

Business Studies 2019 (Outside Delhi)**SET I****Time allowed : 3 hours****Maximum marks : 80****General Instructions :**

- (i) This question paper contains five Sections: A, B, C, D and E.
- (ii) Section A contains questions 1 to 8, carrying one mark each. Answers to these questions may be given in one word or a sentence.
- (iii) Section B contains questions 9 to 13, carrying three marks each. Answers to these questions may be given in 50–75 words.
- (iv) Section C contains questions 14 to 19, carrying four marks each. Answers to these questions may be given in about 120 words.
- (v) Section D contains questions 20 to 22, carrying five marks each. Answers to these questions may be given in about 150 words.
- (vi) Section E contains questions 23 to 25, carrying six marks each. Answers to these questions may be given in about 200 words.
- (vii) There is no over-all-choice in the question paper, however, an internal choice is provided in 3 questions of one mark, 2 questions of three marks, 2 questions of four marks, 1 question of five marks and 1 question of six marks. You have to attempt only one of the choices in such questions.

SECTION-A

1. Das is the Managing Director of 'Gamut Ltd.', manufacturing different varieties of cheese. He has an efficient team working under him consisting of Rajat – the Production manager, Vinay – the Marketing manager and Adit – the Finance manager. They understand and interpret the policies made by Das, ensure that their department have adequate manpower, assign them the necessary duties and motivate them to achieve the desired objectives.

State one more function other than those mentioned above, that this team may perform at the level they are working. [1]

Answer : The team belongs to Middle Level Management. Their function can include - Participation in employment and training program of lower level management as per the objectives set by Das.

2. Differentiate between 'Authority and 'Responsibility' on the basis of 'flow'. [1]

OR

Distinguish between 'Responsibility' and 'Accountability' on the basis of 'meaning'.

Answer :

Basis	Authority	Responsibility
Flow	Flows downwards from top to bottom.	Flows upwards from bottom to top.

OR

Basis	Responsibility	Accountability
Meaning	Duty assigned to a subordinate by a superior.	Liability for a subordinate created for use of authority by superior.

3. What is meant by 'Rule'? [1]

OR

Define 'Organising'.

Answer : A rule is a specific regulation that tells a business the "do's" and "don'ts" or things that can or cannot be done in a particular situation.

OR

Organising is a management tool of creating a structure for a business, determining tasks which every employees undertake and streamlining all interactions between human and physical resources to ensure continuity in business while catering to the wants of customers.

4. State any two characteristics of 'Directing'. [1]

OR

Give the meaning of 'Management by Exception'.

Answer : Characteristics of directing are:

- a. It is a continuous process
- b. It flows from top to bottom.

OR

Management by exception means if a manager tries to control everything, it may end up in controlling nothing, thus, he should first handle the significant deviations, which require his priority. Management by exception is also known as control by exception that focuses on identifying and handling specific cases that deviate from the

standards or norms through human intervention.

5. Kamal is working as a gang boss in the assembly unit of 'Sokia Ltd.', a laptop manufacturing company. He supervises the work of ten trained workers who perform the various activities related to the assembly of the laptops. One day when he was supervising the work of his workers, he told Ashok, a worker that his work could be improved. Ashok interpreted the comments of Kamal as that his work was not good.

Identify the type of barrier to effective communication in this case. [1]

Answer : The type of barriers to effective communication is identified as Semantic barriers. In this case, unclarified assumptions where in Kamal communicated about Ashok's work without being clear and specific, is the semantic barriers

6. This market helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other.

Name the market and identify the function being referred to. [1]

Answer : The market referred here is financial market. Function of financial market referred here is to reduce the cost of transactions.

7. Kumar wanted to purchase a fuel efficient car having the latest standards regarding minimization of pollution. He saw an advertisement offering such a car and visited the showroom of the company wherein the car was displayed. In this discussion, the Marketing manager told him that the company is providing credit facilities, maintenance services and many other effective services which are helping in bringing repeat sales and developing brand loyalty.

Identify the marketing function which the Marketing manager was discussing with Kumar. [1]

Answer : The marketing function which the marketing manager was discussing with Kumar is Customer Support Service.

8. 'Ultra Televisions Ltd.' is offering its 90" TV sets at a discount of 15,000 for a period of one month starting from 1st March, 2019.

Identify the sales promotion activity used by 'Ultra Television Ltd.' [1]

Answer : The sales promotion activity used by 'Ultra Televisions Ltd.' is reducing sales price or rebate.

SECTION-B

9. Explain any three points of importance of planning function of management. [3]

OR

Explain any three limitations of planning function of management.

Answer : Importance of planning function of management is as follows:

- (i) There are many risks and uncertainties involved in any business. Planning can enable foreseeing such risks and uncertainties by considering necessary precautions for the business. Accordingly, planning can reduce costs of damage to life and property.
- (ii) It enables creativity and innovation among managers and subordinates who can come up with new ideas for improving efficiency in business. Planning involves identifying the best alternatives out of many options that also encourages satisfaction among the employees and eventually success to the organisation.
- (iii) Planning makes availability of resources to be utilised optimally by businesses. It helps in reducing wastage of resources and avoids duplication of efforts thus, increasing efficiency and effectiveness of the business' operations.

OR

Limitations of planning function of management are as follows :

- (i) Planning can create rigidity for the business during some changes in circumstances, requiring quick decisions that may go against the set rules and procedures of a business.
 - (ii) Planning is a time-consuming process involving a significant amount of time and effort to collect and analyse information, find relevant alternatives and ideas along with allocating relevant resources for the business.
 - (iii) Natural calamities like floods, famines and earthquakes are beyond the control of managers which can significantly disturb existing plans and the overall planning process.
10. Distinguish between Formal and Informal organisation on the basis of the following : [3]
- (a) Origin;

- (b) Authority; and
- (c) Leadership

OR

Distinguish between Functional and Divisional structure on the basis of the following points : [3]

- (a) Coordination;
- (b) Managerial Development; and
- (c) Cost.

Answer :

Basis	Formal Organisation	Informal Organisation
Origin	It arises as a result of company rules and policies	It arises as a result of social interaction among the employees.
Authority	It is attached to a superior which flows downward as it is delegated to the subordinates.	No authority is delegated but it is personal and flows downwards, upwards, horizontal or vertical.
Leadership	Superiors provide leadership to subordinates.	Members are not appointed but chosen by groups. The person with lowest authority can also be a leader.

OR

Basis	Functional Structure	Divisional Structure
Coordination	Easier to manage people with similar training/skills.	Conflicts and rivalries can occur between divisions.
Managerial development	It does not help in managerial development as functional manager lack autonomy.	It helps in managerial development as they have autonomy and knowledge of varied aspect of product.
Cost	It is economical as there is no duplication.	It is costlier, as there is duplication of resources.

11. Explain 'Vestibule Training and 'Apprenticeship Programme' as methods of training. [3]

Answer :

Vestibule training : It is generally conducted in places away from the actual work place with actual shops duplicated for training. Typical shop conditions are duplicated with relevant machines, tools, equipments, raw materials, etc, and instruction on utilising them is imparted to trainees.

Apprenticeship training : Apprenticeship training is a method wherein new employees work as trainees, under highly experienced supervisors or experts for a specific period of time. This method is used where higher level of skill is required to attain complete proficiency to perform a particular job.

12. One of the functions of Securities and Exchange Board of India is 'Promotion of fair practices and code of conduct in securities market'. State the category to which this function belongs and state any two other functions of this category. [3]

Answer : 'Promotion of fair practices and code of conduct in securities market is one of SEBI's Protective functions. Other two functions under this category include :

- (a) It prohibits fraudulent and unfair trade practices like misleading statements, manipulations, price riggings etc.
- (b) It controls insider trading and imposes penalties for such practices.

13. 'G. Motors' is the manufacturer of sophisticated cranes. The Production manager of the company, reported to the Chief Executive Officer, Ashish Jain that one of the machines used in manufacturing sophisticated cranes had to be replaced to compete in the market, as other competitors were using automatic machines for manufacturing cranes. After a detailed analysis, it was decided to purchase a new automatic machine having the latest technology. It was also decided to finance this machine through long term sources of finance. Ashish Jain compared various machines and decided to invest in the machine which would yield the maximum returns to its investors.

- (a) Identify the financial decision taken by Ashish Jain.
- (b) Explain any three factors affecting the decision identified in (a) above. [3]

Answer :

- (a) Ashish Jain took a capital budgeting decision.
- (b) Factors affecting capital budgeting decision include :
- (i) **Cash flow of the project :** G.Motors should expect a regular amount of cash flow through investments in the new automatic machines with latest technology to meet the daily requirements of their operations.
 - (ii) **Returns from investment :** The selection of new machines requiring investments is identified based on possible benefits or returns which G. Motors will obtain through an appropriate appraisal method.
 - (iii) **Investment criteria :** The investment proposal on purchase of new machines is prepared on the basis of availability of raw materials, labour, etc., along with the extent of risks and uncertainties associated.

SECTION-C

14. Explain any four features of business environment. [4]

OR

Explain any four features of 'demonetization'. [4]

Answer : Features of business environment are as follows :

- (i) **Short-term and long-term impact :** Changes in the business environment has a short-term and a long-term impact on businesses. In the short-term, businesses can experience increase in profits or productivity while in the long-term they can experience goodwill and reputation.
- (ii) **Dynamic nature :** Business environment is very flexible and keeps changing as there are multiple factors in action at any given time. It is not static and cannot be monitored or predicted.
- (iii) **Unlimited effect :** Business environment can have unlimited effect on businesses that can bring about long-term changes like mechanisation and automation over a period of time.
- (iv) **Uncertainty :** Business environment is characterised with uncertainty as it is very difficult to predict possible changes, mainly when changes are taking place too frequently.

OR

The following are the main features of Demonetisation :

- (i) **Elimination of Black Money :** Black money is a household name in India . It refers to unaccounted money. Holders of black money avoid payment of tax on this money. By demonetising high value currency notes, the government wants to eliminate the stock of black unaccounted cash balances.
- (ii) **Eradication of Corruption :** High value currency notes are the commonly accepted medium or bribe. The government wants to strike at the root of corruption by banning these notes.
- (iii) **Elimination of Counterfeit Currency :** Note ban would have implied the elimination of counterfeit currency. Counterfeit currency enhances money in circulation and contributes to inflationary spiral. It destabilises the economy.
- (iv) **Money Laundering :** Demonetisation is expected to check money laundering. It refers to hidden transfer of funds across different regions of the country. With cash transactions coming to a grinding halt, demonetisation hurt money laundering in a big way.

15. Kunal joined as a shop level manager in the Production department of a textile company in the year 2005. Because of his good work, he became the Deputy Production Manager of the company in the year 2010. He had status and prestige and was well-respected by all in the company. On 1st March, 2019, he was promoted as the General Manager of the company. Kunal was very happy on his promotion as now he had become what he was capable of becoming. As a good manager, Kunal decided to motivate his subordinates, after understanding the Need Hierarchy theory which is based on various assumptions. He realised that people's behaviour is based on their needs and the manager can influence the behaviour of his employees by satisfying their needs.

- (a) One of the assumptions of Need Hierarchy theory is stated in the above paragraph. State the other three assumptions of this theory.
- (b) State the needs of Kunal which are being satisfied through promotion. [4]

Answer :

- (a) The other three assumptions of need hierarchy theory are :
 - (i) Humans have needs, want and desires which can be influenced by their own behaviour.

- (ii) Human needs are multiple but they can be arranged in an ascending order in terms of their importance from the lowest to the highest. After the lowest level of needs is satisfied, the needs at the higher level arises.
- (iii) Higher the level of needs to be satisfied, greater is the extent of motivation. This implies that an individual will be most motivated to achieve self-actualisation needs but needs to initially tackle all needs below it to achieve most satisfaction.
- (b) The needs satisfied through Kunal's promotion include :
- (i) Esteem needs are satisfied for Kunal as it has created positive self-image, self-respect and need for being respected by others.
- (ii) Self-actualisation needs are also satisfied. It signifies his need for self-development, self-advancement and self-fulfillment from gradual progress achieved by Kunal.
- (iii) Social needs are satisfied as Kunal realises where he belongs and receives acceptance from his seniors, peers and subordinates. Accordingly, he creates an environment that enables communication, teamwork and increased productivity in the organization.

16. 'Foods India Ltd.' is a company engaged in the production of packaged juice since 2010. Over this period, a large number of competitors have entered the market and are putting a tough challenge to 'Foods India Ltd.'. To face this challenge and to increase its market share, the company has decided to replace the old machinery with an estimated cost of ₹ 100 crores. To raise the finance, the company decided to issue 9% debentures. The Finance department of the company has estimated that the cost of issuing the 9% debentures will be ₹ 10,00,000. The company wants to meet its floatation cost.

