

2019

BUSINESS STUDIES

Time : 3 Hours

Maximum Marks 80

Instructions for the Candidates :

- Please check that this question paper contains _____ printed pages .
- Code Number given on the right hand side of the question paper should be written on the title pages of the answer book by the candidate .
- Please check that this question paper contains 23 questions .
- Please write down the Serial Number of the question before attempting it .
- 15 Minutes time has been allotted to read this question paper .

General Instructions:

- This question paper contains **FIVE Sections : A , B , C , D and E .**
- **Section A** contains Questions **1 to 8** carrying **ONE** Mark each . Answers to these questions be given in **ONE word or a Sentence.**
- **Section B** contains Questions **9 to 13** carrying **THREE** Marks each . Answers to these questions be given in **50 – 75 words .**
- **Section C** contains Questions **14 to 19** carrying **FOUR** Marks each . Answers to these questions be given in about **120 words .**
- **Section D** contains Questions **20 to 22** carrying **FIVE** Marks each . Answers to these questions be given in about **150 words .**
- **Section E** contains Questions **23 to 25** carrying **SIX** Marks each . Answers to these questions be given in about **200 words .**
- There is **NO** over-all choice in the question paper . However an **Internal Choice** has been provided in **3 Questions of ONE Mark , 2 Questions of THREE Marks , 2 Questions of FOUR Marks , 1 Question of FIVE Marks and 1 Question of SIX Marks .**
You have to attempt only ONE of the Choices in such questions .

SECTION – A

- Q 1.** Das is the Managing Director of “Gamut Ltd.”, manufacturing different varieties of cheese . He has an efficient team working under him consisting of Rajat – the Production Manager , Vinay – the Marketing Manager and Adit – the Finance Manager . They understand and interpret the policies made by Das and ensure that their Departments have adequate manpower , assign them the necessary duties and motivate them to achieve the desired objectives .
State ONE more Function , other than those mentioned above , that this Team may perform at the Level they are Working .

[1 Mark]

- Ans.** Rajat , Vinay and Adit are working at the “**Middle Level**” , as the “**Functional Heads**” for the smooth functioning of their respective Departments . Other than this , one more function the three Functional Heads must perform is to “**Motivate**” the Employees of their Respective Departments in order to achieve the Desired Objectives .. .

- Q 2.** Different between Formal and Informal Organization on the basis of “Flow of Communication” .

OR

Differentiate between : “Delegation” and “Decentralization” on the basis of “Freedom of Action” .

[1 Mark]

- Ans. Formal Organization :** Formal Organization follows the official chain of command which can be changed . Communication has to follow Formal Channels .

Informal Organization : Informal Organization does not have a chain of command . There are no fixed patterns of Communication .

OR

Delegation : The person who Delegates Authority keeps the Power to Control with Himself . The Subordinates does not have much Freedom of Action .

Decentralization : Control is exercised by the Top Management in a general manner . The Divisional Managers enjoy Sufficient Authority or Freedom of Action .

- Q 3.** What is meant by “Functional Structure” of an Organization ?

OR

What is meant by “Accountability” ?

[1 Mark]

- Ans.** Functional Structure of an Organization is created by Grouping the Activities on the basis of Functions required for the Achievement of Organizational Objectives .

OR

Accountability means Subordinates will be answerable for the Non-completion of the Task . Creating Accountability is the Third and Final Step of Delegation Process .

Q 4. Ultra Televisions Ltd. Is offering its 90" TV Sets at a Discount of ₹ 15,000 for a period of one month starting from 1st March , 2019 . Identify the Sales Promotion Activity used by "Ultra Televisions Ltd." .

[1 Mark]

Ans. Sales Promotion activity used by Ultra Television Ltd. Is "Discounts" . This refers to Reduction of certain percentage of price for a limited period of time . Discounts induces the Customer to Buy More and also helps the Businessmen to Clear Off the Stocks .

Q 5. Kumar wanted to Purchase a Fuel Efficient Car having the latest standards regarding minimization of Pollution . He saw an Advertisement offering such a car and visited the showroom of the company , wherein the car was displayed . In his discussion , the Marketing Manager told him that the company is providing Credit Facilities , Maintenance Services and many other Effective Services which are helping in bringing repeat Sales and Developing Brand Loyalty .
Identify the Marketing Function which the Marketing Manager was discussing with Kumar .

[1 Mark]

Ans. After analysis of the above case study , it is identified that Support Services , such as After Sales Services , Handling Customer's Complaints , Maintenance Services etc. aim at providing Maximum Satisfaction to the Customer which in turn helps in Repeat Sales and Developing Brand Loyalty .

Q 6. Kamal is working as a Gang Boss in the assembly unit of "Sokia Ltd.: a Laptop manufacturing company . He Supervises the work of 10 Trained Workers who perform the various activities related to the assembly of the Laptops . One day when he was Supervising the work of his workers , He told Ashok , a Worker that his work could be improved . Ashok interpreted the comments of Kamal as that His work was Not Good . Identify the Type of Barrier to Effective Communication in this case

[1 Mark]

Ans. It is a Premature Evaluation , as Ashok Misinterpreted the Comments of Kamal . Some people have the tendency to form a Judgement before listening to the Entire Message , which leads to Misunderstanding and acts as a Barrier in Effective Communication . .

Q 7. This Market helps to Save Time , Effort and Money that both Buyers and Sellers of a Financial Asset would have to otherwise spend to try and find each other .
Name the Market and Identify the Function being referred to .

[1 Mark]

Ans. Financial Market . Reduce the Cost of Transaction .

Q 8. State any TWO Characteristics of "Directing" .

OR

Give the meaning of "Management by Exception" .

[1 Mark]

Ans. Characteristics of Directing :

- Directing Initiates Action
- Directing takes Place at Every Level .

