

CBSE
Class XII Business Studies
Delhi Board Paper Set 2 – 2014

Time: 3 hrs

Max. Marks: 90

Note:

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

General Instructions:

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

1. Give the meaning of 'Authority' as an element of delegation. [1]
2. State any one advantage of 'Formal Organisation'. [1]
3. Give the meaning of 'policy' as a type of plan. [1]
4. What is included in the 'political environment' of business? State. [1]

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

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

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

OR

Explain any four points that highlight the importance of controlling.

[6]

28. Explain the following as functions of marketing:

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

OR

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

29. With the help of any four points, explain the importance of 'delegation' in an organisation.

OR

Explain the concept of 'functional structure'. Also, explain any four disadvantages of functional structure.

[6]

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

- (a) Nature of business
- (b) Growth prospects
- (c) Diversification and
- (d) Level of collaboration

OR

Explain the following as factors affecting dividend decision:

- (a) Stability of dividends
- (b) Shareholder's preferences
- (c) Access to capital market and
- (d) Legal constraints

[6]

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Answer 1

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

Answer 2

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

Answer 3

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

Answer 4

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

Answer 5

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

Answer 6

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

Answer 7

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

Answer 8

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

Answer 9

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

Answer 10

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

Answer 11

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

Answer 12

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

Answer 13

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

Answer 14

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

Major functions of a financial market:

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

Answer 15

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

Answer 16

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

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

Answer 17

Consumer protection refers to educating consumers regarding their rights and responsibilities along with the redressal of their grievances and complaints. Consumer protection plays an important role not just for consumers but also for businesses.

- i. **Long-Term Interest:** For any business, consumer satisfaction is essential. In today's times, with increasing competition, consumer satisfaction has become all the more important. As the organisation takes care of the interests of consumers, it builds goodwill and reputation in the market. This in turn helps in increasing the sales and profits of the business. Thus, protecting consumers' interests benefits the business in the long run.
- ii. **Use of Resources:** Any business survives on the basis of society. It uses the resources of society for its various production activities. It earns profits with the sale of these goods and services to society. Thus, the business must take care of the interest of society and supply goods and services which adhere to the overall interests and well-being of society.
- iii. **Ethical Reasoning:** Every business must follow basic moral and ethical values. It must not follow any such business practices which lead to exploitation of consumers in any form.

Answer 18

- i. **Right to Choose:** A consumer has the right to have access to and choose from a wide variety of goods and services available in the market at competitive prices. Accordingly, the retailers or suppliers should offer a large variety of products to consumers. Also, they must not be biased towards a particular product.
- ii. **Right to be Heard:** It is the right of consumers to be heard in an appropriate legal forum in case of any grievance or dissatisfaction faced by them. In other words, a consumer has the right to file a complaint in case of any grievance.

Answer 19

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

Training imparts the following benefits to the organisation:

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

Answer 20

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

Importance of financial planning:

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

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

Answer 21

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

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

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

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

Answer 22

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

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

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

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

Answer 23

An organisation, being either privately or government-run, needs proper planning to acquire success, high profit and increase in sales. Planning implies to a state in advance where to go and in which direction to move in order 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. The main reasons why a management should consider planning are that it identifies risks and performs qualitative and quantitative risk analysis and develop strategies to overcome them. A management enjoys successful project outcomes only through planning and coordination. Features which a manager needs to consider while planning:

- i. **Focus on objectives:** Planning starts when an objective is set, and proper planning gives a 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 the 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 the 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 the 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 the policies regarding the overall management, whereas middle-level managers plan out the authority to be assigned to subordinates or departmental planning. On the other hand, the 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 24

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

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

Answer 25

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

Factors affecting the price of a product or service:

- i. **Cost of product:** Cost of the product is the most important factor determining the price. The cost of a product can be of the following three types:
 - **Fixed cost:** These are costs which remain fixed irrespective of the level of output. For example, cost of machinery and land.
 - **Variable cost:** These are costs which vary in direct proportion with the level of output. As the level of output increases, the variable costs also increase and *vice versa*. For example, cost of labour and raw material.

- **Semi-variable cost:** Similar to variable costs, these are costs which vary with the level of output but not in direct proportion. For example, commission paid to intermediaries.

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

- ii. **Demand for product:** Another important factor determining the price of a product is the elasticity of demand for the product. Price elasticity of demand implies how responsive the demand is to the changes in price.

