

Business Studies 2014 (Outside Delhi)

Set I

Time allowed : 3 hours

Maximum marks : 90

1. What is meant by 'Management of Work' ? [1]
Answer : Management of work refers to translating work in terms of goals to be achieved and assigning the means to achieve them.
2. What is determined by 'Time-Study' ? [1]
Answer : In time study, Taylor emphasized on

setting a standard time limit for completing any particular job so that organisational goal and objective can be achieved on time. This study basically aims at deciding the number of workers to be employed for the particular task, determining their wages, etc.

3. **What is included in 'Legal Environment' of Business ? State.** [1]

Answer : Legal environment include the legislation and rules passed by the government such as the Companies Act, Trade union Act, etc. to avoid the legal problems. A businessman has to perform his business activities under the limits of the legal environment.

4. **Give the meaning of 'Method' as a type of plan.** [1]

Answer : Methods are basically that type of plans that explain the way in which a particular task/job (a specific step or the procedure) can be performed. They are flexible in nature and may vary from one task to another as there can be many methods to perform a task thus it is dynamic in nature.

5. **Give the meaning of 'Responsibility' as an element of delegation.** [1]

Answer : Responsibility as an element of delegation refers to the obligation of the subordinates to complete the task assigned to him/her within schedule time and considering it as his/her responsibility.

6. **Define 'organising' as a function of management.** [1]

Answer : Organizing as a function of management refers to the procedure of aligning the activities in a certain order. It contains designing the roles and directing the people towards accomplishment of goals and objective in an organization. Focus of this function lies in enabling people to work together and implementing the plans for successful attainment of goal and objectives.

7. **How are employees motivated to improve their performance when the organisation uses internal sources of recruitment ? State.** [1]

Answer : When the recruitment takes place through internal sources then employees know that their promotions will take place within the organization. This motivates them to perform their best so as to get entitled for the promotions so work is done in efficient manner.

8. **'Providing the social security and welfare of employees' is one of the specialized activities performed by Human Resource Management. Mention any two other specialized activities of Human Resource Management.** [1]

Answer : The two other activities performed by human resource management other than 'providing for social security and social welfare of the employees' are given below:

(a) Providing the required training and development to the employees in order to improve their efficiency and effectiveness.

(b) Recruiting and searching a qualified personnel for the require job.

9. **What is meant by 'Decoding' as an element of communication ?** [1]

Answer : Decoding refers to the process of converting the encoded message into original form which is send by the sender.

10. **Give any two characteristics of 'Organizational Climate' that influence the behaviour of individuals and act as a non-financial incentive.** [1]

Answer : The following are two characteristics of the organizational climate that influence the behaviour of individuals and act as a non-financial incentive are :

(a) Individual autonomy.

(b) Appropriate reward orientation

11. **What is meant by 'Financial Risk' ?** [1]

Answer : Financial risk refers to the probability that the company would not be able to meet its fixed financial obligations such as interest payment, preference dividend and other such repayment obligations and company may also go into liquidation in this case.

12. **State the objective of 'Financial Management'.** [1]

Answer : The basic objective of financial management is maximising the shareholders' wealth. It aims at reducing the cost of the funds mobilised, minimising the risk and ensuring the effective distribution of the funds for different business opportunities.

13. **Huma is working in a company on a permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realized that she was fulfilling only some of her needs while some other needs still remained to be fulfilled.**

(i) **By quoting the lines from the above para, identify the needs of Huma which she is able to fulfill.**

(ii) **Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied.** [3]

Answer : (i) Huma is able to fulfill the "physiological and security needs". Physiological needs comprise of essential requirements for the sustenance of life. They are at the top of the hierar-

chy. The fulfillment of these needs is necessary for survival. For example, food, clothing, shelter are physiological needs. An employee requires a certain basic salary for the satisfaction of these needs. On the other hand, security needs relate to the physical and the economic security and well being of the organisation. Since "she has a permanent job", we can say that these two needs have been fulfilled by Huma.

(ii) The two needs that still remain to be satisfied are "belongingness/affiliation needs and esteem needs". Belongingness needs comprise of the social needs of an individual such as affection, acceptance, companionship, etc. This is because every individual desires for social acceptance and belongingness. On the other hand, esteem needs include elements like respect, dignity, recognition, etc. This is because every individual wants respect and acknowledgement in the same group. Even when Huma falls sick and takes leave, nobody shows concern towards her thus we can say that these two needs are not fulfilled by the organisation.

14. Explain any three functions performed by a supervisor that are vital to any organisation. [3]

Answer : A supervisor refers to a person who directly oversees the activities of the workers. In the organisational hierarchy he lies immediately above the worker. A supervisor performs the following functions:

(i) He/she is in direct contact with the workers and thereby, guides and supports the workers. He also helps in maintaining agreement and unity among the workers in the organisation.

(ii) He/she acts as a link between the manager and the workers. Through the supervisor, the management communicates the ideas and policies to the workers. On the other hand, the workers are also able to communicate their problems and grievances to the management through the supervisor.

(iii) Supervisor ensures that the workers are working efficiently and effectively as per the set targets to achieve the overall goals and objective in the organisation.

15. 'Stock Exchange not only contributes to the economic growth, but performs many other functions'. Explain any three such functions. [3]

Answer : Stock Exchange refers to a market where buying and selling of the existing securities take place.

The main functions of a stock exchange are :

(i) **To provide liquidity and marketability :** A stock exchange provides a ready platform for trading in existing securities—it provides a continuous market for the sale and purchase of securities. Through a stock exchange, securities can be easily converted into cash as and when required.

(ii) **To determine prices :** A stock exchange helps in establishing the price of the monetary assets that are traded in the market. Similar to the case of a commodity, the price of a financial asset is established through the forces of demand and supply for funds. In this regard, financial markets provide a platform for the interaction of the demand of the funds (represented by the business firms) and the supply of funds (represented by the households), it is done with demand and supply forces. Thus, they help in determining the price of the asset being traded.

(iii) **To ensure fair and safe market :** The stock exchange is a legal and well-regulated market. It trades within the defined and existing legal framework. Therefore, it ensures safety and fairness in transactions.

16. ABC Crackers Ltd., a fire-cracker manufacturing company launched some new products on the eve of Diwali in the market, which attracted many buyers. To meet the increased demand, the company employed people from near by villages where there is a lot of unemployment. Because of the good behaviour of the management with the employees, more and more people wanted to join the company. As the products were in great demand in the market, a competitor imitated the products. The products of the competitor were not accepted by the consumers as it was a status symbol to buy the products of ABC Crackers Ltd. because of their quality.

(a) **Identify and explain the product-related decision because of which consumers preferred the products of ABC Crackers Ltd.**

(b) **Also identify any two values which ABC Crackers Ltd. wanted to communicate to the society.** [3]**

Answer : (a) The product related decision, due to which the consumers preferred the products of ABC Crackers Ltd., is the 'quality and the brand name'. Due to the good and standard quality of the products provided by the company, it was able to maintain its brand name in the market. Hence, the consumers started to demand the

** Answer is not given due to change in present syllabus

products of ABC Crackers Ltd. because of its goodwill and reputation and it needs to be maintained otherwise company may loose consumer.

17. State any six reliefs available to a consumer under the Consumer Protection Act, 1986. [3]

Answer : Following are some of the reliefs available to a consumer under the Consumer Protection Act, 1986 in case the forum passes an order in favour of the aggrieved consumer.

(i) Repair of defective goods or elimination of the deficiency in services.

(ii) Replacement of the defective good with a new one.

(iii) Refunding the amount that was paid by the consumer for the goods and service.

(iv) Payment of compensation in cash for loss or injury suffered.

(v) To withdraw hazardous goods for sale.

(vi) Removal of misleading advertisement and issue of correct advertisement thereafter so that company reputation are maintained in future.

18. Explain the following Rights of Consumers : (i) Right to Consumer Education, (ii) Right to Choose. [3]

Answer : Following are the rights of a consumer :

(i) **Right to consumer education :** A consumer has a right to acquire knowledge about their rights and the relief available to them in case of exploitation. Many government and non-government organisations work actively in this regard and many programs are also conducted in this regard.

(ii) **Right to choose :** A consumer has the right to choose from a variety of goods and services at competitive prices as per their requirement. The consumer has the right to have access to a variety of products at fair and competitive prices. Thus, the retailer or the supplier should offer a variety of products in terms of quality, brand, price, etc.

19. Mega Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analyzed the reasons of less revenue. After analysis, the company decided

(i) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.

(ii) to start manufacturing solar water-heaters

and reduce the production of electric water-heaters slowly.

This will not only help in covering the risks, but also help in meeting other objectives too.

(a) Identify and explain the objectives of management discussed above.

(b) State any two values which the company wanted to communicate to the society.** [3]

Answer : (a) The objective of the management that is being discussed here is 'organizational objective'. The total revenue earned by an organisation should be such that it is able to cover atleast various costs and expenses. That is, the revenue earned should be such that the organisation is able to continue operations in the long run. In addition, it should be able to focus on growth in terms of sales, production, etc.

20. Explain the concept of 'Business Environment' and any three features of it. [4]

Answer : Business environment refers to all the external forces such as economic, social, political, technological or legal that affects the performance of a business organisation. In other words, everything that is outside the purview of an organisation but affects its performance, composes business environment.

Following are the features of business environment :

(i) **Interrelated :** Different forces acting in a business environment are closely related to each other. For example, an increase in the income of the consumers increases the demand for consumer durables such as television, refrigerator, etc.

(ii) **Ever changing :** Business environment is dynamic in nature i.e. it can be changed as per the requirement. For example, consumer tastes and preferences, technology, government rules and policies keep on changing continuously.

(iii) **Complex :** Business environment is the aggregate of different interrelated and dynamic forces. Thus, it becomes difficult and complex to understand it, and proper study is needed to understand the same. For example, all political, social, economic, technological and legal matters affect the performance of an organisation simultaneously. While, it may be easy to understand the individual effects of these forces, their cumulative effect is quite difficult to understand.

21. State any four advantages of external sources of recruitment. [4]

** Answer is not given due to change in present syllabus

Answer : External sources refer to the sources that are exogenous to the organisation, i.e. they are available outside the organisation. The following are the benefits of external sources of recruitment :

(i) Infusion of new talent : As the vacancies are filled through external sources of recruitment, there is an infusion of new blood in the organisation but in internal recruitment it is not possible. In other words, with the selection of new talents in the organisation, the scope of efficiency increases to a higher level.

