

CBSE
Class XII Business Studies
Abroad 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 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.

1. What is mean by 'Management of Operations'? [1]
2. What is determined by 'Fatigue Study'? [1]
3. What is included in 'Technological Environment' of business? State. [1]
4. Give the meaning of 'Procedure' as a type of plan. [1]

5. Given the meaning of 'Accountability' as an element of delegation. [1]
6. Define organization as a structure. [1]
7. Why do employees become lethargic when the organization uses internal sources of recruitment? State. [1]
8. 'Maintaining labour relations and union-management relations' is one of the specialised activities performed by Human Resource Management. Mention any two other specialised activities of Human Resource Management. [1]
9. Give two characteristics of 'Organizational Climate' that influence the behaviour of individuals and act as a non-financial incentive. [1]
10. Define 'Financial Management'. [1]
11. What is meant by 'Feedback' in the concept of communication? [1]
12. How does 'Cost of Debt' affect the capital structure of company? State. [1]
13. Kavya 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. Kavya worked overtime. But even after working for long hours and putting in her best efforts, no recognition was given to her by her boss. Due to overtime 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) Identify and explain the needs of Kavya discussed in the above para, by quoting the lines.
- (ii) Also explain two other needs of Kavya followed by the above needs, which still remained to be satisfied. [3]
14. Explain any three personal barriers to effective communication. [3]
15. Explain any three personal Money Market Instruments
- (i) Treasury Bill
- (ii) Commercial paper
- (iii) Call money [3]
16. 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 children from nearby villages. Although the products were in great demand, appropriate safety warning for use were not mentioned on the labels, which led to many accidents.

- (i) Identify and explain the important product related decision that was not taken into consideration by the company
- (ii) Also state any two values which were violated by the company [3]
- 17.** State any three points of importance of consumer protection from the point of view of business. [3]
- 18.** How are consumer grievances redressed by the three-tier machinery under Consumer Protection Act, 1986? Explain. [3]
- 19.** 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]
- 20.** Giving any four points, explain the impact of government policy changes on Business and Industry. [4]
- 21.** How is training in an organization beneficial 'for employees'? State by giving any four reasons. [4]
- 22.** Give the meaning of 'Investment' and 'Dividend' decisions of financial management. [4]
- 23.** State any five points of importance of planning. [5]
- 24.** What Differentiate between 'Capital Market' and 'Money Market' on the basis of the following.
- (i) Safety
- (ii) Expected Return
- (iii) Investment outlay
- (iv) Participants
- (v) Duration [5]
- 25.** What is meant by 'Physical Distribution'? Explain its major components. [5]
- 26.** Principles of Taylor and Fayol are mutually complementary. One believed that the

management should scientifically select the person and the work assigned should suit his/her physical and intellectual capabilities, while the other suggested that the work can be performed more efficiently if divided into specialised tasks. Identify and explain the principles of Fayol and Taylor referred to in the above para. [5]

27. With the help of any four points, explain the crucial role of 'Organising' function in an enterprise.

OR

Differential between 'Functional and 'Divisional' structure of organising on the basis of the following:

- (i) Meaning
- (ii) Formation
- (iii) Specialisation
- (iv) Responsibility
- (v) Managerial development
- (vi) Cost involved

[6]

28. Explain any four points which highlight the importance of controlling.

[6]

OR

Explain the relationship between planning and controlling.

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

[6]

- (i) Business cycle
- (ii) Credit allowed and availed
- (iii) Operating efficiency
- (iv) Availability of raw material

OR

Explain the following as factors affecting the choice of capital structure:

- (i) Return on Investment
- (ii) Flexibility
- (iii) Risk Consideration
- (iv) Control

30. Explain the following functions of marketing:

[6]

1. Marketing planning
2. Product designing and development
3. Pricing of products
4. Standardisation and Grading

OR

“Though advertising is one of the most frequently used media of promotion of goods and services, yet it attracts lots of objections.” Explain objection.

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Answer 1

In every organisation, there is a production process wherein the inputs are converted to the desired product or service. Management is required to ensure that production operations are performed smoothly.

Answer 2

Fatigue study determines breaks or intervals which are required during work. It is natural that if a worker works continuously, then fatigue sets in. This leads to reduction in efficiency. Every worker requires regular rest or breaks. According to Taylor, standard break timings must be provided to workers for improving performance.

Answer 3

Technological environment includes technological changes and improvements such as new communication facilities. It may also get reflected in factors such as expenditure on R&D and rate of obsolescence.

Answer 4

A procedure is a sequence of steps to carry out different activities. These steps are established well in advance to handle future conditions.

Answer 5

Accountability implies that subordinates will be answerable for the final output of the task to his superior. It cannot be delegated or transferred and is enforced through proper feedback on task completion.

