

Syllabus
Business Studies (Code No. 054)
Class - XII (2013-2014)

Rationale

The courses in Business Studies and Accountancy are introduced at + 2 stage of Senior Secondary Education as formal commerce education is provided after first ten years of schooling. Therefore, it becomes necessary that instructions in these subjects are given in such a manner that students have a good understanding of the principles and practices bearing in business (trade and industry) as well as their relationship with the society.

Business is a dynamic process that brings together technology, natural resources and human initiative in a constantly changing global environment. To understand the framework in which a business operates, a detailed study of the organisation and management of business processes and its interaction with the environment is required. Globalisation has changed the way organizations transact their business.

Information Technology is becoming a part of business operations in more and more organisations. Computerised systems are fast replacing other systems. E-business and other related concepts are picking up fast which need to be emphasized in the curriculum.

The course in Business Studies will prepare students to analyse, manage, evaluate and respond to changes which affect business. It provides a way of looking at and interacting with the business environment. It recognizes the fact that business influences and is influenced by social, political, legal and economic forces. It allows students to appreciate that business is an integral component of society and develops an understanding of many social and ethical issues.

Therefore, to acquire basic knowledge of the business world, a course in Business Studies would be useful. It also informs students of a range of study and work options and bridges the gap between school and work.

Objectives

- To develop students with an understanding of the processes of business and its environment;
- To acquaint students with the dynamic nature and inter-dependent aspects of business;
- To develop an interest in the theory and practice of business, trade and industry;
- To familiarize students with theoretical foundations of the process of organizing and managing the operations of a business firm;
- To help students appreciate the economic and social significance of business activity and the social cost and benefits arising there from;
- To acquaint students with the practice of managing the operations and resources of business;
- To enable students to act more effectively and responsibly as consumers, employers, employees and citizens;
- To develop in students a business attitude and skills.
- To inculcate appropriate attitude and develop skills among students to pursue higher education, world of work including self employment.

CLASS XII

One Paper

3 Hours

100 Marks

Unit wise Weightage

Units	Periods	Marks
Part A : Principles and Functions of Management		
1. Introduction to Management	12	5
2. Principles of Management	12	6
3. Business Environment	10	5
4. Planning	12	6
5. Organizing	16	8
6. Staffing	14	6
7. Directing	16	8
8. Controlling	14	6
	104	50
Part B: Business Finance and Marketing		
9. Financial Management	22	12
10. Financial Markets	20	8
11. Marketing Management	30	14
12. Consumer Protection	16	6
Part C : Project	16	10
	104	50

The question paper will include value based question(s) to the extent of 3-5 marks

Part A: Principles and Functions of Management

Unit I: Nature and significance of Management

(Periods 12)

- Management - concept, objectives and importance
- Management as Science, Art and Profession.
- Levels of management
- Management functions - planning, organising, staffing, directing and controlling.
- Coordination - concept, characteristics and importance.

Unit 2: Principles of Management

(Periods 12)

- Principles of Management - concept, nature and significance
- Fayol's principles of management
- Taylor's Scientific Management - principles and techniques

Unit 3: Management and Business Environment **(Periods 10)**

- Business Environment - concept and importance
- Dimensions of Business Environment - Economic, Social, Technological, Political and Legal
- Impact of Government policy changes on business with special reference to liberalization, privatization and globalisation in India.

Unit 4: Planning **(Periods 12)**

- Concept, importance and limitations
- Planning process
- Single use and Standing Plans - Objectives, Strategy, Policy, Procedure, Method, Rule, Budget and Programme.

Unit 5: Organising **(Periods 16)**

- Concept and importance.
- Organizing Process.
- Structure of organization - functional and divisional.
- Formal and informal organization.
- Delegation: concept, elements and importance.
- Decentralization: concept and importance.

Unit 6: Staffing **(Periods 14)**

- Concept and importance of staffing
- Staffing as a part of Human Resource Management
- Staffing process :
 - Recruitment - sources
 - Selection - process
- Training and Development - Concept and importance. Methods of training- on the job and off the job- Induction training, vestibule training, apprenticeship training and internship training.

Unit 7: Directing

(Periods 16)

- Concept and importance
- Elements of Directing
 - Supervision - concept, functions of a supervisor.
 - Motivation - concept, Maslow's hierarchy of needs; Financial and non-financial incentives.
 - Leadership - concept, styles - authoritative, democratic and laissez faire.
 - Communication - concept , formal and informal communication; barriers to effective communication, how to overcome the barriers.