(ii) Wide range of choice : Another benefit of external sources over the internal sources is that it provides a wider range of choices for selection because there are large number of applicants but in internal recruitment there is limited number of applicant. External sources cover a wide area. As against this, internal sourcing restricts the choice to a very few people within the organisation.

(iii) Fairness : Being an open process, external recruitment provides opportunity to all prospective candidates to apply for the vacant position in the organisation. This, in turn widens its options of selection.

(iv) Specialized personnel : If external sources are used, then an organisation has the advantage of hiring specialised and trained candidates for particular jobs. As technology keeps changing, sometime the existing employees may not be able to handle new technologies and hiring new talent becomes a necessity.

22. Give the meaning of 'Investment' and 'Financing' decisions of financial management: [4]

Answer : The following are the two decisions of financial management. :

(i) Investment decisions : This term refers to the decisions regarding where to invest so as to earn the highest possible returns on investment and maximize shareholder wealth. These decisions can be taken for both long term and short term. Long term investment decisions, also known as Capital Budgeting decisions, affect a business' long term earning capacity and profitability. For example, investment in a new machine is a long term investment decision. Short term investment decisions, also known as Working Capital decisions, affect a business' day to day working operations. For example, decisions regarding cash or bill receivables are short term investment decisions. These are very important for the

company.

(ii) Financial decisions : Such decisions involve identifying various sources of funds and deciding the best combination for raising the funds. The main sources for raising funds are shareholders' funds (referred to as equity) and borrowed funds (referred to as debt). Based on the cost involved, risk and profitability, a company must judiciously decide the combination of debt and equity to be used. For example, while debt is considered to be the cheapest source of finance, higher debt means high financial risk thus high debt is also risky for the business. Financial decisions of a company affect its overall cost of capital and financial risk so it is also carefully taken.

23. State any five features of planning. [5]

Answer : Planning states in advance where to go and in which direction to move ahead. It is a continuous process that helps in reducing the risk of uncertainty. Planning is an essential activity that provides the rationale for undertaking policies in the direction of achieving goals. Following are the highlighted features of planning :

(i) Focus on objectives : Planning serves as the guidelines for what goals are to be achieved and how they are to be achieved. They ensure that the objectives of an organization are achieved on time. For this, the management formulates plans, keeping in mind specific goals, and the managers make sure that the plans are purposeful. For example, if a sales target is to be achieved, then the organisational plans must reflect this objective.

(ii) Stepping stone : Planning serves as the stepping stone for all other functions of an organisation. It precedes the other functions such as organising, directing, staffing and controlling. This is because plans state the objectives of an organization along with the means to achieve them. The other functions, on the other hand, are planned in accordance with the objectives. Once the plans are determined, the roles of other interrelated functions fall into places. Thus, planning sets the basis for the other functions of management.

(iii) Pervasiveness : Planning must be done at all levels of the organisation. It is not a function of just the top level managers; it is a function to be performed at every level of management. However, its scope differs across the various dimensions of business. For example, the top

level managers have to chalk out the policies regarding the overall management, whereas the middle level managers plan out the authority to be assigned to the subordinates. On the other hand, the lower level managers make out small targets for day-to-day working.

(iv) Continous Process : Planning is a continuous process. This is because, after the implementation of one plan, the need arises for formulating the next plan, keeping in view the new objectives and circumstances. Moreover, within a plan period, the need arises to modify the plan as per changing needs and requirements. Thus, planning is a continuous process.

(v) Choice making : Planning is a process of making choices amongst different alternatives for the attainment of the desired objectives. These alternatives are based on the path to be taken, strategies or policies to be followed to achieve the goals, etc. Managers need to evaluate these choices thoroughly and then select the most rational scheme to achieve the set objectives.

24. Differentiate between 'Capital Market' and 'Money Market' on the basis of the following :

- (i) Meaning (ii) Liquidity (iii) Safety
(iv) Expected Return (v) Duration [5]

Answer : The difference between capital market and money market are as follows :

| Basis | Capital market | Money market |
|---------------------|--|---|
| 1. Meaning | The capital market refers to the market or the institutional facilities through which long-term funds are raised and invested. | The money market refers to the market where trading in short-term securities of maturity periods varying from one day to a maximum of one year takes place. |
| 2. Liquidity | Capital market securities are comparatively less liquid. | Management securities are comparatively more liquid |
| 3. Safety | Instruments are riskier both with respect to returns and principal repayment as issuing companies may fail to perform as per projection. | Instruments are generally safe due to shorter duration of investment and financial soundness of the issuers. |

| | | |
|---------------------------|---|--|
| 4. Expected Return | The expected return is higher due to the possibility of earning capital gains along with regular dividends or interest. | The expected return is lower due to the shorter duration of the instruments. |
| 5. Duration | Securities traded are of medium term and long term wherein the maturity period is normally more than one year. | Securities traded are of short term only wherein the maturity period can vary from one day to a maximum of one year. |

25. What is meant by 'Personal Selling' ? Explain any three qualities of a good salesman. [5]

Answer: Personal Selling means "Selling product personally". It refers to the tool of promotion that involves the personal presence of the buyer and the seller. It consists of oral presentation of the message in the form of conversation so as to create awareness about the product with the aim of selling it.

The qualities of good salesman are as follow :

(i) Amiable : A good salesman should be friendly and amiable in the sense that he should be able to create a pleasant environment to gain favourable attention and interest of the customers so that consumer can buy the product.

(ii) Skillful : A salesman should have the required and updated knowledge about the product that he wants to sell. In other words, he must know about its features, usage, warnings related to usage, availability, etc.

(iii) Communication skills : To be a good salesman, a person should have good communication skills so that he can give answer to consumer query. That is, he must know how to strike up the right conversation with his customers, in order to gain their interest. He should also be convincing and confident while answering customers' queries. In other words, he should ensure that the customers are satisfied with the product by providing them with the required information.

26. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gains with the workers, while the other suggested that employee's compensation should depend on the earning capacity of the company and should give them a reasonable standard of living.

Identify and explain the principles of Fayol and Taylor referred to in the above para. [5]

Answer : The two principles that are being regarded in the given paragraph are as follows :

(i) 'Harmony, Not Discord' by Taylor : Taylor emphasized that the managers and the workers should maintain a harmonious working environment. He introduced this principle to maintain a peaceful connection among people. Often it is found that if the workers are deprived of their wishes or demands they generally go on strike. This affects the productivity and the working environment as a result organisation cannot achieve its goal. To dismiss such situation Taylor insists on mental revolution. It implies a change in the thinking of both the workers and managers. For example, if a worker is having problem with the working hours, he should talk to the manager about it, instead of letting it effect the production (by going on a strike). Similarly, the managers should listen to the worker's suggestions and demands rather than ignoring them along with sharing gains of the organisation.

(ii) 'Remuneration of Employees' by Fayol : This can be inferred from the line that the employee's compensation should depend on the earning capacity of the company and should give them a reasonable standard of living'. According to this principle, the compensation paid to the employees should be fair i.e., the employees must be paid appropriately as per their work responsibility. They must be able to lead a reasonable and a decent standard of living. When the employees are paid adequately, they are satisfied and are encouraged to give their best to work. On the other hand, underpaid employees would remain unsatisfied and would tend to leave the firm or not work properly. As a result, the firm would face high employee turnover. Thus, in order to maintain stability and harmony in the organisation, the remuneration paid to the employees should be fair. However, it must be remembered that the compensation paid should be within the paying capacity of the organisation.

27. Differentiate between formal and informal organisation on the basis of the following: [6]

- (i) Meaning (ii) Origin (iii) Authority
- (iv) Behaviour (v) Flow of communication
- (vi) Nature

OR

With the help of any four points, explain the importance of 'Decentralisation' in an

organisation.

Answer : The difference between formal organization and informal organisation are as follows :

| Basis of difference | Formal organisation | Informal organisation |
|------------------------------|---|--|
| Meaning | Formal organisation refers to the organisation structure in which job of every member is clearly defined. | Informal organisation refers to a network of interpersonal relationship in which each member can directly interact each other. |
| Origin | The structure originates from the rules and policies of the management. | The structure originates from the social interactions among the employees. |
| Authority | Employees are bound by hierarchical structure. | All members are equal. |
| Flow of communication | Communication flows through the scalar chain. | No planned route of communication is followed. |
| Nature | Formal organisations are rigid | Informal organisations are flexible i.e., can be change. |

OR

Decentralisation refers to the dispersal of the decision making power among the middle and lower level managers. The following points highlight the importance of decentralisation.

(i) Initiative : With the help of decentralisation lower level of managers has sense of freedom and makes their own decision. It gives them a freedom to take initiative. Moreover, it promotes a feeling of self-confidence and self-reliance among them, thereby encouraging them to take initiative.

(ii) Managerial competence : Once authority is delegated to the lower level managers, it provides them with an opportunity to develop their competence. Decentralisation allows them to gain experience and thereby develop the skills and knowledge to face new challenges. It gives them a chance to prove their talent and prepare for higher positions. It facilitates the identification of future managers who are well equipped with the necessary talent required to deal with managerial problems.

(iii) Control : Decentralisation helps in analyzing and evaluating the performance of each department individually and separately. Thus, each department's achievements and contribution to the overall objectives of the organisation can be easily determined, to facilities better control

(iv) Quick decision-making : Since through decentralisation, the authority of making decisions is passed on to lower levels of management, decisions are taken quickly and timely. This is because the decision can be taken at the nearest points of action which thereby, helps in easy adjudication of the problems.

28. Explain the relationship between planning and controlling.

OR

Explain the various steps in the process of controlling. [6]

Answer : Planning and controlling are closely interrelated functions of management. On one hand, planning refers to the psychological process of thinking and deciding what is to be done and how it is to be done. That is, planning decides the objectives to be achieved and the course of action to be followed. On the other hand, controlling refers to the process of managing and evaluating the work done in accordance with the standards and taking corrective measures in case of deviations. These standards that form the basis of controlling are provided by planning itself. In different words, the various objectives and policies are formulated under planning serve as standards in controlling, against which the actual performance is evaluated. Thus, controlling without planning is said to be meaningless. This is because, if there are no standards or objectives, there would be nothing to control. In other words, if managers do not know what the final objective is, they will not have any standard against which they can judge current performance and deviations.

