

Business Studies 2019
Delhi - Set-1

General Instructions:

- (i) This question-paper contains **five** Sections – A, B, C, D and E.
 - (ii) Section – A contains questions **1** to **8** carrying **one** mark each. Answer to these questions may be given in **one** word or a sentence.
 - (iii) Section – B contains questions **9** to **13** carrying **three** marks each, answers to these questions may be in **50** to **75** words.
 - (iv) Section – C contains questions **14** to **19** carrying **four** marks each. Answers to these questions may be in about **120** words.
 - (v) Section – D contains questions **20** to **22** carrying **five** marks each. Answers to these questions may be in about **150** words.
 - (vi) Section – E contains questions **23** to **25** carrying **six** marks each. Answer to these questions may be in about **200** words.
 - (vii) There is no over-all choice in the question paper, however an internal choice has been provided in **3** questions of **one** mark, **2** questions of **three** marks **2** questions of **four** marks, **1** question of **five** marks and **1** question of **six** marks. You have to attempt only **one** of the choices in such questions.
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Question 1

Define 'Workforce Analysis'.

OR

Define Selection'.

SOLUTION:

A workforce analysis refers to an estimation of the existing personnel in the organisation.

OR

The process of **choosing the right candidate** out of the gathered pool developed at the time of recruitment is known as selection.

Question 2

Appliances India Ltd. is engaged in manufacturing and distribution of home appliances since 1987. It has a good name in the market as the company is producing good quality appliances. It has separate departments for manufacturing, finance, sales maintenance services and technical services to achieve specialization.

Since the areas of operations of the company have increased and customers have become more demanding, the company decided to modify the existing principle of management to meet the changing requirements of the environment.

State the general principle of management which the company wants to modify to meet the changing requirements.

SOLUTION:

The principle of management that the company wants to modify is 'division of work'.

Question 3

How does Financial Market facilitate 'Price Discovery' of financial assets?

SOLUTION:

In financial markets, there are two players i.e. the households and the business firms. Here the households act as the suppliers of funds and the business firms make the demand. Now, we know that the price is determined when demand meets supply, so in such markets as well, wherever the demand meets supply, the price for that financial asset that is being traded in that market is determined.

Question 4

Biru Nandan, Chairman of Lalit group of companies founded 'Biru University' for undergraduate and postgraduate courses in diverse disciplines. The Information Technology department of the 'Lalit Power Ltd.', had few vacancies related to Cyber Security. The Human Resource Department of the Company decided to recruit fresh engineering graduates from 'Biru University' for the same. Identify the type of source of recruitment.

SOLUTION:

The source of recruitment that is being used is 'Campus Recruitment'.

Question 5

Varsha Jain after completing her fashion designing course from Indian Institute of Fashion Technology planned to enter into designer clothing venture. She had to address issues like her target customers, channel of distribution to be used, pricing policy etc. identify the type of plan that Varsha Jain needs to develop to provide direction and scope to her organization in the long run.

SOLUTION:

The type of plan that Varsha Jain should use is the strategy.

Question 6

State any two 'Developmental Functions' of Securities and Exchange Board of India.

OR

What is meant by 'Allocative Function' of Financial Markets?

SOLUTION:

Two developmental functions of SEBI are as follows:

Training- Provides training and development to the intermediaries of the securities market so as to promote healthy growth of the secondary market.

Research- Conducts research in the important areas of the securities market so as to help investors and other market players make wise investment decisions.

OR

An important function of the financial market is known as the 'allocative function'. A financial market acts as a link between the savers and the investors. It provides a platform for the mobilisation of savings from the households to the investors. Thus, it allocates funds from households to investors.

Question 7

Beena has been using 'Klean', a famous detergent available in the market. On watching numerous advertisements in the television, she decided to try a new brand of detergent. When she went to the near-by store to purchase the same, she saw detergents of other producers making similar claims of whiteness and stain removing abilities. Hence she could not make up her mind as which detergent to purchase.

