

COMMERCE : CLASS-XII**BUSINESS STUDIES****SOLUTION**

1.
Ans. (C)
Explanation: Business is a part of society so it has same obligations regarding society. Social objects can attempt to supply products and services at reasonable prices, community development, establishment of healthcare, educational and training facilities, providing environment-friendly products/services, etc.
Related Theory
The main objective of any organization should be to utilize human and material resources to the maximum possible advantage. Management has to reconcile personal goals of employees with organizational objectives.
2.
Ans. (C)
Explanation: To ensure smooth operation in a business, it is essential that members of an organization respect the rules that govern it. Fayol believed that discipline can be maintained by employing superiors at all levels, by maintaining contractual agreements between workers and superiors and by penalizing workers in case of errors made by them.
Related Theory
The principle of unity of order states that each participant in a formal organization should receive orders from and be responsible to only one superior.
According to the unity of direction, all the units of an organization should move towards the same objectives through coordinated and focused efforts. Scalar chain is the formal lines of authority from highest to lowest ranks.
3.
Ans. (B)
Explanation: Business environment is very flexible and keeps changing as there are multiple factors in action at any given time. It is not static and can not be monitored or predicted.
Related Theory
Business environment is largely uncertain as it is very difficult to predict future happenings. Business environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality.
4.
Ans. (C)
Explanation: Division of work is the first step in organizing process. The work is divided into manageable activities so that duplication can be avoided.
Departmentalization is the grouping of activities of similar nature to facilitate specialization. Assignment of duties is the allocation of jobs to the members of each department in accordance to their skills and competencies.
5.
Ans. (D)
Explanation: Planning provides direction. By stating in advance how work is to be done, planning provides direction for action. If goals are well defined, employees are aware of what the organization has to do and what they must do to achieve those goals.

Related Theory

Since planning is the first function of management, new ideas can take the shape of concrete plans. It promotes innovative ideas. Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Planning is an activity which enables a manager to look ahead and anticipate changes thereby reducing the risks of uncertainty.

6.

Ans. (B)

Explanation: In a divisional structure, the organizational structure comprises of separate business units or divisions. The manpower is grouped on the basis of different products manufactured. Here, Manohar is diversifying into the production of shaving creams and shampoos and each product can be grouped into different divisions.

Related Theory

The benefits of divisional structure are :

It promotes flexibility and initiative because each division functions as a autonomous unit.

It facilitates expansion and growth as new divisions can be added without interrupting the existing operations

7.

Ans. (C)

Explanation: Treasury bill is an instrument of short term borrowings by the Government of India maturing in less than one year. They are also known as Zero coupon bonds. These are available for a minimum amount of ₹ 25,000 and in multiples thereof.

Related Theory

Some other money market instruments are: commercial paper, call money and certificate of deposit.

8.

Ans. (B)

Explanation: Securities and Exchange Board of India (SEBI) is the regulator of the capital market whose function is regulation and development of securities market. It is not a participant in the money market.

Related Theory

The major participants of money market are: Lenders, which include RBI, commercial banks and brokers. These participants facilitate the expansion or contraction of money in the market and Borrowers, which include commercial banks, stock brokers, other financial institutions, business houses

9.

Ans. (A)

Explanation: Financing decisions are made for acquiring funds in the context of a business' capital structure, which is a mix of long term debt and equity used for business operations.

Related Theory

investment decision relates to how the firm's funds are invested in different assets. It can be long term or short term. Dividend decision involves how much of the profit earned by the company is to be distributed to the shareholders and how much of it should be retained in the business for meeting the investment requirement.

10.

Ans. (C)



Explanation: The companies generally follow a policy of stabilizing dividend per share. The increase in dividends is generally made when there is confidence that their earning potential has gone up and not just earnings of the current year.

Related Theory

Dividends are paid out of current and past earnings. Therefore, earnings is a major determinant of the dividend decision. Other things remaining the same, a company having stable earnings is in a position to declare higher dividends. Companies having good growth opportunities retain more money out of their profits so as to finance the required investments. The dividend in growth companies is therefore small

11.

Ans. (C)

Explanation: Initial Public Offering (IPO) is made in primary markets when an unlisted company makes fresh issues of securities for the first time.