Similarly, planning without controlling also holds no meaning. This is because, once plans are formulated, it becomes necessary to monitor and evaluate whether performance is as per the desired plans and objectives. Here, controlling is required as it is a tool for measuring whether the plans are being properly implemented, whether there are any deficiencies in work and whether there is a need for taking corrective actions in order to achieve the planned goals. If there is no

controlling, planning cannot be accomplished, and thus, planning without controlling is of no use. Therefore, it can be said that both planning and controlling complement each other. The following points highlight the relationship between controlling and planning:

1. By providing the organisation with the working standards against which the actual performance is measured, planning helps in making the process of controlling a much easier and effective process.
2. As controlling provides information based on the evaluation of past performances and takes corrective actions in case of deviations, it helps in future planning.
3. Controlling without planning is meaningless. This is because, if there would be no standards or objectives, there would be nothing left to control.
4. Without controlling, planning cannot be accomplished as controlling is a requisite for measuring whether the plan is being properly implemented or not and also whether it is effective and efficient.

OR

Controlling is a systematic approach of management, which helps in taking necessary measures or preventing actions for the achievement of organisational goals.

Following are the steps involved in the controlling process :

(i) Setting standards : Setting up of standards involves developing the benchmarks against which the actual performance is to be measured. The standards can be set both in qualitative and quantitative terms. Qualitative benchmarks can be in the form of improving coordination in work, higher goodwill or increased motivation level of employees. For example, to improve the motivation level of employees, standards can be set in terms of the number of initiatives taken. Quantitative benchmarks can be in the form of sales targets, units to be produced or time to be spent on a particular action. For example, in a shirt factory, completing 10 pieces a day is a quantitative target. The standards that are set should be such that they facilitate easy comparison.

(ii) Measuring actual performance : Once the standards are set, the next step is to measure the actual performance of the activities. This

may be done through various techniques such as personal observation, sample checking, performance reports, etc. The checking should be done in an exact and reliable manner so that correct measurement is taken for comparison. Measurement can be done after the completion of an activity as well as while it is in progress. For example, while assembling small parts of a bigger machine, the parts can be checked before assembling. This would ensure the continuous monitoring of the small parts as well as the final machine.

(iii) Comparing the performances : Performances, once measured, are compared with the set standards. Such a comparison helps in assessing the deviations in the work. Thereby, it guides the managers in taking the necessary steps to improve the performance. These comparisons are easier when they are in quantitative terms. For example, efficiency in work in terms of cost incurred can be measured against the standard cost.

(iv) Analyzing Deviation : Every organisation faces deviations when comparing the actual performance with the pre-developed standards. Thus, it is important to find if the deviations that are in the permissible range. It is said that deviations in key areas should be attended first. For analyzing the deviations, the managers generally use Critical Point Control and Management by Exception.

Once the deviations are recognized and reporting the same, it is necessary to acknowledge their cause. There can be a number of elements causing deviations in work such as infeasible standards, deficiencies in process, under utilization of resources and changes in business environment. Thus, it becomes important for the management to take into consideration the causes for the concerned deviations and take necessary action.

(v) Corrective measures : When deviations go beyond the admissible limits then corrective action must be taken. This is the final step of controlling which aims at correcting the deficiencies of the organisation so that the errors do not occur again. For example, if the production target was not met duly, appropriate corrective actions such as arranging training for the workers or updating the machinery for working, etc., can be taken.

29. Explain the following as factors affecting the requirements of working capital : [6]

- (i) Nature of business (ii) Scale of operations
(iii) Seasonal factors (iv) Production cycle

OR

Explain the following as factors affecting the choice of capital structure :

- (i) Cash flow position (ii) Cost of equity
(iii) Floatation costs (iv) Stock-market conditions.

Answer : Factors affecting the requirements of working capital are—

(i) Nature of business : An organisation that deals in services or trading will not require much of working capital. This is because such organisations involve small operating cycle and there is no processing done. In contrast to this, a manufacturing firm involves large operating cycle and the raw materials need to be converted into finished goods before the final sale transaction takes place. Thereby, such firms require large amount of working capital.

(ii) Scale of operations : If a firm operates on a large scale then it requires more working capital. This is because such firms would need to maintain high stock of inventory and debtors. In contrast to this, if the scale of operation is small, the requirement of the working capital will be less.

(iii) Seasonal factors : During the periods of high sale, there is higher production, higher stock and more debtors. Thus, during this period the need for working capital increases. As against this, in seasons of low sale, there is less production and inventories. Thus, the working capital requirement reduces.

(iv) Production cycle : If a firm has a longer production cycle or there is a long time gap between the receipt of raw materials and their conversion into finished goods, then there will be a high requirement of working capital due to inventories and related expenses. On the other hand, if the production cycle is short, then the requirement of working capital will be less.

OR

(i) Cash flow position : While making a choice of the capital structure cash flow position should be kept in mind. Debt capital should be raised only if the cash flow position is really good because a lot of cash is needed in order to make payment of interest and refund of capital.

(ii) Cost of equity : Cost of equity capital (it means the expectations of the equity shareholders from the company) is affected by the use of debt capital, If the debt capital is utilised more, it will

increase the cost of the equity capital. Simple reason for this is that the greater use of debt capital increases the risk of the equity shareholders. Therefore, the use of the debt capital can be made only to a limited level. If even after this level the debt capital is used further, the cost of equity capital starts increasing rapidly. It adversely affects the market value of the share. This is not a good situation. Efforts should be made to avoid it.

(iii) Floatation costs : Floatation costs are those expenses which are incurred while issuing securities (e.g., equity shares, preference share, debentures, etc.). These include commission of underwriters, brokerage, stationery expenses, etc. Generally, the cost of issuing debt capital is less than the share capital. This attracts the company towards debt capital.

(iv) Stock market conditions : Stock market conditions refer to upward or downward trends in capital markets. Both these conditions have their influence on the selection of source of finance. When the market is facing downward trend, investors are mostly afraid of investing in the share capital due to high risk.

On the contrary, when conditions in the capital market are cheerful, they treat investment in the share capital as the best choice to reap profit. Companies should, therefore, make selection of capital sources keeping in view the conditions prevailing in the capital market.

30. Explain the following functions of marketing : [6]

- (i) Product designing and development
- (ii) Standardisation and Grading
- (iii) Customer Support Services
- (iv) Pricing of products

OR

"Though advertising is one of the most frequently used media of promotion of goods and services, yet it attracts lot of objections." Explain any four such objections.

Answer : The following are the functions of marketing :

(i) Designing and developing of the product: The producers should bear in mind that the design of a product acts as a vital factor for attracting the customers to the product. A good design helps in attracting a large number of customers to the product thus product design is important factor. The producers should pay more

attention towards the design and development of the product.

(ii) Standardising and grading the product: Standardisation implies the production of goods with certain specific qualities such as durability, safety and utility so that uniformity is maintained in the output. On the other hand, grading implies the classification of the product as per certain characteristics such as size and quality. It helps of realising higher prices for better quality products.

(iii) Customer support services : It involves handling complaints and feedback of the customers. This is done by developing customer care services such as credit, maintenance or technical services.

(iv) Pricing of the product : Price refers to the amount of money that is to be paid by the consumers for purchasing the goods. Pricing of a product is an important decision as it affects the demand of the product and also profit of the business. Thus, it is imperative for the producers to judiciously quote the price.

OR

Though advertising is one of the most frequently used mode for the promotion of goods and services, it caters to a lot of other objections as well.

Some of the objections of advertising are given below :

- (i) Higher cost :** Advertisement expenses add to the cost of the company but cost per unit is low. The companies in turn, pass this increased cost to the consumers in the form of higher prices.
- (ii) Weakens social values :** One of the major criticisms to advertising is that it weakens social values and instead promotes materialism in the society. Advertisement attracts customers towards new products and induces them to purchase it. With increased knowledge about the availability of new products, the customers feel dissatisfied about what they currently have. In the process, often they end up buying what they don't even require. However, such a process of discontentment and purchase of new products is never ending and materialism increases.
- (iii) Creates confusion :** It is argued that a large number of advertisements on similar

products confuse the customers. For example, advertisements of different hair oils claim that they help in the growth of healthy and long hair. With numerous advertisements, the consumer gets confused as to the product of which brand should be purchased.

(iv) **Promotes inferior goods** : It is argued that products of both superior quality as well

as inferior quality are advertised. Through advertisement, demand for inferior goods can also be increase. However, such a claim is only partially true. This is because quality is a relative concept. What is inferior to one consumer can be superior to another. Advertisements promote all kinds of products and the consumer purchases them if it suits his/her requirements.

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Business Studies 2014 (Outside Delhi)

Set II

Time allowed : 3 hours

Maximum marks : 90

Note : Except for the following questions, all the remaining questions have been asked in previous set.

17. State any three points of importance of consumer protection from the point of view of consumers.

[3]

Answer : Consumer protection is making consumers aware of their rights and responsibilities and educating them on how they can seek redressal against unfair trade practices. The following points highlight the importance of consumer protection from the point of view of consumers:

(i) **Ignorance of consumers** : As consumers are generally ignorant about the rights and various forms of relief available to them, so it is important to make them aware of their rights and responsibilities.

(ii) **Exploitation of consumers** : Consumers often face exploitation in the form of unfair trade practices, such as adulteration, black marketing and hoarding. Therefore, it is necessary to protect them from such malpractices.

(iii) **Unorganised consumers** : In order to protect the interests of consumers, consumer organisations must be established. These organisations will help them to raise a unified voice against any malpractice.

18. Explain the following Rights of Consumers :

(i) **Right to Safety**

(ii) **Right to be Heard**

[3]

Answer : (i) **Right to safety** : The right to safety protects consumers against goods and services that are hazardous to life, health and property, for example, electrical appliances and cooking

gas cylinders with manufacturing defects. The consumer has the right to be protected against such defective products and make complaint to consumer forum if any problem arises.

(ii) **Right to be heard** : In case of any grievance or dissatisfaction, a consumer has the right to file a complaint and seek redressal against any form of exploitation in appropriate forums established by the government on the basis of amount involved and issue. Many consumer organisations and associations also work in this direction.

