

CBSE Class 12 Business Studies
Sample Paper 06 (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. What is the first step in the process of selection?
 - a. Job Offer
 - b. Preliminary Screening
 - c. Selection Tests
 - d. Selection Decision
2. Describes the product and specify its contents is the function of:
 - a. Labelling
 - b. Advertising
 - c. Branding
 - d. Sales promotion
3. _____ is an example of monetary incentive.
 - a. Job
 - b. Bonus
 - c. Status
 - d. Job Security
4. According to a recent survey, 90% students have shifted 4G and 5G phones from 2G and

- 3G phones. It is an example of _____ environment.
- social
 - economic
 - political
 - technological
5. Which one of the following is not a part of process of organisation?
- Doing complete centralisation
 - Grouping of activities
 - Defining inter-relationship
 - Knowing the objectives of enterprise
6. What is the first step in controlling process?
- Measurement of actual performance
 - Analysing deviations
 - Comparing actual performance with standards
 - Setting performance standards
7. Trade Policy brings under control the _____.
- Import Trade
 - Foreign Trade
 - Export Trade
 - Local Trade
8. Which of the following is the example of negative motivation?
- Suspension
 - Demotion
 - Termination
 - All of these
9. What type of relationship exists between the level of satisfaction of customers and the level of inventory?
- Indirect
 - Indifferent
 - Direct
 - According to the situation
10. What is the cost of raising funds called?
- Variable Cost

- b. Fixed Cost
 - c. Marginal Cost
 - d. Flotation Cost
11. With what responsibility is staffing related to?
- a. Government
 - b. Political
 - c. Individual
 - d. Social

OR

It is a mechanism that attempts to measure certain characteristics of an individual:

- a. Interest test
 - b. Trade test
 - c. Intelligence test
 - d. Selection test
12. What is the meaning of the management of working capital?
- A. To maintain the continuity of a sufficient amount of working capital.
 - B. To make cash available in the large amount.
 - C. To keep the working capital at the minimum level.
 - D. To keep the working capital at the maximum level.
- a. Only D
 - b. Only A
 - c. Only C
 - d. Only B
13. **Read the following text and answer the question:**

Mohan works in a bulb manufacturing company. Each bulb that is manufactured is of standard size and quality. Further, if there is any unrequited type of bulb manufactured then its production is stopped. Last month when the company came to know that 10-watt bulbs were no more liked by customers, their production was stopped. He works in the purchasing department. His job is to purchase the filaments required to make bulbs. This time when he purchases the filament he gets the instruction from the seller that some special care needs to be taken in the first hour of fixing the filaments inside the bulb. Mohan knows this information should be given immediately to the production

department before the assembling process starts. However, he finds that his company's policies only allow him to give the message to his immediate boss who will further pass this message to his boss. The passing of this message will continue until it reaches the desired person in the production department. Based on the passage answer the following questions:

- i. Which technique of management is followed here?
 - a. Method study
 - b. Fatigue study
 - c. Standardization and simplification
 - d. None of these
- ii. Name the principle of management followed here by the company?
 - a. Scalar chain
 - b. Departmentalization
 - c. Division of Work
 - d. None of the above
- iii. Which option is now available to Mohan since the company is not allowing him to interact with the concerned worker in the production department?
 - a. Organization
 - b. Authority and Responsibility
 - c. Gang plank
 - d. All of these
- iv. Which principle of management is followed by the company by creating a separate department?
 - a. Division of work
 - b. Method study
 - c. Departmentalization
 - d. Scalar Chain

14. Read the following text and answer the questions:

Dimple Creations is a leading mobile manufacturing company. Recently the company has decided to make amendments to the policies of the company. They decided to handle the decision making authority to the lowermost level of employees. For this, they made several plans. As per the plans, within a few months, positive results were seen in the company. The employees felt a lot of development in their skills to take the first step to

manage things on their own. The production of the company was also increased. But one day it so happened that a company's manufacturing branch in the north could not fulfill even half of its production target. The manager was called into the office and when he was questioned it was found that his right to command the workers was inadequate and it should have been more to create results. The management agreed on that and when he went back to the department he told the workers that the standard of behaviour of the manufacturing unit should come from the official rules and procedures.

