

CBSE
Class XII Business Studies
All India Board Paper Set 1 – 2014

Time: 3 hrs

Max. Marks: 90

Note:

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

- (i) All questions in both the sections are compulsory.
 - (ii) Marks for questions are indicated against each question.
 - (iii) Questions No. **1 – 12** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
 - (iv) Questions No. **13 – 18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
 - (v) Questions No. **19 – 22** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
 - (vi) Question number **23 – 26** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
 - (vii) Question number **27 – 30** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
 - (viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.
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1. What is meant by 'Management of Work'? [1]
2. What is determined by 'Time-Study'? [1]
3. What is included in the 'Legal environment' of business? State. [1]
4. Give the meaning of 'Method' as a type of plan. [1]

5. Give the meaning of 'Responsibility' as an element of delegation. [1]
6. Define 'Organisation' as a function of management. [1]
7. How are employees motivated to improve their performance when the organisation uses internal sources of recruitment? State. [1]
8. 'Providing the social security and welfare of employees' is one of the specialised activities performed by Human Resource Management. Mention any two other specialised activities of Human Resource Management. [1]
9. What is meant by 'Decoding' as an element of communication? [1]
10. Give any two characteristics of 'Organisational Climate' that influence the behaviour of individuals and act as a non-financial incentive? [1]
11. What is meant by 'Financial Risk'? [1]
12. State the objective of 'Financial Management'. [1]
13. Huma is working in a company on a permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realised that she was fulfilling only some of her needs while some other needs still remained to be fulfilled.
- (i) By quoting the lines from the above para, identify the needs of Huma which she is able to fulfil.
- (ii) Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied. [3]
14. Explain any three functions performed by a supervisor that are vital to any organisation. [3]
15. 'Stock Exchange not only contributes to the economic growth, but performs many other functions'. Explain any three such functions. [3]
16. ABC Crackers Ltd., a fire-cracker manufacturing company launched some new products on the eve of Diwali in the market, which attracted many buyers. To meet the increased demand, the company employed people from nearby villages where there is a lot of unemployment. Because of the good behaviour of the management with the employees, more and more people wanted to join the company. As the products were in great demand in the market, a competitor imitated the products. The products of the competitor were not accepted by the consumers as it was a status symbol to buy the products of ABC Crackers Ltd. because of their quality.
- a. Identify and explain the product-related decision because of which consumers

preferred the products of ABC Crackers Ltd

- b. Also identify any two values which ABC Crackers Ltd. wanted to communicate to the society. **[3]**

17. State any six reliefs available to a consumer under the Consumer Protection Act, 1986. **[3]**

18. Explain the following rights of consumers:

(i) Right to Consumer Education

(ii) Right to choose **[3]**

19. Mega Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis, the company decided

(i) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.

(ii) to start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly.

This will not only help in covering the risks, but also help in meeting other objectives too.

(a) Identify and explain the objectives of management discussed above.

(b) State any two values which the company wanted to communicate to the society. **[4]**

20. Explain the concept of 'Business Environment' and any three features of it. **[4]**

21. State any four advantages of external sources of recruitment. **[4]**

22. Give the meaning of 'Investment' and 'Financing' decisions of financial management. **[4]**

23. State any five features of planning. **[5]**

24. Differentiate between 'Capital-market' and 'Money-market' on the following basis:

(i) Meaning

(ii) Liquidity

(iii) Safety

(iv) Expected Return

(v) Duration **[5]**

25. What is meant by 'Personal Selling'? Explain any three qualities of a good salesman. **[5]**

26. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gains with the workers, while the other suggested that employees compensation should depend on the earning capacity of the company and should give them a reasonable standard of living.

