1. Your grandfather has retired as the Director of a manufacturing company. At which level of management was he working? Different types of functions are performed at this level. State any one function.
   Ans. He was working at top-level management. The function of this level is to establish long-term corporate plans i.e., goals, policies, strategies etc. of a company.

2. What is meant by management?
   Ans. Management is an art of getting things done through others with the aim of achieving goals effectively and efficiently.

3. What is meant by principles of management?
   Ans. Principles of management are statements of fundamental truth about some phenomenon. They provide guidelines for thought and action.

4. State any one principle of scientific management.
   Ans. Development of each and every person to his/her greatest efficiency and prosperity.

5. "The understanding of business environment helps the managers to identify 'threats'." What is meant by 'threats' here?
   Ans. Threats are unfavourable trends like high taxes, price competition from unorganised market.

6. Business environment includes both 'specific and general forces.' List any four specific forces.
   Ans. Four specific forces are:
   1. Customers;
   2. Suppliers;
   3. Employees; and

7. Explain in one sentence how direction initiates action in management.
   Ans. It stimulates action by issuing instructions to the subordinates and by supervising them. Without direction, other functions like planning, organising and staffing become ineffective.

8. Why is it said that "controlling is a continuous activity"?
   Ans. It is a continuous activity as a manager continuously checks activities to assure himself and compares the actual results with standards or targets on regular basis.

9. What is important while analyzing deviations in controlling?
   Ans. While analyzing deviations in controlling, it is important to pay more attention to key areas of business.

    Ans. Financial Management means management of the financial activities of an organisation. It involves planning, raising, utilising and controlling funds.

    Ans. Impact of government policy changes on business and industry can be:
    1. Threat from multinational companies: The presence of multinational companies has been rendering valuable services to our economy. These are supplying superior quality good which have become threat for Indian companies.
2. Increasing competition: Industrial licensing and entry of foreign firms have increased the competition for Indian firms.

12. Differentiate between 'Policy' and 'Rule' as types of Plans.

Ans. Difference between Policy and Rule.

<table>
<thead>
<tr>
<th>Basis of Difference</th>
<th>Policy</th>
<th>Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Policies are general statements which guide the lower level management in decision making.</td>
<td>Rules are specific statements which serve as a guide to behaviour of action.</td>
</tr>
<tr>
<td>2. Nature</td>
<td>Policies indicate broad area of action within which the management exercise discretion.</td>
<td>Rules strictly define what should or should not be done thus, leaving no room for discretion.</td>
</tr>
<tr>
<td>3. Formulation</td>
<td>These are generally formulated at top and middle level management.</td>
<td>These are formed by middle level management on the basis of policies.</td>
</tr>
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</table>

13. Why is staffing considered an important function of management in all types of organisations? State any three reasons.

Ans. Three reasons for which staffing is considered an important function:

(a) Basis of other managerial functions: Staffing is an important function of management. All other functions of management depend on it as it provides the right personnel for the right jobs in the enterprise.

(b) Ensuring maximum productivity: Selection of the most suitable staff for every job provides right persons on the right jobs, ensuring maximum productivity with the least wastage.

(c) Optimum utilisation of human resources: Staffing helps in recruitment, selection training and development of the staff. Employees can be given work according to their specialisation which help in optimum utilisation of resources.

14. Explain the concept of 'Motivation' and 'Leadership'.

Ans. Motivation refers to the process of inspiring employees to work hard for the attainment of desired organisational goals. It is psychological phenomenon which initiates and directs the behaviour of employees to work efficiently and effectively.

Leadership refers to personality traits of an individual who influences the other people to work willingly for group objectives. It is the ability of management to induce subordinates to work towards attainment of group goals with confidence and zeal.

15. Explain any two functions of marketing.

Ans. Two functions of Marketing are:

1. Pricing: It is a process of fixing the price for product or service. Pricing is very important to a business because customers will not accept the product unless its price is acceptable to them. Marketing helps the management to fix a price on the basis of cost of production, demand for the product, and competition in the market.

2. Packaging and labelling: The product is always supplied to the customer in a packed form. Packaging refers to designing of packets, wrapper which are used to pack the product. Labelling refers to designing and developing the label to be put on the package. Packaging is important not only for protection of the products but also for selling the goods.

16. State any four features of planning.

Ans. Four features of planning are:

1. Planning is goal oriented: Plans are formulated to achieve goals and objectives. Planning decides the methods, procedures and steps which are to be taken for achievement of set objectives.

2. Planning is futuristic: Planning involves looking ahead and preparing for future. Managers anticipate future through forecasting and draw plans on the basis of predicted events.
3. Planning is pervasive in nature: Planning is required at all levels of management and departments of organisation. It is not restricted to any particular level of management.

4. Planning is a continuous process: Planning is never ending process because after making plans also, one has to keep an eye on changing business environment.

17. "If we delegate the authority, we multiply it by two, if we decentralize it, we multiply it by many". In the light of this statement explain any four points of importance of decentralization. [4]

Ans. Delegation of authority refers to granting authority by superior to subordinate. Its scope is confined to a manager and his immediate subordinate. Decentralisation of authority is not restricted to two individuals. It involves delegation of authority at all levels and in all functions of the organisation. Decentralisation has wider scope than the delegation. Followings are the benefits of decentralisation of authority:

1. Motivation of subordinates: It helps in motivating employees by satisfying their needs for independent participation. There is no need to take approval from higher authority all the times, this brings sense of responsibility and importance.

2. Quick decisions: Managers are also free to make their own decisions as a result, quick and fast decisions can be taken. This avoids red tape and delays.

3. Growth and diversification: It facilitates growth and diversification of employees and enterprise as well. Each division gets freedom to innovate and create new things. A sense of competitiveness is created.

4. Improved teamwork: Delegation of authority at middle level and lower level shows the trust and faith of top level in their subordinates and this trust and faith motivates the employees working at different levels to work more effectively and efficiently.

18. What is meant by 'Budgetary Control' as a technique of controlling? State any three advantages of it. [4]

Ans. Budgetary control is the process of defining performance through the preparation of budgets, measuring and comparing actual results with the corresponding budget data and taking of appropriate actions to correct the deviations, if any. A budget is a quantitative statement for a definite future period for the purpose of obtaining a given objective. Advantages of budgetary control are:

1. Helps in coordination: Budgets are useful means of coordination. They integrate and tie together various activities and units of the enterprise. Budgeting involves participation and cooperation of people at various levels of authority.

2. Fixing responsibility: Budgeting helps in fixing responsibility for results on specific aspects. It serves as job descriptions and defines the task of every individual. Budgeting makes the employees conscious about costs and revenues.

3. Optimum utilization of resources: Budgets help to minimize waste and unproductive use of financial and other resources. Budgets help to keep expenses under control and to increase revenues. Budgetary targets stimulate employees to work hard to attain maximum efficiency.

