

CBSE Class 12 Business Studies
Sample Paper 04 (2020-21)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

- i. This question paper contains 34 questions.
- ii. Marks are indicated against each question.
- iii. Answer should be brief and to the point.
- iv. Answers to the questions carrying 3 marks may be from 50 to 75 words.
- v. Answers to the questions carrying 4 marks may be about 150 words.
- vi. Answers to the questions carrying 6 marks may be about 200 words.
- vii. Attempt all parts of the questions together.

Section A

1. Under training the employees are trained in _____ field/fields.
 - a. A particular
 - b. Three
 - c. All
 - d. Two
2. _____ is the central point in the marketing point of view.
 - a. Quality of the Product
 - b. Quantity of Product
 - c. Customer's satisfaction
 - d. Customer's welfare
3. No interference of superior in taking decisions by subordinates in:
 - a. Free rein leadership
 - b. Paternalistic leadership
 - c. Autocratic leadership
 - d. Democratic leadership
4. The income and expenditure policy of the government is called _____.

- a. Monetary Reforms
 - b. Trade Policy
 - c. Industrial Policy
 - d. Fiscal Policy
5. It is a limitation of functional structure:
- a. functional empire
 - b. decentralization
 - c. create chaos
 - d. functional specialization
6. If there is lack of motivation among employees, suggest one better corrective action:
- a. Providing Suitable incentives
 - b. Deal Strictly
 - c. New Recruitment
 - d. Warning to employees
7. Gross Domestic Product (GDP) is concerned with _____.
- a. Legal Environment
 - b. Social Environment
 - c. Economic Environment
 - d. Political Environment
8. Loss of letter during the process of communication is the example of _____.
- a. encoding
 - b. decoding
 - c. noise
 - d. message
9. Under marketing mix which of the following is not a part of Product?
- a. Brand Name
 - b. Quality
 - c. Design
 - d. List price
10. Cost of advertising and printing prospectus is called _____.
- a. Floatation cost
 - b. Dividend cost
 - c. Debt cost

- d. Equity cost
- 11. Recruitment is a _____ process.
 - a. Quantitative
 - b. Qualitative
 - c. Negative
 - d. Positive

OR

Which is not included in the Internal Source of Recruitment?

- a. Transfer
 - b. Promotion
 - c. Trade union and employment exchanges
 - d. Trade Union
12. What out of the following is the effect of optimal capital structure?
- a. Increase in the value of equity share
 - b. Increase in shareholders wealth
 - c. All of these
 - d. Low financial risk

13. **Read the following text and answer the question:**

In Shekhawat Ltd., Karanpreet working as a 'Production Manager' is a different person and has his own personalized and unique style of managing things and people. He tells his employees that we should work with team spirit, coordination and towards achieving the organisational goals. In a board meeting, it has been decided that the company will change some of its product features so as to make it more useful for the customers and to face intense competition. Karanpreet explains the decision taken in a board meeting to all the employees of the organisation.

- i. "In Shekhawat ltd. Kranpreet working as 'Production Manager' is a different person and has his own personalized and unique style of managing things and people."

Identify the nature of management highlighted in the statement.

- a. Profession
- b. Art
- c. Science
- d. None of the above

- ii. "In a board meeting, it has been decided that the company will change some of its product features so as to make it more useful for the customers and to face the intense competition." Which characteristic of management is reflected in the statement?
 - a. Management is a continuous process
 - b. Management is group activity
 - c. Management is multi-dimensional
 - d. Management is a dynamic function
- iii. At which level Karanpreet is working?
 - a. Top-level
 - b. Middle-level
 - c. Lower-level
 - d. Supervisory level
- iv. Karanpreet tells his employees that we should work with team spirit, coordination and towards achieving organisational goals. Identify the characteristic of management highlighted here.
 - a. Management is a goal-oriented
 - b. Management is all-pervasive
 - c. Management is a continuous process
 - d. Management is a group activity

14. Read the following passage carefully and answer the questions that follow:

Two years ago Radhika completed her degree in food technology. She worked for some time in a company manufacturing chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated an action plan to achieve the same. One of her objectives was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices, etc. will be purchased on three months' credit from farmers cultivating organic crops only. She also decided to follow the steps required for the marketing of the products through her own outlets. She appointed Rakesh as a production manager who decides the exact manner in which the production activities are to be carried out. Rakesh also prepared a statement showing the number of workers that will be required in the factory throughout the year. Radhika informed Mohan about her sales target for different products, area wise for the forthcoming quarter. While working on the production table a penalty of 100 per day for not wearing

the caps, gloves and apron was announced.