Identify and explain the principles of Fayol and Taylor referred to in the above para.[5]

27. Differentiate between formal and informal organization on the basis of the following:

- (i) Meaning
- (ii) Origin
- (iii) Authority
- (iv) Flow of communication
- (v) Nature

OR

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

28. Explain the relationship between planning and controlling.

OR

Explain the various steps in the process of controlling **[6]**

29. Explain the following as factors affecting the requirements of working capital:

- (i) Nature of business
- (ii) Scale of operations
- (iii) Seasonal factors
- (iv) Production cycle

OR

Explain the following as factors affecting choice of capital structure:

- (i) Cash flow position
- (ii) Cost of equity
- (iii) Floatation costs
- (iv) Stock-Market conditions

[6]

30. Explain the following functions of marketing:

- (i) Product designing and development
- (ii) Standardization and Grading
- (iii) Customer support services
- (iv) Pricing of products

OR

'Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of objections.' Explain any four such objections. **[6]**

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Answer 1

Management of work refers to all the activities of an organisation which aim at achieving goals or tasks to be accomplished effectively and efficiently.

Answer 2

According to time study, there must be a standard time limit for the completion of a task. With repeated observations with regard to time taken in completing a task, a standard limit is set. This helps in deciding the number of employees which would be required in completing a task.

Answer 3

Legal environment includes the framework of legislation and rules impacting the business. It is framed by the Parliament and passed by the government such as the Companies Act, 1956, Industries Dispute Act, 1947, and Trade Union Act, 1926.

Answer 4

A method is a standing plan which is a systematic way of performing a routine job. Selecting an appropriate method saves time and money, and it may vary from task to task.

Answer 5

Responsibility refers to the obligation that the task which is assigned is successfully completed within the stipulated time. A responsible subordinate is obedient and loyal towards the duties assigned to him.

Answer 6

Organising refers to the procedure wherein various activities in an organisation are aligned in order. It comprises defining the roles of various personnel and directing them to work towards the goals and objectives of the organisation. This function brings together human efforts and resources in the organisation.

Answer 7

When the organisation uses internal sources of recruitment, employees are motivated to perform the best for their organisation as it gives a chance to existing employees to grow and occupy higher positions.

Answer 8

The two other activities performed by human resource management are (i) Providing the necessary training and development to employees for career growth, and (ii) Recruiting, selection and placement of personnel.

Answer 9

Decoding means a process of converting the encoded message into language and understanding the message.

Answer 10

Two characteristics of 'Organisational Climate' which influence the behaviour of individuals and act as a non-financial incentive are (i) Autonomy or employee empowerment and (ii) Employee recognition programmes.

Answer 11

Financial risk refers to the risk that borrowed funds would not be repaid. In other words, it implies the risk that the company would not be able to meet its fixed financial obligations such as interest payment, preference dividend and other repayment obligations.

Answer 12

The basic objective of financial management is to maximise the wealth of shareholders, i.e. it aims at taking financial decisions which prove beneficial for shareholders. Such financial decisions are taken wherein the anticipated benefits exceed the cost incurred.

Answer 13

- i. According to Maslow's Needs Hierarchy Theory, the needs of an individual can be classified into five categories which can be arranged in a hierarchical order as physiological needs, security needs, belongingness needs, esteem needs and actualisation needs. Huma realised that she was fulfilling only 'physiological and security needs'. Physiological needs are the most basic needs in the hierarchy of needs. It comprises needs which are essential for survival and sustenance. For example, need for food, clothing and shelter. In terms of an organisation, the requirement of a basic salary is a physiological need. Security needs is that an individual requires physical and economic security. Huma has a permanent job which ensures complete security for her.
- ii. Two other needs of Huma (followed by the above needs) which still remained to be satisfied are 'belongingness needs' and 'esteem needs'.
 - a. Belongingness needs refers to the social needs of an individual in terms of affection and acceptance.
 - b. Esteem needs comprises elements such as respect, dignity and recognition in the peer group.

Every individual yearns for social acceptance and belongingness as well as respect and acknowledgement in the peer group. In this situation, Huma falls sick and takes leave but no one showed concern and enquired about her health.

