

QUESTIONS FOR PRACTICE SOLUTIONS

CHAPTER-1: Staffing

1. Vegatech Enterprises was a company manufacturing refrigerators. The company had a functional structure with four main functions—Production, Marketing, Finance and Human Resource. As the demand for the products grew, the company decided to hire more employees.

Identify the concept which will help the Human Resource Manager in identifying the types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives.

Ans. Workload Analysis

2. Zenith Ltd. is a highly reputed company and many people wanted to join this company. The employees of this organisation are very happy and they discussed how they came in contact with this organisation.

Aman said that he was introduced by the present sales manager, Mr John.

Benu said that he had applied through the newspaper and was appointed as H.R. Manager.

Vaibhav said that he was neither related to any of the employee of the organisation nor there was any advertisement in the newspaper even then he was directly called from IIM Ahmedabad from where he was about to complete his MBA.

- (a) The above discussion is indicating an important function of management. Name the function of management.
- (b) The management function identified in part (a) follows a particular process. Explain the step of this process which is being discussed in the above para.

Ans. (a) Staffing

- (b) **Recruitment:** It is defined as the process of researching for prospective employees and stimulating them to apply for jobs in the organisation.

3. The workers of 'Vyam Ltd.' are unable to work on new and hi-tech machines imported by the company to fulfill the increased demand. Therefore, the workers are seeking extra guidance from the supervisor.

The supervisor is overburdened with the frequent calls of workers.

- (a) Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently?
- (b) Also state any three benefits that the workers will derive by the decision of the supervisor.

Ans. (a) Through Training of Employees

- (b) **Importance of Training to the Employees:** Alongwith organisation, the employees are also benefitted by training. The advantages to them are cited below:

- (i) **Increase in Capacity and Efficiency:** Through training one learns the art of doing a special job methodically. It increases the skill and efficiency of the employee.

- (ii) **Increase in Market Value:** Trained employees have a better market value. Increased market value means that other organisations are always willing to employ trained personnel at higher remuneration. Consequently, if any employee is feeling uneasy in an organisation because of low remuneration, he can very easily join another organisation at higher remuneration.
 - (iii) **Fewer Accidents:** Reduction of accidents is not only beneficial to the organisation but it also protects the life of the worker. By learning the art of operating the machine, the rate of accidents can be minimised. This art can be learnt by training alone.
4. 'Newrange' is a chain of departmental stores in India with 56 outlets. It sells the best products at the lowest price. The Human Resource department takes care to select, train, motivate and retain the employees. Currently, it has 170 full time employees and 30 part time employees.

For top-level management, employees are recruited through private consultants. These professional recruiters can entice the needed top executives from other companies by making the right offers. Employees appointed at the entry level are recruited through walk-in. For that, a notice is placed on the notice board specifying the details of the jobs available. 'Newrange' also encourages present employees or their friends and relatives to refer candidates. They also visit some of the reputed educational institutions to hire some of the most talented and promising students as its employees.

'Newrange' shifts workforce from surplus departments to those where there is shortage of staff instead of laying them off. Explain the various internal and external sources of recruitment used by 'Newrange' to recruit its employees.

Ans. Sources of Recruitment used by 'Newrange':

(a) **Internal:**

- (i) **Transfer:** Transfer involves shifting of an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibilities and status of the employee.

(b) **External:**

- (i) **Placement Agencies and Management Consultants:** In technical and professional areas, placement agencies and management consultants appear to be doing substantive work.
 - (ii) **Direct Recruitment:** It refers to that source of recruitment under which a notice is placed on the noticeboard of the organisation specifying the details of the job available on daily-wage basis.
 - (iii) **Recommendation of Employees:** With a view to establishing good employer-employee relations, sometimes managers recruit people on the recommendation of their existing employees. In this way, present employees feel encouraged and there is a complete control over new employees. This source is mostly used for appointing lower-level employees.
 - (iv) **Campus Recruitment:** It refers to recruitment from educational institutions. Some big organisations remain in touch with the educational institutions with the purpose of recruiting young talented people. These persons come from colleges, universities, management institutes, technical institutes, etc.
5. The IT major GIPRA is terminating the employment of its senior managers, if after evaluating their performance against pre-determined standards if it is found lacking. With this, disruption analysts say a large portion of the employees may become irrelevant unless they learn new

skills and apply the knowledge to work on emerging technologies. GIPRA is ready to facilitate employee learning, through its in-house centres.

- (a) Name the function of management performed by GIPRA to maintain a satisfactory work force.
- (b) Identify and explain the two steps in the process of the function of management discussed above.
- (c) Also state any two steps of the function of management discussed, that the firm had to perform before the above steps.

Ans. (a) Staffing

(b) The two steps of Staffing discussed above are:

- (i) **Training and Development:** At this step of process of staffing, training and development are imparted to the employees, so that their efficiency and effectiveness is increased.
 - (ii) **Performance Appraisal:** At this step, the capability of every employee is judged. To judge his capability, his actual work performance is compared with the work assigned to him.
- (c) Following are the two steps in the process of staffing that the management had to perform before performing the above steps:
- (i) **Selection:** Under the process of selection, competent applicants are selected out of a large number of them. It is important to keep in mind that the ability of the applicant and the nature of work must match.
 - (ii) **Placement and Orientation:** Placement means to join the post for which he/she has been selected. Under orientation, the employee is given a brief presentation about the company and is introduced to his superiors, subordinates and colleagues.

6. Name and explain the concepts which relate to the following:

- (a) Searching for prospective candidates.
- (b) Temporary separation of employees from the employer.

Ans. (a) **Recruitment:** It refers to the process of searching for prospective employees and stimulating them to apply for job in an organisation.

(b) **Lay-off:** It refers to the temporary separation of the employee from the employer on the initiative of the latter.

7. In which source of recruitment employees become lethargic and why?

Ans. Internal source of recruitment creates a definite feeling of promotion among the employees. This feeling makes them lethargic and it affects their performance.

8. Explain briefly 'transfers' and 'promotions' as internal sources of recruitment.

Ans. • **Transfer:**

- Transfer refers to the shifting of an employee from one department, branch or shift to the other department, branch or shift without a substantive change in the responsibilities and status of the employee.
- Transfer may lead to changes in working conditions but not necessarily salary.

• **Promotions:**

- Promotion is a process by which an employee working at the lower rank is appointed to the upper rank where his responsibilities, his status and salary are also enhanced.
- This practice helps to improve the motivation and increases loyalty and satisfaction level of employees.

9. Which function of management helps in obtaining right people and putting them on the right jobs? Explain any four points of importance of this function.

Ans. It is staffing. It refers to filling and keeping filled posts with people.

Importance: Following facts highlight the importance of staffing.

- (i) **Helpful in Discovering and Obtaining Competent Personnel:** Under staffing, latest techniques are used for recruiting and selecting the employees. As a result, it becomes possible to search for and to select able employees for different posts. Under the recruitment process, search for employees is conducted and through selection, they are selected.
- (ii) **Helpful in Better Performance:** Through the medium of staffing, right people are posted at right places. Thus, suitable people are selected, keeping in mind the importance of organisational posts. As a result, it increases the efficiency and effectiveness of employees.
- (iii) **Helpful in Continuous Survival and Growth of the Enterprise:** Every enterprise aspires for its continuous survival and growth. This is possible only when it has human asset of supreme quality. This aspiration of an enterprise can be fulfilled through staffing.
- (iv) **Helpful in Optimum Utilisation of the Human Resource:** Under staffing, all the activities related to human resource are performed systematically. By doing this, the situation of overmanning never arises. As a result, optimum utilisation of employees takes place and subsequently, labour cost is reduced.