25. Define 'Planning'. State any four points of importance of planning.

[5]

Answer : Planning can be defined as a process of setting up of goals and objectives for a given period of time, formulating alternatives for the course of action to be taken, and finally deciding an appropriate action from the various alternatives. As a function of management, planning plays an important role in large business enterprises. The importance of planning are—

(i) **Renders direction** : Planning clearly states the goals and objectives to be achieved. Thus, it acts as a guide for various actions in the organisation. In other words, it renders direction to the tasks and activities of different departments of the organisation. It guides the managers how the particular task is to be performed, what route is to be taken and how the objectives are to be achieved. In this way, it ensures that the path taken for the accomplishment of goals is righteously chosen and various departments of the organisation work in a coordinated manner towards the achievement of the desired objectives.

(ii) **Subdues risk** : Planning helps to look into the future and accredits managers to analyze and anticipate various changes well in advance. This leads to a reduction in uncertainty of foreseen events. However, it should be remembered that although planning shows how to deal with various situations that may arise in the due course of management, it does not eliminate the problems.

(iii) **Minimizes overlapping** : As the managers are well comprehended with the policies and plans of the organisation, they can work towards coordinating their activities in a better manner so as to achieve the objectives. In this way, planning helps in reducing the overlapping and duplication of work. Moreover, any wastage of resources that takes place due to repetition is also reduced. Proper planning ensures that the work proceeds smoothly without any confusion and misunderstanding.

(iv) **Helps in decision making** : Planning help in decision making. It involves analyzing the future, evaluating the various courses of action and choosing the best alternative as per the goals and objectives. Thus, following a proper planning process helps the managers in taking rational decisions towards the benefit of the organization as a whole so that revenue can increase.

| | | |
|---------------------------------------|--|---|
| Geographical Area | There is no fixed place for a primary market. That is, all institutions and companies constitute a primary market. | Under a secondary market, trading takes place at specified locations and areas. |
| Purchase and Sale | In this market securities can only be purchased. | In this market securities can be purchased as well as sold. |
| Promotion of Capital Formation | Capital formation is directly promoted as funds from savers to investors are directly channelised to their most productive uses. | Capital formation is indirectly promoted as the liquidity of securities is augmented. |

29. Explain, with the help of any four points, the importance of 'Delegation' in an Organisation. [6]

OR

'Organizing involves a series of steps in order to achieve the desired goals.' Explain these steps.

Answer : Delegation implies transfer of authority from a superior to a subordinate. It is a process that reduces the burden on the manager and allows him to extend his area of operations by delegating work to subordinates. In addition, delegation provides the subordinates with higher opportunities for growth and development. By allowing the subordinates to show their skills and to exercise initiative, delegation helps in building efficiency.

The following points highlight the importance of delegation :

(i) **Managerial efficiency** : Delegation of work to subordinates allows the superior to concentrate on key areas of concern. That is, with the delegation of routine work to subordinates, managers will be able to focus on higher priority areas. Besides, delegation provides the managers with the opportunity to explore new methods of working and this helps in improving the overall working efficiency in the organization.

(ii) **Employee proficiency** : By delegating work, a manager empowers his subordinates by providing them with opportunities to apply their skills. Therefore, the subordinates get a chance to prove their abilities, gain experience

26. Differentiate between 'Primary Market' and 'Secondary Market' on any five basis. [5]

Answer : The difference between 'Primary Market' and 'Secondary Market' are as follows :

| Basis of Difference | Primary Market | Secondary Market |
|--------------------------|--|--|
| Securities Traded | Primary market deals solely in the sale and purchase of newly issued securities. | Secondary market deals in the sale and purchase of already existing securities. |
| Securities Issued | Securities are directly issued by the companies. | Securities are transferred between the investors only. There is no involvement of a company here. |
| Price of Security | The prices of securities are determined by the company and its management. | The prices of securities are determined by the forces of demand and supply and other macro factor. |

and develop their growth and career prospects.

(iii) **Motivation** : In addition to improving the managerial and employee efficiency, delegation provides the employees with psychological benefits as well. By motivating the employees, delegation encourages them to put in their best efforts. This is because, with higher authority and responsibility, the employees gain confidence and are encouraged to work more efficiently and employee is also rewarded.

(iv) **Growth** : Delegation facilitates growth and expansion of business. It helps in the preparation of efficient and experienced managers who can take up leading positions in the organisation at the time of growth. Thus, the workers who are trained and prepared through delegation contribute to the expansion and growth of the organisation.

OR

Organizing is the procedure of aligning activities in a certain order. It involves designing the roles and directing the people to accomplish organisational goals. Human efforts along with the resources are brought together and coordinated under this function. The focus of the function lies in enabling people to work together and implementing the plans for the successful achievement of objectives. Through organising, the working relationships in an organisation get clearly defined; this, in turn, ensures smooth functioning. Following are the various steps involved in a successful process of organizing :

(i) **Identifying and dividing the work** : The first step of organising is to identify and divide the work at hand as per pre-defined plans. The work is further divided into different activities. A clear division of work is aimed to avoid duplication and overlapping of work so that effective work can be done and also increase revenue.

(ii) **Creating departments** : After dividing the work into activities, those activities are further grouped into smaller sets on the basis of their similarity. Similar activities are grouped together. This process is termed as departmentalisation. Its main objective is to promote specialisation.

(iii) **Assigning duties** : The third step in the organising process is assigning roles and responsibilities to different personnel. Each department allocates work to its employees as per their skills and abilities. At this stage, the main focus is to assign a particular task to the person with the right skills and abilities

(iv) **Establishing relationships** : Any organisation needs a proper hierarchical structure to function efficiently. Every person should know whom he/

she is working under and to whom he/she needs to report. Clear establishment of such relationships helps to ensure the smooth functioning of an organisation.

30. Explain the following as factors affecting the requirements of fixed capital : [6]

- (i) Scale of operations
- (ii) Choice of technique
- (iii) Technology upgradation
- (iv) Financing alternatives

OR

Explain the following as factors affecting 'dividend decision' :

- (i) Stability of dividend
- (ii) Shareholders' preference
- (iii) Legal constraints
- (iv) Access to capital market

Answer : (i) Scale of operations : A factor determining the fixed capital requirement is the scale of operations in which the firm deals. For instance, if an organisation operates on a relatively large scale, then its requirement of fixed capital like plants, land or building increases. This is because such firms would need to maintain high stock of inventory for their large scale operations but if an organisation is working on a smaller scale, then the requirement of fixed capital will be less so, it depend upon scale of operation.

(ii) **Choice of technique** : There are generally two types of techniques that a company can choose for; capital intensive or labour intensive. The choice of these techniques differs from company to company. A company that follows a capital intensive technique would require a larger amount of fixed capital. This is because such a company would require higher investment in plants and machinery rather than in manual labour. In contrast to this, a company following labour intensive techniques would require a relatively lower amount of fixed capital.

(iii) **Technology upgradation** : Technology plays an important role in the fixed capital requirement of a company. This is because it continuously changes or becomes obsolete over time. Thus, the companies that work with machinery or with equipment that become obsolete faster require a high amount

of investment in fixed capital. For instance, equipment such as computers become obsolete much faster, than other assets like furniture, and require regular upgradation. In such cases, a higher amount of fixed capital is required.

(iv) Financing alternatives : If leasing facilities are easily available in the financial market, it would provide an easy alternative for the outright purchase of the fixed assets. That is, the businesses can easily obtain the assets on lease and use them, instead of purchasing them. In this way, the need to invest a huge sum in fixed assets reduces considerably; thereby, reducing the fixed capital requirements. Thus, we can say that requirement of fixed capital depend upon many factor.

OR

The factor affecting the dividend decision are—

(i) Stability of dividends : Companies generally follow the practice of stabilising their dividends. This is an important factor that affects the dividend decision of a company. Companies try to avoid frequent fluctuations

in dividend per share and opt for increasing (or decreasing) the value only when there is a consistent rise (or fall) in their earnings. This is worst case of dividend because even if earning increase dividend per share remain same.

(ii) Preference of the shareholders : A company must keep in mind the preferences of the shareholders while distributing the dividends. For instance, if the shareholders prefer at least a certain amount of dividend, then the company is likely to declare the same.

(iii) Legal constraints : Companies have to adhere to the rules and policies laid out by the Companies Act. Thus, every company needs to take care of such restrictions and policies before declaring the dividends.

(iv) Access to capital market : The companies that have a greater access to the capital market tend to pay higher dividends. This is because they can rely less on retained earnings and more on other sources due to the market access. On the other hand, the smaller companies with lower access to capital markets tend to pay lower dividends.

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Business Studies 2014 (Outside Delhi)

Set III

Time allowed : 3 hours

Maximum marks : 90

Note : Except for the following questions, all the remaining questions have been asked in previous sets.

17. State any three functions performed by consumer organisations for protection and promotion of interests of consumers. [4]

Answer : The following are some of the functions performed by consumer organisations for the protection and promotion of interest of the consumers.

(i) Consumer education : The consumer organisations arrange various training programs and seminars to educate the consumers about their rights and duties.

(ii) Publishing journals : In addition to the training programs and workshop, they also extend awareness through journals and periodicals. These journals and periodicals provide information about various consumer problems and available legal remedies and other such matters.

(iii) Legal assistance : They also provide legal assistance and aid to the consumers and help them in seeking suitable redressal.

(iv) Encouraging protest against exploitation: They encourage the consumers to protest strongly against any form of exploitation and unfair trade practices.

18. Explain the following Rights of Consumers : [3]

(i) Right to be Informed

(ii) Right to seek Redressal

Answer : (i) Right to be informed : The consumer has the right to be informed of the quality, quantity, price, weight, etc. of the goods and services. In India, it is mandatory for the manufactures to provide all such information on the package of the goods. The consumer has full right to know about the goods and the period within which it should be used.

(ii) Right to seek redressal : A consumer has the right to seek redressal. The Consumer Protection Act provides compensation in the form of

replacement of product, monetary compensation etc. to the aggrieved customer. Under this Act, consumer forums have been set up at district, state and national levels with different monetary limits.

25. Explain any five limitations of planning. [3]

Answer : The following are the five limitations of planning :

(i) Rigidity : Planning is rigid in nature. Once a plan regarding the objectives to be achieved and the course of action to be followed is formulated, the manager may not be able to change it. Such rigidity creates hurdles, particularly at times of unforeseen situations. At times of unexpected situations, the managers may require certain degree of flexibility so as to cope with the changes in an appropriate manner. Thus, rigidity in plans sometimes creates obstacles in the accomplishment of organisational objectives.

