

**INTERMEDIATE EXAMINATION – 2019**  
**(ANNUAL)**  
**BUSINESS STUDY**  
**I. Com**

**(English Version)**

**Time : 3 Hours 15 Minutes**

**Full Marks : 100**

**Note : Answer All questions.**

**Total No. of Questions**

**Instructions to Candidates:**

1. Write the serial number of questions properly as given in the question paper while answering.
2. Write the correct and complete answers.

**SECTION – A**

- I. Answer any ten of the following questions in a word or sentences each. While answering multiple choice questions. Write the serial number of the correct choice and write the answer corresponding to it. Each question carries 1 mark: **(10 x 1 = 10)**

(1) Which of the following is not a features of management ?

- (a) Planning                      (b) Staffing                      (c) Co-operating                      (d) Controlling

**Ans. (c)**

(2) Who is known as the father of scientific management ?

**Ans. FW Taylor known as the father of scientific management.**

(3) Give the meaning of "Rule".

**Ans.** They are plans in the sense that they spell out specific required actions or non-actions allowing no discretions.

(4) Which of the following is not an element of delegation ?

- (a) Accountability (b) Authority  
(c) Responsibility (d) Informal organization

**Ans.** (d)

(5) State any one internal source or recruitment.

**Ans.** Promotion.

(6) The software company source of recruitment.

- (a) Wipro (b) Infosys (c) Satyam (d) HCL

**Ans.** (b)

(7) Give the meaning of control.

**Ans.** Controlling compare annual performance with standard performance, finding out deviation and take corrective action.

(8) What is business finance ?

**Ans.** It involves procurement and utilization out their operation effectively & efficiently.

(9) Primary and secondary markets

- (a) Compete with each other (b) Complement each other  
(c) Function independently (d) Control each other

**Ans.** (d)

(10) What is publicity ?

**Ans.** Publicity is the movement of information to general public from the media to create image or awareness of goods or services.

(11) Who can file a complaint in consumer court ?

**Ans.** A complaint before the appropriate consumer forum can be made by :

- (a) Any consumer  
(b) Any registered consumer's association  
(c) The Central Government or any State Government.  
(d) One or more consumers, on behalf of numerous consumers having the same interest.  
(e) A legal heir or representative of a deceased consumer.

**(12)** Who is an Entrepreneur ?

**Ans.** A person who sets up a business or business, taking or financial risks in the hope of profit.

## **SECTION - B**

**II. Answer any ten of the following question in 2 or 3 sentences. Each question in 2 marks :**

**(10 x 2 = 20)**

**(13)** State any two organizational objectives of business.

**Ans.** Management must ensure

- Survival – Earn enough profit to compensate cost.
- Profit – management must ensure that the organization makes a profit, which an incentive against risk.

**(14)** What is gang plank ?

**Ans.** This is a shorter route at horizontal level has been provided so that communication is not delayed in case of emergency.

**(15)** What is privatization ?

**Ans.** Privatisation means giving greater role to private sector and reducing role of public sector in nation building process.

**(16)** State any two features of planning.

**Ans.**

- Planning is a Primary & fundamental function in the process of management.
- Planning is a Decision mapping process where by best action chosen among various alternatives.

**(17)** Give the meaning of formal organization.

**Ans.** It refers to the organization structure which is designed by the management to accomplish a particular task.

**(18)** Define leadership.

**Ans.** Leadership is the ability of influencing people to strive willingly for group objectives.

**(19)** State any two traditional techniques of management control.

**Ans.**

- Budgetary as a plan represent a statement of anticipated inflows and expected outflows expressed numerically.
- Breakeven point is point of no profit no loss.

**(20)** State any two types of financial decision.

**Ans.**

- Determining the amount of funds to raised from different source of finance.
- Also determine the overall cost of capital and finial paste of the enterprise.

**(21)** What is marketing ?

**Ans.** Marketing management is defined as, “the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer values of management”.  
- Philip Kotler.

**(22)** Write any two Rights of consumers.

**Ans. (a) Right to safety**

- The consumer has a right to be protected against goods and services which are hazardous to life and health.
- They should check for the standardization mark before buying a product so as to be assured about its quality.
- The marketers should not use sub standard or poor quality raw material to manufacture goods which do not conform to the safety norms
- For example, while purchasing an electronic product the buyer must check for ISI mark to be assured about its quality.