Name the objection of advertising being discussed in this case.

SOLUTION:

The objection of advertising that is being discussed in the question is that advertising 'confuses the buyers' by making similar claims.

Question 8

Give the meaning of 'Physical Distribution' as an element of Marketing Mix.

OR

What is meant by 'Marketing Management'?

SOLUTION:

Physical distribution refers to the process of making the goods and services available at the right place and at the right time so that the consumers can easily purchase the goods without any delay. It involves deciding the channels of distribution through which the products would be moved from the place of production to the place of consumption.

OR

According to *American Management Association*, marketing management is defined as 'the process of planning and executing the conception, pricing, promotion and

distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goals'. Activities involved in marketing management comprise planning, organising, directing and controlling.

Question 9

JTM Ltd. launched 'Buddyline', an exercise book and comprehensive stationery brand name comprising of ball pens, gel pens and geometry boxes after identifying the target market and understanding the needs and wants of the consumers of that market. All their products were of good quality and eco-friendly but expensive. They wanted to distinguish their products from that of their competitors. They spent lot of efforts, time and money in creating the brand name, as they knew that without a brand name, they can only create awareness for the generic products and can never be sure of the sale of their products. The effort paid off and the demand for the products started growing. The customers liked the brand and became habitual to it. They did not mind paying a higher price. Over a period of time, it became a status symbol to buy 'Buddyline' brand because of its quality. The consumers felt pride in using them.

- (i) Identify the marketing management philosophy followed by JTM Ltd.
- (ii) Explain the advantages of branding to the marketeers highlighted in the above case

SOLUTION:

a. The marketing management philosophy that is being followed by JTM Ltd. is 'Societal Marketing Concept'. This is because it not only identified the needs and wants of the consumers but also delivered a good quality and eco-friendly product.

b. The following advantages of branding are being discussed:

1. Branding enables a firm to clearly **distinguish its product from the product of other firms**.

2. Branding enables consumers to clearly **distinguish the product from various other available products**.

Consumers see a good brand as a mark of authenticity and genuinity.

3. Good branding helps in creating loyalty and **habituality for product** among the customers. The firm can take advantage of this and **charge a different price** (generally a higher price) for its product. Also, a good brand name helps in providing an initial boost to the demand of the new product.

4. Established and famous brands act as **status symbols** for the consumers, thereby providing them psychological and social benefits.

Question 10

Mita has a successful ice cream business at Bikaner, namely "Smart flavours' ice creams are utterly delicious. She makes ice creams from fresh milk and the same are available in a wide range of flavours and packs. She sets viable business objectives and

works with the same in mind in order to ensure that the customers will come back for purchasing.

Having the first mover advantage, her business was doing well. To earn higher profits, she started cutting costs. This would sometimes lead to delay in delivery and the ice cream was not reaching the market in time. Over a period of time, the demand for her ice cream declined and because of it the competitors entered the market. She lost some of her market share to competitors.

At the beginning of summer season, she got back to back order for supply of 4,000 ice cream packs of different flavours for special occasions. To ensure that the task was completed and orders delivered in time she hired additional workers. She was, thus able to produce and deliver the ice cream packs but at a high production cost. While completing activities and finishing the given task for achieving goals, Mita realized that she was ignoring one of the important aspects of management.

Identify the aspects of management that has been ignored by Mita. Also explain the same with the help of an example.

SOLUTION:

The aspect of management that is being ignored is 'efficiency'. This is because efficiency involves completing the task with the minimum possible cost and resources. Here as she was required to hire more workers to complete the task on time, she ignored the aspect of efficiency and only focused on effectiveness.

For example, if more workers are hired \Rightarrow task gets completed on time \Rightarrow then this is effective, but if more workers are hired \Rightarrow and cost increases in the form of increased salary \Rightarrow then it is not efficient. Similarly, if a task is carried out with the same number of workers \Rightarrow Less cost \Rightarrow then it is efficient, but if the task is carried out with the same number of workers \Rightarrow and there is a delay in completion of work \Rightarrow then it is not effective.