Unit 8: Controlling

(Periods 14)

- Concept, nature and importance
- Relationship between planning and controlling
- Steps in the process of control

Part B : Business Finance and Marketing

Unit 9: Financial Management

(Periods 22)

- Concept and objectives of financial management.
- Financial decisions : investment, financing and dividend and factors affecting.
- Financial planning - concept and importance.
- Capital Structure - concept and factors affecting.
- Fixed and Working Capital - concept and factors affecting their requirements.

Unit 10: Financial Markets

(Periods 20)

- Financial Markets: concept and types.
- Money market and its instruments.
- Capital market and its types (primary and secondary).
- Stock Exchange - functions and trading procedure. Depository Services and D'mat Account.
- Securities and Exchange Board of India (SEBI) - objectives and functions.

Unit 11: Marketing Management

(Periods 30)

- Marketing - concept and functions.
- Marketing management philosophies.
- Marketing Mix - concept
 - Product - concept, branding, labeling and packaging.

- Price - factors determining price.
- Physical distribution- concept, channels of distribution: types, choice of channels.
- Promotion -concept and elements; advertising- concept, role, objections against advertising, personal selling - concept and qualities of a good salesman, sales promotion - concept and techniques, public relations - concept and role.

Unit 12: Consumer Protection

(Periods 16)

- Concept and importance of consumer protection.
- Consumer Protection Act 1986
 - Meaning of consumer and consumer protection.
 - Rights and responsibilities of consumers
 - Who can file a complaint and against whom?
 - Redressal machinery.
 - Remedies available.
- Consumer awareness - Role of consumer organizations and NGO's

Unit 13: Project Work

(Periods 16)

Design of question Paper
Business Studies(Code No. 054)
Class - XII
(2013-2014)

Time-3 Hrs.

Max. Marks - 90

The weightage to Content/Subject units

S.No.	Content Unit	Marks
Part A : Principles and Function of Management		
1.	Nature and Significance of Management	5
2.	Principles of Management	6
3.	Business Environment	5
4.	Planning	6
5.	Organizing	8
6.	Staffing	6
7.	Directing	8
8.	Controlling	6
	Total (A)	50
Part B : Business Finance and Marketing		
9.	Financial Management	12
10.	Financial Markets	8
11.	Marketing	14
12.	Consumer Protection	6
	Total (B)	40
	Grand Total (A+B)	90

B. Weightage to forms of Questions

S.No.	Forms of Questions	Marks for each question	No. of question	Total Marks
1.	Very short answer type (VSA)	1	12	12
2.	Short answer type I (SAI)	3	6	18
3.	Short answer type II (SAII)	4	4	16
4.	Long answer type I (LA I)	5	4	20
5.	Long answer type II (LA II)	6	4	24
6.	Total		30	90

C. Scheme of Options

There will be no overall choice. However, there is an internal choice in every question of 6 marks

D. Weightage to difficulty level of questions

S.No	Estimated difficulty level of questions	Percentage
1.	Easy	30%
2.	Average	50%
3.	Difficult	20%

E. Typology of Questions

In order to assess different abilities related to the subject, the question paper is like to include questions based on higher order skills, such as open-ended question based on case-study, diagrams, cartoons given in the text book.

Blue Print

Units	Very Short Answer (1)	Short Answer Question(3,4)	Long Answer I & II(5,6)	TOTAL
Unit-1(5)	1(1)	4(1)	-	5(2)
Unit-2(6)		3(2)	-	6(2)
Unit-3(5)	1(1)	4(1)	-	5(2)
Unit-4(6)	1(2)	4(1)	-	6(3)
Unit-5(8)	1(2)	-	6(1)	8(3)
Unit-6(6)	1(1)	-	5(1)	6(2)
Unit-7(8)	1(2)	-	6(1)	8(3)
Unit-8(6)	1(1)	-	5(1)	6(2)
Unit-9(12)	-	3(2)	6(1)	12(3)
Unit-10(8)	-	3(1)	5(1)	8(2)
Unit-11(14)	-	3(1)	5(1) 6(1)	14(3)
Unit-12(6)	1(2)	4(1)	-	6(3)
	12(12)	34(10)	44(8)	90(30)
The question paper will include value based question(s) to the extent of 3-5 marks				

SAMPLE QUESTION PAPER
BUSINESS STUDIES
Class – XII (2013-14)

Max. Marks - 90

Time - 3 Hrs.