**(b) Right to Information**

- According to this right, the consumer has a right to get complete information about the product he/she is willing to buy like, its contents, name of the manufacture, date of manufacture, expiry date, price, quantity, directions for use, etc.
- As per the laws, in India it is compulsory for the manufacturer to make available such information on the package and label of the product.
- For example, while purchasing a packet of diet snack the buyer must read its label carefully to know about its ingredients, nutritional value, price etc.
- For example, while purchasing an electronic product the buyer must check for ISI mark to be assured about its quality.

**(23)** State any two characteristic of entrepreneurship.

**Ans.** Entrepreneurship is a very famous word amongst the business community life. But, there are many common people still cannot get the definition and the meaning for who is the entrepreneur. ‘One who undertakes an endeavor’ is the meaning of the French word entrepreneur. There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience.

But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and “smarts.”

**Here we discuss two characteristic of entrepreneurs**

**Creativity** is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas.

**Dedication** is what motivates the entrepreneur to work hard, 12 hours a day or more, even seven days a week, especially in the beginning, to get the endeavor off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen.

Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. A story is told about an entrepreneur who started a fancy shop selling only French pastries. But customers wanted to buy muffins as well. Rather than risking the loss of these customers, the entrepreneur modified her vision to accommodate these needs.

Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed and goals are accomplished.

Passion is what gets entrepreneurs started and keeps them there. It gives entrepreneurs the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans.

Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise. Self-confidence gives the entrepreneur the ability to listen without being easily swayed or intimidated.

(24) Expand KASH.

Ans. Knowledge Attitude Skills and Habits used in sales & motivational training.

## SECTION – C

III. Answer any seven of the following question in 10 to 12 sentences. Each question carries 4 marks.

(25) Explain any four nature of principles of management.

- Ans.
- Universal Applicability
    - all types of organizations, whether economic, social or political
    - to all sizes of organizations whether large scale or medium scale or small scale.
  - However, so as to achieve the desired result.
  - **General Guidelines**
    - The principles of management are considered to be general guidelines to managerial action.
    - They do not provide any readymade or straitjacket solutions to all managerial problems.  
This is because the real business situations are complex and dynamic in nature, as they are dependent on a large number of factors.
  - **Formed by Practice and Experimentation.**
    - The principles of management are formulated by the management experts through observations and personal experiences. Furthermore, they are tested through repeated experimentations so as to establish their validity.

- **Flexible**
  - The principles of management are not rigid prescriptions, which have to be followed absolutely.
  - They are flexible in nature and can be modified by the manager in the light of given situation so as to achieve the desired goals.

**(26)** Briefly explain any four dimensions of business environment.

**Ans.** The various points which highlight the need of understanding the business environment by the managers are described below:

- It enables the firm to identify opportunities and getting the first mover advantages:
- Business environment not only provides opportunities for growth but at the same time sometimes it may threaten the very existence of the business firms as well.
- If a business is able to identify a forthcoming opportunity and use it to the best of its advantage it is said to have made the first mover advantage.
- It helps the firm to identify threats and early warning signals.
- In the context of business the term threat to those trends and changes in the business environment which are likely to create an adverse effect on the performance of an organization.
- Environmental threats may be considered to be an early warning signal which if comprehended on time by the business managers, can help to avert severe consequences.
- It helps in coping with rapid changes.
- The present day business environment is marked by rapid changes in the various spheres like, day business are more demanding, there are frequent up gradations in technology, globalization of the world economy and so on.
- It helps in assisting in planning and policy formulation.
- The various policies of business should be framed by taking into consideration the future state of affairs that a business is likely to encounter in terms of both opportunities and threats.
- If the business managers possess a complete understanding of various aspects related to their business environment, it will provide the basis for successful planning in the organizations.

**Q.27** Explain the importance of planning with any four points.

- Ans.**
- Setting objectives
  - The first step in the planning process involves laying down, clear, specific and measurable objective for the organization as a whole and also with respect to each department or unit within the organization.
  - Developing premises
  - Planning cannot be done without anticipating future events.