- i. One of the aims was to earn a 10% profit on the amount invested in the first year.

Which type of plan has been discussed here?

- a. Objectives
- b. Standing Plan
- c. Policy
- d. Rule

- ii. Raw materials like fruits, vegetables, spices, etc. will be purchased on three months' credit from farmers cultivating organic crops only. Which type of plan has been discussed here?

- a. Objectives
- b. Standing Plan
- c. Policy
- d. Rule

- iii. To follow the steps required for the marketing of the products. Which type of plan has been discussed here?

- a. Objectives
- b. Standing Plan
- c. Procedure
- d. Rule

- iv. Statement showing the number of workers that will be required in the factory throughout the year. Which type of plan has been discussed here?

- a. Objectives
- b. Programme
- c. Policy
- d. Rule

15. Having transformed 2500 Kirana stores across eight cities in to virtual super markets, the start up Quick Bizz further decided in advance, to collaborate with 15,000-20,000 store owners in top 30 cities of the country by the end of this year. The company has set its eye on digitizing over 1,00,000 kirana stores over next 18-24 months.

- a. Identify and explain the step in the process of one of the functions of management discussed above.
- b. Also explain the last step to be performed by Quick Bizz as part of the process.

16. Ashita and Lakshita are employees working in Dazzling enterprises dealing in costume jewellery. The firm secured an urgent order for 1,000 bracelets that were to be delivered within 4 days. They were assigned the responsibility of producing 500 bracelets each at a cost of Rs 100 per bracelet. Ashita was able to produce the required number within the stipulated time at the cost of Rs 55,000 whereas, Lakshita was able to produce only 450 units at a cost of Rs 90 per unit.
- State whether Ashita and Lakshita are efficient and effective. Give reasons to justify your answer.
17. 'Controlling is forward looking'. Explain.

OR

Explain how controlling helps in

- i. Accomplishing organisational goals
 - ii. Judging accuracy of standards
18. To avoid the problem of shortage and surplus of funds, what is required in financial management? Name the concept and explain its three points of importance.

OR

Ketan won a cash prize of Rs. 20,000 in the National level Robotics Competition. On the advice of his father, he visits a nearby bank to open a Fixed deposit account in his name with the prize money. His sister Suhasini accompanied him to the bank. On reaching the bank, he notices big banners which are placed within the premises containing information about the various arrangements through which corporates may raise their capital through the bank. Being a finance graduate, Suhasini explains to Ketan that banks play the role of the financial intermediary by helping in the process of channelizing the savings of the households into the most profitable business ventures.

In the context of the above case:

- a. Name another financial intermediary that helps in the process of channelizing the savings of the households into the most productive use.
 - b. Also, outline any two functions of another financial intermediary as identified in part (a).
19. Explain assumptions of Maslow's need hierarchy theory.

20. State one developmental function of SEBI.
21. Despite internal sources of recruitment being economical, why do companies not always use this source? Explain any four reasons.
22. Define marketing management. State any three objectives of marketing management.

OR

Agree with the statement "Money spent on advertisement is not a waste but an investment". Give reasons in support of your answer.