Answer 6

Organisational structure refers to the framework within which managerial and operating tasks are performed. It specifies the relationship between people, work and resources.

Answer 7

Internal sources of recruitment have a tendency to make employees lethargic, because employees are sure of time-bound promotions, hampering the spirit of competition among them.

Answer 8

Two other specialised activities performed by Human Resource management:

- i. Recruiting personnel
- ii. Training and development for employees to improve their competence

Answer 9

Two characteristics of 'Organisational Climate' which influence the behaviour of individuals and act as a non-financial incentive:

- i. Autonomy of employee
- ii. Employee recognition

Answer 10

Financial management refers to the efficient acquisition and distribution of funds of the company.

Answer 11

Feedback means the action performed by the receiver to convey to the sender that the message is received and clearly understood. Only when the sender receives a response does the communication process ends.

Answer 12

Debt is risky where payment of regular interest on debt is a legal obligation of the business. If the firm can manage a borrowed fund at a lower rate of interest, then it will prefer to have more of debt as compared to equity.

Answer 13

- 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. Kavya realised that she was fulfilling only 'physiological needs' 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. Kavya has a permanent job which ensures her complete security.
- ii. Two other needs of Kavya (followed by the above needs) which remain 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 and also respects and acknowledgement in the peer group. In this situation, Kavya falls sick and takes leave, but no one showed concern and enquired about her health.

Answer 14

Certain personal factors of the sender and receiver may affect the free flow of information. Some personal barriers are

- i. **Fear of authority:** Difference in status and authority between superiors and subordinates creates a barrier to effective communication. Sometimes, the subordinate has fear of their superior; they hesitate to communicate freely with them. Therefore, communication is restrained.
- ii. **Lack of confidence in subordinates by the superior:** If the superior lacks confidence in subordinates, he/she will hesitate to involve them in discussions, and hence, it widens the communication gap between them.
- iii. **Lack of incentives:** If subordinates lack incentives such as appreciation for their work or ideas, they may not take initiative or lack participation in the discussion and other matters.

Answer 15

- i. **Treasury bills (T-Bills):** A treasury bill is a short-term borrowing instrument of the Government of India. It is a promissory note having a maturity period of less than one year. T-bills are issued by the Reserve Bank of India on behalf of the Central Government.
- ii. **Commercial papers:** Commercial papers are short-term unsecured money market instruments. Introduced in India in 1990, they are promissory notes which are negotiable and transferable. They have a maturity period ranging from a minimum of 15 days to a maximum of one year. They are primarily used by large and creditworthy companies for bridge financing.
- iii. **Call money:** Call money is a money market instrument which is used by commercial banks for interbank transactions. Commercial banks use call money for meeting their cash reserve requirements. In other words, through call money, commercial banks borrow from each other to fulfil any shortage of funds required to maintain the cash reserve ratio.

Answer 16

- 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 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 consumer 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

Under the Consumer Protection Act, a three-tier machinery comprising the District Forum, State Commission and National Commission have been formed with the basic objective of consumer redressal.

Brief explanation of the three-tier machinery:

- **District Forum:** It is set up at the district level by the concerned state government. A complaint can be filed in the district forum if the value of goods, including the compensation claimed, is less than Rs 20 lakh.
- **State Commission:** It is set up at the state level by the state government. A complaint can be filed in the district forum if the value of goods, including the compensation claimed, is between Rs 20 lakh and Rs 1 crore.
- **National Commission:** It is set up by the Central Government. A complaint can be filed in the district forum if the value of goods, including the compensation claimed, is more than Rs 1 crore.

Answer 19

- a. 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.
- b. Two values conveyed by the organisation in this situation:
 - i. Providing employment in backward areas of the society
 - ii. Using environment-friendly methods of production

Answer 20

Policies of liberalisation, privatisation and globalisation by the government affect the functioning of business enterprises. The impact of government policy changes on the business and industry:

- i. **Increased competition:** The policy allowed easy entry of foreign firms and abolition of licensing. Domestic companies thus have to compete with international firms in the market which is a serious challenge and threat to them.
- ii. **Increased demand:** Because of the fierce competition from the foreign market and new businessmen joining the production line, there has been a tremendous increase in customer demands for a better choice of goods and services.
- iii. **Change in business policies:** Business enterprises had to alter their policies and operations from time to time following government policies under new industrial policy.
- iv. **Technological changes:** The competitive spirit has led new firms to fund new and innovative ways to outperform each other in the market. They increasingly adopt new technology and engage and invest further research and development.

Answer 21

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.