- As future is uncertain the manager are required to make certain assumptions about future in terms of customer preference, competition, interest rates, state of economy, government policy and so on. These assumptions are known as planning premises.
- The premises so developed set the limit within the planning should be carried out. Thus, accurate forecasting is the essence of successful planning.
- The next logical step that follows after stating the objectives and developing premises, is identifying all the alternative courses of action which are available for consideration.
- Evaluating alternative courses
- After listing the various possible alternative, it is important to analyse the relative pros and cons of each alternative in light of their viability and significance.
- This is a very important step in planning as accurate analysis of various alternative is imperative for correct decision making.

**(28)** Explain the four methods of “on the job” training.

- Ans.**
- Internship Training – An internship training program works through a collaboration between an educational institute and business firms. This training method is very popularly used in case of professional like doctors, engineers, lawyers etc. It is a method of on the job training.’
  - Apprenticeship Training – Apprenticeship training in India, is covered under apprenticeship Act 1961. As per the Provisions of the Act, it is provided to the people etc. Under this method training, the trainee acquires the knowledge and skill related to a particular line of specialization under guidance of a master worker.
  - Induction Training – Induction training is provided to the new employees of an organization so as to familiarizes them with the organizational rules and policies, their superior and subordinate, important places in the organization like, both room, conference room and so on.

**(29)** Explain the limitations of controlling.

**Ans. Limitations of Controlling**

- (a) Difficulty in setting Quantitative Standards** – It becomes very difficult to compare the actual performance with the predetermined standards, if these standards are not expressed in quantitative terms. This is especially so in areas of job satisfaction, human behavior an employee morale.
- (b) No control on External Factors** – An organization fails to have control on external factor like technological changes, competition, government policies, and changes in taste of consumers etc.
- (c) Resistance from Employees** – Often employees resist the control systems since they consider them as curbs on their freedom. For example surveillance through closed circuit television (CCTV).
- (d) Costly Affair** – Controlling involves a lot of expenditure, time and effort, thus a costly affair. Managers are required to ensure that the cost involved in installing and operating a control system should not be more than the benefits expected from it.

(30) Explain any four factors affecting financial decision.

**Ans.** Factors affecting Financing Decision

In practice, some of the important factors affecting the financing decisions stated below:

- **Cost** – the cost of each type of finance is estimated and the source which involves the least cost should be chosen by the financial manager.
- **Risk** – The associated risk is different for each source e.g. the risk involved in raising debt capital is higher than equity.
- **Floatation Costs** – A source of finance involving less floatation cost is considered to be more preferable.
- **Cash flow position of the business** – If the cash flow position of a business is good it should opt for debt else equity.
- **level of fixed operating costs** – If the fixed operating cost of a business is low it should opt for debt else equity.

(31) State any four differences between capital market and money market.

**Ans. Capital market –**

- (i) **Meaning** - The term capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested.
- (ii) **Duration** - It is market for medium and long term securities whose period of maturity is more than a year.
- (iii) **Participants** - The main participants in capital market are banks, financial institutions, corporate bodies, foreign investors and retail investors.
- (iv) **Investment outlay** – Since, the cost of certain securities may be low, investment can be made in the capital market even with less capital. Like , the price of a share even be as low as ₹ 10 or ₹ 100 etc.

**Money market**

- (i) **Meaning** – The money market constitutes the market for short term funds which deals in monetary assets whose period of maturity is up to one year.
- (ii) **Duration** – It is a market for short term market instruments whose tenure may range from one single day up to one year.
- (iii) **Participants** – The main participants in money market are institutional investors like the RBI, banks, financial institutions and finance companies. Although, the individual investors are allowed trade in the secondary money market, however they do not generally do so.
- (iv) **Investment outlay** – Since, the cost of instruments is high, investment in the money market requires high capital outlay. Like the price of one treasury bill I ₹ 25,000.

(32) Briefly explain any four characteristics of industrial product.

**Ans. (a) Heavy investment in Industrial goods** – The production of industrial goods calls for heavy capital investment. Most of the companies involved in the production of industrial goods raise capital by issuing shares and debentures and also by resorting to borrowing from financial institutions.



