a deliberate function as a manager has to coordinate the efforts of different people in a conscious and deliberate manner.**

Quick Tip

Coordination is an ongoing, cross-functional process that helps integrate efforts across departments and levels of management to achieve organizational goals.

26 (b). State any four functions of Middle Level Management.

Solution:

Functions of Middle Level Management are:

- (i) They interpret the policies framed by top management.**
- (ii) They ensure that their department has the necessary personnel.**
- (iii) They assign necessary duties and responsibilities to them.**
- (iv) They motivate them to achieve desired objectives.**
- (v) They cooperate with other departments for smooth functioning of the organisation.**

(vi) They are responsible for all the activities of first line managers.

Quick Tip

Middle level management acts as a bridge between top management and operational levels, translating strategies into action and ensuring smooth department-level operations.

27. Differentiate between Functional structure and Divisional structure on any four bases.

Solution:

Differences between Functional structure and Divisional structure:

Basis	Functional structure	Divisional structure
Formation	Its formation is based on functions.	Its formation is based on product lines and is supported by functions.
Specialisation	It leads to functional specialization.	It leads to product specialization.
Responsibility	It is difficult to fix responsibility on a department.	It is easy to fix responsibility for performance.
Managerial Development	It is difficult, as each functional manager has to report to the top management.	It is easier, autonomy as well as the chance to perform multiple functions helps in managerial development.
Cost	Functions are not duplicated hence economical.	It leads to duplication of resources in various departments, hence costly.
Coordination	It is difficult for a multi-product company.	It is easy, because all functions related to a particular product are integrated in one department.

Quick Tip

Functional structures are efficient for specialized work, while divisional structures offer better autonomy and accountability for product lines but at a higher cost due to resource duplication.

28 (a). Explain how the following factors affect the working capital requirement of a business:

(i) Production cycle

(ii) Availability of raw material

Solution:

Factors affecting the working capital requirement of a business are:

(i) Production cycle:

- Production cycle is the time span between the receipt of raw material and their conversion into finished goods.
- Working capital requirement is higher in firms with longer processing cycles and lower in firms with shorter processing cycles.

(ii) Availability of raw material:

- If the raw materials and other required materials are available freely and continuously, lower stock levels may suffice.
- If, however, raw materials do not have a record of uninterrupted availability, higher stock levels may be required.

Quick Tip

The production cycle and the availability of raw materials play a crucial role in determining the level of working capital required to maintain smooth operations.

28 (b). Explain how the following factors affect the choice of capital structure of a company:

(i) Control

(ii) Return on Investment

Solution:

Factors affecting the choice of capital structure of a company are:

(i) Control:

- Debt does not cause dilution of control.
- A public issue of equity may reduce the management's holding in the company and make it vulnerable to takeover.

(ii) Return on Investment:

- If the ROI of the company is higher than the cost of debt, it can choose to use trading on equity to increase its EPS.
- In such a case, it can use debt.

Quick Tip

Control and return on investment are key factors when deciding on capital structure, as companies aim to balance maintaining control with maximizing returns.

29. 'Verfab' was a garment manufacturing company known for its high-quality fashionable clothing. They had been in the fashionable clothing business for the last 23 years. The company was earning enough profit and the demand for their fashionable clothing was rising tremendously. The company was expanding and needed to hire new talent to meet the growing demand. They followed a comprehensive process to ensure that they brought in the best candidates.

The process began with a first-round evaluation of applications. The Human Resources team carefully reviewed each candidate's qualifications, experience and suitability for the available positions. It eliminated unqualified or unfit job seekers based on the information supplied in the application forms and shortlisted 21 candidates who met the basic requirements.

The shortlisted candidates were then asked to take a series of tests that attempted to measure certain characteristics of individuals, ranging from manual dexterity to intelligence to personality. These tests included assessments of their sewing skills,

attention to detail, and knowledge of garment manufacturing processes.

15 candidates who performed well in the tests were invited for a formal in-depth conversation with the senior staff from the design team. Thereafter, 10 candidates were found suitable for the job position available.

Since these 10 candidates had cleared all the above steps, 'Verfab' conducted verification by contacting their previous employers to confirm the details the candidates had provided.

Thereafter, a decision was made to choose 8 candidates who were best fitted for the roles.

Explain the steps of the comprehensive process discussed above till the verification stage, to ensure that the company brought in the best candidates to meet the growing demand for fashionable clothing.