- (a) Explain the instrument that the company may issue for this purpose.
- (b) In which type of financial market, is the instrument explained in (a) above traded? Also explain how safe the instruments are in this market. [4]

Answer :

- (a) Foods India Ltd. can make a public issue of (new) securities or equity stock to be competitive and get new machinery.
- (b) Foods India Ltd. will have to issue new securities

in the primary market in which securities will be sold to new investors. Primary market performs a crucial function of facilitating capital formation. Subsequently, these issues will be traded in secondary markets or stock exchanges. These instruments will be safe for Foods India to issue in primary and secondary markets, as these are regulated by the Securities and Exchange Board of India (SEBI). SEBI ensures safety of issuances of securities in the following ways :

- (i) It registers and regulates the workings of stock brokers, sub-brokers, share transfer agents, bankers to an issues, trustees of trust deeds, registrars to an issue, FIIs, credit rating agencies, etc.
- (ii) It notifies rules and regulations for smooth functioning of all intermediaries in the securities' market.
- (iii) It prohibits insider trading activities.
- (iv) It prohibits fraudulent and unfair trade practices in the securities market.
17. Define a 'Consumer' according to the provision of the Consumer Protection Act, 1986. [4]

OR

State any eight reliefs available to the consumer, if the court is satisfied about the genuineness of the complaint.

Answer : According to the Consumer Protection Act, 1986, a consumer is defined as :

- (i) Any person who buys goods for consideration, and any person who uses goods with the approval of the purchaser.
- (ii) Any person who hires any service(s), for a consideration and any beneficiary of such services, provided the service is availed with the approval of the person who had hired the service for a consideration.

These definitions imply the following :

- (i) The act aims at protecting the consumer from exploitation from business practices that cause harm and damage to life and/or property following purchase of any product/service.
- (ii) The act is a punitive or preventive approach that enables consumers to be aware and make informed decisions with consumption and spending on products/services.
- (iii) The act also caters to businesses who are also consumers of the products/services in the country.

OR

The reliefs available to the consumer, if the court is satisfied about the genuineness of the com-

plaint as per Consumer Protection Act, 1986 are as follows :

- (i) **Removal of defects in products** : The Act aims at removing the defects in the products by verifying and conducting tests or analysis.
 - (ii) **Replacement** : The Act can make sellers replace the goods with new goods of similar description which is free from any defect.
 - (iii) **Refunds** : In case the replacement is not possible, the Act makes provisions for return or refund the price completely to the complainant.
 - (iv) **Removal of deficiencies in services** : The Act makes provisions to remove the deficiencies in services by setting an enquiry and providing compensation.
 - (v) **Discontinue unfair practices** : The Act has remedial measures for discontinuing unfair trade or restrictive trade practices by exposing them to the public.
 - (vi) **Provide compensation** : It also makes provisions to pay such amount as compensation for damage or loss or injury suffered by the consumer due to negligence of the opposite party.
 - (vii) **Restriction on hazardous goods** : It restricts businesses to not offer hazardous goods for sale by setting compliances to laws and regulations and insisting on conducting tests at the producers' end.
 - (viii) **Withdrawal of hazardous goods** : It makes businesses to withdraw hazardous goods from being offered for sale by :
 1. Ceasing production of hazardous goods or to desist from services which are hazardous in nature.
 2. Making them pay a minimum of 5% value of goods sold or an amount determined from loss or injury suffered by a large number of consumers who are not identifiable conveniently.
 3. Issuing advertisement to neutralise the effect of misleading advertisement at the cost of the opposite party.
 4. Providing for adequate costs to parties.
18. Explain any four factors which affect the fixation of price of a product. [4]

Answer : Factors which affect the fixation of price of a product are as follows :

- (i) **Costs of product** : Pricing of the product is

based on specific costs related to cost of raw materials, costs of factors of production and distribution. These costs are not necessarily low and feasible as the nature of the industry and business practices vary from product to product that affects the fixation of price.

- (ii) **Organisational objectives** : Organisational objectives are associated with aligning their resources for introducing or improvising their products/services depending upon their customers' requirements and needs. Prices of the products/services are accordingly determined, based on such organisational objectives.
- (iii) **Demand** : Businesses need to study the nature of demand affected by elasticity of demand, presence of substitutes and complementary goods, growth in demand for the products, market share and sales of the products. These factors assist a business to forecast the possible shift in demand that influences the prices of the products.
- (iv) **Psychological pricing** : Psychological pricing is related to realising the changing tastes and preferences of consumers in the market reflecting their purchasing behaviour. This includes, understanding the nature of the target markets, the conditions of the product during and post purchase, consumers' attitudes and perceptions, etc.

19. 'Smart Stationery Ltd.' wants to raise funds of ₹ 40,00,000 for its new project. The management is considering the following mix of debt and equity to raise this amount :

Capital Structure	Alternative		
	I (₹)	II (₹)	III (₹)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows :

Interest Rate on Debt	9%
Face value of Equity Shares	₹ 100 each
Tax Rate	30%
Earning before Interest and Tax (EBIT)	₹ 8,00,000

- (a) Under which of the three alternatives will the company be able to take advantage of Trading on Equity ?
- (b) Does Earning Per Share always rise with increase in debt ?

Answer : (a)

Capital Structure	Alternative I (₹)	Alternative II (₹)	Alternative III (₹)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000
Total Capital	40,00,000	40,00,000	40,00,000
EBIT	8,00,000	8,00,000	8,00,000
Less Interest	-	(90,000)	(2,70,000)
EBT	8,00,000	7,10,000	5,30,000
Less Tax @ 30%	(2,40,000)	(2,13,000)	(1,59,000)
EAT	5,60,000	4,97,000	3,71,000
No. of shares of ₹ 100 each	40,000	30,000	10,000
EPS	14	16.57	37.1

With respect to EPS, alternative III will allow the company to take advantage of Trading on Equity.

(b) As shown in the table EPS does not rise but decreases with increase in debt. Under Alternative II when debt was ₹ 10,00,000 the EPS was ₹ 16.57 and when it is ₹ 30,00,000 under Alternative III, EPS falls to ₹ 37.1.

SECTION-D

20. Explain any five characteristics of 'Co-ordination' [5]

OR

Explain any five characteristics of 'Management'.

Answer : Coordination involves arranging and placing all managerial functions together to run the management smoothly and achieve the required goals and objectives of a business. Characteristics of Coordination are as follows :

- Integration of group efforts** : Coordination enables interaction between individuals with different capabilities, experiences and skills. Such integrated group efforts further enable efficiency in operations as per organisational goals.
- Unity of action** : Coordination enables the manager to secure unity of action in direction of a common purpose
- Continuous process** : It is a continuous process that requires a manager to continuously coordinate with the activities of different

departments for achieving organisational objectives by using the available resources efficiently.

- Pervasive function** : It is an all pervasive function that runs through all managerial functions from planning till controlling.

OR

Characteristics of Management are :

- Goal-oriented Process** : It is a goal oriented process, which is undertaken to achieve already specified and desired objectives by proper utilization of available resources.
- Pervasive** : Management is universal in nature. It is used in all types of organisations whether economic, social or political irrespective of its size, nature and location at every level.
- Continuous** : Management is not a process which can be performed once and for all, but it is a continuous process. Functions of management like planning, organising, staffing, directing and controlling continuously need to be done.
- Group Activity** : It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.
- Dynamic function** : It is a dynamic function since it has to adapt according to need, time and situation of the changing environment. For example, Mc Donalds made major changes in its 'Menu' to survive in the Indian Market.

21. Vikas was the Chief Operating Officer of 'Yalet Ltd', a company providing advanced software solutions to Indian Defence Services. They had been carrying on business successfully for the last twelve years and earning enough profits. But from the last one year, they realised that though the business is getting big orders which are being fulfilled in time, even then the revenues kept on decreasing. Vikas was not able to find out where the problem was. He started keeping a close check on the progress of activities as he could sense that something was wrong. He wanted to take some action before any major damage could be done to the business. Vikas appointed a cyber security expert who monitored the company's processes and found out that the computer operator was deleting the

entries from the computers and pocketing the revenues. He was caught and handed over to the police. This created an atmosphere of order and discipline in the organization and helped in minimizing dishonest behaviour on the part of the employees.

- (a) Identify the function of management highlighted in the above paragraph.
- (b) Explain any four other ways in which this function of management may help the organization. [5]

Answer :

- (a) The function of management highlighted in the Yalet Ltd. case is controlling. Controlling is an important management function which means checking for deviations in a business and acting towards rectifying them to achieve organisational goals.
- (b) Controlling can help Yalet Ltd in the following manner (any four) :
 - (i) Controlling facilitates accomplishing organisational goals as suggested in the case that the business has been successfully earning enough profits for the last 12 years .
 - (ii) Controlling facilitates coordination in action. For example, Vikas started keeping a close check on the progress of activities to understand reasons for decrease in revenues despite of fulfilling high orders in time.
 - (iii) Controlling involves taking decisions on corrective actions towards making improvements in case of deviations. For example, Vikas appointed a cyber security expert to monitor the company's processes.
 - (iv) Controlling involves taking corrective actions to identify and eliminate causes of problems in an organisation. For example, Vikas appointed a cyber security expert to identify the company operator responsible for deletion of entries that made Yalet Ltd's revenues to decrease.
 - (v) Controlling ensures order and discipline like Vikas had established in Yalet Ltd by getting the dishonest computer operator arrested and set standards for maintaining honesty and discipline in the organisation.

22. 'Pushpanjali Ltd.', is manufacturing chocolates, biscuits, cakes and other similar products. The company is not generating enough profits. Saurabh, the Marketing manager of the company got a survey conducted to find out the reasons. The findings of the survey revealed that in spite of better quality, the customers were not able to distinguish the products of the company from its competitors. Though the customers wanted to buy the products of 'Pushpanjali Ltd.' again and again because of its good quality, but they were not able to identify its products in the market. Because of this, the sales of the company could not pick up resulting in inadequate profits. Saurabh, the Marketing manager now realised that 'Pushpanjali Ltd.' had forgotten to take one of the most important decision related to the product.

What decision should 'Pushpanjali Ltd.' take so that its customers are able to identify its products in the market? Explain the benefits that may results to 'Pushpanjali Ltd,' and its customer if the above decision is taken. [5]

Answer :

- (a) Pushpanjali Ltd. should focus on branding to be able to identify its products in the market that is directed towards selected customers. Accordingly, the decisions regarding the product will be determined by customers if the products have the right price and distributed in the right place along with relevant promotional activities. Pushpanjali would need to create :
 - (i) A brand name that will be easy for customers to remember and reflects the company's significance in the market.
 - (ii) The product should have a unique and distinctive brand name that can create some mystery or curiosity towards the product.
- (b) Advantages of a brand name to Pushpanjali will be as follows :
 - (i) **Helps in advertising :** It will be easier for Pushpanjali to communicate the characteristics and distinctiveness of the product.
 - (ii) **Establishes identity :** It will help create a unique identity that can be differentiated with similar products and ensure customer loyalty.

(iii) **Differential pricing** : It can allow Pushpanjali to change the prices of the product and remain competitive in comparison to other competitors.

(iv) **Ease in introduction of new product** : An established brand can easily allow Pushpanjali to introduce new products in the market.

(b) Advantages of a brand name to customers will be as follows :

(i) **Product Differentiation** : A brand name allows the customer to shop easily and effectively as customers can associate with Pushpanjali's brand.

(ii) **Quality** : Brand name also ensures quality of products/services which possibly remains consistent across all types of existing and new products.

(iii) **Status symbol** : A brand name will allow customers to reflect a social status by symbolising wealth or prestige.

SECTION-E

23. Explain the following techniques of scientific management :

(a) Time Study;

(b) Motion Study; and

(c) Functional Foremanship [6]

OR

Explain the following principles of general management :

(a) Division of Work;

(b) Authority and Responsibility; and

(c) Discipline

Answer :

(a) **Time Study** : Time study is an observational study pioneered by Frederick Taylor. These studies determine the optimal time taken by a worker to complete certain tasks in a job using stopwatches. These studies then records, analyses and synthesises the time and elements of any operation and determines factors that cause fatigue for workers and factors that lead to unavoidable and personal delays. These studies are usually used for all or any one of the following :

(i) Jobs that have repetitive work cycles of short to long duration.

(ii) Jobs of wide variety of dissimilar work.

(iii) Jobs with process control elements, which constitute a part of the cycle.

Accordingly, time studies attempt to include the following operations :

(a) Sub-division of work.

(b) Recording the time taken by different employees to complete a task.

(c) Selecting the average worker.

(d) Recording the time taken by the average worker in performing the same work under normal conditions.

(e) Determining the standard time for the work.