Question 11

State 'Job Enrichment' and 'Employee Participation' as non-financial incentives. How do they motivate employees?

SOLUTION:

The non-financial incentives are:

Job Enrichment- Job enrichment refers to the process of designing jobs in a manner that it involves more variety of work content, higher level of skills and knowledge, giving more authority to employees, etc. Endowing the employee with such challenging work and greater responsibility that requires higher knowledge and skill will motivate them to work efficiently and effectively to complete the goals of the organisation.

Employee Participation- As per this incentive, allowing more participation of employees in policy and decision-making matters acts as an important non-financial

incentive as it allows them to feel a part of the organisation through joint management committees, work committees, etc.

Question 12

Give the meaning of Financial Management. State its main objective.

OR

State any three points of importance of financial planning.

SOLUTION:

Financial management refers to the efficient acquisition, allocation and usage of funds by the company. It is carried out with the primary aim of reducing the cost of the funds that are procured, minimising the risk and effective distribution of funds to different opportunities.

The primary objective of financial management is 'Wealth maximisation' which refers to taking those financial decisions that aim at maximising the shareholders' wealth. That is, to opt for those financial decisions that proves gainful from the point of view of its shareholders. Herein, the shareholders are said to gain when the market value of the shares held by them rises, which in turn takes place when the benefits from the financial decisions made by the company exceeds the cost involved. When the financial decisions successfully fulfil the objective of wealth maximisation, other objectives such as proper utilisation of funds, maintenance of liquidity, maximisation of profits and meeting financial obligations are automatically fulfilled.

OR

Financial planning plays a crucial role in the success of an organisation. Its importance can be highlighted from the following factors:

1. Helps in facing eventual situations: Financial planning helps in forecasting future situations. In this way, it prepares an organisation to cope with adverse situations in a better manner.

2. Helps in avoiding surprises and shocks: Through financial planning, an organisation can detect situations of shortage or surplus of funds that may arise in future. Therefore, it prepares the managers in advance for such situations.

3. Improves coordination: Through financial planning, various business activities such as sales and production are coordinated in a better manner. Such coordination ensures smooth functioning of the business.

Question 13

'Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' In the light of this statement, describe management a science.

OR

Management is a complex activity that has three main dimensions. Explain these dimensions.

SOLUTION:

'Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' The features which describe management as science are:

- 1. Systematic body of knowledge:** Management has its own body of theories and principles that were developed over the years. In addition, it has its own vocabulary.
- 2. Theories based on experimentation:** The principles of management have developed over the years based on repeated observations and experiments. However, as management deals with human behavior, no exact cause-and-effect relationship can be established.
- 3. Universal validity:** Theories and principles of management are valid universally to a great extent. They can be used to impart basic knowledge and managerial skills to budding managers.

OR

Management is a complex activity that has three main dimensions. The following are the three main dimensions of management:

- 1. Managing the work:** With management, the work of an organisation is interpreted in terms of the objectives and goals achieved owing to the work. Management also specifies the guidelines regarding how these objectives can be achieved.
- 2. Managing the people:** Managing the people implies dealing with the employees both as individuals and as a group such that their strengths are utilised and their weaknesses are identified.
- 3. Managing the operations:** The production process where the inputs are transformed into a product or a service requires continuous management in order to ensure the utilisation of the resources efficiently and effectively.

Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical fertilizers free vegetables. They conducted a survey to find out consumer preferences for such vegetables.

They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found that 90% of the households were searching for its alternatives. The company contacted a group of agriculture experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimensions of business environment highlighted in the above para.

SOLUTION:

The two dimensions of business environment that is being highlighted in the given case are as follows:

- a. Technological environment- The technological environment comprises the technological improvements that provide new business opportunities for enterprises. In the given situation, the new technique to grow chemical fertilizers relates to the technological dimension of the business environment.
- b. Social environment- The social environment comprises of factors such as beliefs, traditions, social trends, etc. that affect the demand for goods in the society. Here in the question since, consumers were concerned about the harmful chemicals being used and were looking for other alternatives, so this relates to the social environment of the business.