OR

The Principle of Management Control is based on the belief that – **"An attempt to Control Everything may end up by Controlling Nothing"** . Minor Deviations from Standards are Insignificant for Success . They should be Ignored . Thus any significant deviation which goes beyond the permissible limit should be reported to the Management so that Corrective Action to deal with the situation can be taken up .

SECTION – B

Q 9. Explain "Organizational Climate" and "Job Enrichment" as Non-Financial Incentives .

[3 Marks]

Ans. Organizational Climate : Organizational Climate indicates the characteristics which describe an Organization . Some of these characteristics are Individual Autonomy , Consideration to Employees , Respect for each other etc.

Job Enrichment : Job Enrichment is a Technique through which a Job is made More Motivating . In Job Enrichment , more responsibility is added in the Job , Need for Using Variety of Skills is Increased and More Autonomy is Provided for Job Performance .

Q 10. One of the Functions of "Securities and Exchange Board of India (SEBI) is "Promotion of fair Practices and Code of Conduct in Securities market" . State the category to which this Function belongs and State any TWO Other Functions of this category .

[3 Marks]

Ans. These Functions are categorized as **"Protective Functions"** . These functions are Performed by SEBI to Protect the Interest of the Investors and provide Safety of Investment .

Following are the Protective Functions of SEBI :

- To check Unfair Trade Practices such as , Supply of Misleading Statements to Cheat the Investors in connection with the Securities Market .
- To Promote Code of Conduct relating to Securities Market .

Q 11. Distinguish between : Formal and Informal Organization on the basis of the following :

- (i) Origin
- (ii) Authority and
- (iii) Leadership

OR

Distinguish between : Functional and Divisional Structure on the basis of the following points :

- (i) Co-ordination
- (ii) Managerial Development and
- (iii) Cost

[3 Marks]

Ans.

Difference between Formal Organization and Informal Organization

Basis	Formal Organization	Informal Organization
Formation / Origin	Formal relations are well planned and are created deliberately.	Informal relations are unplanned and they originate automatically.
Flow of Authority	Authority flows from top to bottom, i.e., vertically downward.	Authority flows vertically as well as horizontally.
Leadership	Managers provide leadership to the workers of their departments.	Informal leaders are chosen by the group members.

OR

Difference between Functional Structure and Divisional Structure

Basis	Functional Structure	Divisional Structure
Co-ordination	Very difficult for a Multi Product Company ..	Less Difficult because of Functions related to a particular Product are Integrated in the Product Divisions
Managerial Development	Difficult because of Narrow Functional Specification .	Easier because Autonomy to Perform Multiple Functions is given to Divisional Heads
Cost Factor	Economical , as Functional Departments are Not Duplicated	Costly , as each Division has to Create its Cross Functional Departments .

Q 12. Explain any THREE Points of “Importance of Planning” Function of Management .

OR

Explain any THREE Limitations of Planning Function of Management .

[3 Marks]

Ans.

Importance of Planning :

- **Planning Provides Direction :** By starting in Advance, How Work is to be done , Planning provides Direction for Action . Planning ensures that the Goals or Objectives are Clearly Stated so that they act as a Guide for Deciding , What Action Should be Taken and In Which Direction . If Goals are Well Defined , Employees are Aware of What the Organization has to Do and What they must Do to Achieve those Goals . Departments and Individuals in the Organization are able to Work in Co-ordination. If there was NO Planning , Employees would be Working in Different Directions and the Organization would NOT be able to Achieve its Desired Goals .
- **Planning Reduces the Risk of Uncertainties :** Planning is an Activity which enables a Manager to look Ahead and Anticipate Changes . By Deciding in Advance the Tasks to be Performed , Planning shows the Way to Deal with Changes and Uncertain Events . Changes or Events Cannot be Eliminated , but they can be Anticipated and Managerial Responses to these can be Developed .
- **Planning Reduces Overlapping and Wasteful Activities :** Planning Serves as the Basis of Co-ordinating the Activities and Efforts of Different Divisions , Departments and Individuals. It helps in Avoiding Confusion and Misunderstanding . Since Planning ensures Clarity in Thought and Action, Work is Carried on Smoothly without Interruption . Useless and Redundant Activities are Minimized or Eliminated . It is Easier to Detect Inefficiencies and take Corrective Measures to Deal with them .

OR

Limitations of Planning :

- **Planning Leads to Rigidity :** The existence of a Plan puts Managerial Activities in a Rigid Framework. One of the Limitations is Rigidity. Programmes are carried out according to the Plan and Deviations are considered to be highly undesirable . This Attitude makes Managers and Employees Inflexible in their operations . They become more concerned with observance of Rules and Procedures as laid down in the Plan rather than achieving the goals .
- **Planning May Not Work in Dynamic Environment :** Business Environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to fore-cast these future changes. Plans may fail if the changes are very frequent. The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment. For example there may be change in economic policy, change in fashion and trend or change in competitor's policy. A manager fore see these changes accurately and plan may fail if many such changes take place in environment.

- **Planning Reduces Creativity :** With the Planning the Managers of the organization start working rigidly and they become the Blind Followers of the Plan only . The Managers do not take any initiative to make changes in the plan according to the changes prevailing in the Business Environment . They Stop giving Suggestions and New Ideas to bring Improvement in Working because the guidelines for working are given in Planning only .

Q 13. "G. Motors" is the Manufacturer of Sophisticated Cranes . The Production Manager of the company , Reported to the Chief Executive Officer , Ashish Jain that one of the Machines used in Manufacturing Sophisticated Cranes had to be replaced to compete in the market , as other Competitors were using automatic machines for manufacturing cranes . After a detailed analysis , it was decided to Purchase a New Automatic Machine having the latest technology . It was also decided to Finance this machine through Long Term Sources of Finance . Ashish Jain compared various Machines and decided to Invest in the Machine , which would yield the Maximum Returns to its Investors .