- (b) **Higher purchase value of Industrial goods** – As industrial goods are very highly priced, each purchase involves a very high amount. This is in contrast to consumer and agricultural goods where the amount involved in each purchase is much less.
- (c) **Derived demand for industrial goods** – The demand for industrial goods is a derived demand. i.e., it is influenced by the demand for the goods they help to manufacture. For example, the demand for a soft drink making plant will be determined by the demand for soft drink.
- (d) **Limited number of Buyers** – When compared to consumer and agricultural goods, the number of buyers of industrial goods is limited. Such buyers are also found in certain regions.

**(33)** Explain the elements of marketing mix.

**Ans.** “Marketing Mix is the set of controllable variable that the firm can use to influence the buyer’s response –

**Element of marketing mix**

- (i) Product
- (ii) Price
- (iii) Place
- (iv) Promotion

**Four elements**

- (i) Product –
  - a. A product refers t an item that satisfies the consumer’s needs or wants.
  - b. From the customer’s point of view, a product is perceived as a bundle of utilities i.e. functional benefits, psychological benefits and social benefits.
- (ii) Price -
  - a. Price refers to the value of a product in monetary terms.
  - b. Price is considered to be the regulator of demand.
  - c. Price is the only variable that has affects the revenue.
- (iii) Place –
  - a. Place or physical distribution all those activities that ensure availability of the product at the right place at the right time and the right position to the target customers.
- (iv) Promotion –
  - a. Promotion includes the set of activities that are undertaken by the prospective buyers.

**(34)** State any four consumer responsibilities.

**Ans.** The various responsibilities that a consumer should take into account while buying any product or availing a service are outlined below:

- (i) Be aware about various goods and services available in the market so as to make an intelligent and wise buying decision.

- (ii) Buy only standardised goods in order to be assured of its qualities the buyer should, check for related quality marks on the product like, for electrical goods look for ISI mark, food products must bear FPO mark, jewelry should carry hallmark etc.
- (iii) Learn about the risks associated with products and services and must follow manufacturer's instructions and use the products safely.
- (iv) Read labels carefully so as to be aware about prices, net weight, manufacturing and expiry dates, etc.

**IV. Answer any four of the following questions in 20 to 25 sentences each. Each question carries 8 marks.**

**(35)** Management is considered to be both an art and a science. Explain.

**Ans.** Management as both a science and an art

It goes without saying that management in practice is a judicious blend of both science and art.

To understand this concept we need to understand what makes a person successful manager ? Is a qualification degree for an institute of repute enough to develop the competences of a manager ?

Why are experienced managers given more importance ?

Thus, the prerequisite to becoming a successful manager is that firstly one should only possess the core knowledge of various theories and principles of management (management as science). Secondly, he/she should have the skill to apply such knowledge in the light of given situation in order to accomplish the desired goals (management as an art).

**(36)** What is organizing ? Explain the importance of organizing.

**Ans.** Organising is the process of identifying and grouping of the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing their objectives." - Allien.

**(a) Organising offers benefits of specialization**

- Organising leads to an orderly sharing out of jobs amongst the employees. This is done by allocating the specific jobs on a regular basis to specific employees.
- By performing the same task repetitively the employees gain proficiency which facilitates specialisation and increases productivity.

**(b) It brings clarity in working relationship**

- The process organizing involves establishing a hierarchical order of well defined jobs.
- The fixation of responsibility and extent of authority ensures systematic flow of information and instructions within the organization.

**(c) It leads to optimum utilization of resources**

- Effectiveness organizing ensures proper allocation of jobs and helps to avoid duplication of activities.
- This leads to optimum utilization of all the resources be it human, physical or financial.

**(d) It facilitates adaptation to change**

- Every business operates in a dynamic environment. The success of an enterprise lies in its ability to carry out transitions smoothly in the light of the changing situations.

**(e) It leads to effective administration**

- Organising helps to curb confusions in terms of roles and responsibilities associated with each job, by providing for clear cut job structures.

**(f) It leads to expansion and growth of an enterprise**

- Organising offers numerous benefits to an organization by promoting its smooth working and stability.
- This provides confidence to the managers to deviate from existing norms and take up new challenges in the interest of the organization.