23. Define 'Employment Exchanges' 'Personnel Consultants' and 'Media Advertising' as external sources of recruitment.
24. Your friend bought an air-conditioner from Dahiya Electronics. When he fitted the air conditioner at home, he discovered that it was not functioning. The shopkeeper now refuses to exchange the air-conditioner or return the money. Where and how can your friend file a complaint to get redressal of his grievance?
25. Sanket, after completing his entrepreneurship course from U.S.A. returned to India and started a coffee shop 'Fioma Coffee' in a famous mall in Mumbai. The speciality of the coffee shop was the special aroma of coffee and a wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular. Sanket was keen to find out the reason. He appointed Riya, an MBA from a reputed management institute as a manager to find out the causes of the business not doing well.
Riya took a feedback from the clients and found out that though they loved the special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed and found out that there were many unnecessary obstructions which could be eliminated. She fixed a standard time for processing order. She also realised that there were many flavours whose demand was not enough. So, she also decided to discontinue the sale of such flavours. As a result, within a short period, Riya was able to attract the customers. Identify and explain any two techniques of scientific management used by Riya to solve the problem.
26. How are the shareholders likely to gain with loan components in capital employed? Explain with suitable example.

OR

What is working capital? How is it calculated? Discuss the important determinants of working capital requirement.

27. What is a divisional structure? Discuss its advantages and limitations.
28. Price of a product is influenced by many factors. Explain any four such factors.

OR

Distinguish between advertising and personal selling.

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Solution

Section A

1. (a) A particular
Explanation: A particular training is provided.
2. (c) Customer's satisfaction
Explanation: Customer's satisfaction is the main focus of marketing.
3. (a) Free rein leadership
Explanation: Free rein leadership: Followers are given a high degree of independence to formulate their own objectives and ways to achieve them.
4. (d) Fiscal Policy
Explanation: Fiscal Policy is a statement showing all the expenses and incomes of the government.
5. (c) create chaos
Explanation: Conflict of interest arises when departments are not compatible.
6. (a) Providing Suitable incentives
Explanation: The most impressive and effective corrective action is designing suitable incentives to boost performance.
7. (c) Economic Environment
Explanation: The economic environment consists of Gross Domestic Product, Income level at national level and per capita level, profit-earning rate, fiscal, monetary and industrial policy of govt etc.
8. (c) noise
Explanation: Noise, because it is obstruction caused by sender, message or receiver during the process of communication.
9. (d) List price
Explanation: List price is not a part of the product in marketing mix it is the part of price mix.
10. (a) Floatation cost
Explanation: Flotation costs include the costs of printing the certificates, paying the

underwriters, government fees, and other associated costs etc.

11. (d) Positive

Explanation: Positive process

OR

(c) Trade union and employment exchanges

Explanation: Both are not internal source

12. (c) All of these

Explanation: The capital structure of a company affects both the profitability and the financial risk. A capital structure will be said to be optimal when the proportion of debt and equity is such that it results in an increase in the value of the equity share. In other words, all decisions relating to the capital structure should emphasize increasing the shareholders' wealth.

13. i. (b) Art

ii. (d) Management is a dynamic function

iii. (b) Middle-level Management

iv. (d) Management is a group activity

14. i. (a) Objectives

ii. (c) Policy

iii. (c) Procedure

iv. (b) Programme

15. i. Following is the first step in process of Planning: Setting objectives: The first and foremost step is setting objectives. Objectives may be set for the entire organization and each department or unit within the organization. Objectives or goals specify what the organization wants to achieve. Objectives should be stated clearly. Management must contribute ideas and participate in the objective setting process. If the end result is clear it becomes easier to work towards the goal.

ii. Following is the last step to be performed by Quick Bizz as part of the process of Planning: Follow up action: To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved.

16. i. Management is the process of getting a task done with the aim of achieving the goals of the organization in an effective and efficient manner. The term effective means

completing the given task and achieving the goals. On the other hand, efficiency means completing the task correctly with minimum cost and time.

- ii. Ashita was effective because she completed her task within time but not efficient as they had to bear an extra cost of Rs. 55000.
 - iii. Lakshita was neither effective nor efficient as she did not complete her task on time.
 - iv. For long term survival and growth of a business, the management must try to achieve goals (ie effectiveness) at a minimum cost (i.e. with efficiency)
17. Under controlling , expected results are compared with actual results. Deviations, if any, should lead to investigation of the factors responsible which may effect future operations Remedial actions should be followed so as to prevent the occurrence of defects thereafter In other words, control must ensure timely detection of deviations and prevention of their repetition in future.