Answer 14

In an organisation, a supervisor is a person responsible for directly overseeing the various activities of workers. Functions performed by a supervisor:

- i. A supervisor guides workers and provides support to them. He ensures that workers work with harmony and unity.
- ii. He serves as the link of communication between the manager and workers. While on one hand, he communicates the information and ideas of the management to workers, on the other hand, he communicates the problems of workers to managers. In other words, the management and workers communicate through the supervisor.
- iii. It is the responsibility of the supervisor to ensure that the work is performed efficiently and smoothly and that the set targets are met.

Answer 15

A stock exchange refers to a market wherein the sale and purchase of securities occur. The main functions of the stock exchange:

- i. **Provides Liquidity and Marketability:** The stock exchange provides a platform where sale and purchase of existing securities can take place. In this way, the stock exchange facilitates the conversion of securities to cash as and when required. In addition, it renders liquidity to long-term securities and can be converted to medium-term and short-term securities.
- ii. **Determination of Prices:** A stock exchange acts as a link for the interaction of buyers and sellers. In other words, it helps in the interaction of demand and supply forces, and thereby helps in establishing the price of securities.
- iii. **Fair and Safe Market:** A stock exchange provides a safe and fair market for trading of securities. It functions according to a well-regulated legal framework.

Answer 16

- a. The product-related decision because of which consumers preferred the products of ABC Crackers Ltd. is the 'quality and the brand name'. The standard quality of the products manufactured by the company helps in maintaining its brand name in the market. So, consumers wish to demand the products of ABC Crackers Ltd. as their goodwill and reputation are more in the market.
- b. Values ABC Crackers Ltd. wanted to communicate to society:
 - i. To provide employment opportunities so that it decreases unemployment in villages
 - ii. To provide good quality products to consumers

Answer 17

Reliefs which are available under the Consumer Protection Act:

- i. Repairing the defect in goods or removing the deficiency in service
- ii. Providing a new good instead of the defective good
- iii. Refunding the cost of the good or service to the consumer
- iv. Providing compensation in cash in case of loss or injury

- v. Removing any misleading advertisements and passing orders for issuing a correct advertisement
- vi. Crediting an appropriate amount to the Consumer Welfare Fund

Answer 18

Rights of a consumer:

- i. **Right to Consumer Education:** It is the right of consumers to have knowledge and be aware of their rights and responsibilities. They must have knowledge with regard to various legal remedies available in case they face any form of exploitation. Various consumer organisations and NGOs actively work in this regard.
- ii. **Right to Choose:** Consumers have the right to have access to and choose from a wide variety of goods and services available in the market at competitive prices. Accordingly, retailers or suppliers should offer a large variety of products to consumers. Also, they must not be biased towards a particular product.

Answer 19

- a. The objective of the management referred in the paragraph is 'organisational objective'. One of the important organisational objectives is to survive and exist in a competitive market for a long period. This becomes feasible only if the total income earned by an organisation should be able to cover the various costs incurred in its operation. Also, it must grow and expand their activities.
- b. Two values conveyed by the organisation in this situation:
 - i. Providing employment in backward areas of society
 - ii. Using environment-friendly methods of production

Answer 20

A business environment refers to the aggregate of external conditions, events and resources which are outside the control of a business but interact with it and affect its performance. For example, change in the taste and preferences of consumers, change in government policies, change in political scenario, change in legal polices, all make up the business environment.

Features of business environment:

- i. **Interrelated:** Different forces acting in a business environment are closely related to each other. For example, an increase in the income of consumers increases the demand for consumer durables such as television and refrigerator.
- ii. **Ever changing:** Business environment is dynamic and ever changing. For example, consumer tastes and preferences, technology, government rules and policies keep changing continuously.
- iii. **Complex:** Business environment is the aggregate of different interrelated and dynamic forces. Thus, it becomes difficult and complex to understand. For example, all political, social, economic, technological and legal matters affect the performance of an organisation simultaneously. While it may be easy to understand the individual affects of these forces, their cumulative effect is quite difficult to understand.