Benefits to the Employee

- i. **Better Career Opportunities:** Training helps in improving the knowledge of the employee which in turn helps in improving his career prospects.
- ii. **Earn More:** By helping individuals to improve their knowledge and skills, training improves the earning prospects of employees.
- iii. **Less Accident Prone:** With proper training, employees become more efficient in handling complex machines. This helps in reducing the chances of an accident.
- iv. **Self-confidence:** By increasing the knowledge, skills and aptitude of employees, training helps in boosting self-confidence, which in turn helps in improving job satisfaction.

Answer 22

- (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. (a) Long-term investment decisions affect a firm's long-term earning capacity and profitability. They are also known as capital budgeting decisions. For example, the decision to purchase a new machine or land. (b) Short-term investment decisions, also known as working capital decisions, affect the day-to-day business operations. For example, decisions related to cash or bill receivables.
- (ii) **Dividend decisions:** Dividend decisions involve decisions regarding how the company would distribute its profit or surplus. It can either distribute it to equity shareholders in the form of dividends or keep it in the form of retained earnings. Dividend decisions aim at maximising the wealth of shareholders while at the same time considering the requirements of retained earnings for the company.

Answer 23

Factors why planning is a very significant action despite gigantic costs:

- i. **Renders direction:** Planning clearly states the predetermined course of action, guides managers about things to be done, what route to take and how objectives are to be achieved and provides direction to the actions of different departments of the organisation. Planning also ensures that various departments of the organisation work in a coordinated manner towards the achievement of desired objectives.
- ii. **Subdued risk of uncertainties:** One of the main agendas of planning is to predict or anticipate any future risk or unfortunate events which can cause major damage to a business. Plans are made to overcome such uncertainties. Such uncertainties are met by keeping aside some resources. Planning shows how to deal with situations which may arise in the due course of management though it does not fully eliminate problems.
- iii. **Minimised overlapping:** Departmental and organisational plans are made keeping in mind the requirements of departments. Thus, managers are well comprehended with the policies and plans of the organisation, resulting in integration of activities. Through minimisation and elimination of useless resources and redundant activities, overlapping of work or any wastage of resources (occurring because of repetition) is reduced. Proper planning ensures that there is no confusion or misunderstanding and that work proceeds smoothly.
- iv. **Encourages creativity:** Through better procedures, ideas and methods, planning serves as the stepping stone of an organisation's success and can be termed an intellectual process. Planning includes formulating policies and plans

which require innovation. It is a crucial activity which demands the best of managers' thinking capabilities and creativity.

- v. **Helps in decision making:** It is a base for decision-making which involves analysing and evaluating various activities to select the best alternative in achieving the objectives of an organisation.

Hence, we can infer that despite the costs involved, planning is an essential function in management and worth the costs incurred.

Answer 24

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	Offer higher possibility of gain as securities are for a longer period.	As securities have a shorter maturity period, the expected return is lower.
(iii) 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.
(iv) Participants	Financial institutions, commercial banks, corporates, foreign investors and public.	RBI, commercial banks, financial institutions and financial companies.
(v) Duration	Long-term and medium-term securities with a maturity period of more than a year.	Instruments have a maturity period of maximum one year.

Answer 25

Physical distribution is the transfer of products from the place of production to the place where they are finally consumed. Components of physical distribution:

- i. **Processing of Order:** Processing of order implies the activities which occur between the placement of order and the final delivery to the consumer. It comprises steps such as placement of order, intimation of order to the manufacturer and delivery of goods. The system of distribution should be such that the processing of order is speedy. Speedy processing with sufficient accuracy leads to greater customer satisfaction.
- ii. **Transportation of Products:** Transportation of products implies physical transfer of goods from the place of manufacturing to the place of actual consumption.
- iii. **Warehousing:** Warehousing implies storing the goods before they are finally sold to consumers. Storing of goods at the warehouse enables ready availability of

goods at different locations as and when required. However, warehousing involves costs as well. Thus, the benefits of warehousing must be weighed against the costs involved so as to maintain a balance according to the requirement.

- iv. **Maintenance of Inventory:** Maintaining inventories enables timely supply of products as and when required. Similar to warehousing, maintenance of inventory also involves a cost.

Answer 26

Two principles which are mentioned in the paragraph:

- i. **Development of each and every person to his or her greatest efficiency and prosperity:**

According to Taylor, the overall efficiency and productivity in an organisation depends on the competency of individual employees. Accordingly, to improve the overall productivity and efficiency, the working capabilities of employees must be improved. If the efficiency of workers improves, then they will be able to increase their contribution to the organisation's development. They should initiate new ways and incentives to develop their competitiveness. They should be assigned work according to their mental/physical qualities. For this, they must be given proper training and education.

- ii. **Division of work:**

Work should be divided into small parts to ensure that execution occurs competently. A particular unit of work is assigned to an individual based on ability because he or she may not be comfortable to execute the entire process. So, when an individual works continuously on a particular task, he will become specialised in that task. Therefore, he will become an expert in the routine work assigned by the superior.