General Instructions: -

- 1. Answers to questions carrying 1 mark may be from one word to one sentence.**
- 2. Answer to questions carrying 3 marks may be from 50 to 75 words.**
- 3. Answer to questions carrying 4-5 marks may be about 150 words**
- 4. Answer to questions carrying 6 marks may be about 200 words.**
- 5. Attempt all parts of a question together.**

Q1. What is meant by 'Consumer Protection'? (1)

Q2. What is meant by financial market? (1)

Q3. Mr.Umang, production manager of Creative Concepts discusses with his staff about the new export order. All the staff members unanimously agree that they all will work together to do overtime to complete the order and meet the deadline. State the 'leadership style' being followed by Umang. (1)

Q4. Enumerate any two qualities of a good Salesman.

Q5. Which two steps in the process of control are concerned with compelling events to confirm to the plan? (1)

Q6. When can a consumer make an appeal in the supreme court under 'The Consumer Protection Act 1986'? (1)

Q7. State the objective of financial management. (1)

Q8. List any two characteristics of secondary market. (1)

Q9. Rajat a Sales Manager, achieved his sales target one month in advance. This achievement was displayed on the notice board and the CEO of the Company awarded a certificate for the best performance to him. Name the incentive provided to Rajat. (1)

Q10. Give the meaning of 'Promotion Mix'? (1)

Q11. What is meant by 'Induction Training'? (1)

Q12. For optimal procurement of funds, a finance manager identifies different available sources and compares those in terms of costs and associated risks. Identify and define the concept highlighted in the above lines. (1)

Q13. State any three characteristics of principles of management. (3)

Q14. Explain the following principles of Scientific Management:-

a) Science not rule of thumb

b) Co-operation, not Individualism

c) Harmony, not discord (3)

Q15. State the steps involved in the planning process. (3)

Q16. Explain the meaning of 'Objectives' as a type of plan. (3)

Q17. Kumar Ltd. decided to produce a liquid soap for cleaning the utensils under the brand name 'SHINE'. State three characteristics which are being fulfilled by the brand decided by this brand name. (3)

Q18. Explain the following two functions of Marketing :-

i) Product Designing and Development

ii) Marketing Planning (3)

Q19. The Employees of Manik Ltd. , a software company, have formed a dramatic group for their recreation. Name the type of organisation so formed and state its three features. (4)

Q20. Distinguish between Functional and Divisional organisational structure on the following basis:

i. Formation

ii. Managerial development

iii. Responsibility

iv. Suitability (4)

Q21. State any four factors which help in determining the working Capital requirements of a Company. (4)

Q22. Explain any four points of importance of consumer protection from the point of view of business. (4)

Q23. Management of Parco Ltd., emphasises only on economic objectives. Identify and explain the objectives which are being ignored. State any two values which are being communicated to the society while fulfilling these objectives. (5)

Q24. **The court passed an order to ban polythene bags as**

- i. these bags are creating many environmental problems which affect the life of people in general.**
- ii. society in general is more concerned about quality of life.**

Identify the different dimensions of Business Environment by quoting the lines from the above particulars and also state any two values communicated to the society. (5)

Q25. Despite internal sources of recruitment being economical why do companies not always use this source? State any five reasons. (5)

Q26. You are a management expert. You have been asked by a business firm to make its managers understand the importance of controlling function of management. How will you explain this to the manager. (5)

Q27. Communication originally drafted in English has been very poorly translated in Hindi. Name the type of barrier to effective communication and explain any other five barriers of this type.

OR

Identify the function of management which refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve objectives. Explain the importance of this function of management. (6)

Q28. You are the financial manager of a company. The Board of Directors has asked you to design the capital structure of the company. State any six factors that you would consider while doing so.

OR

Every manager has to take three major decisions while performing the finance function. State these decisions. (6)

Q29. Explain the steps in the 'Trading Procedure' of Stock Exchange.