(a) Identify the Financial Decision taken by Ashish Jain .

(b) Explain any THREE Factors Affecting the Decision identified in **(a)** above .

[3 Marks]

Ans.

(a) Financing Decision . Financing Decision is concerned with the Decisions about, How much Funds are to be Raised from which Long Term Sources i.e. Owner's Funds (Consisting of Equity Share Capital and Retained Earnings) or Borrowed Funds (Consisting of Debenture Loans , Bonds etc.)

(b) Factors Affecting the Finance Decision are :

- **Cost :** A Prudent Financial Manager would normally Opt for a source which is the Cheapest . The Cost of each type of Finance is estimated . Some sources may be Cheaper than Others . E.g. Debt is considered the Cheapest of all sources because Interest on Debt is a Tax Deductible Expense .
- **Risk :** Associated Risk is also different for each source . E.g. it is necessary to pay Interest on Debt and Redeem the Principal Amount on Maturity . There is no such compulsion to Pay Dividend on Equity Shares . Thus , there is some amount of Financial Risk in Debt Financing . The Overall Financial Risk depends upon the Proportion of Debt in the Total Capital .
- **Control Consideration :** If Existing Shareholders want to Retain the Complete Control of Business , then they prefer Borrowed Fund Securities to raise further fund . On the other hand , if they do not mind to loose the control , then they may go for Owner's Fund Securities .

SECTION – C

Q 14. Explain any FOUR Points of Importance of “Business Environment” .

OR

Explain any FOUR Points of Impact of Government Policy Changes on Business and Industry .

[4 Marks]

Ans. Business Environment refers to all Individuals or Institutions (Supplier, Customers, Competitors etc) and Other Forces (Economic, Social, Political etc) which are external to a business and beyond its control but that may affect its performance . **Importance of “Business Environment” :**

- **Helps in Assisting in Planning and Policy Formulation :** Environment analysis helps in identifying threats and opportunities in the market. These can serve as the basis for deciding the future course of action (*planning*) or training guidelines for decision-making (*policy*).
- **Helps in Tapping Useful Resources :** A business firm is an open system which gets resources from the environment, converts them into goods and services desired by the customers and then supplies its output to the environment. Thus, a business firm depends on its external environment for tapping various resources and for the sale of its output.
- **Helps in Coping with Rapid Changes :** Managers must understand and examine the business environment and develop suitable courses of action to cope with turbulent market conditions, rapid changes in technology, intense global competition, etc.
- **Helps in Improving Performance :** Enterprises which continuously monitor their environment and adopt suitable business practices not only improve their present performance, but also continue to succeed in the market for a longer period . If a firm is sensitive to the external environment, it will come out with new products and services to meet the future requirements of the customers.
- **Image Building :** If a firm is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This builds the image or reputation of the firm in the eyes of the customers and the general public. Because of sensitivity to Indian consumers' requirements, LG was able to enhance its brand image in the Indian market in a short span of time.

OR

The policy of Liberalization, Privatization and Globalization of the government has made a significant impact on the working of Indian business and industry.

- **Increasing Competition** : Firms now face competition not only from Indian firms, but also from multinational companies (MNCs), especially in service industries like telecommunications, airlines, banking, insurance, etc.
- **More Demanding Customers** : Customers today have become more demanding as increased competition in market gives customers wider choice in purchasing better quality of goods and services.
- **Market Orientation** : Earlier firms had production-oriented marketing operations. But in the present scenario, there is a shift to market orientation, where the firms have to study and analyse the market first to identify customer needs and produce goods accordingly. Marketing research, educational advertising, after-sales services, etc. have become more significant.
- **Rapidly Changing Technological Environment** : Technology is changing very fast, which creates tough challenges before smaller firms. The rapidly changing technological environment requires improvement in machines, processes, products and services. Business firms have to develop new products and technologies to survive and grow in the market.
- **Necessity for Change** : After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations. Investments in R&D and innovations schemes have become a must.

Q 15. State any EIGHT Responsibilities that a Consumer should Discharge while Purchasing , Using and Consuming Goods and Services .

OR

What is meant by “Consumer Protection” ? State any FIVE Points of Importance of Consumer Protection from the point of view of Business .

[4 Marks]

Ans. Various efforts have been made by Government and Non-government Organizations to protect the interest of consumer but exploitation of consumer will stop only when consumer himself will come forward to safeguard his own interest. Consumers have to bear some responsibilities which are :

- **To provide Adequate Information to the Seller** : The consumer has the responsibility to provide adequate information about his needs and expectations to the seller. This would enable the seller to provide right kind of products and services to the consumers.
- **To Exercise Caution in Purchasing** : The consumer must try to get full information on the quality, design, utility, quantity, price, etc. of the product before purchasing it. Thus, he should not buy blindly.

- **To Insist on Cash Memo or Receipt :** The consumer must get a cash memo or receipt as a proof of purchase of goods from the seller. This would help him in making a complain to the seller in case of any defect in the goods. Further, if the goods (e.g. pressure cooker, T.V., Fridge, etc.) carry any warranty, the buyer must obtain the warranty card mentioning the date of purchase, and period of warranty. It must also bear the signature and stamp of the seller

- **To be Quality Conscious :**

The consumer should never compromise on the quality of goods. While making a purchase, the consumer must look for standard quality certification marks such as ISI, Agmark, Wool mark, FPO (Fruit Product Order) Hall Mark, eco mark etc. For example, electric, electric iron must carry ISI mark .



- **To be Cautious against False and Misleading Advertisements :** The manufacturers/sellers often exaggerate the quality of their goods through advertisement. It is the responsibility of the consumer not to be carried away by such advertisements. If he finds any discrepancy in the features advertised and the actual features of the product, he must bring it to the notice of the seller or advertiser
- **To File Complaint against Genuine Grievances :** The consumer must file a complaint with the seller or manufacturer about any defect or shortcoming in the products and services. He should neither consider it a waste of time nor overlook the defect considering it a small loss.
- **To Exercise his Legal Rights :** The consumer has right to safety, right to be informed, right to choose, right to representation, right to seek Redressal and right to seek information. If any of these rights is violated by the manufacturer or seller, the consumer must file a complaint with the legal machinery constituted under the Consumer Protection Act, 1986.