Solution:

The steps of the comprehensive process discussed above are:

- (i) Preliminary screening: It helps the manager to eliminate unqualified or unfit job seekers based on the information supplied in the application forms.
- (ii) Selection tests: These tests attempt to measure certain characteristics of individuals, ranging from aptitudes, manual dexterity, intelligence to personality.
- (iii) Employment interview: A formal, in-depth conversation is conducted to evaluate the applicant's suitability for the job, and interviewees may also seek information from the interviewer.
- (iv) Reference and background checks: References are used for verifying information and gaining additional information on an applicant from previous employers, known persons, teachers, university professors, etc.

Quick Tip

Effective recruitment requires a structured process with clear stages like screening, testing, and interviewing to ensure the best candidates are selected.

30. Piyush is the Production Manager of a shoe company 'Comforty'. He has 1000

workers under him in his department. Piyush booked a special order for 300 pairs of gents shoes at an estimated cost price of ₹500 per pair plus a 20% profit margin. This order is to be completed within 10 days. After completion of the order, Piyush found out that the production cost of one pair of shoes was ₹700. He tried to find out the reason but he couldn't. He reported it to the Chief Executive Officer. For this the Chief Executive Officer appointed Abhay, who was not only a specialized Cost Accountant, but also a qualified Human Resource Manager. After two days, Abhay reported that the set target could have been completed by only 800 workers. This revealed that there was overmanning in the organization, The organization was not utilizing the human resources optimally which had led to high labour cost.

The above case highlights an important function of management.

(i) Identify the function of management discussed above.

Solution:

(i) The function of management discussed in this case is Controlling.

Controlling is a key function of management that involves monitoring and evaluating the progress of activities to ensure that the organization is on track to meet its objectives. It includes the processes of setting performance standards, measuring actual performance, identifying deviations from the standards, and taking corrective actions.

In this case, Piyush, the Production Manager, noticed that the production cost for one pair of shoes exceeded the estimated cost. Upon investigation by Abhay, it was found that there was overmanning in the production process, meaning that more workers were involved than necessary to complete the task. The result was higher labor costs and inefficiency in resource utilization.

The controlling function is crucial in identifying such discrepancies and providing a foundation for corrective actions. By using controlling techniques, Abhay was able to identify the problem, allowing the organization to adjust its labor usage, thereby reducing costs and improving efficiency in future projects.

The key steps in controlling include:

1. Setting performance standards: In this case, the initial cost estimation and labor requirements would have been set as the performance standard.

2. Measuring actual performance: The actual labor used and the cost of production were monitored, revealing discrepancies between the expected and actual performance.
3. Identifying deviations: It was identified that the production process was using more workers than necessary, leading to higher labor costs.
4. Taking corrective action: After the issue was identified, the corrective action would involve optimizing the number of workers required and making the necessary adjustments to ensure that future production is more efficient.

Controlling is a fundamental part of the management process because it ensures that resources are used efficiently, performance is aligned with objectives, and the organization can quickly address any inefficiencies or issues that arise.

Quick Tip

Controlling ensures that performance aligns with goals, helping to identify deviations and take corrective actions to improve efficiency and resource utilization.

(ii) State any three points of importance of the function identified in (i) above.

Solution: (ii) Importance of Controlling:

- (1) It helps in accomplishing organisational goals by bringing to light the deviations, if any, and indicating corrective action.
- (2) It helps in judging accuracy of standards in the light of changes taking place in the organization and environment.
- (3) It helps in making efficient use of resources by ensuring that each activity is performed in accordance with predetermined standards.
- (4) It improves employee motivation as the employees know well in advance the standards of performance on the basis of which they will be appraised.
- (5) It ensures order and discipline among employees by keeping a close check on their activities.
- (6) It facilitates coordination in action as each department is governed by pre-determined standards which are well coordinated with one another.

Quick Tip

Controlling ensures that the organization stays on track by monitoring performance, detecting deviations, and taking corrective action.

31 (a). Explain the following points of significance of principles of management:

(i) Fulfilling social responsibility

(ii) Meeting changing environment requirements

(iii) Scientific decisions

Solution:

(i) Fulfilling social responsibility:

- Businesses are now forced to fulfill their social responsibilities due to increased awareness of the public.
- Management theory and management principles have also evolved, and principles have also assumed newer and contemporary meanings with the change in time.