OR

Explain any four methods of floatation of new issues in the Primary Market. (6)

Q30. Identify the method of sales-promotion in the following cases:

- (i) A mobile company offers a discount of Rs. 1000 to clear off excess inventory.
- (ii) A customer gets Rs.5 off on return of an empty wrapper while making a new purchase of the same product.
- (iii) A Company offers a pack of ½ kg. of sugar with the purchase of a 5 kg. bag of wheat flour
- (iv) A company offers 40% of extra shaving cream in a pack of 500 gms.
- (v) Scratch a card and get a gold coin with the purchase of a cold drink.
- (vi) Purchase goods worth Rs. 50,000 and get a holiday package worth Rs. 10,000 free.

OR

'Various tools of communication are used by the marketers to promote their products.'

Answer the following questions:

- a) Why do companies use all tools at the same time?
- b) Name and explain the most commonly used non-personal tool of promotion which is paid for by the marketer.
- c) Which tool of promotion will primarily be used for the following:
 - i) To promote or protect a company's image or its individual products.
 - ii) An existing product meant for mass usage by literate people.
 - iii) To introduce a new product to a particular class of people through door-to-door visits. (6)

Marking Scheme

1. Consumer Protection refers to the act of providing adequate protection to consumers against the unscrupulous, exploitative and unfair trade practices of manufacturers and service providers. (1)
2. A financial market is a market for the creation and exchange of financial assets. (1)
3. Democratic Style of Leadership is leadership in which, a leader consults with his subordinates on proposed actions and decisions and encourages them to participate in decision making. (1)
4. Qualities of a good salesman are: (i). Physical Attributes; (ii). Social Attributes; (iii). Mental Attributes and (iv) Vocational Attributes. (any two) ($\frac{1}{2} + \frac{1}{2} = 1$)

OR

Qualities of a good salesman: (any two)

- (i). A good personality; (ii). Sound health and stamina; (iii). Presence of mind; (iv). Imagination; (v). Quick observation and judgement; (vi). Self Confidence; (vii). Initiative; (viii). Sharp memory and intelligence; (ix). Convincing conversationalist; (x). Honest and of sound character; (xi). Cooperative and helpful; (xii). Tactful; (xiii). Inborn aptitude and talent; (xiv). Ambitious; (xv) Enthusiastic; (xvi). Energetic; (xvii). Disciplined and loyal. ($\frac{1}{2} + \frac{1}{2} = 1$)
5. (i) Comparison of actual performance with standards.
(ii) Taking corrective action. ($\frac{1}{2} \times 2 = 1$)
6. An order passed by the National Commission in a matter of its original Jurisdiction is appealable before the Supreme Court. (1)
7. Wealth Maximisation is the Objective of Financial Management which means maximising the market value of investment in the shares of the company. (1)
8. Characteristics of Secondary Market (any two):
 - (i) It is a Market for purchase and sale of existing securities
 - (ii) Both Buying and Selling of Securities can take place here.
 - (iii) It is located at specified places
 - (iv) The price of securities are determined by demand and supply for the securities. (1)
9. The Incentive provided to Rajat is - 'Recognition' (1)
10. Promotion mix refers to combination of promotion tools used by an organisation to achieve its objectives. (1)
11. Induction Training refers to the process of introducing the selected employees to other employees and familiarising him with the rules and policies of the organisation. (1)
12. The Concept is Financial Management and is concerned with management of flow of funds and involves decisions relating to procurement and investment of funds, in long term and short term assets and distribution of earnings to the owners. (1)

13. Characteristics of Principles of Management (any three) -

- i. The Principles of Management have universal applicability in all types of organisations, business as well as non-business, small as well as large, public sector as well as private sector, manufacturing as well as the service sectors.
- ii. They are general guidelines to action but do not provide readymade straitjacket solutions to all managerial problems.
- iii. They are formed by practice, experience, collective wisdom of managers and experimentation.
- iv. They are flexible and can be modified by the manager when the situation demands.
- v. They are aimed at influencing human behaviour to enable a better understanding of human and material resources in accomplishing organisational purposes.
- vi. They intend to establish cause and effect relationship so that they can be used in similar situations in a large number of cases.
- vii. The application of the principles is contingent or dependent upon the prevailing situation at a particular point of time. (1x3=3)

14. (a) Science not rule of thumb

Taylor believed that there was only one best method to maximise efficiency. This method can be developed through scientific study and analysis of each element of a job and should substitute 'Rule of Thumb'. This standard method then should be followed throughout the organisation.

