

## **;BUSINESS STUDIES**

### **ANSWER KEY**

#### **Nature and Significance of Management**

1. (c) A is true, but R is false.
2. (d) A is false, but R is true
3. (b) Both A and R are true, and R is the correct explanation of A.
4. a) **Organisational objectives**
  - b) **Social objectives:** It involves the creation of benefit for society. As a part of society, every organisation whether it is business or non-business, has a social obligation to fulfil.
  - c) **Personal objectives:** Organisations are made up of people who have different personalities, backgrounds, experiences and objectives. They all become part of the organisation to satisfy their diverse needs. Management has to reconcile personal goals with organisational objectives for harmony in the organisation.

#### **5. Management is multidimensional:**

Management of work: All organisations exist for the performance of some work. Management translates this work in terms of goals to be achieved and assigns the means to achieve it.

Management of people: Managing people has two dimensions (i) it implies dealing with employees as individuals with diverse needs and behaviour; (ii) it also means dealing with individuals as a group of people. The task of management is to make people work towards achieving the organisation's goals, by making their strengths effective and their weaknesses irrelevant

Management of Operations: Every organisation has some basic product or service to provide in order to survive. This requires a production process which entails the flow of input material and the technology for transforming this input into the desired output for consumption.

This is interlinked with both the management of work and the management of people.

#### **PRINCIPLES OF MANAGEMENT**

1. (c) Flexible
2. (b) Discipline
3. (a) Discipline
4. (d) Differential Piece Wage System
5. (b) Both Assertion (A) & Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
6. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of (A).

## **7. Technique – Functional Foremanship**

Functional foremanship is an extension of the principle of division of work and specialisation to the shop floor. Each worker will have to take orders from these eight foremen in the related process or function of production. Foremen should have intelligence, education, tact, grit, judgment, special knowledge, manual dexterity, and energy, honesty and good health. Since all these qualities could not be found in a single person so Taylor proposed eight specialists. Each specialist is to be assigned work according to her/his qualities. For example, those with technical mastery, intelligence and grit may be given planning work. Those with energy and good health may be assigned execution work.

### **Time study**

It determines the standard time taken to perform a well-defined job. Time measuring devices are used for each element of task. The standard time is fixed for the whole of the task by taking several readings. The method of time study will depend upon volume and frequency of the task, the cycle time of the operation and time measurement costs. The objective of time study is to determine the number of workers to be employed; frame suitable incentive schemes and determine labour costs

## **8. Principles of management violated**

Initiative - Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan. Initiative should be encouraged. A good company should have an employee suggestion system whereby initiative/suggestions which result in substantial cost/time reduction should be rewarded.

Stability of Personnel –Personnel should be selected and appointed after due and rigorous procedure. But once selected they should be kept at their post/ position for a minimum fixed tenure. They should have stability of tenure. They should be given reasonable time to show results. Any adhocism in this regard will create instability/insecurity among employees. They would tend to leave the organisation. Recruitment, selection and training cost will be high. So stability in tenure of personnel is good for the business.

### **Scientific Principle followed:**

**Co-operation not Individualism** - There should be complete cooperation between the labour and the management instead of individualism. This principle is an extension of principle of 'Harmony not discord'. Competition should be replaced by cooperation. Both should realise that they need each other. According to Taylor, there should be an almost equal division of work and responsibility between workers and management. All the day long the management should work almost side by side with the workers helping, encouraging and smoothing the way for them. (1x3)

**9. Division of work:** Work is divided in small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialization, increased productivity and reduction of unnecessary wastage and movements.

**Authority and Responsibility:** Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority, makes an executive less interested in discharging his duties. Similarly giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.

**Espirit De Corps:** Management should promote team spirit, unity and harmony among employees. Management should promote a team work. (1x3)

10. **Order** – “there is a fixed place for everything and everyone.”

**Equity** – “the same attention and guidance without any discrimination.”

**Discipline** - “every student is expected to abide by the school rules and honour their commitments.”(1x3)

11. **Discipline:** It is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.

**Equity:** The working environment of any organization should be free from all forms of discrimination (religion, language, caste, sex, belief or Basis Unity of Command Unity of Direction nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.

