

CBSE
Class XII Business Studies
All India Board Paper Set 3 – 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 No. **1 – 12** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
- (iv) Questions No. **13 – 18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
- (v) Questions No. **19 – 22** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
- (vi) Question number **23 – 26** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
- (vii) Question number **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. Give any two characteristics of 'Organizational Climate' that influence the behaviour of individuals and act as a non-financial incentive. **[1]**
 2. What is meant by 'Decoding' as an element of communication? **[1]**
 3. 'Providing the social security and welfare of employees' is one of the specialised activities performed by Human Resource Management. Mention any two other specialised activities of Human Resource Management. **[1]**

4. How are employees motivated to improve their performance when the organisation uses internal sources of recruitment? State. [1]
5. What is meant by 'Financial Risk'? [1]
6. State the objective of 'Financial Management.' [1]
7. What is meant by 'Management of Work'? [1]
8. What is included in 'Legal Environment' of Business? State [1]
9. Define 'organizing' as a function of management. [1]
10. Give the meaning of 'Responsibility' as an element of delegation. [1]
11. What is meaning of 'Method' as a type of plan. [1]
12. What is determined by Time-Study' [1]
13. Explain any three functions performed by a supervisor that are vital of any organisation. [3]
14. ABC Crackers Ltd., a fire-cracker manufacturing company launched some new products on the eve of Diwali in the market, which attracted many buyers. To meet the increased demand, the company employed people from nearby villages where there is a lot of unemployment. Because of the good behaviour of the management with the employees, more and more people wanted to join the company. As the products were in great demand in the market, a competitor imitated the products. The products of the competitor were not accepted by the consumers as it was a status symbol to buy the products of ABC Crackers Ltd. because of their quality.
 - a. Identify and explain the product-related decision because of which consumers preferred the products of ABC Crackers Ltd
 - b. Also identify any two values which ABC Crackers Ltd. wanted to communicate to the society. [3]
15. Stock Exchange not only contributes to the economic growth but performs many other functions'. Explain three such functions. [3]
16. Huma is working in a company on a permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realised that she was fulfilling only some of her needs while

some other needs still remained to be fulfilled.

- i. By quoting the lines from the above para, identify the needs of Huma which she is able to fulfil.
- ii. Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied. [3]

17. State any three points of importance of consumer protection and promotion of interests of consumers [3]

18. Explain the following Rights of Consumers:

- i. Right of be Informed
- ii. Right of seek Redressal [3]

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

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

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

- i. To reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.
- ii. To start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly.

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

- a. Identify and explain the objectives of management discussed above.
- b. State any two values which the company wanted to communicate to the society. [4]

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

23. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gains with the workers, while the other suggested that employees compensation should depend on the earning capacity of the company and should give them a reasonable standard of living. Identify and explain the principles of Fayol and Taylor referred to in the above para. [5]

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

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

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

- i. Participants
- ii. Instruments

- iii. Duration
 - iv. Investment Outlay
 - v. Liquidity
- [5]**

27. Explain the relationship between planning and controlling

OR

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

28. Explain the following functions of marketing: **[6]**

- i. Product designing and development
- ii. Standardization and Grading
- iii. Customer support services
- iv. Pricing of products

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]**

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

OR

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

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

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

OR

Explain the following as factors affecting dividend decision:

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

[6]

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Answer 1

Two characteristics of 'Organisational Climate' which influence the behaviour of individuals and act as a non-financial incentive are (i) Autonomy or employee empowerment and (ii) Employee recognition programmes.

Answer 2

Decoding means a process of converting the encoded message into language and understanding the message.

Answer 3

The two other activities performed by human resource management are (i) Providing the necessary training and development to employees for career growth, and (ii) Recruiting, selection and placement of personnel.

Answer 4

When the organisation uses internal sources of recruitment, employees are motivated to perform the best for their organisation as it gives a chance to existing employees to grow and occupy higher positions.

Answer 5

Financial risk refers to the risk that borrowed funds would not be repaid. In other words, it implies the risk that the company would not be able to meet its fixed financial obligations such as interest payment, preference dividend and other repayment obligations.

Answer 6

The basic objective of financial management is to maximise the wealth of shareholders, i.e. it aims at taking financial decisions which prove beneficial for shareholders. Such financial decisions are taken wherein the anticipated benefits exceed the cost incurred.

Answer 7

Management of work refers to all the activities of an organisation which aim at achieving goals or tasks to be accomplished effectively and efficiently.