- i. "They decided to handle over the decision making authority to the lowermost level of employees." State the concept of management highlighted here.
 - a. Divisional
 - b. Decentralisation
 - c. Departmentalisation
 - d. Delegation
- ii. "The employees felt a lot of development in their skills to take the first step to manage things on their own." This statement highlights which importance of the above-identified concept.
 - a. Better Control
 - b. Quick decision making
 - c. Relief to Top-level management
 - d. Develops initiative among subordinates
- iii. "When he was questioned it was found that his right to command the workers was inadequate." Which concept of management is reflected here?
 - a. Accountability
 - b. Authority
 - c. Decentralisation
 - d. Responsibility
- iv. Name the kind of organization structure which is more suitable for product specialization.
 - a. Divisional
 - b. Accountability
 - c. Authority
 - d. Functional

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

16. Dr. R. K. Miglani, the owner of **Miglani Nursing Home** is a renowned Surgeon. Twenty doctors, forty nurses and sixty attendants are working in the nursing home. Every day, several successful operations are conducted here. Miss Partigya Sharma, a student of Class-XII has been preparing her project on this nursing home. She is permitted to visit the nursing home once a week. During the course of her visit, she observed a unique thing. That is whenever she visited the nursing home old faces were not visible. Instead, she found new faces. On scrutiny, it transpired that the behaviour of its administrator was very strict. People come here, serve for a few days and go away.
- In the above paragraph, which principle of management has been ignored. Write two consequences of its ignoring.
17. What is Critical Point Control ?

OR

After setting the performance standards the next step in the controlling process is the 'measurement of actual performance'. Explain this step in the process of controlling.

18. You are the Financial Manager of a newly established company. The directors have asked you to determine the amount of working capital requirement for the company. Explain any four factors that you will consider while determining the working capital requirements of the company.

OR

Make Good Technologies Ltd. is one of the top suppliers of security software products and solutions in India with a market share of over 20% in the retail segment. Its customers includes people all sections of the society i.e. both households and corporates. Its unique threat detection system works to detect security threats including virus attacks in real time to protect users' IT assets across varied platforms and devices. The company has an established track record of growth and financial performance. At present the company operates only through its website. The company now intends to launch a range of computer accessories and plans to market it by opening its own retail outlets. So, the board of directors of the company have decided to only raise capital for the first time through an issue of shares, but at the same time they do not wish to get into the hassles of launching a public issue of shares.

In context of the above case:

- a. Name and explain the way through which the company can raise finance by allotting securities to selective individuals and institutions only.
- b. Can the company also raise capital through a right issue? Why or why not? Give a reason to justify your answer.

19. Neha was a regional sales manager in 'Good Look Garments Ltd.' for ten years. On the retirement of the marketing manager, Neha applied for the same post as she was extremely ambitious and had dedicated all her energies to obtain the post of a marketing manager. However, the top management of the company decided to fill this post by selecting a better person from outside the company. Because of this Neha was heart-broken and her performance declined.

When the new marketing manager joined, one of her major problems was how to motivate and inspire Neha to her former level of performance.

Suggest any three non-financial incentives that the new marketing manager may use to motivate Neha.

20. A few years back, people were not in the habit of saving. Its main reason was lack of good opportunities for investment. Lack of saving and investment habit of the people had a direct effect on the economic development of the country. As a result, the pace of economic development of the country remained quite slow. When the country was grappling with the problem, a kind of market emerged that helped in establishing industries and at the same time made good opportunities for investment available. With the setting-up of such a market, people acquired the habit of affecting saving. These savings were invested. Gradually, economic development proceeded ahead. It is a kind of market that can be called as a barometer of a country's economic development. It has its own rules and bye-laws which help in its operations and also in safeguarding the interests of the investors. Moreover, it has to comply with the guidance issued by SEBI. This market operates under the supervision of a management committee.

- i. Identify the market mentioned in the above paragraph.
 - ii. Explain two characteristics of the market as identified vide point (i) above.
 - iii. Identify any two values that this market provides to society.
21. Explain the mean of performance appraisal?
22. Discuss the role of sales promotion as an element of the promotion mix.

OR

Spark Industry has the following marketing strategy: Instead of trying to Market what is the easiest for us to make, we must try to find out what the consumer is willing to buy.

We must apply our creativeness more intelligently to people rather than products.

Discuss the concept of marketing followed by the Smart Industry?