10. Explain the steps in the process of selection of employees.

Ans. Main steps of selection process adopted by large organisations are as under:

- (i) **Preliminary Screening:** First of all, the application forms received during recruitment process are scrutinised. Scrutiny of application forms is made to verify whether the candidates fulfil all the qualifications essential for the job.
- (ii) **Selection Tests:** Through these tests, ability and skill of the candidate are measured. These tests are divided into the following five categories:
 - Intelligence test
 - Aptitude test
 - Personality test
 - Trade test
 - Interest test
- (iii) **Employment Interview:** Having successfully cleared all tests related to employment, the candidate is called for final interview. Its objectives are to see the looks of the candidate, his way of talking, his conduct and temperament, his interest, presence of mind, and maturity, etc.
- (iv) **Reference and Background Checks:** After a candidate is declared successful in the interview, then some information about him is gathered from those persons whose names figure in the column of 'References'.
- (v) **Selection Decision:** Applicants who clear Selection Tests, Employment Interview and Reference checks are selected.
- (vi) **Medical Examination:** At this stage, the candidate is put to medical examination.
- (vii) **Job Offer:** After successfully clearing the Medical Examination Test, job offer is given to the selected candidate. For job offer, the Appointment Letter is handed over. A date is mentioned in the Appointment Letter by when one has to report for the duty.
- (viii) **Contract of Employment:** After the acceptance of job offer by a selected candidate, he becomes an employee of the organisation. In this phase, the appointee signs various documents. Main document among them is the Attestation Form. It contains detailed description of the employee, which he himself attests. This can be used at the time of need in future.

11. A newly appointed personnel manager is of the view that there is no need for training the workers.

Do you agree with this view? Give reasons in support of your answer.

Ans. No, I do not agree with the view of Personnel Manager. Following are the reasons of the need of training:

A. Benefits to the Organisation: Main advantages of training to the organisation are as follows:

- (i) **Most Economical and the best use of Material and Equipments:** Each employee working at any level makes use of machine and material. For instance, at lower level, machine and material are used, at middle and higher level, computers, typing machines and writing material are used. Trained employees use these machines and material properly and minimise wastage.
- (ii) **Improvement in Quality and Quantity of Output:** Training makes it possible to improve the quality and quantity of output. Consequently, cost of production per unit falls. It is important to note here that output does not mean goods manufactured by machines alone but it refers to all jobs performed at all managerial levels. It is, therefore, evident that training improves knowledge and skill of all levels of employees and their performance turns excellent.
- (iii) **Less Requirement of Supervision:** Trained employees are skilled in their jobs, so their work does not require much supervision. They can utilise the time thus, saved in some other creative works.

B. Benefits to the Employees: Alongwith organisation, the employees are also benefitted by training. The advantages to them are cited below:

- (i) **Increase in Capacity and Efficiency:** Through training one learns the art of doing a special job methodically. It increases the skill and efficiency of the employee.
- (ii) **Increase in Market Value:** Trained employees have a better market value. Increased market value means that other organisations are always willing to employ trained personnel at higher remuneration. Consequently, if any employee is feeling uneasy in an organisation because of low remuneration, he can very easily join another organisation at higher remuneration.
- (iii) **Fewer Accidents:** Reduction of accidents is not only beneficial to the organisation but it also protects the life of the worker. By learning the art of operating the machine, the rate of accidents can be minimised. This art can be learnt by training alone.



CHAPTER-2: Directing

1. In an organisation, employees always feel that they are under enormous unnecessary stress, as the manager does not provide any information about future plans but simply instructs them what to do. He also does not listen to any of the suggestions given by the subordinates.

Name the leadership style being followed here.

Ans. Autocratic Leadership Style.

2. Everyday a new problem crops up at 'BALCO Engineering Udyog Limited.' A meeting of the managers was held regarding this situation. After a lot of discussion they arrived at this conclusion that the root-cause of all the problems was the Company's Weak Communication System. Hence,

if the communication system was improved, they could be relieved of the problems to a great extent. With this aim in view, the company invited a specialist in communication system. In his lecture, he mainly asserted that it was most necessary to ascertain whether the receiver had taken the communication in the right sense.

Identify and explain the solution suggested by the communication specialist in order to improve the communication system.

Ans. ■ Ensuring Proper Feedback.

■ Feedback is a signal pointing out to what extent the receiver has really received and understood the sender's message correctly.

3. 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.

- (a) From the above para quote lines that indicate formal and informal communication.
(b) State any two features of informal communication.

Ans. (a) Lines for Formal and Informal Communication

(i) **Formal Communication:** "When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings."

(ii) **Informal Communication:** "One of his colleagues sent a text message about it to his immediate superior Mr Narain."

OR

"Mr Narain in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun."

(b) **Features of Informal Communication:**

(i) **Formation through Social Relations:** This communication is born out of social relations which means that it is beyond the restrictions of the organisation. No superior-subordinate relationship figures therein. A more sociable superior can gather much information through this channel.

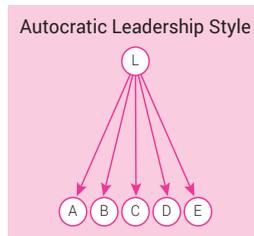
(ii) **Quick Relay:** Informal communication makes news spread like wildfire. Not only this, people start adding something of their own which sometimes changes the real meaning of the communication.

4. Handsen is the CEO of Newcastle Enterprises, one of the world's most successful companies. His success stories have been well documented. He chooses highly motivated and capable managers who can perform their tasks creatively and adequately without his help. He allows the group members to work on their own tasks and resolve issues themselves.

He intervenes, but only when needed to correct an unfavourable situation. He does not use power unless it is absolutely essential. He even allows mistakes to happen for his people to learn from them. He supports them and supplies them the required information to complete the assigned task.

- (a) Identify the leadership style adopted by Handsen.
(b) With the help of a diagram, explain the other two leadership styles based on the use of authority.

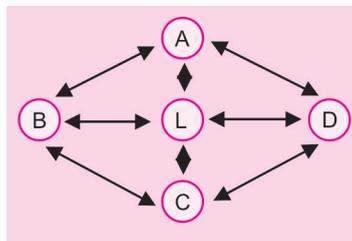
- Ans.** (a) Laissez Faire leadership style
 (b) The other two leadership styles based on the use of authority are:
 (i) Autocratic leadership style



L is the leader and A, B, C, D and E are the subordinates.

- An autocratic leader gives orders and expects his subordinates to obey those orders.
- There is one-way communication with the subordinates who act according to the command given by the manager.

- (ii) Democratic leadership style



In the above diagram, L is the leader and A, B, C and D are subordinates.

- A democratic leader develops action plans and makes decisions in consultation with his subordinates.
- Such a leader recognises that people perform best if they set their own objectives.

5. Three friends, Rajat, Raman and Ansh, after completing their MBA from a reputed business school at Mumbai, were discussing about the type of organisation they would like to join. Rajat was very clear that he would like to take up a government job as it gives stability about the future income and work which will help him to work with greater zeal. It will also provide him pension when he will retire from his service.

Raman wanted to work in a company, which has appropriate skill development plans for its employees and helps the employees to grow to higher levels in the organisation. In addition to this, the company should also provide facilities like housing, medical aid, etc.

Ansh said that he would prefer to work in an organisation, which has the culture of individual autonomy, is considerate to employees and provides the employees with opportunity for personal growth and a meaningful work experience.

