

CBSE Class 12 Business Studies
Sample Paper 03 (2019-20)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

- i. This question-paper contains five Sections - A, B, C, D and E.
 - ii. Section - A contains questions 1 to 20 carrying one mark each. Answers to these questions may be given in one word or a sentence.
 - iii. Section - B contains questions 21 to 25 carrying three marks each, answers to these questions may be in 50 to 75 words.
 - iv. Section - C contains questions 26 to 28 carrying four marks each. Answers to these questions may be in about 120 words.
 - v. Section - D contains questions 29 to 31 carrying five marks each. Answers to these questions may be in about 150 words.
 - vi. Section - E contains questions 32 to 34 carrying six marks each. Answers to these questions may be in about 200 words.
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Section A

1. The work performed by Top Level Management is _____
 - a. Easy
 - b. Oversee the efforts of workforce
 - c. Complex and Stressful
 - d. Concerned with control of operative employees
2. Madhav Ltd. manufactures steel utensils. Mr. Rajesh Khanna is its production manager. Work in the production department has been divided into several small parts. Each small part of the work has been entrusted to a group of 5 workers. The

production target of each group has been determined at 1000 units per month. Besides, it has also been decided that if the actual production of a group ranges between 50, then this deviation will be looked after by the department manager. However, if the deviation is beyond this limit, then it will be brought to the notice of the General Manager.

- a. Which step of the controlling process has been shown in the above paragraph?
 - b. Also state on which particular concept the attention has been focused?
3. A good manager synchronises all the activities of different departments through the process:
 - a. Staffing
 - b. Supervision
 - c. Planning
 - d. Coordination
4. Globalisation is beneficial for firms because _____.
 - a. None of these
 - b. It protects them against foreign competition.
 - c. It increases the risk and uncertainty of operating in global market.
 - d. It opens up economy to the world by attaining international competitiveness.
5. Each course will have many variables which have to be weighed against each other. Mention the step in planning which ensures this.
6. _____ is helpful in reducing the burden of the manager
 - a. Centralisation
 - b. None of these
 - c. Decentralisation

d. Delegation

7. Which is not an advantage of internal source of recruitment?

a. Time-saving

b. All of these

c. Less expensive

d. New blood

8. Which of the following company will have more fixed capital?

a. Abeer Ltd. has an arrangement with Vaani Ltd. and Saksham Ltd. to share each other's facilities.

b. Nitin Ltd. is a trading concern.

c. Nidhi Ltd. is operating at a higher scale.

d. Ahaan Ltd. uses labour intensive technique of production.

9. Which of the following is a limitation of controlling?

a. Controlling is expensive

b. Controlling is goal-oriented

c. Controlling ensures order and discipline

d. Controlling improves employee motivation

10. Which principle of Fayol indicates that workers should be encouraged to develop and carry out plans for improvements.

a. Unity of command

b. Unity of direction

c. Discipline

d. Initiative

11. Recruitment is the process of _____

- a. Searching for prospective employees
- b. Performance Appraisal
- c. Promotion of employees
- d. Training to employees

12. Training, lectures and seminars are _____

- a. procedure
- b. Strategy
- c. Rules
- d. Method

13. Which of the following company will have more working capital?

- a. Nayonika Ltd. manufacturing furniture against orders only.
- b. Meenakshi Ltd. manufacturing iron and steel.
- c. Mini Ltd. following manufacturing iron and steel.
- d. Gaurav Ltd. having high turnover of inventory.

14. Right issue of shares means that _____.

- a. Company offers new shares to its existing holders.
- b. Company offers new shares to persons other than existing shareholders.
- c. Company issues shares to some selected institutions.
- d. None of these.