19. What is meant by 'Money Market'? Explain any two instruments used in Money Market. [4]

Ans. Money market is the market for short term funds meant for use for a period upto one year. It provides means for raising funds to meet short term requirements of cash on one hand and the deployment of surplus funds for short period of one year or less on the other hand. It does not require any particular place.

Two instruments used in money market are:

(i) Call Money: It refers to money lent by one bank to another. Banks, facing a temporary shortage of cash borrow funds from other banks having surplus cash. It is a loan payable on demand. The maturity period may range from one day to fifteen days.
(ii) Commercial Paper (CP): It is short term unsecured promissory note issued by well-known companies for periods ranging from 15 days to one year. These papers are sold at a discount and redeemed at par. These are issued to raise funds at a lower rate of interest than the market rate.

20. In today's commercial world, the Stock Exchange performs many vital functions which lead the investors towards positive environment. Explain how by giving any four reasons. [4]

Ans. Stock exchange performs many vital functions which lead the investors towards positive environment. These functions are as follows:

1. Provides liquidity to securities: Stock exchange provides a ready market for the securities where the investors can convert their money into securities and vice versa.

2. Helps in capital formation: A stock exchange induces people to save and invest their money in industrial securities which yield higher return. It directs the flow of savings into the most productive channel. Thus, it helps in capital formation in the country.

3. Pricing of securities: Due to the existence of forces of demand and supply in stock exchange, prices of securities can be determined. The prices at which transaction takes place are recorded and that recorded price is made public.

4. Protection to investors: A stock exchange functions according to the established rules and regulations made by SEBI (Securities and Exchange Board of India). These rules and regulations provide a check on overtrading in securities and manipulation of prices.

21. Management is regarded as an Art by some, as Science or as an inexact Science by others. The truth seems to be somewhere in between. "In the light of the statement explain the true nature of management. [5]

Ans. Management is a science as like science, it has systematic and well-organised body of knowledge. Management principles are also based on scientific inquiry and investigation. Management is also known as an art because like an art, it involves creating results through practical application of knowledge and skills. Management principles are practically applied in the real situations of the business. The management principles have evolved over a period of time based on repeated experimentation and observation in different types of organisations. However, since management deals with human beings and human behaviour, the outcomes of these experiments are not capable of being accurately predicted or replicated. Therefore, management can be called an inexact science. Thus, management is not pure science, it is an inexact science and an art by nature.

22. Explain any two techniques of Taylor's Scientific Management. [5]

Ans. Two techniques of Taylor's Scientific Management are:

1. Time study: It refers to the techniques used to measure the time that may be taken by a worker of reasonable skill and ability to perform each element of task in a job. With the help of time study, precise time required for each element of man's work is determined. The purpose is to determine the standard time for doing a job under given conditions. Saving in time leads to cost reduction and increases efficiency and productivity of workers.

2. Motion Study: This technique involves close observation of movements of body and limbs of an individual required to perform a job. The purpose of motion study is to eliminate wasteful motions among the workers and to find out the best method of doing a particular job. By developing the ideal sequence of motions, cost of operations and fatigue of workers can be reduced and efficiency can be increased.

23. "Internal sources of recruitment are better than external sources of recruitment." Explain any five reasons in support of this statement. [5]

Ans. Internal sources of recruitment are better than external sources of recruitment because it has following advantages:
1. **Easy selection and placement**: Organisation has full information about the employees working there. As such, their selection for the higher post involves no risk.

2. **Motivational value**: Morale of employees of the organisation is boosted when recruitment is made by internal sources. They can hope for promotion and transfer. To get desired promotion and transfer they will perform their existing duty with utmost care and efficiency.

3. **Better utilisation of existing talent**: Internal recruitment through promotion and transfer enables the enterprise to make best use of the talent of its employees. As employees look for promotion, labour turnover and absenteeism is reduced.

4. **Economy**: Filling of jobs internally is cheaper as compared to getting candidates from external sources. The organisation need not spend money on informing and inducing them to apply.

5. **No need for induction**: Induction means to acquaint the employees with their jobs and the organisation. Recruitment through internal sources does not require induction as the information is already available to employees.

24. *Determining the relative proportion of various types of funds depends upon various factors.*

   **Explain any five such factors.** [5]

   Ans. Factor affecting the relative proportion of various types of funds are:

   1. **Cost of capital**: It refers to the payment made by the company to obtain capital. Interest is paid on debentures, dividend is paid on equity and preference share capital. Cost of debentures or loans is comparatively lower as interest paid on debentures or loans is a tax deductible expense. Cost of capital depends upon the prevailing rate of interest, return expected by potential investors, administrative and issue expenses etc.

   2. **Trading on equity**: It means use of fixed cost sources of finance such as preference shares, debentures and long term loans so that return on equity shares can be increased. Trading on equity is possible only when (i) company's earnings are stable and regular to make payment of interest on debentures and (ii) company's rate of earnings is higher than the rate of interest on debentures and rate of dividend on preference shares.

   3. **Exercise of control**: The control of the company lies in the hands of equity shareholders. Funds raised through equity shares may reduce the managements' holding in the company. Debt normally does not cause a dilution of control. This factor influences the choice between debt and equity especially in companies in which the current holding of management is on a lower side.

   4. **Capital market conditions**: Capital market conditions have influence on determination of relative proportion of funds. During boom, investors are ready to take risk for investing their money in equity shares. But during depression they don't take risk to invest in securities like equity shares. Therefore, securities having fixed rate of return like debentures and preference shares may be preferred.

   5. **Flexibility**: A financial structure should be flexible enough to have scope for expansion or contraction of capitalisation whenever there is a need. There should be elasticity in financial plan.

25. *What is meant by Brand Name? State any four characteristics of a good Brand Name.* [5]

   Ans. A 'Brand' is a name, term, symbol or design or a combination of them used to identify the goods or services of a seller and to differentiate them from those of the competitors. A brand name may consist of (a) words, numbers or letters which can be pronounced, and (b) symbols, designs, marks which can only be seen but not pronounced.

   Four characteristics of a brand name are:

   1. **Short and simple**: A good brand name should be short and simple so that it can be easily pronounced, spelt, recognised and remembered. For example, Rin, Lux, Nirma, Vim etc.

   2. **Suggestive**: A good brand name should suggest the product's benefits and qualities. It should be
matched with the product's functions. For instance, Dabur Hajmola suggests that it has digestive properties. Fair & Lovely suggests that it gives fair complexion.

3. Distinct: The brand name should have its own distinct name. It should not be matched with the other brand names. For example, Liril, Safari, Ariel etc.

4. Stability: Brand should have a stable life. Its life should not be affected by the changes in fashion or styles. In other words, brand name should have staying power, it should not get out of date.

