SYLLABUS

HUM-203 E FUNDAMENTALS OF MANAGEMENT

Sessional	: 50 Marks
Theory	: 100 Marks
Total	: 150 Marks
Duration of Exam.	: 3 Hrs.

Unit I Meaning of management, Definitions of Management, Characteristics of management, Management Vs. Administration. Management-Art, Science and Profession. Importance of Management. Development of Management thoughts. Principles of Management. The Management Functions, Inter-relationship of Managerial functions.

Unit II Nature and Significance of staffing, Personnel management, Functions of personnel management, Manpower planning, Process of manpower planning, Recruitment, Selection; Promotion - Seniority Vs. Merit. Training - objectives and types of training.

Unit III **Production Management :** Definition, Objectives, Functions and Scope, Production Planning and Control; its significance, stages in production planning and control. Brief introduction to the concepts of material management, inventor control; its importance and various methods.

Unit IV **Marketing Management** - Definition of marketing, Marketing concept, objectives & Functions of marketing. Marketing Research - Meaning; Definition; objectives; Importance; Limitations; Process. Advertising - meaning of advertising, objectives, functions, criticism.

Unit V Introduction of Financial Management, Objectives of Financial Management, Functions and Importance of Financial Management. Brief Introduction to the concept of capital structure and various sources of finance.

Note: In the semester examination, the examiner will set eight questions in all, at least one question from each unit & students will be required only 5 questions.

FUNDAMENTALS OF MANAGEMENT

Model Test Paper-I
Paper Code: HUMC-08-G

Note: *Question No.1 is compulsory. Attempt five questions out of nine question, selecting at least one from each unit .*

Q.1.(a)Explain outdoor advertising. **(2)**

Ans. Outdoor advertising has gained wide popularity these days. Its purpose is to attract the attention of the people at busy roads and markets. It includes the use of poster displays, bill board displays and electirc displays.

Q.1.(b) State the qualities of a good manager. **(2)**

Ans. (1) Ability to think : It is difficult to think and think clearly and purposefully. Ability to to think in clear terms and with definite purpose in view is a must for a manager to succeed.He must be able to think rationally.

(2) Broad Vision : A manager must be able to take into consideration the overall effect of his functioning on the company as a whole.

(3) Clear Expression : One of the functions of a manager is to direct his subordinates. It means he must communicate with them. Effective communication depends upon clarity of expression.

(4) Technical Ability : Though a manager need not be a technician, it is necessary that he possesses the necessary degree of technical competence relating to his field.

(5) Organisational Ability : A manager must be a good organiser. Ability to organise well is a quality of vital importance to make a successful manager.

(6) Dynamic Personality : A manager must possess the desire to move ahead, to introduce change for better, to do something new. He must always look for doing something bigger and better.

Q.1.(c) Should promotion be based on seniority or on merit? **(2)**

Ans. Managment often shows greater preference for use of merit as the basis of promotion.

This basis of promotion has the following merits :

(a) Merits as the basis of promotion, offers maximum inducement for impronement. Employees know that competence is the only basis for getting promotion. The result is that employees earnestly desire to increase their competence and ability and thus become eligible for promotion.

(b) Promotion on the basis of merit motivates the employees having potential for development.

(c) Merit on the basis of promotion ensures that efficiency of the organisation is maintained.

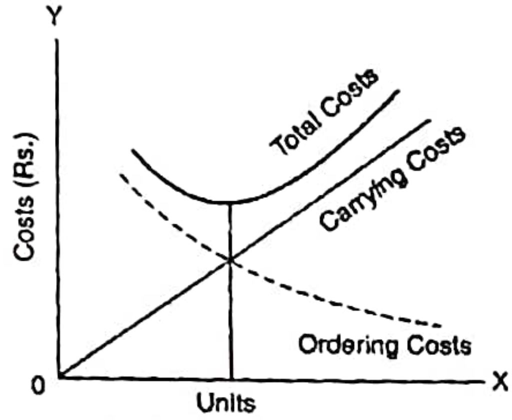
(d) Merit based promotion policy also attracts young and promising candidates to apply for jobs in the organisation. This infuses fresh blood into the organisation.

Q.1.(d) What is Economic order Quantity? **(2)**

Ans. Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs as shown in fig. At this level, total costs of inventory would be the minimum or most favourable to the buyer.

Economic order quantity is determined at that level where the total of ordering costs and carrying costs is the minimum.



Economic order quantity

Q.1.(e) What is the importance of financial managment? **(2)**

Ans. The importance of the financial management is as follows:

(i) Financial Planning : Financial management helps to determine the financial requirement of the business concern and leads to take financial planning of the concern. Financial planning is an important part of the business concern, which helps to promotion of an enterprise.

(ii) Acquisition of Funds : Financial management involves the acquisition of required finance to the business concern. Acquiring needed funds play a major part of the financial management, which involve possible source of finance at minimum cost.

(iii) Proper Use of Funds : Proper use and allocation of funds leads to improve the operational efficiency of the business concern. When the finance manager uses the funds properly, they can reduce the cost of capital and increase the value of the firm.

(iv) Financial Decision : Financial management helps to take sound financial decision in the business concern. Financial decision will affect the entire business operation of the concern. Because there is a direct relationship with various department functions such as marketing, production personnel, etc.