Question 15

Mega Ltd. holds an Annual Management Programme every year in the month of March in which the top managerial personnel formulate plans for the next year by analyzing and predicting the future to meet future events effectively.

As they are responsible for providing direction to the organization, facts are thoroughly checked using scientific calculations. Detailed plans are prepared after discussion with professional experts. Preliminary investigations are also undertaken to find out the viability of the plan. Since it is an intellectual activity requiring intelligent imagination and sound judgement so it is mainly done by the top management. Usually rest of the members just implement the plans. Middle level managers are neither allowed to deviate from the plans nor are they permitted to act on their own. The top management ensures that the expenses incurred in formulating the plans justify the benefits derived from them.

State any two limitations and any two features of planning discussed above.

SOLUTION:

The features of planning which are discussed in the given situation are:

- (1) Planning is a mental exercise** - "Since it is an intellectual activity requiring intelligent imagination and sound judgement so it is mainly done by top management". It requires application of mind and sound judgement. Since planning defines what is to be done in future, it requires sound thinking rather than doing.
- (2) Planning is futuristic** - "The top management formulate plans for the next year by analyzing and predicting the future to meet future events effectively". Planning is futuristic in the sense that it foresees the future, thereby helping to prepare for uncertain future events.

Limitations

(1) Planning reduces creativity - "Middle level managers are neither allowed to deviate from the plans nor are they permitted to act on their own". Plans are made by only the top management, and the lower levels of management are not allowed to deviate from the pre-defined course. Thus, in the process, lower level managers tend to lose their creativity.

(2) Planning involves huge costs - "The top management ensures that the expenses incurred in formulating the plans justify the benefits derived from them". As planning is based on future predictions, it requires much thought, analysis, scientific calculations, etc., which are to be used for formulating a course of action. This involves high costs.

Question 16

Vinber Ltd. set up a manufacturing unit at Bhiwadi in Himachal Pradesh to manufacture electric geysers and supply them to dealers all over the country. Their production target was 500 geysers per week. It was decided by the management that variation in production upto 10 units would be acceptable.

At the end of the first week, the production was 450 geysers. The next week, production increased to 470 geysers. A week later, production was 460 geysers. On investigation, it was found that fluctuation in production was due to irregular supply of electricity.

(a) The above para discusses some of the steps in the process of one of the functions of management. Explain these steps.

(b) Also, state the step(s) that have not been discussed in the above para.

SOLUTION:

a. The steps in the controlling process that are being followed are as follows:

i) **Setting standards:** The first step in the process of controlling is to develop the standards or benchmarks for performance as against which the actual performance would be measured. The standards can be set in both qualitative and quantitative terms.

Line: 'Their production target was 500 geysers per week'

ii) **Measuring actual performance:** Once the performance standards are set, the next step is to measure the actual performance. This may be done through various techniques such as personal observation and performance reports. Performance can be evaluated after the completion of an activity as well as while it is in progress.

Line: 'At the end of the first week, the production was 450 geysers and a week later, it was 470 geysers'

iii) **Comparing the performances:** Performances once measured are then compared with the set standards. Such a comparison helps in assessing the deviations in performance. In regard to this, comparisons in quantitative terms are much easier than in qualitative terms.

Line: 'On investigation, fluctuations was...'

iv) **Analysing deviations:** Every organisation faces deviations in the actual performance as against the pre-defined standards. It is important for managers to find

the deviations that are beyond the permissible range. Once the deviations are recognised, it is necessary to identify the cause for it. There can be a number of factors *causing deviations in* performance such as infeasible standards, deficiencies in process, under-utilisation of resources and changes in business environment.