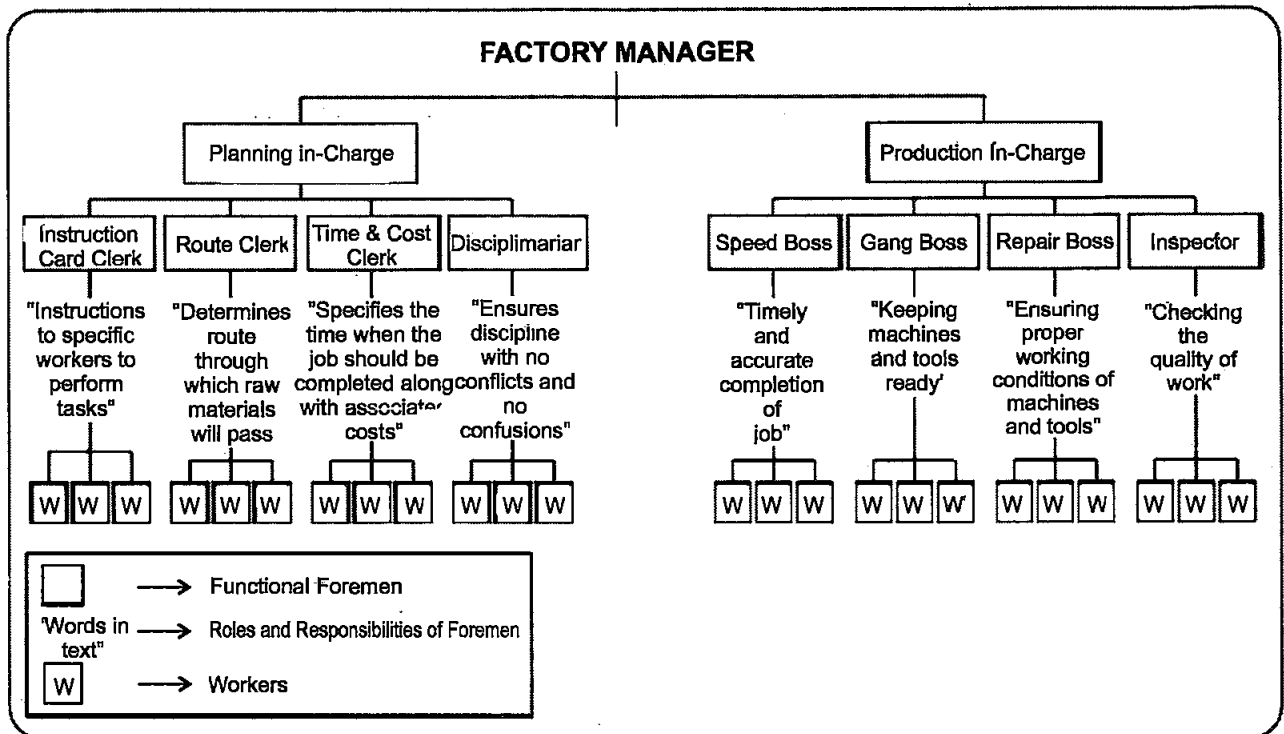
(b) **Motion Study** : Motion studies were developed by Frank and Lillian Gilbreth as an engineering and management technique. They maintained visual records (or movies) on the details of the workers' activities to recognise possible areas of improvement during work. Motion study is based on the phrase "work smarter, not harder". It is the study of body motions used while working with the intention of improving the work methods. The principles laid down by the Gilbreths can be categorised into three major components.

(i) **Use of human body** : Principles under use of human body, implies suitable techniques in bodily movements workers could consider in a working environment that ensures personal safety, no injuries and increased productivity.

(ii) **Arrangement of workplace** : Arrangement of workplace implies that all tools, machines and equipment should be arranged suitably to make working conditions comfortable.

(iii) **Design of tools and equipment** : Design of tools and equipment should make work more feasible and efficient for workers.

(c) **Functional Foremanship** : According to Taylor, functional foremanship is a management technique wherein the duties of a traditional foreman are distributed between several workers. This technique separates the planning function and executive function in an organisation. As shown in the chart,



both units have a total of 8 foremen with 4 foremen in each unit. Each foreman employed workers who are specifically instructed to do assigned tasks. These workers will be held accountable for the specific work who will report back to the Foreman for further instruction.

The foremen involved as Planning in charge were :

1. Instruction Card Clerk who gave instructions to specific workers to perform tasks.
2. Route Clerk who determined route through which raw materials will pass.
3. Time and Cost Clerk who specified the time when the job should be completed along with associated costs.
4. Disciplinarian who ensured discipline with no conflicts and no confusions.

The foremen involved as Production in charge were :

1. Speed Boss who focussed on timely and accurate completion of the job.
2. Gang Boss who kept machines and tools ready.
3. Repair Boss who ensured proper working conditions of machines and tools.
4. Inspector who checked the quality of work.

Functional foremanship thus implies that a functional foreman with specialised capability will have specialised powers to oversee, instruct and

guide workers. This foreman will plan number of workers required for the job and their respective duties will be divided among these workers. The workers will also be selected based on their qualifications and capabilities in accordance to the job. The selected workers should be capable of being alert and stern and have certain experience with the work in the organisation. Each worker will be responsible to check on different activities in the organisation as per the instructions of the Foreman.

OR

Principles of Management were given by Henri Fayol. Division of Work; Authority and Responsibility and; Discipline were some of the 14 principles laid down by Fayol.

- (a) **Division of Work** : According to this principle, "as far as possible the whole work should be divided into small parts and each individual should be assigned only the part of the work according to his ability and skills repeatedly so that the benefits of specialisation may be achieved.
- (b) **Authority and Responsibility** : According to this principle, authority and responsibility should go hand in hand. It means that when a particular individual is given a particular work and he is made responsible for the results, this can be possible only when he is given sufficient authority to discharge his responsibility.

(c) **Discipline** : According to this principle, the organisational rules and employment agreement should be obeyed by both the superiors and subordinates which are necessary for the successful working of the organisation.

24. 'E-Solutions Ltd.' started its operations in the year 2000. At the time of its inception, the company had only ten employees with two departments, a Production department and an Administration department. The product supplied and the services provided by the company started gaining popularity over the years. The management had faith in the abilities of the employees and thus they allowed them freedom of action. The management recognized that the decision-makers at different levels of the organization need to be given more autonomy. They took a policy decision that there will be less control of superiors over subordinates. This increased the role of the subordinates in the organization and now they were in a position to take numerous as well as important decisions. As a result, the business had diversified into many areas. Presently, it has its operations throughout the country with seven branches overseas. Its organizational structure has now changed into divisional structure and ten thousand people are working with the company.

(a) Identify the concept of management which helped the company to diversify into many areas and branches abroad.

(b) Explain five points of importance of the concept identified in (a) above. [6]

Answer :

(a) The concept of management which helped the company to diversify into many areas and branches abroad is decentralisation or divisional structure of management. This implies transferring powers of decision making and accountability across subordinates or departments that are separate units within a broad organisational framework.

(b) Importance of decentralisation are as follows:

(i) **Relief of excessive workload** : Instead, decentralisation confers responsibilities of top management like routine work requiring regular monitoring and cross-checking on their subordinates and can receive periodic updates from them on budgeting and reviewing finances or operations via occasional meetings.

(ii) **Prompt decision-making** : The decision making process is not just restricted to their superiors but also to their subordinates. This can lead to quick and prompt business decisions on situations closest to the subordinates.

(iii) **Facilitates growth** : Decentralisation facilitates growth and expansion of a business involved in production or servicing a variety of products/services by giving individual and specialised attention with (specialised) subordinates obtaining the freedom to decide and act (though under the advice of their superiors).

(iv) **Better control** : Superiors under decentralisation identify some control standards for the subordinates to measure their success in finding/implementing solutions to specific issues or problems during operations. The decisions of subordinates are usually confirmed and conveyed to the superiors implying better control over the operations.

(v) **Improved teamwork** : In decentralisation, the superiors and subordinates share the decision-making process with subordinates monitoring all activities and taking decisions under the guidance of their superiors. This can lead to integration of all superiors/subordinates as a team and develop team spirit among them.

25. 'Entertainment India Ltd.' has been incorporated with the objective of entertaining people by organizing festivals, programmes and other similar events depicting the rich cultural heritage of the country. The company management has renowned personalities from the field of art, literature and culture. They decided to give a platform to young budding musicians, poets and artists. The company decided its organisational structure by grouping similar jobs together. Thereafter, the heads of different departments were also appointed. Nisha, one of the heads, did an analysis of the number, type and qualification necessary for people to be appointed. The information generated in the process of writing the job description and the candidate profile was used to develop 'Situations vacant' advertisement. This was published in print media and flashed in electronic media. This brought in a flood of response.

Explain the other steps which Nisha has to perform to complete the process being discussed above. [6]

Answer : The steps involved in the case were related to recruitment. The other steps Nisha has to perform to complete the process are as follows :

- (i) **Screening of applications :** This involves screening of all responses in terms of skills and qualifications and years of experience. Nisha can also consider a preliminary interview to confirm the details provided in the application either via telephone or e-mail and select for the 1st round of interviews.
- (ii) **Employment test :** Nisha can conduct an employment test as the first round of interviews. She can ask the selected candidates to demonstrate their skills in acting, singing, etc. She can ask whether candidates have obtained any professional training or degree from schools related to art, music or theatre and select candidates who have demonstrated confidence and unique styles of entertainment.
- (iii) **Reference checking :** Selected candidates from the employment test can provide 3 references to Nisha from a professor/ teachers in school or from institutions where they have obtained some experience in art, theatre or music.

(iv) **Selection decision :** Following reference checking, Nisha can select qualified candidates based on their communication skills, experience in music, art or theatre as well as references from their teachers/employers.

(v) **Physical or medical examination :** Nisha can ask selected candidates to get a physical or medical examination done if Entertainment India Ltd. offers medical insurance policies or mediclaim.

(vi) **Final approval and job offer :** Following health examination and understanding of terms of employment, Nisha can get an approval level and final offer letter issued from the Human Resource (HR) department at Entertainment India Ltd.

(vii) **Contract of employment :** A contract of employment detailing the job details , wages, hours of work, holiday entitlement, probation period, leaves, work rules etc, can be given to the selected candidates which needs to appropriately signed and returned to HR department as a token of acceptance.



Business Studies 2019 (Outside Delhi)

SET II

Time allowed : 3 hours

Maximum marks : 80

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

SECTION-A

2. Differentiate between Formal and Informal organization on the basis of 'flow of communication'. [1]

OR

Differentiate between 'Delegation' and 'Decentralisation' on the basis of 'freedom of action'.

Answer :

Basis	Formal Organisation	Informal Organisation
Flow of communication	Communication occurs only through formal lines or chain of command which cannot be changed.	Communication does not have a fixed pattern but facilitates quick communication and allows people to socialise.

OR

Basis	Delegation	Decentralisation
Freedom of action	Superiors regularly supervise and control their subordinates for their performance and behaviour. So they have less freedom of action..	Subordinates enjoy greater freedom of action. They are free to work within broad guidelines of an organisation.

3. What is meant by 'functional structure' of an organisation? [1]

OR

What is meant by 'accountability'?

Answer : Functional structure of an organisation involves grouping of employees with similar skills, work activities and resource use into specialised departments.

OR

Accountability is an obligation or a liability for a subordinate which is created by the superior for the use of authority and responsibility of actions undertaken for business operations.

SECTION-B

9. Explain 'Organisational Climate' and 'Job Enrichment' as non-financial incentives. [3]

Answer : Non-financial incentives are factors other than money like status, recognition in the society and a sense of accomplishment. Such incentives include:

- (i) **Organisational Climate :** Organisational climate implies encouraging employee's participation in management's decision and enabling a two-way communication. Businesses can create an environment that enables employee participation/empowerment, feedback and recognition.
- (ii) **Job Enrichment :** Job enrichment means increasing the content and responsibilities of a job that leads to upgradation of scope and challenges. Employees prefer job enrichment as the job becomes more challenging and can increase satisfaction and motivational levels among them.

SECTION-C

14. Explain any four points of importance of business environment. [4]

OR

Explain any four points of impact of government policy changes on business and industry.

Answer : Importance of business environment is as follows :

- (i) **Determine strategies and policies :** The study of the environment helps a business to develop broad strategies and long-term policies based on relevant information that is feasible for smooth and efficient operations of business.
- (ii) **Ensure optimum utilisation of resources :** A study of business environment can assist a business to determine the sources and means of obtaining and utilising required resources optimally.

(iii) **Analyse competitors' strategies :** Business environment continuously keeps collecting and displaying strategies adopted by competitors. Accordingly, businesses can formulate effective counter-plans to face them.

(iv) **Foresee the impact of socio-cultural factors :** With knowledge on socio-cultural factors like religion, caste, value system, education, family size, urbanisation, etc., businesses can make timely changes in their policies and strategies and accordingly adjust their products or services.