- (a) Identify the various financial and non-financial incentives discussed by the three friends in the above conversation.
 (b) Explain three other non-financial incentives which were not discussed by any one of them.

- Ans.** (a) Financial and non-financial incentives discussed by the three friends in the above conversation:
 (i) Financial incentives:
- Retirement benefits
 - Perquisites

(ii) Non-Financial incentives:

- Job security
- Career advancement opportunity
- Organisational climate
- Status

(b) Other non-financial incentives which were not discussed by any one of them:

(i) **Job Enrichment:** It refers to increase the importance of the job.

(ii) **Employee Participation:** It refers to involve employees in decision-making of the issues related to them.

(iii) **Employee Empowerment:** It refers to provide more autonomy and powers to employees.

6. Explain any three assumptions of Maslow's Need Hierarchy Theory.

Ans. Following are the assumptions of Maslow's theory:

- (i) People's behaviour, being affected by their needs.
- (ii) There are many needs of people and their order or priority can be made.
- (iii) Motivation ends with the satisfaction of needs. After that, the next higher need serves as a motivator.

7. Clarify the difference between Managing and Directing.

Ans. It is important to distinguish between two almost similar words — 'Managing' and 'Directing'. 'Managing' is a wide concept and under it, apart from 'directing', the functions like planning, organising, staffing, and controlling are included. On the other hand, 'Directing' is a limited concept and is only a part of the managing. It is, therefore, clear that if some manager is full of the quality of directing, he can prove to be an effective manager but other managerial functions too shall have to be completed.

8. Explain the elements of directing function of management.

Ans. Following are the elements of directing:

- (i) **Supervision:** It refers to monitor the progress of routine work of one's subordinates and guiding them properly. Supervision is an important element of the directing function of management. Supervision has an important feature that face-to-face contact between supervisor and his subordinate is a must.
- (ii) **Communication:** It refers to an art of transferring facts, ideas, feeling, etc. from one person to another and making him understand them. A manager has to continuously tell his subordinates about what to do, how to do, and when to do various things. Also, it is very essential to know their reactions. To do all this, it becomes essential to develop effective telecommunication facilities. Communication by developing mutual understanding inculcates a sense of cooperation which builds an environment of coordination in the organisation.
- (iii) **Leadership:** It refers to influence others in such a manner to do work what the leader wants them to do. Leadership plays an important role in directing. Only through this quality, a manager can inculcate trust and zeal among his subordinates.
- (iv) **Motivation:** It refers to that process which excites people to work for attainment of desired objective. Among the various factors of production, it is only the human factor which is dynamic and provides mobility to other physical resources. If human resource goes static then other resources automatically turn immobile. Thus, it becomes essential to motivate

human resource to keep them dynamic, aware and eager to perform their duty. Both monetary and non-monetary incentives are given to employees for motivation.

9. Explain any two advantages and two disadvantages of Laissez-faire Leadership Style.

Ans. Advantages:

- (i) **Development of Self-confidence in Subordinates:** When all the authority in their work performance is given to the employees, they become habituated in taking decisions which creates self-confidence in them. They start doing better work in future.
- (ii) **High-level Motivation:** When the manager gives the subordinates all the authority by showing full confidence in them they start considering themselves an important part of the concern. In this way, they feeling that they are not a part of the enterprise but are the enterprise itself. With the onset of this feeling, there is nothing left in their motivation.

Disadvantages:

- (i) **Difficulty in Cooperation:** Since there is no close supervision and control by the managers, everybody starts functioning independently. Some employees with opposite point of view become a hurdle in the attainment of objectives of other people. Such people do not work themselves, nor can they see others work. It becomes difficult for the manager to establish coordination among such employees.
- (ii) **Lack of Importance of Managerial Post:** In this leadership style, the post of a manager is rendered less important because he does not make any plan, or take any decision or exercise any control.

10. Explain the various leadership styles.

Ans. (1) Autocratic Leadership Style

Meaning: It refers to that leadership style in which the leader tends to run the show all by himself.

Characteristics:

- (i) **Centralised Authority:** In this style, a manager is not prepared to share his authority and responsibility with others. Consequently, all the authority of work performance remains centralised.
- (ii) **Single-man Decisions:** In this style of leadership, the manager himself takes all the decisions. He takes it for granted that he does not need any other individual.

(2) Democratic Leadership Style

Meaning: It refers to that leadership style in which the leader consults with his subordinates before making any final decision.

Characteristics:

- (i) **Cooperative Relations:** The chief characteristic of this style is the existence of cooperative relations among the managers and the employees. Participation in the management decisions gives the employees a feeling of self-respect, as a result of which the employees are always ready to be cooperative in every way.
- (ii) **Belief in Employees:** The managers inherently believe that the employees by nature want to work, do their work with interest, accept their responsibility and try to perform their work in a good manner. This faith of the managers in the employees increases their morale.

(3) Laissez-faire or Free-rein Leadership Style

Meaning: It refers to that leadership style in which the leader gives his subordinates complete freedom to make decisions.

Characteristics:

- (i) **Full Faith in Subordinates:** A prominent characteristic of this style is that the managers consider their subordinates capable, active and responsible individuals and have full faith in them.
- (ii) **Independent Decision-making System:** In this style, the management-related decisions are taken by the subordinates instead of the managers. They can, however, consult the managers.



CHAPTER-3: Controlling

1. Whirlwind Enterprises was a renowned name for manufacturing quality washing machines since 1965. When the profit of the last year declined, Mr Ahmed, the owner of Whirlwind Enterprises, asked the General Manager to prepare a profitability report of the company including Gross Profit Ratio, Net Profit Ratio, etc. besides using other techniques to assess the company's performance.

Identify the step taken by Mr Ahmed which is related to one of the functions of management.

Ans. Measurement of actual performance.

2. 'Ekta Motors' had set an objective of selling 1200 cars per year. Mrs Ekta Chawla is the Managing Director of this organisation. With a view to achieving this objective, she worked hard to formulate plans. But at the end of the year it came to light that hardly 870 cars could be sold. She compared expected and actual results and began to seek the causes of this deviation. She arrived at the conclusion that the goodwill of the organisation had suffered because of the negligence of the Service Division. She then took a firm decision to improve the performance level of the service division at all costs.

Identify and explain the function of management mentioned in the above case.

Ans. (a) Controlling.

(b) It refers to bringing the actual results closer to the desired result.

3. 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 out 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.

Ans. (a) Steps in the process of controlling discussed in the above case:

- (i) **Setting performance standards:** The standards of performance are set which serve as the criteria against which actual performance will be measured.
- (ii) **Measurement of Actual Performance:** The measurement of actual performance is done on the basis of pre-determined standards. It tells the manager whether the work has been done according to the plan or not.

- (iii) **Comparing actual performance with the standards:** Actual performance is compared with the standards to find out the deviation.
 - (iv) **Analysing deviations:** Deviations are analysed for their causes through Critical Point Control and Management by Exception.
- (b) Steps not discussed in the above case:
- (v) **Taking corrective action:** Corrective action is taken if deviations go beyond the acceptable limits.
4. Vikas was the Chief Operating Officer of 'Yalet Ltd.', a company providing advanced software solutions to Indian Defence Services. They had been carrying on business successfully for the last twelve years and earning enough profits. But from the last one year, they realised that though the business is getting big orders which are being fulfilled in time, even then the revenues kept on decreasing. Vikas was not able to find out where the problem was. He started keeping a close check on the progress of activities as he could sense that something was wrong. He wanted to take some action before any major damage could be done to the business. Vikas appointed a cyber security expert who monitored the company's processes and found out that the computer operator was deleting the entries from the computers and pocketing the revenues. He was caught and handed over to the police. This created an atmosphere of order and discipline in the organisation and helped in minimising dishonest behaviour on the part of the employees.
- (a) Identify the function of management highlighted in the above paragraph.
 - (b) Explain any four other ways in which this function of management may help the organisation.

