

**CBSE Class 12 Business Studies**  
**Sample Paper 08 (2019-20)**

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**Maximum Marks: 80**

**Time Allowed: 3 hours**

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**General Instructions:**

- i. This question-paper contains five Sections - A, B, C, D and E.
  - ii. Section - A contains questions 1 to 20 carrying one mark each. Answers to these questions may be given in one word or a sentence.
  - iii. Section - B contains questions 21 to 25 carrying three marks each, answers to these questions may be in 50 to 75 words.
  - iv. Section - C contains questions 26 to 28 carrying four marks each. Answers to these questions may be in about 120 words.
  - v. Section - D contains questions 29 to 31 carrying five marks each. Answers to these questions may be in about 150 words.
  - vi. Section - E contains questions 32 to 34 carrying six marks each. Answers to these questions may be in about 200 words.
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**Section A**

1. Management is \_\_\_\_\_
  - a. Tangible force
  - b. Dynamic Function
  - c. One Time Activity
  - d. Individual Activity
2. **Ekta Motors** had set an objective of selling 1200 cars per year. Mrs. Ekta Chawla is the Managing Director of this organisation. With a view to achieving this objective, she worked hard to formulate plans. But at the end of the year, it came to light that hardly

870 cars could be sold. She compared expected and actual results and began to seek the causes of this deviation. She arrived at the conclusion that the goodwill of the organisation had suffered because of the negligence of the Service Division. She then took a firm decision to improve the performance level of the service division at all costs.

Identify the function of management mentioned in the above article.

3. Manju, a production manager of Ekta Ltd. was able to produce the targeted output with minimum cost but not within the required time. In this case Manju was \_\_\_\_\_
  - a. neither effective nor efficient
  - b. Effective only
  - c. both effective and efficient
  - d. efficient only
4. Which among the following is not opened for private sector participation in India?
  - a. Power sector
  - b. Railways
  - c. Education sector
  - d. Telecommunication
5. Organizing helps in optimum utilization of resources. Which type of resources does it refer?
6. Nature of informal organisation is \_\_\_\_\_
  - a. Mandatory
  - b. None of these
  - c. Rigid
  - d. Flexible

7. Development of employee is concerned with
- a. Maturity
  - b. Both personality and Maturity
  - c. None of these
  - d. Personality
8. A decision to acquire a new and modern plant to upgrade an old one is a:
- a. None of the above
  - b. Investment decision
  - c. Working capital decision
  - d. Financing Decision
9. Which of the following is not a feature of controlling?
- a. The nature and extent of control doesn't remain same at all levels of management.
  - b. Controlling is a continuous process.
  - c. The nature and extent of control remains same at all levels of management.
  - d. Controlling is pervasive.
10. Who is responsible for keeping machine and tools ready for operation?
- a. Speed Boss
  - b. Gang Boss
  - c. Inspector
  - d. Repair Boss
11. Lectures and Conferences are method of \_\_\_\_\_

- a. Development
- b. Recruitment
- c. Training
- d. Selection

12. As a part of its comprehensive plan, Neerja Ltd. decided to combine a new line of activity with its existing footwear business. \_\_\_\_\_ is the type of plan decided by Neerja Ltd.

- a. Objective
- b. Policy
- c. Strategy
- d. Rule

13. Long term investment decision is also known as \_\_\_\_\_

- a. Working Capital
- b. None of these
- c. Capital Budgeting
- d. Dividend Decision

14. A Treasury Bill is basically:

- a. An instrument to borrow short-term funds
- b. An instrument of capital market
- c. An instrument to borrow long-term funds
- d. None of the above

15. NSE commenced futures trading in the year:

- a. 2002
- b. 2000
- c. 2001
- d. 1999

16. Financial planning arrives at:

- a. ensuring that the firm faces neither a shortage nor a glut of unusable funds
- b. doing only what is possible with the funds that the firms has at its disposal
- c. entering that the firm always have significantly more funds than required so that there is no paucity of funds
- d. minimising the external borrowing by resorting to equity issues

17. If the amount claimed by a consumer is ₹89 lacs, the case under the Consumer Protection Act snail be filed with \_\_\_\_\_.

- a. National Commission
- b. District Forum
- c. Supreme Court
- d. State Commission

18. Which of the following does not affect working capital requirement?

- a. Level of competition
- b. Technology upgradation
- c. Operating efficiency
- d. Rate of inflation

19. State true or false:

Anyone who consumes the goods should also be buyer of such goods for becoming a consumer under the Consumer Protection Act.