Answer 27

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 a job description. This document 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

Basis	Functional Structure	Divisional Structure
Meaning	Activities of a similar nature are grouped together in departments, and all departments in turn report to a head.	An organisational structure wherein various diversified business activities of an organisation are grouped in different divisions.
Formation	On the basis of function.	On the basis of product.
Specialisation	Brings in operational specialisation.	Brings in product specialisation.
Responsibility	Not easy to fix the responsibility on a particular department because all these departments are interdepartmental.	Easier to fix divisional responsibilities because all these departments are independent.
Managerial development	No scope for development of managers because they are specialised in one particular function.	Scope for development of managers because they are familiar with many functions.
Cost involved	Less expensive and economical because functions are not duplicated.	Expensive and not so economical because resources are required in different departments and there is a higher rate of duplication of work.

Answer 28

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

Points highlighting the importance of controlling in an organisation:

- i. **Achieving goals:** Controlling ensures that various activities are carried out correctly according to 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 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 used 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.

OR

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 the 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 for evaluation.

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. As 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 experience 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 the corrective actions to be taken (in the future) and forms the base for plans. Thus, the controlling function looks forward as well.

Answer 29

Factors affecting the requirements of working capital:

- 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 \Rightarrow High working capital
Depression period \Rightarrow Low working capital
- ii. **Credit allowed and availed:** Credit means allowing the sale of goods without immediate cash payment, and hence, the number of debtors increases and in turn the requirement of working capital will increase. A strict credit policy will reduce the requirement of working capital.
Credit allowed
Liberal credit policy \Rightarrow High working capital
Strict credit policy \Rightarrow Low working capital
Credit availed
Difficult to avail credit from suppliers \Rightarrow High working capital
Easy to avail credit from suppliers \Rightarrow Low working capital
- iii. **Operating efficiency:** A highly efficient organisation uses its raw material and other inputs appropriately with minimum wastage, as they can handle 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 requires lower working capital.
Low operating efficiency \Rightarrow High working capital
High operating efficiency \Rightarrow Low working capital
- iv. **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 \Rightarrow High working capital
Easy to obtain raw material \Rightarrow Low working capital

OR

Factors affecting the choice of capital structure:

- i. **Return on Investment:** Debt offers higher return in the sense that in case of debt, the difference between cost and return is greater. Accordingly, the earning per share is greater.
Higher ROI \Rightarrow More debt
Lower ROI \Rightarrow Lower debt

- ii. **Flexibility:** A firm's capacity to borrow in the future is restricted because of excess debt. Therefore, certain amount of borrowing is extended to meet unexpected situations to maintain flexibility.
More use of debt in present \Rightarrow Ability to use in future decreases
Balance should be maintained between debt and equity in capital structure.
- iii. **Risk Consideration:** Debt involves financial risk in the sense that there is compulsion to repay the debt amount in a fixed period of time. Any default in repayment may even lead to liquidation of the firm. As against this, in case of equity, there is no such risk as it is not mandatory to pay dividends to shareholders.
Higher financial and operating risks \Rightarrow Lower proportion of debt
Lower financial and operating risks \Rightarrow Higher proportion of debt
- iv. **Control:** Equity shareholders are regarded as owners of the company as they have complete control over the company. Owners and existing shareholders have complete control over the company as they employ more of debt securities.
If management wants to keep control in its own hands \Rightarrow More debt
If management can share control with others \Rightarrow More equity

Answer 30

Functions of marketing:

- i. **Market planning:** Creating a market plan to achieve marketing goals and objectives of the organisation. Market research is conducted to analyse the preferences of customers to formulate a suitable plan.
- ii. **Product designing and development:** With the help of designing, customers are able to identify the product. It can also be used for promoting the product. It can be used for attracting customers towards product purchase. Proper packaging also helps in protecting the product from spoilage and breakage.
- iii. **Standardising and grading:** It enables grading of the product in various categories. For instance, different features of the product are specified on the label. For example, a brand of ice cream comes in different flavours.
- iv. **Pricing of the product:** 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. Marketers must suitably decide a price by properly analysing the various related factors such as target customers, pricing range of competitors and goals of the firm. The price which is set must be at par with the value offered by the product. In addition, the firm must offer suitable discounts, offers or incentive schemes.

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 objecting advertisement:

- 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. However, advertising helps in attracting consumers to the product. Accordingly, the demand for the product increases. To cater to the increased demand, production increases. An increase in production in turn lowers the per unit cost of production.
- ii. **Creates Confusion:** Advertisements of a large number of similar products often confuse consumers. In contrast, advertisements help in increasing the knowledge of consumers 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 product purchase.
- iii. **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.
- iv. **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.