

Business Studies 2018

Time allowed : 3 hours

Maximum marks : 80

1. Define 'Decentralisation'. [1]
Answer: Decentralisation refers to the systematic delegation of authority through all the levels of management and in all the departments.

2. Give the meaning of 'Method' as a type of plan. [1]
Answer : Method is a prescribed way in which a particular task has to be performed taking into consideration the objective of the organisation. For example : training method of employees.

3. Saurabh decided to start a chocolates manufacturing business. He set the target of earning 10% profit on sales in the first year. As a good businessman, he was concerned about the future of the business, which was uncertain. He gathered information that the demand for chocolates is increasing day-by-day. He used this information as the base for future planning and shared it with his team. On the basis of the gathered information, he scheduled a meeting in the following week to find innovative ways to achieve the objectives.
 List the first two steps, which have been followed by Saurabh that are related to the process of one of the functions of management. [1]

Answer : The function of management which is performed by Saurabh is planning and the first two steps followed by him are :

- (i) Setting objective
- (ii) Developing planning premises

4. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods.

Identify the factor affecting the working capital requirements of this industry. [1]

Answer : Availability of raw material, production cycle, nature of business are the factors affecting the working capital requirements of this industry.

5. An investor wanted to invest ₹ 20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.

Identify the reason why the investor could not invest in the Treasury Bill. [1]

Answer : Treasury Bills can be issued for a minimum amount of ₹ 25,000 and the investor had only ₹ 20,000, that is why, he couldn't invest in Treasury bills.

6. Why is the understanding of 'Marketing Management Philosophies' important? [1]

Answer : The understanding of marketing management philosophies is important as it determines the weightage to be put on different factors in achieving the organisational objectives.

7. Give the constitution of the District Consumer Disputes Redressal Forum under the Consumer Protection Act, 1986. [1]

Answer : The District Forum consists of a President and two other members, one of whom should be a woman. All appointments are made by the State Government.

8. 'Buy one get one free' is printed on the label of the package of a mosquito repellent.

State the labelling function being performed by this statement. [1]

Answer : The labelling function being performed by the given statement is to help in the promotion of the product.

9. Differentiate between formal and informal organisations on the basis of (i) origin, (ii) authority and (iii) flow of communication.

Answer : Difference between formal and informal organisation :

Basis	Formal	Informal
(i) Origin	It originates as a result of companies' rules and policies.	It originates as a result of social interaction among the employees.
(ii) Authority	Authority arises by the virtue of position in the management.	Authority arises out of personal qualities.

(iii) Flow of Communication	Communication take place through scalar chain.	Communication takes place through informal methods such as, grapevine, gossips, etc.
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10. State the steps in the selection procedure, after the employment interview and before the job offer. [3]

Answer : The steps in the selection procedure after the employment interview and before the job offer are :

- (i) **Reference and background checks :** It is done for verifying the candidate's information and gaining his additional details.
- (ii) **Selection decision :** Selection is done for those candidates who pass the tests, interviews and reference checks.
- (iii) **Medical examination :** It includes a medical fitness test which the candidates is required to undergo.

11. Sandhya is a successful manager at Manisons Enterprises. She has a team of twelve people working under her. She encourages them to set their own objectives and take decisions. She respects their opinions and supports them, so that they can perform their duties and accomplish organisational objectives. To manage and exercise effective control she uses forces within the group.

As an intelligent manager, at times, she also makes use of positive aspects of informal communication. This way, she is able to unify diverse interests and ensure that targets are met.

- (a) There are many theories and styles of influencing people's behaviour. Identify the style used by Sandhya which is based on the use of authority.
- (b) State two positive aspects of the communication discussed above, which Sandhya is using as an intelligent manager.

[3]

Answer : (a) The style of leadership used by Sandhya is democratic leadership.

- (b) Positive aspects of the informal communication which Sandhya is using are :
 - (i) It carries information rapidly and it helps in getting quick feedback.
 - (ii) It is used by the managers to transmit information so as to know the reaction of his/her subordinate.

