

CBSE
Class XII Business Studies
Abroad Board Paper Set 3 – 2014

Time: 3 hrs

Max. Marks: 90

Note:

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

General Instructions:

- (i) All questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Questions No. **1 – 12** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
- (iv) Questions No. **13 – 18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
- (v) Questions No. **19 – 22** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
- (vi) Question number **23 – 26** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
- (vii) Question number **27 – 30** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
- (viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

1. How does 'Cost of Debt' affect the capital structure of a company? State. **[1]**
2. Define 'Financial Management'. **[1]**
3. '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]**

4. Give two characteristics of 'Organizational Climate' that influence the behaviour of individuals and act as a non-financial incentive. [1]
5. What is meant by 'Feedback' in the concept of communication? [1]
6. Why do employees become lethargic when the organization uses internal sources of recruitment? State. [1]
7. Give the meaning of 'Accountability' as an element of delegation. [1]
8. What is included in 'Technological Environment' of business? State. [1]
9. What is meant by 'Management of Operations'? [1]
10. Give the meaning of 'Procedure' as a type of plan. [1]
11. Define organization as a structure. [1]
12. What is determined by 'Fatigue Study'? [1]
13. 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 warnings for use were not mentioned on the labels, which led to many accidents. [3]
 - 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.
14. How are consumer grievances redressed by the three-tier machinery under Consumer Protection Act, 1986? Explain. [3]
15. Kavya is working in a company on 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. [3]
 - 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.

16. Explain any three semantic barriers to effective communication. [3]
17. 'Financial Market plays an important role in the allocation of scarce resources in an economy by performing various functions.' Explain any three such functions of financial market. [3]
18. State any three points of importance of consumer protection from the point of view of business. [3]
19. Give the meaning of 'Investment' and 'Dividend' decisions of financial management. [4]
20. 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 revenue. After analysis the company decided [4]
- to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.
 - 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.
- Identify and explain the objectives of management discussed above.
 - State any two values which the company wanted to communicate to the society.
21. Giving any four points, explain the impact of government policy changes on Business and Industry. [4]
22. How is training of employees beneficial 'for the organization'? State any four reasons for the same. [4]
23. State any five limitations of planning. [5]
24. 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]
25. Differentiate between 'Capital Market' and 'Money Market' on the basis of the following: [5]
- Safety
 - Expected Return
 - Investment outlay
 - Participants

v. Duration

26. What is meant by 'Physical Distribution'? Explain its major components. **[5]**

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

- i. Marketing Planning
- ii. Product designing and development
- iii. Pricing of products
- iv. Standardisation and Grading

OR

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

28. Explain any four points which highlight the importance of controlling. **[6]**

OR

Explain the relationship between planning and controlling.

29. With the help of any four points, explain the importance of 'Delegation' in an organization. **[6]**

OR

'Organizing involves a series of steps in order to achieve the desired goals.' Explain these steps.

30. Explain the following as factors affecting the requirements of fixed capital: **[6]**

- i. Scale of operations
- ii. Choice of technique
- iii. Technology upgradation
- iv. Financing alternatives

OR

Explain the following as factors affecting the dividend decision:

- i. Stability of dividend
- ii. Shareholders' preference
- iii. Access to capital market
- iv. Legal constraints

CBSE
Class XII Business Studies
Abroad Board Paper Set 3- 2014 Solution

Answer 1

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 2

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

Answer 3

Two other specialised activities performed by Human Resource management:

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

Answer 4

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 5

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 6

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 7

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 8

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 9

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 10

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

Answer 11

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

Answer 12

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 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

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 15

- 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.
- Two other needs of Kavya (followed by the above needs) which remain to be satisfied are 'belongingness needs' and 'esteem needs'.
 - Belongingness needs refers to the social needs of an individual in terms of affection and acceptance.
 - 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 16

- Symbols with different meanings:** Certain words may have different meanings, and therefore, the meaning interpreted by the receiver may be in a different context such as price/prize.
- Faulty translations:** It is not necessarily that workers always understand the language used by managers. So, the translator will translate the message of managers to all workers. If the translator is not efficient to translate exactly the thoughts of the manager, then there is a chance of faulty translation.
- Badly expressed message:** If the manager does not have a sound vocabulary, then he/she may use unintended words while communicating with subordinates.

