

CBSE
Class XII Business Studies
Delhi Board Paper Set 1 – 2014

Time: 3 hrs

Max. Marks: 90

Note:

- Please check that this question paper contains 12 printed pages.
- Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
- Please check that this question paper contains 30 questions.
- **Please write down the Serial Number of the question before attempting it.**
- 15 minutes time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the students will read the question paper only and will not write any answer on the answer-book during this period.

General Instructions:

- (i) All questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Questions Nos. **1 – 12** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
- (iv) Questions Nos. **13 – 18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
- (v) Questions Nos. **19 – 22** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
- (vi) Question Nos. **23 – 26** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
- (vii) Question Nos. **27 – 30** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
- (viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

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1. What is meant by 'Management of people'? **[1]**
 2. What is the objective of 'Method Study' as a technique of scientific management? **[1]**
 3. What is included in the 'political environment' of business? State. **[1]**
 4. Give the meaning of 'policy' as a type of plan. **[1]**

5. Give the meaning of 'Authority' as an element of delegation. [1]
6. State any one advantage of 'Formal Organisation'. [1]
7. Why employees become lethargic when the organisation uses internal sources of recruitment? State. [1]
8. 'Recruitment' is one of the specialised activities performed by human resources management. Mention any two other specialised activities of human resource management. [1]
9. Give an example of 'Employee Recognition Programmes' as a non- financial incentive [1]
10. What is meant by 'Encoding' as an element of communication? [1]
11. Define 'Capital Structure'. [1]
12. How does 'Inflation' affect the working capital requirements of a company? State. [1]
13. Rahim was working in an enterprise on daily wages basis. It was difficult for him to fulfill the basic needs of his family. His daughter fell ill. He had no money for his daughter's treatment. To meet the expenses of her treatment, he participated in a cycle race and won the prize money. The cycle company offered him a permanent pensionable job which he happily accepted.
- (i) By quoting the lines from the above para identify the needs of Rahim that are satisfied by the offer of Cycle Company.
 - (ii) Also, explain two other needs of Rahim followed by above that are still to be satisfied. [3]
14. How directing helps in the efficient and effective functioning of the organisation? Explain by giving any three points. [3]
15. 'Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions.' Explain any three functions of financial market.[3]
16. Crackers Ltd., a firecracker-manufacturing company, launched some new products on the eve of Diwali, which attracted many buyers. To meet the increased demand, the company employed children from nearby villages. Although the product was in great demand, appropriate safety warnings for use were not mentioned on the packets that led to many accidents.
- (i) Identify and explain the important product-related decision that was not taken into consideration by the company.
 - (ii) Also, identify any two values that were violated by the company. [3]

- 17.** State any three points of importance of consumer protection from the point of view of consumers. **[3]**
- 18.** Explain the following rights of consumers:
- (i) Right to be informed
 - (ii) Right to safety
- [3]**
- 19.** XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. The demand of lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.
- (i) Identify and explain the objectives of management discussed above.
 - (ii) State any two values which the company wanted to communicate to the society.
- [4]**
- 20.** Why is the understanding of business-environment important for managers? Explain with the help of any four points. **[4]**
- 21.** How is training of employees beneficial for the organisation? State by giving any four reasons. **[4]**
- 22.** Explain any four points that highlight the importance of financial planning, **[4]**
- 23.** Describe any five limitations of planning. **[5]**
- 24.** Differentiate between 'capital-market' and 'money-market' on the following basis:
- (i) Participants;
 - (ii) Instruments'
 - (iii) Investment outlay;
 - (iv) Duration and
 - (v) Liquidity
- [5]**
- 25.** Explain 'Price' as an element of marketing-mix. Also explain any four that affect the fixation of price of a product. **[5]**
- 26.** Principles of Taylor and Fayol are mutually complementary. One believed that, management should not close its ears to constructive suggestions made by the employees, while the other suggested that a good company should have an employee suggestion system, whereby suggestions which result in substantial time or cost reduction should be rewarded.

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

27. 'Organising involves a series of steps in order to achieve the desired goals.'