Answer 21

External sources of recruitment are the ones where job vacancies are filled from outside the organisation. Benefits of external sources of recruitment:

- i. **Fresh talent:** Recruitment through external resources gives scope for entry of new talent resources into the organisation. Hence, there is increased organisational efficiency.
- ii. **Wider choice:** External sources provide a wide variety of choices for selecting the suitable candidate. For example, advertisement or placement agencies help in recruiting the right person from various applicants who applied for the job. Hence, the organisation is able to select from various applicants.
- iii. **Competitive spirit:** When external resources join the organisation, existing employees will compete with new external resources by working hard. Hence, there is a competitive spirit among existing and external resources in the organisation.
- iv. **Qualified personnel:** Recruitment through external sources assists in hiring qualified, specialised personnel and trained resources for designated jobs. Hence, these resources are capable to adapt to changes in technological development.

Answer 22

Financial management means efficiently acquiring and using funds. It is concerned with main financial decisions:

i. **Investment Decisions:**

A firm must decide where to invest the funds such that it can earn maximum returns. Such decisions are known as investment decisions. These decisions are taken for both long term and short term.

- **Long-term investment decisions:** These decisions affect a firm's long-term earning capacity and profitability. They are also known as the capital budgeting decisions. For example, decision to purchase a new machine and land.
- **Short-term investment decisions:** These decisions, also known as working capital decisions, affect the day-to-day business operations. For example, decisions related to cash or bill receivables.

ii. **Financial Decisions:**

Financing decisions involve decisions with regard to the volume of funds and identifying the sources of funds. There are two main sources of raising funds—shareholders' funds (equity) and borrowed funds (debt). Considering factors such as cost, risk and profitability, a company must decide an optimum combination of debt and equity. Example: While debt proves to be cheaper than equity, it involves greater financial risk. Financial decisions must be taken judiciously as they have an impact on the overall cost of capital of the firm and involve financial risk.

Answer 23

Planning implies to a state in advance where to go and in which direction to move to achieve a target. Being a continuous process which helps in reducing the risk of

uncertainty, planning provides the rationale for undertaking policies in the direction of achieving goals. It is based on anticipating the future course of action and deciding the best course of action.

Features of planning:

- i. **Focus on objectives:** Planning starts when an objective is set and a proper planning gives boost to a well-organised and goal-oriented management. Plans ensure that the desired objective is attained economically and quickly, if possible. Managers must make sure that plans made are purposeful, specific, realistic and clear and should adhere to the company's strategies, procedures and policies. For example, if a sales target is to be achieved, then plans must be made in sync with this objective.
- ii. **Acts as a stepping stone:** A goal is achieved through planning, organising, staffing, directing and controlling. Planning, thus, serves as the stepping stone for all other functions of an organisation. The rest of the functions are conducted within the framework of the plans drawn, i.e. the other functions are interrelated and interdependent on planning. Thus, planning acts as the primary function for all organisations.
- iii. **Pervasiveness:** Planning must be done at all levels of management and in all departments of the organisation. However, its scope differs along the various dimensions of business levels. For example, top-level managers have to chalk out policies regarding overall management, whereas middle-level managers plan the authority to be assigned to subordinates or departmental planning. On the other hand, lower level managers have to perform day-to-day operational planning and make out small targets.
- iv. **Continuity:** After an objective or goal is achieved, the plan drawn for it does not cease to exist but goes on to become a never-ending strategy because of the dynamic nature of the business environment. It is a continuous process as after or within the plan period, a need arises for the formulation or modification of another plan, keeping in view the new objectives and circumstances. It is a continuous process all along the life of a business enterprise.
- v. **Choice making:** After coming up with all possible alternatives and its outcomes, managers need to evaluate them. This evaluation is based on the utility and consequences of the options and the performance study of various actions. Various factors will be weighed against each other as they must assess the pros and cons of each alternative.