**Espirit De Corps:** Management should promote team spirit, unity and harmony among employees. Management should promote a team work. (2x3= 6)

12. **Mental Revolution:** It involves a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it

**Harmony, Not discord:** It implies that there should be mental revolution on part of managers and workers in order to respect each other’s role and eliminate any class conflict to realize organizational objectives.

**Cooperation not individualism:** It is an extension of the Principle of Harmony not discord whereby constructive suggestions of workers should be adopted and they should not go on strike as both management and workers share responsibility and perform together. (2x3= 6)

## BUSINESS ENVIRONMENT

SL No		MARKS
1	(a) Technological dimension	1
2	(b) It helps assisting in planning and policy formulation	1
3	(b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)	1
4	(c) Assertion (A) is true, but Reason (R) is false	1
5	<p><b>Relativity.</b> This is due to the change in cultures and lifestyles of people in the different countries.</p> <p><b>Uncertainty.</b> Company knows that the demand for these products are unpredictable as new designs keep on coming and the industry keeps on changing frequently.</p> <p><b>Dynamic nature.</b> However, the outside business environment is characterized by changing customer preferences, entry of new competitors making it change.</p> <p><b>Complexity.</b> However, after the meeting it was realised that business environment can't be understood in totality it can only be understood by breaking it into its dimensions.</p>	(1x4) 4

## PLANNING

1	b) Planning may not work in dynamic environment.	1
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2	c) By anticipating changes and developing responses to them	1
3	a) Pervasive nature	1
4	c) Strategy	1
5	<p><b>Planning provides directions.</b><i>It has given well in advance targets to all its departments and employees. The goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken.</i></p> <p><b>Planning reduces overlapping and wasteful activities.</b><i>The activities and efforts of different divisions, departments and individuals are well coordinated. It helps in avoiding confusion and misunderstanding.</i></p> <p><b>Planning facilitates decision making.</b><i>The main core team of the company has decided to weigh all the options and then choose the best one.</i></p> <p>(1 mark for identifying and 1 mark for quoting line)</p>	6

### ORGANIZING

1.(c) Both (A) and (R) are correct and (R) is the correct explanation of A

2.(d) Both (A) and (R) are correct but (R) is not the correct explanation of A

3. Decentralisation(1)

Importance

- a. Develops managerial talent for the future because subordinates are equipped with skills that helps rise in the organisation.
- b. Quick decision making since decisions are taken at levels which are nearest to the points of action.
- c. Relief to top management as they can devote more time into important policy decisions.
- d. Develops initiative among subordinates as lower managerial levels are given freedom to make their own decisions.
- e. Facilitates growth with each department doing its best in a bid to outdo the other and thus the productivity levels increase.
- f. Better control is possible as feedback from all levels helps to analyse variances and improve operations. (ANY THREE POINTS) (1+1+1)

4.a) Divisional structure

b) Advantages

1) Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions

2) Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them.

3) It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making

4) It facilitates expansion and growth as new divisions can be added without interrupting the existing operations by merely adding another divisional head and staff for the new product line.

**5.a) Organising function.** Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives. (2)

**b) Steps in organising**

1) Identification and division of work: the work is divided into manageable activities so that duplication can be avoided and the burden of work can be shared among the employees

2) Departmentalisation: The activities which are similar in nature are grouped together. This grouping process is called Departmentalisation.

3) Assignment of duties: Once departments have been formed, each of them is placed under the charge of an individual. Jobs are then allocated to the members of each department in accordance to their skills and competence.

4) Establishing authority and reporting relationships: Each individual should know from whom he has to take orders and to whom he is accountable. The establishment of such clear relationships helps to create a hierarchical structure and helps in coordination amongst various Departments. (1+1+1+1)

## **STAFFING**

1. (d) Both A and R are correct but R is not the correct explanation of R
2. (a) Both A and R are correct
3. (d) Both A and R are correct but R is not the correct explanation of R
  
4. The types of training involved in the above cases are:
  1. Apprentice Programme (On the job training)
  2. Internship training (On the job training)
  3. Vestibule training (Off the job training) (1x3)
  
5. Being Human Resource Manager of the company Mr. Naresh is supposed to perform the following specialised activities:
  1. Recruitment
  2. Job analysis, collecting information about jobs in order to prepare job descriptions.
  3. Developing compensation and incentive plans.
  4. Making arrangements for training and development of employees.
  5. Maintaining good relations with labour unions.
  6. Handling grievances and complaints.
  7. Providing for social security and welfare of employees.
  8. Defending the company against law suits, and avoiding legal complications