(b) Cooperation, not individualism

There should be complete cooperation between the labour and management instead of individualism. Competition should be replaced by cooperation. Both should realise that they need each other.

(c) Harmony, not discord

According to Taylor, there should not be any conflict between owners and workers. He emphasized that there should be complete harmony between managers and workers.

Both should realize that each one is important to achieve the objectives. (1x3=3)

15. The steps involved in the process of planning are:

- i. Defining organizational objectives for the entire organisation and each department or unit within the organisation.
- ii. Developing planning premises or assumptions about the future, which are the base material upon which plans are to be drawn.
- iii. Listing the alternative ways of reaching objectives, which may be either routine or innovative.
- iv. Evaluating the pros and cons of each alternative in the light of the objective to be achieved to choose the best alternative.
- v. Formulating derivative plans to support the main plan.
- vi. Putting the plans into action i.e., doing what is required and their follow-up to ensure that objectives are achieved. (½ mark for each step= 6 x ½ = 3)

16. Objectives are the desired future position that the management would like to reach. They serve as the guide for overall planning and are usually set by the top management. They need to be expressed in specific terms. (3)

17. Feature of a good brand name: (Any three)

- (i) It should be short, easy to pronounce, spell, recognise and remember.
- (ii) It should suggest the product's benefits and qualities.
- (iii) It should be distinctive.
- (iv) It should be adaptable to packaging or labelling requirement.
- (v) It should be sufficiently versatile to accommodate new products which are added to the product line.
- (vi) It should be capable of being registered and protected legally.
- (vii) It should not get out of date very soon.

(3)

18. (i) Product Designing and Development

The decision of the product contributes to making the product attractive to the target customers. A good design can improve performance of a product and also give it a competitive advantage in the market. For example, when we plan to buy any product say a motorbike, we not only see its features like cost, mileage etc. but also the design aspects like shape, style etc

(ii) Marketing Planning

One important area of work of a marketer is to develop appropriate marketing plans so that the marketing objectives of the organisation can be achieved. For example, a marketer of colour TV having 10% of the current market share aims at enhancing his market share to 20% in the next three years. He will have to develop a complete marketing plan covering various important aspects including the plan for increasing the level of production, promotion of products etc. and specify the action programmes to achieve these objectives.

(1 ½ x2=3)

19. The type of organisation formed by employees of Manik Ltd. is informal organisation. Features of Informal Organisation (any three)

- (a) An informal organisation originates from within the formal organisation as a result of personal interaction among employees.
- (b) The standards of behaviour evolve from group norms rather than officially laid down rules.
- (c) Independent channels of communication without specified direction of flow of information are developed by group members.
- (d) It emerges spontaneously and is not deliberately created by the management

20. **Distinction between Functional and Divisional structures**

S.No	Basis	Functional	Divisional
1	Formation	It is based upon functions	It is based upon product lines and is supported by functions
2	Managerial Development	Difficult, as each functional manager has to report to manager	Easier Autonomy as well as the chance to perform multiple functions help in managerial development
3	Responsibility	Difficult to fix on any one department	Easy to fix responsibility for performance
4	Suitability	Suitable for medium sized	Suitable for large firms having

		firms having a single product or small number of related products	multiple product with distinct Characteristics.
--	--	---	---

(1+1x3=4)

21. Factors which help in determining the working capital requirements of a company are : (Any four)
- (i) Nature of Business influences the working capital required. Eg: A trading firm requires a smaller working capital as compared to a manufacturing firm.
 - (ii) An organisation operating on a higher scale of operation requires a large amount of working capital as compared to the organisation which operates on a lower scale.
 - (iii) Different phases of business cycle affect the requirement of working capital by a firm. In case of boom, larger amount of working capital is required as compared to depression.
 - (iv) Seasonal factors affect the level of activity and working capital requirement of a business. In peak season, larger amount of working capital is required as compared to lean season.
 - (v) The duration and the length of the production cycle affects the amount of funds required for material and expenses and consequently affects the working capital requirement of a firm. Firms with longer processing cycles lead to higher working capital requirement of a business.
 - (vi) Credit Allowed affects the amount of debtors and consequently the working capital requirement of a firm.
 - (vii) To the extent the firm avails credit on purchases, the working capital requirement is reduced.
 - (viii) Operating Efficiency of a firm may reduce the level of raw materials, finished goods and debtors resulting in lower requirement of working capital.
 - (ix) Difficulty in availability of raw material and larger lead time will make the firm store larger quantity of material and larger shall be the amount of working capital required.