OR

Consumer Protection is a very wide term . It includes providing information to the consumers about their Rights and Responsibilities and also helps in getting their Grievances Redressed and Protecting their Interest . The Concept of Consumer Protection is Beneficial not only for the Consumer , but also for the Businessmen . To Protect the Consumers against Unfair Trade Practices of the Producers and Sellers is called Consumer Protection .

Business needs Consumers as much as Consumers need Business . Therefore, Business should also join hands in Protecting Consumer's Interest . It's importance is highlighted by the following facts.

- **Long Term Interest of Business :** Long term interest of the business lies in the satisfaction of its consumer. It is a satisfied consumer who not only leads to repeat sale but also provides positive feedback to other consumer. In this way the number of customers for that firm goes up and the firm continues to live for a long time. Paying attention to the satisfaction of the consumers is nothing but consumer's protection.

- **Businessman Uses Society's Resources :** Every business uses various resources, e.g., material, machinery, human, capital, etc. All these resources supplied by society. From this point of view, it becomes the responsibility of business to provide better facilities to society. By doing this and through the medium of consumer protection business gets an opportunity to discharge its responsibility towards society.
- **Social Responsibilities :** It is the social responsibility of business to protect the interests of its owner and all other related constituents like – employees, consumers, suppliers, competitors, government, etc. Consumers happen to be the most important of all the related constituents. Therefore, more attention should be paid to the protection of their interests. Doing this is nothing but consumers protection. Therefore, business through the medium of consumer protection can discharge its social responsibility to a large extent.
- **Moral / Ethical Justification :** It is the moral responsibility of business to take care of the consumer's interest. The business should keep away from the evils of adulteration, inferior quality, misleading advertisement, hoarding of goods, black – marketing, less weighing and measuring. By doing so they can discharge their moral responsibility and it can be said that business is helping the cause of consumer protection.
- **Government Intervention :** By ignoring Consumers Interest Business is almost inviting Government Intervention . Government Intervention may Spoil the image of Business . So every firm wants to avoid such situations . Such a situation can be avoided only if the consumers' interest is taken care of. Doing so means taking care of consumers' protection. Thus, by being a partner in protecting consumers' interests government intervention can be avoided and reputation of the firm can also be maintained.

Q 16. Kunal joined as a Shop Level Manager in the Production Department of a Textile Company in the year 2005 . Because of his good work , he became the Deputy Production Manager of the Company in the year 2010 . He had Status and Prestige and was well respected by all in the company . On 1st March , 2019 , He was Promoted as the General Manager of the company . Kunal was very happy on His Promotion as now he had become what he was capable of becoming . As a Good Manager , Kunal decided to Motivate his Subordinates , after understanding the Need Hierarchy Theory which is based on various assumptions . He realized that People's Behaviour is based on their needs and the Manager can influence the behaviour of his Employees by satisfying their needs .

(a) One of the Assumptions of Need Hierarchy Theory is stated in the above paragraph . State the Other THREE Assumptions of this Theory .

(b) State the Needs of Kunal which are being satisfied through Promotion .

[4 Marks]

Ans.

(a) The Assumptions of Need Hierarchy Theory are :

- People's Needs are in Hierarchical Order , Starting from Basic Needs to Other Higher Level Needs .
- A Selected Need can No Longer Motivate a Person . Only Next Higher Level Need can Motivate Him .
- A Person Moves to the Next Higher Level of the Hierarchy only when the Lower Need is Satisfied .

(b) Here Kunal's Needs are being satisfied through "Promotion" which are categorized under "**Esteem Needs**" . These Needs refers to Realizing or Reaching to the Aim of your Life . Once the Employee becomes what He wants to become , it means Satisfaction of His Actualization Need . E.g. When a Soldier faces bravely the Bullet of Enemy , He seems to make realize the Self – Actualization Need .

Q 17. "Foods India Ltd.: is a company engaged in the Production of Packaged Juice since 2010 . Over this period , a larger number of Competitors have entered the Market and are putting a Tough Challenge to "Foods India Ltd." . To face this challenge and to increase its Market Share , the company has decided to replace the Old Machinery with an estimated Cost of ₹ 100 Crores . To raise the Finance , the company decided to Issue , 9 % Debentures . The Finance Department of the company has estimated that the Cost of Issuing the 9 % Debentures will be ₹ 10,00,000 . The Company wants to meet its Floatation Cost .

(a) Explain the Instrument that the Company may Issue for this Purpose .

(b) In which type of Financial Market , is the Instrument explained in (a) above traded ? Also explain how safe the instruments are in this Market . .

[4 Marks]

Ans.

(a) To Compensate its Floatation Cost of Issuing 9 % Debentures , the Finance Manager of "Foods India Ltd." should Issue "**Commercial Paper**" for this Purpose . Commercial Papers are "**Unsecured Promissory Note**" used to meet the Floatation Cost , which is used to Raise Long Term Funds . These Papers were Introduced in India for the first time in the year 1990 .

(b) Such Instruments are Traded in the "Money Market" and Commercial Paper is a Short Term Unsecured Promissory Note . So it is Beneficial for the Company to Issue such Instruments , as No Security is required to be provided by the Company .

- Q 18.** "Smart Stationery Ltd." wants to raise funds of ₹ 40,00,000 for its new project . The Management is considering the following Mix of Debt and Equity to raise this amount .