26. What is meant by 'Functional Structure' of an organisation? State any five advantages of this form of organisational structure.

OR

What is meant by 'Formal Organisation'? State any five advantages of this form of organisation. [6]

Ans. In functional structure, activities of similar nature are grouped and departments are created on the basis of specified functions to be performed. For example, an organisation may have separate departments for production, finance, marketing and personnel functions. The process of functional differentiation may take place through successive levels in hierarchy. It exists almost in every organisation at some level. Five advantages of functional structure are:

1. Easy to organise: It is easy to organise departments based on functions and sub-functions. It helps in grouping of activities.

2. Facilitates supervision: It facilitates better control and supervision in the organisation because an individual manager becomes familiar with related tasks and activities.

3. Coordination: It promotes effective control and coordination of activities within each department because of similarity in the tasks being performed.

4. Specialisation: It brings occupational specialisation which leads to higher productivity and economical operations. It also helps in training of specialist managers rather than generalist managers because each department is managed by specialist.

5. Optimum utilisation of resources: It ensures optimum utilisation of manpower and other resources through specialisation and promotes efficiency and effectiveness in operations.

OR

Formal organisation means the organisation structure designed and established by management to achieve organisational goals. It refers to the structure of well defined jobs, each bearing a definite measure of authority, responsibility and accountability. The individuals are required to work under established rules and regulations.

Advantages of formal organisation are:

1. Coordination: Formal organisational structure results in coordination of the activities of various departments, as there is clear cut division of work among the departments and individuals.

2. Attainment of organisational goals: It helps in determining the objectives of various departments and units. It facilitates the attainment of organisational goals through the achievement of objectives of various departments.

3. Chain of command: It creates chain of command from top to bottom. It helps in better flow of information and sound communication at all levels of management.

4. Stability of organisation: It provides stability to the organisation. This is because behaviour of employees can be fairly predicted since there are certain rules to guide them.

5. Authority and Responsibility: Based on the concept of authority and responsibility people are placed in hierarchy. It clarifies the authority and responsibility relationship which leads to better communication and coordination.

27. Explain any four semantic barriers of communication. [6]

OR

A-37
Explain the role of supervision as an element of directing function of management.

Ans. Supervision is an important part of directing function of management. It is required at every level of management to ensure that policies, programmes and plans of the organisation are properly formulated and applied for attainment of organisational goals and objectives. Supervision of work leads to minimum waste of time and resources which results in optimum utilisation of resources.

The importance of supervision as an element of directing function can be understood from the following:

(1) Improves communication: The supervisor maintains direct contact with subordinates which leads to effective communication.

(2) Motivation: The supervision helps in motivating the subordinates as supervisors inspire them through financial and non-financial incentives which improve quality and productivity.

(3) Guiding and monitoring: Supervision helps in instructing, guiding and monitoring the subordinates to ensure that they perform their jobs in accordance with the plans and instructions.

(4) Grievance handling: A supervisor is in direct touch with the workers. So, he can handle their grievances effectively and efficiently.

(5) Achieving objectives of enterprise: The supervisor seeks the best efforts and energies of the subordinates or workers. He coordinates, integrates and channelises these energies towards the attainment of business objectives.

28. "Sound Financial Planning is essential for the success of any business enterprise" Explain this statement by giving any six reasons.

OR

You are the Financial Manager of a newly established company. The Directors have asked you to determine the amount of working capital requirement for the company. Explain any four factors that you will consider while determining the working capital requirement for the company.

Ans. Sound financial planning is essential for the success of any business enterprise. If the financial planning is sound, it helps in implementation, coordination of different activities and this leads to minimisation of wastage of resources. The role of financial planning is evident from the following points:

(1) Effective utilisation of funds: Financial policies determined under financial planning serve as broad guidelines in effective procurement, allocation and utilisation of funds.
(2) Ensuring profitability: Procurement of funds at cheaper rates and making the best possible utilisation of funds increases the amount of profit and thus, increases profitability also.

(3) Reducing uncertainty: Uncertainty and non-availability of funds is reduced through proper financial planning.

(4) Ensuring liquidity: Financial planning maintains balance between inflow and outflow of funds and makes liquid funds available throughout the year.

(5) Better financial control: An effective financial planning predetermines the desired achievement of the financial plan which leads to better financial control.

(6) Estimating sufficient funds: A sound financial plan helps a business enterprise to avoid the problem of shortage and surplus of funds by proper estimation of fixed and working capital requirements.

OR

Working capital constitutes two basic elements i.e., Current Assets and Current Liabilities. Working capital facilitates smooth flow of day-to-day operations of the business.

Working capital = Current Assets - Current Liabilities

Working capital is required for holding current assets like stock of material and finished goods, bills receivable, accounts receivable and cash for meeting day-to-day expenses like salaries, wages etc.

Factors affecting the amount of working capital are as follows:

(1) Nature of business: The business units which sell goods on cash basis and do not keep huge stock of finished goods can manage with less working capital. When there is time gap between procurement/production and sales, organisation requires large working capital. For example, manufacturing enterprises which are required to keep huge stock or sell goods on credit require higher amount of working capital.

(2) Seasonal nature of production: Industries engaged in producing and selling seasonal goods require large amount of working capital during peak seasons than those which carry on regular production and sales. For example, a woolen garments firm needs more working capital during winter.

(3) Size of enterprise: The size of business has direct influence on working capital requirements. Large firms require higher working capital than small firms for investment in current assets and to pay off current liabilities.

(4) Price level changes: As the price of raw material rises and labour cost increases there will be requirement of more working capital until and unless there is corresponding increase in prices of its product.

29. Name the element of Marketing-mix in which a set of firms and individuals creates possession, place and time utility and helps in market offering. Also explain any five important functions performed by this element.

OR

Identify and explain the promotional tool of Marketing-mix which plays a persuasive, service and informative role and thereby links a business firm to its customers. Also explain by giving any four reasons how this tool helps in increasing the sales of businessmen.

Ans. Physical Distribution is the element of marketing mix in which a set of firms and individuals creates possession, place and time utility and helps in market offering.

Important functions performed by this element are:

1. Accumulation and Allocation: This functions involves accumulation of goods into larger homogeneous stocks, which helps in maintaining continuous flow of supply. While allocation involves breaking homogeneous stocks into small marketable lots.

2. Storage and warehousing: Whatever produced is not sold off immediately. Each company needs
to store the finished goods until they are sold in the market. Storage of goods is necessary because some of the goods are produced in seasons and demanded throughout the year. So, company must have a proper place where it can store its goods in better condition and safely.

3. Transportation of goods: Transportation means physical movement of goods from place of production to the place where they are required. So physical distribution creates a proper transportation facility to make the goods available at right place in right quantity.

4. Distribution of products: If the products are not made available to customers at right place in right quantity and at the right time, they would not be able to buy the product. So, a company must select the proper distribution channel.