12. The Return on Investment (ROI) of a company ranges between 10—12% for the past three years. To finance its future fixed capital needs, it has the following options for borrowing debt :

Option 'A' : Rate of interest 9%

Option 'B' : Rate of interest 13%

Which source of debt, 'Option A' or 'Option B', is better ? Give reason in support of your answer. Also state the concept being used in taking the decision. [3]

Answer :

Option A is better

This is because in this option, Return on Investment (10-12%) is higher than the rate of interest (9%).

The concept being used here in taking the decision is Trading on Equity.

Trading of equity refers to the use of fixed cost sources of finance such as preference share, debenture and long term loans in the capital structure so as to increase the return on equity shares.

13. Explain briefly any two points of importance of consumer protection from the point of view of business.

Answer : The importance of consumer protection from business point of view is :

- (i) **Government intervention :** Government is actively involved in the protection of consumer rights. Any unfair trade practice would invite government intervention, which may hamper the image of business. So business organisations should voluntarily involve in such practices which protects the interest of the consumers.
- (ii) **Long-term interest of business :** In this highly competitive world, business firms have realised that they can exist in the long run only when they satisfy the consumers. Satisfied customers not only bring repeated sales but also add new customers by providing good feedback about the products. So, business products should aim at long-term profit maximisation through consumer satisfaction.

14. Aradhana and Gandharv are heads of two different departments in 'Yumco Ltd.' They are efficient managers and are able to motivate the employees of their respective departments to improve performance. However, their drive to excel in their own sphere of activity instead of giving emphasis on objectives of the enterprise has hindered the interaction between the departments that Aradhana and Gandharv are heading. Often there are

inter-departmental conflicts and they have become incompatible. This has proved to be harmful in the fulfilment of the organisational objectives. The situation has deteriorated to such an extent that the CEO of 'Yumco Ltd.' has hired a consultant, Rashmi, to resolve the problem. After studying the situation closely, Rashmi found that the problem has arisen due to inflexibility and a narrow perspective on the part of both Aradhana and Gandharv. She is of the view that this situation is a result of the type of organisational structure 'Yumco Ltd.' has adopted.

From the above information, identify the organisational structure adopted by 'Yumco Ltd.' and state any three advantages of the structure so identified. [4]

Answer : The organisational structure adopted by "Yumco Ltd." is functional organisational structure.

The advantages of functional organisational structure are as follows :

- (i) **Functional specialisation :** It promotes specialisation since each department has to perform a specific function. As employees perform similar task within a department, it improves their efficiency and they are able to gain specialisation.
- (ii) **Improves efficiency:** Expert and experienced officers are specially appointed for each functional department. It helps in increasing managerial and operational efficiency and this results in increased profits.
- (iii) **Avoid duplication :** It helps in avoiding duplication of efforts, which leads to economies of scale and reduces the cost of production.

15. In 2015, Naveen left his luxurious life in Mumbai, where he worked as a manager for Blue Birds Ltd. He shifted to Begampur, Chhattisgarh to fulfil his grandmother's dream of converting their 25-acre ancestral land into a fertile farm. For this he set out specific goals along with the activities to be performed to achieve the goals.

Every activity was a challenge since he was clueless about farming. He learnt every activity from filling the land to sowing the seeds. To aid farmers he launched his own company 'Innovative Agriculture Solutions Pvt. Ltd.'

It was difficult initially as no one trusted an urban youth telling farmers about farming. But when everything was discussed in detail the farmers started taking interest. He wanted to ensure that the future events meet effectively

best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales.

He also found that the farmers grew only paddy, which was an activity of 3-4 months and the land remained idle for the rest 8-9 months of the year. He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year. Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated. He presented a plan to the farmers, where after harvesting paddy, vegetables could be grown.

The above case highlights the features of one of the functions of management. By quoting lines from the above, identify and explain these features. [4]

Answer : Planning is the function of management referred in this case.

- (i) "For this, he set his goals". The line indicates the following feature of planning.

Planning focus on achieving objective. Every organisation has a set of goals and determining the most economical and viable course of action to achieve pre-determined goals.

- (ii) "He not only-----the year". This line indicate the following of planning.