OR

Features of impact of government policy changes on business and industry are as follows :

- (i) **Demanding customers :** Government policies have allowed entry to competitively driven products and services under new economic policies. Consumers have also become well-informed and could choose from a variety of such products and services. Along with rising incomes, increasing purchasing power and changing lifestyles, Indian customers have become more demanding about value-driven products and services.
- (ii) **Increasing competition :** Government's new policies have given an impetus to private sector and enabled easy access to foreign companies, thus enabling a competitive structure in India. Competition has led to the development of new products and services, innovation, creating easy access to domestic and foreign markets and resources, led to existence of competitive pricing, increased productivity and profitability across industries and businesses.
- (iii) **Technological development :** Increase in competition with entry of foreign companies has led to technological development in the country. Government policies and regulations have been directed towards following global production compliances that have led businesses with large-scale operations to adopt state-of-the art technology.
- (iv) **Market orientation :** Market orientation means that businesses attempt to discover and match the needs and desires of consumers by providing customised products and services by encouraging privatisation and competitions. Thus, businesses have to bear huge costs on planning based on market research, and producing products or services based on the changing tastes, needs

and wants of their customers. The concept of market has changed from selling to marketing.

15. State any eight responsibilities that a consumer should discharge while purchasing, using and consuming goods and services. [4]

OR

What is meant by 'Consumer Protection'? State any five points of importance of consumer protection from the point of view of business.

Answer : The responsibilities that a consumer should discharge while purchasing, using and consuming goods and services are as follows :

- (i) **Consumer must exercise his/her rights :** Consumers should make informed decisions and choices regarding products and services and should be aware of their rights to exercise them appropriately.
- (ii) **Cautiousness :** A consumer should be cautious prior to purchasing products and services from the seller and should insist on complete information about the product and service in terms of pricing, brand, warranty, delivery time, customer care service, etc.
- (iii) **Filing complaints for the redressal of grievances :** In case of any dissatisfaction from consumption of products or services, consumers must file complaints suitably on redressal forums by providing appropriate evidence but they cannot exaggerate the loss or defects from those products or services.
- (iv) **Consumers should be quality-conscious :** Consumers should look for quality marks on the products such as ISI, ISO, Agmark etc, to avoid purchasing duplicate or adulterated products.
- (v) **Insist on cash memo/bill :** Every consumer should insist on a cash memo/bill when purchasing any product. While filing complaints about the products, the purchasing bill needs to be presented as an evidence of purchase or sale.
- (vi) **Do not be carried away by advertisements :** Consumers should not be carried away by advertisements, which exaggerate the usage and benefits of the products shown in them. Consumers should compare the actual result from usage of products/services with whatever was suggested in the advertisements.
- (vii) **Safeguarding consumers interest :** Consumers should form consumer societies to keep themselves informed and play an active part in educating and safeguarding other consumers' interests.
- (viii) **Discourage black marketing :** Consum-

ers should consciously discourage products from being black marketed and choose standardised or branded products as grievances occurring from usage of black goods cannot be addressed easily.

OR

Consumer protection refers to the protection of consumers against improperly described, damaged, faulty and dangerous products and services. It also protects consumers from unfair trade and credit practices. Importance of consumer protection from the point of view of business is :

- (i) **Long-term interests of businesses :** In the long-term, businesses need to keep their customers satisfied by providing good quality products and services to sustain as doing this they will be exposed to increased competition and increased demand for their products and services.
- (ii) **Businesses use society's resources :** A business should produce and provide products and services that do not harm the overall society as they use natural resources (like land, water, minerals, etc.), human resources and capital which are obtained from the society.
- (iii) **Social responsibilities :** The main responsibility of a business is not just profit-making but also catering to the overall community's interests.
- (iv) **Moral or ethical justification :** Businesses need to maintain certain level of ethical standards and policies that ensures trust between consumers and all stakeholders in the market by producing morally or ethically valued products or services, which also assist in building image and reputation of businesses in the long-run.
- (v) **Government intervention :** Government intervention means that businesses are directed by governments for maintaining consumer protection practices. This may cause harm to businesses' image and reputation. Businesses should voluntarily imbibe consumer-oriented practices within their organisations to protect and safeguard consumers' interests.

SECTION-D

20. Explain any five points of importance of management. [5]

OR

Explain any five characteristics of principles of management.

Answer : Management is a task of getting things done which makes it the most important human activity in an organisation. The importance of management is as follows :

- (i) **Coordination of different factors** : Management is important for enabling coordination between people working across different levels and functions in an organisation. Through coordination, management aims at unifying, integrating, synchronising efforts of all subordinates or employees to provide unity of action across basic functions—planning, organising, staffing, directing and controlling.
- (ii) **Achievement of business objectives** : Management becomes important for achievement of objectives or specific results that a business needs to achieve within a particular time frame with certain resources. They serve as the basis for formulating policies, rules, performance standards, etc., which may further lead to minimising expenses, maximising profits, market expansion, customer satisfaction, etc.
- (iii) **Increases productivity**—Management is important for increasing productivity as it ensures that resources like capital, labour, energy, raw materials, etc, are utilised efficiently at a particular time period to produce as planned by the organisation. The management also ensures that the increase in productivity can be realistically obtained by motivating labour and equitable alignment of supporting resources.
- (iv) **Helps in achieving personal objectives** : Managers lead the employees in such a manner that along with organisational objectives, individual objectives of the employees are also achieved as they can earn more by producing more and increase their performances.
- (v) **Brings harmony in work** : By giving directions, managers bring uniformity and harmony in the action of employees.

OR

The characteristics of Principles of Management are as follows :

- (i) **Principles of management are universal/pervasive** : Principles of management are applicable to all levels of management. It is also applicable to different businesses which can be for profit and non-profit organisation, hospital, schools, and clubs or our own homes and households. This way they are universal or pervasive in nature.
- (ii) **Principles of management are flexible** : These principles are flexible and dynamic and not static rules. This implies that there

is a room for managerial discretion and changes which can be made as per the situation.

- (iii) **Principles of management have a cause and effect relationship** : These principles suggest effect or consequences of certain actions of the management. Hence, these principles have a cause and effect relationship.
- (iv) **Principles of management aims at influencing human behaviour** : These principles aim at influencing human behaviour which is complex and unpredictable. They focus on regulating yet directing human behaviour towards integrating efforts to achieve a common organisational goal.
- (v) **Principles of management are of equal importance** : All management principles are equally important and are required together for achievement of organisational goals.

SECTION-E

23. Explain the following principles of General management :

- (a) **Unity of Command;**
 (b) **Subordination of Individual Interest to General Interest and**
 (c) **Stability of Personnel** [6]

OR

Explain the following techniques of Scientific management :

- (a) **Method Study;**
 (b) **Fatigue Study; and**
 (c) **Differential Piece-Wage System.**

Answer :

- (a) **Unity of command** : Unity of command implies that every worker or subordinate should receive orders from only one superior. It is meant for avoiding dual subordination or possible conflicts and confusions as orders from different superiors may undermine authority and discipline of the concerned superior responsible for a particular activity. For example, workers responsible for manufacturing pots and pans should receive orders from the production manager and not from the marketing manager of the company.
- (b) **Subordination of individual interests to general interest** : This principle implies that the interests of one person should not take priority over the interests of the organisation as a whole but the other way around. The goals of the organisation should take precedence over the interests of individual employees. For example, if the management expects production of 100 pots but the

manager in-charge orders his team to produce 200 pots to prepare for future demand without considering costs for storing and maintaining the extra 100 pots, then that is against the organisation's objectives of low storage and maintenance costs.

- (c) **Stability of personnel** : Stability of personnel refers to retention of workers by removing the feeling of job insecurity for workers. Retaining workers should be the highest priority of management that provides security, increases productivity and reduces employee turnover. High rates of employee turnover are inefficient and should be avoided. For example, if a hard-working employee is dissatisfied with his/her monotonous job, she can be retained by providing a new position (or responsibility) in another department within the company that requires her to explore and advance her capabilities.

OR

- (a) **Method study** : This study aims at finding out the best method of completing any work. It takes into account each and every activity involved in the task. It helps in reducing the costs and maximising the satisfaction of

the customers. Assembly line production, used by Ford Motors is a popular example of method study.

- (b) **Fatigue study** : Fatigue study was devised by Frank and Lillian Gilbreth. The Gilbreths studied the causes of fatigue due to long working hours, poor working conditions, unsuitable work, unhappy relations with superiors or colleagues, etc. The fatigue study determines the duration and frequency of rest intervals to complete a particular job. The rest refreshes workers to gain full capacity and efficiency in work.
- (c) **Differential piece wage system** : Frederick Taylor devised the differential piece wage system to motivate the workers by paying more to the more efficient worker. This system differentiates efficiency in terms of high wages and low wages. Workers who are more efficient earn higher wages than workers who are relatively less efficient. This system focuses on providing incentive to workers that encourages them to improve their performance. This system works especially for mass production of goods leading to cost minimisation and profit maximisation.

Business Studies 2019 (Outside Delhi)

SET III

Time allowed : 3 hours

Maximum marks : 80

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

1. Differentiate between 'Authority' and 'Responsibility' on the basis of 'origin'. [1]

OR

Distinguish between 'Responsibility' and 'Accountability' on the basis of 'delegation'. [1]

Answer :

Basis	Authority	Responsibility
Origin	The power or right inherent to a superior to give orders, enforce rules and expect obedience from subordinates. It arises out of a formal position in the organisation.	Originated from superior-subordinate relationship wherein the subordinate is bound to perform tasks assigned by the superior.

OR

Basis	Responsibility	Accountability
Delegation	It cannot be wholly delegated as superiors pass their responsibilities to the subordinates.	It can never be delegated. It lies with the superiors as well as with subordinates.

2. "Purchase goods worth ₹ 10,000 and get a discount voucher of ₹ 5,000." Identify the sales promotion activity. [1]

Answer : The sales promotion activity involved here is usable benefit or reduction in regular sales price by a certain percentage which in this case, is a 50% reduction in price.

SECTION-B

12. Explain 'Career Advancement Opportunity' and 'Job Security' as non-financial incentives. [3]

Answer : Non-financial incentives are factors

other than money like status, recognition in the society and a sense of accomplishment. Such incentives include :

- (i) **Career Advancement Opportunity** : Career Advancement Opportunity is a recognition or rise in status of an employee whose position is heightened by giving a higher role in decision-making. It refers to empowering employees by recognising their true potential and providing opportunities to them to oversee and take up more responsibilities in the organisation. These employees are also provided training to enhance their skills and knowledge that can be applied to meet organisational goals.
- (ii) **Job Security** : Job security is an assurance that employees will be continuing gainful employment throughout their lives. Job security can be assured by signing the term of contractual agreement, collective bargaining employment or (prevailing) labour laws that can prevent arbitrary termination, job dismissal, unemployment and lockouts.

SECTION-C

14. Explain the following dimensions of business environment :

- (a) Political Environment; and
(b) Social Environment. [4]

OR

Explain the following economic reforms which had an impact on Indian Business and Industry :

- (a) Liberalisation; and
(b) Globalisation. [4]

(a) **Political Environment** : Political environment consists of factors influenced by government actions. These actions can be internal, national or local, which affect the operations of a business. Political environment includes factors like :

- (i) Political ideology, which is a certain set of ideals, principles, doctrines, myths or symbols shared commonly by a group of individuals in a political system.
- (ii) Political stability, which is associated with security and safety provided by the government. In a political stable environment, there is certainty and confidence generated by government that ensure consistent supply of financial, human and physical resources with possible investment and expansion opportunities. Factors that may lead to political instability include – communal riots, civil war, state emergency, etc.

- (iii) International relations, which are concerned with affairs of other countries and relation among countries. These international relations are maintained as an attempt to reflect political stability.
- (iv) Welfare activities of government, that ensure the well-being of a country's citizens.
- (v) Defence and military policy, that deals with international security and the military.
- (vi) Centre-State relationship, that defines the nature of relationship between Central government and State government in our current decentralised/federal system.

(b) **Social Environment** : Socio-cultural environment refers to a set of beliefs, customs, practices and behaviour that exists within a population. Businesses tend to study this environment to understand the nature of their customer needs and expectations. Factors under socio-cultural environment include :

- (i) Attitude of people at work.
(ii) Family system.
(iii) Caste system, religion, languages, marriage, customs and traditions.
(iv) Education.
(v) Level of Urbanisation.
(vi) Habits, beliefs, lifestyles, tastes and preferences.
(vii) Social trends.
(viii) Business ethics.

OR

Economic reforms had an impact on Indian Business and Industry in the following ways :

- (a) **Liberalisation** : Liberalisation refers to the opening up of a country's market to the rest of the world by removing and/or reducing controls on trade, regulations, taxation that generally affects a business. Prior to 1991, government had imposed several types of controls such as the industrial licensing system, price controls, import licenses, foreign exchange controls, restrictions on investments by large businesses, etc. These controls restricted growth in businesses and industries and gave rise to corruption, undue delays, inefficiencies, increasing debt and rise in inequalities among Indians. Following liberalisation, most controls of trade, commerce and industries were removed leading to :

- (i) Increase in competition
 - (ii) Introduction of quality-driven products or services at competitive prices
 - (iii) Employment opportunities
 - (iv) Growth in industries
 - (v) Rise in overall incomes
- (b) **Globalisation** : Globalisation is the integration of economies, industries, markets, culture and policy-making around the world. It describes a process that reduces the distances between regions and countries for trade, commerce, communication and interaction across the world with limited geographical and socio-economic-political interferences. The impact of globalisation on businesses is as follows :
- (i) Businesses-organizations obtained access to cheaper capital goods and intermediate goods with elimination and removal of import restrictions.
 - (ii) Businesses-organization could export goods. They improved their quality of goods to compete in global markets.
 - (iii) Foreign businesses could re-enter in Indian markets that led to more employment opportunities and better infrastructure.