5. Efficient physical distribution: Place provides efficient physical distribution of product. Goods may be distributed through intermediaries. Company's warehouses are located at places which are easily reachable. Transportation of goods becomes easy.

OR

Ans. Personal selling is the tool of marketing mix which plays a persuasive, service, and informative role. Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. It is a personal form of communication. It helps in increasing the sales of businessmen in following ways:

1. Two-way communication: Personal selling is a two-way communication between the buyer and the salesman and the sales man can give the whole information to the buyer in most effective and efficient manner. The buyers have a chance to clarify their doubts about the product.

2. Personal interaction: Buyer and salesman have personal interaction with each other. In case, a customer has any objection, the salesman tries to meet the objections and removes the doubts which are raised. Salesman can be more expressive about the product.

3. Long lasting relationship: Through personal selling, a salesman not only sells his product but also wins the faith of the customer and the customer becomes permanent. It creates long lasting relationship between the buyer and the salesman which generates future benefits for company.

4. Better response: When salesman personally explains the utilities of product to the customer, the customer pays attention and listens to the information. Salesman gets good response from the customer which makes salesman more enthusiastic in performing his work.

30. Reena purchased one litre of pure Deshi Ghee from a shopkeeper. After using it she had a doubt that it is adulterated. She sent it for a laboratory test which confirmed that the Ghee is adulterated. State any six reliefs available to Reena, if the complaints and the consumer court is satisfied about the genuineness of the complaint.

OR

Prakhar purchases an ISI mark electric iron from 'Bharat Electricals'. While using he found that it was not working properly. He approached the seller and complained for the same. The seller satisfies Prakhar by saying that he will ask the manufacturer to replace this iron. The manufacturer refused to replace and Bharat Electricals decided to file a complaint in the consumer court.

Can 'Bharat Electricals' do this? Why? Also explain 'who is a consumer' as per Consumer Protection Act, 1986.

Ans. For the redressal of consumer grievances, the Consumer Protection Act, 1986 provides for setting up of a three-tier enforcement machinery namely District Forum, State Commission and National Commission. If the consumer court is satisfied about the genuineness of the complaint, then following are the six reliefs that are available to Reena:

(i) To remove the defect in goods or deficiency in service.
(ii) To refund the price paid for the product, or the charges paid for the service.
(iii) To replace the defective product with a new one, free from any defect.
(iv) To pay a reasonable compensation for any loss or injury suffered by the consumer due to the
negligence of the opposite party.
(v) To cease manufacture of hazardous goods and to desist from offering hazardous services.
(vi) To pay any amount (not less than 5% of the value of the defective goods or deficient services
provided), to be credited to the Consumer Welfare Fund or any other organization/person, to be
utilised in the prescribed manner.

OR

Under the Consumer Protection Act, 1986, the term consumer is defined as (a) one who buys goods
or hires services for consideration (b) any user of such goods with the approval of the buyer and
beneficiary of services which is availed of with the approval of the hirer of services and (c) any
one who uses goods bought or services hired exclusively for ensuring livelihood by self
employment.

Bharat Electricals being a retail outlet buys goods from wholesalers for ensuring livelihood and
hence as per definition (c) above, it can file a complaint in the consumer court.

Delhi Set-2 (Solved)

Questions which are not covered in Set-1 only are given here.

16. “Planning is an important function of management.” State any four reasons in favour of this
statement.

Ans. Planning is an important function of management. Its importance is as follows:

1. Planning reduces risk of uncertainty: Planning provides a roadmap for execution. Managers
take into account the relevant external and internal factors while formulating plans. This reduces
uncertainty and the risks associated with it.

2. Planning helps in coordination: All activities of an organisation are planned to achieve certain
goals and objectives. Planned programmes act as the basis for harmonising the efforts of different
divisions, departments, and people.

3. Planning facilitates decision making: It is an intellectual activity. Formulation of plans involves
collection of data, their analysis, identification of alternatives, and selecting the best alternative.
Thus, it facilitates decision making.

4. Planning leads to economy and efficiency: Planning helps in estimating the requirements of
manning, machines, materials, etc. It helps in avoiding needless efforts and wastage. In this way,
planning minimises costs through better utilisation of resources.

17. “There is a close and reciprocal relationship between planning and controlling.” Explain the
statement.

Ans. Planning is deciding in advance what is to be done, how, when and by whom. It involves formulating
plans to achieve goals and objectives. Controlling is a process by which manager assures that the
activities are performed according to the plan, and compares actual result with set standards and finds
out deviations. Controlling will be much easier when plans are more clearly defined. Without planning,
there is no basis for controlling activities. Without controlling, planned activities cannot be properly
implemented and there will not be improvement in future plans. It is often said that planning is looking
ahead while controlling is looking back. However, the statement is partially correct. Planning is guided
by past experiences but is done for future and is based on forecasts about future conditions. Controlling,
provides valuable information derived from past experience for future planning. Thus, Planning and
Controlling are both backward-looking as well as forward-looking functions. Both planning and
controlling are closely related to each other.

A-41
18. *Organisation is the harmonious adjustment of specialized parts for the accomplishment of some common purpose or purposes.* "In the light of this statement explain any four points of importance of organising.*

Ans. Organising can be defined as a process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploys resources for attainment of identified and desired results (goals). Importance of organising are:

1. **Optimum utilisation of resources**: Organising leads to clear cut distinction of various activities. It helps in avoiding duplication of efforts and overlapping of duties among various individuals and departments, which leads to optimum utilisation of resources.

2. **Clarification of authority and responsibility**: There is a clear definition of authority and responsibility associated with each job. Every person knows from whom he has to take orders and to whom he is accountable or answerable. It helps in reducing conflicts about powers and privileges of managers.

3. **Specialisation**: Organisation is based on the principle of division of work. Jobs are allocated to individuals according to their skills and qualifications which lead to specialisation.

4. **Growth and expansion**: Sound organisation structure serves as a framework in which an enterprise can expand and grow. Organisation structure also facilitates flexibility in structure when economic, social, and political changes occur in external environment.

19. *To promote orderly and healthy growth of securities market and protection of investors Securities and Exchange Board of India was set up.* With reference to this statement explain the objectives of Securities and Exchange Board of India.

Ans. Securities and Exchange Board of India was set up on 12 April 1988 to promote orderly and healthy growth of securities market and protection of investors. The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. This may be elaborated as follows:

1. To regulate the functioning of various stock exchanges in the country and to promote their orderly functioning.

2. To enforce a code of conduct and fair practices for intermediaries like brokers, merchant bankers, etc.

3. To protect the rights and interests of the investors and to guide and educate them.

4. To develop capital market so that the raising of funds becomes easier.

5. To promote fair dealings by preventing malpractices and insider trading.

20. *What is meant by 'Primary Market'? Explain any two methods of floating new issues in the Primary Market.*

Ans. Primary market is concerned with new issues. The primary market is the market in which a security is sold for the first time. It deals with the issue of new capital and is, therefore, known as 'new issues market'. Securities are directly issued to investors. Primary market facilitates capital formation by channelising public savings into productive investments in business and industry. Securities issued consist of shares, debentures, bonds, other securities, etc.