OR

With the help of any four points, explain the crucial role that organising plays in an enterprise. [6]

28. Explain the various steps in the process of controlling.

OR

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

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

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

OR

Explain the following as factors affecting dividend decision:

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

[6]

30. Explain the following functions of marketing:

- (i) Gathering and analysing market information
- (ii) Marketing planning
- (iii) Customer support services and
- (iv) Physical distribution.

OR

'Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of objections.' Explain any four such objections. [6]

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Answer 1

Management of people refers to making their strengths more effective and their weaknesses irrelevant and encouraging them to work towards achieving organisational goals.

Answer 2

The objective of method study as a technique of scientific management is to find out the best way of completing the job with a view to minimise the production cost and maximise quality and customer satisfaction.

Answer 3

The political business environment includes all the factors relevant to government affairs such as type of government in power, policy changes and law and order. It has immediate impact on the functioning of business enterprises.

Answer 4

A policy is a general statement which aims to group the efforts of an organisation towards the right direction. It is formed at every level because the managers at every level have to decide the way of managing a situation, and thus, policy acts as a guide to take a decision in an unforeseen situation.

Answer 5

Authority is the power of an individual to command and direct his subordinates to take action within the scope of his position. It flows downward from superior to subordinate.

Answer 6

One of the advantages of formal organisation is that it leads to systematic and smooth functioning of an organisation. Because the job responsibilities are well-defined in a formal organisation, there is no chance of duplication of work.

Answer 7

Internal sources of recruitment have a tendency to make employees lethargic because employees are sure of time-bound promotions and the spirit of competition among employees may be hampered.

Answer 8

Selection and training are two other specialised activities performed by human resources management.

Answer 9

Providing a certificate of achievement to employees for their excellent performance is an example of 'Employee Recognition Programmes' as a non-financial incentive. It is a very good motivator to improve the efficiency level of an employee and reach the target.

Answer 10

Encoding is the process of converting ideas and thoughts of the sender into communication symbols such as pictures and gestures.

Answer 11

Capital structure refers to the proportion of debt and equity used for financing business operations. It affects the profitability and financial risk of the business, and hence, companies generally use the concept of financial leverage to set up capital structure.

Answer 12

During the inflationary situation, there will be a rise in the prices of inputs and wages to labourers. This further leads to an increase in funds to meet the required volume of production and sales. Therefore, the working capital is affected with the inflationary condition.

Answer 13

- i. The cycle company offered Rahim a permanent pensionable job which satisfied his physiological and security needs. These needs are essential for survival. It is clearly mentioned from the statement 'It was difficult for him to fulfil the basic needs of his family'. An individual may desire to find a secure job and stable income to meet daily requirements for survival.
- ii. Two other needs which remain to be satisfied: (a) Belongingness Needs: It refers to the social needs of an individual in terms of affection and acceptance. In other words, it refers to a feeling of belongingness to society. (b) Esteem Needs: It comprises elements such as respect, dignity and recognition in the peer group.

Answer 14

Directing refers to the process of providing instructions, guidance, counselling and motivation to employees towards achieving the goals and objectives of an organisation.

- i. **Integrates employee efforts:** In the organisation, individual employee effort contributes to organisational performance.
- ii. **Means of motivation:** Guides employees to fully realise their potential and capabilities by motivating and providing effective leadership.
- iii. **Balance in the organisation:** Helps to bring stability and balance in the organisation as it fosters cooperation and communication among people.

Thus, directing helps in the efficient and effective functioning of the organisation.

Answer 15

A financial market is a market for the creation and exchange of financial assets (such as shares and debentures).

Major functions of a financial market:

- i. **Mobilising savings:** The financial market acts as a channel for mobilising savings to productive use. This is done by providing savers a platform for transferring investment. It provides savers a wide choice in investment. In this way, it ensures that the funds are directed towards the most productive investment.
- ii. **Establishing price:** The financial market facilitates the interaction between those who demand securities (households) and suppliers of securities (business firms). This helps in establishing a competing price for securities.
- iii. **Providing liquidity to assets:** By easing the process of sale and purchase of securities, the financial market provides liquidity to securities. That is, through the financial market, securities can be easily converted to cash.