SECTION-D

20. Explain any five points of importance of principles of management. [5]

OR

- Explain management as a profession. [5]

Answer : Importance of principles of management are as follows :

- (a) **Provide useful insight to managers** : Principles of management are devised by professionals with certain experiences and skills who are aware about the workings and the required resources of a business. This way, these professionals provides timely guidance and insight to reduce wastage of resources and operate efficiently. For example, the principle of division of work ensures prompt completion of work at an economical cost.
- (b) **Optimum utilisation of resources and effective administration** : Every organisation requires physical (materials, equipment, tools, etc.) and human resources that are used optimally. Principles like unity of command ensures that there is a single leader/manager who directs and orders

employees to use suitable resources to avoid wastage of resources and confusions.

- (c) **Scientific decisions** : Principles of management provide scientific or balanced decisions that are proven and tested so that managers do not need to attempt trial and error. For example, principle of authority and responsibility implies that employees or subordinates are entrusted with responsibility and allowed some authority for efficient completion of the job.
- (d) **Meeting changing environmental requirement** : Businesses can sustain only if they can keep up to the changing environment. Principles of management like the principle of unity of direction can ensure that the manager directs all activities of the business that keeps up to the changing environment.
- (e) **Fulfilling social responsibility** : Principles of management can increase, efficiency and productivity among managers and subordinates and accordingly enable them to fulfill social responsibility. More efficient managers can ensure production of good quality products and services at reasonable prices without damaging the society. For example, fair remuneration among employees can help in fulfilling social responsibility.

OR

Profession is a paid occupation which requires prolonged and specialised training along with a formal education to which entry is limited and regulated by a representative body. The essentials of management as a profession are as follows :

- (a) **Specialised knowledge** : Like management, a profession which also has systematised and a specialised body of knowledge through every professional makes attempts to seek specialised skills and expertise. To be a professional, a manager should have devotion and commitment for acquiring relevant practical expertise in the science of management.
- (b) **Formal education and training** : Management as a profession requires formal education and training. This aims at providing specialised knowledge, skills and training that caters to overall goals and objectives formulated by the management as well as supports the interests of the society.
- (c) **Code of conduct** : Management as a profession is a code of conduct which involves setting rules outlining the responsibilities

of, or proper practices for, an individual or a group of individuals. Management professionals are expected to abide by a code of conduct which includes specific restrictions and licenses for entry and practice.

- (d) **Social obligations** : A profession is a source of livelihood but the actions of professionals are influenced by social norms and values. Professional managers are not only responsible for achieving their owner's goals and objectives but are also responsible towards the society and are expected to provide quality-based products/services at reasonable prices.
- (e) **Representative association** : Professions are regulated and standardised through an association that represents their actions and beliefs. For example, the Institute of Chartered Accountants of India (ICAI) was established under the Chartered Accountants Act, 1949 regulates the profession of Chartered Accountants in India. In the same way, various management associations are set up at national and international levels which have some membership rules and set of ethical codes, but legally it is not compulsory for managers to become a part of these organisations by registrations.

SECTION-E

23. Explain the following principles of general management :

- (a) Scalar Chain;
 (b) Equality; and
 (c) Initiative [6]

OR

Explain any three principles of scientific management. [6]

Answer :

- (a) **Scalar Chain** : Scalar chain principle implies that a single, uninterrupted chain of authority should extend from the top level to the low level in the organisation. This further implies that the line of authority and communication flows from owners or board of directors to the superiors or foreman to the subordinates and workers.
- (b) **Equity** : Equity principle implies that all workers should be treated equally and provided equal opportunity. Equity however, does not discount for sternness and forcefulness. Superiors in the organisation should be kind and impartial and should not discriminate in terms of gender, religion, caste, etc. For example, women and men

employees should be equally treated with respect and professionalism.

- (c) **Initiative** : This principle implies that workers or subordinates should be given the freedom to take initiative in carrying out the work. They shall feel satisfied with their jobs and in turn increase efficiency of the organisation. For example, satisfied employees usually come on time and leave on time ensuring quality of work and maintaining time efficiency without being instructed by the management.

OR

Principles or techniques of scientific management are related to Taylor's principles of training and controlling. These techniques were based on several experiments that aim at determining the best performance level workers can achieve in certain jobs.

- (a) **Standardisation and simplification of Work**: Standardisation of work means the processes of work are well-integrated, specified or programmed. Standardisation of work attempts to eliminate spoilage and wastage of resources. Accordingly, standardisation of work during production involves consistent form, size composition, methods and quality maintained for all products and services. Alternatively, simplification of work means processes involved are consistent in terms of effort, costs and time. Simplification of work complements standardisation by creating consistency in product, processes in terms of sizes, weights, types, qualities, etc. Simplification of work aims at restricting production of products to limited quantities or types that facilitate efficiency in resources utilised in the business. It attempts to eliminate useless and disadvantageous diversity and variety.
- (b) **Mental Revolution** : Mental Revolution is a change in thinking both on the part of management and workers. It means that workers and management need to work together to develop creative and innovative ideas and activities in the industry. The meaning of Mental Revolution by Taylor was :
- Workers and management should have a sense of integrity and responsibility creating a product and service that is useful for both the parties.
 - Management should create suitable and humane working conditions and solve all problems systematically and scientifically.
 - Workers should also attend to their

jobs with keenness, alertness, devotion and carefulness which does not lead to wastage of resources.

- iv. Workers and management both should be paid an effective remuneration that supports the costs and standards of living.
- v. A sense of belongingness should be created for the workers.
- vi. In return, workers should reflect discipline, loyalty and sincerity for fulfilling the tasks assigned to them.
- vii. Businesses can expect more production and economic growth at a faster rate

with development of harmonious relationships between workers and management.

- (c) **Differential piece wage system** : Taylor devised the differential piece wage system to motivate the workers by paying more to the more efficient worker. This system differentiates efficiency in terms of high wages and low wages. Workers who are more efficient earn higher wages than workers who are relatively less efficient. This system focuses on providing incentive to workers that encourages them to improve their performance. This system works especially for mass production of goods leading to cost minimisation.



Business Studies 2019 (Delhi)

SET I

Time allowed : 3 hours

Maximum marks : 80

SECTION-A

1. Define 'Workforce Analysis.' [1]

OR

Define 'Selection'.

Answer : Workforce analysis is an assessment of the number of human resources available for the performance of various jobs in an organisation.

OR

Selection is defined as the process of choosing the right candidate from among the pool of prospective job candidates developed at the stage of recruitment.

2. Appliances India Ltd. is engaged in manufacturing and distribution of home appliances since 1987. It has a good name in the market as the company is producing good quality appliances. It has a separate departments for manufacturing, finance, sales, maintenance services and technical services to achieve specialisation.

Since the areas of operations of the company have increased and customers have become more demanding, the company decided to modify that existing principle of management to meet the changing requirements of the environment.

State the general principle of management which the company wants to modify to meet the changing requirements.

Answer : The general principle of management which the company wants to modify is division of work which states that the work should be

divided into small tasks/jobs each performed by specialist.

3. How does Financial Market facilitate 'Price Discovery' of financial assets ? [1]

Answer :

Financial market facilitates price discovery for financial assets by interaction of forces of demand and supply.

4. Biru Nandan, Chairman of Lalit group of companies founded 'Biru University' for undergraduate and postgraduate courses in diverse disciplines. The Information Technology department of the 'Lalit Power Ltd; had few vacancies related to Cyber Security. The Human Resource Department of the Company decided to recruit fresh engineering graduates from 'Biru University' for the same. Identify the type of source of recruitment. [1]

Answer : The source of recruitment referred in this case is external sources of recruitment or campus recruitment.

5. Varsha Jain after completing her fashion designing course from Indian Institute of Fashion Technology planned to enter into designer clothing venture. She had to address issues like her target customers, channel of distribution to be used, pricing policy etc. Identify the type of plan that Varsha Jain needs to develop to provide direction and scope to her organisation in the long run.

Answer : The plan that Varsha Jain needs to develop to provide direction and scope to her organisation in long run is called as strategy.

6. State any two 'Developmental Functions of Securities and Exchange Board of India. [1]

OR

What is meant by 'Allocative Function' of Financial Markets ?

Answer : Development function of SEBI

- (a) It trains intermediaries of the securities market so as to promote healthy growth of the secondary market.
- (b) It conducts research in the important areas of the securities market so as to help investors and other market players to make wise investment decisions.

OR

Allocative function is an important function of the financial market. A financial market acts as a link between the savers and investors. It provides a platform for mobilisation of saving from the household to the investors. Thus, it allocates funds from households to investors.

7. Beena has been using 'Klean', a famous detergent available in the market. On watching numerous advertisements in the television, she decided to try a new brand of detergent. When she went to the near-by store to purchase the same, she saw detergents of other producers making similar claims of whiteness and stain removing abilities. Hence she could not make up her mind as to which detergent to purchase.

Name the objection of advertising being discussed in this case. [1]

Answer : Advertising confuses the buyers by making similar claims.

8. Give the meaning of 'Physical Distribution' as an element of Marketing Mix.

OR

What is meant by 'Marketing Management' ?

Answer : It means set of activities that make firm's products available to the target customers. It involves deciding the channels of distribution through which the product would be moved from the place of production to the place of consumers.

OR

According to American Management Association, marketing management is defined as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange that satisfies individual and organisation goals.

SECTION-B

9. JTM Ltd. launched 'Buddyline', an exercise book and comprehensive stationery brand name comprising of ball pens, gel pens and

geometry boxes after identifying the target market and understanding the needs and wants of the consumers of that market. All their products were of good quality and eco-friendly but expensive. They wanted to distinguish their products from that of their competitors. They spent a lot of efforts, time and money in creating the brand name, as they knew that without a brand name, they can only create awareness for the generic products and can never be sure of the sale of their products. The effort paid off and the demand for the products started growing. The customers liked the brand and became habitual to it. They did not mind paying a higher price. Over a period of time, it became a status symbol to buy 'Buddyline' brand because of its quality. The consumers felt pride in using them. [3]

- (i) Identify the marketing management philosophy followed by JTM Ltd.
- (ii) Explain the advantages of branding to the marketeers highlighted in the above case.

Answer :

- (i) Societal marketing philosophy is followed by JTM Ltd.
- (ii) Advantages of branding to the marketeers are :
- (a) Branding helps firm in distinguishing its products from that of its competitors.
- (b) Branding enables a firm to charge higher price for its products than its competitors because if the customer likes a brand they do not mind paying a little higher price for it.
- (c) A brand helps a firm in its advertising and brand promotion effectively.

10. Mita has a successful ice cream business at Bikaner, namely 'Smartflavours'. Her ice creams are utterly delicious. She makes ice creams from fresh milk and the same are available in a wide range of flavours and packs. She sets viable business objectives and works with the same in mind in order to ensure that the customers will come back for purchasing.

Having the first mover advantage, her business was doing well. To earn higher profits, she started cutting costs. This would sometimes lead to delay in delivery and the ice cream was not reaching the market in time. Over a period of time, the demand for her ice cream declined and because of it the competitors entered the market. She lost some of her market share to competitors.

At the beginning of summer season, she

got back to back orders for supply of 4,000 ice cream packs of different flavours for special occasions. To ensure that the task was completed and orders delivered in time she hired additional workers. She was, thus able to produce and deliver the ice cream packs but at a high production cost. While completing activities and finishing the given task for achieving goals, Mita realized that she was ignoring one of the important aspects of management.

Identify the aspects of management that has been ignored by Mita. Also explain the same with the help of an example. [3]

Answer : The aspect of management that has been ignored by Mita is efficiency.

Efficiency means doing task correctly and with minimum cost.

Example : If more workers are hired by the manager to get task completed in time, it is effective but if more workers are hired and as a result, the cost increases, then it is not efficient. On the other hand, if the task is carried out with the same number of worker without increasing cost then it is efficient but if same task is carried out with the same number of workers and there is a delay in the completion of work then it is not effective.

11. State 'Job Enrichment' and 'Employee Participation' as non-financial incentives. How do they motivate employees ? [3]

Answer : **Job enrichment :** It means designing jobs that include greater variety of work content, require higher level of knowledge and skills, give workers more autonomy and responsibility and provide the opportunity for personal growth and a meaningful work experience. If jobs are enriched, they themselves become a source of motivation to employees.

Employee participation : It means giving more autonomy and power to the employees. It makes them feel that their jobs are important and this feeling makes them contribute positively to use their skills and improve their performance.

12. Explain the objectives of Financial Planning.

OR

What is meant by 'Financial Management'? State the primary objective of Financial Management.