Two methods of floating new issues in primary market are:

1. **Rights Issue**: New shares are issued to existing shareholders of the company. The company offers them the right to buy new shares in proportion to the number of shares already held. Each shareholder is given the right to accept the offer for himself or assigns a part or all of his rights to some other person.
2. Offer for Sale: A company has an option to issue its new securities to intermediaries (or stockbrokers) at specified price. These intermediaries, in turn, resell the securities to the investing public.

24. Determining the overall cost of capital and the financial risk of the enterprise is affected by many factors. Explain any five such factors. [5]

Ans. Factors affecting capital and financial risk of the enterprise are:

1. Interest Coverage Ratio (ICR): It refers to the number of times earnings before interest and taxes of a company covers the interest obligation.

\[ ICR = \frac{EBIT}{Interest} \]

The higher the ratio, lower shall be risk of the company failing to meet its interest obligations. A firm may have a high EBIT but low cash balance.

2. Debt Service Coverage Ratio (DSCR): The cash profits generated by the operations are compared with the total cash required for the service of the debt and the preference share capital.

\[ DSCR = \frac{Profit \ after \ tax + Depreciation + Interest + Non-cash \ exp}{Pref. \ Div. + Interest + Repayment \ Obligation} \]

A higher DSCR indicates better ability to meet cash commitments and consequently, the company’s potential to increase debt component in its capital structure.

3. Cost of debt: When a firm is able to borrow at lower rates, it increases the capacity of to employ higher debt. Thus, more debt can be used if debt can be raised at a lower rate.

4. Tax rate: As interest is a tax deductible expense, cost of debt is affected by the tax rate. A higher tax rate, makes debt relatively cheaper and increases its attraction vis-a-vis equity.

5. Cost of equity: Investors have interest in rate of return of the company, financial risk faced by the equity shareholder increases with the increase in debt of the company. A company cannot use debt in its capital structure beyond a certain point. If debt is used beyond that point, cost of equity may increase and share price may go down inspite of increased EPS.

25. What is meant by Packaging? State any four functions of Packaging. [5]

Ans. Packaging means the activities which are concerned with designing and production of an appropriate wrapper, container etc. for a product. It is concerned with the determination of convenient size-lots in which product is to be sent to the market.

Functions of packaging are:

1. Protection: A good packaging protects the product from damage and deterioration during transportation, storage and use.

2. Easy Identification: Every producer has its own distinct packaging, different from others with respect to design, size, colour etc. This helps in easy identification of the product.

3. Higher sales: Packaging helps to increase sales and obtain high prices. A package has competitive value as it differentiates a product from its substitutes.

4. Branding: Packaging facilitates the branding of a product. The brand name and mark can easily be printed on the package.

5. Sales Promotion: Packaging acts as a silent but effective salesman at the point of purchase and stimulates impulsive buying.

Delhi Set-3 (Solved)

Questions which are not covered in Set-I and Set-II only are given here.

8. What is meant by 'Effectiveness' in management?
   Ans. Effectiveness means doing the right task, achieving the predetermined goals or ends irrespective of their cost. It is concerned with the end result.

9. What is meant by 'Universal applicability' of principles of management?
   Ans. Principles of management are applicable to all kinds of organisations, situations and activities.

10. What is meant by Fayol's principle of 'Esprit de corps'?
    Ans. It means team spirit or harmony in group effort and mutual understanding among employees.

    Ans. Placement means putting the selected candidates on right jobs. Every selected candidate is assigned a job most suitable for him.
    Orientation is a technique by which a new employee is introduced to his job, work groups, policies and practices of the organisation.
    Training involves improving job knowledge, skills and aptitudes of employees on a regular basis. On-the-job and Off-the-job methods are applied so that they can work effectively and efficiently.

12. Differentiate between 'Method' and 'Budget' as types of plans.
    Ans. Difference between Methods and Budgets are:

<table>
<thead>
<tr>
<th>Basis of Difference</th>
<th>Method</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>It refers to a plan which determines how different activities of the procedure should be conducted.</td>
<td>A budget is a planned estimated statement of expected results expressed in numerical terms.</td>
</tr>
<tr>
<td>2. Nature</td>
<td>It can be quantitative or qualitative depending upon the nature of task.</td>
<td>It is quantitative in nature.</td>
</tr>
<tr>
<td>3. Period</td>
<td>Methods are not periodic in nature. They are not for a particular time.</td>
<td>It is prepared for definite period of time in future.</td>
</tr>
</tbody>
</table>

    Ans. Business environment refers to aggregate of all forces, factors and institutions which are external to and beyond the control of a business enterprise and its management. Forces and factors in the environment refer to economic, social, political, technological conditions.
    Features of Business Environment:
    1. Dynamic Nature: Various factors such as economic changes, technological upadation, political and social changes, competition etc. make the business environment dynamic.
    2. Uncertainty: Various changes like technological changes or changes in fashion cannot be predicted with accuracy which make the business environment uncertain.

14. Differentiate between marketing and selling on any three bases.
    Ans. Difference between Marketing and Selling are:

A-44
<table>
<thead>
<tr>
<th>Basis of Difference</th>
<th>Marketing</th>
<th>Selling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>It refers to determining the requirements of potential customers and supplying the product which meet their requirement.</td>
<td>It means obtaining orders from customers and transferring of goods and services from producers to customers.</td>
</tr>
<tr>
<td>2. Objective</td>
<td>It aims at maximisation of customer's satisfaction.</td>
<td>It aims at maximisation of profits.</td>
</tr>
<tr>
<td>3. Focus</td>
<td>It focuses on needs of customers to supply goods according to these needs.</td>
<td>It focuses on needs of the seller to convert goods into money.</td>
</tr>
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</table>


Ans. Labelling means putting identification marks on package. It contains information about the product its contents, method of use, producer of product etc. It may be directly attached to the product. The purpose of labelling the product is to give consumer the information about the product he is buying.

Functions of labelling are:

1. Unique Identity: Labelling gives a unique identity to the product. It is easy to identify a product with distinct label.
2. Information: Labelling gives a brief information about the product to traders and consumers. It gives directions and instructions regarding how to use the product.
3. Promotion: Labelling helps in promotion of the product. A good labelling attracts customers towards the product and stimulates purchases.
4. Price: Labelling can be used to highlight the price of the product. The retailer would not be able to charge different prices from different customers.