Answer 16

- i. Labelling refers to providing information about the product in the form of a tag and graphic on the package of the product. It describes the product and specifies its components or other useful information such as the caution to be taken while using it and the procedure of use. Here, the company did not provide proper description on the usage of crackers, which may lead to accidents.
- ii. Values which were violated by the company are (a) Employing children, which is against the child labour law, and (b) Not protecting the safety of consumers.

Answer 17

Consumer protection refers to educating consumers regarding their rights and responsibilities along with the redressal of their grievances and complaints. Important points of consumer protection from the point of view of consumers:

- i. **Ignorance of consumers:** In India, consumers are unaware about their rights and available reliefs; it becomes important to educate them about the same.
- ii. **Exploitation of consumers:** Sellers are engaged in exploitative and unfair trade practices to increase sales, implying the need for consumer protection.
- iii. **Unorganised consumers:** In India, consumer organisations and NGOs are few and not that powerful, implying the need of protecting consumers.

Answer 18

- i. **Right to be Informed:** Every consumer has the right to have complete information with regard to goods and services. For instance, they must have information regarding quality, quantity, price, ingredients and weight of goods and services. In India, it is mandatory by law for manufacturers to provide information about the product on its package and the label. This helps the consumer in making an informed, wise choice.

- ii. **Right to Safety:** It is the right of consumers to safeguard themselves against goods and services which can be hazardous to life, health or property. For example, consumers can get injured if they use defective electrical appliances. Every consumer has the right to protect himself against such goods.

Answer 19

Social objectives of management have been discussed here. Social objective means creation of benefits for society or doing something for society. It implies that along with maximisation of profit, businessmen must provide maximum benefits to employees to make them feel satisfied and take steps to improve their standard of living in society.

So, the social objective is mentioned as 'For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.' Social objectives of management which are mentioned in the given situation:

- a. Solar lanterns, the production of environment-friendly products
- b. To facilitate electricity in rural areas
- c. Creating employment opportunities
- d. Setting up of school and crèches for children in rural areas

Two values which the company wanted to communicate to society are (a) Rural development and (b) Providing employment opportunities.

Answer 20

No organisation can function in isolation. Understanding of the business environment is of vital importance for smooth and successful functioning of an organisation. A business environment refers to the aggregate of external conditions, events and resources which are outside the control of a business but interact with it and affect its performance. In other words, everything which is outside the purview of an organisation but affects its performance composes the business environment. Some factors have direct influence and some have indirect influence on the business. A continuous evaluation and understanding of the business environment helps a firm to take account of these forces in a better manner, and thereby improve its functioning. Points highlighting the importance of understanding of environment for business enterprises:

- i. **Identification of opportunities and threats:** The business environment is ever evolving. An interaction with the environment and careful analysis will help a business identify positive opportunities. It enables the organisation to grab these opportunities, gain maximum benefit and move ahead of its competitors.
- ii. **Identification of threats:** An identification of the threats can enable the organisation to take appropriate measures such as improving the quality and features of its mobile advertising.
- iii. **Accumulating useful resources:** The environment offers itself as a source of inputs such as raw material, machinery and labour for the running of an organisation. In

return, the business supplies the environment with its output. This is possible only if the enterprises have an understanding of what the environment desires and what it can offer. Thus, it is rational for organisations to take up those resources from the environment which can be converted to the desired output.

- iv. **Adjusting to changes:** The business environment is dynamic in nature and is prone to numerous socioeconomic changes. A careful analysis and understanding of the environment helps an enterprise in adapting to these changes and taking timely actions.

Answer 21

Training refers to enhancing the skills and abilities necessary for a specific job. In other words, it attempts at improving the aptitude and knowledge of employees according to the requirements of the specific job.