15. Foods India Ltd. is a company engaged in the production of packaged juice since 2010. Over this period, a large number of competitors have entered the market and are putting a tough challenge to Foods India Ltd. To face this challenge and to increase its market share, the company has decided to replace the old machinery with an estimated cost of ₹100 crores. To raise finance, the company decided to issue 9% debentures. The Finance department of the company has estimated that the cost of issuing the 9% debentures will be ₹10,00,000. The company wants to meet its floatation cost. _____ is the instrument that the company may issue for this purpose.
- Commercial paper
 - Certificate of deposit
 - Commercial bill
 - Treasury bill
16. The only feasible purpose of financial management is _____.
- Wealth maximisation
 - Sales maximisation
 - Assets maximisation
 - Profit maximisation
17. As per the _____ the consumer has right to acquire knowledge and to be a well-informed consumer through life.
- Right to be informed
 - Right to consumer education
 - Right to choose
 - Right to be heard
18. Which of the following is a characteristic of an appropriate capital structure?
- Capital structure involves dilution of control of existing shareholders.

- b. Capital structure involves a judicious mix of different types of securities.
- c. Capital structure caters to exclusively the wealthy investors.
- d. Capital structures has rigidity and firmness and does not change with changed conditions.

19. State true or false:

Service providers are not responsible for allowing customers to seek remedies for deficiency in services provided.

20. _____ are set up in each district by the State Government concerned.

- a. District Forums
- b. National Commission
- c. State Commission
- d. None of these

21. State the meaning of placement as a staffing function.

OR

Mr. Anil Garg is working as Managing Director of **CLS Packaging Limited**. He is not in favour of selling waste material in the market. Instead, he is planning to make himself new products of this material. For this purpose, a new unit will have to be set up. Accordingly, he decided to establish this unit in an area where a large number of persons are unemployed and so labour is available at a cheap rate.

In order to attract workers to this new unit, a special Remuneration Scheme was introduced. As per this scheme, workers will get their remuneration on the basis of their work. There will be two rates of wages: higher wage rate and lower wage rate. A worker who will work upto given standardised units or beyond will be paid his/her remuneration at a higher rate. On the other hand, a worker who will work less than the given standardised units will be paid his/her remuneration at a lower rate. In order to operate this new unit, Mr. Garg established a separate Waste Material Division. It consisted of four departments, such as Purchase, Sales, Production, and Accounts. The company required four managers to run these departments, of these, two managers were appointed from the existing business, by way of promotion; while

the other two were selected out of the waiting list maintained by the company.

- i. Which form of organisation structure is being adopted by the company?
- ii. Identify and give the meaning of wage payment scheme adopted by the company to motivate the workers.
- iii. What methods of recruitment have been adopted by the company?
- iv. Identify these two values that Mr. Garg has been dedicating to the society by establishing this new unit.

22. “Supervision is not at all required in an organization. Do you agree? Give two reasons in support of your answer.

23. Nikita and Salman completed their MBA and started working in a multinational company at the same level. Both of them worked hard and were happy with their employer. Salman had the habit of back-biting and wrong reporting about his colleagues to impress his boss. All the employees in the organisation knew about it. At the time of performance appraisal, the performance of Nikita was judged to be better than Salman. Even then their boss, Mohammed Sharif, decided to promote Salman stating that being a female, Nikita would not be able to handle the complications of a higher post.

Identify and explain the principle of management which was not followed by this multinational company.

24. As the number of people making online purchases has increased manifold, there is a growing concern about the disposal and management of packaging waste. Every item bought is delivered with excess packaging and sometimes even non-biodegradable materials are used.

In the context of above case:

- a. Name the other two levels of packaging that the marketers may be using besides the immediate package.
- b. Describe briefly any two points highlighting the functions of packaging.
- c. State any two factors that should be kept in mind by the marketers while designing the packaging of its products.