**(37)** Explain the external sources of recruitment.

**Ans. (a) Direct Recruitment**

- Under the direct recruitment, the organization places a notice on the notice board specifying the details of the various jobs available. Also, at the same time, the job seekers are provided information about the selection process.

**(b) Casual callers**

- Many reputed enterprise maintain a database of unsolicited applications for various job positions. This record serves as a ready recknor to fill the various job positions as and when they arise.

**(c) Advertisement**

- Advertisement is one of the most popular source of recruitment which is being widely used for ages inform and persuade the prospective candidates to apply for the various available job positions.

**(d) Employment Exchange**

- The employment exchange works as an intermediary and seeks to provided a link between the job seeker and organization.

**(e) Placement Agencies and Management Consultants.**

- There placement agencies work as a middle men between the job seekers and the organizations. The candidates desirous of getting placement contact this agencies, who in return for a commission forward these biodata's to the suitable organistaions. Thus, the placement agencies seek to balance the demand and supply of human resource.

**(f) Campus Recruitment**

- One of the prime consideration for the students to join a particular college or institute, is weather it will be able to provide a platform for placement in them.
- Campus recruitment is considered to be a very important source of recruitment for obtaining human resources in all spheres be technical, professional and managerial jobs.

**(g) Recommendation of employees**

- The enterprise encourages may present employees to provide references of their friends and relatives who prove to be a worthwhile source of recruitment for the organization.

**(i) Advertising on Television**

- Television is considered to be one of the most popular electronic medium of advertising.
- The organizations desirous of recruiting people through this source, need to provide the complete details about the vacant job positions. This enables the job seekers to take appropriate decisions and actions.

**(j) Web publishing**

- The growing popularity of internet has been away for a new source of recruitment.

**(38)** Explain the qualities of good leader.

**Ans. (a) Leads to positive changes**

- Good leaders helps to bring about a positive change in the employees by influencing their behaviour.
- They energise their followers so that they contribute optimally towards the achievement of desired results.

**(b) Achievement of goals**

- Achievement of creates a personal rapport with the followers.
- he creates a healthy work environment by providing them the required support so as to build up their self confidence and morale.
- As a result, both individual and organizational goals are achieved in the possible manner.

**(c) Introduce changes smoothly**

- A good leader helps to introduce the required changes in the organization smoothly and with least amount of discontentment.
- He overcomes the resistance of the employees by persuading them, clarifying their fears and inspiring them to accept the changes whole-heartedly.
- It helps to resolve the conflicts within the organization effectively without leading to any disruptions in working of the organizations.

**(d) Resolve conflicts**

- A leader deals with the conflicts among the employees effectively. He tries to resolve the issues amicably without leading to any adverse consequences.
- He gives space to his followers, so that they are able to voice their feelings and discontentment's.
- But, at the same time he persuades them to change their outlook by making them understand things by giving suitable clarifications.

**(e) Provides training**

- Considering the fact that nothing is permanent, a good leader provides, a good leader provides training to their followers so as to create future leaders.
- He ensures that the process of his succession is carried out smoothly.

**Q.39** What is stock exchange ? Explain the functions of stock exchange.

**Ans. Meaning of stock exchange.**

According to securities contracts (Regulation) Act 1956, stock exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

**Function of a stock exchange**

- **Providing liquidity and marketability to existing securities** – By providing a ready market for financial assets, it lends both liquidity and easy marketability to the existing securities in the secondary market.
- **Pricing of securities** – The prices of securities in the secondary market are determined by the market forces of demand and supply.
- **Contributes to economic growth** – The working of a stock exchange is well regulated and it offers a transparent, fair and safe platform for trading in securities to the investors.
- **Contributes to economic growth** – The efficient functioning of the stock exchanges promotes the process of capital formation indirectly through the process of continuous disinvestment and reinvestment of savings and leads to economic growth of a nation.
- **Spreading of equity cult** – The existence of a well regulated and efficient system for trading in securities motivates people to take an active part in the process of exchange.
- **Providing scope for speculation** – The stock exchange provides the framework for well regulated speculative activities which are carried out within the provisions of law.

**Q.40** Explain the importance of personal selling to customers and society.

**Ans. Importance to customers**

Personal selling offers the following benefits to the customers.