Related Theory

SEBI has proposed e-IPO norms where investors can bid for new shares through internet and eventually through mobile applications. Public Sector Undertakings (PSUs) securities will be provided a fast-route track for share sales/purchase in order to meet their disinvestment targets. For already listed companies as well, the market regulator has proposed a fast-track route for raising of funds through FPOs or rights offers (where funds can be raised from existing shareholders).

12.

Ans. (C)

Explanation: Usable benefit is that activity of sales promotion in which benefits not related to the product are offered. Here, 25% discount voucher on meals of ₹ 1000 and above at a famous restaurant is offered on purchase of a dress. This benefit can be used by the consumer some other time.

Related Theory

Rebate is offering products at special prices for a limited period to clear off excess inventory.

Discount is offering products at less than list price.

Product combination is offering another product as a gift along with purchase of a product.

13.

Ans. (B)

Explanation: controlling means ensuring that activities in an organization are performed as per the plans.

14.

Ans. (A)

Explanation: A democratic leader will develop action plans and makes decisions in consultation with his subordinates. He/she will encourage them to participate in decision-making.

15.

Ans. (B)

Explanation: Controlling means ensuring that activities in an organization are performed as per the plans.

16.

Ans. (B)

Explanation: Decentralization can be considered to have originated from centralization that enables decision making at different levels. "Everything that goes to increase the importance of the subordinates' role is decentralization and everything which goes to reduce it is centralization."

Related Theory

Delegation refers to the downward transfer of authority from a superior to a subordinate. It is a pre-requisite to the efficient functioning of an organization because it enables a manager to use his time on high priority activities.

17.

Ans. (C)

Explanation: Sales promotion refers to short term incentives which are designed to encourage the buyers to make immediate purchase of a product or service. It is usually undertaken to supplement other promotional efforts.

Related Theory

Promotion mix refers to combination of promotional tools used by an organization to achieve its communication objectives. Various tools of communication used by marketer include; advertising; personal selling; sales promotion and publicity.

18.

Ans. (B)

Explanation: Advertisement is an external source of recruitment, which attracts pool of candidates for the job.

19.

Ans. (B)

Explanation: Product combination is a tool of sales promotion. Under this method, along with the main product some other product is offered to the customer as a gift. Here, in the given case, customer is getting 2 GB memory card free along with the product purchased i.e. an additional product, hence we can classify this as product combination.

20.

Ans. (A)

21.

Ans.

The various dimensions of business environment being referred to in the above case are:

(i) Political Environment: "The Government of India launched "Make in India" as an initiative to encourage the companies to manufacture their products in India." Political environment includes political conditions such as general condition and peace in the country and special attitudes that elected government representatives Holds towards business.

(ii) Technological environment: "A web portal was released under this initiative." Technological environment are forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

(iii) Economic environment: "The initiative aims at high quality standards and also seeks to attract foreign capital investment." Interest rates inflation, rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect managerial practices in an enterprise.

Or

The various dimensions of business environment being referred to in the above paragraph are as follows:

(i) Legal environment: "As per the directions of the Supreme Court". Legal environment includes various legislations passed by the administrative orders issued by the government court judgements as well as the decisions rendered by various commissions and agencies.

(ii) Political environment: "The government passed an order to ban the sale of liquor within the area of 200 meters of all educational institutions." Political environment include political conditions such as general stability and peace in the country and specific attitudes that elected government representatives holds towards business.

(iii) Social environment: "Its consumption is injurious to health and people are becoming more conscious about health and fitness." Social environment include the social forces, customs and traditions, values, social trends, society's expectations from business etc.

Caution

Legal environment is concerned with the law of the land, whereas political environment is related to the government of the nation.

22.

Ans. Functional foremanship is a factory management technique advocated by Taylor. He advocated separation of planning and execution functions. This concept was extended to the lowest level of the shop floor. Under the factory manager, there was a planning in-charge and a production in charge. Under planning in-charge the following personal worked :

Instruction card clerk: He assigns work to all the employees.

Route clerk: He decides how work will progress regarding total productions so, that production takes place on time.

Time and cost clerk: He determines what will be the total cost and how much time each job will take.

Disciplinarian: He sees that there is discipline at work place.

Under production in-charge, personnel who would work were:

Speed boss: He ensures that the work is being completed timely.