(or any other correct factor)

(1x4=4)

22. Importance of consumer protection from the point of a company (Any four)

- (i) Long term interest of business- enlightened businesses realise that it is in their long term interest to satisfy their customers; satisfied customers lead to repeated sales;
- (ii) Business uses society's resources – businesses have a responsibility to supply quality goods to the society as they use society's resources;
- (iii) Social responsibility- businesses have responsibility towards various groups;
- (iv) Moral justification- any company should avoid unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration etc.;
- (v) Government intervention- any company involved in exploitative trade practices would invite government intervention or action. This can impair and tarnish the image of the company. It is advisable that business organisations voluntarily resort to such practices where the customer needs and interests will well be taken care of.

23. The other two objectives which Parco has ignored are:

- (1) Social Objectives: It involves the creation of benefit for society. As a part of society, every organisation whether it is business or non-business, has a social obligation to fulfil. This refers to consistently creating economic value for various constituents of society.
- (ii) Personal Objectives: Organisations are made up of people who have different personality backgrounds, experiences and objectives. They all become part of the organisation to satisfy diverse needs. These vary from financial needs such as competitive salaries and perks, social needs such as

peer recognition and higher level needs such as personal growth and development.

(1 ½ x 2)

Values which are being communicated while performing these objectives:

1. Concern for environment protection- as an obligation to the society the business organisation would adapt to using environment friendly methods of production.
2. Providing employment opportunities to disadvantaged sections of the society.
3. Treating all employees fairly by providing them opportunities for personal growth
4. Offering employees fair wages

Any two (1x2=2)

24. Court passed an order- Legal Environment

Creating environmental problems- Economic Environment

Quality of Life- Social Environment

Values - Sensitivity towards the environment; fulfilling responsibility towards nation.

25. The Companies do not always use internal Sources of recruitment despite of the being economical because of the following reasons: (any five)

- (i) It is an incomplete source as no organisation can fill all its vacancies from internal sources.
- (ii) The employees may become lethargic if they are sure of time bound promotions.
- (iii) Spirit of competition among the employees may be hampered.
- (iv) Frequent transfers of employees may often reduce the productivity of the organisation.
- (v) Complete reliance on internal recruitment involves danger of 'inbreeding' by stopping 'infusion of new blood' into the organisation.
- (vi) A new enterprise cannot use internal source of recruitment.
- (vii) There is limited choice of candidates when the vacancies are to be filled from internal source of recruitment. (or any other correct reason)

(1x5=5)

26. As a management expert the importance of controlling will be explained to the managers as follows:

- (i) Accomplishing organizational goals.
- (ii) Enables managers to judge the accuracy of standards.
- (iii) Ensures efficient use of resources.
- (iv) Improving employees motivation.
- (v) Ensures order and discipline.

(1/2 mark for the heading +1/2 mark for the explanation=1mark) (1x5=5)

27. Semantic Barriers (Faulty Translations).

1 mark

Other Semantic Barriers-

- (i) Badly Expressed Messages
- (ii) Symbols with different Meanings.
- (iii) Unclarified Assumptions
- (iv) Technical Jargon
- (v) Body Language & gesture decoding

(1/2 mark for the heading +1/2 mark for the explanation=1mark) (1+1x5=6)

OR

Directing

1 mark

Importance

1. Initiates action.
2. Integrates employees efforts
3. Guides employees
4. Facilitates introduction of changes
5. Brings stability and balance

(1/2 mark for the heading +1/2 mark for the explanation=1mark) (1+1x5=6)