(ANY FOUR POINTS)(1x4)

## DIRECTING

1. (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). (1)
2. (B) Both Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of Assertion (A). (1)
3. Informal Communication.  
Merits:
  - i) Informal communication carries information rapidly, therefore may be useful to the manager at times.
  - ii) It helps the manager to know the reactions of his/her subordinates. (1+2)
4. Non- Financial Incentive
  - i) Organisational Climate: It indicates the characteristics which describe an organisation and distinguish one organisation from the other. These characteristics influence the behaviour of individuals in the organisation.
  - ii) Job Enrichment: It is concerned with designing jobs that include greater variety of work content, require higher level of knowledge and skill, give workers more autonomy and responsibility and provide the opportunity for personal growth and a meaningful work experience.
  - iii) Employee Recognition Programmes: Most people have a need for evaluation of their work and due recognition. When such appreciation is given to the work performed by the employees, they feel motivated to perform/ work at higher level. (1+3)
5. a) Personal Barrier (1)
  - b) Lack of proper incentives (1)
  - c) i) Fear of challenge to authority: If a superior perceives that a particular communication may adversely affect his authority, he or she may withhold or suppress such communication.
  - ii) Lack of confidence of superior on his subordinates: If superiors do not have confidence on the competency of their subordinates, they might not seek their advice or opinions
  - iii) Unwillingness to communicate: Sometimes, subordinates may not be prepared to communicate with their superiors, if they perceive that it may adversely affect their interest.



## **CONTROLLING**

1. (b) Both Assertion(A) and Reason(R) are true but Reason (R) is not the correct explanation of (A)
2. (a) Both Assertion(A) and Reason(R) are true and Reason (R) is the correct explanation of (A)
3. (a) Both Assertion(A) and Reason(R) are true and Reason (R) is the correct explanation of (A)
4. Both the statements are wrong.
5. Both are correct. Controlling is like a post mortem of past activities to find out deviations from the standards. In that the sense controlling is a backward looking function. However, it should be understood that corrective actions initiated by controlling function aims to improve future performance. Thus controlling is both forward looking as well as backward looking function.

## **FINANCIAL MANAGEMENT**

- 1.(c) Flotation cost
2. (c) Working /capital Decision
3. (d) Assertion (A) is False but Reason (R) is true.
- 4.(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- 5.(c) Growth Prospects
6. (b) Financial Planning
- 7.(b) Debt Service Coverage Ratio
- 8.

Total investment: 1,00,00,000

Cost of debt= 11%

EBIT= 10,00,000

ROI= EBIT / Total investment X 100

ROI= 10,00,000/1,00,00,000 X 100

ROI= 10%

Here ROI (10%) is less than the cost of debt i.e. 11% that means the company will not be able to pay the fixed obligation of interest. This is known as Unfavourable Financial Leverage. If the Company increases the debt the Earning per share will decrease. Therefore the company should raise funds through Equity shares rather than Debt.

Calculation for earning per share:

	Case (i)	Case (ii)	Case (iii)
EBIT	₹ 1,00,000	₹ 80,000	₹ 1,20,000
Less: Interest on debentures [₹ 2,00,000 × 10%]	<u>₹ 20,000</u>	<u>₹ 20,000</u>	<u>₹ 20,000</u>
EBT	₹ 80,000	₹ 60,000	₹ 1,00,000
Less: Income tax [50% on EBT]	<u>₹ 40,000</u>	<u>₹ 30,000</u>	<u>₹ 50,000</u>
Earnings after tax	₹ 40,000	₹ 30,000	₹ 50,000
Less: Preferred dividends [₹ 2,00,000 × 10%]	<u>₹ 20,000</u>	<u>₹ 20,000</u>	<u>₹ 20,000</u>
Earnings available to equity shareholders	<u>₹ 20,000</u>	<u>₹ 10,000</u>	<u>₹ 30,000</u>

Earnings per share [EPS] = Earnings available to equity shareholders/ Number of equity shares