OR

- 1. **Accomplishing organisational goals:** Controlling helps in comparing the actual performance with the predetermined standards, finding out deviation and taking corrective measures to ensure that the activities are performed according to plans. Thus, it helps in achieving organisational goals.
 - 2. **Judging accuracy of standards:** An efficient control system helps in judging the accuracy of standards. It further helps in reviewing & revising the standards according to the changes in the organisation and the environment.
18. To avoid the problem of shortage and surplus of funds, proper financial planning is required. Importance of financial planning is:
- 1. **Helps in Forecasting:** It helps in analyzing and interpreting the near future business trends i.e. ups and downs.
Example: A growth rate of 15% in sales is predicted. However, it may happen that the growth rate eventually turns out to be 10% or 20%. Many items of expenses shall be different in these three situations. By preparing a blueprint of these three situations a firm may decide what is to be done in each of these situations.
 - 2. **Avoids Business Shocks:** As the business environment is dynamic, sound financial planning enables the business to absorb shocks which may hamper its progress.
 - 3. **Helps in Co-ordination:** Financial planning plays important role in coordinating various business functions i.e. sales, production, and marketing functions by

providing the effective policies and procedures.

OR

- a. Financial markets is the other financial intermediary that helps in the process of channelizing the savings of the households into the most productive use. Financial market prices may not indicate the true intrinsic value of a stock due to macroeconomic forces like taxes. In addition, the prices of securities are heavily reliant on informational transparency to ensure efficient and appropriate prices are set by the market.
 - b. The two functions of financial market are as follows:
 - i. It helps to determine the price for the financial asset in a particular financial market through the market forces of demand and supply
 - ii. It provides liquidity to the financial assets by providing ready markets wherein the securities can be converted into cash or vice versa easily.
19. The assumptions of Maslow's need hierarchy theory are as follow:
- i. People's behaviour is based on their needs. Satisfaction of such needs influences their behavior.
 - ii. People's needs are in hierarchical order, starting from basic needs to other higher level needs.
 - iii. A satisfied need can no longer motivate a person; only next higher level need can motivate him.
 - iv. A person moves to the next higher level of the hierarchy only when the lower need is satisfied.
20. SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:
- a. SEBI has permitted internet trading through registered stock brokers.
 - b. SEBI has made underwriting optional to reduce the cost of issue.
 - c. Even initial public offer of primary market is permitted through stock exchange.
21. The internal source of recruitment is economical as it increases the motivation among the existing employees. Moreover, it is easier selection. But companies do not always use internal sources because of the following reasons:
- i. **Ignorance of talented people:** Internal recruitment is concerned with filling the vacancies through internal promotions. Consequently, old people run the

organisation. It reduces the scope for the induction of new idea and fresh talent.

- ii. **Casual attitude of employees:** Employees may become lethargic. Surety of promotion reduces their performance.
 - iii. **Not suitable for a new enterprise:** Internal source of recruitment is suitable only for the previously established organizations. A new enterprise has to use an external source of recruitment.
 - iv. **Lack of competition:** Employees are sure about their promotion. It reduces the spirit of competition among the employees and affects the overall performance of the organisation.
22. According to Philip Kotler, 'Marketing management is an art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer values of management'. It refers to planning, organizing, directing and control of the activities which facilitate the exchange of goods and services between producers and consumers of products and services. The three main objectives of marketing management are as follows
- i. **Creation of demand:** The marketing manager always tries to create the demand not by unfair means but by analyzing the needs and wants of the customers and then producing the products, which satisfies the customer's need and attract more customer to the firm's product so that the firm also grow.
 - ii. **Market share:** Every business firm wants to capture a larger share of the market and it can only be done with the help of marketing only, Therefore, marketing techniques adopted by marketing manager help to get a big share in the market.
 - iii. **Goodwill and reputation:** Marketing management helps a firm in building the image for its products through advertising, high quality, caring for customer satisfaction, after sale service, smooth supply, etc.If the firm makes uniformity and consistency in the output as per the requirements of customers than it can capture a big share in the market easily with a good brand name and goodwill.