20. Who can file a complaint before the consumer forum?
- a. All of these
  - b. Government
  - c. Consumer
  - d. Registered consumer association
21. Mohit Gupta is working with Yellow Security Services Ltd. He is also recruiting security guards for the company. The company provides security services in Delhi and Noida at short notice to various companies. The guards are recruited on a temporary basis. The guards provided by this company are known for their honesty and punctuality. Mohit Gupta is well-known in his village for providing employment to unskilled people.
- a. Name the source of recruitment used by Yellow Security Services Ltd.
  - b. State any one disadvantage of this source of recruitment.
  - c. Identify the need of security guards which is being fulfilled by the company as per Maslow's need hierarchy.

**OR**

Briefly enumerate the important sources of recruitment.

22. There are some barriers in communication which are concerned with the state of mind of both the sender and the receiver. State any three such barriers.
23. Anshul owns a small scale factory where utility items are prepared from waste material like paper mache items, paper and cloth bags, decorative material etc. Over the past few weeks, he was observing that the productivity of one of his very efficient worker, Ramdas, is going down. So he decides to probe into the matter and confronts Ramdas one day. On being asked, Ramdas shares with Anshul that he has deliberately slowed down in his work as many of the less efficient workers often pull his leg saying

that there is no need for him to be more efficient when everybody is being paid at the same rate. Taking a lesson from this insight, Anshul decides to implement an incentive bonus plan so as differentiate between efficient and inefficient workers. In context of the above case: Name and explain the incentive bonus plan that Anshul may implement so as differentiate between efficient and inefficient workers.

24. **The Fancy Store** is a popular retail shop dealing in all kinds of fashionable items. Harish, the owner of the store believes in pushing the sale of his products through aggressive sales promotion techniques. Therefore, throughout the year he keeps offering various kinds of short-term incentives to the buyers like discounts, quantity gifts, product combinations etc. On the contrary, his brother Ramesh who also runs a retail shop dealing in all kinds of fashionable items in the nearby market tries to first assess the needs and wants of the buyers while deciding upon the product range. He also believes in building long term relations with the buyers and therefore offers only good quality products and handles the complaints of the buyers if any with politeness and patience.

In the context of the above case:

- a. Identify the two different marketing concepts discussed in the above para.
  - b. Distinguish between them on the basis of meaning, scope and strategies used.
25. Suman wanted to purchase a sandwich toaster. She checked about the various sandwich toasters available online and compared the prices so that an intelligent and wise choice could be made. Then she went to a nearby market to buy the sandwich toaster. Being an informed consumer, she looked for the correct standardization mark. The shopkeeper showed her different toasters but was quoting a higher price than the price she had checked online. After negotiating with the shopkeeper, she was able to bring the price down. As a responsible consumer, she asked for a cash memo, against the amount paid for the product and took the toaster home. On opening the package, she found an instruction booklet, which she read carefully. Then she followed all instructions step-by-step and made nicely toasted paneer sandwiches for her family.
- i. State any two responsibilities, which have been discharged by Suman, besides asking for a cash memo.

ii. Explain the two rights being discussed in the above case.

26. The court passed an order that all schools must have water purifiers for the school children as

- i. Society, in general, is more concerned about quality of life.
- ii. Innovative techniques are being developed to manufacture water purifiers at competitive rates.
- iii. The government is showing positive attitude towards the water purifier business.
- iv. Incomes are rising and children at home are also drinking purified water.

Identify the different dimensions of business environment by quoting from the above details.

27. There are two managers, Rahul and Pawan. Rahul is saying that 'Controlling is forward-looking whereas according to Pankaj 'Controlling is looking back'. Who is correct? Explain why?

28. Unicap Ltd. was proposing to issue 10,000, 8% Debentures of ₹ 1,000 each and Certificate of Deposit of ₹ 25,00,000 for meeting its fund requirements during expansion.

- a. Identify the markets from where they can find the required amount by quoting the lines from the question.
- b. Distinguish between them on any two bases.

**OR**

Pranav is engaged in transport business. Identify the working capital requirements of Pranav stating the reason in support of your answer. Pranav wants to expand and diversify his transport business. Explain any two factors that will affect his fixed capital requirements.

29. "In an Organisation, there needs to be a clear distinction in terms of the responsibilities of the staff depending upon their area of work." Which technique of Scientific Management is referred to here? Explain it briefly.