Answer 8

Legal environment includes the framework of legislation and rules impacting the business. It is framed by the Parliament and passed by the government such as the Companies Act, 1956, Industries Dispute Act, 1947, and Trade Union Act, 1926.

Answer 9

Organising refers to the procedure wherein various activities in an organisation are aligned in order. It comprises defining the roles of various personnel and directing them to work towards the goals and objectives of the organisation. This function brings together human efforts and resources in the organisation.

Answer 10

Responsibility refers to the obligation that the task which is assigned is successfully completed within the stipulated time. A responsible subordinate is obedient and loyal towards the duties assigned to him.

Answer 11

A method is a standing plan which is a systematic way of performing a routine job. Selecting an appropriate method saves time and money, and it may vary from task to task.

Answer 12

According to time study, there must be a standard time limit for the completion of a task. With repeated observations with regard to time taken in completing a task, a standard limit is set. This helps in deciding the number of employees which would be required in completing a task.

Answer 13

In an organisation, a supervisor is a person responsible for directly overseeing the various activities of workers. Functions performed by a supervisor:

- i. A supervisor guides workers and provides support to them. He ensures that workers work with harmony and unity.
- ii. He serves as the link of communication between the manager and workers. While on one hand, he communicates the information and ideas of the management to workers, on the other hand, he communicates the problems of workers to managers. In other words, the management and workers communicate through the supervisor.
- iii. It is the responsibility of the supervisor to ensure that the work is performed efficiently and smoothly and that the set targets are met.

Answer 14

- a. The product-related decision because of which consumers preferred the products of ABC Crackers Ltd. is the 'quality and the brand name'. The standard quality of the products manufactured by the company helps in maintaining its brand name in the

market. So, consumers wish to demand the products of ABC Crackers Ltd. as their goodwill and reputation are more in the market.

- b. Values ABC Crackers Ltd. wanted to communicate to society:
 - i. To provide employment opportunities so that it decreases unemployment in villages
 - ii. To provide good quality products to consumers

Answer 15

A stock exchange refers to a market wherein the sale and purchase of securities occur. The main functions of the stock exchange:

- i. **Provides Liquidity and Marketability:** The stock exchange provides a platform where sale and purchase of existing securities can take place. In this way, the stock exchange facilitates the conversion of securities to cash as and when required. In addition, it renders liquidity to long-term securities and can be converted to medium-term and short-term securities.
- ii. **Determination of Prices:** A stock exchange acts as a link for the interaction of buyers and sellers. In other words, it helps in the interaction of demand and supply forces, and thereby helps in establishing the price of securities.
- iii. **Fair and Safe Market:** A stock exchange provides a safe and fair market for trading of securities. It functions according to a well-regulated legal framework.

Answer 16

- i. According to Maslow's Needs Hierarchy Theory, the needs of an individual can be classified into five categories which can be arranged in a hierarchical order as physiological needs, security needs, belongingness needs, esteem needs and actualisation needs. Huma realised that she was fulfilling only 'physiological and security needs'. Physiological needs are the most basic needs in the hierarchy of needs. It comprises needs which are essential for survival and sustenance. For example, need for food, clothing and shelter. In terms of an organisation, the requirement of a basic salary is a physiological need. Security needs is that an individual requires physical and economic security. Huma has a permanent job which ensures complete security for her.
- ii. Two other needs of Huma (followed by the above needs) which still remained to be satisfied are 'belongingness needs' and 'esteem needs'.
 - a. Belongingness needs refers to the social needs of an individual in terms of affection and acceptance.
 - b. Esteem needs comprises elements such as respect, dignity and recognition in the peer group.

Every individual yearns for social acceptance and belongingness as well as respect and acknowledgement in the peer group. In this situation, Huma falls sick and takes leave but no one showed concern and enquired about her health.

Answer 17

Role of consumer organisations for the protection and promotion of interest of consumers:

- i. **Consumer education:** Consumer organisations work towards educating and spreading awareness among consumers regarding their rights and responsibilities. For this, they organise various training programmes and workshops.
- ii. **Publishing journals:** They regularly publish journals and periodicals which provide information regarding various consumer problems, legal remedies available and other related matters.
- iii. **Legal assistance:** They help consumers in seeking redressal by providing them with legal assistance.
- iv. **Encouraging protests against exploitation:** They encourage consumers to stand up against any form of exploitation or unfair trade practices faced by them.

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 consumers in making an informed, wise choice.
- ii. **Right to Seek Redressal:** It is the right of consumers to seek redressal in case of a grievance and, if required, demand suitable compensation. The Consumer Protection Act provides for compensation in the form of replacement of product, cash compensation and repair/removal of defects.