Capital Structure	Alternative		
	I (₹)	II (₹)	III (₹)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows :

- Interest Rate on Debt 9 %
- Face Value of Equity Shares ₹ 100 each
- Tax Rate 30 %
- Earnings Before Interest and Tax (EBIT) ₹ 8,00,000

(a) Under which of the THREE Alternatives will the company be able to take Advantage of Trading on Equity .

(b) Does Earning Per Share always Rise with Increase in Debt ?

[4 Marks]

Ans.

(a) Trading on Equity refers to the Increase in Profit earned by the Equity Shareholders due to the Presence of Fixed Financial Charges like Interest . . Comparative Statement of Company showing **Earnings Before Interest and Tax (EBIT) and Earnings Per Share (EPS)** is given as :

$$\begin{aligned}
 \text{Total Fund Used} &= ₹ 40,00,000 \\
 \text{Interest Rate} &= 9 \% \\
 \text{Tax Rate} &= 30 \% \\
 \text{Return on Investment} &= \frac{\text{EBIT}}{\text{Capital Employed}} \times 100 \\
 \text{ROI} &= \frac{8,00,000}{40,00,000} \times 100 = 20 \%
 \end{aligned}$$

Here , Return on Investment (ROI) > Rate of Interest .

Hence , High Debt Alternative have More Advantage .

EBIT – EPS

Particular	Situation - I	Situation - II	Situation - III
Share Capital (Equity Share of ₹ 100 each)	40,00,000	30,00,000	10,00,000
Debentures Debt	Nil	10,00,000	30,00,000
EBIT	8,00,000	8,00,000	8,00,000
Interest (–)	Nil	90,000	2,70,000
EBT	8,00,000	7,10,000	5,30,000
Tax (–)	2,40,000	2,13,000	1,59,000
EAT	5,60,000	4,97,000	3,71,000
Number of Shares of ₹ 100 each	40,000	30,000	10,000
Earning Per Share (EPS)	14.10	16.56	37.10

(b) No, Earnings Per Share (EPS) Increases only when Return on Investment (ROI) is Greater than the Rate of Interest. Hence in case Return on Investment is Less than the Rate of Interest, the Equity Shareholder gets Less Earnings, when Debt Increases in the Capital Structure.

Q 19. Explain any FOUR Factors which affect the Fixation of Price of a Product.

[4 Marks]

Ans. *"Price refers to the Amount of Money which the Customer Pays for the Product or Service He Purchases"*. Following are the main factors affecting Price determination :

- **Product Cost :** The most important factor affecting the price of a product is its cost. Product cost refers to the total of fixed costs, variable costs and semi variable costs incurred during the production, distribution and selling of the product. Fixed costs are those costs which remain fixed at all the levels of production or sales. E.g. Rent of Building, Salary etc. Variable costs refer to the costs which are directly related to the levels of production or sales. For example, costs of raw material, labour costs etc. Semi variable costs are those which change with the level of activity but not in direct proportion. For example, fixed salary of Rs.12,000 + upto 6% graded commission on increase in volume of sales. The price for a commodity is determined on the basis of the total cost. Sometimes, while entering a new market or launching a new product, business firm has to keep its price below the cost level but in the long run, it is necessary for a firm to cover more than its total cost if it wants to survive admit cut-throat competition.

- **The Utility and Demand :** Usually, consumers demand more units of a product when its price is low and vice versa. However, when the demand for a product is elastic, little variation in the price may result in large changes in quantity demanded. In case of inelastic demand, a change in the prices does not affect the demand significantly. Thus, a firm can charge higher profits in case of inelastic demand. Moreover, the buyer is ready to pay up to that point where he perceives utility from product to be at least equal to price paid. Thus, both utility and demand for a product affect its price.
- **Government and Legal Regulations :** The firms which have monopoly in the market, usually charge high price for their products. In order to protect the interest of the public, the government intervenes and regulates the prices of the commodities for this purpose, it declares some products as essential products for example, Life saving drugs etc.
- **Marketing Methods Used :** The various marketing methods such as distribution system, quality of salesman, advertising, type of packaging, customer services, etc. also affect the price of a product. For example, a firm will charge high price if it is using expensive material for packing its product.

SECTION – D

Q 20. Explain any FIVE Points of Importance of Management .

OR

Explain any FIVE Characteristics of Principles of Management .

[5 Marks]

Ans.

“Management is the Process of getting things done with the aim of Achieving Goals Effectively and Efficiently”. Importance of Management is as follows :

- **Management Helps in Achieving Group Goals :** Management is required Not for Itself , but for Achieving the Goals of the Organization . The Task of a Manager is to give a Common Direction to the Individual Effort in achieving the Overall Goal of the Organization .
- **Management Increases Efficiency :** The Aim of a Manager is to Reduce Costs and Increase Productivity through Better Planning , Organizing, Directing , Staffing and Controlling the Activities of the Organization.
- **Management Creates a Dynamic Organization :** All Organizations have to Function in an Environment which is Constantly Changing . It is generally seen that Individuals in an Organization resist change as it often means moving from a Familiar , Secure Environment into a Newer and More Challenging One . Management helps People adapt to these changes, so that the Organization is able to Maintain its Competitive Edge .