22. “Co-ordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of a common purpose.” In the light of this statement explain the nature of coordination. [5]

Ans. Coordination is orderly arrangement of group efforts to provide unity of action in the pursuit of a common purpose. Every enterprise is divided into a number of departments and each department has a number of groups and individuals. Synchronisation of group efforts is necessary for the achievement of goals and objectives of the organisation.

Nature of Coordination:

1. Pervasive in nature: Coordination is required at all levels of management. It is needed in all departments. It is the responsibility of managers at all levels to coordinate with other departments.
2. Unity of efforts: Coordination leads to unity of efforts towards the organisational objectives.
3. Integration of group efforts: It is orderly arrangement of group efforts to provide unity of action. It leads to integration of all activities in an organisation.
4. Continuous process: Coordination is not a one-time function but a continuous process. It begins at the planning stage and continues till controlling.
5. Deliberate function: A manager has to coordinate the efforts of different people in a conscious and deliberate manner. Even where members of a department willingly cooperate and work, coordination gives a direction to that willing spirit.
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5. **Deliberate function**: A manager has to coordinate the efforts of different people in a conscious and deliberate manner. Even where members of a department willingly cooperate and work, coordination gives a direction to that willing spirit.
2. More demanding customers: As the customers are now more informed, their demands have increased. Increased competition in the market gives the customers wide choice in purchasing better quality of goods and services.

12. Differentiate between 'Objective' and 'Strategy' as types of plans.

Ans. Difference between Objectives and Strategy:

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<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (a) Objectives are the specifications of the end results a company wants to achieve.</td>
<td>Strategies are comprehensive plans, formulated, taking into consideration. external and internal factors, for achieving organizational objectives.</td>
</tr>
<tr>
<td>(b) Objectives specify what an organization aims to achieve.</td>
<td>(b) Strategies specify how an organization should achieve its aims, in the light of its objectives.</td>
</tr>
<tr>
<td>of external and internal factors.</td>
<td>Strategies are neither expressed nor measurable in quantitative terms.</td>
</tr>
<tr>
<td>2. Objectives can be expressed and measured in quantitative terms.</td>
<td>Strategies are formulated for a longer time horizon, generally 3-5 years.</td>
</tr>
<tr>
<td>3. Objectives are specified for shorter time periods, generally a year.</td>
<td></td>
</tr>
<tr>
<td>These need to be reviewed within shorter time periods.</td>
<td></td>
</tr>
</tbody>
</table>

13. External sources of recruitment are considered better than internal sources. Give any three reasons in support of this statement.

Ans. External sources of recruitment are considered better than internal sources because of following reasons:

1. Wider choice: There are large number of applicants, so the enterprise has a wider choice during the selection of persons with necessary qualification and experience.
2. Competition: Internal candidates compete with outside candidates for the vacancies. They work harder to produce better performance.
3. Qualified personnel: The management can stimulate qualified and trained people to apply for vacant jobs in the organisation.

14. Explain any three qualities of a good leader.

Ans. Three qualities of a good leader are:

1. Intelligence: Manager should have mental ability to think scientifically and analyse problems accurately. He should be able to interpret clearly and concisely the problems.
2. Self-confidence: A good leader must be self-confident in himself. Manager should have confidence while making decisions and formulating plans.
3. Motivation drive: Manager should be capable enough to motivate his subordinates. Managers should be able to initiate suitable action at proper time.

15. Explain the role of marketing in a firm.

Ans. Role of marketing in a firm can be discussed as follows:

1. Source of revenue: Marketing generates revenue for a firm. A firm will not be able to survive if it cannot market its products well. Through marketing, people come to know about the product. It persuades the buyer to buy the product.
2. Customer satisfaction: Marketing focuses on customer satisfaction. It focuses on the needs of
buyers. From the marketing information regarding tastes, colours, choices, preferences of customers can be known.

3. Employment: Marketing generates employment for many people. As the goods produced by manufacturer is to be sold in the market, it has to reach the customers at the right time and right place. Many people are required to transfer the goods to customers, so it generates employment.

4. Creation of utility: Marketing makes goods and services easily available to customers at the right time and right place, it adds value to the company. When customers are satisfied company is able to generate goodwill.

17. "Organisation is the harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes." In the light of this statement explain any four points of importance of organising. [4]

Ans. Importance of organising are can be expressed as follows:

1. Coordination and cooperation: The organisation structure serves as a mechanism for unifying and harmonising the efforts of individuals for accomplishment of some common purposes. As, organising gives clear cut definition of authority and responsibility, there is no confusion among individuals regarding accountability.

2. Specialisation: During organising, work is divided and sub-divided according to qualification, skills, specialisation; similar jobs are grouped together into departments, which leads to specialisation which in turn helps in the effective and efficient functioning of the organisation.

3. Growth and diversification: Organising provides framework within which an organisation can expand and grow. A good and sound organisation can diversify its activities and increase its capacity to work.

4. Optimum utilisation of resources: An enterprise with a sound organisation can utilise its resources fully. As there is proper coordination and cooperation between different departments, there is less wastage of resources. Organisation helps in avoiding duplication of work and overlapping of responsibilities.

20. "Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions." Explain any four such functions. [4]

Ans. Four important functions of financial market are:

1. Capital formation: Financial market channelises the savings of the public. It offers the savers different kinds of investments. Financial market invests their savings in various financial assets or instruments and helps in generating income and capital appreciation. This leads to capital formation.

2. Liquidity: A financial market provides a ready market for the sale and purchase of financial assets. Investors may invest their savings in long-term investment which can be easily sold out in the market.

3. Low transaction cost: In financial market, there are many buyers and sellers of the securities. Securities can be easily sold through brokers and other intermediaries, there is no need to search for sellers or buyers and this reduces the cost of transaction.

4. Pricing of securities: The forces of demand and supply of various financial instruments determine the prices of the instruments.

21. "Management is a profession like medical or legal profession." Do you agree with this statement? Give any five reasons in support of your answer. [5]
Ans. Yes, I agree that management is a profession like medical or legal profession as profession is a well organised and systematized body of knowledge with certain goals.

Following are the reasons:

1. Systematized body of knowledge: Medical or legal profession is based on a well established body of knowledge and have specialization in their area. Management is also like this. In order to manage the organisation, individuals require specialized knowledge of principles and theories of management. Several books and journals on different aspects of management have been published.

2. Ethical code: In medical or legal profession, some ethical standards are there and every individual professional is expected to maintain conformity with these standards. All India Management Association has prescribed a code of conduct for managers. But this code of conduct is not legally binding.

3. Formal education and training: In medical or legal profession, there are institutions which provide education and training to their students. In management also, there are several institutes and schools which have been established to offer education and training in related fields.

4. Service motive: Like a doctor earns his income from his medical practice, a manager also gets paid for his services and is responsible towards employees, customers and community.