Q.1.(f) "Managment is universal" comment. **(2)**

Ans. *Management is universal* in the sense that it is applicable anywhere whether social, religious or business and industrial. The followers of this concept are Henry Fayol, Lawrence A. Appley, F.W. Taylor, Theo Haimann etc. According to :

(i) *Henry Fayol*, "Management is an universal activity which is equally applicable in all types of organization whether social, religious or business and industrial".

(ii) *Megginson*, "Management is management, whether it is in Lisbon, or in London or in Los Angeles."

(iii) *Theo Haimann*, "Management principles are universal. It may be applied to any kind of enterprises, where the human efforts are coordinated."

Q.1.(g) What is the difference between equity shares and preference shares?(2)

Ans.

Basic	Equity Shares	Preference shares
1. Preferential Right	Payment of equity dividend is made after the payment of preference dividend.	Payment of preference dividend is made before the payment of equity dividend.
2. Repayment of Capital at winding up	Repayment of equity share capital is made after the repayment of preference share capital.	Repayment of preference share capital is made before the repayment of equity share capital.
3. Rate of Divedend	The rate of equity dividend may vary from year despending upon the profits of the company.	The rate of preference divedend is fixed by the terms of issue.
4. Arrears of Divedend	In case of equity shares,arrears of dividend cannot accumulate.	In case of preference shares, arrears of dividend may accumulate if such shares are cumulative.
5. Convertibility	Equity shares cannot be convertible.	Preference shares may be convertible into equity shares.

Q.1.(h) what is the meaning of capital structure?

Ans. Capital structure refers to the proportion of different kinds of securities raised by a firm as long-term finance. According to C.W. Gerstenberg, " The types of securities to be issued and proportionate amounts that make up the capitalisation is knowm as capital structure or financial structure."

Q.1.(i) Explain staffing. **(2)**

Ans. Staffing comprises of those activites which are essential to keep manned the positions created by the organisation structure. It includes the task of determining the requirements with regard to number and types of people for the jobs to the done ,laying down qualifications for various job and recruiting, selecting and training people to perform those jobs efficiently.

Q.1.(j) What is the role of financial manager in a company? **(2)**

Ans. The financial manager of a business enterprise has to manage various aspects of the finance function which determine the scope of his duties. The functions of the financial manager are discussed below :

(1) Formulation of Objectives : The setting of objectives of finance department is the basic function of financial manager.

(2) Estimating the Requirement of Capital : The requirements of capital must be carefully estimated. The financial management must prepare budgets of various activities to estimate the financial requirements of the business.

(3) Determining the Structure of Capital : The financial manager has to determine the proper mix of equity and debt and short term and long-term debt ratio.

Section – A

Q.2.(a) "Managment is both a science and an art." Explain. (10)

Ans. ***Managment is both a science and an art.*** It is considered a science because it has an organised body of knowledge which contains certain universal truths. It is called an art because managing requires application of certain skillls which are the personal possession of the manager. Science provides knowledgw about certain things and art deals with the application of knowledge and skillls. A manager to be successful must acquire the knowledge of science of management and learn to apply this knowledge. A manager should be an applied scientist. He should posses not only specialised knowledge of management, but also the skills to put his knowledge into practise. Just as a doctor uses his knowledge to treat his patients, a manager should use his knowledge to solve the organisational problem.

Management is as old as the civilisation. But its emergence as a scientific field of enquiry is comparratively new. It has been aptly remarked that management is the oldest of arts and the youngest of sections.

Q.2.(b) What are the various functions of managment? Also explain their interrelationships. (10)

Ans. The functions of management are Planning, Organizing, Staffing, Directing and Controlling.

1. Planning : It is the basic function of management. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources.

Planning involves the following steps:

(i) Determination of objectives.

(ii) Forecasting of future trends.

(iii) Formulation of policies and programmes.

(iv) Preparation of schedules and procedures.

(v) Formulation of budgets.

2. Organizing : It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. Organizing as a process involves:

(i) Identification of activities.

(ii) Classification of grouping of activities.

(iii) Assignment of duties.

(iv) Delegation of authority and creation of responsibility.

(v) Coordinating authority and responsibility relationships.

3. Staffing : It is the function of manning the organization structure and keeping it manned. The main purpose o staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. Staffing involves:

(i) Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).

(ii) Recruitment, selection & placement.

(iii) Training & development.

(iv) Remuneration.

(v) Performance appraisal.

(vi) Promotions & transfer.

4. Directing : It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

(i) Supervision

(ii) Motivation

(iii) Leadership

(iv) Communication

5. Controlling : It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. Therefore controlling has following steps:

(i) Establishment of standard performance.

(ii) Measurement of actual performance.

(iii) Comparison of actual performance with the standards and finding out deviation if any.

(iv) Corrective action.

Inter relationship between Managerial functions : Managing is a contionous process consisting of (i) planning ,(ii) organising, (iii) staffing, (iv) directing, and (v) controlling as shown in fig. When a manager reaches the last step ,viz., control, his job does not end here. Actually, he will again start with planning on the basis of his past observations and experiance and his projection about the future. One cannot say that a manager will orgnise only when the job of planning is over or will direct only when the stage of organising is completed. In practise, a manager has to perform these activites simultaneously to achieve the desired objectives.