Answer 19

Financial management means efficiently acquiring and using funds. It is concerned with main financial decisions:

i. Investment Decisions:

A firm must decide where to invest the funds such that it can earn maximum returns. Such decisions are known as investment decisions. These decisions are taken for both long term and short term.

- **Long-term investment decisions:** These decisions affect a firm's long-term earning capacity and profitability. They are also known as the capital budgeting decisions. For example, decision to purchase a new machine and land.
- **Short-term investment decisions:** These decisions, also known as working capital decisions, affect the day-to-day business operations. For example, decisions related to cash or bill receivables.

ii. **Financial Decisions:**

Financing decisions involve decisions with regard to the volume of funds and identifying the sources of funds. There are two main sources of raising funds—shareholders' funds (equity) and borrowed funds (debt). Considering factors such as cost, risk and profitability, a company must decide an optimum combination of debt and equity. Example: While debt proves to be cheaper than equity, it involves greater financial risk. Financial decisions must be taken judiciously as they have an impact on the overall cost of capital of the firm and involve financial risk.

Answer 20

External sources of recruitment are the ones where job vacancies are filled from outside the organisation. Benefits of external sources of recruitment:

- Fresh talent:** Recruitment through external resources gives scope for entry of new talent resources into the organisation. Hence, there is increased organisational efficiency.
- Wider choice:** External sources provide a wide variety of choices for selecting the suitable candidate. For example, advertisement or placement agencies help in recruiting the right person from various applicants who applied for the job. Hence, the organisation is able to select from various applicants.
- Competitive spirit:** When external resources join the organisation, existing employees will compete with new external resources by working hard. Hence, there is a competitive spirit among existing and external resources in the organisation.
- Qualified personnel:** Recruitment through external sources assists in hiring qualified, specialised personnel and trained resources for designated jobs. Hence, these resources are capable to adapt to changes in technological development.

Answer 21

- The objective of the management referred in the paragraph is 'organisational objective'. One of the important organisational objectives is to survive and exist in a competitive market for a long period. This becomes feasible only if the total income earned by an organisation should be able to cover the various costs incurred in its operation. Also, it must grow and expand their activities.
- Two values conveyed by the organisation in this situation:
 - Providing employment in backward areas of society

- ii. Using environment-friendly methods of production

Answer 22

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. For example, change in the taste and preferences of consumers, change in government policies, change in political scenario, change in legal policies, all make up the business environment.

Features of business environment:

- i. **Interrelated:** Different forces acting in a business environment are closely related to each other. For example, an increase in the income of consumers increases the demand for consumer durables such as television and refrigerator.
- ii. **Ever changing:** Business environment is dynamic and ever changing. For example, consumer tastes and preferences, technology, government rules and policies keep changing continuously.
- iii. **Complex:** Business environment is the aggregate of different interrelated and dynamic forces. Thus, it becomes difficult and complex to understand. For example, all political, social, economic, technological and legal matters affect the performance of an organisation simultaneously. While it may be easy to understand the individual affects of these forces, their cumulative effect is quite difficult to understand.

Answer 23

Two principles which are mentioned in the paragraph:

- i. **Harmony, not Discord:** Taylor emphasised that managers and workers should maintain a harmonious work environment. They should realise their interdependence and work in amity. He was well acquainted with the fact that a friendly working environment will help in developing relations between them. He introduced this principle to maintain a peaceful kinship between people. When workers are deprived of their wishes or demands, they generally go on strike. This affects the productivity and the working environment. To dismiss such a situation, Taylor was ardent about a mental revolution. It implies a change in the thinking of both workers and managers. For example, if a worker is having a problem with the working hours, he should talk to the manager about it, instead of letting it effect production by going on a strike. Similarly, managers should listen to the worker's suggestions and demands rather than ignoring them.

- ii. **'Remuneration of Employees' by Fayol:** Fayol emphasised that the compensation provided to employees should be fair and just. Remuneration is determined based on the work they performed for the organisation and should be sufficient for leading a standard life. If the remuneration is adequate, then it will boost and encourage employees to contribute the best to the organisation. While if the remuneration is not adequate, then it will not give immense pleasure and satisfaction to work and employees tend to leave the organisation. Here, an organisation will have an increase in employee turnover. Therefore, the organisation should maintain harmony by providing fair remuneration to employees and also the remuneration is given by considering the capability of the organisation.

