

② SCIENTIFIC DECISIONS

Principles of management help managers to take decisions which are thoughtful, objective and justifiable. They are based on facts and are timely and relevant. They have to be based on logical thinking, rather than blind faith.

③ FULFILLING SOCIAL RESPONSIBILITY

With the increased awareness of consumers and other stakeholders of a business organisation, businesses are forced to fulfil their social responsibility. Management principles and theory are also developed in this regard. Also, the interpretation of principles changes with changing circumstances.

④ MANAGEMENT TRAINING, EDUCATION AND RESEARCH

Principles of management are at the heart of management theory and thus become the base of management education in professional institutes of MBA such as IIMs. Aptitude tests for the same are based on them. Further refinement of principles also takes place, resulting in improvements. Example: cost accounting, operations research.

19. State the functions of financial market.

Ans. Functions of Financial markets :

① MOBILISATION OF SAVINGS AND CHANNELLING THEM INTO THE MOST PRODUCTIVE INVESTMENTS

Financial markets help to direct savings into productive investments and provide a ready market for them. They thus, perform the allocative function and lead to growth.

② FACILITATING PRICE DISCOVERY

Pricing of instruments traded in financial markets are decided by forces of demand and supply. Firms demand the finance, households supply it. The point where these forces meet decides the price.

③ PROVIDES LIQUIDITY

Financial markets provide liquidity to the instruments being traded through the mechanism of disinvestment and reinvestment. It is a continuous market.

④ REDUCES COST OF TRANSACTIONS

Financial markets provide information to both parties involved in a transaction, thus ^{reducing} ~~saving~~ cost, time and risk of ~~error~~. In their absence, obtaining information about the instruments traded would be costly and time consuming.

20. Arun is working in a multinational company in Gurgaon. He was running temperature for the last many days. When his blood was tested, he was found positive for dengue with a very low platelet count. Therefore, he was admitted in the hospital and a blood transfusion was advised by the doctors. One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain'. 'Mr. Narain' in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.

- From the above para quote lines that indicate formal and informal communication.
- State any two features of informal communication.
- Identify any two values that are being communicated to the society in the above case.

Ans. a) Formal Communication

Lines: "~~sent a text message about it to his immediate superior~~ and "when General Manager came to know about it, he ordered..." (using official channels, exercise of formal communication)

Informal Communication

lines: " Mr. Naxain in turn sent a text message to the employees of the organisation requesting them to donate blood for the

b) Features of Informal Communication are:

- ① It emerges from within the firm
- ① It spreads throughout the organisation, with its branches going in various directions with utter disregard to the levels of authority. Hence it is called grapevine.
- ② It helps in faster transmission of information.

c) Values:

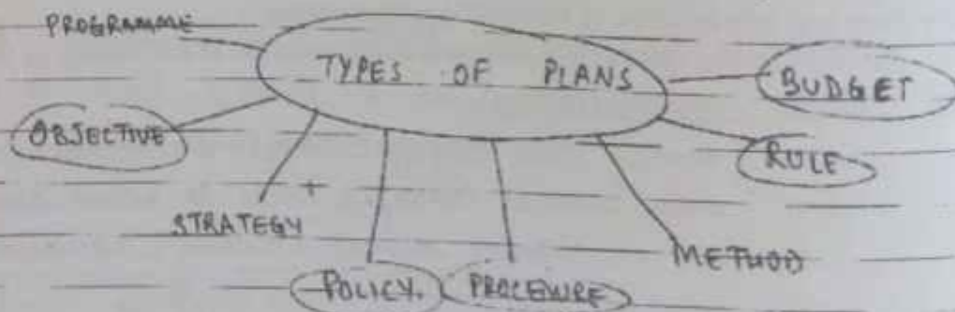
- ① importance of taking precautions - fumigation and cleanliness
- ② sensitivity generosity - request for donation.

21. Two years ago Madhu completed her degree in food technology. She worked for sometime in a company manufacturing chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated action plan to achieve the same.

One of her objective was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices etc. will be purchased on three months credit from farmers cultivating organic crops only. She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as a Production Manager who decides the exact manner in which the production activities are to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her sales target for different products, areawise for the forthcoming quarter. While working on the production table a penalty of ₹ 100 per day for not wearing the caps, gloves and apron was announced.

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

Ans.



Types of plans discussed here are -

Proper presentation
of complete answer
in the form of a flow
chart

① OBJECTIVE

Line - "one of her objective was to earn 10% profit ..."

An objective defines the future state of affairs ~~as~~ that an organisation strives to realise. It ~~is~~ is the end result that is desired and aimed for.

② POLICY

Line - "it was decided that raw materials ~~will~~ be purchased on three months credit from ~~factories~~ ..."

Policy is a general statement that guides efforts in a particular direction and sets the solution to a general problem. They define the broad parameters within which a manager may function.

③ PROCEDURE

Line - "She also decided to follow the steps required for ~~her own~~ outlets."

Procedure specifies the routine steps to be followed in a chronological order in a particular circumstance. They are generally for insiders to follow.