Answer : Objectives of financial planning are :

- (1) To ensure availability of funds whenever those are required-if adequate funds are not available, the firm will not be able to honour its commitments and carry out its plan.

- (2) To see that the firm does not raise resources unnecessarily. If excess funds are available, it will unnecessarily add to the cost and may encourage wasteful expenditure.

OR

Meaning of financial management : Financial management refers to the efficient acquisition, allocation and usage of funds by the company. It is carried out with the primary aim of reducing the cost of funds that are procured, minimising the risk and effective distribution of funds to different opportunities.

Primary objectives of financial management : Primary objective of financial management is to maximise shareholders wealth which means to maximise the market price of equity shares of the company.

13. 'Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' In the light of this statement, describe managements as a science. [3]

OR

Management is a complex activity that has three main dimensions. Explain these dimensions.

Answer : Science is a systematized body of knowledge that explains certain general truths or the operation of general laws. Management is science but not exact science. The reasons are:

- (i) **Systematized body of knowledge :** Like science, management is a systematized body of knowledge with its own theories and principles that have developed over a period of time. So this feature is present in management.
- (ii) **Principles are based on experimentation and observation:** Like science, management principles are derived through observation and repeated experimentation. However, since management deals with human beings the outcome of these experiments are not predicted accurately. Different human being may behave differently in different situations. So no exact cause and effect relationship can be established.
- (iii) **Universal validity:** Theories and principles of management are valid universally to a great extent. They can be used to impart basic knowledge and managerial skills to the budding managers.

OR

Management is a complex activity that has three main dimensions. The following are the three main dimensions of management:

- (i) **Managing the work** : With management, the work of an organisation is interpreted in terms of the objectives and goals achieved owing to the work. Management also specifies the guidelines regarding how these objectives can be achieved.
- (ii) **Managing the people** : Managing the people implies dealing with the employees both as individuals and as a group such that their strengths are utilised and their weaknesses are identified.
- (iii) **Managing the operations** : The production process where the input are transformed into a product or a service requires continuous management in order to ensure the utilisation of the resources efficiently and effectively.

SECTION-C

14. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical free fertilizers vegetables. They conducted a survey to find out consumer preferences for such vegetables.

They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found that 90% of the households were searching for its alternatives. The company contacted a group of agriculture experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimension of business environment highlighted in the above para. [4]

Answer : Dimensions highlighted in the above paragraph are :

- (a) **Social Dimension** : Social environment includes social forces like custom and traditions, values, social trends and society's expectations from business. Since consumers were concerned about the harmful chemicals being used and were looking for other alternative, it was related to the social environment of the business.
- (b) **Technological Dimension** : Technological environment of business includes forces relating to scientific improvements and

innovations which provide new way of producing goods and services. The new techniques to grow chemical fertilizers relates to the technological dimension of the business environment.

15. Mega Ltd. holds an Annual Management Programme every year in the month of March in which the top managerial personnel formulate plans for the next year by analyzing and predicting the future to meet future events effectively.

As they are responsible for providing direction to the organisation, facts are thoroughly checked using scientific calculations. Detailed plans are prepared after discussion with professional experts. Preliminary investigations are also undertaken to find out the viability of the plan. Since, it is an intellectual activity requiring intelligent imagination and sound judgement so it is mainly done by the top management. Usually rest of the members just implement the plans. Middle level managers are neither allowed to deviate from the plans nor are they permitted to act on their own. The top management ensures that the expenses incurred in formulating the plans justify the benefits derived from them.

State any two limitations and any two features of planning discussed above.

Answer : Two limitations of planning as discussed above are :

- (i) Planning reduces creativity as it is mostly done by the top management; rest of the members just carry out orders and think on the same lines as others.
- (ii) Planning involves huge costs in terms of time and money. The costs involved sometimes may not justify the benefits derived from the plans.

Two features of planning are :

- (i) **Planning is futuristic** : The top management formulate plans for the future by analyzing and predicting the future event. Planning is futuristic in the sense that it foresees the future, thereby helping to prepare for uncertain future events.
 - (ii) **Planning is a mental exercise** : Planning is an intellectual activity rejoining intelligent imagination and sound judgement so it is mainly done by the top management. It requires application of mind and sound judgement since planning defines what is to be done in future thereby, helping to prepare for uncertain future events.
16. Vinber Ltd. set up a manufacturing unit at Bhiwadi in Himachal Pradesh to manufacture

electric geysers and supply them to dealers all over the country. Their production target was 500 geysers per week. It was decided by the management that variation in production upto 10 units would be acceptable.

At the end of the first week, the production was 450 geysers. The next week, production increased to 470 geysers. A week later, production was 460 geysers. On investigation, it was found that fluctuation in production was due to irregular supply of electricity. [4]

(a) The above para discusses some of the steps in the process of one of the functions of management. Explain these steps.

(b) Also, state the step(s) that have not been discussed in the above para.

Answer: (a) Steps in the process of controlling as discussed in the above case :

- (i) Setting performance standards
- (ii) Measuring actual performances
- (iii) Comparing actual performance with standards and analyzing deviations.

(b) Steps not discussed in the above para is :
Taking corrective action if deviations go beyond the acceptable limits.

17. Organising involves a series of steps that need to be taken in order to achieve the desired goal. Explain these steps. [4]

OR

Explain any four points of importance of 'Organising'.

Answer : Steps in the process of organising :

- (a) **Identification and division of work :**
The entire work is to be divided into manageable activities so that duplication of efforts and resources can be avoided and the burden of work can be shared among the employees.
- (b) **Departmentalisation :** The second step is to combine or group similar or related jobs into larger units called departments. This process is known as departmentalisation. It facilitates specialisation.
- (c) **Assignment of duties :** The next step is to allocate the work to the employees according to their experience, skills and competencies. It is essential that a proper match is made between the nature of a job and ability of the employee.
- (d) **Establishing reporting relationship :** It means from whom an employee has to receive orders or instruction and to whom he is accountable or answerable for the performance of the work allocated. The establishment of such clear reporting relationships helps to coordinate various departments effectively.

OR

Importance of organising :

(1) **Benefits of specialisation :** The total work is divided into different parts. Such division reduces the work load and enhances the productivity. Repetitive performance of a particular work helps a worker to get specialised in that area.

(2) **Optimum utilisation of resources :** All jobs are clearly defined and differentiated. The proper allocation of jobs helps in avoiding overlapping duplication of work, which helps in minimising the wastage of resources and efforts.

(3) **Effective Administration :** Organising clarifies jobs, duties and authority responsibility relationship. This helps in avoiding confusion and duplication which enables proper execution of work :

(4) **Expansion and growth :** It promotes growth and diversification of an enterprise. It enables a business enterprise to add more job positions, department and even diversify their product lines.

18. Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelized into their most productive investment avenues. To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. It also ensures wider share of ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

Various functions performed by the Stock Exchange are discussed in the above para. By quoting lines from the above para, state any four functions of stock exchange. [4]

Answer : Various functions performed by the stock exchange :

- (i) **Providing liquidity and marketability to existing securities :** The stock exchange creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest.
- (ii) **Pricing of securities :** A stock exchange helps in determining the prices of various securities on the basis of demand and supply factors. It makes continuous

valuation of securities and quote prices of various securities.

(iii) **Safety of transactions** : The stock exchange exercise rules and regulations on membership and trading practices of the stock market. This ensures that the investing public gets a safe and fair deal.

(iv) **Contributes to economic growth** : A stock exchange is a market in which existing securities are purchased and sold. Through this process of reinvestment and disinvestment, savings get channelised into their most productive investment use thus lead to capital formation and economic growth.

19. Explain the four points of difference between 'Marketing' and 'Selling'. [4]

OR

Explain the following functions of marketing:

(i) **Product designing and developments and**

(ii) **Standardisation and Grading.**

Answer : Difference between marketing and selling.

Basis	Marketing	Selling
1. Part of the process	It is a wider term-consisting of number of activities likes identification of customer needs, developing the product, fixing prices and persuading the potential buyers to buy the same.	Selling in a part of the process of marketing and it is concerned with promoting and of transferring possession and ownership of goods from sellers the buyer.
2. Transfer to title	It focuses on the needs of customers i.e., providing what the customer wants	It main focus is to transfer title and possession of products from sellers to consumers.
3. Profit	It aim to earn profits through maximisation of customers satisfaction in the long run.	It aim at maximisation of profits through higher sales.
4. Strategies	Integrated marketing efforts involving strategies in respect of product, price promotion and physical distribution.	Promotion and persuasion are the strategies used in selling.

OR

(i) **Product designing and development** : The producer should bear in mind the design of the product as it helps to attract the target customers. A good design can improve the performance of the product and also give it a competitive advantage in the market. For example, when we buy any product say a car we not only see its features like price, mileage etc. but also the design aspect such as its shape, style etc.

(ii) **Standardisation and grading** : Standardisation implies the production of goods with certain specific qualities such as durability, safety and utility so that uniformity is maintained in the output and reduce the need for inspection, testing evaluation of the product by the buyers. On the other hand grading implies the classification of the product as per certain characteristics such as size quality etc. Grading ensure that goods belong to a particular quality and helps in realising higher prices for high quality products.

SECTION-D

20. Explain any five points of significance of Principles of Management. [5]

OR

Explain the following techniques of Scientific Management :

(a) **Fatigue Study;** and

(b) **Different Piece Wage System**

Answer : Importance of principles of management :

(1) **Providing manager with useful insight into reality** : Management principles help in increasing managerial efficiency by adding to their knowledge and ability to understand the various situations.

(2) **Optimum utilisation of resources** : Management principles aims at optimum utilisation of all types of resources for the achievement of organisational goals.

(3) **Effective administration** : The principles of management act as guidelines for top level management to formulate various administrative plans and policies. It makes administration better by discouraging personal biases :

(4) **Logical decision** : Management decision should be based on reason and proof rather than beliefs and intuitions. As the principle of management were developed from experiments On real life problems, they stand the test of logic and reasoning.

(5) **Fulfilling social responsibilities** : It is not

only act as guidelines for accomplishing organisational goals but also guides managers in fulfilling social responsibilities.

OR

Techniques of scientific management :

- (a) **Fatigue study :** Fatigue study studies the requirement of rest or break while performing a task. The study identifies the intervals required while completing a task and suggests standard break timing for improving the workers performance.
- (b) **Differential piece wage system :** Under this techniques, wages are decided according to a set standard. The worker who perform better than set standards get higher wages than the workers who perform below the standards. Taylor introduced this system to differentiate the efficient workers from the inefficient ones and reward them accordingly.

21. **Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like television, refrigerators and air conditioners, often leaving them in a permanently damaged condition. N-Guard Company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220 V to 230 V. Once the demand for North India was taken care of, they decided to launch stabilisers of varying voltage from 90 V-260 V for meeting the requirement of voltage fluctuation in other regions of India also. Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions. Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.**

- (a) Identify the organisational structure of N-Guard Company.
- (b) State any two advantages and two limitations of the structure identified in the above para. [5]

Answer :

- (a) Functional structure
- (b) **Advantages of functional structures :**
- (i) It leads to occupational specialisation since emphasis is placed on specific functions.
- (ii) It ensures that different functions get due attention.

Limitations of functional structure :

- (i) Creation of functional empires where less emphasis is placed on overall objectives of the enterprise and more on the objectives persned by a functional head.
- (ii) Problems in coordination as information

has to be exchanged across functionally differentiated departments.

22. **Nisha Sethi was working as a Human Resource Manager in a famous consultancy firm KLI Global Services. Her job included preparing job descriptions, recruitment, developing compensation and incentive plans and facilitating employee learning. They had entered into alliances with institutes to ensure continuous learning of their employees. With the jobs becoming more and more complex, KLI Global Services invested large amount of money in making the employees learn the skills necessary to complete the jobs.**

State by giving any five points, how this investment is likely to benefit the orgnisation.
Answer : The process of making the employees learn the skills necessary to complete the job is called as training. The following points highlights the benefits of training to the organisation :

- (1) It avoids wastage of effort and money as training is systematic learning, better than hit and trial methods.
- (2) It is a systematic learning, always better than all the methods.
- (3) It enhances employee productivity both in terms of quantity and quality which leads to higher profits.
- (4) Effective training helps the organisation and its employees to adapt quickly and obtain an effective response to a changing technological and economical environments.
- (5) It increases employees morale and reduces absenteeism and employee turnover.

SECTION E

23. **'Determining the relative proportion of various types of funds depends upon various factors, Explain any six such factors.**

OR

Explain any six factors affecting the decision that determines the amount of profit earned to be distributed and to be retained in the business.

Answer : Following are the factors affecting the choice of capital structure of a company :

- (1) **Cash flow position :** If a company wants to raise debt it must ensure that sufficient cast flows are expected to meet debt obligations. In situation of shortage of cash, company should use more of equity.
- (2) **Risk consideration :** Use of more debt in creases the financial risk of a business. Risk means that a company is unable to meet its fixed financial charges, *i.e.* payment of interest etc.

Some business has business risk also. It depends upon fixed costs, e.g., rent, salary, etc. higher operating cost result in higher business risk and vice versa.