Answer 24

Personal selling involves direct communication with potential consumers. Three qualities of a good salesman:

- i. **Mental qualities:** A good salesman should have intelligence to understand the customer and be able to fulfil a customer's requirement. Basically, he should have two qualities—empathy and ego drive. Empathy is the salesman's ability to understand the difficulty of customers. Ego drive is not only pursuing a sale for money but also trying to achieve personal success.
- ii. **Social qualities:** A good salesman should be well-mannered and pleasant to greeting and thanking customers. He should express politely for being successful in personal selling. An ability to provide a detailed description on the product which he pursues to sell. At the same time, he should handle customers appropriately without offending others.
- iii. **Physical qualities:** A good salesman should have a pleasing personality. He should appear with good grooming, neat and clean dress to create a good impression. He should ensure that customers are satisfied with the product by providing them with required information.

Answer 25

Planning implies to a state in advance where to go and in which direction to move to achieve a target. Being a continuous process which helps in reducing the risk of uncertainty, planning provides the rationale for undertaking policies in the direction of achieving goals. It is based on anticipating the future course of action and deciding the best course of action.

Features of planning:

- i. **Focus on objectives:** Planning starts when an objective is set and a proper planning gives boost to a well-organised and goal-oriented management. Plans ensure that the desired objective is attained economically and quickly, if possible.

Managers must make sure that plans made are purposeful, specific, realistic and clear and should adhere to the company's strategies, procedures and policies. For example, if a sales target is to be achieved, then plans must be made in sync with this objective.

- ii. **Acts as a stepping stone:** A goal is achieved through planning, organising, staffing, directing and controlling. Planning, thus, serves as the stepping stone for all other functions of an organisation. The rest of the functions are conducted within the framework of the plans drawn, i.e. the other functions are interrelated and interdependent on planning. Thus, planning acts as the primary function for all organisations.
- iii. **Pervasiveness:** Planning must be done at all levels of management and in all departments of the organisation. However, its scope differs along the various dimensions of business levels. For example, top-level managers have to chalk out policies regarding overall management, whereas middle-level managers plan the authority to be assigned to subordinates or departmental planning. On the other hand, lower level managers have to perform day-to-day operational planning and make out small targets.
- iv. **Continuity:** After an objective or goal is achieved, the plan drawn for it does not cease to exist but goes on to become a never-ending strategy because of the dynamic nature of the business environment. It is a continuous process as after or within the plan period, a need arises for the formulation or modification of another plan, keeping in view the new objectives and circumstances. It is a continuous process all along the life of a business enterprise.
- v. **Choice making:** After coming up with all possible alternatives and its outcomes, managers need to evaluate them. This evaluation is based on the utility and consequences of the options and the performance study of various actions. Various factors will be weighed against each other as they must assess the pros and cons of each alternative.

Answer 26

Basis of Difference	Capital Market	Money Market
Participants	Financial institutions, commercial banks, corporate, 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 crore

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 27

Controlling is closely related to planning. A good control system requires set standards for evaluation. These standards are provided by the plans defined by the organisation. In other words, plans serve as the base for controlling.

Controlling is essential for effective implementation of plans. It is essential to keep a close watch on plans, identify any deviations and take appropriate corrective actions. Without proper controlling, planning would be futile.

In a similar manner, planning forms the base for controlling. Without planning, there would be nothing to control. Controlling is done only when there are predetermined standards against which evaluation can be performed.

While planning involves intellectual thinking, decision making and deciding a course of action, controlling ensures that plans take the required course of action.

Both concepts of planning and controlling are interlinked as they are forward looking and backward looking. Planning is a process wherein it is decided what is to be done and accordingly deciding the required course of action. In other words, planning involves deciding the goals and objectives which are to be achieved and deciding the actions through which they are to be achieved. In this way, planning helps in predicting future actions; thus, it can be said to be looking ahead.

As against planning, the controlling function involves assessing and evaluating past performance against pre-defined standards. Because controlling assesses past performance, it can be said to be backward looking.

However, it must be remembered that planning decides the goals and actions for the future, but these decisions are taken on the basis of experiences and previous controlling actions. Thus, planning involves looking back as well.

In a similar manner, controlling not only involves assessing past performance but also decides corrective actions to be taken (in the future) and forms the base for plans. Thus, the controlling function looks forward as well.

OR

Controlling refers to the process of ensuring that the various activities and tasks in the organisation are performed according to the pre-defined goals and objectives.

Steps involved in the controlling process:

1. **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.
2. **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.
3. **Comparing Performance:** After the actual performance is measured, it is then compared with 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.
4. **Analysing Deviation:** With the comparison of actual performance with set standards, 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, but their causes must also be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.

5. **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.