OR

Yes, I agree with the given statement because

- **Creates Demand:** Advertising is a medium through which a large number of people can be reached over a vast geographical area.This enables to create demand by making people aware of new products.

- **Enhancing customer satisfaction:** Advertising creates confidence amongst prospective buyers as they feel more comfortable and assured about the product quality and hence feel more satisfied.
- **Expressiveness:** Advertising enables the advertiser to prepare message with the help of latest techniques, graphics and multimedia, drawings, colour, illustration, sound, pictures, music, etc. This enables the advertiser to achieve enhanced communication effectiveness.
- **Economy:** It is economical since it is capable of delivering message to a large audience. The cost of reaching a prospect tends to be much less than other forms of communication example, the cost of a ten seconds television commercial during the prime time may be as high as ₹10 lakh, but given the reach of the television the per prospect exposure would be very low.

- 23.
- **Personnel consultants:** In technical and professional areas, private agencies or personnel consultants appear to be doing substantive work. Placement agencies provide a nationwide service in matching personnel demand and supply. These agencies compile bio-data of a large number of candidates and recommend suitable names to their clients. Such agencies charge fee for their services and they are useful where extensive screening is required. These professional recruiters can entice the needed top executives from other companies by making the right offers.
 - **Employment exchanges:** Employment exchanges run by the Government are regarded as a good source of recruitment for unskilled and skilled operative jobs. In some cases, compulsory notification of vacancies to employment exchange is required by law. Thus, employment exchanges help to match personnel demand and supply by serving as link between job-seekers and employers. Unfortunately, the records of employment exchange are often not upto date and many of the candidates referred by them may not be found suitable.
 - **Media advertising:** Advertisement in newspapers or trade and professional journals is generally used when a wider choice is required. Most of the senior positions of industry as well as commerce are filled by this method. The advantage of advertising vacancies is that more information about the organisation and job can be given in the advertisement. Advertisement gives the management a wider range of candidates from whom to choose. Advertisements may be placed in

leading newspapers. Its disadvantage is that it may bring in a flood of response, and many times, from quite unsuitable candidates.

24. Since the amount of air-conditioner and the compensation claimed is less than ₹20 lakhs, my friend will file a complaint before District Forum.

My friend can make his complaint in person or by an authorised agent or by post. The complaint can be written on a plain paper duly supported by documentary evidence in support of the allegation contained in the complaint. The complaint should contain the nature, description and address of the complainant as well as the opposite party and the facts relating to the complaint. The complaint should specify the relief sought.

25. Riya was able to interpret the real cause(s) of the dip in the sale of coffee in a short period of time which itself shows that she has a scientific outlook towards every situation. The two techniques of Scientific Management which were adopted by her were:

- i. **Time study:** It refers to determine the standard time required to complete a particular activity. The standard time is determined on the basis of average time taken to complete the work. This study is conducted with the help of a stopwatch. The main objective of this study is to get the estimated figure for labour cost to determine the number of required workers and to decide the suitable incentive plan. In this case, Riya was able to understand that there had been certain unwanted activities which were resulting in excess consumption of time.
- ii. **Simplification:** It helps in eliminating unnecessary diversity of products and thus, results in saving cost. It aims at eliminating superfluous varieties, sizes and dimensions. it leads to a reduction in wastage of inventories, fuller utilisation of equipment and increased turnover.

26. With a debt component in the total capital, shareholder; are likely to have the benefit of a higher rate of return on the share capital. This is because debt/loan carries a fixed charge and the amount of interest paid is deductible from the earnings before tax payment. The benefit to the shareholders will be realized only if the average rate of return on total capital invested is more than the rate of interest payable on loan/debt, For example, Let us consider two public companies X Ltd and Y Ltd.

The following calculation will show how trading on equity increases the return on equity shares

i.