(ii) Meeting changing environment requirements:

- Principles of management can be modified according to the changes taking place in the environment.
- Hence, they help the managers in meeting changing environment requirements.

(iii) Scientific decisions:

- Principles of management help in taking scientific decisions because the decisions based on principles are free from bias.
- They are based on the objective assessment of the situation.

Quick Tip

The principles of management provide a foundation for making objective, responsible, and adaptable decisions, helping businesses meet their social and environmental obligations effectively.

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

(i) Unity of direction

(ii) Subordination of individual interest to general interest

(iii) Esprit de corps

Solution:

(i) Unity of direction:

- Unity of direction states that all the units of an organisation should be moving towards the same objectives through coordinated and focused efforts.
- Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.

(ii) Subordination of individual interest to general interest:

- The interests of an organisation should take priority/supersede over the interests of any one individual employee.
- This is so because larger interests of the stakeholders are more important than the interest of any one person.

(iii) Esprit de corps:

- Management should promote a team spirit, unity, and harmony among employees; otherwise, objectives would be difficult to realise.
- A manager should replace 'I' with 'We' in all his conversations with workers to foster team spirit. This will give rise to a spirit of mutual trust and belongingness among team members.

Quick Tip

Principles like unity of direction, subordination of individual interests, and esprit de corps help promote teamwork, align efforts, and prioritize organizational goals over individual preferences.

32. Ayush and Rhea were passionate about sustainable agriculture and healthy living. They wanted to start a business selling organic produce. They had a small farm in a rural area where they began growing fresh organic produce and herbs. In the beginning, they faced challenges in marketing their organic products. They realized that their high quality produce needed better presentation and a strong

identity to stand out in a competitive market.

They named the business 'Earthy Store' which indicated the products' benefits and qualities and reflected the values of the business - sustainability and health.

They chose a 'logo' that incorporated elements of nature and used earthy colours to convey their organic commitment. They designed and developed eco-friendly biodegradable bags and reusable containers to courier their products to the customers.

They also added a personal touch by including handwritten notes in each bag.

They also designed and developed product stickers with detailed information about organic certification, nutritional benefits, date of manufacture, date of expiry, etc. The stickers so developed were put on the bags and reusable containers for customers' convenience.

'Earthy Store' created a user-friendly website and established a strong media presence to inform potential customers about their products and persuade them to buy the same.

Within a couple of months, they had built a loyal customer base which made them earn profits even in a competitive environment. In a year, they were able to secure contracts with local grocery stores and restaurants.

Quoting lines from the above paragraph, identify and explain the three functions of marketing discussed in the above case.

Solution:

Functions of marketing: (i) **Branding:** - Branding is the process of giving a name, term, sign, symbol, design, or some combination of them, to the product.

- "They chose a 'logo' that incorporated elements of nature and used earthy colours to convey their organic commitment."

OR "They named the business 'Earthy Store' which indicated the products' benefits and qualities and reflected the values of the business - sustainability and health."

(ii) **Packaging and Labelling:**

- Packaging refers to the act of designing and producing the container or wrapper of a product.

- Labelling refers to designing and developing the label to be put on the package. It may vary from a simple tag to complex graphics.

- “They designed and developed eco-friendly biodegradable bags and reusable containers to courier their products to the customers”

OR “They also designed and developed product stickers with detailed information about organic certification, nutritional benefits, date of manufacture, date of expiry, etc.”

(iii) Promotion:

- Promotion refers to informing the customers about the firm’s product, its features, etc., and persuading them to purchase these products.

- “‘Earthy Store’ created a user-friendly website and established a strong media presence to inform potential customers about their products and persuading them to buy the same.”

Quick Tip

The key marketing functions such as branding, packaging, labelling, and promotion help businesses build strong identities and connect with customers effectively.

33. Atul Sharma was the Chief Executive Officer of a footwear company, ‘Stepone Footwear’. The company manufactured innovative and comfortable footwear for all age groups. Atul Sharma was known for meticulous planning. He ensured that the goals and objectives of the company are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. Before each season, ‘Stepone Footwear’ carefully analysed market trends, customer preferences and production schedules. This analysis enabled the company to look ahead and anticipate changes and develop managerial responses, wherever necessary. As a result, they were able to consistently deliver innovative and comfortable shoes to the market.

During one season, there was a sudden surge in demand for eco-friendly shoes.