Gang boss: He ensures sufficient availability of raw material, tools etc.

Repair boss: He sees that whenever some repair is involved in any work, the work is done properly.

Inspector: He sees that whether the quality of output is good or not

Or

Taylor pioneered the introduction of the method of scientific enquiry into the domain of management practice. Taylor believed that only method to maximize efficiency can be developed through study and analysis. As different managers would follow their indigenous rule of thumb, the new method developed should substitute Rule of thumb throughout the organization.

Scientific method involved investigation of traditional methods through work study, unifying the best practices and developing a standard method, which should be followed throughout the organization.

23.

Ans. (a) Rajat was working at top level of management.

(b) The two other functions being performed by him at this level are outlined below:

He is responsible for formulating the overall organizational goals and strategies.

He is responsible for all the business activities and its impact on society.

24.

Ans. (a) The step of organizing process that has not been carried out properly and contributed to this problem is 'assignment of duties'.

(b) The two steps of organizing process which have been taken by Shanker to respond to the complaint of Arjun are:

(i) Assignment of duties: It is necessary to allocate work to various employees. In the process of organizing, once departments have been formed, each of them is placed under the charge of an individual It is essential for effective performance and communication that a proper match is made between the nature of a job and the ability of an individual The work must be assigned to those who are best fitted to perform it well

(ii) Establishing reporting relationships:

Merely allocating work is not enough. Each individual should know from whom to take orders and to whom he/she is accountable. The establishment of such clear relationships helps to create a hierarchial structure and coordination amongst various departments.

25.

Ans. (a) The technique of management which is followed here is Standardization (“the company has set standards as regards to quality and specifications of its products”) and Simplification (the company adopts the policy of discontinuing the production of those products which have less demand in the market).

Standardization refers to the process of setting standards for every business activity; it can be standardization of process, raw material time, product, machinery, methods or working conditions. These standards are the benchmarks, which must be adhered to during production. Simplification aims at eliminating superfluous varieties, sizes and dimensions. It aims at eliminating unnecessary diversity of products.

(b) The principle of management followed here is Scalar Chain.

(c) The option available to the store in-charge is Gang plank as this is an emergency situation. The store in-charge knows that the information should be given to the production department immediately.

26.

Ans. The factors affecting financial decision are as follows:

(a) Cash flow position of the business: If a company has a strong cash flow, it can easily choose debt financing. On the other hand, a company which has weak cash flow cannot go for debt financing. A company will choose equity funding when its cash flow position is not so strong.

(b) Control considerations: Debt normally does not cause dilution of control while issue of equity shares may reduce management control over the business. So, when companies wants dilution of ownership they go for equity rather than debt financing.

(c) Floatation cost: Cost of raising funds is known as floatation cost. Issuing equity shares includes floatation cost of issuing prospectus, advertising etc. Getting a loan from financial institution may not cost so much.

(d) Risk: Debt is cheaper source of finance but it is riskier for a business because under debt it is compulsory to pay interest on debt and principal amount on maturity. Therefore, use of more debt increases the financial risk of a business.

Or

The importance of Financial Planning are as follows:

It ensures smooth running of a business enterprise by ensuring availability of funds at the right time. It helps in anticipating future requirements of funds and evading business shocks and surprises.

It facilitates coordination among various departments of an enterprise, like marketing and production functions, through well- defined policies and procedures.

It increases the efficiency of operations by curbing wastage of funds, duplication of efforts and gaps in planning.

It helps to establish a link between the present and the future.

Caution

Financial Planning and financial management are two different concepts.

27.

Ans. (a) Rebate: The company is offering products at special prices for a limited period to clear off excess inventory. Here, a discount of ₹ 1,500 is offered by the mobile company to clear off excess inventory. So, rebate is the method of sales promotion in this case.

(b) Refund: Refunding a part of price paid by customer on some proof of purchase, say, on return of empty foils or wrapper. In this case, the customer gets ₹ 10 off on return of empty wrapper while making new purchase of same product. This is a case of refund method of sales promotion.