- **Elastic demand:** The demand is said to be price elastic if a given proportionate change in price leads to a more than proportionate change in demand. In such a case, charging a higher price by the firm would lead to a large fall in demand.

- **Inelastic demand:** The demand is said to be price inelastic if a given proportionate change in price does not bring about any significant change in demand. In such a case, it is possible for a firm to charge a higher price. This is because even at higher price, the demand will not fall much.

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

- iii. **Degree of Competition in the Market:** In case there is high competition in the market, it is not possible for a firm to charge a higher price. This is because if the firm charges a higher price, consumers would shift the demand to its competitors.

- iv. **Government Regulations:** At times, the government regulates the prices of certain commodities. For example, in the market for agricultural products such as wheat and rice, the government intervenes in price determination.

- v. **Objectives of Pricing:** There are various objectives which a firm considers while deciding the price of its product. Some important objectives of pricing:

- a. **Profit Maximisation:** Profit maximisation is one of the basic objectives of every firm. If the firm aims at profit maximisation only in the short run, then it may decide a higher price for the product. In contrast, if the firm wishes to maximise profits in the long run, then it would charge a lower price at present so that it can acquire a greater share of the market and build up consumer loyalty.

- b. **Acquiring Market Share:** If a firm aims at acquiring a greater market share, then it would charge a lower price so that it can attract a greater number of customers towards its product.

- c. **Surviving Competition:** If the firm has to survive in high competition, then it must keep the price of the product low, else it will lose customers to competitors.

- d. **Focus on Quality:** If the firm aims at improving the quality of the product, it may even charge a higher price so as to cover the additional costs.

- vi. **Method of Marketing:** Another important factor determining the price of a product is the methods of marketing used by the firm. For example, if the firm decides to use intense advertising, then it may charge a higher price so as to cover the costs.

Answer 26

	Basis	Capital Market	Money Market
i.	Safety	Securities traded are risky with regard to both return and principle repayment.	Securities traded are safe as securities are traded for short duration and the issuers are financially sound.
ii.	Expected return	Expected returns are higher due to the possibility of capital gains in the long term and regular dividends or bonus.	Expected returns are lower due to the shorter duration of instruments.
iii.	Meaning	The capital market is a market for medium and long-term funds which includes all the organisations and instruments that gives long term and medium term funds and does not include instruments that provide short term funds.	The money market is a market for short-term funds for a period of up to one year.
iv.	Instruments	Instruments traded consist of equity shares, preference shares, debentures, bonds and other long-term securities.	Instruments traded consist of treasury bills, commercial bills, certificates of deposits and other short-term securities.
v.	Duration	Deals in long-term and medium-term securities having a maturity period of more than a year.	Instruments have a maturity period of a maximum of one year.

Answer 27

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

Steps involved in the controlling process:

- i. **Setting Standards:** The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets,

production targets). It must be kept in mind that the set standards should facilitate easy comparison.

- ii. **Measuring Actual Performance:** The next step in the controlling process is to measure the performance of various activities. For this, various techniques can be used such as personal observation and performance reports. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.
- iii. **Comparing Performance:** After the actual performance is measured, it is then compared with the pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.
- iv. **Analysing Deviation:** With the comparison of the actual performance with the set standards, the deviations in performance are identified. For analysing deviations, the following methods can be used:
 - **Critical Point Control:** According to this technique, rather than controlling all the activities in the management, only the key result areas (those that affect the entire organisation) should be focused on.
 - **Management by Exception:** According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.Deviations should be identified and their causes must be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.
- v. **Corrective Measures:** In case deviations are beyond the acceptable range, it becomes necessary to take corrective action. It must be ensured that the deviations do not occur again.

OR

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

Points highlighting the importance of planning in an organisation:

- i. **Achieving goals:** Controlling ensures that various activities are carried out correctly according to the plans. It ensures that deviations if any are identified and appropriate corrective action is taken.
- ii. **Reviewing standards:** An effective control system ensures that the standards are set accurately. As the business environment changes, it ensures that the standards are also reviewed so as to adapt to the changes taking place.
- iii. **Enables efficiency in resource utilisation:** An effective control system ensures that there is minimum wastage of resources. In other words, it ensures that the resources are utilised optimally and in the most efficient manner.