‘Stepone Footwear’ had already planned their production for the year with specific goals to be achieved within a specific time frame. The managers of ‘Stepone Footwear’ did not have the flexibility to change the plan to cope with the changed circumstances.

Another shoe company ‘Eco Step’ quickly adapted and started manufacturing comfortable eco-friendly shoes. By not being able to adjust to the rapidly changing market, ‘Stepone Footwear’ faced inventory surplus while ‘Eco Step’ emerged as a

market leader in sustainable eco-friendly footwear.

Quoting lines from the above paragraph, identify and explain two benefits and two limitations of 'Planning function of management discussed in the above case.

Solution:

Benefits of planning:

(i) Planning provides directions:

- Planning provides direction for action by stating in advance how work is to be done.
- "He ensured that the goals and objectives of the company are clearly stated so that they act as a guide for deciding what action should be taken and in which direction."

(ii) Planning reduces the risks of uncertainty:

- By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events.
- "This analysis enabled the company to look ahead and anticipate changes and develop managerial responses, wherever necessary."

Limitations of planning:

(i) Planning leads to rigidity:

- In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame, these plans then decide the future course of action and managers may not be in a position to change it.
- "The managers of 'Stepone Footwear' did not have the flexibility to change the plan to cope with the changed circumstances."

(ii) Planning may not work in a dynamic environment:

- The organisation has to constantly adapt itself to changes taking place in the dynamic environment. However, planning cannot foresee everything and thus, there may be obstacles to effective planning.
- "By not being able to adjust to the rapidly changing market, 'Stepone Footwear' faced inventory surplus while 'Eco Step' emerged as a market leader in sustainable eco-friendly footwear."

Quick Tip

While planning provides direction and helps reduce uncertainty, it can lead to rigidity and may not be flexible enough to handle sudden changes in a dynamic environment.

34 (a).

Explain any three merits and three demerits of internal sources of recruitment.

Solution:

Merits of internal sources of recruitment are:

(i) Employees are motivated to improve their performance. A promotion at a higher level may lead to a chain of promotion at lower levels in the organisation.

(ii) Internal recruitment also simplifies the process of selection and placement. This is a more reliable and economical way of recruitment since the candidates are already known to the organization.

(iii) Transfer is a tool of training the employees to prepare them for higher jobs. People recruited from within the organisation do not need induction training.

(iv) Transfer has the benefit of shifting workforce from the surplus departments to those where there is shortage of staff.

(v) Filling of jobs internally is cheaper as compared to getting candidates from external sources.

Demerits of internal sources of recruitment are:

(i) The scope for induction of fresh talent is reduced. Hence, complete reliance on internal recruitment involves danger of 'inbreeding' by stopping 'infusion of new blood' into the organization.

(ii) The employees may become lethargic if they are sure of time bound promotions.

(iii) A new enterprise cannot use internal sources of recruitment. No organisation can fill all its vacancies from internal sources.

(iv) The spirit of competition among the employees may be hampered.

(v) Frequent transfers of employees may often reduce the productivity of the organization.

Quick Tip

Internal recruitment is cost-effective and motivating but may reduce innovation and lead to stagnation if over-relied upon.

34 (b). Explain any four non-financial incentives which motivate employees for better performance.

Solution:

Non-financial incentives which motivate employees for better performance are: (Any four points with explanation)

(i) Status:

- Providing employees with a higher status in the workplace boosts their sense of importance and recognition within the organization.

(ii) Organisational Climate:

- A positive and supportive organisational climate motivates employees to perform better by fostering a sense of well-being and job satisfaction.

(iii) Career Advancement Opportunity:

- Offering employees clear pathways for career growth and advancement can encourage them to work harder to achieve their goals.

(iv) Job Enrichment:

- Enriching jobs by providing more meaningful work and opportunities for skill development increases employee engagement and motivation.

(v) Employee recognition programmes:

- Recognition of an employee's hard work and achievements through awards or appreciation boosts morale and performance.

(vi) Job security:

- Offering job security encourages employees to stay motivated and focus on long-term goals without the fear of sudden job loss.

(vii) Employee participation:

- Involving employees in decision-making processes boosts their commitment to organizational goals and enhances their job satisfaction.

(viii) **Employee Empowerment:**

- Empowering employees with more autonomy and control over their work fosters a sense of ownership and responsibility, leading to improved performance.

Quick Tip

Non-financial incentives, such as recognition, job enrichment, and empowerment, play a key role in improving employee motivation and performance without direct financial rewards.