- **Help in identifying needs** – By providing an opportunity to interact with the seller on one to one basis, helps the customers to identify their individual needs and wants also learn about the different ways in which they can be satisfied. Like a good salesman may advise a customer to use a particular brand of face wash keeping in mind his/her skin type.
- **latest market information** – The salesman may update the knowledge of the customers, by providing them the information about the new product, availability of product, variation in price etc. Thereby enabling them to take effective purchasing decisions.
- **Expert advice** – A good salesman possesses in-depth knowledge about the product and its usefulness. Therefore personal selling provides an opportunity to the prospective buyers to get an expert advice and guidance about the suitability of the product with regard to their specific needs and wants.

- **Induces customers** – Personal selling not only makes the customers aware about the new products in the market, but also persuades them to make a purchase. This helps the customers to use better products and their standard of living.

**Importance to society**

Personal selling helps to promote the growth of an economy by offering the following advantages to the society at large.

- **Converts latest demand** – Personal selling helps to translate latest demand into effective demand for a firm’s products. As the production turnover of a firm increases it also provide opportunities to create more jobs, more incomes, more demand for different kinds of products and services and so on. Consequently, it leads to growth of the economy as a whole due to a rise in the level of economic activities.
- **Employment opportunities** – personal selling offers employment avenue to the unemployed youth of the country.
- **Mobility of sales people** – The very nature of person selling involves physical movement of the same distance from one place to another, so as to create a face to face interaction with the potential customer.
- **Product standardization** – personal selling encourages sale of standardized product and establishes a uniform pattern of consumption in a divers society.

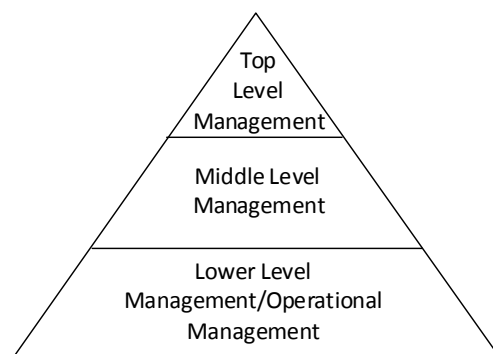
**V. Answering any two of the following question.**

**Q.41** Assuming that you are the manager, of an organization, draw the neat diagram of different levels of management to specify that authority responsibility relationships create different levels of management.

**Ans.** This authority-responsibility relationship between the superiors and the subordinates gives rise to different levels in the organisation which are known as levels of management or hierarchy of management. The term ‘hierarchy’ refers to the ranking order of various job positions within an organization.

**In the order of hierarchy there are three levels of management namely:**

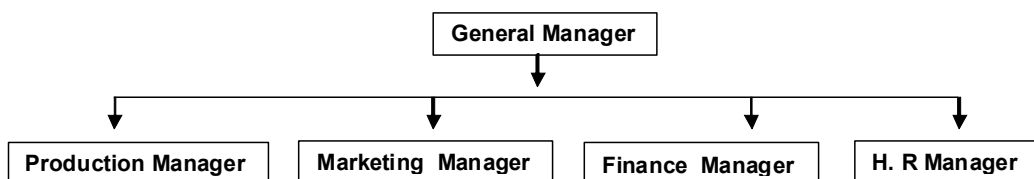
- Top level management
- Middle level management and
- Supervisory or operational management. (also known as first line managers)



<b>Top Level Management</b>	<ul style="list-style-type: none"> <li>• They formulate the overall organizational goals and strategies.</li> <li>• They coordinate the activities of different department.</li> <li>• They maintain contact with outside world.</li> <li>• They are responsible for the success and failure of the organization.</li> <li>• They are responsible for all the business activities and its impact on society.</li> </ul>
Chairman, Managing Director, Board of Director Chief Executive Officer, Chief Operating Officer, President, Vice-President, General Manager	
<b>Middle level Management</b>	<ul style="list-style-type: none"> <li>• They serve as a link between the top level and lower level management.</li> <li>• They are responsible for implementing and controlling.</li> <li>• Ensure that their department has the necessary staff.</li> <li>• Assign duties and responsibilities to their personnel.</li> <li>• Motivate the people in their department to achieve desired objectives.</li> <li>• Co-operating with other department for smooth functioning of the organization.</li> </ul>
Divisional head like, sales manager, Factory Manager, Plant Superintendent etc.	
<b>Lower Level Management</b>	<ul style="list-style-type: none"> <li>• They directly overseas the efforts of the workforce.</li> <li>• They serve a link between the workers and middle level managers.</li> <li>• They ensure availability or resources and good quality of output.</li> <li>• They provide guidance and training to workers.</li> <li>• They ensure to provide good working condition.</li> </ul>
Supervisors, Foremen, Inspectors etc.	