Line: 'On investigation, it was found that fluctuations in production was due to irregular supply of electricity'

b. The step which was missing is: **Taking Corrective measures**. When deviations go beyond the admissible limits, there arises a need for the manager to take corrective actions. This is the final step in the controlling process which aims at correcting the deficiencies of the organisation so that such deviations do not occur again. Since, nothing has been mentioned about the corrective actions so the missing step is the last step of corrective actions.

Question 17

Organising involves a series of steps that need to be taken in order to achieve the desired goal. Explain these steps.

OR

Explain any four points of importance of 'Organising'

SOLUTION:

The following steps are involved in the process of organising:

1. **Identifying and dividing the work:** As a first step, various activities in the organisation are identified and divided as per the pre-defined plans and objectives.
2. **Creating departments:** Next, the activities of a similar nature are grouped together in different departments. This is done to promote specialisation.
3. **Assigning duties:** Once, the departments are created, the next step is to assign the roles and responsibilities to the personnel as per their skills and abilities.
4. **Establishing relationships:** In this step, a clear hierarchical structure is established such that every individual clearly knows the various superior-subordinate relationships in the organisation.

OR

The following points highlight the importance of organising:

1. **Clear definition of working relationships:** Under organising, the hierarchical structure in the organisation is clearly established, thereby avoiding any ambiguity in the transfer of instructions.

2. **Less duplication of work:** As various activities are properly assigned to different personnel, duplication of work is minimised.
3. **Better coordination:** Under organising, activities of a similar nature are grouped together in different departments. This ensures better coordination and harmony.
4. **Increased growth and expansion:** Through proper organising, an enterprise can expand its business operations and deviate from the traditional norms in a smooth and better manner.

Question 18

Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelized into their most productive investment avenues. To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. It also ensures wider share of ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

Various functions performed by the Stock Exchange are discussed in the above para. By quoting lines from above para, state any four functions of stock exchange.

SOLUTION:

The functions performed by the Stock Exchange are as follows:

1. **Provide liquidity and marketability** - 'Stock exchange creates a continuous market where the securities are brought and sold'. It provides a ready platform for the trading of existing securities.
2. **Spreading Equity Cult** - 'Stock exchange takes effective steps in educating the public about investments'. It encourages wider ownership of securities.
3. **Facilitates growth and development of the economy** - 'It provides a platform for channelising the savings to the most productive use'. *It gives investors the chance to disinvest and reinvest.* Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.
4. **Ensures safety in transactions** - '*It ensures that investing people gets a safe and a fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework.*'

Question 19

Explain any four points of difference between 'Marketing' and 'Selling'.

OR

Explain the following functions of marketing :

- (i) Product designing and development; and
- (ii) Standardisation and Grading

SOLUTION:

The difference between 'Marketing' and 'Selling' is given as follows:

Basis	Marketing	Selling
Scope	Part of Marketing related to promoting and transferring possession/ownership of goods	Wider concept consisting of identification of customer needs, developing products as per needs, satisfaction and appropriate pricing
Focus	It focusses the transfer of title and possession of goods	It focusses on maximum satisfaction of customer needs and wants
Profits	Maximum profits through maximised sales	Increasing profits in the long run by customer satisfaction
Strategies	Promotion and persuasion are the strategies used under marketing	Integrated marketing efforts involving strategies in respect of product, price, promotion and physical distribution

OR

Functions of Marketing are explained as follows:

(i) Product designing and development: The producers should bear in mind that the design of a product acts as a vital factor for attracting customers to the product. A good design helps in attracting a large number of customers to the product. Thus, the producers should pay great attention towards the design and development of the product.

(ii) Standardisation and Grading: Standardisation implies the production of goods with certain specific qualities such as durability, safety and utility so that uniformity is maintained in the output. On the other hand, grading implies the classification of the product as per certain characteristics such as size, quality, etc.

Question 20

Explain any five points of significance of Principles of Management.