Number of equity shares = ₹ 1,00,000 / ₹ 10 = 10,000

EPS – Case (i) = ₹ 20,000/ 10,000 = ₹ 2

EPS – Case (ii) = ₹ 10,000/ 10,000 = ₹ 1

EPS – Case (iii) = ₹ 30,000/ 10,000 = ₹ 3

Financial leverage = EBIT/EBT

Financial leverage – Case (i) = ₹ 1,00,000 / ₹ 80,000 = **1.25**

Financial leverage – Case (ii) = ₹ 80,000 / ₹ 60,000 = **1.33**

Financial leverage – Case (iii) = ₹ 1,20,000 / ₹ 1,00,000 = **1.20**

**10.** i) Stability of earnings ii) Cash flow position iii) Growth prospects iv) Contractual Constraints

11.i) (a) earnings, (b) cash flow position, (c) access to capital market

ii) This year the company is likely to follow a conservative dividend policy because of the following reasons

a) The cash flow position of the company is not good because even when the company may be earning profit it may have shortage of cash.

b) The company may like to retain profits to finance its expansion projects. Retained profits do not involve any explicit cost and are considered to be the cheapest source of finance.

## **FINANCIAL MARKET**

1. (c) Both the statements 1 and 2 are correct
2. (b) Statement 2 is correct and Statement 1 is not correct.
3. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

4. Remaining steps are

Placing the order

Match the share and best prices

Executing the order

Issue of contract note

Delivery of shares or making payment

Settlement cycle

Pay-out day

Delivery of shares in Demat form

(½ marks for each step)

### **5. Nature of Securities**

Primary Market deals with issue of new securities. Secondary market deals with sale and purchase of existing securities.

#### **Process of transaction**

In Primary Market the company sells securities either directly to the investors or through an intermediary. In the Secondary Market the existing securities are exchanged between investors without involvement of company.

#### **Capital Formation**

Primary Market promotes capital formation directly from the savers to the investors.

Secondary market promotes capital formation indirectly.

#### **Location.**

In Primary Market there is no fixed geographical location. Secondary Market is located at a specified place. (1x4)

## **MARKETING**

### **MCQ**

1.c) Selling

#### **ASSERTION AND REASONING**

2.a) Both A and R are true and R is the correct explanation of A.

3. b) Both A and R are true but R is not the correct explanation of A.

4. b) Both A and R are true but R is not the correct explanation of A.

5. c) A is true and R is false.

6. Marketing Philosophy

Marketing orientation implies that focus on satisfaction of customer's needs is the key to the success of any organisation in the market. It assumes that in the long run an organisation can achieve its objective of maximisation of profits by identifying the needs of its present and prospective buyers and satisfying them in an effective way.

7.a) Advertising, Personal selling

b) Features of any one tool

c) Publicity

8. Advertising, personal selling, publicity.

(Explanation on how each will benefit in promotion)

9.Characteristics of brand name

The brand name should be short, easy to pronounce, spell, recognise and remember e.g., Ponds, VIP, Rin, Vim, etc. (ii) A brand should suggest the product's benefits and

qualities. It should be appropriate to the product's function. e.g., Rasika, Genteel,

Promise, My Fair Lady and Boost. (iii) A brand name should be distinctive e.g., Liril, Sprit, Safari, Zodiac. (iv) The brand name should be adaptable to packing or labelling requirements, to different advertising media and to different languages. (v) The brand name should be

sufficiently versatile to accommodate new products, which are added to the product line e.g., Maggie, Colgate. (vi) It should be capable of being registered and protected legally

10.Public Relation

It involves variety of activities designed to promote or protect company's image and its

Individual products in the eyes of public.

It involves a variety of programmes to promote and protect company's image and its individual products. The public relation department performs five functions:

- a. Press Relation
- b. Product Publicity
- c. Corporate Communication
- d. Lobbying
- e. Counselling

### **CONSUMER PROTECTION**

1. b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
2. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
3. b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
4. b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
5. a) The campaigns like “ Jago Grahak Jago” are given in the newspaper to make the consumers aware of the various undesirable activities like unscrupulous, unfair trade practices etc. which are carried out by the marketers to exploit the buyers.

#### **b) Responsibilities of a consumer :**

Be aware about various goods and services available in the market.

Ask for cash memo

Read labels carefully

Must file a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed.

Be Honest in your dealings.

Buy only standardised goods.

Learn about the risks associated with products and services.

Assert yourself to ensure that you get a fair view.

Form consumer societies.

Respect the environment.

(ANY THREE POINTS)

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