Answer 24

Points highlighting the difference between the capital market and the money market:

Basis for Difference	Capital Market	Money Market
Meaning	The capital market refers to the market or the institutional facilities through which long-term funds are raised and invested.	Securities traded are highly liquid in nature. DFHI discounts money market securities and offers a ready market for them.
Liquidity	Securities in the capital market are liquid only to a certain extent that they are tradable on stock exchanges. However, they are comparatively less liquid than money market securities.	Securities in the money market are highly liquid as they provide a ready market for them. They comprise commercial bills, treasury bills, certificates of deposit and other short-term securities.
Safety	Securities traded are risky with regard to both return and principle repayment.	Securities traded are safe as securities are traded for short duration and the issuers are financially sound.
Expected Return	They offer higher possibility of gain as securities are for a longer period.	As securities have a shorter maturity period, the expected return is lower.
Duration	Capital market deals in long-term and medium-term securities having a maturity period of more than a year.	Money market instruments have a maturity period of maximum one year.

Answer 25

Personal selling involves direct communication with potential consumers. Three qualities of a good salesman:

- i. **Mental qualities:** A good salesman should have intelligence to understand the customer and be able to fulfil a customer's requirement. Basically, he should have two qualities—empathy and ego drive. Empathy is the salesman's ability to understand the difficulty of customers. Ego drive is not only pursuing a sale for money but also trying to achieve personal success.
- ii. **Social qualities:** A good salesman should be well-mannered and pleasant to greeting and thanking customers. He should express politely for being successful in personal selling. An ability to provide a detailed description on the product which he pursues to sell. At the same time, he should handle customers appropriately without offending others.
- iii. **Physical qualities:** A good salesman should have a pleasing personality. He should appear with good grooming, neat and clean dress to create a good impression. He

should ensure that customers are satisfied with the product by providing them with required information.

Answer 26

Two principles which are mentioned in the paragraph:

- i. **Harmony, not Discord:** Taylor emphasised that managers and workers should maintain a harmonious work environment. They should realise their interdependence and work in amity. He was well acquainted with the fact that a friendly working environment will help in developing relations between them. He introduced this principle to maintain a peaceful kinship between people. When workers are deprived of their wishes or demands, they generally go on strike. This affects the productivity and the working environment. To dismiss such a situation, Taylor was ardent about a mental revolution. It implies a change in the thinking of both workers and managers. For example, if a worker is having a problem with the working hours, he should talk to the manager about it, instead of letting it effect production by going on a strike. Similarly, managers should listen to the worker's suggestions and demands rather than ignoring them.
- iii. **'Remuneration of Employees' by Fayol:** Fayol emphasised that the compensation provided to employees should be fair and just. Remuneration is determined based on the work they performed for the organisation and should be sufficient for leading a standard life. If the remuneration is adequate, then it will boost and encourage employees to contribute the best to the organisation. While if the remuneration is not adequate, then it will not give immense pleasure and satisfaction to work and employees tend to leave the organisation. Here, an organisation will have an increase in employee turnover. Therefore, the organisation should maintain harmony by providing fair remuneration to employees and also the remuneration is given by considering the capability of the organisation.

Answer 27

Basis for Difference	Formal Organisation	Informal Organisation
Meaning	Organisational structure which is designed by the management to accomplish a particular task. It specifies the boundaries of authority and responsibility and there is a systematic coordination to achieve organisational goals.	Interaction among people at work gives rise to a network of social relationships among employees. It emerges from within the formal organisation when people interact beyond their officially defined roles.
Origin	Originates from the rules and policies of management.	Originates from the social interactions among employees.

Authority	Based on profile and managerial positions, i.e. flow from top to bottom.	Based on personal qualities of employees, i.e. flows from all directions.
Duration	More stable and hence exists till the survival of the organisation.	Not stable as employees can frequently change the social group.
Nature	Completely rigid.	More flexible.