25. The Consumer Affairs Minister, Ram Villas Paswan, recently declared that the sale of a pack of soft drinks above MRP will now attract penal action. Moreover, he laid stress on an important prerequisite - "Consumers need to be more aware and file complaints. If there is no complaint, how can the government take action." Identify the responsibilities of consumer being highlighted in the above case.
26. Eco-friendly products are gaining power as the consumers' awareness about environmental issues has increased over the years and they are conscious about choosing products that do not have adverse effects on the environment. They are now more conscious about the carbon emission and climate change effects and want themselves to be 'seen' as a green advocate among their peers. In such a scenario, it has become a challenge for the companies as they have to not only meet the needs of the consumers but also ensure that their products are safe and environment-friendly. As a result, there is a growing need for better and advanced technologies to work as a catalyst in this regard.
- Identify the relevant feature of the business environment being discussed above.
 - Describe briefly any three points which highlight the importance of the business environment and its understanding by managers.
27. Textile manufacturer Super textiles reported a 43% fall in its profits in the fourth quarter ended 31 March 2017, which is beyond the acceptable range 25% decided by the company. This was due to higher fuel cost and lower yield on account of demonetization. The company aims to implement cost-saving measures by restructuring contracts and its business processes to meet its targets in the future.
- Name the function of management discussed above.
 - Also, identify and explain the steps of the function of management discussed above.
28. State the advantages of dematerialisation of shares.

OR

What is meant by 'dividend decision'? State any four factors which affect the dividend decision of a company.

29. Mr. Suksharn Khan is the CEO of **Perfect Shoes Limited**. Before joining this company, he used to work as Management Expert. The peculiarity of Mr. Khan is that he observes very minutely every small or big activity. Likewise, he gives equal importance to what is said by every junior or senior person. He is not satisfied with the performance of the production department. This department discharges the functions of both production and stock. Both the activities of the department are in a state of chaos. Mr. Khan took personal interest to scrutinise this dismal state of affair. He found that shoes of several sizes were being made. Some of the sizes were not needed. As a consequence, there was a wastage of material, machines, and manpower. It was the biggest weakness of the department. During the survey of the production department, Mr. Khan also noticed that many persons while doing work were making certain movements that were least needed. It slowed down the pace of production. Mr. Khan was an experienced management expert. He knows that to utilise cent-percent production capacity of the employees they need to be provided with a healthy and clean environment. He, therefore, paid special attention to this aspect. Besides, he believes that whether male or female, they must be given equal facilities, equal rights and equal opportunities for promotion.

- a. By which technique of scientific management wastages occurring in production department can be prevented?
- b. Highlight the technique of scientific management used to enhance the pace of work in the production department.
- c. Which principle of management is being followed here? Quote the lines.
- d. What value is being offered by the company to the employees?

OR

Name and explain that principle of Fayol which suggests that communication from top to bottom should follow the official lines of command.

30. A company is manufacturing garments. The manager wants to increase the profits by purchasing new high-speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decides that using waste material to increase the profit is the best solution for him.
- a. Identify the concept management involved.

- b. Mention the steps involved in the above process by quoting the lines from the question.
- c. To complete the process of the concept identified in the point (a) what further steps does the manager have to take?

31. Computer Tech Ltd. is one of the leading information technology outsourcing services providers in India. The company provides business consultancy and outsourcing services to its clients. Over the past five years the company has been paying dividends at high rate to its shareholders. However, this year, although the earnings of the company are high, its liquidity position is not so good. Moreover, the company plans to undertake new ventures in order to expand its business.

In the context of the above case:

- a. Give any three reasons because of which you think Computer Tech Ltd. has been paying dividends at high rate to its shareholders over the past five years.
 - b. Comment upon the likely dividend policy of the company this year by stating any two reasons in support of your answer.
32. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.
33. Describe the communication process with the help of a diagram.

OR

Give the meaning of 'Directing' as a function of management and any four points of its importance.

34. Two years ago Suruchi completed her BBA course. As she had knowledge of the business she began taking interest in her parental business. Her father used to do the wholesale business of wheat. Suruchi suggested to her father why not they should also go in for the retail business of wheat. Her father agreed. He entrusted full responsibility for the new business to Suruchi. First of all, she conducted a market survey and tried to obtain information regarding the kind of wheat, price, and weight of its packing, that the people liked desi wheat the most. Many varieties of wheat were already available in the market. In order to show that her wheat was

distinct from that of other traders, she gave it the name of Sharbati Healthy Food. Wheat was packed in attractive plastic bags. Weight of each packed wheat bag was either 10kg and 20kg so that it is easily carried and moved from one place to the other. Suruchi pasted a label on each bag giving full information about the wheat packed in. While deciding the price of her product she kept in mind, the expectation of the people, price of competitor's products and reasonable rate of profit. Thus a new business came into being. Within a few days, Suruchi was known as a successful trader.