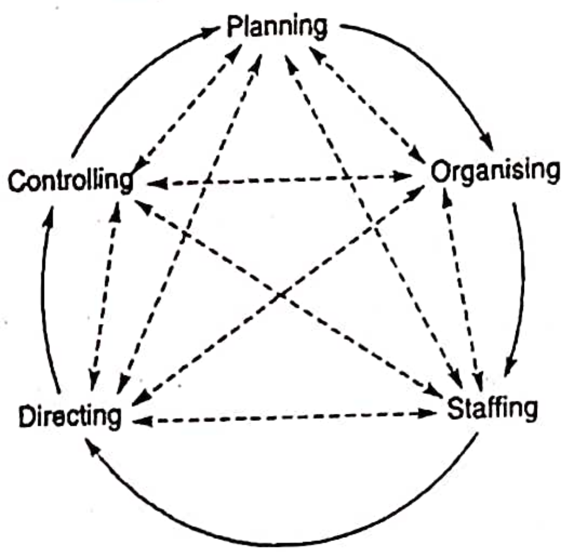


Fig. : Interrelationship between Management Function.

Thus, for theoretical purposes, it may be convenient to seprate management functions, but practically they defy such categorisation. They are highly inseparable. Each function blends into the other functions and affects the performance of others and is also affected by the others. In other words, the functions of management are interrelated. The interaction between the function of management has been shown by dotted arrows in fig.

Q.3. What is training? Explain its objective, importance and types. (20)

Ans. Training : According of Edwin B. Flippo, "*Training is the act of increasing the knowledge and skills of an employee for doing a particular job.*" Training is an organised activity for increasing the technical skills of the employee to enable them to do particular jobs efficiently. In other words, training provides the workers with facility to gain technical knowledge and to learn new skills to do specific jobs. Training is equally important for existing and as well as new employees. It enables the new employees to get acquainted with their jobs and also increase the job-related knowledge and skills.

Objective of Training : The objective of training are as follows :

(i) To provide job related knowledge to the workers.

(ii) To impart skills among the workers systematically so that they may learn quickly.

(iii) To bring about change in the attitudes of the workers towards fellow workers, supervisor and the organisation.

(iv) To improve the productivity of the workers and the organisation.

(v) To reduce the number of accidents by providing saftey training to the workers.

(vi) To make the workers handle materials, machines and equipment efficiently and thus to check the wastage of time and resources.

(vii) To prepare workers for promotion higher jobs by imparting them advanced skills.

Importance of training for the organisation : Training is beneficial for the organisation as discussed below :

(i) *Economy in operations* : Trained personnel will be able to make better and economical use of materials and equipments. Wastage will be low. In addition, the rate of accidents and damage to machinery and equipment will be kept to minimum by the well-trained employees. These will lead to less cost of production per unit.

(ii) *Greater Productivity* : A Well-trained employee usually shows a greater productivity and higher quality of work-output than an untrained employee. Training increases the skills of the employees in the performance of a particular job. An increase in the skills usually helps to increase both quantity and quality of output.

(iii) *Uniformity of procedures* : with the help of training, the best available methods of work can be standardised and make available to all employees. Standardisation will make high level of performances rule rather than the exception.

(iv) *Less supervision* : If the employees are given proper training, the responsibility of supervision is lessened. Training does not eliminate the need for supervision, but if reduces the need for detailed and constant supervision.

(v) *Systematic imparting of skills* : A systematic training programs helps to reduce the learning time to reach the acceptable level of performance. The employees need not learn by trial and error or by observing other and waste time if the formal training programme exists in the organisation.

(vi) *Creation of inventory of skills* : When totally new skills are required by an organisation, it has to face great difficulties in employment. Training can be used in spotting out promising men and in removing defects in the selection process. It is better to salect and train employees from within the organisation rather than seek the skilled employees from outside sources.

(v) *Higher Morale* : The morale of the employees is increased if they are given proper training. A good training programme will mould employees attitudes to achive support for organisational activites and to obtain greater cooperation and loyality. With the help of training, dissatisfaction, complaints, absenteeism and turnover can be reduced among the employees.

Imporatance of training for the workers : Training is beneficial for the employees in the following ways :

(i) *Acquisition of new skills.* Employees acquire new skills and knowledge which will help of them their career prospects.

(ii) *Higher wages.* The productivity of the workers is increased as a result of training. Because of this, they earn higher wages and bonus.

(iii) *Industrial Safety.* Trained workers are less prone to accidents as they handle the machines carefully. They also know the use of various saftey devices in case of any emergency.

(iv) *Preparation for Promtion.* The efficients workers sharpen their skills during training. This helps them to prepare for promotion to higher jobs.

(v) *Versatile Utility.* Trained employees can shift from one job to another easily if there is no work at the present job.

(vi) *Higher Morale.* Trained employees know their jobs well and have less number of accidents. They are satisfied with their jobs which increases their morale.