Ans.

- (a) Controlling
 - (b) Other ways in which this function may help the organisation:
 - (i) **Accomplishing Organisational Goals:** The controlling process is implemented to take care of the plans. With the help of controlling, deviations are immediately detected and corrective action is taken. Therefore, the difference between the expected results and the actual results is reduced to the minimum. In this way, controlling is helpful in achieving the goals of the organisation.
 - (ii) **Judging Accuracy of Standards:** While performing the function of controlling, a manager compares the actual work performance with the standards. He tries to find out whether the laid down standards are not more or less than the general standards. In case of need, they are redefined.
 - (iii) **Making Efficient Use of Resources:** Controlling makes it possible to use human and physical resources efficiently. Under controlling, it is ensured that no employee deliberately delays his work performance. In the same way, wastage in all the physical resources is checked.
 - (iv) **Improving Employee Motivation:** Through the medium of controlling, an effort is made to motivate the employees. The implementation of controlling makes all the employees to work with complete dedication because they know that their work performance will be evaluated and if the progress report is satisfactory, they will have their identity established in the organisation.
5. Clarify the difference between the 'Principle of critical-point control' and 'Principle of management by exception'.

Ans.

Critical point control refers to that concept of management which holds that instead of all activities, the management should focus its attention on only important activities. On the other hand, management by exception refers to that principle of organisational control which holds that only significant deviations (i.e., exceptions) should be brought to the top management attention.

6. If planning is done carefully and accordingly other functions of management are going in the right direction, then there is no need of the controlling function of management.

Do you agree with this statement? Give reasons in support of your answer.

Ans. No, I do not agree with this statement. In spite of following planning and other functions of management, controlling is must for better results. Following are the reasons of it:

- (i) **Accomplishing Organisational Goals:** The controlling process is implemented to take care of the plans. With the help of controlling, deviations are immediately detected and corrective action is taken. Therefore, the difference between the expected results and the actual results is reduced to the minimum. In this way, controlling is helpful in achieving the goals.
- (ii) **Judging Accuracy of Standards:** While performing the function of controlling, a manager compares the actual work performance with the standards. He tries to find out whether the laid down standards are not more or less than the general standards. In case of need, they are redefined.
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CHAPTER-4: Financial Management

1. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this, there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods.

Identify the factor affecting the working capital requirements of this industry.

Ans. Availability of raw material.

2. 'Bharat Express' specialises in Courier Services. Its 'wide range of express package and parcel services' help business firms to make sure that the goods are made available to the customers at the right place and at the right time.
- (a) State with reason, whether the working capital requirements of 'Bharat Express' will be high or low.
 - (b) Name any two type of current assets.

Ans. (a) Low, as it is a service industry, which usually do not have to maintain inventory.

- (b) (i) Cash in hand
- (ii) Marketable securities

3. Koby Ltd. is an 87-year-old reputed consumer goods company. It is known for offering good quality electronic products at reasonable prices. It has branches all over India. It has a large shareholder base. The shareholders desired that some dividend is paid every year on their investments. Company's management understands that it is important to keep the shareholders happy and satisfied. As a matter of policy, they declare a certain amount of dividend every year out of profits rather than reinvesting the whole as retained earnings.

- (a) Identify the factor affecting dividend decision being highlighted in the above situation.
(b) Also, explain briefly two more points of the factors affecting dividend decision.

Ans. (a) Shareholders preference

- (b) (i) **Amount of Earning:** Dividends are paid out of present and reserved profits. Therefore, greater the amount of total profits will ensure greater dividend.

(ii) **Stability of Earning:** Other things remaining the same, a company having stable earning is in a better position to declare higher dividends and vice-versa.

4. 'Abhishek Ltd.' is manufacturing cotton clothes. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of ₹50 lakh from ICICI Bank and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion, identify and explain any four such factors.

Ans. Factors affecting dividend decision are the following:

- (i) **Stability of Earnings:** A company having stable earnings is in a position to declare more dividends and vice-versa.

"It has been consistently for many years."

- (ii) **Cash Flow Position:** The better the cash flow position of the company, the will the capacity of the company to pay dividend.

"There is availability of enough cash in the company."

- (iii) **Growth Opportunities:** If the company has more opportunities for growth, it will require more finance. In such a situation, a major part of the income should be retained and a small part of it should be paid as dividend.

"Good prospects for growth in the future."

- (iv) **Shareholders Preference:** There are two types of shareholders from the point of view of investment: (a) those who invest with the purpose of getting some regular income and (b) those who invest in the company to gain capital profit. If the majority of the shareholders are of the former type, the company must declare dividend according to their expectation. On the contrary, if the majority of the shareholders are of the latter type the company enjoys freedom about declaring dividend.

"It may have shareholders from their investments."

5. 'Viyo Ltd.' is a company manufacturing textiles. It has a share capital of ₹60 lakh. The earning per share in the previous year was ₹0.50. For diversification, the company requires additional capital of ₹40 lakh. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of ₹ 8 lakh on capital employed. It paid tax @40%.

- (a) State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly.
- (b) Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.

Ans. (a) Earning Per Share (EPS) before diversification = ₹ 0.50.

Calculation of Earning Per Share after issue of Debentures:

(Assuming Face Value of ₹100 per share)

Particulars	(₹)
Share Capital	60,00,000
10% Debentures	40,00,000
Total	1,00,00,000
Profit Before Interest and Taxes	8,00,000
Less Interest	4,00,000
Profit Before Tax	4,00,000
Less Tax @40%	1,60,000
Profit available to Shareholders	2,40,000
Earning Per Share = $\frac{2,40,000}{60,000}$	4
(Note: No. of Shares = $\frac{₹60,00,000}{₹100} = 60,000$)	

This clearly shows that the shareholders have gained after the issue of debentures since the earning per share has increased from ₹0.50 to ₹4.

OR

Earning Per Share (EPS) before diversification = ₹0.50

Calculation of Earning Per Share after issue of Debentures

(Assuming Face Value of ₹10 Per Share)

Particulars	(₹)
Share Capital	60,00,000
10% Debentures	40,00,000
Total	1,00,00,000
Profit Before Interest and Taxes	8,00,000
Less Interest	4,00,000
Profit Before Tax	4,00,000
Less Tax @40%	1,60,000
Profit available to Shareholders	2,40,000
Earning Per Share = $\frac{2,40,000}{6,00,000}$	0.40
(Note: No. of Shares = $\frac{₹60,00,000}{₹10} = 6,00,000$)	

This clearly shows that the shareholders have lost after the issue of debentures since the Earning Per Share has decreased from ₹0.50 to ₹0.40.

- (b) Factors that favour issue of debentures by the company:
- Cash Flow Position:** A good cash flow makes debt funding more viable as it is easy to make payment of interest and refund of debt.
 - Interest Coverage Ratio:** A high Interest Coverage Ratio lowers the risk of company failing to meet its interest payment obligation.

(iii) **Debt Service Coverage Ratio:** A high Debt Service Coverage Ratio indicates better ability to meet debt service obligations.