- (c) Product combination: It is offering another product as gift along with the purchase of a product. In this case, the company has offered 1 kg of sugar with purchase of 10 kg of wheat flour. This is a case of product combination of sales promotion.
- (d) Quantity gift: It is offering extra quantity of the product. It is commonly used by marketer of toiletry products. In this case, the company has offered 40% extra shaving cream in a pack of 1 kg. This is a case of quantity gift of sales promotion.

28.

Ans. Plans involves huge costs in their formulation in terms of time and money. Detailed plans require scientific calculations to ascertain facts and figures. There are number of incidental costs as well. In spite involving huge costs, planning is the most important function of management. The following importance of planning justifies the worth of planning:

- (i) Planning provides direction: By stating 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 in which direction.
- (ii) Planning reduces the risks of uncertainty: 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.
- (iii) Planning promotes innovative ideas: Since planning is the first function of management new ideas can take the shape of concrete plans.
- (iv) Planning facilitates decision making: Planning helps to look into the future and make a choice from amongst various alternative courses of action.

29.

- Ans.**
- (i) The concept used by Rohan Talwar is Delegation. Delegation refers to the downward transfer of authority from a superior to subordinate. It is a pre requisite to the efficient functioning of an organization because it enables a manager to use his time on high priority activities. It also satisfies the subordinate's need for recognition and provides them opportunities to develop and exercise initiative. Here, in this case, Rohan Talwar found the volume of work impractical to handle and thus, recruited new employees so that he can focus on his objectives. Thus, here, he is delegating the tasks to his subordinates.
 - (ii) The four points of importance of delegation . are as follows:
 - (a) Effective management: By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters.
 - (b) Employee development: As a result of delegation, employees get more opportunities to utilize their talent and this may give rise to latent abilities in them.
 - (c) Facilitation of growth: Delegation helps in the expansion of an organization by providing a ready workforce to take up leading positions in new ventures.
 - (d) Better coordination: The elements of delegation, viz., authority, responsibility and accountability help to define the powers, duties and answerability related to various positions in an organization.

Or

- (a) The approach followed by "Fresh Deals" to run their stores successfully is Decentralization. Decentralization explains the manner in which decision making responsibilities are divided among hierarchical levels. Decentralization refers to delegation of authority throughout all the levels of the organization. Decision making authority is shared with lower levels and is consequently placed nearest to the points of action.
- (b) The importance of decentralization is highlighted through the following points:
 - (i) Develops initiative among subordinates: Decentralization helps to promote self-reliance and confidence amongst the subordinates. This is because when lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgement.

- (ii) Quick decision making: The management hierarchy can be looked as a chain of communication. In a decentralized organization, since decisions are taken at levels which are nearest to the points of action and there is no requirement for approval from many levels, the process is faster.
- (iii) Better control: Decentralization makes it possible to evaluate performance at each level and the departments can be individually held accountable for their results.

30.

Ans.

- (a) The controlling function of management is needed to rectify the above situation.
- (b) The procedure to be followed so that the actual production may come up with the target production is as follows:
 Providing training to workers if the workers are not well versed with the production process.
 Improving the work environment if it is not conducive to efficient working.
 Ensuring timely availability of the raw materials and other equipment's if they are not made available on time.
 Replacing the machinery if it is defective or has become obsolete.

31.

Ans.

- (a) Yes, training is beneficial for an organization. Training is concerned with upgradation of the knowledge and skills of the employees so that their ability to perform can be enhanced. The importance of training to the organization are as follows :
 Training imparts systematic learning to employees thereby helping to avoid wastage of efforts and money and is considered better than the hit and trial method.
 It increases the employees' productivity both in terms of quantity and quality, leading to higher profits.
 Training increases the morale of the employees and reduces absenteeism and employee productivity.
 It helps in obtaining effective response to fast changing environment technological and economic.
 Training equips the future manager who can take over in case of emergency.
- (b) Transfers: It involves shifting of an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibilities and status of the employee. It may lead to changes in duties and responsibilities, working condition etc.
 but not necessarily salary. Transfer is a good source of filling the vacancies with employees from over staffed departments. Job transfers are also helpful in avoiding termination and in removing individual problems and grievances. Transfers can also be used for training of employees for learning different jobs.
 Promotions: Business enterprises generally follow the practice of filling vacancies of higher jobs by promoting employees from lower jobs. Promotion lead to shifting an employee to a higher position carrying higher responsibilities, facilities, status and pay. Promotion is a vertical shifting of employees. This practice helps to improve the motivation, loyalty and satisfaction level of employees.