Types of Training : Depending upon the purpose of training, the following kinds of training programmes are used in industry:

1. Induction and Orientation Training : Induction is concerned with introducing or orienting a new employee to the organization and its procedures, rules and regulations. When a new employee reports for work, he must be helped to get acquainted with the work environment and fellow employee. It is better to give him a friendly welcome when he joins the organization, get him introduced to the organization.

2. Apprenticeship Training : Apprenticeship training involves imparting knowledge and skills in a particular craft or trade such as printing, toll making, etc. The Governments of various countries have passed laws which make it obligatory on certain employers to provide apprenticeship training to the young people. A apprenticeships training is desirable in industries which require a constant flow of new employees expected to become all round craftsmen. It is very much prevalent in printing trade, building and construction, and vocations like mechanists, electricians, welders, etc.

Section – B

Q.4.What is Inventory control? What are the benefits of inventory control to an industrial concern? Explain techniques of inventory control in detail. (20)

Ans. Inventory control : Inventory control is the process of deciding what and how much of various items are to be kept in stock.

Benefits of Inventory Control : The advantages of inventory control are as under:

(i) It ensures adequate supply of materials, stores, spares, etc. There is no shortage of any item at any stage of production.

(ii) It reduces investment in inventories, inventory carrying costs and losses due to obsolescence.

(iii) Materials are made available at the most economical rates.

(iv) Delays or interruptions in production due to non-availability of materials do not occur.

(v) Exact and accurate delivery dates can be forecast and orders can be booked accordingly.

(vi) Production schedule and delivery dates are maintained.

(vii) The materials are protected from spoilage, deterioration, pilferage etc.

(viii) There is an increase in overall efficiency /production of the organisation.

Methods of Inventory Control : The most popular methods or systems of inventory control used by industrial enterprises include the following :

(i) Fixation of various stock level

(ii) Economic Order Quantity (EOQ).

(iii) Perpetual Inventory Control.

(iv) Periodical Stocking.

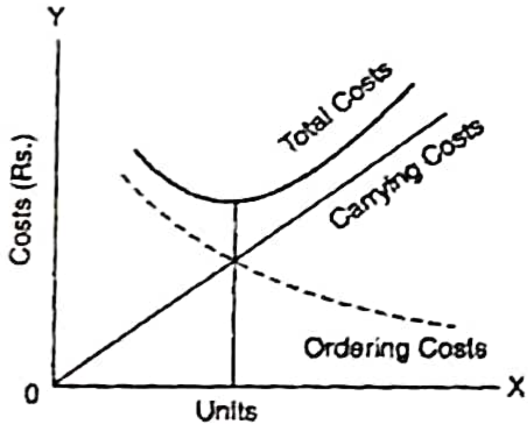
(v) ABC analysis

(vi) VED analysis.

(i) Fixation of various stock level: Under this method various stock levels are fixed scientifically to avoid over stocking and under stocking of materials. Over stocking of materials leads to unnecessary blockage of materials and investment and under stocking of material leads to disputation in production. These are the following stock levels which help for planning of materials.

(ii) Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs as shown in fig. At this level, total costs of inventory would be the minimum or most favourable to the buyer.



Economic order quantity

Economic order quantity is determined at that level where the total of ordering costs and carrying costs is the minimum.

Economic Order Quantity can be calculated with the help of the following formula :

$$\text{EOQ} = \sqrt{\frac{2AS}{PC}}$$

where A = Annual usage in units.
S = Cost of placing orders.
P = Price of material per unit
C = Cost of storage of material.
EOQ = Economic order quantity

(iii) Perpetual Inventory Control : Perpetual Inventory Control Method requires a stock record or register for every item. Receipts are recorded from goods received notes and disbursements from stores requistion. Thus, a running balance of stock on hand is available after every receipt or disbursement. As the name implies, the method provides an up-to-date record of inventories so that the chances of misappropriation are reduced. Record requisitions are placed when the balance reaches some predetermined minimum quantity.

The operation of the perpetual inventory system may be outlined as follows :

(1) The stock records are maintained and up-to-date posting of transactions is made therein so that current balance may be known at any time.

(2) Different sections of the stores are taken up by rotation for physical checking. Every day some items are checked so that every item may be checked for a number of items during the year.

(3) Stores received but awaiting inspection are not mixed up with regular stores at the time of physical verification because entries relating to such stores have not yet been made in the stock records.

(4) Notice of the particular items to be verified each day is given to the storekeeper only on the date of actual verification so that surprise element in stock verification may be maintained.

(5) The physical stock available in the store, after counting, weighing, measuring or listing, as the case may be, is properly recorded in bin cards or inventory tags or stock verification sheets.

(iv) Periodical Physical Checking or Stock-Taking : The Periodical Physical Count Method requires an occasional count of stock to determine inventory balance on hand. The inventory count is recorded on the inventory sheets. The usage of stores is determined by adding current receipts to the old balance and subtracting the new balance on hand. Recorder requistion can be placed when occasional counting reveals that only a small quantity of a certain item is on hand or when the storekeeper notices that stock is running low. This method is practicable only in case of insignificant items because in case of other items varying usage may deplete stock and may cause an out of stock position between two inventory taking periods.

(v) Inventory Control Through ABC Analysis : A. B. C. analysis is always a better control system. Under this method inventory items are classified in to three categories such as A. B. C. basing upon its value and cost significance. The number of items and the value of each class is expressed as percentage of the total and categorize as under.