OR

Explain the following techniques of Scientific Management :

- (a) Fatigue Study ; and
- (b) Differential Piece Wage System

SOLUTION:

The points of significance of Principles of Management are given as follows:

- 1. Insights to reality:** As management principles are based on years of experimentation and experience, they guide the managers in facing real-world problems in a more effective manner.
- 2. Suitability to dynamic environments:** The application of management principles depends on the situation and the manager's creativity. These principles can be moulded as per the requirements and are, thus, flexible.
- 3. Social responsibility:** By taking care of customers' values and business dealings, management principles help the managers and the entire organisation in fulfilling their social responsibilities.
- 4. Optimum utilisation of resources:** Management principles provide an exact cause-and-effect relationship of the manager's decisions, thereby minimising the risk of wastages of resources that may be associated with the trial-and-error method.
- 5. Logical decisions:** Management decisions should be based on reason and proof rather than beliefs and intuitions. As the principles of management were developed from experiments on real-life problems, they stand the test of logic and reasoning.

OR

Techniques of Scientific Management:

- 1. Fatigue Study:** Fatigue study studies the requirement of rest or a break while performing a task. The study identifies the intervals required while completing a task and suggests standard break timings for improving the workers' performance.
- 2. Differential piece wage system:** Under this technique, wages are decided according to a set standard. The workers who perform better than the set standards get higher wages than the workers who perform below the standards. Taylor introduced this system to differentiate the efficient workers from the inefficient ones and reward them accordingly.

Question 21

Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like televisions, refrigerators and air conditioners, often leaving them in a permanently damaged condition. N-Guard Company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220 V to 230 V. Once the demand for North India was taken care of, they decided to launch stabilizers

of varying voltages from 90 V – 260 V for meeting the requirements of voltage fluctuations in other regions of India also. Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions. Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.

(a) Identify the organisational structure of N-Guard Company.

(b) State any two advantages and two limitations of the structure identified in the above para.

SOLUTION:

(a) The divisional structure is followed by N-Guard Company. N-Guard Company decided to appoint different engineers for all the regions. Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region. In the divisional structure activities are grouped on the basis of *products or services* offered by the business.

(b) The advantages of a divisional structure are:

(i) Managerial efficiency: A divisional structure provides numerous opportunities for the development of skills and knowledge of the managers. The head of each division gains experience as he or she deals with a variety of functions simultaneously. This enables the division head to grow professionally and improve proficiency.

(ii) Measurement of performance: In a divisional structure, the performance of each of the divisions is judged on the basis of its profit and loss during a particular period. This type of assessment of performance is easier and helps in taking appropriate and timely corrective action in case of poor performance.

The limitations of a divisional structure are :

(i) Departmental conflicts: Sometimes conflicts may arise among different divisions with regard to various decisions and actions of the organisation such as those relating to allocation of funds and resources.

(ii) Increase in cost: As there exists a similar functional structure under each division, the same set of functions are performed under each department. Thus, there is high probability of overlapping of activities, which results in a rise in cost for the organisation.

Question 22

Nisha Sethi was working as a Human Resource Manager in a famous consultancy firm, KLI Global Services. Her job included preparing job descriptions, recruitment, developing compensation and incentive plans and facilitating employee learning. They had entered into alliances with institutes to ensure continuous learning of their

employees. With the jobs becoming more and more complex, KLI Global Services invested large amount of money in making the employees learn the skills necessary to complete the jobs.

State by giving any five points, how this investment is likely to benefit the organisation?

SOLUTION:

The process of making the employees learn the skills necessary to complete the jobs is called training.

The following points highlight the benefits of training to organization:

a. Less wastage: As training involves systematic learning of tasks, it helps reduce wastage of time and money, thereby ensuring the optimum utilisation of resources.

b. Higher profits: Training enhances the productivity and efficiency of the employees, thereby raising the profits of their company.

c. Improved managerial efficiency: Training prepares the employees to face new challenges and enables them to respond to various situations effectively. Thus, training helps an organisation prepare future managers.

d. Reduced absenteeism: Effective training serves to boost the morale of the employees and thereby reduce the rate of absenteeism and employee turnover.

e. Helps in adapting changes: Effective training helps the organization and its employees to adapt quickly and obtain an effective response to a changing technological and economical environment.