**OR**



Explain Fayol's principles of 'Scalar-chain' and 'Discipline' with the help of examples.

30. Two years ago, Madhu completed her degree in food technology. She worked for some time in a company that manufactured chutneys, pickles, and murabba. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated an action plan to achieve the same. One of her objectives was to earn a 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices, etc. will be purchased on three month's credit from farmers cultivating only organic crops. She also decided to follow the steps required for the marketing of the products through her own outlets. She appointed Mohan as the Production Manager who decided the exact manner in which the production activities were to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her area wise sales target for different products for the forthcoming quarter. While working on the production table, a penalty of X 100 per day for not wearing caps, gloves, and apron were announced.

Quoting lines from the above paragraph, identify and explain the different types of plans discussed.

31. Hurray Ltd. owns an amusement park in Lucknow. Till now the company had been operating on owner's fund. Keeping in view its plan to set up two more amusement parks in the country the company raised debt capital to take advantage of trading on equity. The proportion of debt in the total capital of the company is 30%. The debt has been raised @ 12% whereas the return on investment is 10%. However, even after employing debt the earning per share i.e. EPS of the company is falling.

In the context of the above case:

- a. Identify and explain the two types of financial decisions taken by the company.
  - b. Why do you think that even after employing debt the earning per share i.e. EPS of the company is falling?
  - c. State any two factors which favoured the issue of debt by the company.
32. Delegation of authority is necessary in all types of organizations. Explain any four reasons in support of your answer.
33. Rakesh is working under his superior, Neeraj. He always communicates useful ideas and suggestions to his superior regarding reduction of cost, improvement in the

product, etc. Neeraj implements his suggestions and has always found favorable results, but he never appreciates Rakesh for his suggestions. Rakesh decided not to communicate any suggestion or idea to Neeraj. Identify the factor which acts as a communication barrier. Explain three other factors of the same group of communication barriers.

**OR**

Mr. Shubhendu Bose is the owner of Bikmac Enterprises carrying on the business of manufacturing various kinds of biscuits. There was a lot of discontentment in the organisation and the targets were not being met. He asked his son, Naval, who had recently completed his MBA, to find out the reason.

Naval found that all the decision-making of the enterprise were in the hands of his father. His father didn't believe in his employees. As a result, both the employer and the employees were not able to understand each others' messages in the same sense. Thus, the employees were not happy and targets were not met.

- a. Identify any two communication barriers because of which Bikmac Enterprises was not able to achieve its target.
- b. State one more barrier each of the types identified in (a) above.

34. R&T Reality, the property development arm of the construction and engineering giant R&T in a recent report to the media shared that it is betting on bigger and better projects providing greater benefits to the customers, lower prices and faster execution to boost its growth. The spokesperson of the company informed the media that besides the innovative features, quality and brand, the fair pricing followed by the company is also a hit with the buyers. He said that the company is also focusing on accurate, speedy and timely delivery. Proper communication with the market was being maintained through advertising. Even dealers were to be offered incentives to boost the sales. The above para describes the combination of variables used by R&T Reality to prepare its market offering.

Identify and explain the variables.

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**Solution**

**Section A**

1. (b) Dynamic Function

**Explanation:** Management is a dynamic function and has to adapt itself to the changing environment. An organisation interacts with its external environment which consists of various social, economic and political factors. In order to be successful, an organisation must change itself and its goals according to the needs of the environment.

2. Controlling

3. (b) Effective only

**Explanation:** Effective only

4. (b) Railways

**Explanation:** Railways

5. Organizing helps in assigning, coordinating and arranging all types of resources as:

Human resources

Material resources

Financial resources

6. (d) Flexible

**Explanation:** It arises as a result of social interaction. There no set behaviour and rules. Thus it is flexible in nature.

7. (b) Both personality and Maturity

**Explanation:** Development includes not only the activities of improvement in job performance but all those which improves overall personality of individual. An individual can realise his abilities. It focuses on conceptual and human ideas. Thus development is concerned with personality as well as maturation.

8. (b) Investment decision

**Explanation:** The Investment decision refers to the decision of investing funds in different assets. It can be long term or short term. A Long term Investment decision is also called 'Capital Budgeting Decision' . It involves investing the finance in capital assets like making investment in a new machine to replace an existing one, etc.

9. (c) The nature and extent of control remains same at all levels of management.