Training imparts the following benefits to the organisation:

- i. **Less Wastage:** With training, employees learn to work systematically without the need of any hit and trial method. This helps in reducing the wastage of time and money.
- ii. **Higher Profits:** By developing the skills of individuals, it makes them more efficient and productive. With increase in overall productivity, the profits of the organisation rise.
- iii. **Managerial Efficiency:** Training imparts self-confidence among employees to face new challenges. It helps them to better deal with varied situations and problems.
- iv. **Reduced Absenteeism:** Effective training helps in boosting self-confidence and self-reliance of employees, which in turn helps in reducing absenteeism and employee turnover in the organisation.

Answer 22

Financial planning involves identifying the sources from where the funds can be obtained and ensuring that the required funds are available to the firm as and when needed. In this way, financial planning ensures that the various functions of the organisation are carried out smoothly.

Importance of financial planning:

- i. Identifying the sources from where the funds can be raised and ensuring that the required funds are available to the firm as and when needed. For this, under financial planning, an estimation is made regarding the amount of funds which would be required for various business operations. In addition, an estimation is made regarding the time at which the funds would be needed.
- ii. To ensure that there is proper utilisation of funds in the sense that there is neither surplus nor inadequate funding by the firm. In other words, it ensures that situations of both excess or shortage of funds are avoided. This is because while inadequate funds obstruct operations of the firm, excess funding leads to wasteful expenditure by the firm. Thus, proper financial planning ensures optimal utilisation of funds by the firm.

- iii. Proper financial planning promotes better coordination of production and sales.
- iv. By clearly defining the targets and policies, it helps in evaluating current performances.

Answer 23

Some limitations of planning which may result in abandoning or reconsidering organisational objectives:

- i. **Rigidity:** For any unforeseen conditions, the changes which can be made to a plan are limited. A major change to the already created plan is neither possible nor would do any good in the interest of an organisation. This rigid nature of a plan creates hurdles at times of unforeseen changes. Managers may sometimes require a certain degree of flexibility so as to cope with the changes in an appropriate manner. Rigidity in plans sometimes causes huge losses to the organisation and creates obstacles in the completion of objectives.
- ii. **Unfavourable for a dynamic environment:** Nothing is constant in a business environment; it is dynamic. Planning, on the other hand, completely depends on the anticipation of future happenings. As a result, both do not go hand-in-hand. Planning cannot foresee such sudden changes in the business and is full of uncertainties. This may lead to failure in the accomplishment of objectives. An organisation must adapt its functioning to the changing environment; long-term planning will make this dynamic environment less effective.
- iii. **Gigantic costs:** Planning involves analysis, research and scientific calculations which require huge cost and time. As planning is based on predictions, it requires a lot of thinking and analysing. It involves scientific calculations along with the figures and the facts which are to be used in formulating the course of action. Companies thus need to hire professionals who would formulate plans. This involves high costs. Moreover, sometimes, it might happen that the benefits derived from planning fall short of the costs incurred.
- iv. **False security:** Good planning does not guarantee success. The probability of attaining success once the plans have been put into action is odd. Often the managers tend to rely on previously tried and tested successful plans. However, the business environment is dynamic and a pretested plan may or may not work in the future. Managers tend to over think that planning can prevent problems from occurring. However, they neglect the fact that planning just provides a base for predicting the future and does not give straight away solutions to problems.

Answer 24

Points highlighting the difference between Capital Market and Money Market:

| Basis of Difference | Capital Market | Money Market |
|----------------------------|---|---|
| Participants | Financial institutions, commercial banks, corporates, foreign investors and public | RBI, commercial banks, financial institutions and financial companies |
| Instruments | Equity shares, preference shares, bonds and debentures | Short-term debt instruments such as commercial papers, treasury bills and certificates of deposit |
| Investment Outlay | Low-value securities, i.e. securities of values Rs 10 and Rs 100 | High-value securities, i.e. the minimum amount of call loan is Rs 10 crores |
| Duration | Long-term and medium-term securities having a maturity period of more than a year | Maturity period of maximum one year |
| Liquidity | Securities are liquid only to the extent that they are tradable on stock exchanges. However, they are comparatively less liquid than money market securities. | Securities are highly liquid as DFHI provides a ready market for them. |

Answer 25

Price refers to the amount of money which is paid by a consumer to obtain a product. Price is the most important factor determining the demand of a product. Demand for a product shares a negative relation with its price. Price charged by a firm affects its revenue and profits. Moreover, pricing is used as a competitive tool by firms which produce substitutable products. Marketers must analyse properly the various factors which

determine the price and decide a suitable price for the product. Thus, it is important for the firm to carefully decide the price of the product.