6. 'Monisha Consumer Goods' is a leading consumer goods chain with a network of 46 stores primarily across Mumbai, Delhi and Pune. It was started by Monisha Gupta in 1987. It has a large market share in Mumbai, Delhi and Pune. Looking for an opportunity to expand, it has decided to open a new branch in Kerala. It has to decide on what new resources it will invest in so that it is able to earn the highest possible return for its investors. Once the company believes that it will be able to generate higher revenues and profits, it also has to decide on how this project will get funded. The finance manager, Atul was told to have an optimal capital structure by striking a balance between various sources of getting the project funded so as to increase shareholders' wealth. Atul, after assessing the cash flow position of the company, evaluated the cost of different sources of finance and compared the risk associated with each source as well as the cost of raising funds.

(a) State the two financial decisions discussed in the above situation.

(b) Explain any two factors affecting each of the decisions that still have to be considered by the finance manager.

Ans. (a) (i) **Investment decision:** It involves deciding about how the funds are invested in different assets so that they are able to earn the highest possible return for the investors.

(ii) **Financing Decision:** It refers to the decision about the quantum of finance to be raised from various long term sources.

(b) (i) **Factors affecting Investment decision:**

● **Cash flows of the project:** The amount of cash receipts and payments over the life of a project should be carefully analysed before considering an investment decision.

● **The rate of return:** The criterion to decide the profitability of various projects is their respective rate of return. The rate of return is calculated on the basis of expected return of the project and risk attached with it.

(ii) **Factors affecting financing decision:**

● **Risk:** Debt capital is most risky. Hence, from the point view of risk it should not be used.

● **Floatation Cost:** From the point view of floating costs, retained profit is the most appropriate source. Therefore, its use should be made.

7. What is meant by 'Financial Planning'? State any two points of its importance.

Ans. Meaning: It refers to the preparation of a financial blueprint of an organisation's future operations.

(i) **Helps to Face the Eventualities:** It tries to forecast various business situations. On this basis, alternative financial plans are prepared. By doing so, it helps to face the eventual situations in a better way.

(ii) **Helps in Avoiding Business Shocks and Surprises:** Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and payments. Hence, it helps in avoiding business shocks and surprises.

8. Explain the 'Earning Before Interest and Taxes - EBIT'.

Ans. EBIT is that profit of the business from which the payment of interest and tax remains to be deducted. It is also known as the operating profit of business. This is an index of the profit earning capacity of the business. For example, the EBIT in case of two companies is rupees eight crore and ten crore respectively while their EAIT (Earning After Interest and Taxes) is five crore and four crore respectively. Here, it can be said that on the basis of EBIT the second company has a more profit earning capacity.

9. What is the relationship between inflation and working capital requirement?

Ans. Inflation means rise in prices. In such a situation, more capital is required than before in order to maintain the previous scale of production and sales. Therefore, with the increasing rate of inflation, there is a corresponding increase in the working capital.

10. How does 'Risk Consideration' affect the Capital Structure Decision?

Ans. There are two types of risks in business:

(i) **Operating Risk or Business Risk:** This refers to the risk of inability to discharge permanent operating costs (*e.g.*, rent of the building, payment of salary, insurance instalment, etc).

(ii) **Financial Risk:** This refers to the risk of inability to pay fixed financial payments (*e.g.*, payment of interest, preference dividend, return of the debt capital, etc.) as promised by the company.

The total risk of business depends on both these types of risks. If the operating risk in business is less, the financial risk can be faced which means that more debt capital can be utilised. On the contrary, if the operating risk is high, the financial risk likely to be created after the greater use of debt capital, should be avoided.

11. What is meant by 'Long-term Investment Decision'? State any three factors which affect the long-term investment decisions.

Ans. Meaning: It refers to that investment decision which is related to the investment in long-term assets, such as buying a new machine.

Factors Affecting Long-term Investment Decisions:

(i) **Cash Flows of the Project:** As we know investment decision (capital budgeting decision) is related with investment in long-term assets. These assets involve both cash outflows and cash inflows over a series of years. The amount needed for investment is known as cash outflow, on the other hand, returns from the same investment is known as cash inflows. Both of these need to be analysed carefully before finalising the investment.

(ii) **The Rate of Return:** A project may not be profitable as compared to other. The criteria to decide the profitability of various projects is their respective rate of returns. The rate of return is calculated on the basis of expected return of the project and risk attached with it. If two projects are of the same risk class, the project having higher rate of return will be accepted.

(iii) **Investment Criteria Involved:** There may be many criteria of the investor while investing in the long-term assets. These are: funds involve, rate of interest, rate of return, cash flow, etc. All these factors influence the decision to go for a particular investment or not. For the same purpose, capital budgeting techniques are applied and accordingly decisions are taken.

12. Identify the financial decision which determines the amount of profit earned to be distributed and to be retained in the business. Explain any four factors affecting this decision.

Ans. It is dividend decision. Four factors affecting dividend decision are the following:

(i) **Amount of Earning:** The dividend is paid out of the present and reserved profits. Therefore, greater amount of total profit will ensure greater dividend.

(ii) **Stability of Earnings:** A company having stable earnings is in a position to declare more dividends and vice-versa.

(iii) **Stability of Dividend:** Every company adopts the policy of maintaining the stability of dividend per share. (Here, the stability of dividend means that the dividend will, in no case, be allowed to fall. It is always good if the dividend remains stable or increases.) From this point of view, a little change in profit should not be allowed any increase or decrease in the dividend.

(iv) **Growth Opportunities:** If the company has more opportunities for growth, it will require more finance. In such a situation, a major part of the income should be retained and a small part of it should be paid as dividend.

13. To tackle the uncertainty in respect of availability and timings of funds what is required? Name the concept involved and explain its three points of importance.

Ans. It is financial planning.

Importance: Main points of the importance of financial planning are as under:

- (i) **Helps to Face the Eventualities:** It tries to forecast various business situations. On this basis, alternative financial plans are prepared. By doing so, it helps to face the eventual situations in a better way.
- (ii) **Helps in Avoiding Business Shocks and Surprises:** Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and payments. Hence, it helps in avoiding business shocks and surprises.
- (iii) **Helps in Coordination:** It helps in coordinating various business activities, such as, sales, purchase, production, finance, etc.

14. Explain any four points that highlight the importance of financial planning.

Ans. Main points of the importance or role of financial planning are as under:

- (i) **Helps to face the eventualities:** It tries to forecast various business situations. On this basis alternative financial plans are prepared. By doing so, it helps to face the eventual situation in a better way.
- (ii) **Helps in avoiding business shocks and surprises:** Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and payments. Hence, it helps in avoiding business shocks and surprises.
- (iii) **Helps in coordination:** It helps in coordinating various business activities, such as sales, purchase, production, finance, etc.
- (iv) **Helps in avoiding wastage of finance:** In the absence of financial planning, wastage of financial resources may take place. This arises due to the complex nature of business operations, such as excessively over-or underestimation of finance for a particular business operation. Such type of wastages can be avoided through financial planning.

15. “Financial planning does not serve any useful purpose.” Comment.

Ans. This statement is wrong. In reality, financial planning is very useful. Following facts clarify its usefulness:

This statement is correct.

The main points of the importance of financial planning are as under:

- (i) **Helps to face the eventualities:** It tries to forecast various business situations. On this basis alternative financial plans are prepared. By doing so, it helps to face the eventual situation in a better way.
- (ii) **Helps in avoiding business shocks and surprises:** Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and payments. Hence, it helps in avoiding business shocks and surprises.
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- (v) **Helps to Link the Present with the Future:** It makes efforts to link the present with the future. By doing so, it helps to minimise the risk of future uncertainties.
- (vi) **Helps in creating Link between Investment and Financing Decisions:** It helps in deciding that where to invest and from where the required funds will be made available. Under it the mix of share capital and debt capital is made in such a manner that cost of capital is reduced to minimum.