Answer 17

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 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 18

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 19

- (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 20

- 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 21

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 22

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 23

Limitations of planning which may result in abandoning or reconsidering organisational objectives:

- i. **Rigidity:** For any unforeseen conditions, the changes which can be made to a plan are limited. A major change to the already created plan is neither possible nor would do any good in the interest of an organisation. This rigid nature of a plan creates hurdles at times of unforeseen changes. Managers may sometimes require a certain degree of flexibility so as to cope with the changes in an appropriate manner. Rigidity in plans sometimes causes huge losses to the organisation and creates obstacles in the completion of objectives.
- ii. **Unfavourable for a dynamic environment:** Nothing is constant in a business environment; it is dynamic. Planning, on the other hand, completely depends on the anticipation of future happenings. As a result, both do not go hand-in-hand. Planning cannot foresee such sudden changes in the business and is full of uncertainties. This may lead to failure in the accomplishment of objectives. An organisation must adapt its functioning to the changing environment; long-term planning will make this dynamic environment less effective.
- iii. **Gigantic costs:** Planning involves analysis, research and scientific calculations which require huge cost and time. As planning is based on predictions, it requires a lot of thinking and analysing. It involves scientific calculations along with figures and facts which are to be used in formulating the course of action. Companies thus need to hire professionals to formulate plans. This involves high costs. Moreover, sometimes, it might happen that the benefits derived from planning fall short of the costs incurred.
- iv. **False security:** Good planning does not guarantee success. The probability of attaining success once the plans have been put into action is odd. Managers often tend to rely on previously tried and tested successful plans. However, the business environment is dynamic and a pretested plan may or may not work in the future. Managers tend to over think that planning can prevent problems from occurring. However, they neglect the fact that planning simply provides a

base for predicting the future and does not give solutions to problems right away.

- v. **Lack of accuracy:** While planning, many assumptions are made to decide about the future course of action in an organisation. The future is uncertain to predict and planning activities well in advance is difficult. Planning provides a base for analysing the business environment.

Answer 24

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 25

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,	RBI, commercial banks, financial institutions and

	foreign investors and public.	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 26

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 27

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.

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

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 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.

OR

Steps involved in the process of organising:

- i. **Identification and Division of Work:** The first step in the process of organising is to identify the various activities in the organisation and to divide them according to plans. Division of work ensures that there is no duplication of work. In this way, it avoids wastage of resources.
- ii. **Creation of Departments:** When work is divided, similar activities are grouped together in departments. This grouping can be on the basis of criteria such as regions and products. It promotes specialisation in work.
- iii. **Assigning Duties:** The third step is to assign and allocate the work to different employees. It must be ensured that the work is assigned according to the skills and capabilities of employees. In other words, it must be ensured that the most suitable person is selected for the work.
- iv. **Establishing Relationships:** A proper hierarchical structure must be established. Every employee must be clear that from whom he would take orders and to whom he is reporting. Such clarity in working relationships helps in smooth operations in the organisation.

Answer 30

i. Scale of operations: A company with large-scale operations will require larger fixed assets in the form of plants, land and building.

Larger organisation ⇒ Higher investment in fixed assets

Small organisation ⇒ Lower investment in fixed assets

ii. Choice of technique: A company may use labour-intensive or capital-intensive techniques. A company using capital-intensive techniques will require larger fixed assets, whereas a company using labour-intensive technique will require less fixed assets.

Capital-intensive organisation ⇒ Higher investment in fixed assets

Labour-intensive organisation ⇒ Lower investment in fixed assets

iii. Technology upgradation: Due to changes in technology or it becoming obsolete over time, companies require a large amount of investment in fixed capital. For example, certain machinery becomes obsolete very soon compared to other assets such as furniture. Therefore, a larger fixed capital is required for upgradation.

Faster upgradation ⇒ Higher investment in fixed assets

Slower upgradation ⇒ Lower investment in fixed assets

iv. Financing alternatives:

If leasing facilities are available without any lengthy procedures in the financial market, then the fixed capital requirements will be less.

Non-availability of financing alternatives ⇒ More fixed capital

Availability of financing alternatives ⇒ Less fixed capital

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. Dividend decisions must be taken after careful consideration of these rules and policies.