OR

Decentralisation refers to the delegation of authority and power to the lower level in the hierarchy. It is optional in the sense that it is up to the organisation to decide that how much authority and power it wishes to delegate to the lower levels. Points explaining why an organisation would choose to be decentralised:

- i. **Initiative:** Decentralisation provides managers the freedom and authority to take their own decisions. In this way, it gives them opportunities to take initiatives. This helps managers to develop self-confidence.
- ii. **Managerial Competence:** Decentralisation provides personnel the opportunity to gain new experience and develop their skills. This helps in improving their competence. In this way, it helps in the development of future managers who can take greater responsibilities.
- iii. **Control:** With decentralisation, the performance of various departments can be evaluated better. The contribution of each department towards the overall objectives can be easily analysed.
- iv. **Active Decision Making:** Decentralisation enables decision making at the nearest point of action. This ensures quick decision making.
- v. **Growth:** With decentralisation, the responsibility is passed on to the lower levels in the hierarchy. This motivates them to work to their best, improving their competence and efficiency. Accordingly, the overall performance and growth of the organisation are enhanced.
- vi. **Reduced Workload of Top Managers:** With decentralisation, a part of the responsibility of top-level managers is passed on to the lower management. Accordingly, top managers can focus on other priority areas, while lower managers handle the routine work.

Answer 28

Controlling is closely related to planning. A good control system requires set standards for evaluation. These standards are provided by the plans defined by the organisation. In other words, plans serve as the base for controlling.

Controlling is essential for effective implementation of plans. It is essential to keep a close watch on plans, identify any deviations and take appropriate corrective actions. Without proper controlling, planning would be futile.

In a similar manner, planning forms the base for controlling. Without planning, there would be nothing to control. Controlling is done only when there are predetermined standards against which evaluation can be performed.

While planning involves intellectual thinking, decision making and deciding a course of action, controlling ensures that plans take the required course of action.

Both concepts of planning and controlling are interlinked as they are forward looking and backward looking. Planning is a process wherein it is decided what is to be done and accordingly deciding the required course of action. In other words, planning involves deciding the goals and objectives which are to be achieved and deciding the actions through which they are to be achieved. In this way, planning helps in predicting future actions; thus, it can be said to be looking ahead.

As against planning, the controlling function involves assessing and evaluating past performance against pre-defined standards. Because controlling assesses past performance, it can be said to be backward looking.

However, it must be remembered that planning decides the goals and actions for the future, but these decisions are taken on the basis of experiences and previous controlling actions. Thus, planning involves looking back as well.

In a similar manner, controlling not only involves assessing past performance but also decides corrective actions to be taken (in the future) and forms the base for plans. Thus, the controlling function looks forward as well.

OR

Controlling refers to the process of ensuring that the various activities and tasks in the organisation are performed according to the pre-defined goals and objectives.

Steps involved in the controlling process:

1. **Setting Standards:** The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets, production targets). It must be kept in mind that the set standards should facilitate easy comparison.
2. **Measuring Actual Performance:** The next step in the controlling process is to measure the performance of various activities. For this, various techniques can be used such as personal observation and performance reports. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.
3. **Comparing Performance:** After the actual performance is measured, it is then compared with pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.

4. **Analysing Deviation:** With the comparison of actual performance with set standards, deviations in performance are identified. For analysing deviations, the following methods can be used:

- **Critical Point Control:** According to this technique, rather than controlling all the activities in the management, only the key result areas (those that affect the entire organisation) should be focused on.
- **Management by Exception:** According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.

Deviations should be identified, but their causes must also be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.

5. **Corrective Measures:** In case deviations are beyond the acceptable range, it becomes necessary to take corrective action. It must be ensured that the deviations do not occur again.

Answer 29

Working capital refers to current assets which help in day-to-day business operations.

- Nature of business:** A company which deals in trading or services will require low working capital because it manages a small operating cycle and absence of processing. On the other hand, a company manages a large operating cycle will require high working capital as the conversion of raw materials into finished product before the end of sale transaction.
Manufacturing organisations ⇒ High working capital
Trading/Service organisations ⇒ Low working capital
- Scale of operations:** A company which is operating in a large-scale of operations will require larger fixed assets in the form of plants, land and building.
Larger organisation ⇒ Higher investment in fixed assets
Small organisation ⇒ Lower investment in fixed assets
- Seasonal factors:** A company selling seasonal products will require high working capital to meet higher sale, higher production, higher stock and more debtors. While a company selling goods throughout the season will require constant working capital which is low working capital spread throughout the season.
Peak season ⇒ High working capital
Lean season ⇒ Low working capital
- Production cycle:** A longer production cycle will require high working capital as it will take more time to convert raw material into finished products. On the other hand, a small production cycle will require less working capital.
Long production cycle ⇒ High working capital
Small production cycle ⇒ Low working capital

OR

Capital structure is the proportion of debt and equity used for financing business operations.