5. Professional Association: In medical and legal profession there is an association or institution which regulates entry in the profession and grants certificates of practice for example, in management, there is the All India Management Association (AIMA).

22. Explain Fayol's principles of 'equity' and 'order' with examples.

Ans. Fayol's principles of 'equity' and 'order':

1. Principle of equity: This principle is concerned with fair and impartial dealing with subordinates. Managers should not do any partiality with their subordinates at the same level. They should not give undue favours to one and neglect the others. There should not be any discrimination on the basis of caste, colour, religion or gender. Equity is important among the managers and subordinates.

   Giving punishment to a staff for coming late and not to others or paying a staff less than his peers at the same level, can be considered as examples of violation of Principle of Equity.

2. Principle of order: This principle is concerned with arrangement of things and placement of people at right places. Arrangement of things is called material order, while placement of people is called social order. Material order means that there must be proper place for each and everything in an organisation. Social order means recruiting and placing employees and individuals at right work place according to their specialisation and skills.

   For example, the head of production department may be allotted an office, the foreman, supervisor, worker and a typist, a particular table. Similarly, a box of loose tools and all spare parts can be put in a tool box. Order avoids wastage of time.

23. Explain in brief the various steps involved in the process of staffing.

Ans. Various steps involved in the process of staffing are:

1. Manpower planning: It means estimating the quality and quantity of employees required by an organisation. Requirement may be for future period or current period keeping in view plans and objectives of an enterprise.

2. Recruitment: It implies identifying appropriate internal or external sources for the selection of candidates and stimulating the candidates to apply for jobs in the organization.

3. Selection: It means choosing the most suitable person out of all the applicants for a particular post.
It involves comparison of candidates, their qualification and experience with the requirements of jobs.

4. Placement: It means placing the selected candidates on right jobs. An appropriate job is assigned to each selected candidate.

5. Orientation: It is a process of introducing and familiarising newly appointed candidates with their jobs, work groups and policies and practices of the organisation as this reduces their anxiety.

6. Training and development: Training is given to new employees so that they can increase their knowledge and skills for doing their jobs. This includes on-the-job and off the job training.

7. Performance appraisal: There is periodic measurement and assessment of behaviour and performance of employees at work inorder to determine the extent to which they are able to fulfill the demands of their jobs.

8. Compensation: It refers to the determination of the amount and form of remuneration payable to each employee.

9. Promotion and transfer: Promoting an employee means to place an employee at a higher level in the organization structure with more pay, job satisfaction and responsibility. Transfer means placing an employee at a different location with or without promotion.

10. Separation: Organization should plan for separation of employees due to retirement, resignation or termination.


Ans. Packaging refers to the process of producing appropriate packages for a product. A package may be a case, container, wrap, or any other material in which goods are packed. Packaging of a product reduces the risk of spoilage, breakage, leakage during storage and transportation of goods. A package is like a silent salesman in self-service stores.

Functions of Packaging are:
1. Protection of the product: Well packaged goods are protected from damage and deterioration during transportation and storage.
2. Gives identity: Packaging helps in identifying the product by nature and content. If a product is packed in proper way labelling can be done.
3. Increases resale value: Packaging of the product has resale value for the customers. Tins of Dalda, Rath, etc. are often reused. Empty packages can be sold out by customers.
4. Increases sales value and obtains higher prices:
   - A package has competitive value as it differentiates a product from its substitutes. It acts as a silent salesman. It stimulates the customers to buy the product and increases sales value and obtains higher prices.

26. What is meant by ‘Divisional Structure’ of an organisation? For which type of business enterprises is this structure most suitable? State any four advantages of this form of organisational structure. [6]

OR

What is meant by ‘Informal organisation’? State any three advantages and any two disadvantages of this form of organisation. [6]

Ans. Divisional structure: Large organizations producing different types of products find it beneficial to group their activities on the basis of products. Such grouping of activities under different product heads, gives rise to divisional structure of organization.
Advantages of divisional structure:

1. **Product Specialization**: Since activities are grouped under separate product heads, the organization is able to specialize in each type of product.

2. **Expansion and Growth**: The organization can add new product departments to its existing structure, without disturbing its existing structure.

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Informal organisation:

An informal organisation is a network of personal and social relationships among persons working together in an organisation. It originates within the formal organisation to meet the cultural and social needs of members. These are not governed by formal rules and regulations. People working in different departments of the same organisation having common interests may form an informal group.

Three advantages of informal organisations are:

1. **Speedy Communication**: Management can make use of an informal organisation for speedy communication. The information can be easily transmitted in an informal organisation.

2. **Fulfills Social Needs**: Informal organisation fulfills social needs of employees and such needs are not satisfied by the formal organisation. It satisfies the social needs of workers to mix with each other and share feelings and gives psychological satisfaction to the members.

3. **Complements Formal Organisation**: Informal organisation supports the formal organisation. Through informal communication staff can discuss various official matters relating to them. Processes in a formal organisation take time but issues can easily be resolved through informal channel and each and every matter need not be taken up in the formal channel.

Two disadvantages of informal organisations:

1. **Inaccurate**: Informal communication often carries inaccurate, incomplete and distorted information. There might be rumours in the enterprise.

2. **Politics in Organisation**: In informal organisation, leaders may play politics and create hurdles in operations and activities of an organisation which may lead to wastage of time and spoil the work atmosphere.

27. Explain any four non-financial incentives.

OR

Explain any four psychological barriers to communication.
Ans. Four non-financial incentives are:

1. Recognition: When employees perform well, managers should acknowledge their performance appropriately so as to boost the morale of the employees.
2. Job security: Employees prefer security of job. Job security is the first priority of an employee rather than higher wages and salaries with no security.
3. Participation in decision making: Participation of employees in management decision making helps to integrate individual and organisational goals. Participation increases the commitment and loyalty of the workers to the organisation.
4. Empowerment of employees: Employees, when given freedom to work, get motivated for better performance and are able to be more creative or innovative in their approach.

OR

Ans. Four psychological barriers of communication are:

1. Screening or filtering of information: The information may be screened or filtered by the sender in order to pass only such information which is favourable to the receiver as no one likes to show his mistakes to someone else.
2. Lack of trust: If there is a communication gap between the communicator and the receiver, the receiver may lose the trust in the sender of the message. As the sender is not able to communicate the message properly, the receiver may not take it seriously because of inconsistency of message and incredibility of source.
3. Poor retention of message: A human being cannot remember all the things, his memory is quite short, most of the people don’t remember the message received and forget to pass on the message received for the benefit of others.
4. Lack of attention: Verbal communication has no impact on those who are unwilling to listen. If people are not interested in listening to the message they will not be able to receive the message they are supposed to; this may frustrate and irritate the sender.

28. You are a Finance Manager of a newly established company. The Directors have asked you to determine the amount of Fixed Capital requirement for the company. Explain any four factors that you will consider while determining the Fixed Capital requirement for the company.