- iv. **Better motivation:** With controlling, employees know what is expected from them and how their performance would be evaluated. This clarity motivates employees to perform better.
- v. **Maintain order:** Controlling helps keep a close watch on the activities and behaviour of employees. In this way, it helps in maintaining order and discipline in the organisation.
- vi. **Ensures coordination:** With proper controlling, the efforts of the various departments can be unified towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments.

Answer 28

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

OR

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

Points stating that advertising is a waste to the firm:

- i. **Higher Cost:** Expenses on advertisement add to the cost of the product and the firm, and these are then passed on as additional cost to consumers in the form of higher prices.
- ii. However, advertising helps in attracting consumers to the product. Accordingly, the demand for the product increases. To cater to the increased demand, the production increases. An increase in the production, in turn, lowers the per unit cost of production.
- iii. **Creates Confusion:** It is argued that with advertisements of a large number of similar products, the consumer often gets confused. In contrast, those who support advertisements argue that they help in increasing the knowledge of the consumer with

regard to the availability of different products in the market. In this way, it increases their choice and helps them in making an informed decision with regard to purchase of the product.

- iv. **Promotes Inferior Goods:** Advertisements induce consumers to purchase the product. Even inferior goods can be advertised, and their demand be induced. However, it is said that quality is only a relative product. Advertisements provide knowledge with regard to all kinds of products. Whether to purchase the product or not is up to consumers themselves.
- v. **Objectionable Advertisements:** Sometimes, advertisements can be objectionable in the sense that they undermine social values. For instance, in certain advertisements, women are shown in an objectionable manner. Sometimes, the language, images and content of the advertisement may not appeal to society at large.

Answer 29

Delegation refers to the act of transferring authority to lower levels in the hierarchy. For effective and smooth functioning, delegation is important for an organisation. Delegation helps in lowering the burden of top-level managers and thereby enables them to focus on other priority areas. Moreover, with delegation, the area of operations can be easily extended. While on one hand, it is helpful for managers, on the other hand, it is beneficial for subordinates in the sense that it provides them with better opportunities for growth and development.

Points explaining the importance of delegation for effective organising:

- i. **Managerial Efficiency:** With delegation, the burden of the top managers gets reduced to a large extent. They can focus on priority areas (such as research and innovation), while the routine work is handled by subordinates independently. Thus, the efficiency of managers is increased.
- ii. **Employee Proficiency:** Delegation proves beneficial to subordinates as well in the sense that it provides them with the opportunity to work independently, apply their own creativity and skills. This helps in their growth and development.
- iii. **Motivation:** Delegation of authority proves psychologically beneficial to subordinates. It motivates them to work to the best of their efficiency. It helps in developing a feeling of trust and commitment between superior and subordinate.
- iv. **Growth:** With delegation, employee proficiency is increased. In other words, it helps in preparing future managers to take up leading positions and greater responsibilities. This supports the growth and expansion of the organisation.
- v. **Hierarchical Structure:** The superior-subordinate relationship in an organisation is determined by delegation. In other words, it helps in determining the reporting relationships in the organisation.

OR

A functional organisational structure is one wherein the 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 the 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

Factors affecting the requirements of fixed capital:

- (a) **Nature of business:** The given company deals in manufacturing (having a large operating cycle), so it requires large fixed capital. Firms involved in a large operating cycle require higher fixed capital.
- (b) **Growth prospects:** The company is growing and expanding, so it requires higher amount of fixed capital.
- (c) **Diversification:** The given company has large-scale operations. This suggests that it would require larger fixed assets in the form of plants, land and building.
- (d) **Level of collaboration:** At times, business organisations undergo collaboration with each other and jointly establish certain facilities. In such cases, an individual organisation's requirement for fixed capital reduces.

OR

- i. **Stability of dividends:** Generally, companies try to stabilise their dividends such that there is not much fluctuation in the dividends they distribute. They opt for increasing dividends only when there is a consistent increase in earnings.
- ii. **Preference of shareholders:** The preference of shareholders must also be considered while taking dividend decisions. For instance, if shareholders prefer that

a certain minimum amount of dividends be paid, then the company may declare the same.

- iii. **Access to capital market:** Generally, companies having greater access to the capital market are likely to pay higher dividends. This is because they need not rely much on retained earnings. On the other hand, companies with lower access to capital markets are likely to pay lower dividends.
- iv. **Legal constraints:** Companies mandatorily need to adhere to the rules and policies of the Companies Act. The dividend decisions must be taken in careful consideration of these rules and policies.