23. Rajiv Kumar is working under the guidance of Harish, a carpenter, for the last three years to learn the different skills of this job. Name and explain the method of training Amit is undergoing.
24. Best Beauty Ltd. is a beauty brand famous for its organic beauty products for men and women. The company uses organic plant extract to produce its products which are non-allergic and beneficial for every type of skin. The product is made available in different packs and sizes. The label of the product contains full information about the ingredients, batch number, date of manufacture and expiry date price, etc. The company has set up its customer care cell to handle all sort of queries of its customers.
Identify the consumer rights taken care of by the company by quoting the lines from the above para.
25. Esha works as the cost and risk management head of a company in the power sector. As a result of her excellent managerial competence, the company is able to reduce costs and increase productivity. The company belongs to the infrastructure sector, wherein regular amendments are made in government regulations and policies. She holds regular meetings to ensure that people in her department are not only aware of the related changes but are also able to adapt to these changes effectively. This helps the company to maintain its competitive edge. She motivates and leads her team in such a manner that individual members are able to achieve personal goals while contributing to the overall organizational objective. In the process of fulfilling her duties for the growth of the organization, she helps in providing competitive services, adopting new technology, creating more employment opportunities etc. for the greater good of the people at large.
In the context of the above case:
Identify the various reasons that have made management so important by quoting lines from the paragraph.
26. Hurray Ltd. owns an amusement park in Lucknow. Till now the company had been operating on owner's fund. Keeping in view its plan to set up two more amusement parks in the country the company raised debt capital to take advantage of trading on equity.

The proportion of debt in the total capital of the company is 30%. The debt has been raised @ 12% whereas the return on investment is 10%. However, even after employing debt the earning per share i.e. EPS of the company is falling.

In the context of the above case:

- a. Identify and explain the two types of financial decisions taken by the company.
- b. Why do you think that even after employing debt the earning per share i.e. EPS of the company is falling?
- c. State any two factors which favoured the issue of debt by the company.

OR

'Sarah Ltd' is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is the availability of enough cash in the company and good prospects for growth in the future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of 40 lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion identify and explain any four such factors.

27. The manager of 'Jhunjhunuwala Big Retail Shop', Mr Prem Kamboj fixed the target that in the following year the sales will be boosted from Rs.100 crore to Rs.200 crore. Also he ensured that for the achievement of the target, finance and man-power will be easily arranged. Mr Kamboj was still planning for this target when he had to go on a long leave all of a sudden. Now the responsibility to do so fell on the shoulders of the Deputy Manager, Mrs Janki Panday. Now the further activity was taken over by her. The problem before her was how to achieve the sales target fixed by Mr Kamboj. For this, she thought of several options. For example, she thought that whether more attention should be given to advertisement; whether the prices of the products should be reduced; whether more attention should be paid to packing; whether the quality of goods should be improved; whether the customers should be given better After-Sale-Service and whether the credit facility for purchase should be given. After deliberating over all the options deeply, she

arrived at the conclusion that the target could easily be achieved by concentrating more on advertisement. She did the same. She continuously kept a watch over this whether the desired results were obtained. At the end of the year the results obtained were favourable.

- a. Identify the management function described in the paragraph above.
- b. Write about the process of function of management identified in the point 'a' by quoting the relevant lines.

28. After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practice that were economically viable, environmentally sound and at the same time protecting public health.

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera product. He also thought that competitors prices and their anticipated reactions must also be considered for this. After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit.

He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.

- i. Identify the concept.
- ii. Explain briefly any four factors discussed in the above case related to the concept so identified.

OR

After doing a diploma in entrepreneurship, Farihad started his own confectionary business. He started doing a lot of hard work and used the recipes taught by his grandmother in various preparations. He also learnt many recipes from online sites and television programmes. He decided to keep the price of the products low initially and also informed his customers about the goodness of the items sold by them. However, he didn't mention on the package of each item whether it contained eggs or not. As a result, vegetarian people became hesitant in buying things from his shop as they had to verbally inquire from him about the inclusion of eggs in the preparation of various items.

In the context of the above case:

- a. Name the important aspect related to the marketing of products which has been ignored by Farihad.
- b. Explain briefly any three functions performed by the aspect as identified in part (a).
- c. Mention the right of consumer being violated by Farihad.