④ BUDGET

Line - "also prepared a statement showing the number of workers that will be required in the factory"

Budgets are statements that quantify facts, expressed in numerical terms. They involve forecasting of the requirement

⑤ RULE

Line - "while working a penalty of ₹100 per day for not wearing caps, gloves and apron was announced"

Rule is the simplest plan, involving a managerial decision informing what is to be done. It is a specific statement with no flexibility.

22. Explain the steps in the controlling process.

Ans.

STEPS IN CONTROLLING

Setting Performance Standards



Measurement of Actual Performance



Comparing Actual Performance with Standards



Analyzing Deviations



Taking Corrective Action

Proper order and explanation are given along with examples

Steps involved in controlling are -

① Setting Performance Standards

These are the benchmarks that must be adhered to in production. Standards can be both qualitative and quantitative but must be stated specifically and clearly.

Example: 100 units a week per worker.

They must be objective and realisable.

② Measurement of Actual Performance

Actual performance can be measured using sampling, progress reports, accounting ratios, inspection etc. They must be measured in the same units as the standards.

This measurement must be a continuous process rather than at the end of the production.

③ Comparing Actual Performance with Standards

Actual Performance must be compared with standards set to find out deviations, if any. This is necessary to ensure that work is being done according to plans or not.

④ Analysing Deviations

Deviations must be identified and analysed to ensure a proper corrective action.

- Critical Point Control - deviations in areas critical to organisation's success are worked upon. These are Key Result Areas.
- Management by Exception - only those significant deviations which are beyond the permissible limit must be brought to the notice of the management.

⑤ Taking corrective Action

Corrective Action must be taken only in cases where deviations are in critical areas and beyond acceptable range. Examples are: training employees, reassigning, improving production process, replacing machinery etc. When management cannot correct them, standards must be revised.

23. 'Viyo Ltd.' is a company manufacturing textiles. It has a share capital of ₹ 60 lakhs. The earning per share in the previous year was ₹ 0.50. For diversification, the company requires additional capital of ₹ 40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of ₹ 8 lakhs on capital employed. It paid tax @ 40%.
- State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly.
 - Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.

Ans. a) CALCULATING EPS FOR CURRENT YEAR

(₹)

Earning before interest and Tax (EBIT)	800,000 ✓
Less: Interest @ 10%	(400,000) ✓
Earning before Tax	400,000
Less: Tax @ 40%	(160,000) ✓
Earning after Tax (EAT)	240,000 ✓

Number of shares of ₹10 each ~~2~~ 6,00,000 ✓

∴ Earning per share $\left(\frac{\text{EAT}}{\text{No. of shares}} \right)$ 0.40 ✓

Since, current year's EPS is less than last year's, therefore the shareholders' lost due to diversification. The R.O.I $\left(\frac{\text{EBIT} \times 100}{\text{Capital Employed}} \right)$ is 8% which is less than 10% ~~is~~ interest. It is unfavourable financial leverage.

b) Factors which favour issue of debentures —

① CONTROL

Debt does not dilute the control of the managers and prevents a take over bid.

② COST OF DEBT

The interest rate was not too high, so the company could go for debt.

③ RISK

The financial risk must have been under control to be able to issue debt. This means, the business risk was not too high.

24. Ashima purchased a bottle of tomato-sauce from the local grocery shop. The information provided on the bottle was not clear. She fell sick on consuming it. She filed a case in the District Forum under Consumer Protection Act and got the relief.

(a) Identify the important aspect neglected by the marketer in the above case.

(b) Explain briefly the functions of the aspect identified in (a) above.

Ans. a) The aspect neglected by marketer is LABELLING

Each aspect is properly explained

b) Functions of labelling :

① Describe the Product and Specify its Contents

A label displays the product information and specifies its contents and benefits.

For example: ~~on~~ ~~idn~~ a hair oil label would specify ~~of~~ the ingredients and mention the benefits.

② Identify the Product and Brand

The label mentions the name of the brand, along with details of the manufacturer, date of expiry, batch number, MRP etc.

③ Helps in Grading of Products

A label mentions the quality specification of the product and grades them accordingly into different categories so that a high quality product gets a high price.

For example: tea has red label, green label etc.

④ Helps in Promotion

A label displays promotional messages, tag lines and promotional schemes such as buy 1 get 1 free. This helps to attract consumers.

⑤ Provides information required by law

A label displays information that ~~must be~~ is mandatory to be provided by law.

Such as, ~~to~~ cigarette pack must say that smoking is injurious for health.

25. Explain any four characteristics of management.

Ans. Characteristics of Management

↳ Pervasive ✓

↳ Continuous ✓

↳ Intangible ✓

↳ Dynamic ✓

Characteristics of Management are -

① MANAGEMENT IS A PERVASIVE FUNCTION

Management functions must be performed by all types of organisations, all levels of management and in all departments. Hence it is a pervasive function.

② MANAGEMENT IS A CONTINUOUS PROCESS

The functions of management are separate and composite that are continuously performed. It is a managerial cycle with no end to the performance of functions.

③ MANAGEMENT IS AN INTANGIBLE FORCE

Management is an intangible force that cannot be seen but can be felt in the way an organisation functions, when there is no chaos, employees are happy and satisfied etc.

④ MANAGEMENT IS A DYNAMIC FUNCTION

A business ~~interacts~~^{interacts} with its internal dynamic environment. Therefore it must change itself and its goals according to the change in the environment to be successful.