- i. **Cash flow position:** The cash flow position should match with the obligation of making payments because if the company fails to make payment will face insolvency. So, a company employs more debt securities in its capital structure if a company is sure of generating enough cash inflow. On the other hand, if there is less cash, then a company should employ more of equity in its capital structure.

Strong cash flow position ⇒ More debt

Weak cash flow position ⇒ More equity

- ii. **Cost of equity:** In terms of dividend payments, higher the cost of equity, lower is its proportion in total capital.

Use of debt increases ⇒ Financial risk increases ⇒ Expectation of rate of return increases ⇒ Difficult to opt for equity ⇒ Equity cost increases

- iii. **Flotation cost:** Based on costs involved to raise funds from various sources will affect the selection of the capital structure by a company.

Higher flotation cost involved in raising funds from a particular source ⇒ Lower proportion of that source in capital structure

- iv. **Stock-market conditions:** It is easy to opt for equity during boom condition and difficult to opt for equity during the recession condition.

Answer 30

Marketing refers to the process of interaction between buyers and sellers with the objective of exchange of goods and services.

Functions of marketing:

- i. **Gathering and analysing market information:** Marketer analyses the market and identifies the best opportunities. Collecting information of the target market segment including the size of market and behaviour, culture, needs and wants of customers.
- ii. **Marketing planning:** Creating a market plan to achieve marketing goals and objectives of the organisation. Market research is conducted to analyse preferences of customers to formulate a suitable plan.
- iii. **Customer support services:** Involves handling complaints and feedback of customers. Customer support services are developed such as credit, maintenance, technical services and consumer information. These customer services are provided to satisfy customers and to make them a permanent customer for their product.
- iv. **Physical distribution:** Channels of distribution are to be decided through which products would be moved from place of production to the place of consumption. Choosing an appropriate distribution channel holds more important because an inappropriate distribution channel may either lead to an increase in the price of the good or decrease in the quality of the product.

OR

There are different views with regard to expenditure on advertising. On one hand, it is considered a social waste as it adds to the cost of production, weakens social values and adds to consumer needs and desires. On the other hand, it is beneficial as it helps in enhancing the sales of the product of the firm.

Objections to advertising:

1. **Higher Cost:** Expenses on advertisement add to the cost of the product, the firm and is passed on as additional cost to consumers in the form of higher prices.
However, advertising helps in attracting consumers to the product. Accordingly, the demand for the product increases. To cater to the increased demand, the production increases. An increase in the production in turn lowers the per unit cost of production.
2. **Weakens Social Values:** A major argument against advertising is that it weakens social values in the sense that it promotes materialism in society. Advertisement attracts customers and induces them to purchase the product. They are more aware with regard to the availability of different and new products in the market. In the process, they are often dissatisfied with their current possession of goods. Often on being increasingly attracted by the new product, they even purchase products which they may not require. This increases materialism in society.
On the other hand, it is said that an advertisement is beneficial to consumers in the sense that it informs them about various products available in the market. The final decision regarding the product purchase lies with the consumer himself.
3. **Creates Confusion:** With the advertisements of a large number of similar products, the consumer often gets confused. On the contrary, advertisements may help in increasing knowledge of different products available in the market. In this way, it increases consumer choice and helps consumers in making an informed decision with regard to product purchase.
4. **Promotes Inferior Goods:** Advertisement induces consumers to purchase the product. Even inferior goods can be advertised, and their demand be induced. However, it said that quality is only a relative product. Advertisements provide knowledge with regard to all kinds of products. Whether to purchase a product or not is up to the consumers themselves.