(ii) Cannot deal with dynamic environment : Business environment is dynamic and uncertain. However, planning cannot foresee such changes and fails at times of changes and uncertainties. This may lead to failure in the accomplishment of objectives. An organization must adapt its functioning to the changing environment.

(iii) Reduced creativity : In any organization, planning is often done by the top management, while the lower and middle management just follow these plans. They are not allowed to deviate from the pre-defined course. They just implement and execute the plans as stated. Thus, they tend to follow the same thinking pattern as others and lose their own creativity. It is possible that they might have better ideas for the accomplishment of the objectives; however, due to lack of involvement in decision making, remain unheard.

(iv) Involve huge costs : Formulation of plans involves huge costs in terms of time and money. As planning is based on future predictions, it requires a lot of thinking and analyzing. Planning involves scientific calculations along with figures and facts, which are to be used in formulating the future course of action. This

involves high costs. Moreover, sometimes, it might also happen that the benefits derived from planning fall short of the costs incurred.

(v) False security : Good planning may not guarantee success of an organisation. Often, managers tend to rely on pre-tested plans that have worked well in the past. However, they may not work well in the future as well. Many unforeseen changes can crop up that can fail a plan. Sometimes, managers think that planning can prevent problems from occurring. However, they neglect the fact that planning just provides a base for predicting the future. It does not give straight away answers to problems.

26. Differentiate between 'Capital Market' and 'Money Market' on the basis of the following : [5]

- (i) Participants
- (ii) Instruments
- (iii) Duration
- (iv) Investment outlay
- (v) Liquidity

Answer :

| Basis for Difference | Capital Market | Money Market |
|--------------------------|--|---|
| Partici-pants | Participants in this market include financial institutions, merchant bankers, stock exchanges, mutual funds, foreign investors and general public. | Participants in this market include RBI, commercial banks, principal dealers and brokers, and non-bank financial institution. |
| Instru-ments | Instruments traded consist of equity shares, preference shares, debentures, bonds and other long-term securities. | Instruments traded consist of treasury bills, commercial bills, certificates of deposits and other short-term securities. |
| Investment Outlay | This market deals in small value securities, i.e. securities of values ₹ 10, ₹100, etc. | This market deals in high value securities. For example, the minimum amount of call loan is ₹ 10 crores. |

| | | |
|------------------|---|--|
| Duration | Securities traded are of medium term and long term wherein the maturity period is of more than one year. | Securities traded are only of short-term wherein the maturity period can vary from one day to a maximum of one year. |
| Liquidity | Capital market securities are liquid in nature as they are tradable on stock exchanges, but are less liquid in comparison to the money market securities. | The securities traded are highly liquid in nature. |

29. With the help of any four points, explain the crucial role that organizing plays in an enterprise.

OR

Explain the concept of 'Functional Structure' of an organisation. Also, explain any four disadvantages of functional structure. [6]

Answer : Organising refers to creating roles and directing people towards completion of goals. The following points highlight the role of the organising function :

(i) **Clarity in working relationships :** Organising clearly defines the working relationships in an organization. This in turn helps in avoiding any uncertainty in transfer of instructions and orders.

(ii) **Avoids duplication of work :** It avoids duplication of work as the various tasks and activities are properly assigned, the chances of overlapping and duplication of work is neglected. This reduces the wastage of human and material resources in an organisation.

(iii) **Coordination :** Organising groups the activities into different departments and units. This leads to better coordination in various tasks and thereby promotes harmony among the departments and units. This also reduces the time, human resources and material resources of organisation.

(iv) **Promotes growth :** Organising gives a clear definition of the working relationships of an organisation. This allows the organization to diversify and add new lines of activities. Organisation can easily grow and expand its

operations to new geographical territories and thereby increase its customer base, volume of sales and profits.

OR

A functional structure involves grouping of the functions of similar nature. Each group forms a separate department that reports to one head. For example, departments may be divided on the basis of functions such as production, human resources, etc. that report to the managing director of the organisation.

The disadvantages of a functional structure are :

(i) **Less emphasis on organisational objectives :** A functional structure places more emphasis on departmental objectives over organisational objectives. Hence, functional structure may lead to the formation of functional empires where a particular function is given undue importance with respect to the overall organisational objectives.

(ii) **Problems in coordination :** As an organisation grows bigger in size, the increasing number of activities is grouped into different departments. With this, the coordination among these departments becomes difficult to achieve, thereby resulting in delayed decision-making thus loss in revenue.

(iii) **Conflicts :** It may happen that the interests of different departments are not compatible with each other and there may be some conflict. For instance, sales department may wish to introduce a new promotional scheme for the customers (say, buy one and get one free), but the finance department may not approve the same due to lack of funds. Such incompatibility often leads to conflicts among different departments.

(iv) **Inflexibility :** As each department specializes in its particular function, the employees of a department have a limited set of skills that is applicable to only one particular function. This results in a high degree of inflexibility in the organization, as over a period of time, different departments develop a narrow perspective and do not have experience in the diverse activities.

30. Explain the following as factors affecting the requirement of working capital : [6]

- (i) Business cycle
- (ii) Operating efficiency
- (iii) Availability of raw material
- (iv) Level of competition

OR

Explain the following as factors affecting dividend decision :

- (i) Stability of earnings
- (ii) Growth opportunities
- (iii) Cash flow position
- (iv) Taxation policy

Answer : (a) Business cycle : Different phases of business cycle alter the working capital requirements of a firm. As, at the time of boom, the market gets flourishes and that leads to the higher sales, higher production, and huge stock of raw material and also leads to more debtors. Accordingly, during this period, the need for working capital increases. As against this, during a period of recession, there is low demand, small amount of production and sale, etc. Thus, the working capital requirement decreases.

(b) Operating efficiency : If the organisation has high efficiency it means that the organisation is utilizing its raw material and other inputs in the optimum manner with minimum wastage. This implies that it can manage its operations even with a low inventory. Also, during operations, a firm with high efficiency incurs lower expenses. An improvement in the efficiency of an organisation leads to a higher inventory turnover ratio and a higher debtor's turnover ratio. In such cases, the organisation requires a lower working capital. On the contrary, firms that are less efficient require large working capitals.

(c) Availability of raw materials : If the raw materials are easily available to the company then the company need not to maintain huge amount of inventory. In this case, the company requires less working capital. On the other hand, if the raw materials are not easily available or their supply is not smooth, then the company has to maintain a huge stock of raw material to

ensure constant operations, so requiring a large working capital.

(d) Level of competition : As the competition in the market increases the company must maintain the large amount of stock of finished goods to provide the consistency in the market that leads to high amount of working capital requirement.

OR

(i) Stability of earnings : The factors affecting the dividend decisions are when a company has a stable and a smooth earning, it is in a position to distribute higher dividend as compared to the companies who have unstable earnings.

(ii) Growth opportunities : Companies aiming for a higher growth level or expansion of operations retain a higher portion of the earnings with themselves for re-investment. Thus, the dividend of such a company is smaller as compared to the companies with lower growth opportunities.

(iii) Cash flow position : Dividend payments require cash outflow. If a company has deficiency of cash, then the dividend will be lower as compared to the company which has more liquidity. Even if a company has higher profits, it will not be able to distribute high dividends if it does not have enough cash.

(iv) Taxation policy : Taxation policy plays an important role in deciding the dividends. If the taxation policy is such that a high rate of tax is levied on dividend distribution, then the companies are likely to distribute lower dividends. On the other hand, they might prefer to distribute higher dividends if the tax rate is low.

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Business Studies 2014 (Delhi)

Set I

Time allowed : 3 hours

Maximum marks : 90

Note : Except for the following questions, all the remaining questions have been asked in previous sets.

1. What is meant by 'Management of people' ? [1]
Answer : Management of people refers to identifying the strengths and weaknesses of individuals and placed them for the right job for achieving the organizational goals in a better manner.

2. What is the objective of 'Method Study' as a technique of scientific management ? [1]
Answer : The objective of method study is to find out the best possible method for completing a task. It takes into account every concerned activity involved in the task with a view to [reduce cost and maximize customer satisfaction.
3. What is included in the 'political environment' of business ? State. [1]

Answer : The political business environment includes political situation of a country such as peace, stability, law and order. It directly influences the functioning of any entity. For example, a particular political situation can reduce the confidence of the investors, this makes difficult for the enterprises to function smoothly.

4. Give the meaning of 'policy' as a type of plan. [1]

Answer : A policy is a blue print of organization that aims at channelizing the efforts of an organization in a particular direction. It is a course of action that is to be followed in a particular situation.

5. Give the meaning of 'Authority' as an element of delegation. [1]

Answer : Authority means the power given to an individual to control and direct subordinates. It implies the power to take decisions regarding what work is to be done and by whom.

6. State any one advantage of 'Formal Organisation'. [1]

Answer : Formal organisation is an organisational structure which follows a system of well-defined rules and regulations that specify the boundary of authority and responsibility. It is deliberately created by managers to achieve organisational objectives. Such a system lays more emphasis on work to be performed rather than interpersonal relationships.

7. Why employees become lethargic when the organisation uses internal sources of recruitment? State. [1]

Answer : Internal sources of recruitment tend to make employees lethargic. This is because the employees know that if their company follows internal sources of recruitment, then they have a higher chance of getting time bound promotions because the degree of competition is lesser as compared to what could have been in case of external source of recruitment. Consequently, this may hamper their efficiency and effectiveness.

8. 'Recruitment' is one of the specialised activities performed by human resource management. Mention any two other specialised activities of human resource management. [1]

Answer : Following are the two specialised activities performed by human resource management :

1. Selection
2. Placement and orientation

9. Give an example of 'Employee Recognition Programmes' as a non-financial incentive. [1]

Answer : One example of employee recognition programme as a non-financial incentive is Motivation. Employee can be motivated by providing achievement certificates to the employee for his/her outstanding performance so that he can perform better.

10. What is meant by 'Encoding' as an element of communication ? [1]

Answer : The process of converting the message into communicative symbol is known as encoding so that message cannot be hacked and if hacked then no one can understand what is written in message. The communication symbol in the process of encoding can be in the form of pictures, gestures, etc.