16. How are the shareholders likely to gain with loan components in capital employed? Explain with suitable example.

Ans. With a loan (borrowed capital) component in the total capital, shareholders are likely to have the benefit of a higher rate of return on the share capital. This is because loans carry a fixed charge and the amount of interest paid is deductible from the Earning Before Tax (EBT). Although it is possible only when the rate of return of the company is greater than the rate of interest on borrowed capital.

Trading on Equity: Trading on equity means to raise fixed cost capital (borrowed capital and preference share capital) on the basis of equity share capital, so as to increase the income of equity shareholders. Although it is possible only when the rate of return of the company is greater than the rate of interest on borrowed capital or the rate of dividend on preference shares.

Now, the question arises how the income (earning) of the equity shareholders can increase when the company raises fixed cost capital (borrowed capital). Following EBIT-EPS Analysis answers this question:

EBIT - EPS Analysis

Liabilities	'X' Co. (₹)	'Y' Co. (₹)
Equity Share Capital (Face Value Per Equity Share ₹10)	10,00,000	4,00,000
10% Debentures	—	6,00,000
Total Capital	10,00,000	10,00,000

It is clear from the above table that both the companies have raised ₹10,00,000 as total capital. But X-Co. has raised it by issuing equity capital. On the other hand, Y-Co. has raised ₹4,00,000 by issuing equity capital and ₹6,00,000 by issuing debentures bearing 10% fixed interest rate. Suppose, both the companies have earned EBIT ₹2 lakh each and Tax Rate is 30%.

EBIT - EPS Analysis

Particulars	'X' Co. (₹)	'Y' Co. (₹)
EBIT	2,00,000	2,00,000
Less: Interest	—	60,000
EBT	2,00,000	1,40,000
Less: Tax (30%)	60,000	42,000
EAT	1,40,000	98,000
No. of Equity Shares	1,00,000	40,000
EPS = $\frac{\text{EAT}}{\text{No. of Equity Shares}}$	1.4	2.45

In the above example, shareholders of X-Co. are getting ₹1.40 return on their investment as against ₹2.45 return to shareholders of Y-Co. Both companies, raised equal total capital (₹10 lakh each) and earned equal total profit (₹2 lakh each), yet the earning of Y-Co.'s shareholders is more. The reason being that Y-Co. has taken advantage of the process of "trading on equity." In other words, Y-Co. has raised fixed cost capital (borrowed capital) along with equity share capital. On fixed cost capital (borrowed capital), it paid fixed interest at the rate of 10 per cent

(10% debentures) and the remainder is distributed as dividend to equity shareholders. Obviously, return on equity shares of Y-Co. is greater than that of X-Co.

17. How does 'trading on equity' increase the return on equity shares? Explain with an example.

Ans. Trading on Equity: Trading on equity means to raise fixed cost capital (borrowed capital and preference share capital) on the basis of equity share capital, so as to increase the income of equity shareholders. Although it is possible only when the rate of return of the company is greater than the rate of interest on borrowed capital or the rate of dividend on preference shares.

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18. Neelabh is engaged in 'Transport Business' and transports fruits and vegetables to different states. Stating the reason in support of your answer, identify the working capital requirements of Neelabh.

Neelabh also wants to expand and diversify his transport business, explain any two factors that will affect his fixed capital requirements.

- Ans.** (a) As it is a service industry, the working capital requirement would be less. Working capital requirement would be for the payment of salary, fuel charges, maintenance of vehicles, etc.
- (b) Factors affecting the Fixed Capital Requirement:
- (i) **Scale of Operations:** Larger the spread of business activities, greater is the need for fixed capital.
 - (ii) **Diversification:** Diversification means running business in more products than merely in one product. Those organisations which wish to adopt diversification certainly need more fixed capital.



CHAPTER-5: Financial Market

1. Varunica Ltd., a reputed truck manufacturing company, needs rupees twenty crores as additional capital to expand its business. Mr Alind Jindal, the CEO of the company, wants to raise funds through equity. The Finance Manager, Mr Nikhil Sachdeva, suggests that the existing shareholders be offered the privilege to subscribe to new issue of shares as per the terms and conditions of the company which was agreed by Mr Alind Jindal.

Name the method through which the company decided to raise additional capital.

Ans. Right issue.

2. SEBI recently called for information and issued a show cause notice to NSE and its 14 officials seeking explanation on the Preferential Access Allegations at the Exchange's Co-location facility. State the function that SEBI performed by doing so.

Ans. Regulatory Function.

3. Ankna's grandfather has gifted her shares of a large cement company, with which he had been working. The securities were in physical form. She already has a bank account and does not possess any other forms of securities.

She wished to sell the shares and approached a registered broker for the purpose.

- (a) Mention one mandatory detail which she will have to provide with the broker.
- (b) Also mention two more information those she will have to provide with the broker.

Ans. (a) Permanent Account Number (PAN).

- (b) (i) Date of birth and address
- (ii) Bank account details

4. '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 the above para, state any four functions of stock exchange.

Ans. Various functions performed by the Stock Exchange are:

(i) **Providing Liquidity and Marketability to Existing Securities:** Stock exchange is a market place where previously issued securities are traded. Whenever required, an investor can invest his money through this market into securities and can reconvert this investment into cash. Availability of ready market for sale and purchase of securities increases their marketability and enhances liquidity.

“It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest.”

(ii) **Contributes to Economic Growth:** Through the process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.

“Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.”

(iii) **Safety of Transactions:** Stock exchanges are organised markets. They fully protect the interest of investors. Each stock exchange has its own laws and bye-laws. Each member of stock exchange has to follow them and if any member is found violating them, his membership is cancelled.

“Membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework.”

(iv) **Spreading Equity Cult:** Share market collects every type of information (more particularly about their economic condition) in respect of the listed companies. Generally, this information is published or in case of need anybody can get it from the stock exchange free of any cost. In this way, the stock exchange guides the investors by providing various types of information. Consequently, the number of shareholders in companies is increasing continuously. Thus, the stock exchanges are playing a vital role in ensuring wider share ownership.

“Ensures wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.”

5. ‘These days, the development of a country is also judged by its system of transferring finance from the sector where it is in surplus to the sector where it is needed the most. To give strength to the economy, SEBI is undertaking measures to develop the capital market. In addition to this, there is another market in which unsecured and short-term debt instruments are actively traded every day. These markets together help the savers and inventors in directing the available funds into their most productive investment opportunity.

(a) Name the function being performed by the market in the above case.

(b) Name the market segment other than the capital market segment in which unsecured and short-term debt instruments are traded. Also, give any three points of difference between the two.

Ans. (a) Mobilisation of savings channeling them into the most productive uses.

(b) Money Market

● Difference between Capital Market and Money Market

Basis of Difference	Capital Market	Money Market
1. Participants	Financial institutions, banks, corporate bodies, foreign investors and ordinary public.	RBI, banks, financial institutions and finance companies are the main participants.

2. Instruments	Equity shares, preference shares, debentures, bonds, etc.	Call loans, treasury bill, commercial bills, commercial papers, certificates of deposit, etc.
3. Duration	Period of maturity is more than one year.	Period of maturity ranges from one day to one year.