- **Management Helps in Achieving Personal Objectives :** A Manager Motivates and Leads his Team in such a manner that Individual Members are able to achieve Personal Goals while Contributing to the Overall Organizational Objective . Though Motivation and Leadership the Management helps Individuals to Develop Team Spirit , Co-operation and Commitment to Group Success .
- **Management Helps in the Development of Society :** An Organization has Multiple Objectives to Serve the Purpose of the different groups that constitute it . In the Process of Fulfilling all these Management helps in the Development of the Organization and through that it helps in the Development of Society. It helps to provide Good Quality Products and Services , Creates Employment Opportunities, Adopts New Technology for the Greater Good of the People and Leads the Path towards Growth and Development

OR

“Principle is a Fundamental Statement or Truth providing a guide to the Thought or Action.” .
Characteristics of Principles of Management are :

- **Universal Application :** Principles of Management have Universal Applicability. It implies that Principles of Management can be applied in all types of organizations : Business or Non–business Public Sector or Private Sector, Manufacturing Sector or Service Sector and Small or Large throughout the world .
- **General Guidelines :** Principles of Management just provide general guidelines to Managerial actions; they do not provide readymade solutions to the problems. This is so because Organizations have to work in a dynamic environment having complex factors and business realities may not completely match with the prescriptions of principles of Management Principles .
- **Formed by Practice and Experiments / Evolutionary :** The Management Principles are developed only after deep and thorough research work. They are not developed overnight or they are not the personal feelings of any person. Proper observations and experiments are conducted before developing them. These are the expressions of deep experiences of the leaders of management thoughts. Therefore they are evolutionary in nature .
- **Flexibility :** Principles of Management are Not Rigid , but Flexible . This is so because Principles of Management are Situation Bound and these Principles are Modified according to Situational Requirements . Thus , a Manager may Modify Principles of Management according to His own needs .
- **Behavioural in Nature :** Management Principles are formed to Guide and Influence the Behaviour of Employees . These Principles Insist on improving Relationship between Superior , Subordinates and All the Members of the Organization . They also establish relations between Human and Material Resources . E.g. Principle of Discipline Improves Commitment of Employees towards the Organization and Principle of Espirit-de-Corps mold the Behaviour of Employees towards Team Spirit .

- **Based on Cause and Effect Relationship :** Principle of Management establishes the Relationship between Cause and Effect by Prescribing “What Effect will result , if a particular Principle of Management is Applied in a Given Situation” . However , the Cause Effect Relationship is in a Probable way because these are Applied on Human Beings .

Q 21. “Pushpanjali Ltd.” Is manufacturing Chocolates , Biscuits , Cakes and Other Similar Products . The company is not generating enough profits . Saurabh , the Marketing Manager of the company got a survey conducted to find out the reasons . The findings of the survey revealed that in spite of better quality , the customers were not able to distinguish the products of the company from its competitors . Though the customers wanted to buy the products of “Pushpanjali Ltd.” again and again because of its goods quality , but they were not able to identify its products in the market . Because of this , the Sales of the company could not pick up resulting in Inadequate Profits .

Saurabh , the Marketing Manger now realised that “Pushpanjali Ltd/.” had forgotten to take one of the most important decisions to the product .

What decision should “Pushpanjali Ltd.” take so that the customers are able to Identify its products in the Market . Explain the Benefits that may result to “Pushpanjali Ltd.” and its Customers , if the above decision is taken .

[5 Marks]

Ans. Pushpanjali Ltd. should adopt the process of **Branding** . “ Branding is the process through which a Distinct Identification of the Product is Established” .

ADVANTAGES OF BRANDING

To the Marketers :

1. **Helps in Product differentiation :** With branding marketer can differentiate his products from the competitors product.
2. **Helps in Advertising :** With the brand name advertising become more effective as it not only makes people aware about the features of product but also about brand which can provide these benefits.
3. **Differentiate Pricing :** With established brand name the firm can easily change high price for its product as compared to competitor's product.
4. **Easy Introduction of New Product :** The companies which use their company's name as brand name then it becomes very easy for such company to popularize the new product it is planning to introduce.

To the Customers :

1. **Helps in Identification of Product** : Branding helps the customers to select the products easily as the brand which is giving them satisfaction can be selected easily over the competitor product.
2. **Ensures Quality** : Brand name gives quality assurance and customers can buy branded goods with no doubts about qualities of product.
3. **Status Symbol** : Use of branded goods adds to status symbol of customers and adds to their confidence level.

Q 22. Vikas was the Chief Operating Officer of “Yalet Ltd.” as Company providing Advanced Software Solutions to Indian Defence Services . They had been carrying on business successfully for the last twelve years and earning enough profits . But from the last one year , they realized that though the business is getting big orders , which are being fulfilled in times , even then the Revenues kept on Decreasing . Vikas was not able to find out where the problem was . He started keeping a close check on the progress of activities as he could sense that something was wrong . He wanted to take some action before any major damage could be done to the business .Vikas Appointed a Cyber Security Expert who Monitored the Company’s Processes and found out that the Computer Operator was Deleting the Entries from the Computer and Pocketing the Revenues . He was caught and handed over to the Police . This created an atmosphere of Order and Discipline in the Organization and helped in Minimizing Dishonest Behaviour on the part of the Employees .

(a) Identify the Function of Management highlighted in the above paragraph .

(b) Explain any FOUR other ways in which this Function of Management may help the Organization .

[5 Marks]

Ans.

(a) Here Controlling is highlighted and identified as the Management Function .

(b) Controlling Process may help the Organization to prevent Deviation . It can Minimize Deviation by taking Actions and Decisions that reduce their recurrence . Controlling Process can be defined as :

- **Standards Setting Performance** : Standards are the criteria, set in both quantitative and qualitative terms against which actual performance can be measured. Standard are the bench marks towards which efforts of entire Organization are directed. In order to determine whether the actual performance is proceeding in the right way standards are required. As far as possible, standards must be set up in numerical or measurable terms .
- **Measurement of Actual Performance** : Once the standards have been determined, the next step is to measure the actual performance. The various techniques for measuring are sample checking, performance reports, personal observation etc. However, in order to facilitate easy comparison, the performance should be measured on same basis that the standards have .

- **Comparing Actual Performance with Standards** : The standards should be in quantitative terms of facilitate such comparison. This steps involves comparing the actual performance with standards laid down in order to find the deviations . Deviation means Difference between Actual Performance and Planned Performance . Deviations are of two types : Positive Deviation and Negative Deviation .
- **Analyzing Deviations** : After identifying the deviations, various causes for same are analysed and the most exact cause or causes are identified in order to take corrective measures. While analyzing the deviations, 'Critical Point Control' and 'Management by Exception' techniques are used to save time.
- **Taking Corrective Actions** : The final step in the process of controlling involves taking corrective action. If the deviations are within acceptable limits, no corrective measure is required. However, if the deviations exceed the acceptable limits, they should be immediately brought to the notice of the management for taking corrective measures, especially in the important and critical areas.