11. Define 'Capital Structure'. [1]

Answer : Capital structure refers to the combination of borrowed funds and owner's funds that a firm uses to finance its requirements. Generally, the borrowed funds comprise of loans, public deposits, debentures, etc., while the owners' funds comprise of preference share capital, equity share capital, retained earning etc. In other words, capital structure is the combination of debt and equity that a firm uses to finance its requirements.

12. How does 'Inflation' affect the working capital requirements of a company ? State. [1]

Answer : Inflation affects the working capital requirement of a company because a rise in the rate of inflation implies rise in the prices of raw material, labour, etc. This suggests that more funds would be required to maintain the existing volume of production and sales and thus, we can say that requirement of working capital increases as the inflation rate increases. On the other hand, a low rate of inflation suggests less requirement of working capital.

13. Rahim was working in an enterprise on daily wages basis. It was difficult for him to fulfill the basic needs of his family. His daughter fell ill. He had no money for his daughter's treatment. To meet the expenses of her treatment, he participated in a cycle race and won the prize money. The cycle company offered him a permanent pensionable job which he happily accepted. (i) By quoting the lines from the

above para identify the needs of Rahim that are satisfied by the offer of cycle company. (ii) Also, explain two other needs of Rahim followed by above that are still to be satisfied. [3]

Answer : (i) The offer of the company satisfied Rahim's physiological and security needs. Physiological needs refer to essential requirements for the sustenance of life. They are at the top of the hierarchy. These needs are necessary for survival. This can be judged from the statement given below. 'It was hard for him to fulfil the basic requirements of the family's security needs related to physical, security, economic security and well-being. For example, an employee may desire job security, income stability and his well-being. In Rahim's case, this need is fulfilled because the company offered him a permanent pensionable job with economic security.

(ii) Two more needs that still remain to be satisfied are given below.

(a) **Belongingness needs :** Such needs refer to the social needs of an individual such as love, acceptance, friendship, etc. as every individual keen for social acceptance and belongingness.

(b) **Esteem needs :** These needs include elements like respect, dignity, credit, etc. as every individual wants to command respect and acknowledgement in the group.

14. How directing helps in the efficient and effective functioning of the organisation ? Explain by giving any three points. [3]

Answer : Directing is one of the important functions of management that must to be performed in every organisation. It refers to the procedure wherein the employees of an organization are instructed, motivated and guided to achieve definite goals and objectives. The managers not only guide the employees on how a particular work is to be done but also keep an eye on whether their orders are being correctly performed or not. In fact, every step in the organization is initiated through directing. Directing helps in efficient and effective functioning of the organisation because—

(i) **Accomplishment of objectives :** Directing is a function that sets the ball rolling. It helps in motivating people to perform the actions in order to fulfillment organisational goals and objectives.

(ii) **Addition of efforts :** Directing integrate the individual efforts of employees and channelises them towards achieving organisational goals. It integrates the efforts of all individuals working

in an organisation towards achievement of the common goal, which also avoid the conflicts between individuals.

(iii) **Growth of employees :** By guiding the employees to work in the right direction, better directing promotes better employees' growth. In other words, directing helps the individuals to realise their potential through effective motivation, thereby encouraging them to put in their best efforts in the work. Therefore as per above discussion we can say that directing helps in the efficient and effective functioning of the organisation, as it enable it to adapt to the changes that occur in the working environment.

15. 'Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions.' Explain any three functions of financial market. [3]

Answer : A financial market refers to the market where creation and exchange of financial assets such as shares and debentures etc. take place. The functions of a financial market are given below :

(i) **Transfers savings and alternatives for investment:** A financial market acts as a link between the savers and the investors. It provides a platform for the transfer of savings from the households to the investors. It also provides the savers with various alternatives for investment and thereby, directs the funds to the most productive investment.

(ii) **Determines price :** Similar to a commodity, price of a financial asset is determined through the forces of demand and supply for funds. Financial market provides a platform for the interaction of the demand (represented by the business firms) and supply of the funds (represented by the households). Thereby, it helps in determining the price of the asset being traded.

(iii) **Facilitates liquidity :** An asset or a security can be easily purchased and sold in a financial market. This renders liquidity to the assets. Thus, through trading in the financial market, assets can be easily converted into cash or cash equivalents.

16. Crackers Ltd., a firecracker-manufacturing company, launched some new products on the eve of Diwali, which attracted many buyers. To meet the increased demand, the company employed children from nearby villages. Although the product was in great demand,

appropriate safety warnings for use were not mentioned on the packets that led to many accidents. (i) Identify and explain the important product-related decision that was not taken into consideration by the company. (ii) Also, identify any two values that were violated by the company.** [3]

Answer : (i) The product-related decision that was not considered by the company is the labelling of the product. Labelling refers to developing a label or slip that is to be put on the package of a product. It provides necessary details about the use of the product. It is specifically required for the products that can prove to be harmful or dangerous. In the given scenario, no proper description was given regarding the use of the crackers, which led to accidents.

17. State any three points of importance of consumer protection from the point of view of consumers. [3]

Answer : Consumer protection is making consumers aware of their rights and responsibilities and educating them on how they can seek redressal against unfair trade practices. The following points highlight the importance of consumer protection from the point of view of consumers :

(i) **Ignorance of consumers :** As consumers are generally ignorant about the rights and various forms of relief available to them, it is important to make them aware of their rights and responsibilities.

(ii) **Exploitation of consumers :** Consumers often face exploitation in the form of unfair trade practices, such as adulteration, black marketing and hoarding. Therefore, it is necessary to protect them from such malpractices.

(iii) **Unorganised consumers :** In order to protect the interests of consumers, consumer organisations must be established. These organisations will help them to raise a unified voice against any malpractice.

18. Explain the following rights of consumers : [3]

(i) Right to be informed (ii) Right to safety

Answer : (i) **Right to be informed :** A consumer has the right to be informed about the quality, quantity, price, ingredients, weight, etc., of goods and services. In India, it is mandatory for the manufactures to provide all such information on the package and label of the goods. This helps the consumer in making a wise choice.

(ii) **Right to safety :** The right to safety protects consumers against goods and services that are hazardous to life, health and property, for example, electrical appliances and cooking gas cylinders with manufacturing defects. The consumer has the right to be protected against such defective products.

19. XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. The demand of lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and creches for the children of its employees.

(i) Identify and explain the objectives of management discussed above.

(ii) State any two values which the company wanted to communicate to the society.** [4]

Answer : (i) **Social objectives** have been discussed in the given situation. Since every organisation is a part of the society, it uses the resources provided by the society for its various operations. Thus, it becomes the duty of the organisation to take due care of the interests of the society at large. The social objectives of an organisation basically involves the creation of benefit and development of the society. The following are some of the social objectives of management that are being indicated in the given situation.

(a) Producing environment friendly products such as solar lanterns.

(b) Setting-up a factory of solar lanterns in order to provide electricity in rural areas.

(c) Providing employment opportunities to the needy.

(d) Developing school and creches for children in rural areas.

20. Why is the understanding of business-environment important for managers ? Explain with the help of any four points. [4]

Answer : Understanding of business environment is of vital importance for successful functioning of an organisation. Any organisation cannot function independently. It's functioning and performance depends on several external

** Answer is not given due to change in present syllabus

forces as well. A continuous evaluation and understanding of the business environment helps a firm to take account of these forces in a better manner and thereby, improve its functioning. The following points highlight the importance of understanding of environment for business enterprises :

(i) **Identification of opportunities** : With a careful analysis, an enterprise can identify the positive opportunities for its business. Early identification of the opportunities helps in taking a first-hand advantage in competition.

(ii) **Identification of threats** : Besides positive opportunities, a study of business environment helps an enterprise in the identification of threats or negative signals that may adversely affect its functioning. This enables it to take appropriate preventive measures.

(iii) **Accumulating useful resources** : The environment provides a business with various resources or inputs for its functioning such as raw material, machinery, labour, etc. On the other hand, enterprises provide the environment with output in the form of goods and services. The environment acts both as a source of resources as well as a source of demand for the products of the enterprises. Thus, it becomes logical for the enterprises to take up those resources from the environment that can be converted into the desired output. This is possible only if the enterprises have an understanding of what the environment desires and what it can offer.

(iv) **Adjusting to changes** : Business environment is dynamic in nature. Changes in technology, Consumers taste and preference, Government policies etc., take place continuously. A careful analysis and understanding of the environment helps an enterprise in dealing with these changes in a better manner and take appropriate actions.

21. How is training of employees beneficial for the organisation ? State by giving any four reasons. [4]

Answer : Training is important in every organisation, as it aims at building the skills and abilities of the employees to perform their tasks. The following points highlight the importance of training in an organisation :

(i) **Less wastage** : Training is a concept that involves a systematic learning of a particular job. It is a more efficient way of learning than any trial-and-error method. It helps in reducing wastage of time and money in an organisation, thus ensuring optimum utilisation of resources.

(ii) **Higher profits** : Training enhances the productivity of employees by making them more efficient. This increase in both qualitative and quantitative productivity boosts the profits of the company.

(iii) **Managerial efficiency** : Training prepares employees to face new challenges, thus helping them to make effective responses to various business problems. It also equips future managers to take precautionary steps in case of emergency.

(iv) **Boost employees morale** : Training not only improves the performance, but it also improves the overall attitude of the employees towards job, working conditions and organisation. It helps in reducing absenteeism, labour turnover and grievances among the employees. This increases the morale of the employees.

22. Explain any four points that highlight the importance of financial planning. [4]

Answer : A process that enables a business enterprise to tackle the uncertainties regarding the availability of funds is called '**financial planning**'. Financial planning involves designing a blueprint of the financial operations of a firm. It ensures that the right amount of funds is available for organizational operations at the right time, in order to ensure smooth functioning of the organization.

Following points highlight the importance of financial planning in an organisation :

(a) **Helps in coordination** : It helps in coordinating various business activities such as sales, purchase, production, finance etc.

(b) **Helps in optimum utilization of funds** : It ensures that situations of inadequate as well as excess funds are avoided, in order to ensure proper and optimum utilisation of funds.

(c) **Links the present and the future needs of funds in the organisation** : Financial planning acts as a link between the present *needs of funds in the organisation* and the future *needs of funds in the organisation*. This is done by providing information about future availability and requirement of funds.

(d) **Financial control** : All the financial activities are kept under control with the help of financial planning. Under it, the standard of financial performance are set. Actual performance is compared with the standards so set. Deviations and their causes are traced and corrective measures are taken.