Factors affecting the price of a product or service:

- i. **Cost of product:** Cost of the product is the most important factor determining the price. The cost of a product can be of the following three types:
 - **Fixed cost:** These are costs which remain fixed irrespective of the level of output. For example, cost of machinery and land.
 - **Variable cost:** These are costs which vary in direct proportion with the level of output. As the level of output increases, the variable costs also increase and *vice versa*. For example, cost of labour and raw material.
 - **Semi-variable cost:** Similar to variable costs, these are costs which vary with the level of output but not in direct proportion. For example, commission paid to intermediaries.

Generally, a firm decides such a price for its product so that it can cover the various costs and earn a profit over and above it.

- ii. **Demand for product:** Another important factor determining the price of a product is the elasticity of demand for the product. Price elasticity of demand implies how responsive the demand is to the changes in price.
 - **Elastic demand:** The demand is said to be price elastic if a given proportionate change in price leads to a more than proportionate change in demand. In such a case, charging a higher price by the firm would lead to a large fall in demand.
 - **Inelastic demand:** The demand is said to be price inelastic if a given proportionate change in price does not bring about any significant change in demand. In such a case, it is possible for a firm to charge a higher price. This is because even at higher price, the demand will not fall much.

So, goods generally having an elastic demand have a comparatively lower price than those which have an inelastic demand.

- iii. **Degree of Competition in the Market:** In case there is high competition in the market, it is not possible for a firm to charge a higher price. This is because if the firm charges a higher price, consumers would shift the demand to its competitors.
- iv. **Government Regulations:** At times, the government regulates the prices of certain commodities. For example, in the market for agricultural products such as wheat and rice, the government intervenes in price determination.
- v. **Objectives of Pricing:** There are various objectives which a firm considers while deciding the price of its product. Some important objectives of pricing:
 - a. **Profit Maximisation:** Profit maximisation is one of the basic objectives of every firm. If the firm aims at profit maximisation only in the short run, then it may decide a higher price for the product. In contrast, if the firm wishes to maximise profits in the long run, then it would charge a lower price at present so that it can acquire a greater share of the market and build up consumer loyalty.

- b. **Acquiring Market Share:** If a firm aims at acquiring a greater market share, then it would charge a lower price so that it can attract a greater number of customers towards its product.
 - c. **Surviving Competition:** If the firm has to survive in high competition, then it must keep the price of the product low, else it will lose customers to competitors.
 - d. **Focus on Quality:** If the firm aims at improving the quality of the product, it may even charge a higher price so as to cover the additional costs.
- vi. **Method of Marketing:** Another important factor determining the price of a product is the methods of marketing used by the firm. For example, if the firm decides to use intense advertising, then it may charge a higher price so as to cover the costs.

Answer 26

Principles of Taylor and Fayol referred to in the given paragraph:

- i. **Principles of Taylor: Cooperation, not Individualism**
This principle states cooperation among managers and labourers over individualism. This principle was an elongation to the principle of 'Harmony, not discord'; competition should be replaced by co-operation. The manager should think about labourers and share company gains with them, awarding them with sufficient incentives to work. Also, labourers should contribute the best to the company. There should be an open communication system which will build up mutual trust and belongingness among them. Work and responsibilities should be equally divided and a sense of cooperation and coordination should be established.
- ii. **Principles of Fayol: Initiative**
According to this principle, there must be motivation and an incentive among employees to work. They must be encouraged to come up with new ideas and suggestions. However, it must be ensured that the new initiatives and ideas are in accordance with the generally followed rules and practices in the organisation. In addition, good initiatives can be suitably rewarded by managers.