Question 23

'Determining the relative proportion of various types of funds depends upon various factors.' Explain any six such factors.

OR

Explain any six factors affecting the decision that determines the amount of profit earned to be distributed and to be retained in the business.

SOLUTION:

The relative proportion of various types of funds i.e. the capital structure depends upon various factors. The factors are discussed below:

1. Position of cash flow: The cash flows (the inflows and outflows of cash) of a company should be such that it is able to cover its various payment obligations (such as interest payments and normal expenses of the business) and is left with some surplus as well. In this regard, the company opts for debt capital only in a position of strong

cash flow. This is because in case of debt, cash is required to pay the interest as well as the principle amount on the debt.

Strong Cash flow \Rightarrow More debt

Low Cash flow \Rightarrow More Equity

2. Equity cost: The rate of return expected by the shareholders is directly related to the risk associated with their investment. As the financial risk faced by the company increases, the shareholders' expectation of rate of return increases and vice versa.

Now, as the company increases the component of debt, the financial risk faced by it also increases. Therefore, the shareholders' expectation of rate of return increases. This relationship suggests that a company cannot increase the component of debt in its capital structure beyond a certain point

Higher financial risk \Rightarrow Greater expectation of rate of return on equity \Rightarrow High cost of equity \Rightarrow Difficult to opt for equity

Lower financial risk \Rightarrow Lower expectation of rate of return on equity \Rightarrow Low cost of equity \Rightarrow Easy to opt for equity

3. Condition of stock market: In situations of a good stock market, a company can easily opt for equity share capital. As against this, in case of poor stock conditions, it becomes difficult for the company to opt for equity share.

Good stock market condition \Rightarrow Easy to opt for equity

Poor stock market condition \Rightarrow Difficult to opt for equity

4. Floatation cost: It refers to the cost of raising funds such as broker's commission and underwriting commission. The higher the floatation cost involved in raising funds from a particular source, the lower is its proportion in the capital structure. For instance, if public issue of shares involves higher floatation cost than debt, then the company would opt for more of debt and less of equity in the capital structure.

5. Regulatory guidelines: Every company has to operate as per the regulatory guidelines framed by the law which determines procedures to be followed while raising the funds from different sources. The more liberal the guidelines, the easier it is to obtain the funds from a particular source and hence the greater is the proportion of that fund in the capital structure.

6. Tax rate: As interest paid on debt is a tax-deductible expense, this suggests that the higher the tax rate, the lower is the cost of debt and therefore, the higher is the probability for the firm to increase the proportion of debt in its capital structure.

High tax rate \Rightarrow Cheaper debt \Rightarrow Higher proportion of debt in capital structure

Low tax rate \Rightarrow Costly debt \Rightarrow Lower proportion of debt in capital structure

OR

The factors affecting the decision that determines the amount of profit earned to be distributed and to be retained in the business, i.e. dividend decision are:

1. Amount of earnings: As a firm pays dividends out of its own earnings (either current or past), it can be said that companies with higher earnings are in a position to pay a higher amount of dividend to its shareholders and vice versa.

2. Stable earnings: A company with stable and smooth earnings is in a position to distribute higher dividend as compared to those that have an unstable earning.

3. Stable dividends: In general, companies try to avoid frequent fluctuations in dividend per share and opt for increasing (or decreasing) their value only when there is a consistent rise (or fall) in the earnings of the company.

4. Growth prospects: Companies aiming for a higher growth level or expansion of operations retain a higher portion of the earnings with themselves for re-investment, thereby distributing lesser dividends.

5. Cash flow position: As dividend payments involve cash outflow from the company, companies low on cash/low on liquidity distribute lower dividends than those with high cash and liquidity.

6. Preference of shareholders: While distributing the dividends, a company must also keep in mind the preferences of its shareholders. For instance, if the shareholders prefer at least a certain minimum amount of dividend, then the company is likely to declare the same.