6. Sherya Ltd. is a large credit-worthy company manufacturing automobiles for the Indian market. It now wants to cater to the other market and decided to invest in new machines. For this, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money market.

- (a) Name and discuss the money market instrument the company can use for the above purpose.
- (b) What is the duration for which the company can get funds through this instrument?
- (c) State any other purpose for which this instrument can be used.

Ans. (a) Commercial paper—it is a short-term unsecured promissory note, which are issued by well-reputed companies.

(b) 15 days to one year.

(c) It is used to provide short-term funds for seasonal and working capital needs of the business.

7. ‘Stock Exchange not only contributes to the economic growth, but performs many other functions.’ Explain any three such functions.

Ans. The main functions performed by Stock Exchange are as follows:

- (i) **Providing Liquidity and Marketability to Existing Securities:** Stock Exchange is a market place where previously issued securities are traded. Various types of securities are traded here on regular basis. Whenever required, investor can invest his money through this market into securities and can reconvert this investment into cash. Availability of ready market for sale and purchase of securities increase their marketability and enhance the liquidity in investment of money.
 - (ii) **Pricing of Securities:** A stock exchange provides platform to deal in securities. The forces of demand and supply work freely in the stock exchange. In this way, prices of securities are determined.
 - (iii) **Safety of Transactions:** Stock Exchanges are organised markets. They fully protect the interest of investors. Each stock exchange has its own laws and bye-laws. Each member of stock exchange has to follow them and any member found violating them, his membership is cancelled.
 - (iv) **Contributes to Economic Growth:** Stock Exchange provides liquidity to securities. This gives the investor a double benefit—first, the benefit of the change in the market price of securities can be taken advantage of, and secondly, in case of need for money they can be sold at the existing market price at any time. These advantages provided by the share market encourage the people to invest their money in securities. In this way, people’s money gets invested in industries and economic development becomes possible.
8. “Financial markets play an important role in the allocation of scarce resources in an economy by performing important functions.” In light of the given statement, state any three functions performed by Financial Market.

Ans. Functions of Financial Market

Following are its main functions:

- (i) **Mobilisation of savings and their Channelisation into more Productive Uses:** Financial market gives impetus to the savings of the people. This market takes the uselessly lying finance in the form of cash to places where it is really needed. Many financial instruments are made available for transferring finance from one side to the other side. The investors can invest in any of these instruments according to their wish.
- (ii) **Facilitates Price Discovery:** The price of any good or service is determined by the forces of demand and supply. Like goods and services, the investors also try to discover the price of their securities. The financial market facilitates price discovery for financial assets by interaction of forces of demand and supply.
- (iii) **Provides Liquidity to Financial Assets:** This is a market where the buyers and the sellers of all the securities are available all the times. This is the reason that it provides liquidity to securities. It means that the investors can invest their money, whenever they desire, in securities through the medium of financial market. They can also convert their investment into money whenever they so desire.

9. What do you understand by insider trading?

Ans. Insider trading means the buying and selling of securities by those persons (Directors, Promoters, etc.) who have some secret information about the company and who wish to take advantage of this secret information. This hurts the interests of the general investors. It was very essential to check this tendency. Many steps have been taken to check inside trading through the medium of the SEBI.

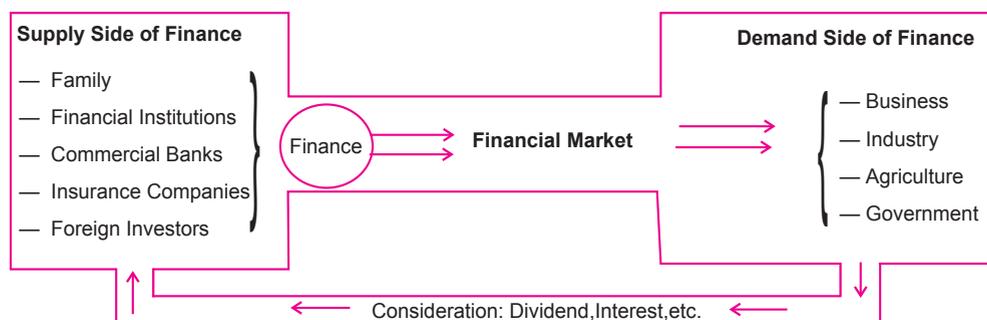
10. “A financial market is for the creation and exchange of financial assets.” Explain any two of its functions.

Ans. Functions of Financial Market:

- (1) **Mobilisation of Savings and their Channellisation into more Productive Uses:** Financial market gives impetus to the savings of the people. This market takes the uselessly lying finance in the form of cash to places where it is really needed. Many financial instruments are made available for transferring finance from one side to the other side. The investors can invest in any of these instruments according to their wish.
- (2) **Facilitates Price Discovery:** The price of any goods or services is determined by the forces of demand and supply. Like goods and services, the investors also try to discover the price of their securities. The financial market facilitates price discovery for financial assets by interaction of forces of demand and supply.

11. Explain the Demand Side and Supply Side of the Financial Market.

Ans. The demand and supply of finance usually includes the following:



CHAPTER-6: Consumer Protection

1. Ronit Raj, a marketing manager is a patient of diabetes for which he takes medicines regularly. One day, on his tour to Patna, he met with an accident and was hospitalised. Due to doctors' negligence a delicate nerve of his right leg was cut rendering him crippled throughout his life.

Identify the consumer right that has been violated by the doctors under the Consumer Protection Act, 2019 in the above situation.

Ans. Right to safety.

2. Identify the right of a consumer under Consumer Protection Act, 2019 which Consumer organisations help a consumer to claim by performing the function of "encouraging consumers to strongly protest and take an action against unscrupulous, exploitative and unfair trade practices of sellers."

Ans. Right to be heard.

3. Government always endeavours to protect the interests of the consumers. That is why government has passed various legislations from time to time. Some years ago an Act was passed. It protects the consumers against defective goods, deficient services, unfair trade practices and consumers' exploitation. Similarly, measures have been taken to protect the consumers against the losses suffered by them due to such anti-social activities as profiteering, hoarding, black-marketing, etc. Not only that provisions have also been made to protect the consumers against the consumption of adulterated food products.

In the above paragraph mention has been made of three acts related to the protection of consumers' interest. Quoting the lines, identify them.

Ans. Legislations enacted by the government are as under:

(a) The Consumer Protection Act (CPA) – 2019

"This Act offers protection against defective goods, defective services, unfair trade practices and consumers' exploitation."

(b) The Essential Commodities Act–1955

"Similarly, measures hoarding, black-marketing, etc."

(c) The Prevention of Food adulteration Act – 1954

"Not only this adulterated food products".

4. Aarushi buys a packet of dry cake from a cake shop without asking for the bill. The pack does not bear any information other than the name of shop. After reaching home she finds the cake to be stale.

(a) Identify the consumer right that has been violated.

(b) State any three responsibilities that a consumer must keep in mind while purchasing any good.

Ans. (a) Right to Information

(b) The following are the main responsibilities of a consumer:

(1) Be Aware About All Similar Products: Be aware about various goods and services available in the market so that a wise choice can be made.