X Ltd	Amt

Capital(Equity shares of 10 Rs each)	10,00,000*
Profit Before Interest and Tax(EBIT)	1,00,000
(-)Tax @ 50 %	<u>(50,000)</u>
Earning After Tax(EAT)	<u>50,000</u>
Earning Per Share(EPS) = $\frac{\text{Earning After Tax}}{\text{Number of Shares}}$	$\frac{50,000}{1,00,000} = 0.50 \text{ Rs}$

ii.

Y Ltd	Amt
Capital(Equity shares of 10 Rs each)	<u>10,00,000</u>
8% Debentures	8,00,000
	<u>2,00,000</u>
Profit Before Interest and Tax(EBIT)	1,00,000
(-) Interest @ 8%(of 2,00,000)	(16,000)
Earning before Tax(EBT)	84,000
(-)Tax @ 50 %	<u>(42,000)</u>
Earning after tax (EAT)	
	42,000
Earning Per Share(EPS) = $\frac{\text{Earning After Tax}}{\text{Number of Shareholders}}$	$\frac{42,000}{80,000} = 0.525 \text{ Rs}$

Thus, it can be concluded that Y LTD using cost source, i.e. debentures, earn a relatively high rate of return on equity capital.

On the other hand, when the return on investment is less than the rate of interest than the inclusion of more of debt becomes less profitable as it decreases the Earning Per Share.

i.

X Ltd	Amt
Capital(Equity shares of 10 Rs each)	10,00,000*
Profit Before Interest and Tax(EBIT)	1,00,000
(-)Tax @ 50 %	<u>(50,000)</u>
Earning After Tax(EAT)	<u>50,000</u>

Earning Per Share(EPS) = $\frac{\text{Earning After Tax}}{\text{Number of Shares}}$	$\frac{50,000}{1,00,000} = 0.50 \text{ Rs}$
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ii.

Y Ltd	Amt
Capital(Equity shares of 10 Rs each)	<u>10,00,000</u>
12% Debentures	8,00,000
	<u>2,00,000</u>
Profit Before Interest and Tax(EBIT)	1,00,000
(-) Interest @ 8%(of 2,00,000)	(24,000)
Earning before Tax(EBT)	76,000
(-)Tax @ 50 %	<u>(38,000)</u>
Earning after tax (EAT)	
	38,000
Earning Per Share(EPS) = $\frac{\text{Earning After Tax}}{\text{Number of Shareholders}}$	$\frac{38,000}{80,000} = 0.475 \text{ Rs}$

OR

Working capital refers to the excess of current assets over current liabilities.

Working Capital = Current Assets – Current Liabilities

- i. **Scale of operations:** Requirement of working capital depends upon the scale of operations.
 - More working capital is required if a business firm operating on a large scale.
 - Less working capital is required if the business firm operates on a small scale.
- ii. **Business Cycle:** Requirement of working capital also depend upon different phases of business cycles.
 - In the case of the boom, a large amount of working capital is required as there is more demand for the product.
 - In the case of depression, less amount of working capital is required as there is less demand for the product.
- iii. **Seasonal Factors:** Seasonal factors play important role in the working capital requirement.
 - In peak season, more working capital is required because of a higher level of

activities.

- In lean season, less working capital is required because the level of activity is less.

iv. **Production Cycle:** There is always a time gap between receipt of raw material and its conversion into finished goods. This time gap is called the production cycle.

- In the case of a long production cycle, more working capital is required because more funds are required to buy raw materials and to meet the expenses.
- In the case of a shorter production cycle, less working capital is required because fewer funds are required to buy raw materials and to meet the expenses.

v. **Credit Allowed:** Requirement of working capital also depend upon the credit terms allowed to the customers.

- If a business firm adopts a liberal credit policy, it will result in less liquidity and higher amounts of debtors. In such a case more working capital is required.
- If a business firm adopts short-term credit policy, less working capital is required. In such a case less working capital is required.

vi. **Credit Availed:** It is the amount of credit which the business gets from its suppliers.