Answer 27

Steps involved in the process of organising:

- i. **Identification and Division of Work:** The first step in the process of organising is to identify the various activities in the organisation and to divide them according to the plans. Division of work ensures that there is no duplication of work. In this way, it avoids the wastage of resources.
- ii. **Creation of Departments:** When the work is divided, activities which are similar are grouped together in departments. This grouping can be done on the basis of criteria such as regions and products. It promotes specialisation in work.
- iii. **Assigning Duties:** The third step is to assign and allocate the work to different employees. It must be ensured that the work is assigned according to the skills and capabilities of employees. In other words, it must be ensured that the most suitable person is selected for the work.

- iv. **Establishing Relationships:** A proper hierarchical structure must be established. Every employee must be clear that from whom he would take orders and to whom he is reporting. Such clarity in working relationships helps in smooth operations in the organisation.

OR

Organising refers to the procedure wherein various activities in an organisation are aligned in order. This function brings together human efforts and resources in the organisation. The primary focus of this function is to bring order in the working such that people work together towards the attainment of common goals and objectives of the organisation.

- i. **Benefits of Specialisation:** Systematic allocation of jobs among the workforce. Specialisation automatically comes when an individual performs one job repeatedly.
- ii. **Clarity in Working Relationships:** Managers clearly define jobs on a written document called job description, i.e. clearly spells out what exactly to perform in every job. Each manager knows very clearly to whom he can give orders and from whom he has to receive orders.
- iii. **Effective Administration:** Similar and related jobs are grouped under one department which leads to unification of efforts and harmony in work.
- iv. **Expansion and Growth:** Optimum utilisation of resources, proper division of work and departmentalisation enable companies to meet challenges and expand their activities.

Answer 28

Controlling refers to the process of evaluation and assessment of the work done. Under the process of controlling, standards are set for various tasks and activities. Accordingly, the various tasks and activities are evaluated against the set standards.

Steps involved in the controlling process:

- i. **Setting Standards:** The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets, production targets). It must be kept in mind that the set standards should facilitate easy comparison.
- ii. **Measuring Actual Performance:** The next step in the controlling process is to measure the performance of various activities. For this, various techniques can be used such as personal observation and performance reports. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.
- iii. **Comparing Performance:** After the actual performance is measured, it is then compared with the pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.

- iv. **Analysing Deviation:** With the comparison of the actual performance with the set standards, the deviations in performance are identified. For analysing deviations, the following methods can be used:
- **Critical Point Control:** According to this technique, rather than controlling all the activities in the management, only the key result areas (those that affect the entire organisation) should be focused on.
 - **Management by Exception:** According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.
- Deviations should be identified and their causes must be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.
- v. **Corrective Measures:** In case deviations are beyond the acceptable range, it becomes necessary to take corrective action. It must be ensured that the deviations do not occur again.

OR

Controlling refers to making sure that the various activities and tasks in an organisation are carried out according to the predefined goals and objectives.

Points highlighting the importance of planning in an organisation:

- i. **Achieving goals:** Controlling ensures that various activities are carried out correctly according to the plans. It ensures that deviations if any are identified and appropriate corrective action is taken.
- ii. **Reviewing standards:** An effective control system ensures that the standards are set accurately. As the business environment changes, it ensures that the standards are also reviewed so as to adapt to the changes taking place.
- iii. **Enables efficiency in resource utilisation:** An effective control system ensures that there is minimum wastage of resources. In other words, it ensures that the resources are utilised optimally and in the most efficient manner.
- iv. **Better motivation:** With controlling, employees know what is expected from them and how their performance would be evaluated. This clarity motivates employees to perform better.
- v. **Maintain order:** Controlling helps keep a close watch on the activities and behaviour of employees. In this way, it helps in maintaining order and discipline in the organisation.
- vi. **Ensures coordination:** With proper controlling, the efforts of the various departments can be unified towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments.

Answer 29

- i. **Scale of operations:** A company with large-scale operations will require larger fixed assets in the form of plants, land and building.