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Solution

Section A

1. (b) Preliminary Screening
Explanation: Firstly Preliminary Screening is done then other process is started
2. (a) Labelling
Explanation: Describes the product and specify its contents is the function of labelling.
3. (b) Bonus
Explanation: Bonus is a financial or monetary incentive. Status, Job and Job security are non-financial incentives.
4. (d) technological
Explanation: technological
5. (a) Doing complete centralisation
Explanation: Doing complete centralisation is not part of organisation
6. (d) Setting performance standards
Explanation: The first step in controlling the process is setting performance standards.
7. (b) Foreign Trade
Explanation: Trade Policy brings under control the foreign trade.
8. (d) All of these
Explanation: Termination, Demotion and Suspension are all signs of negative motivation as they impact a person's Security needs. They hamper employee's morale and lowers the efficiency levels.
9. (c) Direct
Explanation: A direct relationship exists between the level of satisfaction of customers and the level of inventory.
10. (d) Flotation Cost
Explanation: The cost of each type of finance has to be estimated. There is some amount of financial risk in debt financing. The overall financial risk depends upon the proportion of debt in the total capital. The fundraising exercise also costs something. This cost is called floatation cost.

11. (d) Social

Explanation: Social responsibility

OR

(d) Selection test

Explanation: Selection test measures such qualities

12. (b) Only A

Explanation: Working capital gets generated through current assets. Current assets are expected to get converted into cash or cash equivalents within a period of one year. These provide liquidity to the business. An asset is more liquid if it can be converted into cash quickly and without a reduction in value. It will make sure that enough capital is always there in the organization.

13. i. (b) Fatigue study

ii. (a) Scalar chain

iii. (c) Gang plank

iv. (a) Division of work

14. i. (b) Decentralisation

ii. (d) Develops initiative among subordinates

iii. (b) Authority

iv. (a) Divisional

15.

Accountability	Responsibility	
Introduction	In ethics and governance, accountability is answerability, blameworthiness, liability, and the expectation of account-giving.	Responsibility may refer to: being in charge, being the owner of a task or event.

16. Here, the principle of management, i.e. "Stability of Personnel" has been violated.

According to this principle, the stability of personnel should continue so that work is accomplished efficiently:

Consequences of violation:

i. Decline in the company's credit.

ii. Increase in recruitment and training cost.

17. According to this principle, control should focus on Key Result Areas, which are critical to the success of the organisation. When anything goes wrong in these areas, the entire organisation suffers.

OR

After the establishment of standards and execution of the set standards in the organization, the next step is measuring the actual performance with the set standards. This can be done by opting several methods like personal observation, sample checking, performance reports, etc. This is important to reduce the performance cost and maintain the quality of work done.

18. The requirement of working capital depends upon the following factors:
- i. **Nature of Business:** Requirement of working capital depends upon the nature of the business.
 - A business firm involved in trading or retail business requires less working capital because the length of the operating cycle is small.
 - A manufacturing unit needs more working capital because the firm will buy raw material and then convert it into semi-finished or finished goods.
 - Wholesalers require more working capital to maintain the stock and most of the time they sell goods on credit.
 - Retailers require less working capital as they do not have to maintain the stock.
 - ii. **The scale of operations:** Requirement of working capital depends upon the scale of operations.
 - More working capital is required if a business firm is operating on a large scale that is, involving a number of workers resulting in higher labor and overhead cost.
 - A business firm operating at a small level need less amount of working capital as it involves less number of fixed assets.
 - iii. **Business Cycle:** Requirement of working capital also depend upon different phases of business cycles.
 - In the case of a boom, a large amount of working capital is required as the demand is on a higher side which results in higher production and sales.
 - In the case of depression, less amount of working capital is required as the

demand is on a lower side which result in lower production and sales.

iv. **Seasonal Factors:** Seasonal factors play important role in the working capital requirement.

- In peak season, when the demand for the product is higher, more working capital is required because of a higher level of production and sales activities.
- During lean season, when there is a drastic fall in the demand for the product, less working capital is required because of a lower level of production and sales activities.

OR

a. Equity financing is the process of raising capital through the sale of shares.