With reference to the above paragraph identify four functions of marketing.

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Solution

Section A

1. (c) Complex and Stressful

Explanation: The work performed by Top Level Management is complex and stressful because they have to devote long hours and commitment to the organisation. These top level managers are responsible for the welfare and survival of the organisation. They are responsible for all the activities of the business and for its impact on society.

Their work is not concerned with control of operative level employees as this has to be done by Middle Level Management. Apart from that overseeing the efforts of worker has to be done by Operational or Supervisory Management

2. a. Setting of performance standards
b. Deviation tolerance limits
3. (d) Coordination

Explanation: Coordination is the process by which a manager synchronises or binds all the activities of different department and all other functions of management. It is a common thread that runs through all activities of different department such as purchase, production, sales, finance etc.

4. (d) It opens up economy to the world by attaining international competitiveness.

Explanation: It opens up economy to the world by attaining international competitiveness.

5. Evaluating alternative courses.

After listing the various alternatives, the next step under planning process is the evaluation of each alternatives. While Evaluating the positive and negative factors of different alternatives should also keep in mind.

6. (d) Delegation

Explanation: The managers can not perform all the tasks on their own. To reduce

their burden, managers delegate their less important work to their subordinates. So that the managers can concentrate on their important work.

7. (d) New blood

Explanation: New blood

8. (c) Nidhi Ltd. is operating at a higher scale.

Explanation: Nidhi Ltd. is operating at a higher scale.

9. (a) Controlling is expensive

Explanation: The process of controlling starts from planning and ends with taking corrective steps in the direction of deviations identified. But, the process is expensive in terms of time spent and the expenditure incurred on the technology used or technique adopted. It is important that the organization achieves maximum profit through the effective and efficient use of all resources employed. Thus, when a tally is drawn between the expenditure and time spent on the controlling activity and the result achieved may make expenditure on the activity of controlling a limitation.

10. (d) Initiative

Explanation: Initiative

11. (a) Searching for prospective employees

Explanation: It refers to the process of finding possible candidates for a job or a function. It is a positive process. It can be defined as the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.

12. (d) Method

Explanation: Methods are the systematic way of doing routine or repetitive jobs. e.g. method for valuation of stock, method of training etc.

13. (b) Meenakshi Ltd. manufacturing iron and steel.

Explanation: Meenakshi Ltd. manufacturing iron and steel.

14. (a) Company offers new shares to its existing holders.

Explanation: Company offers new shares to its existing holders.

15. (d) Treasury bill

Explanation: Treasury bill

16. (c) Assets maximisation

Explanation: Assets maximisation

17. (b) Right to consumer education **Explanation:**

According to right to consumer education:

- **The consumer has a right to acquire knowledge and to be a well informed consumer throughout life.**
- He should be aware about his rights and the reliefs available to him in case of a product or service falling short of his expectations. Many consumer organisations and some enlightened businesses are taking an active part in educating consumers in this respect.

18. (b) Capital structure involves a judicious mix of different types of securities.

Explanation: Capital structure involves a judicious mix of different types of securities.

19. False

20. (a) District Forums Explanation:

- District Forums are set up in each district by the State Government concerned.
- The District Forum consists of a President and two other members, one of whom should be a woman.
- They all are appointed by the State Government concerned.
- A complaint can be made to the appropriate District Forum when the value of the goods or services in question, along with the compensation claimed, does not exceed Rs. 20 lakhs

21. **Placement:** Once the job offer has been accepted by the selected candidate he placed on this new job. Proper placement of an employee reduces absenteeism. Placement therefore refers to placing the right person on the right job. An employee should be placed at a job rightly suited to his or her aptitude and abilities.