Larger organisation \Rightarrow Higher investment in fixed assets

Small organisation \Rightarrow Lower investment in fixed assets

- ii. **Choice of technique:** A company may use labour-intensive or capital-intensive techniques. A company using capital-intensive techniques will require larger fixed assets, whereas a company using labour-intensive technique will require less fixed assets.

Capital-intensive organisation \Rightarrow Higher investment in fixed assets

Labour-intensive organisation \Rightarrow Lower investment in fixed assets

- iii. **Technology upgradation:** Due to changes in technology or it becoming obsolete over time, companies require a large amount of investment in fixed capital. For example, certain machinery becomes obsolete very soon compared to other assets such as furniture. Therefore, a larger fixed capital is required for upgradation.

Faster upgradation \Rightarrow Higher investment in fixed assets

Slower upgradation \Rightarrow Lower investment in fixed assets

- iv. **Financing alternatives:**

If leasing facilities are available without any lengthy procedures in the financial market, then the fixed capital requirements will be less.

Non-availability of financing alternatives \Rightarrow More fixed capital

Availability of financing alternatives \Rightarrow Less fixed capital

OR

- i. **Stable Earnings:** A company with stable and smooth earnings can pay higher dividends to shareholders than a company which has unstable and uneven earnings.
- ii. **Growth Prospects:** Companies with higher growth prospects prefer to retain a greater portion of their earnings for future reinvestment. Accordingly, they pay lesser dividends.
- iii. **Cash Flow Position:** Payment of dividends implies a cash outflow from the company. If a company has lesser cash (low liquidity), then it will not be able to pay many dividends. Even with higher profits, a company would not be able to pay many dividends even when it has less cash.
- iv. **Taxation Policy:** Taxation policy of the government is an important factor in taking the dividend decision. For instance, if the rate of taxation on dividend is high, then the company may not distribute many dividends.

Answer 30

- i. **Gathering and analysing market information:** Marketer analyses the prevailing trend in the market and identify the best opportunities. Collecting information of the target market segment including size of market and behaviour, culture, needs and wants of customers.
- ii. **Marketing planning:** Creating a market plan to achieve the marketing goals and objectives of the organisation. Market research is conducted to analyse the preferences of the

customers to formulate a suitable plan.

- iii. **Customer support services:** Involve handling complaints and feedback of customers. Customer support services are developed such as credit, maintenance, technical services, consumer information etc. These customer services are provided to satisfy customers and to make them a permanent customer for their products.
- iv. **Physical distribution:** Channels of distribution are to be decided through which products would be moved from the place of production to the place of consumption. Choosing an appropriate distribution channel holds more importance because an inappropriate distribution channel may either lead to an increase in the price of the good or decrease in the quality of the product.

OR

There are different views with regard to expenditure on advertising. On one hand, it is considered a social waste as it adds to the cost of production, weakens social values and adds to consumer needs and desires. On the other hand, it is beneficial as it helps in enhancing the sales of the product of the firm.

Points stating that advertising is a waste to the firm:

- i. **Higher Cost:** Expenses on advertisement add to the cost of the product and the firm, and these are then passed on as additional cost to consumers in the form of higher prices.
- ii. However, advertising helps in attracting consumers to the product. Accordingly, the demand for the product increases. To cater to the increased demand, the production increases. An increase in the production, in turn, lowers the per unit cost of production.
- iii. **Creates Confusion:** It is argued that with advertisements of a large number of similar products, the consumer often gets confused. In contrast, those who support advertisements argue that they help in increasing the knowledge of the consumer with regard to the availability of different products in the market. In this way, it increases their choice and helps them in making an informed decision with regard to purchase of the product.
- iv. **Promotes Inferior Goods:** Advertisements induce consumers to purchase the product. Even inferior goods can be advertised, and their demand be induced. However, it is said that quality is only a relative product. Advertisements provide knowledge with regard to all kinds of products. Whether to purchase the product or not is up to consumers themselves.
- v. **Objectionable Advertisements:** Sometimes, advertisements can be objectionable in the sense that they undermine social values. For instance, in certain advertisements, women are shown in an objectionable manner. Sometimes, the language, images and content of the advertisement may not appeal to society at large.