Items of high value and small in numbers termed as 'A'
Items of moderate value and moderate in number is termed as 'B'
Items of small in value and large in number is termed as 'C'

A diagramatic view of ABC analysis is shown in fig.

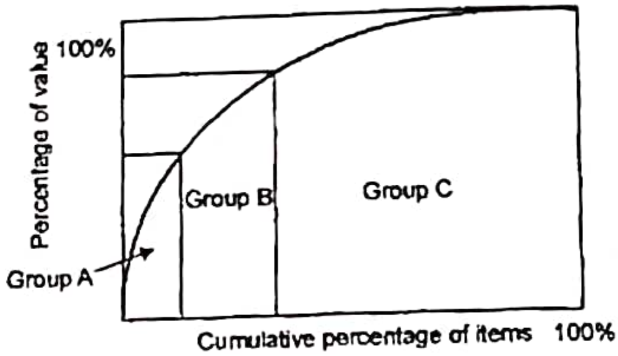


Fig. : ABC Analysis Curve

The significance of ABC analysis is that a very close control is exercised over the items of 'A' group which account for a high percentage of costs while less stringent control is adequate for category 'B' and very little control would suffice for category 'C' items.

All types of material control *i.e.*, purchase, stores and issue are to be strictly applied in case of the items of 'A' group. In case of the 'C' items an elaborate material control is not exercised because these items represent a very small portion of the material costs. These items can be purchased once a year and various stock levels i.e., minimum level, maximum level, ordering level etc. may not be adhered to. All the time, efforts and costs saved on the C group items by not having an elaborate control can be usefully utilised on the A and B group items.

(vi) VED Analysis : This method is used for control of spare parts. VED is the symbol of:

1. Vital spare parts: Are those spares whose cost of stock out is very high.
2. Essential spare parts: Are those spares which are essential for the production to continue.
3. Desirable spare parts: Are those spares which are needed but their absence even a week or more will not lead to stoppage of production.

The space parts can be divided into three categories-vital, essential or desirable-keeping in view the criticality to production. The spares, the stock-out of which even for a short time will stop production for quite some time and where the cost of stock-out is very high, are known as vital spares. The spares, the absence of which cannot be tolerated for more than a few hours or a day and the cost of lost production is high and which are essential for the production to continue, are known as essential spares. The desirable spares are those spares which are needed but their absence for even a week or so will not lead to stoppage of production. Some spares, though negligible in monetary value, may be vital for the production to continue and require constant attention. Such spares may not receive the attention they deserve if they are maintained according to ABC analysis because their value of consumption is small. So, in their cases, VED analysis is made to get the effective results.

Q.5. What is production management? Explain the importance and functions of production management, Also explain the steps involved in production planning and control. (20)

Ans. According to Elwood S.Buffa, " Production management deals with decision-making related to production processes, so that resulting goods or service is produced according to the specification, in the amounts and by the schedule demanded, and at minimum cost. In accomplishing these objectives, production managment is associated with two broad areas of activities : the design and control of production system." **Production management deals with managerial functions related to the production system and operation and controle of production system, i.e., production planning and control.**

Importance of production management : Production Means creation of goods and services with the help of certain processes. It covers all the activities of procurement, allocation and utilisation of resources like materials, energy, labour, plant and machinery, etc. As a mattter of fact, the production of goods and services constitues the point of concentration in all industrial enterprises because other activites of the enterprises like financing, purchasing, string, and marketting revolve around production. Therefore, it is essential that the production area of business is managed efficiently so that it may contribute effectively and efficiently towards the objective of the enterprises. A good production system must be economical and efficient to produce goods and services of higher quality at a lower cost in order to face the market competition and to ensure reasonable rate of return on the capital. The goods and services produced must be capable of satisfying the demands of the customers. If a firm does not produce the goods required by the customers, it will not be able to stay in the business world in the long-run.

Functions of production management : Production management involves a wide range of activities from the plant location to the packaging of products to be distributed by the marketing department of the enterprise. Production management has a very wide scope and it includes the following operations :

(i) Design of Product : It is the top management which determines the product to be produced by the firm. But the designing of the product is the responsibility of the production manager. The product designing deals with form and function. The form design deals with the product's shape and appearance whereas the functional design deals with its working.

(ii) Design of Production System : Production system is the framework within which the conversion if inputs into output occurs. There are three basic kinds of production system, namely, process production, job production and intermittent production. The choice of a production system will depend upon the type of product to be produced and the scale of production carried on by the firm.

(iii) Production Planning and Control : It deals with the determination and regulation of production processes. After the production system has been designed and activated, the production manager is concerned with production planning. He establishes the exact sequence of operation of each individual item, part or assembly and lays down the schedule of its completion. Production planning is followed by production control. Production control is a process by which actual performance is compared with the predetermined standards. The production manager has to apply to control in these important areas : (a) control of inventories, (b) control of flow of raw materials into the plant, and (c) control of work-in-process.

(iv) Selection of Location : Plant should be located at such place where production and distribution costs are the minimum. Costs which influence the locational decision include cost of land, rental value, transportation costs, labour cost, cost of water and power, etc. Other factors which influence the selection of location are : process inputs, process outputs, process requirements. Government policy, availability of site, personal Prefences etc.