OR

- i. Divisional Organisation Structure.
- ii. **Differential Wage System:** It refers to that technique of scientific management which differentiate between efficient and inefficient workers.
- iii. Promotion
Casual callers
- iv. Development of backward area
Rise in employment opportunities

22. No, I do not agree with the given statement because supervision is an important function, which is to be performed for smooth functioning of an organisation. Supervision is required at all levels of management. Supervision is required because of following reasons:
- i. **It is an element of Directing:** In this situation, every manager in the organization supervises his subordinates. In this sense, it can be described as the process of guiding the efforts of employees and other resources to accomplish the desired objectives.
 - ii. **It is a function performed by the supervisor:** All functions of a supervisor are important to the organization because he acts as an important link between management and workers. He is directly related with workers whereas other managers have no direct touch with bottom level workers.
23. The Multi-national company was not following the **principle of equity** as the manager promoted Salman on the grounds that a female will not be able to handle the complications of higher post. Fayol in his principle clearly stated that the managers should be fair and impartial while dealing with their subordinates. There should be no discrimination on the basis of caste, sex or religion. The principle of equity implies that similar treatment is assured to employees in similar positions.
24. a. Secondary packaging which is intended to protect not only the product, but also the primary packaging, which often is the packaging most visible to the consumer in retail displays. The most common examples of secondary packaging include cardboard cartons, cardboard boxes and cardboard/plastic crates and Transportation packaging which is designed to protect goods that are in transit, especially products that are shipped by truck or train.
- b. The functions of packaging in the marketing of goods and services is explained below:
- i. **Product Identification:** Packaging facilitates the identification of the product with the use of different colours like wrapper of maggi noodles is red whereas yippe noodles are sold in orange colour packaging. Also, the shape of different brands of cold drinks bottles is different.
 - ii. **Product Protection:** One of the basic purposes of packaging is to safeguard the

contents of a product from any kind of damage due to mishandling, adverse weather conditions etc. during the activities related to physical distribution like storing, transportation etc.

- iii. The marketers should use biodegradable packaging material and packaging should enhance the usability of the products.

25. The responsibilities of consumer being highlighted in the above case are listed below:

- a. Assert yourself to ensure that you get a fair deal.
- b. Be aware about various goods and services available in the market so that an intelligent and wise choice can be made. Consumer has the right to know all the information and should be made well aware of the rights and responsibilities of the government
- c. File a complaint in an appropriate consumer forum either in District Commission, State Commission, or National Commission in case of a shortcoming in the quality of goods purchased or services availed as per the amount involved. Do not fail to take an action even when the amount involved is small.

26. a. Inter-relation is the relevant feature of the business environment which is being discussed above. All the forces and factors of Business Environment are inter-related to each other.

- b. The three points which highlight the importance of the business environment and its understanding by managers are described below:
 - i. **Enables to Identify Business Opportunities:** All changes are not negative. If understood and evaluated them, they can be the reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the solve problems of the business or populous.
 - ii. **Helps in Tapping Useful Resources:** Careful scanning of the Business Environment helps in tapping the useful resources required for the business. It helps the firm to track these resources and convert them into goods and services.
 - iii. **Coping with Changes:** The business must be aware of the ongoing changes in the business environment, whether it be changes in customer requirements, emerging trends, new government policies, technological changes. If the business is aware of these regular changes then it can bring about a response

to deal with those changes.