Companies raise money because they might have a short-term need to pay bills or they might have a long-term goal and require funds to invest in their growth. The company can raise finance by allotting securities to selective individuals and institutions only through Private Placement. It is a relatively economical way of raising money as it helps to save time, cost and money involved in the process of issuing securities.

b. No, the company cannot raise capital through a rights issue as it is issuing securities for the first time. A rights issue is a pre-emptive right given only to the existing shareholders to subscribe to the securities of the company as per its terms and conditions.

19. Non-Financial incentives that the new marketing manager may use to motivate Neha are:

- Job Enrichment:** Job enrichment is concerned with designing jobs that include a greater variety of work content, require a higher level of knowledge and skill; give workers more autonomy and responsibility, and provide the opportunity for personal growth and meaningful work experience. If jobs are enriched and made interesting, the job itself becomes a source of motivation to Neha.
- Employee Recognition programs:** Employee recognition means, evaluation of their work and due recognition. Recognition means acknowledgment with a show of appreciation. Neha can also be motivated by this program.
- Employee participation:** Neha must be made involve in the decision making of the issues related to her. In many companies, these programs are in practice in the form of joint management committees, etc.

20. i. Share Market/Stock Exchange.
- ii. Characteristics of Stock Exchange:
- Organised Market:** Stock exchange is an organised market. Every stock exchange has a management committee, which has all the rights to management and control of the exchange. All the transactions taking place in the stock exchange are done as per the prescribed procedure under the guidance of the management committee.
 - Necessary to Obey the Rules and Bye-laws:** While transacting in the stock exchange, it is necessary to obey the rules and bye-laws determined by the stock exchange.
 - Values:**
 - Saving Habits
 - Economic Development
21. It is the process by which a manager or consultant (1) examines and evaluates an employee's work behavior by comparing it with preset standards, (2) documents the results of the comparison, and (3) uses the results to provide feedback to the employee to show where improvements are needed and why.
22. Sales promotion means the steps that are taken for the purpose of increasing sales. These are the marketing activities that are directed towards the increase in sales. These are the incentives offered to the buyers to encourage them to purchase the product. It includes:
- rebate
 - discount
 - refund
 - coupons
 - product combination
 - quantity gift
 - lucky draw

The role of sales promotion can be summarised as below-

- It increases sales.
- It stimulates customers to make a purchase at the point of purchase.
- It attracts new customers. It helps in meeting the competition effectively.

OR

- i. **Meaning:** Marketing concept holds the view that the firm can achieve its goals by identifying the needs of customers in a chosen market and satisfying them better than the competitors.
- ii. **Focus:**
 - a. The focus of the firm following the marketing concept is on the development of those products or services which can satisfy the needs of the customers better than the competitors.
 - b. In other words, they don't sell what they can make, rather they make what they can sell.
- iii. **Pillars:** The following are the pillars of the marketing concept.
 - a. Identification of market or customers who are chosen as the target of marketing efforts.
 - b. Understanding the needs and wants of customers in the target markets.
 - c. Development of products or services for satisfying needs of the target market.
 - d. Satisfying needs of target market better than the competitors.
 - e. Doing all this at a profit.

23. **Apprenticeship Training:**

- It is a technique of training under which trainees learn the required job knowledge and skills by doing the actual job work under the guidance of a master worker.
- Typically this apprenticeship period is from 2-5 years. During the apprenticeship period—the trainee is paid less than a fully qualified worker.
- Under Apprenticeship Programme, the apprentices or trainees spend a prescribed amount of time working with an experienced guide, or trainer.
- A uniform period of training is offered to trainees, in which both fast and slow learners, are placed together. Slow learners may require additional training.

24. a. **Right to Safety:** 'The company uses organic plant... beneficial for every type of skin.'
- b. **Right to Choose:** 'The product is made available in different packs and sizes.'
- c. **Right to be Informed:** 'The label of the product contains... date of manufacture and expiry dates prices etc.'
- d. **Right to be Heard:** 'The company has set up its customer care cell... queries of its customer'.

25. 1. **It helps in Achieving Group Goals** - It arranges the factors of production, assembles

and organizes the resources, integrates the resources in an effective manner to achieve goals. It directs group efforts towards achievement of pre-determined goals. By defining the objective of organization clearly, there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that enterprise work towards the attainment of goals.