25. Explain 'Price' as an element of marketing-mix. Also explain any four factors that affect the fixation of price of a product. [5]

Answer : Price refers to the money paid by the customers to obtain a product and this price affects its demand. Thus, pricing plays an important role in the marketing of goods. The price charged by a firm is an essential element of marketing mix as it affects both revenue and profits of the firm. In addition to this, pricing also acts as a competitive tool. Firms producing similar substitutable products compete with each other on the basis of price. Thus, the firms must pay due emphasis on proper pricing of their products. The marketers must analyse properly the various factors that determine the price and decide a suitable price for the product. The following factors affect the determination of the price of a product or a service.

1. Cost of the product : It plays an important role in determining the price, which involved in the production, distribution and sale of the product. Cost of product can be classified into three broad categories, *viz.*, fixed cost, variable cost and semi-variable cost. Fixed costs refer to those costs that do not vary with the level of output produced. For example, for the production of a good, a firm incurs cost on the purchase of machinery, land, etc. Such costs are fixed costs. On the other hand, Variable costs refer to those costs that vary in direct proportion with the volume of production. That is, as the level of output increases, the variable cost also increases.

2. Demand for the product : While determining the price, a firm must also consider the demand for its product. Thus, the elasticity of demand plays an important role. Elasticity of demand refers to the proportionate change in demand due to a given proportionate change in price. If due to a small proportionate change in price, the demand changes by a larger proportion, the demand is said to be elastic. That is, demand is said to be elastic, if a small rise (or fall) in price leads to a relatively large fall (or rise) in price. In this case, the firm cannot charge a higher price as it would lead to a large fall in the demand. On the other hand, demand is said to be inelastic, if a change in price does not affect the demand much.

3. Degree of competition in the market : Generally, higher the competition in the market, lower is the price that a firm can charge for its product. This is because in case of high competition, if a firm attempts to charge a high price, it would lose its customers to the competitors. On the other hand, if a firm faces very little competition for its product, then it has the freedom of charging a higher price.

4. Government regulations : At times, to protect the interest of public at large, the government intervenes in the determination of price. For example, in case of essential commodities, the government can declare the maximum price that can be charged.

26. Principles of Taylor and Fayol are mutually complementary. One believed that, management should not close its ears to constructive suggestions made by the employees, while the other suggested that a good company should have an employee suggestion system, whereby suggestions which result in substantial time or cost reduction should be rewarded. Identify and explain the principles of Taylor and Fayol referred in the above para. [5]

Answer : The two principles that are being regarded in the given paragraph are as follows :

(i) **'Cooperation, not individualism' by Taylor:** This can be inferred from the line that "management should not close its ears to the constructive ideas made by the employees". This principle emphasises cooperation among the managers and workers over individualism. This principle was an elongation of the principle of 'Harmony, not discord'. According to this, the workers and the manager should work with mutual understanding of each other. The manager should take care of the workers. Similarly, the labours should willingly work, giving their best contribution to the company. This will build mutual trust and belongingness. Work and responsibility should be equally divided and a sense of cooperation and coordination should be established.

(ii) **'Initiative' by Fayol :** This can be inferred from the following sentence: 'A good company should have an employee suggestion system, whereby suggestions which result in substantial time and cost reduction should be awarded'. According to this principle, workers should be given enough motivation and incentive to work. They should be inspired to come up with suggestions regarding the work. Although initiatives should be encouraged, they should be in line with the practices and rules of the organisation. For example, the managers can ask the workers for suggestions how to increase efficiency. Also, good suggestions can be rewarded.

28. Explain any four points that highlight the importance of controlling. [6]

Answer : Controlling is an important and indispensable function of management. It aims at managing the managerial actions by setting the standards and identifying the deviations of

actual performance as against the set standards. It also ensures optimum utilisation of resources while taking corrective measures for the deviations.

Following factors highlight the importance of controlling :

(i) **Achieving organisational goals** : Controlling aims at accomplishment of the organisational goals by indicating the deficiencies and suggesting the corrective actions which are to be taken. It helps in taking the right direction for attaining the set organisational objectives.

(ii) **Evaluating the standards** : Controlling helps in judging the accuracy of the standards adopted by the management. A good controlling system enables the manager to check whether the set standards are accurate and feasible. It also helps the organisation to review and revise the standards according to the changing business environment.

(iii) **Optimum utilisation of resources** : Continuous control and monitoring helps in the efficient and optimum utilisation of resources. As each work is done according to the set standards, there is less wastage of resources.

(iv) **Employees, motivation** : By exercising effective control, employees get to know well in advance about what is expected from them and the standards against which their performance will be assessed. This motivates them to achieve the assigned targets in a better way.

(v) **Promoting coordination** : Pre-determined standards provide a basis for better coordination for various activities. As the departments are made aware of their duties and tasks, controlling promotes coordination among them. Controlling provides unity of direction while ensuring that the organisational objectives are met. Thus, controlling is an important function performed by all the managers.

29. Explain the following as factors affecting the requirements of fixed capital : [6]

- (i) Scale of operations
- (ii) Choice of technique
- (iii) Technology up gradation and
- (iv) Financing alternatives

Answer : (i) **Scale of operations** : A factor determining the fixed capital requirement is the scale of operations in which the firm deals. For instance, if an organisation operates on a relatively large scale, then its requirement of fixed capital like plants, land or building increases. This is because such firms would need

to maintain high stock of inventory for their large scale operations. In contrast, if an organisation is working on a smaller scale, then the requirement of fixed capital will be less.

(ii) **Choice of technique** : There are generally two types of techniques that a company can opt for : Capital intensive or labour intensive. The choice of these techniques differs from company to company. A company that follows a capital intensive technique would require a larger amount of fixed capital. This is because such a company would require higher investment in plants and machinery rather than in manual labour. In contrast to this, a company following labour intensive techniques would require a relatively lower amount of fixed capital.

(iii) **Technology upgradation** : Technology plays an important role in the fixed capital requirement of a company. This is because it continuously changes or becomes obsolete over the time. Thus, the companies that work with machinery or with equipment that become obsolete faster require a high amount of investment in fixed capital. For instance, equipment such as computers become obsolete much faster, than other assets like furniture, and require regular upgradation. In such cases, a higher amount of fixed capital is required.

(iv) **Financing alternatives** : If leasing facilities are easily available in the financial market, it would provide an easy alternative for the outright purchase of the fixed assets. That is, the businesses can easily obtain the assets on lease and use them, instead of purchasing them. In this way, the need to invest a huge sum in fixed assets reduces considerably; thereby, reducing the fixed capital requirements.

30. Explain the following functions of marketing :

- (i) Gathering and analysing market information
- (ii) Marketing planning
- (iii) Physical distribution. [6]

Answer : (i) **Gathering and analyzing market information** : Marketers collect important market information so as to suitably identify the needs of the customers. This helps the organisation to identify and analyze the various business opportunities and threats.

(ii) **Market planning** : Market planning is one of the basic functions of marketing. Marketers plan the various steps required to get the goals and objectives of marketing. In order to do so, they conduct a market research to analyze the requirements and preferences of the customers. Market research helps marketers to develop a

most suitable plan, covering decisions related to the production of a product and its promotion, to increase the number of customers.

(iii) **Physical distribution** : This element of the marketing mix basically deals with the movement of finished goods and services from producers to consumers, through middlemen and intermediaries. During this phase, the firms

undertake different distribution channels such as Zero level, First level, etc., depending on the type and nature of the goods produced. The choice of appropriate distribution channel holds prime importance, as opting for an inappropriate distribution channel may either unnecessarily raise the price of the good or deteriorate the quality of the product.



Business Studies 2014 (Delhi)

Set II

Time allowed : 3 hours

Maximum marks : 90

Note : Except for the following questions, all the remaining questions have been asked in previous sets.

17. State any three points of importance of consumer protection from the point of view of business. [3]

Answer : Importance of consumer protection from the point of view of business :

1. **Long term interest of business** : In the race of competition the businessmen can win and capture a big share in the market only when they are able to satisfy its customers by designing the products keeping in mind the requirements of customers. The businessmen who ignore the interest and satisfaction of customers, lose their goodwill and clients. So it is in the long term interest of business to keep its customers satisfied.

2. **Businessman uses society's resources** : Businessmen use the resources of society. They earn profit by supplying goods and services to the members of society so it must do something for society. Businessmen are merely trustee of resources; they must use these resources for the benefits of the consumers.

3. **Government intervention** : A business engaging in any form of exploitative trade practices would invite government intervention or action. This can impair and tarnish the image of the company. Thus, it is advisable that business organisations voluntarily resort to such practices where the customers needs and interests will be taken care of.

26. Differentiate between 'capital-market' and 'money-market' on the basis of : [5]

- (i) Safety;
- (ii) Expected return;
- (iii) Meaning;

Answer :

| Basis | Capital Market | Money Market |
|--------------------|---|---|
| 1. Safety | Capital market instruments are riskier both with respect to returns and principal repayment as issuing companies may fail to perform as per projection. | Money market instruments are generally safe due to shorter duration of investment and financial soundness of the issuers. |
| 2. Expected return | The expected return is higher due to the possibility of earning capital gains along with regular dividends or interest. | The expected return is lower due to the shorter duration. |
| 3. Meaning | The capital market refers to the market or the institutional facilities through which long-term funds are raised and invested. | The money market refers to the market where trading in short-term securities of maturity periods (varying from one day to a maximum of one year) takes place. |

29. With the help of any four points, explain the importance of 'delegation' in an organisation. [6]

Answer : Delegation implies transfer of authority from a superior to a subordinate. It is a process that lowers the burden on the manager and allows him to extend his area of operations by delegating work to subordinates. In addition, delegation provides the subordinates with higher opportunities for growth and development. By allowing the subordinates to show their skills and to exercise initiative, delegation helps in building efficiency.

The following points highlight the importance of delegation :

(i) **Managerial efficiency :** Delegation of work to subordinates allows the superior to concentrate on important areas of concern. That is, with the delegation of routine work to subordinates, managers will be able to focus on higher priority areas. Besides, delegation provides the managers with the opportunity to explore new methods of working and this helps in improving the overall working efficiency of the organisation.

(ii) **Employee proficiency :** By delegating work, a manager empowers his subordinates by providing them with better opportunities to apply their skills. Therefore, the subordinates get a chance to prove their abilities, gain experience and develop their growth and career prospects.