27. a. Controlling is the function of management discussed above. Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other words, the meaning of controlling function can be defined as ensuring that activities in an organization are performed as per the plans. Controlling also ensures that an organization's resources are being used effectively & efficiently for the achievement of predetermined goals.
- b. The steps of controlling process discussed above are stated below:
- i. **Establishing standards:** This means setting up of the target which needs to be achieved to meet organisational goals eventually. Standards indicate the criteria of performance.
Control standards are categorized as quantitative and qualitative standards. **Quantitative standards** are expressed in terms of money. **Qualitative standards**, on the other hand, includes intangible items.
 - ii. **Measurement of actual performance:** The actual performance of the employee is measured against the target. With the increasing levels of management, the measurement of performance becomes difficult.
 - iii. **Comparison of actual performance with the standard:** This compares the degree of difference between the actual performance and the standard.
 - iv. **Taking corrective actions:** It is initiated by the manager who corrects any defects in actual performance.
28. **Following are the advantages of Demat shares over the physical shares:**
- i. Demat shares facilitate easy transfer of ownership. There is no delay in transfer and registration. Transfer of shares can be effected in a much simpler and faster way.
 - ii. Demat shares avoid the chances of duplicate, fake and forged shares.
 - iii. Demat shares are safe and free from the evils of the fire, theft, pilferage, mutilation, etc. An investor is not required to store share certificates.
 - iv. Demat shares minimise transactions cost because it involves no paperwork. There is no need for printing share certificates and transfer deed.

OR

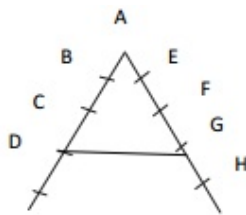
Dividend Decision: Dividend decision involves deciding the amount of profits to be distributed among the shareholders and amount of profits to be retained in the business to meet investment requirements. While dividend constitutes current income, its re-investment as retained earnings helps in increasing future earning capacity of the firm. The decision regarding dividend should be taken keeping in mind the overall objective of maximising shareholder's wealth.

The four factors which affect dividend decisions are:

- i. **Amount of Earnings:** Dividends are paid to the shareholders either from the past earnings or from the current earnings or from both. So, more earnings will ensure declaration of greater dividend.
 - ii. **Stability of Earnings:** It also affects the dividend decision. A company having stable and regular earnings can declare higher dividend whereas a company having unstable earnings is likely to pay smaller dividend.
 - iii. **Stability of Dividend:** Companies generally have a policy of stabilising dividends, i.e. paying stable and steady dividends. Increase in dividend is only done when the earning potential of the company has gone up and not just the current year's earnings. Thus, dividend per share is not altered when the change is small or temporary in nature.
 - iv. **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 dividend, the companies are likely to declare the same. There are always some shareholders who depend upon a regular income from their investments.
29. a. Wastages of production department can be prevented by Simplification Technique of scientific management. It means putting an end to unnecessary types, qualities, sizes, weights etc. of products.
- b. It will be appropriate to adopt Motion Study of scientific management to increase the pace of work in production department. It means to conduct the study of motions being performed by workers and machines while doing the job.
 - c. Besides he believes that whether male or female, they must be given equal facilities, equal rights and equal opportunities for promotion. (Principle of Equity)
 - d. Awareness about the environment.

OR

The principle of Fayol which suggests that communication in an organization from top to bottom should follow official lines of command is Scalar Chain. The principle of the scalar chain suggests that an organisation should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates. In normal circumstances, the formal communication is required to be made by following this chain as this ensures unity of command and effective communication in the organisation.



Scalar Chain and Gang Plank

Example: The above figure shows the scalar chain linking managers at lower levels with the top management. If D has to communicate with G, The message should ordinarily move up through C and B to A, and then down from A to E, F and G. However, to avoid delays and to remove hurdles in the exchange of information, concept of Gang Plank has been suggested by Fayol, shown by the dotted line joining D and G. It must be noted that the concept of Gang Plank is possible only for the employees of the same level and also after informing their respective superiors.

Scalar Chain helps in:

- i. A smooth flow of information
- ii. Clear lines of authority and responsibility relationship
- iii. Presence of Unity of Command
- iv. No communication gap

30. a. The concept of management involved is “Planning”.

b. The steps involved in the above process are:

- i. **Establishing objectives:** Main objective of the company is to increase the profit. Lines quoted are "The manager.....increase profits."
- ii. **Identifying alternative courses of action:** Various alternatives available to manager:

- Purchasing new high speed machines
- Increasing the sale price
- Using waste material in manufacturing stuffed toys. Lines quoted are "By purchasing new.....stuffed toys."