- (2) **Focus on only Standardised Products:** Always try to buy standardised products as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO/FSSAI mark on food products, Hallmark on jewellery, etc.
- (3) **Learn About the Associated Risks:** The consumer should learn about the risks associated with products and services, follow manufacturer's instructions and use the product.
5. Suman wanted to purchase a sandwich toaster. She checked about the various sandwich toasters available online and compared the prices so that an intelligent and wise choice could be made. Then she went to a nearby market to buy the sandwich toaster. Being an informed consumer, she looked for the correct standardisation mark. The shopkeeper showed her different toasters but was quoting higher price than the price she had checked online. After negotiating with the shopkeeper, she was able to bring the price down. As a responsible consumer, she asked for a cash memo against the amount paid for the product and took the toaster home. On opening the package, she found an instruction booklet, which she read carefully. Then she followed all instructions step by step and made nicely toasted paneer sandwiches for her family.
- (a) State the consumer responsibilities, which have been discharged by Suman besides asking for a cash memo.
- (b) Explain the two rights being discussed in the above case.

Ans. (a) Consumer responsibilities, which have been discharged by Suman besides asking for a cash memo are:

- (i) **Choose Intelligently:** She was aware about various goods and services available in the market and made an intelligent and wise choice.
- (ii) **Buy only Standardised Products:** She bought standardised product as standardisation provides quality assurance.
- (iii) **Assert Yourself:** She asserted herself to get a fair deal.
- (b) Rights discussed in the above case are:
- (i) **Right to Choose:** The consumer has the freedom to choose from a variety of products at a competitive prices.
- (ii) **Right to Safety:** The consumer has a right to be protected against goods and services which are hazardous to life and health.

6. State any three responsibilities that a consumer should keep in mind while purchasing, using and consuming goods and services.

Ans. They are as follows:

- (i) **Be Aware About All Similar Products:** Be aware about various goods and services available in the market so that a wise choice can be made.
- (ii) **Focus on only Standardised Products:** Always try to buy standardised products as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO/FSSAI mark on food products, Hallmark on jewellery, etc.
- (iii) **Learn About the Associated Risks:** The consumer should learn about the risks associated with products and services, follow manufacturer's instructions and use the product.
7. I saw an advertisement in the newspaper regarding a domestic iron and ordered for the purchase of the same to the shopkeeper.

What will be my responsibilities as a customer so that I should not be exploited by the shopkeeper? State any three such responsibilities.

Ans. In this situation following are the responsibilities of a customer:

- (i) **Be Aware About All Similar Products:** Be aware about various goods and services available in the market so that a wise choice can be made.
- (ii) **Focus on only Standardised Products:** Always try to buy standardised products as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO/FSSAI mark on food products, Hallmark on jewellery, etc.
- (iii) **Learn About the Associated Risks:** The consumer should learn about the risks associated with products and services, follow manufacturer's instructions and use the product.

8. Explain the concept of 'Consumer Protection' and any three points of its importance from the point of view of consumers.

Ans. Meaning: It refers to protect the consumers against the unfair practices of the producers and sellers.

Importance

From the point of view of consumers: The importance of consumers' protection from the point of view of the consumers can be made clear with the help of the following points:

- (i) **Consumers' Ignorance:** Generally, the consumers are not aware of their rights. It is only because of this ignorance that they cannot raise their voice against their exploitation rampant in the market. They bear this exploitation ungrudgingly thinking it as a part of the market. Hence, they remain inactive in this respect. Therefore, it has become necessary in public interest that they should be educated about their rights so that they become activated.
- (ii) **Unorganised Consumers:** Consumers are unorganised and this fact alone highlights the importance of consumers' protection. A single consumer raising his voice against exploitation is not as effective as the voice of an organised consumers' body can be. So far the consumers have not shown such an attitude that they should raise their voice in an organised manner. Consumers' protection encourages the consumers to organise themselves.
- (iii) **Widespread Exploitation of Consumers:** These days consumers are being exploited on a large scale. Following are some of the examples of their exploitation:
 - (a) Adulteration in consumers' products.
 - (b) Inferior quality of goods and services.
 - (c) Misleading advertisement.

9. Explain any four points of importance of consumer protection from the point of view of business.

- Ans.**
- (i) **Long Term Interest of Business:** Every business wants to enjoy long existence. This is possible only when business firms provide absolute satisfaction to the consumers. A firm that succeeds in satisfying the consumers, the consumers themselves turn to such a firm for buying their products time and again and they tell others also about their satisfaction. In this way, the number of customers for that firm goes up and the firm continues to live for a long time. Paying attention to the satisfaction of the consumers is nothing but consumer protection.
 - (ii) **Business Uses Society's Resources:** Every business uses various resources, e.g., material, machinery, human, capital, etc. All these resources are supplied by society. From this point of view, it becomes the responsibility of business to provide better facilities to society. By doing this and through the medium of consumer protection business gets an opportunity to discharge its responsibility towards society.
 - (iii) **Social Responsibility:** It is the social responsibility of business to protect the interests of its owner and all other related constituents like employees, consumers, suppliers, competitors,

government, etc. Consumers happen to be the most important of all the related constituents. Therefore, more attention should be paid to the protection of their interests. Doing this is nothing but consumers' protection. Therefore, business through the medium of consumer protection can discharge its social responsibility to a large extent.

(iv) **Moral Justification:** It is the moral responsibility of business to take care of the consumers' interest. The business should keep away from the evils of adulteration, inferior quality, misleading advertisement, hoarding of goods, profiteering, blackmarketing, less weighing and measuring. By doing so they can discharge their moral responsibility and it can be said that business is helping the cause of consumer protection.

10. Giving any six points, explain the importance of consumer protection in India.

Ans. (A) From the Consumers' Point of view: The importance of consumers' protection from the point of view of the consumers can be made clear with the help of the following points:

(i) **Consumers' Ignorance:** Generally, the consumers are not aware of their rights. It is only because of this ignorance that they cannot raise their voice against their exploitation rampant in the market. They bear this exploitation ungrudgingly thinking it as a part of the market. Hence, they remain inactive in this respect. Therefore, it has become necessary in public interest that they should be educated about their rights so that they become activated.

(ii) **Unorganised Consumers:** Consumers are unorganised and this fact alone highlights the importance of consumers' protection. A single consumer raising his voice against exploitation is not as effective as the voice of an organised consumers' body can be. So far the consumers have not shown such an attitude that they should raise their voice in an organised manner. Consumers' protection encourages the consumers to organise themselves.

(iii) **Widespread Exploitation of Consumers:** These days consumers are being exploited on a large scale. Following are some of the examples of their exploitation:

(a) Adulteration in consumers' products.

(b) Inferior quality of goods and services.

(c) Misleading advertisement.

(B) From the Point of View of Business: Business needs consumers as much as consumers need business. Therefore, business should also join hands in protecting consumers' interest. Its importance is highlighted by the following facts:

(i) **Long Term Interest of Business:** Every business wants to enjoy long existence. This is possible only when business firms provide absolute satisfaction to the consumers. A firm that succeeds in satisfying the consumers, the consumers themselves turn to such a firm for buying their products time and again and they tell others also about their satisfaction. In this way, the number of customers for that firm goes up and the firm continues to live for a long time. Paying attention to the satisfaction of the consumers is nothing but consumer protection.

(ii) **Business Uses Society's Resources:** Every business uses various resources, *e.g.*, material, machinery, human, capital, etc. All these resources are supplied by society. From this point of view, it becomes the responsibility of business to provide better facilities to society. By doing this and through the medium of consumer protection business gets an opportunity to discharge its responsibility towards society.

(iii) **Social Responsibility:** It is the social responsibility of business to protect the interests of its owner and all other related constituents like employees, consumers, suppliers, competitors, government, etc. Consumers happen to be the most important of all the related constituents. Therefore, more attention should be paid to the protection of their interests. Doing this is nothing but consumers' protection. Therefore, business through the medium of consumer protection can discharge its social responsibility to a large extent.