(v) Layout of Plant : The plant layout represents an arrangement of machines and facilities. The plant layout should be efficient to achieve economy and efficiency in operations of

the production department. An efficient layout is one that allows materials to move through the necessary operations rapidly and in the most direct way possible. It takes care of the intensity of in-process items and tries to shorten all heavily travelled routes. The type of layout depends mainly upon the type of production system adopted by the production department.

(vi) Selection of Plant and Equipment : The choice of plant and equipment depends upon : (a) What is available or what can be made available? i.e., technoligical feasibility constraints, and (b) what is economically reasonable ? i.e. cost contraints. The quality of output, life of the machine and adaptability of the facilities are also important considerations.

(vii) Research and Development : Research means critical investigation in order to acquire new knowledge. Applied research explores information for the practical problems in mind and thus is directed to achieve immediate solution to practical problems. Development comes after applied research. It involves design and fabrication of new products and the testing their usefulness keeping in view the needs and demands of customers.

Steps in production planning and control : The basic phase, steps or elements of production planning and control are : (i) routing; (ii) loading ; (iii) scheduling ; (iv) dispatching ; (v) follow-up or expenditing and (vi) corrective measures. These phase are dicussed below.

(i) *Routing :* Routing deals with laying down of path along which materials are to travel in the process of production. It determines the sequence in which various operations will be performed. According to Spriegel and Lansburgh, "Routing involves the determination of the path the work shall following and the necessary sequence of operations."

(ii) *Scheduling :* Scheduling determines when various operations are to be performed. It leads to fixing up of starting and completion times for the various operations to be performed. Scheduling for each job should be integrated with routing as shown in Fig. It is difficult to route an item efficiently through a plant without previously designed schedules and it is equally difficult to prepare schedules without determining the routing or sequence of operations. The other information required to draw production schedule include : (a) date of delivery specified by the customer ; (b) past production records ; (c) production capacity ; and (d) availability of equipment, materials and specialised skills.

(iii) *Loading :* After the route has been established, the work can be loaded against the concerned machines and equipment. Loading deals with the quantity of work assigned to a machine or a worker.

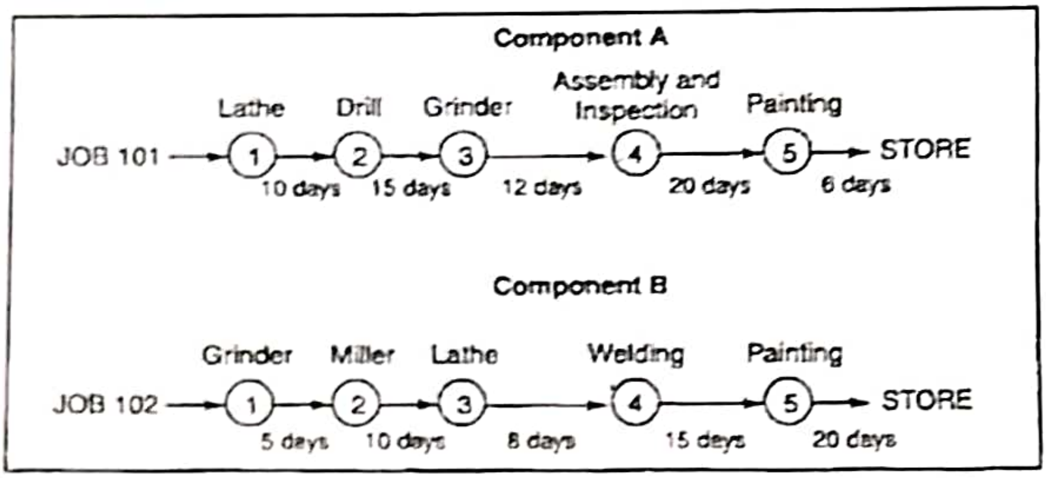


Fig : Routing and scheduling (Route is represential arrows and time schedule by number of days)

(iv)*Dispatching or issuing Instructions* : According to Alford nand Beatty, "Dispatchig deals with setting the productive activities in motion through release of order and instructions in accordance with previously planned timings as embodied in operation sheets. Route cards and loading schedules.

(v) *Expediting or Follow-up* : Expediting involves follow up of operations of various workshops to ensure that production of goods take place as per predetermined schedules.

(vi)*Corrective Measures* : Corrective action is needed to make any system of production planning and control effective. By resorting to corrective measures, the production manager maintains full control over the production activities.

Section – C

Q.6.(a) Describe marketing functions. **(10)**

Ans. Marketing Manager performs the following functions :

(i) Marketing research.
(ii) Product planning and development,
(iii) Buying and assembling,
(iv) Selling,
(v) Standardisation, grading and branding.
(vi) Packaging,
(vii) Storage,
(viii) Transportation.
(ix) Advertising,
(x) Pricing.

(1) Marketing Research : It means the intelligence service of the organisation. Marketing research helps in analysing the buyer's habits, relative popularity of a product, effectiveness of advertisement media, etc. Its major task is to provide the marketing manager with timely and acurate information so that better decisions can be made. The scope of marketing research is very wide. It may cover all the areas of business which have bearing on the marketing function. In the words of W.J. Stanton, "*Marketing research is the systematic search for an analysis of facts related to a marketing problem.* It is shifting from fact finding, information gathering activity to a problem solving and action recommending function."