32.

Ans.

- (a) The two communication barriers because of which Sparkle lights Ltd. was not able to achieve its targets are:
 - (i) Organizational barriers: If the organizational policy is not supportive to free flow of communication, it may hamper effectiveness of communications. Like in this case, CEO, Mr. Chawla found that all the decision making power of the organization was highly centralized as it was in hands of managing director only.
 - (ii) Personal barriers: Lack of confidence of superior to communication with the subordinate. The personal factors of both sender and receiver may exert influence on effective communication and they may not be able to understand each other's message in the same sense. Like in the

above case, the CEO found out that the managing director didn't have confidence in the competency of the employees.

(b) (i) Organizational barriers:

Status: Sometimes a status conscious manager also may not allow his subordinates to express their feelings freely. This kind of an attitude may create psychological distance between him and his subordinates.

(ii) Personal barriers: Fear of challenge to authority: If a superior may withhold or suppress the communication that he may perceive is likely to have an adverse effect on his authority.

33.

Ans. (a) Commercial Papers can be used for Bridge financing by Raj Ltd. as they are issued by large and creditworthy companies. Bridge financing is the funds raised to meet the floatation costs. The instrument is in the form of an unsecured promissory note and is freely transferable by endorsement. It is sold at discount and redeemed at par.

(b) Its maturity period may range from a fortnight to a year.

(c) It is also used to meet the short-term seasonal and working capital requirements of a business enterprise.

Or

The market for the new issues of shares is known as primary market It deals with new securities being issued for the first time.

The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue securities for the first time. The various methods of floating new issues in the primary market are:

(i) Offer through prospectus: Offer through prospectus is the most popular method of raising funds by public companies in the primary market A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.

(ii) Offer for sale: Under this method, securities are not issued directly to the general public but are offered for sale through intermediaries like issuing houses or stock brokers.

(iii) Private placement: Private placement is the allotment of shares by a company to institutional investors or some selected individuals. It helps to raise capital more quickly than a public issue.

(iv) Rights issue: This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company.

(v) E-IPOs: A company proposing to issue capital to the public through the online system of the stock exchange has to enter into an agreement with the stock exchange. This is called an Initial Public Offer (IPO).

34.

Ans. (a) The aspect neglected by the manufacturer in the above case is 'Labelling.' Labelling is the display of label in a product. A label contains information about a product on its container, packaging, or the product itself It also has warnings in it

(b) The various functions performed by a label are as follows:

(i) Describe the product and specify its contents: The main function performed by labelling is to provide the description about the product regarding its use, applications, cautions, content etc.

(ii) Identification and differentiation: A label helps in easy identification of the product. It helps the consumers to differentiate their favorable products from other products.

(iii) Standardizing and grading: A label also helps in setting grades for a product. This helps the marketers to classify the product in different categories based on certain specific quality or features.

- (iv) Promotion of products: An important function of label is to aid in promotion of the products. A carefully designed label can attract attention and give reason to purchase.
- (v) Provide information required by law: Another important function of labelling is to provide information required by law. Such as statutory warnings, ingredients, date of manufacture etc

Or

Pricing occupies an important place in the marketing of goods and services by a firm. Pricing is often used as a regulator of the demand of a product. There are number of factors which affect fixation of the price of a product. Some of the important factors are as follows:

- (i) Product cost: One of the most important factor affecting price of a product or service is its cost. This includes the cost of producing, distributing and selling the product. The cost sets the minimum level or the floor price at which the product may be sold.
- (ii) The utility and demand: While the product costs set the lower limits of the price, the utility provided by the product and the intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay. The price of a product is affected by the elasticity of demand of the product.
- (iii) Extent of competition in the market: The price between the lower limit and upper limit is affected by the nature and degree of competition. The price will tend to reach the upper limit in case there is lesser degree of competition. Competitor's prices and their anticipated reasons must be considered before fixing the price of a product.
- (iv) Government and legal regulations: In order to protect the interest of public against unfair practices in the field of pricing, the government can intervene and regulate the price of commodities. Government can declare a product as essential product and regulate its price.