- (3) **Interest Coverage Ratio** = ICR refers to the number of times earning before interest and taxes of a company covers the interest obligation. The higher the ratio, the lower is the risk of company failing to meet its interest payment obligations.
- (4) **Cost of debt** : The company can employ more debt in its capital structure if the interest rate on debt is less or vice-versa.
- (5) **Floatation costs** : Cost of raising funds is called floatation cost. It affects the choice of capital structure of a company as higher the floatation costs, less attractive the source of finance.
- (6) **Tax Rate** : Interest on debt is a tax deductible expense. Therefore, a higher tax rate makes debt relatively cheaper. So, more debt can be used.

The factor affectign the decision that determines the amount of profit earned to be distributed and to be retained in the business, i.e. dividend decision are:

- (i) **Amount of earnings** : As a firm pays dividends out of its own earnings (either current or past), it can be said that companies with higher earnings are in a position to pay a higher amojnt of dividend to its sharedholers and vice versa.
- (ii) **Stable earnings** : A company with stable and smooth earnings is in a position to distribute higher dividend as compared to those that have an unstable earning.
- (iii) **Stable dividends** : In general, companies try to avoid frequent fluctuations in dividend per share and opt for increasing (or decreasing) their value only when there is a consistent rise (or fall) in the earnings of the company.
- (iv) **Growth prospects** : Companies aiming for a higher growth level or expansion of perations retain a higher portion of the earnings with themselves for re-investment, thereby distributing lesser dividends.
- (v) **Cash flow position** : As dividen payments involve cash outflow from the company companies low on cash/low on liquidity distribute lower dividensa than those with high cash and liquidity.

24. **'VOICE' is an important consumer organization. It organised workshops in the months of December in Delhi/NCR for consumers. The theme was 'Organic Food-From Farm to**

Plate', to spread awareness on the importance of organic farming and to encourage consumers to switch from conventional food, that contains chemicals and pesticides to organic food. Expert speakers from farmers, community explained the harmful effects of usage of pesticides in farming and the importance of organic food. People were informed that the organisation regularly tests samples to detect adulteration like presence of heavy metals or pesticides. The results of the tests are published in their monthly magazine. 'Consumer Voice' to make people aware of quality of different products. It also provides aid and legal advice to the consumers to seeking a remedy. State the functions performed by the Consumer Voice for the protection and promotion of consumer interest by quoting lines from the above para.

Answer: Functions performed by the consumer voice for the protection and promotion of consumer interest are :

- (a) **Consumer Education** : NGOs and consumer organisation conduct various training programmes and workshops to educate consumers about their rights and responsibilities.
It organised consumer workshops in the month of december in Delhi/NCR on the theme, of 'Organic food-from farm to Plate, as a part of its initiatine to spread awareness on the impotance of organic farming.
- (b) **Publish Journals** : They regularly publish journal and periodicals to spread knowledge and awareness about various consumer problems, legal remedies available and other such matters.
The results of the test are published in their monthly magazine 'Consumer Voice' to make people aware of quality of different products'
- (c) **Legal Assistance** : They also provide legal assistance to the consumers and help them in seeking suitables redressal.
Line : It also provides aid and legal advice to the consumers in seeking a remedy.
- (d) **Test the Quality of Product** : They conduct quality tests for various products in laboratories and publish the results.
'People were informed that the organization regularly test samples to detect adulteration like presence of heavy metals or pesticides.

25. **'Pratap Singh is the Chief Executive Officer of Nissar Enterprises. It is an automobile parts manufacturing company. The enterprise**

has a functional structure, in which jobs of similar nature have been grouped together as Production, Finance, Marketing and Human Resource. Nissar Enterprise has its manufacturing unit at Manesar. The factory has been plagued with many problems for a long time which was in the knowledge of the Production Manager, Varun Sharma. The workers had internal differences. Time and again, there were misunderstandings between the management and the workers. Keeping the problem in mind, Varun Sharma appointed, Siyaram Singh who had 14 years of experience of working with the actual work force and passing on instructions of the middle management to the workers. Siyaram Singh meet Varun Sharma to understand what the management wanted ? Thereafter, he met the workers and conveyed the ideas of management to them. He also promised the workers to convey their problems to the management. In this way, he cleared the misunderstanding between the management and the workers. He also sorted out internal differences and was able to unite the workers within a month of his joining. His work was acknowledged by management and he was given a certificate of good performance along with 10% increase in salary.

- (i) Siyaram Singh performed some of the functions which are required to be performed at the position he is working at. State any five other functions Siyaram Singh is expected to perform.
- (ii) Name the incentives provided to Siyaram Singh.

Answer : Five other functions Siyaram Singh is expected to perform are :

- (a) Ensure proper working environment for the workers.
- (b) Ensure safety of the workers.
- (c) Helps middle level management in appointment, recruitment and promotions of the workers.
- (d) Developing team spirit and boosting morale of workers and ensuring a standard output is produced.
- (e) Interacting with the employees and welcoming suggestion and feedback.
- (ii) The incentive that is being given to Siyaram Singh are :
- (a) **Financial incentive** : Pay and allowances as he was given a 10% increase in salary.
- (b) **Non-financial incentive** : Employee recognition programmes as he was given a certificate of good performance.

••

Business Studies 2019 (Delhi)

SET II

Time allowed : 3 hours

Maximum marks : 80

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

SECTION-B

9. What is meant by 'Capital Structure'? Explain any two factors that affect the capital structure of a company.

OR

Explain any three factors that affect the working capital requirements of a company.

Answer : Capital structure is referred to as the combination of owners funds (equity) and borrowed funds (debt) for financing its fund requirements. It can be calculated as debt/ equity ratio i.e. debt/ equity or as the proportion of debt

in the total capital i.e.
$$\frac{\text{Debt}}{\text{Debt} + \text{Equity}}$$

- (i) **Cost of Equity** : Cost of equity means the expected rate of return on equity capital assuming risk. It is the rate of dividend

on shares. When the company increase debt, the financial risk faced by equity holders also increases, as a result their rate of return may increase. Therefore company cannot uses debt beyond certain points, cost of equity may go up sharply and share price may decrease. Hence, for maximisation of shareholders wealth, debt can be used only up to a level.

- (ii) **Floataion cost** : It refers to the cost of raising funds such as broker's commission and underwriting commission. The higher the floataion cost involved in raising funds from a particular source, the lower is its proportion in the capital structure. For instance, if public issue of shares involves higher floataion cost than debt, then the company would opt for more of debt and less of equity in the capital structure.

OR

The factors which affect the working capital requirements of a company are :

- (1) **Fluctuations in business cycle** : During

a boom period, the market flourishes and thereby there is higher sale, higher production, higher stock and debtors. Thus, during this period the need for working capital by a company increases. On the other hand during the period of depression, there is low demand, lesser production and sale, etc. Therefore, the requirement for working capital is also decreases.

- (2) **Inflation** : A rise in the rate of inflation implies that the prices of raw materials, labour, etc., increases. This require large amount of funds to maintain even the existing volume of production and sales. This in turn increases the requirement of working capital. On the other hand, a low rate of inflation implies less requirement of working capital for a business.
- (3) **Extent of availability of raw material** : If the raw materials required by the company are such that they are easily available, then the firm need not to maintain a large stock of inventories of raw material. In such situations, 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 must maintain a huge stock of raw material to ensure uninterrupted operations, thereby requiring a large working capital.

10. **Co-ordination is needed at all levels of management and is the responsibility of all manager.' Explain. [3]**

OR

Explain any three reasons, which clarify that management is gaining importance day by day.

Answer : Coordination is needed at all levels of management and in all departments. It integrates the efforts of different departments. The purchase, production, finance and sales department must coordinate with each other for achieving organisational objectives harmoniously. Coordination is a responsibility of all managers.

Top level manager need to coordinate with their subordinates to ensure that the overall policies of the organisation are duly carried out.

Middle level management coordinates with both the top level and first line managers.

Operational level management coordinates the activities of its workers to ensure that work proceeds according to plans.

OR

The points which clarify that management is gaining importance day by day explained as follows :

- (i) **Achievement of goals** : Management helps in the achievement of goals so that the efforts of all the individuals are organised and directed towards the common goals of the organization.
- (ii) **Increases efficiency** : An increase in efficiency implies minimising the costs and increasing the productivity through the optimum utilisation of resources. As management helps in optimum utilisations of resources, it helps in increasing efficiency.
- (iii) **Creates dynamic organization** : Management helps an organization to adapt to the changes in external factors such as political, social, environment and economical changes.

SECTION-C

14. **Give the meaning of 'Informal Organisation'. State it's any three advantages. [4]**

OR

What is meant by 'Delegation'? State any three points which highlight the importance of delegation in an organisation.

Answer : An informal organisation is a network of social relationships that arises out of personal interactions among the employees of an organisation beyond their officially defined roles. It can be said that an informal organisational structure originates from within a formal organisation.

The following are the advantages of an informal organisation.

1. **Faster flow of communication** : As no definite path or channel of communication is followed in an informal organisation, information spreads faster.
2. **Fulfillment of social needs** : An informal organisation allows for personal communication beyond the officially defined roles. This enables the employees to interact with like-minded colleagues. This unofficial interaction provides a sense of belongingness among the employees towards one another and towards the organisation.
3. **Fulfillment of organisational objectives** : An informal organisation support the working of a formal organisation and thereby helps in the fulfillment of the organisational objectives in a better manner. For instance, the managers can interact with the worker informally and assess their views on various matters.

OR

Delegation refers to the transfer of authority and responsibility by the superior to his or her subordinates.

The following points highlight the importance of delegation in a organisation :

1. **Managerial efficiency** : By delegating work to the subordinates, the managers can concentrate on priority areas and also venture into new areas. This freedom from the routine tasks enhances the efficiency of the managers.
2. **Employee proficiency**: As the subordinates are entrusted with the responsibility of completing a task, they get an opportunity to prove their abilities and apply their skills. This help them to gain experience and improve their proficiency.
3. **Motivation** : Delegation provides the employees with psychological benefits, which motivate and encourage them to give their best to the organisation.

16. Differentiate between 'Advertising' and 'Personal Selling' on any four bases. [4]

OR

Explain the following functions of marketing:

- (i) Marketing planning; and
- (ii) Customer support services

Answer : The difference between 'Advertising' and 'Personal Selling' is given as follows :

Basis	Advertising	Personal Selling
Nature	Impersonal form of communication where the seller communicates with the customer through the media (television, newspapers, etc.)	Personal form of communication, where the seller directly interacts with the potential customer.
Reach	Broader reach, as an advertisement reaches a large number of people simultaneously.	Narrower reach, as only a few people can be contacted directly.
Flexibility	Inflexible, as advertisements are standardised and cannot be adjusted as per the requirements of different customers.	Flexible, as the seller, can adjust the message as per the requirements of different customers.

Cost	Cost per person reached is very low.	Cost per person is quite high.
------	--------------------------------------	--------------------------------

OR

- (i) **Marketing Planning** : This is one of the most important functions of marketing to develop appropriate market plan in order to accomplish the marketing goals and objectives of the organisation. Management have to develop a complete plan so that it covers all aspects of marketing such as increase in the level of production, storage and promotion related activities etc.
- (ii) **Customer Support Services** : A very important function of marketing relates to developing customer support service such as after sales services, etc. All these services aims at providing maximum satisfaction to the customers which in turn helps in procuring repeat sales from the existing customers and developing brand loyalty for the product.

21. Explain any five features of principles of management.

OR

Explain the following principles of scientific management:

- (a) harmony, not discord; and
- (b) Development of each and every person to his or her greatest efficiency and prosperity

Answer : The features of the principles of management are explained as follows :

1. **Universally applicable** : Management principles can be applied anywhere and everywhere by all types of organisation irrespective of their size, nature and region.
2. **Guidelines** : Management principles act as guidelines and are considered to be the general premises for decision making. However, they do not provide direct solutions to problems.
3. **Formed by experimentation** : Management principles have been developed over year of research and experimentation and are technical. They pertain to different working situations and can be modified by the manager as per the situations and the requirements.
4. **Flexible** : Management principles are not rigid. They are flexible enough to be used and moulded by the manager as per the need of the hour.

5. **Indicative of cause-effect relationship :**
As management principles are based on years of experimentation conducted in similar situation, they provide a definite relationship between cause and effect.

OR

(a) **Harmony, not discord :** The principle emphasises that there should be complete harmony between the management and the workers. This requires mental revolution on the part of both management and workers as both have to transform their thinking. Management should share gains of the company with the workers and workers should work hard for the welfare of the company.

(b) **Development of each and every person to his or her greatest efficiency :** This principle is concerned with the efficiency of employee which could be built right from the process of employee selection. The work assigned to the employee should suit their capabilities. They should be given required training to increase their efficiency. This ensures efficiency and prosperity for both the company and the worker.