Planning involves decision making: Planning is essentially the process of choosing among various alternatives. So, in order to make an effective choice, examination and evaluation of each alternative is necessary.

- (iii) "Through correct-----evaluated". This line indicates the following features of planning.

Planning is mental exercise : It is a mental exercise as it requires creativity, imagination and higher thinking skills and sound and judgement. It is intellectual activity of thinking rather than doing.

- (iv) "He wanted-----of the company". This line indicates the following features of planning.

Planning is futuristic : Planning is the process of looking ahead. It is looking into the future before the situation actually occurs. It deals with the future course of action that have not taken place yet.

16. Explain any four points of importance of the controlling function of management. [4]

Answer : Controlling refers to the comparison of actual performance with the planned performance and taking corrective actions incase of deviation between actual and planned performance. Importance of controlling is as follows :

(i) Accomplishing organisational goals : Controlling function measures progress towards the organisational goals and involve taking corrective actions incase of any deviation. Through controlling, every attempt is made to keep the activities on the right track so that the organisational goals could be achieved efficiently and effectively.

(ii) Making efficient use of resources : Controlling helps to reduce wastage and spoilage of resources. It aims to ensure that each activity is performed according to the predetermined standards. As a result, there is effective and efficient use of resources.

(iii) Ensuring order and discipline : An efficient control system creates an atmosphere of order and discipline in the organisation. Controlling keeps a continuous check on employees to minimise undesirable activities like theft, fraud, dishonesty etc.

(iv) Facilitate coordination in action : Controlling provides direction to all activities and offers for achieving organisational goals. Each department and individual employee is governed by predetermined standards which are well coordinated with one another. This ensures that overall organisation objectives are accomplished.

17. Ram Murthy, the CEO of 'Goodcare Hospitals', a leading chain of hospitals, decided to reward the good work of the doctors of his organisation. For this he instituted two running trophies. A 'Healthcare Achievers Trophy' to acknowledge and appreciate the tireless efforts of the doctors who rendered selfless services to the patients and another 'Beti Bachao Trophy' to recognise the outstanding work done by the doctors in saving the girl child. [4]

The CEO also wanted to improve the health services in rural areas all over the country. He decided that all doctors must work in rural areas for at least six months. He also decided that the paramedical staff should be employed locally.

- Identify the incentive provided by 'Goodcare Hospitals' to its doctors through running trophies.
- Which need of the doctors will be satisfied through the incentive identified in part (a)? State.
- State any two values that the CEO of 'Goodcare Hospitals' is trying to communicate to the society.**

Answer : (a) Incentive provided by 'Goodcare Hospitals' is a non-financial incentive *i.e.*, employee recognition.

(b) Esteem needs of the doctors will be satisfied through financial incentives, self respect, attention etc.

18. State the protective functions of Securities and Exchange Board of India. [4]

Answer : Protective functions of SEBI aims to protect the interest of the investor, they include :

- Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
- It controls insider trading, imposing penalties for such practices.
- Undertaking steps for investor protection.
- Promotion of fair practices and code of conduct in security market.

19. Sumit purchased an ISI marked washing machine of a famous brand 'MG' from TG Electronics Ltd. The shopkeeper asked him to wait for two days for installation of the machine. His friend, Vivek, was very fond of experimenting with new electronic products. He told Sumit that there is no need to wait for the company's representative to install the machine and that he could do it. So, both of them installed the machine without following the manufacturer's instructions. Initially, the machine worked effectively and the wash was good. But after two days, the machine started stopping in between the wash cycle. Sumit and Vivek tried their best to start the machine but failed in their efforts. Sumit, therefore, approached TG Electronics Ltd., which refused to provide any service on the plea that the installation of the machine was not done by the company.

- State the responsibility which Sumit had to fulfil as an aware consumer to get the services of the company.
- Explain briefly any two rights which Sumit could have exercised had he fulfilled his responsibility identified in part (a).

Answer : (a) The responsibility which Sumit had to fulfil was to use the product safely. In this regard, consumer must learn about the risks associated with the products or services, follow manufacturer's instructions and use the product safely.