**Explanation:** The nature and extent of control remains same at all levels of management.

10. (b) Gang Boss

**Explanation:** Taylor advocated that Under the factory manager there was a planning incharge and a production incharge. Under Production incharge, personnel who would work were

1. Speed boss - Responsible for timely and accurate completion of job.
2. Gang boss - Responsible for keeping machine and tools ready for operation.
3. Repair boss - To Ensure proper working condition of machines.
4. Inspector - To Check the quality of work.

11. (a) Development

**Explanation:** Through lecturers/conferences trainees learn processes, procedures etc. So its the method of development of trainee

12. (c) Strategy

**Explanation:** Strategy

13. (c) Capital Budgeting

**Explanation:** Long term investment decision involves committing the finance on a long term basis. It is also known as capital budgeting decision.

14. (a) An instrument to borrow short-term funds

**Explanation:** A Treasury bill (T-Bill) is a short-term debt obligation backed by the Treasury Dept.

15. (b) 2000

**Explanation:** The National Stock Exchange of India Limited (NSE) commenced trading in derivatives with the launch of index futures on June 12, 2000.

The futures contracts are based on the popular benchmark Nifty 50 Index.

16. (a) ensuring that the firm faces neither a shortage nor a glut of unusable funds

**Explanation:** Financial planning is the process of estimating the fund requirement of

a business and specifying the sources of funds. It decides how much to spend and on what to spend. Thus ensures optimal utilisation of funds.

17. (d) State Commission

**Explanation:** State Commission

18. (b) Technology upgradation

**Explanation:** Technology upgradation

19. False

20. (a) All of these

**Explanation:** All of these

21. i. External source of recruitment i.e. Labour contractor has been used by Yellow Security Services Ltd.

ii. One disadvantage of the external source of recruitment is that Skilled and ambitious employees may switch the job more frequently.

iii. The basic physiological needs of the security guards are being fulfilled by the company. These are biological requirements for human survival, e.g. air, food, drink, shelter, clothing, warmth, sleep. If these needs are not satisfied the human body cannot function optimally. Maslow considered physiological needs the most important as all the other needs become secondary until these needs are met.

**OR**

The Sources of Recruitment can be broadly classified as Internal and External Sources.

a. **Internal Sources:**

i. Transfers

ii. Promotions

b. **External Sources:**

i. Direct recruitment

ii. Casual callers

iii. Advertisement

iv. Employment exchange

v. Placement agencies and management consultants

- vi. Campus Recruitment
- vii. Recommendations of employees
- viii. Labour contractors
- ix. Advertising on television
- x. Web publishing

Conclusion: While Internal Sources are limited, the External Sources are available in abundance. The External Sources offer fresh talent to the organization while the Internal Sources induce the existing employees to perform better.

22. It refers to physiological barriers. Three such barriers are as follows:

- i. Premature evaluation
- ii. Lack of attention
- iii. Loss by transmission and poor retention.

23. **Differential Piece Wage System** is the incentive bonus plan that Anshul may implement so as to differentiate between efficient and inefficient workers. Differential Piece Wage System is a performance-based wage system which was introduced by Taylor so as to distinguish between the workers who were able to achieve the standard or performed above standard from those who performed below standard.

24. a. Every company can have different ideas or philosophy. For example, a particular company can have its idea or philosophy that if the production is done on a large scale, the cost would be less and the product would be sold automatically. In this way, such a company will concentrate mainly on the large scale production of goods. Similarly, some other company can have a different idea. It may have an idea that if the quality of the product is improved, there will be no difficulty in selling the product. The two different marketing concepts discussed in the above paragraph are:

- i. The Selling concept
- ii. The Marketing concept

b. Difference between Selling and Marketing is given below:

S.No	Basis	Selling	Markteing

1.	Meaning	Selling involves promoting the products and transferring their possession and title of ownership from the seller to the buyer.	Marketing is a social process by which individual groups obtain what they need or want through creating offerings and freely exchanging products and services of value with others
2.	Scope	Selling is a narrow term. It is part of marketing	Marketing is a wider term and includes selling.
3.	Strategies used	Selling involves the use of aggressive promotional techniques to increase the sale of products and services.	Marketing adopts an integrated approach which gives equal importance to the strategies with regard to all the variables of marketing mix i.e. product, price, place and promotion.