iii. **Evaluating and selecting Alternative courses:** Use of waste material to increase profits is the best solution. Lines quoted are "He decided.....solution for him."

c. To complete the process manager should take the following steps:

- i. **Implementing the Plan.**
- ii. **Follow up action.**

31. A dividend is the distribution of reward from a portion of company's earnings and is paid to a class of its shareholders. Dividends are decided and managed by the company's board of directors, though they must be approved by the shareholders through their voting rights. Dividends can be issued as cash payments, as shares of stock, or other property, though cash dividends are the most common. Along with companies, various mutual funds and exchange-traded funds (ETF) also pay dividends.

a. Computer Tech Ltd. has been paying dividends at a high rate to its shareholders over the past five years because of the following reasons:

- i. **Earnings:** The earnings of the company have been high. Since the dividends are paid out of current and past earnings, there is a direct relationship between the amount of earnings of the company and the rate at which it declares dividend.
- ii. **Cash flow position:** The cash flow position of the company must have been good as in order to pay high dividends, more cash is required.
- iii. **Access to capital market:** Because of its creditworthiness, the company enjoyed easy access to the capital market. Therefore, it did not feel the need to depend entirely on retained earnings to meet its financial needs. Hence, it declared higher dividends in past.

b. This year the company is likely to follow a conservative dividend, policy because of the following reasons:

- i. The cash flow position of the company is not good and dividends are paid in

cash.

- ii. The company may like to retain profits to finance its expansion projects. Retained profits do not involve any explicit cost and are considered to be the cheapest source of finance.

32. Decentralization is an optional policy but it increases the importance of a subordinate's role. It spreads the decision-making process to all the levels of management. It develops managerial talent and facilitates growth by providing enough opportunities for all the subordinates to show their decision-making ability. Decentralization must always be balanced with centralization in areas of major policy decisions. The major policy decisions cannot be totally decentralized as the onus of such decisions lies on the top-level management.

An organization may choose decentralization because of following reasons:

- i. **Develops initiative among subordinates:** Decentralisation motivates lower level employees to take decisions in favor of organization regarding the problems they face. It promotes self-reliance and confidence among the subordinates and encourages them to take initiative and show their talent and skills. When employees at the lower level get the freedom to take their own decisions and to develop the solutions for the various problems they encounter, they learn to depend on their own judgments and are always ready to accept accountability of their decisions. Decentralization highlights those subordinates who have talent and potential to become dynamic leaders.
- ii. **Develops managerial talent for the future:** When authority is decentralized, employees get a chance of using their own judgments. They learn and understand how to take decisions in crunch situations. This leads to developing their managerial skills. They get experience by completing the given tasks independently which help in the smooth functioning of an enterprise. They get a chance to prove themselves for the managerial positions. Thus, they develop a managerial talent for the future.
- iii. **Quick decision-making:** In a way, the subordinates are independent to take their decisions, therefore, their dependence on their superiors is no longer in the picture. They take the decisions in no time if they believe that the decisions would be beneficial for the organization.

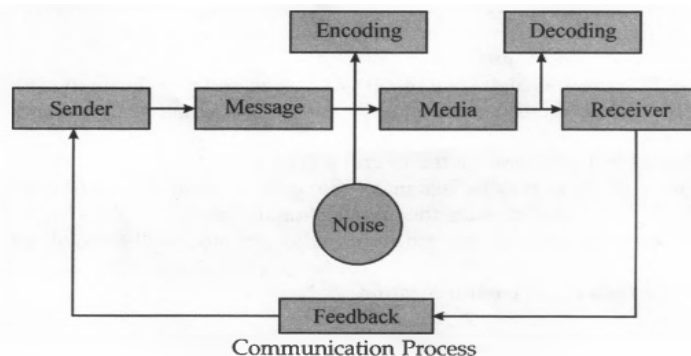
- iv. **Relief to top management:** In the process of decentralization top-level managers are not overburdened with the responsibilities and authority. Decentralization improves managerial efficiency because managers get more time to concentrate on important matters and in strategic planning and policy making. By empowering the employees, managers get freedom from routine work and they get opportunities to explore new areas. However, initially, the managers must decentralize only those tasks which are not of strategic importance.
- v. **Facilitates growth:** Decentralisation results in the growth and diversification of the enterprise. It provides more freedom to the subordinates which motivate them to do the work in an effective manner best suited for their department. As a result, each department doing its best which help in increasing the productivity and organization is able to make more returns which can be used for the expansion of the organization.
- vi. **Better control:** Decentralisation provides better control because performance can be evaluated at each level and the departments can be individually held accountable for their results. It is the process of making subordinate accountable or answerable to the superior for final results. It flows top to downwards i.e. subordinate is answerable or accountable to his superior. A subordinate is fully answerable to his superior for the performance of the task assigned to him. In no way, the subordinates must believe that their decisions will not be questioned, and they will not be held accountable in case a decision backfires.