24. **“Sound financial planning is essential for the success of any enterprise” Explain this statement by giving any six reasons.**

Answer : “Sound financial planning is essential for the success of any enterprise”. The following points explain the importance of financial planning :

(i) **Helps in facing eventual situation :** Financial planning helps in forecasting the future. In this way, it helps an organisation to cope with adverse situations and prepare for the future.

(ii) **Helps in avoiding surprises and shocks :** Through financial planning, an organisation can detect situation of shortage or surplus of funds that may arise in future. Therefore, it prepares the managers in advance for such situation.

(iii) **Improves coordination :** Through financial planning, various business activities such as sales and production are coordinated in a better manner. Such coordination ensures smooth functioning of the business.

(iv) **Reduces wastages and duplicity :** Financial planning clearly defines the policies and procedures for working, which in turn helps to reduce duplication of work as well as avoid

wastage of time and efforts by filling gaps in planning.

(v) **Helps in optimum utilisation of funds :** It ensures that situation of inadequate as well as excess funds are avoided, thereby ensuring the funds are properly and optimally utilised.

(vi) **Link between the present and the future :** Financial planning acts as a link between the present and the future. This is done by providing the information such as future availability and requirement of funds.

OR

Explain the three major decisions every manager has to take while performing the finance function.

The following are the three broad categories of financial decisions to be taken by the financial manager in an organisation :

(a) **Investment Decision :** They take the decision regarding where to invest the funds so as to earn the highest possible returns on investment. These decisions can further be bifurcated into two categories, namely long-term investment decisions and short-term investment decisions.

(i) **Long-term investment decision :** These are those decisions that affect long-term earning capacity of the business and its profitability. For example, investment in a new machine and purchase of a new building are such decisions. They are also known as ‘Capital budgeting decision’.

(ii) **Short-term investment decision :** These are the decisions that affect day-to-day working operation of a business. For example, decisions regarding cash or bill receivables are two such decisions. These decisions are also known as ‘Working capital decision’.

(b) **Financing Decision :** They take decisions regarding the identification of various sources of funds (as debt and equity) and deciding the best combination among them. These decisions are taken on the basis of risk and profitability of various alternatives.

Factors affecting Financing Decision

(i) **Cost of raising funds :** Those sources of funds are preferred that involve minimum cost.

(ii) **Risk involved :** Sources of funds that involve moderate risk are preferred over those that involve high risk. For instance, debt or debentures involve the risk of default payment which must be carefully analysed before taking the debt.

(c) **Dividend Decision** : They take the decisions regarding the distribution of profit or surplus of the company. The profits can either be distributed to the shareholders in the form of

dividends or retained by the company for future use.

●●

Business Studies 2019 (Delhi)

SET III

Time allowed : 3 hours

Maximum marks : 80

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

SECTION-A

11. Give the meaning of Financial Management. State its main objective.

OR

State any three points of importance of financial planning.

Answer : 'Financial management refers to the efficient acquisition, allocation and usage of funds by the company. It is carried out with the primary aim of reducing the cost of the funds that are procured minimising the risk and effective distribution of funds to different opportunities.

The primary objective of financial management is 'Wealth maximisation' which refers to taking those financial decision that aim at maximising the shareholders' wealth. That is, to opt for those financial decisions that proves gainful from the point of view of its shareholders. The shareholders will only gain when the market value of the shares held by them rises, which in turn takes place when the benefits from the financial decisions made by the company exceeds the cost involved. When the financial decision successfully fulfil the objective of wealth maximisation, other objectives such as proper utilisation of funds, maintenance of liquidity, maximisation of profits and meeting financial obligation are automatically fulfilled.

OR

Financial planning plays a crucial role in the success of an organisation. Its importance can be highlighted from the following factors:

1. **Helps in facing unforeseen circumstances:** Financial planning helps in forecasting future. In this way, it helps an organisation cope with adverse situation and prepare for future organisation.
2. **Helps in avoiding surprises and shocks:** Through financial planning, an organisation can detect situation of shortage or surplus of funds that may arise in future. Therefore, it prepares the organization in advance for such situation.
3. **Improves coordination** : Through financial planning, various business activities

such as sales and production are coordinated in a better manner, such coordination ensures smooth functioning of the business by providing clear policies and procedures.

12. 'Co-ordination is the essence of management'. Explain.

OR

'Art is concerned with personal application of knowledge.' In the light of this statement compare all the features of management with art and prove that it is an art.

Answer : 'Coordination is the essence of management. It can be highlighted from the given points :

- (i) **Harmonised goals** : Coordination synchronises the personal goals of the individuals and the overall goals of the organisation.
- (ii) **Allotted work** : Coordination integrates the opinions and thoughts of various specialists and departments of an organisation so as to avoid distraction and conflict among them.
- (iii) **Interdependence of division** : As an organisation has various independent department such as production, sales and finance, coordination is needed to synchronise their activities for the achievement of the common goal.

OR

'Art is concerned with the personal application of knowledge'. The features which compare management with art are as follows :

- (i) There is lot of literature available in various areas of management like marketing finance and human resources which the manager has to specialise in. Thus, there is a existence of theoretical knowledge.
- (ii) A manager applies scientific methods and body of knowledge to a given situation, issue or problems in his/her own unique manner. A good manager work through a combination of imagination, innovation and initiative.
- (iii) A good manager learns art of management by continuous practice

and training over the years. He/She is involved in the activities of the organisation, studies critical situations and formulates his/her own theories for use in a given situation.

SECTION-B

14. Price of a product is influenced by many factors. Explain any four such factors.

OR

Distinguish between 'Product' and 'Production' concepts of marketing philosophies on the following bases :

- (i) Starting Points;
- (ii) Main Focus;
- (iii) Means;
- (iv) Ends.

Answer : Price of a product is influenced by many factors. Such factors are explained below as :

- (1) **Cost of product** : The product cost involves the cost of procuring, distributing and selling the product. The costs sets the minimum level or the floor price at which product can be sold. The price should recover total costs (fixed costs as well as variable costs) in the long run including a margin of profit over and above cost.
- (2) **Price elasticity of demand for the product** : In case the demand for a product is price elastic the firm cannot charge a higher price. This is because in such a case, a slight rise in the price would result in a large fall in the demand. As against this, if the demand is price inelastic, then the firm has the privilege of charging a higher price. This is because for such product even at a high price, the demand would not fall much.
- (3) **Degree of competition in the market** : If a firm faces high competition (*i.e.* if a large number of similar product are available in the market), this suggests that a firm cannot even slightly increase the price of its product.
- (4) **Methods of marketing** : Methods of marketing used by the firm such as distribution, advertisement, customer services and branding also affect the determination of prices. If a firm incurs a huge cost on marketing of a product, then

it would generally charge a higher price.

OR

Basis	Production	Product
Starting Point	Factory area is the starting point.	Customer feed back is the starting point.
Main Focus	Focuses on quantity of product.	Focuses of quality, features and performance of the product.
Means	Ensures availability and affordability of the product by improving production and distribution capacity	Improving the quality of the product and introduction of new features in the product.
Ends	Earning profit through increase in the level of production.	Earning profit through the improvement in product quality.

18. What is meant by 'Decentralisation' ? State any three points that highlight the importance of decentralisation in an organisation.

OR

Give the meaning of 'Formal Organisation'. State its any three advantages.

Decentralisation refers to systematic delegation of authority through all the levels of management and in all departments of the organisation. Decision making authority is shared with lower level of management. The importance of decentralisation in an organisation are :

- (i) **Relief to top management** : In a decentralised organisation, top level managers are not burdened by common day to day problem. Therefore, they have enough time to plan ahead, develop new strategies and concentrate on coordination and control.
- (ii) **Develop initiative amongst subordinates** : Decentralisation helps to promote self reliance and confidence amongst the subordinates. This is because when lower level of management is given freedom to take their own decision, they learn to depend on their own judgement.
- (iii) **Develop managerial talent for future** : In decentralised organisation even lower

level managers learn the art of exercising decision making authority. This prepares them for promotion to higher level *i.e.* development of future executives.

OR

A formal organisation is a well-defined structure of authority and hierarchy that clearly specifies the boundaries of authority and responsibility in an organisation. The rules and policies to be followed are clearly stated. A formal organisation structure is deliberately created by the managers of organisation to ensure its smooth and systematic functioning. The following points highlights the advantages of the formal organisation:

- (a) **Reduced confusion** : A formal organisation clearly defines the working relationship and the hierarchy. It clearly specifies who should report to whom. In this way, it facilitates unity of command, thereby reducing confusion in the working operations.
- (b) **High stability** : By defining the procedures and rules clearly, a formal organisation makes the behaviour of the employees more predictable, bringing stability to the organisation.
- (c) **Reduced duplication of work** : Since, the responsibilities are clearly defined, there is no room for ambiguity in the roles of various employees. This helps in avoiding duplication of work and efforts.

SECTION-D

22. Explain the following techniques of scientific management :

- (a) Motion Study; and
- (b) Time Study

OR

Explain how principles of management help the managers :

- (i) in taking scientific decision; and
- (ii) in providing the managers with useful insight into real world situations.

Answer : The techniques of scientific management are explained as follows :

- (a) **Motion Study** : Motion study refers to the study of motion (or movement) of a worker involved in a given task. The study aims of identifying the unwanted actions or motions and eliminating them so that

the work can be completed in less time.

- (b) **Time study** : Time study emphasises setting a standard time limit for completing a particular job. The time taken for completing the job is measured for setting the standard time limit. This helps to decide the number of workers to be employed for a particular task, determine their wages, etc.

OR

Principle of Management help in

- (i) **Scientific Decision** : Management decision should be based on reason and proof rather than beliefs and intuitions. As the principles of management were developed from experiments on real-life problems they stand the test of logic and reasoning.
- (ii) **Insights to reality** : As management principles are based on years of experimentation and experience, they guide the managers in facing real-world problems in a more effective manner.

SECTION-E

25. 'Determining the overall cost of capital and the financial risk of the enterprise depends upon various factors.' Explain any six such factors.

OR

You are the Finance Manager of a newly established manufacturing company. Explain any six factors that you will consider while determining the fixed capital requirements of the company.

Answer : The factor affecting the capital structure are :

- (i) **Cost of debt** : Cost of debt means the expected rate of return of lenders on debt capital for assuming risk. It is the rate of interest payable on debentures or loans. More debt can be used in capital structure if rate of interest on debt is low. Debt is cheaper source of finance because interest on debt is a tax deductible expense.
- (ii) **Cost of equity** : Cost of equity means the expected rate of return on equity capital for assuming risk. It is the rate of dividend on shares. When a company increases debt, the financial risk faced by the equity holders also increases. Consequently,

their desired rate of return may increase. Therefore, a company cannot use debt beyond a point. If debt is used beyond that point, cost of equity may go up sharply and share price may decrease. Hence, for maximisation of shareholders wealth, debt can be used only up to a level.

- (iii) **Floatation costs** : Cost of raising funds is called floatation cost, *e.g.*, costs of advertising, printing prospectus, etc. Getting a loan from a financial institution may not cost so much. These considerations may also affect the choice between debt and equity.
- (iv) **Cash flow position** : A company uses more debt if it can generate enough cash inflows to pay interest on debt. On the contrary, it would be quite risky to use more debt if cash inflows are unstable.
- (v) **Control** : Debt normally does not cause a dilution of management's control over the business while issue of more equity may reduce the management's holding in the company. There is a threat of takeover also. So, if the management of a company is interested in retaining control over the affairs of the business, it will use more debt (but only up to a level)
- (vi) **Return on Investment (ROI)** : If the ROI of the company is high and is greater than rate of interest on debt, it can use more debt to increase the profit earned by equity shareholders. This is called 'Trading on Equity'.

OR

The Finance Manager of a manufacturing company considers the following points while determining the fixed capital requirements of the company :

- (i) **Nature of business** : A trading firm needs lower investment in fixed assets

since it does not require to purchase plant and machinery. So, its fixed capital requirement is lower. On the other hand, a manufacturing firm requires more fixed capital since it has to purchase plant and machinery.

- (ii) **Scale of operations** : A larger organisation operating at a higher scale needs bigger plant, more space, etc., and, therefore, requires more fixed capital as compared to a small organisation.
- (iii) **Choice of techniques** : A capital-intensive organisation requires higher investment in plant and machinery. So, requirement of fixed capital would be higher. On the contrary, labour-intensive organisation requires less investment in fixed assets. So, their fixed capital requirement is lower.
- (iv) **Technology upgradation** : In certain industries, assets become obsolete very soon, *e.g.*, computers. So, their replacement also become due faster. Hence, higher fixed capital will be require to purchased such assets.
- (v) **Financing alternatives** : When an asset is taken on lease, the firm pays lease rent and uses it. So, fixed capital requirements is low since the firm can avoid huge sums required to purchase it. On the contrary, if the asset is purchased, then fixed capital requirements will be more.
- (vi) **Diversification** : A firm may choose to diversity its operations when it has growth prospects, *e.g.*, a textile company is diversifying and starting a cement manufacturing plant. With diversification, investment in fixed assets will increase. So, the fixed capital requirement also increases.

●●