(2) Product Planning and Development : *A product is something which is offered by a business firm to customers to satisfy their needs.*

Product planning and development involves a number of decision, namely what to manufacture of buy, how to have its packaging, how to fix its price and how to sell it. The design, quality, colours, size and other features of the product can be determined by conducting marketing research. The production department will be guided by the requirements of the users.

(3) Buying and Assembling : It involves what to buy, what quality, how much, from whom, when and at, what price. People in business buy to increase sales or to decrease costs. Purchasing agents are much influenced by quality, service and price. The products that the retailers buy for resale are determined by the need and preferences of their customers.

Assembling means collection of goods already purchased from different sources at a common point. It is also used in another sense. Raw materials are purchased and assembled in order to produce goods and services.

(4) Selling : It is core of marketing. It is concerned with the persuasion of prospective buyers to actually complete the purchase of an article. Setting pays an important part in realizing the ultimate aim of earning profit. Selling is enhanced by means of personal selling, advertising, publicity and sales promotion.

Negotiated sale may take the following forms, namely, (a) sale by inspection, (b) sale by sample, (c) sale by description, (d) sale by grade, and (e) sale by brand.

(5) Standardisation, Grading and Branding : Standardisation means setting up of specifications of a product. Grades of agricultural products are based on these specifications and standards. Industrial goods are given brand names by their manufacturers to convey to the customers that their goods conform to certain will defined standards. These activities promote the sale of products.

(6) Packaging : Packaging has become one of the essential services of modern marketing. Packaging facilitates the sale of a product. It acts as a silent salesman of the manufacturer, particularly at a place where is widespread use of self-service, automatic vending and other self-selection methods of retail selling. Sometimes, packages are duly sealed to ensure products of right quality to the consumers. In the absence of are duly sealed to ensure products may be distributed to the consumers by unscrupulous dealers.

(7) Storage : Storage of goods in ware houses has become an indispensable service these days. Poducers, manufacturers, traders, mercantile agents, importers and exporters engaged in business have to store their goods in warehouses. Goods are produced or procured in business have to store their goods in warehouses. Goods are produced or procured well in advance of the demand. They are stored in warehouses till they are actually sold in the market. Thus, warehousing creates time utility. In addition, modern warehouses perform certain marketing services also such as grading, packaging, labelling, etc.

(8) Transportation : Modern organisation produce on a large scale to cater to the requirements of customers scattered throughout the country. This calls for transportation of goods from the place of production to the place of consumption. Transportation provides the physical means which facilitate the movement of persons, goods and services from one place to another.

(9) Advertising : Advertising has become an important function of marketing in the competitive world. It helps to spread the message about the product and thus promote its sale. It facilitates creation of a non-personal link between the advertiser and the receivers of the message.The important of advertising has increased in the modern era of large scale production and tough competition in the market. Business firms use several media of advertisement to sell their products. These include newspapers, magazines, radio, television, cinema halls, hoardings, window displays, etc.

(10) Pricing : Determination of price of a product is an important function of a marketing manager. Price of a product is influenced by the cost of product and services offered, profit margin desired, prices fixed by the rival firms and Government policy.

Q.6.(b) Explain the importance, objectives and limitations of marketing research. (10)

Ans. Importance of Marketing Research : Sucesss of an organisation depands largely on marketing management. If marketing is not caried properly, a business can't be run profitably. For successful implemention of marketing process, marketing research is of outmost necessity. Consumer oriented and competitive markets have further increased the importance of marketing research.

- Marketing research provides valuable information which provides basic for sound and accurate decision. In other words, top management's function of decision making becomes easy with the help of marketing research.

- Marketing research has brought the producer and the ultimate consumer very close to each other by crossing the walls raised by marketing intermediaries. It has greatly filled the communication gap between the producer and the consumer. It studies in detail the buying habits of consumers, their tastes and preferences, needs, options and reactions etc. According to S.H. Turner *"Marketing research involves a study of consumer preferences, habits and attitudes"*.

- Marketing research provides valuable information with regard to new developments and innovations brought about by rapid growth of science and technology. On account of these developments, prompt adjustments and changes in various policies viz., advertising, sales pricing and distribution etc. have got to be made so that a business concern can keep itself upto date in the dynamic market place.

- Marketing management has accepted the real challenge of finding new customers, new products and new markets with the help of vital instruments of marketing research.

- Marketing research has greatly reduced the possibility of error and has provided right goods at right places, at right time and at right price. According to Smallbone "Marketing research then is the hand maiden of good management but can never be a substitute for it".

Objectives of Marketing Research : Marketing research is usually conducted to achieve the following objectives :

(i) *To know about the persons who buy the firm's product* : Marketing research tries to reveal the nature of persons who buy, the frequency of their buying and the sources of their buying. It also includes the social status and the regional location of the customers.

(ii) *To find out the Impact of Promotional efforts* : Marketing research facilities appraising and improving the methods of sales promtion. It also leads to measure the effectiveness of advertising, pricing policies and channels of distribution.