Question 24

'VOICE' is an important consumer organization. It organized workshops in the months of December in Delhi/NCR for consumers. The theme was 'Organic Food – From Farm to Plate', to spread awareness on the importance of organic farming and to encourage consumers to switch from conventional food, that contains chemicals and pesticides to organic food. Expert speakers from farmers' community explained the harmful effects of usage of pesticides in farming and the importance of organic food.

People were informed that the organization regularly tests samples to detect adulteration like presence of heavy metals or pesticides. The results of the tests are published in their monthly magazine 'Consumer Voice' to make people aware of quality of different products. It also provides aid and legal advice to the consumers in seeking a remedy.

State the functions performed by the Consumer Voice for the protection and promotion of consumer interest by quoting lines from the above para.

SOLUTION:

The following functions are being performed by consumer organization:

a. Consumer Education: NGOs and consumer organisations conduct various training programmes and workshops to educate the consumers about their rights and responsibilities.

Line: 'The theme was 'Organic Food – From Farm to Plate', to spread awareness on the importance of organic farming'

b. Publish Journals: They regularly publish journals and periodicals to spread knowledge and awareness about various consumer problems, legal remedies available and other such matters.

Line: 'The results of the tests are published in their monthly magazine 'Consumer Voice'

c. Legal Assistance: They also provide legal assistance to the consumers and help them in seeking suitable redressal.

Line: 'It also provides aid and legal advice to the consumers in seeking a remedy. '

d. Encourage Protests Against Exploitation: They encourage consumers to protest against any form of exploitation and unfair trade practices.

Line: 'encourage consumers to switch from conventional food, that contains chemicals and pesticides to organic food'

e. Test the Quality of Products: They conduct quality tests for various products in laboratories and publish the results.

Line: ' People were informed that the organization regularly tests samples to detect adulteration like presence of heavy metals or pesticides.'

Question 25

Pratap Singh is the Chief Executive Officer of Nissar Enterprises. It is an automobile parts manufacturing company. The enterprise has a functional structure, in which jobs of similar nature have been grouped together as Production, Finance, Marketing and Human Resource. Nissar Enterprises has its manufacturing unit at Manesar.

The factory has been plagued with many problems for a long time which was in the knowledge of the Production Manager, Varun Sharma. The workers had internal differences. Time and again, there were misunderstandings between the

management and the workers. Keeping the problems in mind, Varun Sharma appointed, Siyaram Singh who had 14 years of experience of working with the actual work force and passing on instructions of the middle management to the workers.

Siyaram Singh met Varun Sharma to understand what the management wanted?

Thereafter he met the workers and conveyed the ideas of management to them. He also promised the workers to convey their problems to the management. In this way, he cleared the misunderstanding between the management and the workers.

He also sorted out internal differences and was able to unite the workers within a month of his joining. His work was acknowledged by management and he was given a certificate of good performance along with 10% increase in salary.

(i) Siyaram Singh performed some of the functions which are required to be performed at the position he is working at. State any five other functions Siyaram Singh is

expected to perform.

(ii) Name the incentives provided to Siyaram Singh.

SOLUTION:

Siyaram Singh performed at the Operational level of management as his main function was to interact with the workers and pass on the instructions of middle level management to the workers and to listen to the problems & grievances of workers & pass them to middle level management.

The other five functions that Siyaram is expected to perform are as follows:

i. Ensuring **proper working environment/conditions**

ii. Ensuring **safety of workers**

iii. Helping middle management in **appointment, recruitment & promotions of workers**

iv. **Interacting with employees**, welcoming suggestions & feedback, suitable reward for good suggestions

v. Developing **team spirit & boosting morale** of workers and ensuring a **standard output is produced**.

b. The incentive that is being given to Siyaram Singh are:

a. Non-financial incentive: 'Employee Recognition programmes' as he was given a certificate of good performance and,

b. Financial incentive: 'Pay and allowances' as he was given a 10% increase in salary.