25. a. Consumer responsibilities which have been discharged by Suman besides asking for a cash memo are:
- She was aware of various goods and services available in the market and made an intelligent and wise choice.
  - She bought standardized products as standardisation provides quality assurance.
- b. Rights discussed in the above case are:
- Right to choose
  - Right to safety

26. **'The court passed an order that all schools must have water purifier'.**

The quoted line is depicting legal environment Business has to function within the framework of laws and regulations of the country Legal environment exercises significant influence on business activities.

i. **'Society, in general, is more concerned about quality of life'.**

The quoted line is depicting the social environment as this environment consists of all the social and cultural forces within which business firms operate.

ii. **'Innovative techniques are being developed to manufacture water purifiers at**

**competitive rates'.**

The quoted line is depicting the technological environment It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services.

- iii. **'The government is also showing positive attitude towards the water purifier business'.**

The quoted line is depicting the political environment It is concerned with the forces related with political stability and political conditions that have strong impact on business.

- iv. **'Incomes are rising and children at home are also drinking purified water'.**

The quoted line is depicting the economic environment. It consists of the factors and forces concerning means of production and distribution of wealth It includes all such forces of economic development which influence the product's market scope of business.

27. Both Rahul and Pawan are partially correct as Controlling is both forward as well as backwards-looking.

(i) Controlling as a forward-looking function: Controlling is a forward-looking function because it helps to analyse deviations and to apply them for future decision making. These deviations helps in planning and to avoid wastage of resources.

(ii) Controlling as a Backwards-looking function:

While performing controlling function the manager compares the actual performance with the Past Planned Performance in order to complete and make the planning function successful and achieve the desired results.

28. a. **Capital Market** - 'Unicap Ltd is proposing to issue 10,000 8% Debentures of ₹ 1,000 each'.

**Money Market** - 'Certificate of Deposit of ₹ 25,00,000 for meeting its fund requirements during expansion'.

- b. Basis Capital Market and Money Market:

Basis of Distinction	Capital Market	Money Market
	The participants of capital market	Its participants are



Participants	are financial institutions, banks, public and private companies, etc.	institutional investors (RBI), banks, Nonbanking Finance Companies (NBFCs), etc.
Instruments Traded	The main instruments traded in the Capital Market are equity shares, preference shares, debentures, bonds, etc.	The main instruments are treasury bills, Call money, Commercial paper, trade bills, etc.

**OR**

In a business like Transport business, it requires less working capital owing to the fact that it comes under the Service Industry It is so because :

- i. Day-to-day operations are very limited.
- ii. Less Inventory needs to be maintained.
- iii. It sells more on cash basis.

**Factors affecting the fixed capital requirement are:**

- i. **Growth prospects:** Pranav wants to expand his business, in such a situation, a company requires higher investment to meet the anticipated demand in the future. Thus, the requirement of fixed capital will be higher. With the increasing demand, he will need to invest more in long-term assets for which he will require more fixed capital.
- ii. **Diversification:** If the businessman diversifies his business, this means a larger amount of fixed capital is required. Diversification demands opening up of new divisions in various places for which investment needs to be made in building and other long-term assets.

29. Functional foremanship is the extension of the principle of specialization. This technique emphasizes the separation of planning from execution. To facilitate it, Taylor suggested setting up of "planning in charge" and "production in charge". It, therefore, clearly divides the role of the employees in an Organisation into planners and executors.

**FUNCTIONAL FOREMANSHIP**

**Planning Incharge:** The main function of "planning in charge" is to plan all aspects of a job to be performed. It consists of four positions:

- i. Route clerk: He determines the sequence to perform various mechanical and manual operations. He shows the path and the right track to achieve the targets.
- ii. Instruction card clerk: He issues instructions to the workers to be followed by them. He is more of a director to them.
- iii. Time and cost clerk: He is concerned with the framing of time schedule on the basis of the determined route. Also, he keeps the record of the cost of operations. It is his duty to ensure the minimal wastage of resources like time and money
- iv. Disciplinarian: He is concerned with the coordination in each job from planning to successful execution. He enforces rules and regulations and maintains discipline.

**Production Incharge:** It consists of the following four specialists who are concerned with the execution of plans.

- i. Speed Boss: He checks whether work is progressing as per schedule. He ensures timely and accurate completion of jobs. He motivates the workers to work enthusiastically.
- ii. Gang Boss: He arranges machines, materials, tools, and equipment properly so that workers can proceed with their work. He ensures that the workers should not waste their precious time in searching for equipment.
- iii. Repair Boss: He ensures that all machines, tools, equipment are in perfect working order. Like Gang Boss, the repair boss too ensures that no time is wasted away for petty reasons like repair of machines and tools
- iv. Inspector: He ensures that the work is done as per the standards of quality set by the planning department.