SECTION – E

Q 23. Explain the following Principles of General Management .

- (a) Unity of Command
- (b) Subordination of Individual Interest to General Interest and
- (c) Stability of Personnel

OR

Explain the following Techniques of Scientific Management .

- (a) Method Study
- (b) Fatigue Study and
- (c) Differential Piece Wage System

[6 Marks]

Ans.

- (a) **Unity of Command** : According to this principle an employee should receive orders from one boss only because if he is receiving orders from more than one boss then he will get confused and will not be able to understand that whose orders must be executed first and on the other hand, if employees is receiving orders from more bosses he gets chance to give excuses by saying that he was busy in executing the orders of other boss. To avoid confusion and to give no chance of excuse to employee, the orders must come from one boss only. If there are more bosses it can create problem of ego-clash among the superiors as every superior will want his order must be executed by the employee .

E.g. If employees of Production Department is asked to go Slow in Production to maintain Quality Standard by the Production in charge and Sales in charge instructs the employee to fasten the production to meet the pending orders. In this situation employee will get confused as to whose instructions must be followed by him .

Positive Effect :

- Achievement of Organizational Goal.
- Efforts get Unified in One Direction

Consequences of Violation of this Principle :

- Lack of Co-ordination.
- Wastage of Efforts and Resources
- Difficult to Achieve Organization Goals ..

- (b) Subordination of Individual Interest to General Interest :** According to this Principle the Interest of organization must supersede the interest of individuals or employees. In the organization all the employees are working with some objective and there is always an objective of organization. If the objectives of individual are in the same direction of organization then there is no problem but if the objectives of both the groups are in different directions then manager must try to reconcile individual interest with organizational goal and if it is not possible then individual goal must be sacrificed for achieving organizational Goal .The goal of organization must not be sacrificed because individuals will be able to achieve their objectives only when organization prospers .

E.g. If individual's objective is to earn more remuneration and organization is going through the situation of financial crisis and has the objective of cutting down the expenses. In this situation the individual must sacrifice his interest as when organization will come out from financial crisis then he can achieve his objective .

Positive Effect :

- Achievement of Organizational Goal.
- Coordination between Individual and Organizational Goal.

Consequences of Violation of this Principle :

- No Achievement of Organizational Goal.
- Even Employees will also Suffer in Long Run ..

- (c) Stability of Personnel :** It refers to No Frequent Termination and Transfer . According to this Principle , the Management must provide the feeling of Job Security among the Employees because with the feeling of Insecurity for the Job , the Employees cannot contribute their Maximum . Frequent Turnover of Employees is bad for organization and such decision must be taken when they are almost Unavoidable . Not only turnover , but frequent transfer or rotation should also be avoided because it takes sometime to a person to learn and get settled on a job and by the time he gets settled and he receives transfer order then it will be wastage of resources and employees will not be able to contribute their best for the organization .

Positive Effect :

- Improves Efficiency Level of Employees.
- No Wastage of Time and Resources.

Consequences of Violation of this Principle :

- Wastage of Resources in Learning the New Job.
- Frustration and Dissatisfaction among Employees

OR

- (a) **Method Study :** The Method Study Technique of Scientific Management is conducted to find out the One Best Method or Way of Performing the Job which keeps Production Cost Minimum and makes Maximum use of Resources of the Organization . Taylor suggested that Method of Production should not be decided by Rule of Thumb Method , but All the Methods must be tried in the Organization and the one which brings Maximum benefits with Minimum Cost must be Selected .

E.g. For Production of Shoes , there can be Labour intensive method and machine intensive method. To find out which is best management must evaluate the cost of production with both the methods and compare both the methods with the available resources of the company. The method which involves minimum cost and exploits maximum resources must be selected as the best method of production.

- (b) **Fatigue Study :** This Technique of Scientific Management is conducted to find out :

- The Frequency of Rest Intervals
- The Duration of Rest Intervals
- The Number of Rest Intervals

It is a Human Tendency that a person feels Physically and Mentally Tired if She / He is made to work continuously without any rest. The rest period enables one to regain the stamina and to work again with same capacity . Fatigue study intends to find out the number and frequency of rest intervals that must be provided to a worker in completing a job efficiently. Workers cannot work at a stretch. After putting in work for a certain period of time they feel tired which affects their performance. If they are allowed rest intervals, they will regain their stamina and will resume their work greater energy. For example, if workers are involved in heavy manual labour such as brick layering or poor working conditions then small pauses must be given to them and after each interval they resume their work with greater enthusiasm.

- (c) **Differential Piece Wage System :** The Scientific Technique of Differential Piece Rate System Emphasizes on paying different Rate of Wage for Efficient and Inefficient Employees . The Technique of Differential Wage Rate System insists on :

- Paying different Rate of Wage to Efficient and Inefficient Employees.
- Extra Wages Paid to Efficient Employees will Motivate them to remain efficient.
- Extra Wages Paid to Efficient Employees will Motivate Inefficient Employees to come in the Category of Efficient Employees .
- When Payment is given according to Number of Units Produced . Automatically the Production will be Maximized .

To conduct or adopt differential wage system Taylor suggested that the company must fix a standard rate of wage for workers producing standard output or their target. The workers who produce more than the standard-target must be paid with a higher rate of wage and those who are producing less than standard output must be paid with a rate less than standard rate.

For example, if the standard target is 10 Units Per Day and Standard Rate is ₹ 50 Per Unit :

The Worker who is producing 10 units must be Paid ₹ 500 (Standard Rate x Standard Output).