(b) If Sumit had fulfilled the above responsibility carefully, then he had following two rights :

- Right to be heard :** The consumer has right to file a complaint and to be heard in case of

** Answer is not given due to change in present syllabus

dissatisfaction with a good or a service. It is because of this reason many firms have set up their own grievances cell.

(ii) Right to seek redressal : The consumer has a right to get relief in case the product or service falls short of his expectation.

The Consumer Protection Act, 1986 provides reliefs to consumers such as replacement of product, removal of defects in the product, compensation for any loss or injury suffered by the consumer.

20. What is meant by co-ordination ? State its any four features. [5]

Answer : Co-ordination is the process by which a manager synchronises the activities of different departments towards the achievement of a common goal. Co-ordination is the common thread that runs through all the activities to ensure continuity in the working of the organisation. It is implicit and inherent in all the functions of management.

Features of co-ordination :

(i) Co-ordination integrates group efforts : Co-ordination unifies unrelated or diverse interests into purposeful work activity. It gives a common focus to group efforts to ensure that performance is as per plans.

(ii) Co-ordination ensures unity of action : Co-ordination aims to achieve unity of actions in the realisation of a common purpose. It acts as the binding force between departments and ensures that all efforts are focused towards achieving organisational goals.

(iii) Co-ordination is a deliberate function : A manager has to co-ordinate the efforts of different people in a conscious and deliberate manner. Co-ordination does not occur spontaneously nor can it be achieved by force.

(iv) Co-ordination is a continuous process : Co-ordination is a never ending process as its need is felt at each and every step in the organisation. It begins at planning stage and continues till controlling.

21. 'Konark Ltd.' is an electronic goods manufacturing enterprise situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual firms of this field are affected indirectly by the factors like the money supply

in the economy, composition of the families, the technological changes, etc.

(a) Identify and state the feature of the concept discussed in the above paragraph.

(b) Also, state any four points of importance of this concept. [5]

Answer : (a) The concept discussed in this para is business environment. The features discussed about this concept are :

Business environment includes both specific and general forces. Specific forces affect individual enterprises directly and immediately in their day to day working. The specific forces includes consumers, investors, supplies etc. The general forces have impact on all business enterprises and thus may affect on condition individual firm only indirectly. The general forces include-Political, Economic, Technically condition etc.

(b) Importance of business environment :

(i) It helps firm to identify opportunities and getting the first mover advantages.

(ii) It helps to identify threats and early warning signals.

(iii) It helps in tapping useful resources.

(iv) It helps in coping with rapid changes.

(v) It helps in assisting in planning and policy formulation.

(vi) It helps in improving performance.

22. After acquiring the necessary knowledge and skills on starting an Aloe vera Farm, Ashok wanted to be the leading manufacturer of Aloe vera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practices that were economically viable, environmentally sound and at the same time protecting public health.

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloe vera products. He also thought that competitors prices and their anticipated reactions must also be considered for this.

After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare that value of a product to the value of money which they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He

knew that in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit.

He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.

- (a) Identify the concept.
- (b) Explain briefly any four factors discussed in the above case related to the concept so identified.

Answer : (a) The concept used above is price mix.

(b) Factors discussed in the above case are :

(i) **Product cost :** Product cost includes the cost of procuring, distributing and selling the product. The cost sets the minimum level or the floor price at which the product can be sold. There are three types of cost—fixed cost, variable cost and semi-variable cost. Sum of all three cost, sets the minimum level at which the product may be sold. However, at the time of introducing a new product or while entering into a new market, product may be sold at a price, which does not cover all the costs but in long run, a firm can survive only when all its cost are covered.

(ii) **Utility and demand of the product :** It must be noted that the cost of product sets the lower limit of price where as the utility of the product and intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay.

(iii) **Extent of competition in the market :** Price of the product can not be fixed without considering the price of competitors' products, and their anticipated reaction which must be considered before fixing the price of the product. Here it is also discussed about the perfect competition in the market.

(iv) **Marketing method used :** The pricing decision is also affected by various other elements of marketing, such as distribution channels used, extent of advertisement, sales promotion efforts, packaging, after sales service etc.

23. Karan Nath took over 'D'north Motor Company'

from his ailing father three months ago. In the past the company was not performing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as selection of employees in the company were not scientific.