**OR**

- i. **Scalar chain:** It is the chain of superiors ranging from the top to the lowest ranks. The principle of scalar chain suggests that there should be a clear line of authority from top to bottom linking managers at all levels. The scalar chain serves as the chain of command and also as the chain of communication. Under the chain of command, orders, and instructions issued at higher levels, flow through

intermediate managers before reaching the lower levels. The chain should not be violated in the normal course of formal communication. For example, A, working as a Sales Manager in an organization wants to communicate with a subordinate of his subordinate, then he should follow a formal chain of command.

However, in an emergency, communication can take place between two people working at the same level but in different departments, through gangplank. For example, A, working as a Sales Manager wants to communicate with B, the Production Manager, can directly communicate without following Scalar Chain through Gangplank.

- ii. **Discipline:** Discipline is obedience, application and an outward mark of respect. It means obedience to the rules of the organization on the part of both superiors and subordinates. Discipline is necessary for the smooth running of the organization. According to Fayol, 'Discipline requires good superiors at all levels, clear and fair agreement and judicious application of penalties'. Discipline does not mean only rules and regulations but it also means the development of commitment on the part of employees towards the organization as well as towards each other. When the employees consider the organization as their own responsibility. This is the real application of the principle of Discipline.

30. The different types of plans discussed above are listed below:

- a. **Objectives:** Objectives are the end results of the activities that an organization seeks to achieve through its existence. All other activities within the organization are directed towards achieving these objectives.  
"One of her objectives was to earn a 10% profit on the amount invested in the first year."
- b. **Policy:** A policy is a set of general guidelines that help in managerial decision making and action.  
"It was decided that the raw materials like fruits, vegetables, spices, etc. will be purchased on three month's credit from farmers cultivating only organic crops."
- c. **Procedure:** A procedure contains a series of specific steps to be performed in a chronological order to carry out the routine activities.  
"She also decided to follow the steps required for the marketing of the products through her own outlets."

"The exact manner in which the production activities are to be carried out."

- d. **Rule:** A rule is a specific statement relating to the general norms in terms of Do's and Don'ts that guide the behaviour of people. It commands strict obedience and a penalty is likely to be imposed on its violation.

"While working on the production table, a penalty of Rs. 100 per day for not wearing caps, gloves, and aprons was announced."

- e. **Budget:** A budget refers to a financial plan that is expressed in numerical terms. "Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her area wise sales target for different products for the forthcoming quarter"

- 31. a. Investment decision and financing decision are the two types of financial decisions taken by the company.

These are also known as Capital Budgeting Decisions. A company's assets and resources are rare and must be put to their utmost utilization. A firm should pick where to invest in order to gain the highest conceivable returns. This decision relates to the careful selection of assets in which funds will be invested by the firms. The firm puts its funds in procuring fixed assets and current assets. When choice with respect to a fixed asset is taken it is known as capital budgeting decision. Financial decision is important to make wise decisions about when, where and how should a business acquire fund. Because a firm tends to profit most when the market estimation of an organization's share expands and this is not only a sign of development for the firm but also it boosts investor's wealth. Consequently, this relates to the composition of various securities in the capital structure of the company.

- b. Even after employing debt the earning per share i.e. EPS of the company is falling because one of the necessary conditions for trading on equity i.e. the Return of investment should be higher than a rate of interest is not being satisfied. In the above example ROI is 10% and the rate of interest is 12%.
- c. The two factors which favoured the issue of debt by the company
  - i. **Floatation cost:** The money spent by the company on raising capital through debt is less than that spent on equity.
  - ii. **Tax rate:** The tax rate is likely to be high which makes debt relatively cheaper as the amount of interest paid on debt is treated as a tax-deductible expense.

32. Delegation refers to the downward transfer of authority from a superior to a subordinate. It involves a one-to-one sharing of authority between the superior and the subordinate. The managers at various levels cannot manage and control everything in the organization. They must share it with subordinates for the smooth functioning of an enterprise. Delegation is the process of assigning work to others and giving them authority to do it. Delegation of authority is necessary in all types of organization as it helps in smooth functioning of an organization. But most importantly, a manager can delegate his authority to his delegate, but cannot delegate his responsibility. The entire onus of the accomplishment or non-accomplishment of the set objectives lies on the Superior at the end.