**Q.42** Draw the organization chart showing divisional and functional structure.

**Ans.** When activities within an organization are grouped on the basis of major functions like production, finance, marketing and human resource and separate departments are created for each of these functions a functional structure is said to be created.

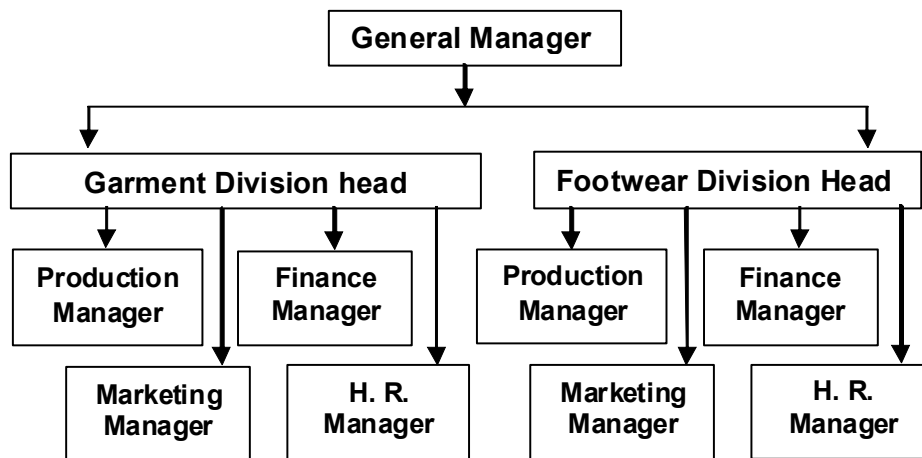


#### Features of functional structure

- A functional structure is an organizational design that groups similar or related jobs together on the basis of functions like production, finance etc.
- All department are under the charge of a coordinating head.
- Each department is headed by a functional manager, who is responsible for performance and has authority over the concerned department.
- These departments may be further divided into sections.

### Concept of divisional structure

In a divisional structure separate divisions are created within an organization on the basis of product lines and supported by functions. Divisional structure is suitable for a company manufacturing multiple products.



**Q.43** As a financial consultant, give the list of any 10 factors which affect the choice of capital structure.

**Ans.** Factor affecting the choice of capital structure

Factor	Use sources of debt capital	Use sources of owned capital
<b>Cash flow position</b>	If the cash flow position is good the business may use debt.	If the cash flow position is poor the business may use equity.
<b>Interest coverage ratio</b>	If the interest coverage ratio is high the business may use debt.	If the interest coverage ratio is low the business may use equity.
<b>Debt service coverage ratio</b>	If the debt service coverage ratio is high the business may use debt.	If the debt service coverage ratio is low the business may use equity.
<b>Return on investment</b>	If the interest coverage ratio is high the business may use debt.	If the interest coverage ratio is low the business may use equity.
<b>Cost of debt</b>	If the cost of debt is low the business may use debt.	If the cost of debt is high the business may use equity.
<b>Cost of equity</b>	The company may use debt up to a certain limit so that shareholders do not expect higher returns on equity. Shareholders expect higher returns when the company uses debt beyond a point due to increase in the financial risk, so the cost of equity increases.	
<b>Tax rate</b>	If the tax rate is high the business may use debt.	If the tax rate is low the business may use equity.
<b>Floatation costs</b>	The floatation costs is lesser on using debt.	If the tax rate is low the business may use equity.
<b>Financial risk consideration</b>	If the financial risk is low the business may use debt.	If the financial risk is high the business may use equity.
<b>Flexibility</b>	Too much use of debt reduces flexibility to raise more debt.	If the business doesn't want to restrict its flexibility, it may issue equity.