The Worker who is producing more than Standard Output must be Rewarded by Paying more than Standard Rate say ₹ 60 Per Unit .

So He will Receive ₹ $12 \times 60 = ₹ 720$ (Higher Output x Higher Rate).

The Worker who is producing Less than Standard Output must be Taxed and Penalized by Paying Less than Standard Rate say ₹ 40 Per Unit . So he will receive ₹ $8 \times 40 = ₹ 320$ (Lower Output x Lower Rate). This Difference in Wages will Motivate the workers to become efficient and earn more.

- Q 24.** “Entertainment India Ltd.” Has been Incorporated with the Objective of Entertaining people by organizing Festivals , Programmes and Other Similar Events depleting the Rich Culture Heritage of the Country . The Company Management has Renowned Personalities from the Field of Art , Literature and Culture . They decided to give Platform to Young Budding Musicians , Poets and Artists . The Company decided its organizational structure by grouping similar Jobs together . Thereafter , the Heads of Different Departments were also Appointed . Nisha , One of the Heads , did an analysis of the Number , Type and Qualification necessary for people to be Appointed . The information generated in the Process of Writing the Job Description and the Candidates Profiles was used to Develop “Situations Vacant” Advertisement . This was Published in Print Media and Flashed in Electronic Media . This brought in a Flood of Response .

Explain the Other Steps which Nisha has to perform to complete the above Process.

[6 Marks]

- Ans.** Nisha as the HR Head should conduct Manpower Planning . Analyse the Workload and the Work Force . Analyse and Initiate the “**Staffing Process**” . Staffing Process includes the following steps :

- **Estimating Manpower Requirement** : Staffing process begins with the estimation of manpower requirement which means finding out number and type (as per educational qualification) of the employees needed by the organization. While estimating possibilities regarding internal promotions, retirements, resignation etc are also taken into consideration, estimation of manpower requirement should be based on the Organization's Strategic Plan and not merely Organization's Structure.
- **Recruitment** : It refers to the process of inducing the potential candidates to apply for the job. So that more options are available at selection step that is why it is also known as positive process. In other words, recruitment means making available the efficient employees in order to fill various posts. Sources for the recruitment of employees are of two types : Internal (through Transfers and Promotions) and External (through Advertisements , Placement Agencies etc.).

- **Selection** : It refers to choosing the most suitable and competent candidate to fill the vacant job in the organizational structure. It is important to keep in mind that the ability of the applicant and the nature of work must match. The selection is done through a process which involves test, interviews etc. Selection is considered a negative process because more candidates are rejected than selected through this process.
- **Placement and Orientation** : Placement refers to occupying of post by the candidate for which he is selected. After selection the employees is given appointment letter and is asked to occupy the vacant job position. Before they start working in the organization orientation Program is organized by the organization. Orientation is the process of introducing a new employee to the organization and organization to the employee by providing relevant information such as working of organization, it human resources policy, employment benefits, introduction of superior, co-workers and subordinate it is also known as induction.
- **Training and Development** : The last step in the process of staffing is imparting training and development facilities to the employees so that their efficiency and effectiveness is increased. Training refers to a process designed to maintain and improve current job performance. On the other hand, development refers to a process designed to develop skills necessary for future activities.

Q 25. "E – Solution Ltd." Started its operations in the year 2000 . At the time of its Inception , the Company had only 10 Employees with Two Departments , a "Production Department" and an "Administration Department" . The Products Supplied and the Services Provided by the company started gaining popularity over the years . The Management had faith in the abilities of the employees and thus they allowed them Freedom of Action . The Management recognized that the decision makes at different levels of the organization need to be given More Autonomy . They took a policy decision that there will be Less Control of Superiors over Subordinates .This increased the role of the Subordinates in the organization and now they were in a position to take numerous as well as important decisions . As a result , its Business has diversified into many areas . Presently , it has its Operations throughout the Country with Seven Branches Overseas . Its Organizational Structure has now changed into Divisional Structure and 10,000 People are Working with the Company .

(a) Identify the Concept of Management which helped the Company to Diversify into many Areas and Branches Abroad .

(b) Explain FIVE Points of Importance of the Concept identified in **(a)** above . . .

[6 Marks]

Ans.

(a) The Concept of Management which helped the Company to Diversify into many Areas and Branches Abroad is “**Decentralization**” .

(b) Importance of Decentralization can be explain with the help of following points :

- **Developing Initiative among Subordinates** : Passing of authority at middle and lower level shows the trust and faith of top level in their subordinates and this trust and faith motivate the employees working at different levels as they are allowed to take decisions without seeking the approval of superiors.
- **Develop Managerial Talent for Future** : In decentralization , Managers working at lower and middle level also learn the art of making decisions. They get the experience of performing activities of top executives and learn to manage the authority given to them. So decentralization process prepares the managers working at lower and middle level to perform the task of top level. So, whenever there is vacant job position at top level management, the managers working at lower or middle level can be promoted. This is how it level talent for future .
- **Quick Decision-making** : In Decentralization process decision-making is not restricted in few hands only by decision-making power is entrusted to all the managers who are taking actions or performing the activities. This leads to faster decision because employees who have to perform the activities are allowed to take decision also.
- **Relief to Top Level Management** : In the process of Decentralization top level managers are not overburdened with the responsibilities and authority as they systematically pass the authority and responsibilities at different levels and they become free to concentrate on core and important issues .
- **Facilitates Growth** : Decentralization grants more autonomy or freedom to lower level. This helps the subordinates to do the work in the manner best suited for their department. When each department is doing to their best then productivity increases and it will generate more revenue which can be used for expansion.
- **Better Control** : In Decentralization employees working at different levels take their own decisions and they are personally accountable for their decisions, they cannot pass the blame to their superiors. With Decentralization better control can be exercised through Score Card, Management Information System etc.