Delegation is necessary because of the following reasons:

1. **Effective management:** With the delegation of his authority to his most trusted and worthy subordinate, the superior gets freedom from the routine work to an extent which makes him mentally rejuvenated and effective.
2. **Employee development:** Not only the Manager himself but also the employee to whom he delegates his authority, start brimming with confidence that improves his personality.
3. **Facilitation of growth:** Delegation plays important role in the growth and expansion of an enterprise. It provides trained and experienced manpower for the new projects. Trained and experienced employees take leading positions in new ventures and play important role in the success of new projects.
4. **The basis of management hierarchy:** Delegation is helpful in establishing superior-subordinate relationships which are the basis of hierarchy of management. It defines clear relationship that who has to report to whom.

33. “Lack of proper incentives” acts as a communication barrier in case of Rakesh. Three other Personal barriers are:

1. Less faith in subordinates: Often, the superiors have a lack of confidence in the subordinates and, therefore, doubt on their capacity to provide relevant information. They deliberately ignore the suggestions and recommendations from the subordinates and discourages them to further communicate. This lowers the morale of the employees and hinders the communication process.
2. Fear of challenges of Authority: There is a fear in the minds of the superiors that if

they will not perform in line with their authority, they will be demoted to the lower levels. And, thus in order to maintain their level they intentionally hide their weaknesses by not communicating their ideas to others.

3. Unwillingness to communicate with the Superiors: Often the subordinates do not communicate with their superiors with an intention to conceal the information which is of a negative nature and can have an adverse effect. If the subordinate is required to inform his superior then, he modifies the information in such a way that it does not have a negative impact. Thus, by not providing the information in its actual form, the communication process is tempered.

### OR

- i. The two communication barriers because of which Bikmac Enterprises was not able to achieve its targets are:
  - a. Organisational barriers: The Organizational Barriers refers to the hindrances in the flow of information among the employees that might result in a commercial failure of an organization. Organizational Rules and Policies: Often, organizations have the rule with respect to what message, medium, and mode of communication should be selected. And due to the stringent rules, the employees escape themselves from sending any message.
  - b. Psychological barriers: The Psychological or Emotional Barriers refers to the psychological state i.e. Opinions, attitudes, status consciousness, emotions, etc. of a person that deeply affects the ability to communicate.
  - c. Distrust and Defensiveness: Communication is successful when the communicators trust each other. Lack of trust makes them derive negative meaning of the message and they ignore the message. When a person tries to force his/her own ideas and opinions, then receiver does not listen. If the receiver does not agree to the message provided or thinks of it as a threat, he/she will not listen to it.
- ii. Organisational barriers (Status): Sometimes a status-conscious manager also may not allow his subordinates to express their feelings freely. This kind of attitude may create psychological distance between him and his subordinates.
- iii. Psychological barriers (Premature evaluation): Sometimes people tend to evaluate the meaning of message even before the sender completes his message on the

basis of their own judgement, experience etc.

34. As per this question, R&T Reality taken into consideration to prepare its market offering the 4 Ps i.e. Product, Price, Place, and Promotion.

The following are the variables used by R&T Reality to prepare its market offering:

- a. **Product:** A product is anything of value i.e. a product or service offered to a market to satisfy its needs or wants. A product includes physical product, after-sale service, handling grievances etc. The type of product also partially dictates how much businesses can charge for it, where they should place it, and how they should promote it in the marketplace. Every marketer needs to constantly review and revise its products in order to enhance customer's satisfaction and have a competitive edge.
- b. **Price:** Price is the monetary value paid in consideration for the purchase of a product or service by a buyer to its seller. It is a very crucial decision for marketers as consumers are very sensitive to the pricing. The factors affecting price determination are the cost of the product, the utility and demand, the extent of competition in the market, government and legal regulations, pricing objectives and marketing methods used.
- c. **Place:** It is considered an important element of marketing mix because it includes all those activities that help in making the goods and services available to the prospective buyers in the right quantity, at the right time and in the right condition. The two main decisions involved in physical distribution are a physical movement of goods from producers to consumers and choice of channels of distribution.
- d. **Promotion:** Promotion refers to the set of activities undertaken by a marketer to inform the prospective buyers about the product and persuade them to make a purchase. The various components of the promotion mix are advertising, sales promotion, personal selling and public relation.