2. **Optimum Utilization of Resources** - Management utilizes all the physical & human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts, professional and these services leads to the use of their skills, knowledge, and proper utilization and avoids wastage. If employees and machines are producing its maximum there is no under-employment of any resources.
3. **Reduces Costs** - It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output. Management uses physical, human and financial resources in such a manner which results in the best combination. This helps in cost reduction.
4. **Establishes Sound Organization** - No overlapping of efforts (smooth and coordinated functions). To establish sound organizational structure is one of the objectives of management which is in tune with the objective of organization and for the fulfillment of this, it establishes effective authority & responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors & who are subordinates. Management fills up various positions with the right persons, having the right skills, training and qualification. All jobs should be cleared to everyone.
5. **Establishes Equilibrium** - It enables the organization to survive in a changing environment. It keeps in touch with the changing environment. With the change in an external environment, the initial coordination of organization must be changed. So it adapts organization to changing demand of market/changing needs of societies. It is responsible for the growth and survival of organization.
6. **Essentials for Prosperity of Society** - Efficient management leads to better economical production which helps in turn to increase the welfare of people. Good management makes a difficult task easier by avoiding wastage of scarce resource. It

improves the standard of living. It increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income in hands. Organization comes with new products and researches beneficial for society.

26. a. Investment decision and financing decision are the two types of financial decisions taken by the company.

These are also known as Capital Budgeting Decisions. A company's assets and resources are rare and must be put to their utmost utilization. A firm should pick where to invest in order to gain the highest conceivable returns. This decision relates to the careful selection of assets in which funds will be invested by the firms. The firm puts its funds in procuring fixed assets and current assets. When choice with respect to a fixed asset is taken it is known as capital budgeting decision. Financial decision is important to make wise decisions about when, where and how should a business acquire fund. Because a firm tends to profit most when the market estimation of an organization's share expands and this is not only a sign of development for the firm but also it boosts investor's wealth. Consequently, this relates to the composition of various securities in the capital structure of the company.

- b. Even after employing debt the earning per share i.e. EPS of the company is falling because one of the necessary conditions for trading on equity i.e. the Return of investment should be higher than a rate of interest is not being satisfied. In the above example ROI is 10% and the rate of interest is 12%.
- c. The two factors which favoured the issue of debt by the company
- Floatation cost:** The money spent by the company on raising capital through debt is less than that spent on equity.
 - Tax rate:** The tax rate is likely to be high which makes debt relatively cheaper as the amount of interest paid on debt is treated as a tax-deductible expense.

OR

The factors identified in the above lines are given below

- The line 'It has been consistently earning goods profits for many years' indicated 'Stability of earnings'.
Stability of earnings of a business unit affects the dividend decision, A company having stable earnings can declare a higher dividend whereas a company having

unstable earnings is likely to pay a smaller dividend. As the dividends are paid from current and past years earnings if the earnings are unstable the company generally retains its profits.

- ii. The line 'This year too, it has been able to generate enough profits indicates 'Earnings' as a factor affecting dividend decision. Companies generally have a policy of stabilising dividends, i.e. increase in dividend is only done when the earning potential of the Company has gone and not just the current year's earnings. For maintaining the goodwill of the company dividend is either paid at the same rate or higher. Thus, dividend per share is not altered when the change is small or temporary in nature.
- iii. The line 'There is the availability of enough cash in the company and good prospects for growth in future' indicate 'Growth opportunities'. Companies which are intended to grow, generally pay less dividend and retain more money out of profits to invest in profitable projects as the company tries to diversify its operations. On the contrary, companies which are not intended to grow or diversify its operations and have enough earnings and cash can pay higher dividends.
- iv. The line 'It has many shareholders who prefer to receive a regular income from their investments' indicates 'Shareholders' Preference'.

While declaring dividends, management must keep in mind the preferences of the shareholders in this regard If the shareholders in general desire that at least a certain amount is paid as a dividend, the companies are likely to declare the same There are always some shareholders who depend upon a regular income from their investments.

- v. The line 'There is the availability of enough cash in the company indicates 'Cash Flow Position' if the business has a good cash flow position then it can pay more dividends. If the Company has a tight cash flow position it cannot pay dividend.

27. It is the Planning Function of Management mentioned above. Planning is looking ahead. According to Henri Fayol, drawing up a good plan of action is the hardest of the five functions of management. This requires an active participation of the entire organization. With respect to time and implementation, planning must be linked to and coordinated on different levels. Planning must take the organization's available resources and flexibility of personnel into consideration as this will guarantee continuity.