33. **Communication process has the following elements:**

- i. **Message-** Message is the content of information intended to be communicated.
- ii. **Sender-** Sender is a person from whom the communication process originates.
- iii. **Encoding-** Encoding is the process of translating ideas into language (words, symbols or gestures) or code. Message is the output of encoding process.
- iv. **Media or channel-** It is a medium or route through which the message is passed by the sender. It links the sender with the receiver. A channel could take the form of face to face written, telephone, group meetings, letter, radio, television, memorandums, policy manuals, etc.
- v. **Receiver-** Receiver is the person who is supposed to receive the message. He may be a listener, a reader or an observer.

- vi. **Decoding**- It means retranslating the message to words, for the purpose of understanding. Thus, it is the conversion of a received message into thought in order to derive its meaning.
- vii. **Noise**- Noise means anything that hinders communication or transmission and thereby reduces its accuracy or effectiveness.
- viii. **Feedback**- Feedback is the response by the receiver.

Communication process may be shown as under:



OR

- (i) **Directing** means giving instructions and guiding people in doing work.
- (ii) In the context of management of an organisation, directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organization to achieve its objective.

Four points of importance of Directing are:

Makes the organisation goal-oriented

Planning as we all know lays down goals. But the mere laying down of goals isn't enough. It is directing in terms of those goals that gets them achieved. It is that process that retains the goal oriented-ness with which the business process begins. If not for direction the business will proceed in hap hazard manners thereby making all other processes difficult and also making the business fragile.

Creates a motivated workforce

As already discussed above, motivation acts a subset of the broader function of direction. Direction ensures that the workforce is motivated and remains motivated. This is so because the process will be successful only with the effort of motivated people and motivated people is the secret of a budding effective business. Thus

managers pay extra attention to motivating workers while directing the business.

Initiates Action

Direction is the process that kicks the plan into motion by using the resources organised and humans staffed to achieve what is envisioned in the plan. It is the stepping stone to carrying out business processes which till then remain only on paper.

It creates adaptability

A business has to cope with constant changes in its environment. Direction plays a key role in ensuring that a business is capable of adjusting and adapting to such changes by understanding the environment and by relaying suitable information. Such instructions at the right point of time allows for meeting various contingencies and ensures the business isn't knocked off its feet.

34. Following four functions of marketing have been highlighted in this paragraph:

- i. **Gathering and Analysing Market Information:** It refers to the identification of consumers requirements and their expectations so that various decisions relating to the marketing of goods and services are taken successfully. (Before commencing her retail trade of wheat, Suruchi gathered various information from the market and analysed the same)
- ii. **Branding:** It refers to the process by which special identity of the product is established. (To have a distinct identity of her product from other competitors, Suruchi named it Sharbati Healthy Food)
- iii. **Packing and Labelling:** Packaging refers to those activities which are related to designing and production of the containers in which the products are packed. Labelling refers to the process of preparing a label. (Suruchi is doing the job of packaging and labelling)
- iv. **Pricing:** It refers to all those decisions which are concerned with the price fixation of any product or service. (Suruchi is taking all those decisions which are related to the fixation of price of wheat)