Answer 28

Marketing refers to the process of interaction between buyers and sellers with the objective of exchange of goods and services.

Functions of marketing:

- i. **Gathering and analysing market information:** Marketer analyses the market and identifies the best opportunities. Collecting information of the target market segment including the size of market and behaviour, culture, needs and wants of customers.
- ii. **Marketing planning:** Creating a market plan to achieve marketing goals and objectives of the organisation. Market research is conducted to analyse preferences of customers to formulate a suitable plan.
- iii. **Customer support services:** Involves handling complaints and feedback of customers. Customer support services are developed such as credit, maintenance, technical services and consumer information. These customer services are provided to satisfy customers and to make them a permanent customer for their product.
- iv. **Physical distribution:** Channels of distribution are to be decided through which products would be moved from place of production to the place of consumption. Choosing an appropriate distribution channel holds more important 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.

Objections to advertising:

1. **Higher Cost:** Expenses on advertisement add to the cost of the product, the firm and is passed on as additional cost to consumers in the form of higher prices. 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.
2. **Weakens Social Values:** A major argument against advertising is that it weakens social values in the sense that it promotes materialism in society. Advertisement attracts customers and induces them to purchase the product. They are more aware with regard to the availability of different and new products in the market. In the process, they are often dissatisfied with their current possession of goods. Often on being increasingly attracted by the new product, they even purchase products which they may not require. This increases materialism in society. On the other hand, it is said that an advertisement is beneficial to consumers in the sense that it informs them about various products available in the market. The final decision regarding the product purchase lies with the consumer himself.

3. **Creates Confusion:** With the advertisements of a large number of similar products, the consumer often gets confused. On the contrary, advertisements may help in increasing knowledge of different products available in the market. In this way, it increases consumer choice and helps consumers in making an informed decision with regard to product purchase.
4. **Promotes Inferior Goods:** Advertisement induces consumers to purchase the product. Even inferior goods can be advertised, and their demand be induced. However, it said that quality is only a relative product. Advertisements provide knowledge with regard to all kinds of products. Whether to purchase a product or not is up to the consumers themselves.

Answer 29

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.

OR

A functional organisational structure is one wherein activities of a similar nature are grouped together in departments, and all departments in turn report to a head. For example, an organisation can have numerous departments such as production, human resources, finance and marketing, each of which in turn report to a coordinating head.

A functional structure proves to be more suitable in an organisation where there are a large number of diversified activities which require a high degree of specialisation.

Disadvantages of functional structure

- i. **Difficulty in achieving organisation's goals:** Each department becomes more specialised in their own way and less focussed on the organisation's goals.

- ii. **Problems to coordinate:** To deal with a large number of diversified activities simultaneously, a high degree of coordination is required. This coordination becomes difficult among departments.
- iii. **Inflexibility:** In each department, all employees become more specialised in one particular activity. Over the years, they become inflexible to handle the diversified activities in an organisation.
- iv. **Difficult to fix accountability:** If each department focussed on their own objectives, then there is a chance of conflict of interests. In this case, business enterprise fails to achieve the set goal and it becomes difficult to identify any particular department for accountability.

Answer 30

- i. **Business cycle:** In various phases of the business cycle, the requirement of working capital is different. For instance, in the phase of boom, both production and sales are higher. Accordingly, the requirement of working capital is also high. As against this, in the phase of depression, the demand is low, and so production and sale are low. Accordingly, there is less requirement of working capital.
Boom period ⇒ **High** working capital
Depression period ⇒ **Low** working capital
- ii. **Operating efficiency:** A highly efficient organisation uses its raw material and other inputs appropriately with minimum wastage, as they can handle its operations even with a low inventory. This indicates that an organisation is with a higher inventory turnover ratio and a higher debtor's turnover ratio which require lower working capital.
Low operating efficiency ⇒ **High** working capital
High operating efficiency ⇒ **Low** working capital
- iii. **Availability of raw materials:** A firm does not have a huge stock of inventories of raw material if the raw materials are easily available for them. Therefore, the amount of working capital required will be less in this situation. On the other hand, if the raw materials are not easily available or their supply is not smooth, then the company must maintain a large stock of raw material to ensure uninterrupted operations, thereby requiring a large working capital.
Difficult to obtain raw material ⇒ **High** working capital
Easy to obtain raw material ⇒ **Low** working capital
- iv. **Level of competition:** The higher the extent of competition in the market, the larger is the amount of stock of goods which a firm must maintain to meet the demand; therefore, the higher is the requirement of working capital.
More competition ⇒ **High** working capital
Less competition ⇒ **Low** working 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.