- If credit availed is less more working capital is required as more funds are required to meet the credit requirements.
- If credit availed is more, less working capital is required as fewer funds are required to meet the credit requirements.

27. **Divisional Structure:** In a divisional structure, all activities of the organization are grouped into a number of divisions. Divisions may be created either on the basis of products or territories. Each unit has a divisional manager responsible for the performance and who has authority over the unit. Each division performs different activities together like the production of goods, marketing, purchase etc. to achieve the organizational objectives. Each department is headed by a functional head, who has to carry out all functional activities concerned with the department.

Advantages of Divisional Structure

- i. **Product Specialization:** Divisional structure leads to product specialization. A divisional head gains experience and specialisation in all functions related to a

particular product. This specialization helps in the development of varied skills in a divisional head and he may prepare himself for the higher positions.

- ii. **Expansion and Growth:** Divisional structure plays important role in adding new divisions without interrupting the existing ones. It leads to expansion and growth of an enterprise.
- iii. **Promotes flexibility and initiative:** Divisional structure allows each division to work as an autonomous unit. This encourages fast decision making and avoids unnecessary delays. It promotes flexibility and initiative.
- iv. **Accountability:** It is easy to measure the performance of each division because the divisional heads are accountable for profits. It is easy to identify revenues and costs related to different departments. It helps in proper performance measurement. It is also helpful in fixation of responsibility in case of poor performance by any division and appropriate remedial action can be taken.

Disadvantages/Limitations of Divisional Structure

- i. **Misuse of Authority:** Divisional structure provides authority to division managers to supervise all activities related to a particular division. Such a manager may misuse his authority and ignore organizational interests.
 - ii. **Conflict:** Divisional structure may lead to conflict and confusion between different divisions regarding the allocation of funds and resources. A particular division may seek to maximize its profits at the cost of other divisions.
 - iii. **Duplication of Activities:** There may be a duplication of activities which increase the costs. Similar activities are performed in all division which leads to duplication of work and increases expenditure.
28. Price is an element of marketing mix which refers to all important decisions relating to the fixation of the price of a product.
- Some factors that must be taken into consideration are:
- i. **Production cost:** The price should recover all costs viz. fixed costs, variable costs and semi-variable costs apart from obviously including a fair return for undertaking the marketing effort and risk.
 - ii. **Utility and demand:** While determining the price of any product, the utility provided by it and the intensity of demand should not be ignored. If a buyer is satisfied that the given product meets his/ her requirement, he would also be ready to pay the cost and

reasonable margin to the producer.

- iii. **Extent of competition in the market:** In the case of monopoly, a firm can enjoy complete freedom in fixing prices. However, if it is facing competition, it should consider the prices charged by the competitors also.
- iv. **Government and legal regulations:** Government plays an important role in regulating the prices. For example, Life Saving Drugs, etc.

OR

Difference between advertising and personal selling:

Basis	Advertising	Personal Selling
Form	Advertising is an impersonal paid form of communication by an identified sponsor.	Personal selling is a personal form of communication. There is a face to face interaction between buyer and seller.
Flexible Vs Inflexible	Advertising is inflexible because it cannot be adjusted as per the need of the customers once it started then it will not stop for any query.	Personal selling is fully flexible because the message can be adjusted as per the need of the buyers.
Scope	The scope of advertising is wider because it can approach a large number of people as its reach to everywhere across the country.	The scope of personal selling is limited because an only limited number of people can be contacted through personal selling as it just covered a society.
Time	Advertising takes less time to cover the market and to spread the information about the product as it is the fastest form of communication.	It takes a lot of time to cover the entire market because of face to face conversation
Feedback	Advertising lacks direct feedback because it is nonpersonal forms of communication.	It provides direct and accurate feedback due to face to face conversation.

Useful	Advertising is useful in selling consumer products as it reaches to mass users.	Personal selling is useful in selling industrial products like machines and equipment of production as it needs to personal attention.
Role	It is more useful in creating and building interest of the consumers in the firm's products	It plays an important role in the awareness stage of decision making.