Ans. Four factors affecting the fixed capital requirement are:

1. Nature of business: A manufacturing enterprise needs plant and machinery where as a trading firm does not. There may be need for investment of large amount of capital. Thus, the amount of fixed capital depends upon the nature and character of business.
2. Techniques of production: A company using automatic machinery needs more fixed capital than other firms of same size using manually operated machines. Changes in technology leads to heavy investment of capital.
3. Scale of operations: A large scale enterprise needs more fixed capital than a small firm. So, there is a need of huge investment in various fixed assets like land and building, plant and machinery.
4. Kinds of goods produced: Requirement of capital goods depend upon the kinds of goods produced for example, a firm producing heavy goods will require more fixed capital than a firm producing light goods.
Outside Delhi Set-2 (Solved)

Questions which are not covered in Set-I only are given here.


Ans. Limitations of planning are:
   1. Limited Flexibility: As planning is done in advance, it might lead to inflexibility or rigidity by compelling the managers to conform to the plans. It implies prior determination of policies, procedures and programmes and strict adherence to them under all circumstances. It may promote red tape and lead to delay in work.
   2. Inaccuracy: As planning is based on information and forecasts of economic trends, so planning may not be accurate and problem may arise because of lack of accurate information and facts relating to future.
   3. Time consuming: It is a lengthy process, which might lead to delay in action. It takes a lot of time in defining objectives, collection of data, analysis of data and choice of alternatives.
   4. Based on external factors: Planning is based on external factors like government policies, natural calamities, taste and fashion of customers, technology etc. Several external factors can be beyond the estimation or control of the management.

17. “Controlling is a systematic process involving a series of steps.” State the steps involved in the process.  [4]

Ans. Steps in the process of control are:
   1. Setting standards of performance: The first step of the process of control is establishment of standards. A standard is a benchmark with which the actual results can be compared. It should be fixed and stated in measurable terms.
   2. Measurement of actual performance: Actual performance should be measured in same terms in which standards have been established. It will facilitate comparison.
   3. Comparing actual performance with standard: This step involves appraisal of performance, i.e., comparison of actual performance with the standard. This step helps in finding out deviations from standard. All the deviations are found out by comparison.
   4. Analysing deviations: Deviation refers to the differences between actual performance and planned or standard performance and may be positive or negative. Once the nature and magnitude of deviations are ascertained, the causes of deviations should be identified. This is necessary for taking appropriate corrective actions. Management should determine the Key Result Areas which are critical to the success of organisation.
   5. Taking corrective actions: The final step in the process of control is taking corrective actions, if there are deviations. It may involve changes in plans, standards, policies. The process of controlling is incomplete until remedial actions are taken to prevent deviations in future.

18. “Organising is the process of defining and grouping the activities of the enterprise and establishing the authority relationship among them.” In the light of this statement explain the steps in the process of organising.  [4]

Ans. Steps in the process of organising:
   1. Identification and division of work: The first step is to identify and divide the work into major functional activities and each such functional activity is further divided into different jobs. Division of work is necessary because each work cannot be performed by a single individual, so work is divided on the basis of skills and specialisation. It increases efficiency of the firm.
   2. Grouping jobs or activities: The next step is to classify or group them into similar or related activities into larger units called departments, divisions or sections. This process of grouping
Outside Delhi Set-2 (Solved)

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2. Grouping jobs or activities: The next step is to classify or group them into similar or related activities into larger units called departments, divisions or sections. This process of grouping
activities is called departmentation. Departmentation can be done on functional basis, process basis, customer basis and geographical basis. The choice of departmentation would depend upon the nature, objectives and size of the enterprise.

3. Assigning duties: After classifying and grouping of organisational activities into various jobs, they are assigned to different employees according to their qualification, skills, experience. Assigning duties enables employees entrusting with specific responsibilities.

4. Establishing authority and responsibility relationship: There should be a clear-cut definition of authority and responsibility associated with each job. Every person should know his or her responsibility and to whom he or she is accountable or answerable for the performance of work assigned.

5. Coordination of activities: Coordination in the working of different departments and individuals is necessary for teamwork and efficient and effective performance.


Ans. Financial market is the market which directs the flow of funds into investments. It has two major segments: capital market and money market.

Functions of financial market are:

1. Mobilisation of savings: It channelises the savings of people. It helps them to invest their savings in various financial assets and instruments and helps in generating income and capital appreciation. Financial market channelises the savings into most productive uses.

2. Liquidity of financial assets: Financial market provides a ready market for sale and purchase of financial assets. The investors can invest their savings into long term investment which can be easily sold in the market.

24. How are the shareholders likely to gain with loan components in capital employed? Explain with suitable example. [5]

Ans. Consider the following example:

<table>
<thead>
<tr>
<th>Company X Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Funds used</strong></td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
</tr>
<tr>
<td><strong>Tax rate</strong></td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
</tr>
<tr>
<td><strong>Debt</strong></td>
</tr>
<tr>
<td><strong>Situation I</strong></td>
</tr>
<tr>
<td><strong>Situation II</strong></td>
</tr>
<tr>
<td><strong>Situation III</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Situation I</th>
<th>Situation II</th>
<th>Situation III</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>4,00,000</td>
<td>4,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: Interest on debt</td>
<td>Nil</td>
<td>1,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>EBT</td>
<td>4,00,000</td>
<td>3,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Less: Tax @ 30%</td>
<td>1,20,000</td>
<td>90,000</td>
<td>60,000</td>
</tr>
<tr>
<td>EAT</td>
<td>2,80,000</td>
<td>2,10,000</td>
<td>1,40,000</td>
</tr>
<tr>
<td>No. of shares @ 10 each</td>
<td>3,00,000</td>
<td>2,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>EPS</td>
<td>₹ 0.93</td>
<td>₹ 1.05</td>
<td>₹ 1.4</td>
</tr>
</tbody>
</table>

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As capital structure consists of debt and equity capital both, the company earns ₹ 0.93 per share if it is unlevered. With debt of ₹ 10 lakh its EPS is ₹ 1.05 with a still higher debt of ₹ 20 lakh its EPS rises to ₹ 1.4. It is because the cost of debt is lower than the return that company is earning on funds employed. The return on investment is \( \left( \frac{₹ 4 \text{lakh}}{₹ 30 \text{lakh}} \times 100 \right) = 13.33\% \).

This is higher than the 10% interest on debt. With higher use of debt funds, this difference between ROI and cost of debt increase the EPS. So, a company employing more debt can enhance the EPS, which refers to increase in profit earned by the equity shareholders due to presence of fixed financial charges like interest as it is a tax deductible expense.

**Outside Delhi Set-3 (Solved)**

*All questions of Set III are covered in Set I and Set II of Delhi and Outside Delhi.*