(iii) **Motivation :** In addition to improving the managerial and employee efficiency, delegation provides the employees with psychological benefits as well by motivating the employees, delegation encourages them to put in their best efforts so that work can be done in effective manner. This is because, with higher authority and responsibility, the employees gain confidence and are encouraged to work more efficiently.

(iv) **Growth :** Delegation facilitates growth and expansion. It helps in the preparation of efficient and experienced managers who can take up leading positions in the organisation at the time of growth. Thus, the workers who are trained and prepared through delegation contribute to the expansion and growth of the organisation.

30. Explain the following as factors affecting the requirements of fixed capital : [6]

- (a) Natural of business
- (b) Growth prospects
- (c) Diversification and
- (d) Level of collaboration

OR

Explain the following as factors affecting dividend decision :

- (a) Stability of dividends

(b) Shareholder's preferences

(c) Access to capital market and

(d) Legal constraints

Answer : (a) **Nature of business :** Organisations that deal in services or trading (having a small operating cycle) require less fixed capital. On the other hand, manufacturing firms, involving a large operating cycle, require higher amount of fixed capital. Thus, we can say that fixed capital depend upon nature of business.

(b) **Growth prospects :** Higher growth and expansion of a company is associated with higher production, more sales, larger inputs, etc. This requires higher level of machinery and equipment, resulting in higher fixed capital. On the other hand, companies with low growth prospects require less fixed capital.

(c) **Diversification :** Greater diversification implies larger scale of operations, which requires greater investment in plants, machinery, building, etc. Therefore, it requires greater fixed capital. On the other hand, companies with low or no diversification require less fixed capital.

(d) **Level of collaboration :** At times, business organisations undergo collaboration with each other and jointly establish certain facilities. In such cases, individual organisations' requirement for fixed capital reduces.

OR

(a) **Stability of dividends :** Companies generally follow the practice of stabilising their dividends. This is an important factor that affects the dividend decision of a company. Companies try to avoid frequent fluctuations in dividend per share and opt for increasing (or decreasing) the value only when there is a consistent rise (or fall) in their earnings.

(b) **Preference of the shareholders :** A company must keep in mind the preferences of the shareholders while distributing the dividends. For instance, if the shareholders prefer at least a certain amount of dividend, then the company is likely to declare the same.

(c) **Access to capital market :** The companies that have a greater access to the capital market tend to pay higher dividends. This is because they can rely less on retained earnings and more on other sources due to the market access. On the other hand, the smaller companies with lower access to capital markets tend to pay lower dividends.

(d) **Legal constraints :** Companies have to adhere to the rules and policies laid out by the Companies Act. Thus, every company needs to take care of such restrictions and policies before declaring the dividends.

●●

Business Studies 2014 (Delhi)

Set III

Time allowed : 3 hours

Maximum marks : 90

Note : Except for the following questions, all the remaining questions have been asked in previous sets.

17. State any three responsibilities that a consumer should keep in mind while purchasing, using and consuming goods and services. [3]

Answer : A consumer himself is responsible for safeguarding his own interest and to protect himself from exploitation.

Some of the responsibilities of a consumer are given below :

(i) **Awareness :** A consumer must be aware of the availability of various goods in the market so that he can choose a better product.

(ii) **Looking for quality marks :** Consumer must look the quality certification marks before purchasing goods. These include ISI in case of electrical goods and AGMARK in case of agricultural goods.

(iii) **Asking for cash memos :** Whenever consumer purchase any goods he or she should always ask for the cash memo or bill for the good and service purchased. The bill acts as a proof of purchase and can be used for future references.

25. State any five points of importance of planning. [5]

Answer : As a function of management, planning plays an important role in large business enterprises. These are the points which state the importance of planning for the organisation :

(i) **Renders direction :** Planning clearly states the goals and objectives to be achieved. Thus, it acts as a guide for various actions in the organisation. In other words, it renders direction to the tasks and activities of different departments of the organisation. It guides the managers how the particular task is to be performed, what route is to be taken and how the objectives are to be achieved. In this way, it ensures that the path taken for the accomplishment of goals is righteously chosen and various departments of the organisation work in a coordinated manner towards the achievement of the desired objectives.

(ii) **Subdues risk :** Planning helps to look into the future and helps managers to analyze and anticipate various changes well in advance. This leads to a reduction in uncertainty of foreseen events. However, it should be remembered that

although planning shows how to deal with various situations that may arise in the due course of time, it does not eliminate the problems.

(iii) **Minimizes overlapping :** As the managers are well comprehended with the policies and plans of the organisation, they can work towards coordinating their activities in a better manner so as to achieve the objectives. In this way, planning helps in reducing the overlapping and duplication of work. Moreover, any wastage of resources that takes place due to repetition is also reduced. Proper planning ensures that the work proceeds smoothly without any confusion and misunderstanding.

(iv) **Helps in decision making :** Planning help in decision making. It involves analyzing the future, evaluating the various courses of action and choosing the best alternative as per the goals and objectives. Thus, following a proper planning process helps the managers in taking rational decisions towards the benefit of the organisation as a whole so that revenue can increase.

(v) **Promotes innovative ideas :** It is clear that planning selects the best alternative out of the many alternatives available. All these alternatives do not come to the manager on their own, but they have to be discovered. While making such as efforts of discovery, many new ideas emerge and they are studied intensively in order to determine the best out of them.

26. Explain the factors that determine the choice of channels of distribution. [5]

Answer : One of the important decisions of marketing involves the choice regarding which channel of distribution to opt for. The following factors determine the choice of channels :

(i) **Product type :** The choice of channel of distribution is based on the type of product produced. Type of product is important whether it is perishable or non-perishable, whether it is an industrial or a consumer product and whether its price is high or low. It is also required to know the level of complexity of the product. For example, for perishable goods short channel is advisable in place of long channel. Similarly, for low price products long channels are preferred. Similarly, consumer products are distributed

by long channels, and industrial products are distributed by short channels.

(ii) Characteristics of the company : The characteristics of a company that affect the channel of distribution are its financial strength and the control that the company wishes to hold on the intermediaries. Shorter channels need high resources with respect to longer channels and high control over the intermediaries. That's why, companies that are financially strong or have strong control over intermediaries opt for shorter channels of distribution.

(iii) Competitive factors : The level of competition and the channels of distribution opted by other competitors affect the choice of distribution channels. On the basis of its policies, a company can select similar or different channel selected by its competitor. For example, if competitors of a company opt for sale through retail stores, it may also do the same or can go for a different channel such as direct selling.

(iv) Environmental factors : Financial problems and legal policies play a vital role in the selection of channel of distribution. For example, complex legal formalities at each step of distribution force the companies to opt for shorter channels.

(v) Market factors : Other factors such as the size of the market, geographical distribution, behavior of buyers, quantity demanded, competition present in market etc. also affect the choice of channels. For instance, if potential buyers are concentrated in a small geographical area, then short distribution channel are used and if they are dispersed in a larger area, then long distribution channel are used.

29. Explain the concept of 'Divisional Structure'. Also, explain any four advantages of divisional structure. [6]

Answer : A divisional structure comprises of separate business units or division. Each unit has a divisional manager responsible for performance and who has authority over the unit. Generally, manpower is grouped on the basis of different product manufactured.

(i) Skill Development : Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions as he gains experience in all functions.

(ii) Accountability : Divisional heads are accountable for profit, as revenues and costs related to different department, can be easily

identified and assigned to them. This provides proper basis for performance measurement.

(iii) Quick Decision-Making : It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.

(iv) Facilitates Expansion : It facilitates growth as new division can be added without interrupting the existing operations, by merely adding another divisional heads and staff for the new product line.

30. Explain the following as factors affecting the requirements of working capital : [6]

- (a) Business cycle
- (b) Operating efficiency
- (c) Availability of raw materials and
- (d) Level of competition

OR

Explain the following as factors affecting 'financing decision'.

- (a) Cash flow position of the business
- (b) Level of fixed operating cost
- (c) Control consideration and
- (d) State of capital markets

Answer : (a) **Business cycle :** Different phases of business cycle alter the working capital requirements of a firm. As, at the time of boom, the market gets flourishes and that leads to be higher sales, higher production, huge stock of raw material and also leads to more debtors. Accordingly, during this period, the need for working capital increases. As against this, during a period of recession, there is low demand, small amount of production and sale, etc. Thus, the working capital requirement decreases :

(b) Operating efficiency : If the organisation has high efficiency it means that the organisation is utilizing its raw material and other inputs in the optimum manner with minimum wastage. This implies that it can manage its operations even with a low inventory. Also, during operations, a firm with high efficiency incurs lower expenses. An improvement in the efficiency of an organisation leads to a higher inventory turnover ratio and a higher debtor's turnover ratio. In such cases, the organisation requires a lower working capital. On the contrary, firms that are less efficient require large working capitals.

(c) **Availability of raw materials** : If the raw materials are easily available to the company then the company need not to maintain huge amount of inventory. In this case, the company requires less working capital. On the other hand, if the raw materials are not easily available or their supply is not smooth, then the company has to maintain a huge stock of raw material to ensure constant operations, it require a large working capital.

(d) **Level of competition** : As the competition in the market increases the company must maintain the large amount of stock of finished goods to provide the consistency in the market that leads to high amount of working capital requirement.

OR

(a) **Cash flow position of the business** : It generally refers to the position of a company in terms of liquid assets and cash inflows and outflows. If a company is in a stronger cash flow situation then the company can easily go for borrowing of funds without any restriction. On the other hand, if the company has scarcity of funds

then it would opt for shareholder's fund.

(b) **Level of fixed operating cost** : Level of fixed operating cost refers to the cost incurred by the company for running the day-to-day operations. In case a company having huge fixed operational costs, such as rent of the building or factory, salaries, etc., would go for owner's fund. This is because high fixed operational cost is associated with the risk of default on payment of interest and in the second case; a company with low operational cost would opt for borrowed funds.

(c) **Control consideration** : When the company issues more of equities it dilutes the control of management over the operations of the company. On the other hand, debt has no such considerations. So, companies that are worried about the dilution of control can go for high amount of debt and low amount of equity.

(d) **State of capital market** : During the period of a growing capital market, it is easy to take funds through equity. On the contrary, during depression, it becomes so hard to raise funds through equity. Therefore, in such a situation, it is preferable to raise funds through debt.

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