The process of Planning function of management involves following steps:-

- i. Establishment of objective

- a. Planning requires a systematic approach.
- b. Planning starts with the setting of goals and objectives to be achieved.
- c. Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
- d. Moreover objectives focus the attention of managers on the end results to be achieved.
- e. As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
- f. As far as possible, objectives should be stated in quantitative terms. For example, Number of men working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.
- g. Such goals should be specified in qualitative terms.
- h. Hence objectives should be practical, acceptable, workable and achievable.

ii. Establishment of Planning Premises

- a. Planning premises are the assumptions about the likely shape of events in future.
- b. They serve as a basis of planning.
- c. Establishment of planning premises is concerned with determining where one tends to deviate from the actual plan and causes of such deviations.
- d. It is to find out what obstacles are there in the way of business during the course of operations.
- e. Establishment of planning premises is concerned to take such steps that avoids these obstacles to a great extent.
- f. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
- g. Internal premises are controllable whereas external are non- controllable.

iii. Choice of alternative course of action

- a. When forecast are available and premises are established, a number of alternative course of actions have to be considered.
- b. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.

- c. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
- d. After objective and scientific evaluation, the best alternative is chosen.
- e. The planners should take help of various quantitative techniques to judge the stability of an alternative.

iv. Formulation of derivative plans

- a. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
- b. Secondary plans will flow from the basic plan. These are meant to support and expediate the achievement of basic plans.
- c. These detail plans include policies, procedures, rules, programmes, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.
- d. Derivative plans indicate time schedule and sequence of accomplishing various tasks

v. Securing Co-operation

- a. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.
- b. The purposes behind taking them into confidence are :-
- c. Subordinates may feel motivated since they are involved in decision making process.
- d. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.
- e. Also the employees will be more interested in the execution of these plans.

vi. Follow up/Appraisal of plans

- a. After choosing a particular course of action, it is put into action.
- b. After the selected plan is implemented, it is important to appraise its effectiveness.
- c. This is done on the basis of feedback or information received from departments or persons concerned.
- d. This enables the management to correct deviations or modify the plan.
- e. This step establishes a link between planning and controlling function.
- f. The follow up must go side by side the implementation of plans so that in the light

of observations made, future plans can be made more realistic.

28. i. The concept referred to above is Pricing. Price is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability. A pricing strategy takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.
- ii. The four factors discussed in the above case related to the concept so identified are:
- Product Cost:** The total cost of product includes production, selling and distribution costs. In the long run the firm strives to cover all their costs. The cost sets the minimum level or floor price for a product. In addition to that firm aims to earn a profit margin over and above the costs.
 - The Utility and Demand:** It is necessary to anticipate the utility and demand of a product, while fixing the price, as if a product is offering higher utility, one can easily charge high price from the customer. Whereas, if utility is low, one cannot charge a high price for such products.
 - The extent of Competition in the Market:** The price of a product can be set up to the higher limit, if the extent of competition is low in the market, and vice-versa. Competitors' price, their reactions, their product, quality and features must be considered before fixing the price.
 - Government and Legal Regulations:** To protect the interest of general public, the government has all the rights to control the prices of various products and services by including the products in the category of essential commodities such as drugs, some food items, LPG, etc.

OR

- The important aspect related to the marketing of products which has been ignored by Farihad is Labelling.
- The three important functions performed by labelling are:
 - Describes the product and specifies its contents:** Labelling provides information about the core function of the product i.e. how and why the product is likely to be beneficial to the prospective buyer. It educates them about the usage and precautions related to the product. It also gives detailed information about the ingredients of the product.

- ii. **Helps in identification of the product or brand:** The label contains the logo, brand name, tagline, name and address of the manufacturer etc. of the product which helps in easy identification of the product.
- iii. **Enables grading of products:** Different coloured labels are also used by the marketers for grading of the products on the basis of flavours, quality etc. so that the buyers can easily choose a product as per their requirements.
- c. The Right to information is being overlooked by the company in the above mentioned case. According to the Right to information, a consumer has the right to get complete information about the product he/she intends to buy including its contents, date of manufacture, date of expiry, price, quantity, directions for use etc. Also, as per law, it is mandatory for the marketers to provide complete information about the product/ service to the buyers.