28. Factors affecting capital structure (any six) are:

- (i) The size of the projected cash flows must be considered before deciding the capital structure of the firm.
- (ii) Higher the Interest coverage ratio which is calculated as follows: $\text{EBIT} / \text{Interest}$, lower shall be the risk of the company failing to meet its interest payment obligations.
- (iii) A higher Debt service coverage ratio, in which the cash profits generated by the operations are compared with the total cash required for the service of debt and the preference share capital, the better will the ability of the firm to increase debt component in the capital structure.
- (iv) If return on investment of the company is higher, the company can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater.
- (v) More debt can be used if cost of Debt is low.
- (vi) A higher tax rate makes debt relatively cheaper and increases its attraction as compared to equity.
- (vii) If debt is used beyond a point, cost of equity may go up sharply and share price may decrease inspite of increased EPS.
- (viii) The floatation cost may affect the choice between debt and equity and hence the capital structure
- (ix) The total risk of business depends upon both the business risk and financial risk. If a firm's business risk is lower, its capacity to use debt is higher and viceversa.
- (x) To maintain flexibility the company must maintain some borrowing power to take care of unforeseen circumstances. (or any other correct factor)

(1 x 6 = 6)

OR

Three major decisions are:

- (i) Investment Decision which relates to how the firm's funds are invested in different assets in the long term and the short term.
- (ii) Financing Decision which relates to the quantum of finance to be raised from various long term sources. It determines the overall cost of capital and financial risk of the enterprise.
- (iii) Dividend Decision relates to how much of the profit earned by the company (after paying tax) is to be distributed to shareholders and how much of it should be retained in the business.

(2 x 3 = 6)

29. Trading Procedure of a Stock Market

Depository' is an institution/organisation which holds securities eg: shares, debentures, bonds, mutual funds etc in electronic form, in which trading is done.

DPS are agents – Stock brokers (R-Trading)

1. Selection of a Broker

TRADING PROCEDURE ON A STOCK EXCHANGE

(1x3+3=6)

The procedure for purchase and sale of securities in a stock exchange involves the following steps:

1. Selection of broker

The first step is to select a broker who will buy/sell securities on behalf of the investor. This is necessary because trading of securities can only be done through SEBI registered brokers who are the

members of a stock exchange. Brokers may be individual, partnership firms or corporate books. The broker charges brokerage / commission for his services.

2. Opening demat account

The next step is to open a demat account. Demat (Dematerialised) account refers to an account which an Indian citizen must open with the depository participant (banks, stock, brokers) to trade in listed securities in electronic form. The securities are held in the electronic form by a depository. At present, there are two depositories in India NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.)

Depository interacts with the investors through depository participants. Your Depository Participant will maintain your securities account balances and intimate to you the status of your holding from time to time.

3. Placing the order

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail etc. The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

4. Executing the order

According to the instructions of the investor, the broker buys or sells securities. The broker then issues a contract note. A copy of the contract note is sent to the client. The contract note contains the name and the price of the securities, names of the parties, brokerage charged. It is signed by the broker.

5. Settlement

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract. Equity spot market follow a T+2 rolling settlement. This means that any trade taking place on Monday, gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm. Indian Standard Time, Monday to Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk.

OR

The methods of floating new issues in the Primary Market are : (Any 4)

1. Offer Through Prospectus

It is the Method of Floating new issues by inviting subscriptions from the public through issue of Prospectus. A prospectus makes a direct appeal to investors to raise capital, through advertisement in newspapers and magazines.

2. Offer For Sale

It is the method in which the Securities are not Issued directly to the Public but through intermediaries like Issuing Houses or Stock Brokers. A company sells securities en bloc at an agreed price to brokers who, in turn, resell them to the investing public.

3. Private Placement

It refers to the allotment of securities by a company to institutional investors and some selected individuals. Some companies cannot afford a public issue and choose to use private placement.

4. Rights Issue

It is the privilege given to existing shareholders to subscribe to new issue of shares in proportion to the number of shares they already hold. The shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.

5. E-IPO

It refers to Issuing Securities through the online system of Stock Exchanges. The company has to enter into an agreement with the stock exchange.

(1/2 mark for heading + 1 mark for explanation=1 ½ x4=6)

- 30. (i) Rebate
- (ii) Refund
- (iii) Product - combination
- (iv) Quantity - gift
- (v) Instant draws and assigned gift
- (vi) Lucky Draw

(1x6=6)

OR

(a). The companies use all tools at the same time because of the nature of market, nature of product, promotion budget and objectives of promotion being different at different times.

(b). The most commonly used non-personal tool of promotion which is paid for by the marketer is advertising. The explanation should include: It is a paid and non-personal form having an identified sponsor to promote an idea.

(c) The tools of promotion used are

- (i) Public Relations
 - (ii) Advertisements
 - (iii) Personal Selling

(2x3=6)