He believed that there was only one best method to maximise efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'.

He asked the Production Manager to develop the best method and carry out the necessary training. The Production Manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage.

Identify and explain the principles and the technique of scientific management followed by the Production Manager in the above case.

[6]

Answer : Scientific principles used in the above case are :

- (i) Science, not rule of thumb.
- (ii) Development of each and every person to his/her greatest efficiency and prosperity.
- (i) **Science, not rule of thumb :** This principle says that we should not get stuck in a set and the old techniques of doing work, rather we should be constantly experimenting to develop new technique which makes the work much simpler. Taylor believed that there was only one best method to maximise efficiency. This method can be developed through scientific study and analysis of each element of a job.

(ii) **Development of each and every person to his/her efficiency and prosperity :** According to this principle, the efficiency of each and every person should be taken care of, right from his selection. A proper arrangement of every body's training should be made. It should also be kept in mind that each individual should be allotted work according to his/her ability and interest.

Scientific technique used in the above case is:

- (i) **Method study :** The objective of method study is to find out best way of doing the job so as to minimise the cost of production and

maximise the quality and satisfaction of the customer.

For finding the best method of performing the job, critical analysis, operation method etc., are also used.

24. 'Moga Industries Ltd.' approached a well established university in the city of Madurai to recruit qualified personnel for various technical and professional jobs. They selected Tanya, Ritu, Garima and Chetan for various vacancies in the organisation.

After the selection and placement, 'Moga Industries Ltd.' felt the need to increase the skills and abilities, and the development of positive attitude of the employees to perform their specific jobs better. The company also realised that learning new skills would improve the job performance of the employees. Hence, the company decided to take action for the same.

(a) Name the step of the staffing process regarding which the company decided to take action.

(b) State the benefits of the action to 'Moga Industries Ltd.' [6]

Answer : (a) After selection and placement, the next step in staffing process is Training and Development.

(b) Importance/ benefits of training and development to Moga Industries Ltd. are :

- (i) **Systematic Learning** : The systematic learning process of training teaches workers to make the most efficient use of resources. It is better than hit and trial methods which leads to wastage of efforts and money.
- (ii) **Increase productivity** : Well trained employees give better performance on the job, which increase the productivity, both in terms of quality and quantity, leading to higher profits. ¹
- (iii) **Prepare future manager** : Training enables the employees to take more challenging jobs and prepare them to take position of future manager in case of an emergency.
- (iv) **Boost morale of employees** : Training increases employees' morale and reduces absenteeism and employee turnover.

(v) **Better response to fast changing environment** : Training helps to keep pace with the rapid changes taking place in the technological and economical environment.

25. Explain briefly any four factors affecting the fixed capital requirements of an organisation. [6]

Answer : **Meaning of Fixed Capital** : It is the money invested in fixed assets which is to be used over a long period of time.

It is meant for meeting permanent or long term needs of the business.

Factors affecting requirement of fixed capital :

(i) **Nature of business** :

In case of manufacturing business, heavy investment in fixed assets is required. In case of trading concern, less investment is required.

(ii) **Scale of operation** :

Firms which operate at large scale require larger amount of fixed capital as they need heavy and bigger machinery and equipment. However, firms operating at small-scale need relatively larger fixed capital.

(iii) **Diversification** :

Diversification of operations also govern the fixed capital requirements. If a company chooses to diversify its operation, then it certainly needs more fixed capital.

(iv) **Financial alternatives** :

Fixed assets can either be purchased outrightly or can be acquired on lease or hire basis. When a company acquires an asset on lease, then it pays lease rentals and use it. Thus, availability of leasing facilities reduces the fixed assets capital requirement. On the other hand, a company which purchases assets on cash basis, requires more fixed capital.

The other factors are :

- (a) Choice of technique
- (b) Technology upgradation
- (c) Growth prospects
- (d) Level of collaboration etc.

However, most of the capital budgeting decisions cannot be reversed or reverted without incurring heavy losses. Therefore, they should be taken after evaluating each and every aspect, otherwise firm may have to incur heavy losses.



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