(iii) *To Know customers Response to a new product* : This is also Known as product testing. Marketing research is frequently used to know the opinion of the customers about the satisfaction givern by a new product. This helps in Knowing the desired improvements in quality, design, size, packing, distribution method, etc.

(iv) *To forecast sales* : Marketing research helps in sales forecasting and market planning. The researches make sales forecast on the basis of the response from the customers and the distribution media.

(v) *To study the Goodwill of the firm in comparison with the competing firms* : This helps in revealing the imporatant information regarding the moves of the competitors, new products and substitutes entering the market and their impact over the firm's products.

Limitations of Marketing Research : The following are the limitations of marketing research :

(1) It requires large finances on account of its costly techniques. Small firms can't afford it.

(2) Its techniques are applicable in gathering and interpreting information from human beings. The information given by individuals may not be correct which ultimately affects the result shown by marketing research.

(3) It provides only probable, complex and abstract solutions where as traditional management expects 'definite, simple and concrete solutions.

(4) It can't be carried out successfully when some executives prefer to relay more on their own judgement and decision.

(5) It can be profitably and effectively carried out by the experts possessing sound knowledge of statistics, data processing and operational research etc. These competent and expert personnel may not be available.

Q.7. Name the various Advertising Media. Suggest suitable media for Cosmetics, cooking oil,Truck Tyres with their relative merits .Also explain whether 'Advertising is a Social waste'? (20)

Ans. Media of Advertising are as follows :

1. Press Advertising or Print Media : Press advertising, i.e., advertising through newspapers, magazines, journals, etc. is commonly used by modern businessmen. It may be note that advertising is an important source of finance for the press or print media. Because of advertisements, the subscribers get newspapers and periodicals at subsidised rates.

2. Outdoor Adverising : Outdoor advertising has gained wide popularity these days. Its purpose is to attract the attention of the people at busy roads and markets. It includes the use of poster displays, bill board displays and electirc displays.

3. Film Advertising : Films are an important medium of advertisement. A business concern may get a short motion picture prepared and distribute it to different cinema houses for displaying it before the commencement of the regual shows or during the period of intermission. Such films are accompanied by running commentary to explain the features, uses and superiority of the product.

4. Radio Advertising : Radio advertisements have gained greater popularity these days. Advertisements are broadcast from the transmitting stations of the commercial service of All India Radio and picked up by the receiving sets owned by the public. Radio advertisements are normally broadcast alongwith popular programmes of music. Even the sponsored programmes of music, interviews and plays can also be broadcast over the radio.

5. Television Advertising : Television is the fast growing medium of advertisement because of huge expansion of electronic media and cable network. It makes its appeal through both the eye and the ear. Products can be demonstrated as well as explained as in film advertisement. Advertising may take the form of short commercials and sponsored programmers.

6. Direct Mail Advertising : Direct mail is probably the most selective of all the advertising media. It is used to send the message directly to the selected people. For this purpose. The advertise has to maintain a list which can be expanded or contracted by adding or removing names from the list. But a severe limitation is posed by the difficulty of gettig and maintaining a good mailing list.

Suitable Media for Advertising Cosmetics, cooking oil,Truck Tyres :

(i) Printing Media

(ii) Outdoor Media

(iii) Television Media

(iv) Internet Media

Advertising a Social Waste? : Advertising is often criticised as a wasteful activity and an unnecessary evil. Its critics offer the following arguments to prove their contention :

(i) Multiplication of Needs : Advertising multiplies the needs of the people by inducing them to buy even those things which are not required by them. Since an advertisement is continuously repeated, it creates a desire in the mind of the people to buy the advertised product.

(ii) Burden on the Buyers : The amount of money spent by an advertiser on his product's advertisement is added to the distribution cost of the product. Thus, the customers have to pay more for the product advertised.

(iii) Creation of Confusion : The consumers get confused when they are exposed to excessive advertising of certain products. For instance, different models of T.V.s of a large number of brands are advertised which makes it difficult for a buyer to make a choice of the right T.V. Similarly, there are so many brands of beauty soaps, detergents, tooth pastes, etc.

(iv) Creation of Monopoly : Advertising may lead to monopoly of a brand. It is argued that big manufacturers who can afford large amount of money on advertising can create brand monopoly and eliminate the small producers.

(v) Wasteful Expenditure : Advertising does not always increase the demand of the product. When the demand is inelastic, advertising shifts demand from one producer to another. That means a large amount of money spent on advertising by the manufacturers goes waste. It has also been observed that a large number of advertisements either escape the attention of the people or are ignored by them.

(vi) Socially Undesirable : Sometimes, advertising undermines ethical and aesthetic values. It may make the people start bothering for appearance and design of the product rather than the real utility. Some advertisers also use indecent language and photographs to advertise their products which is highly objectionable from the society's point of view.

Despite its drawbacks, *advertising is a necessary marketing activity in the present business environment*. It is *not always social waste*.

- It enables a manufacturer to introduce his products in the market and sell them.
- Advertising helps in educating the people regarding new uses of various products.
- It also strengthens the freedom of choice of the people.
- It sustains the press and gives employment to people.
- Advertising increases the standard of living of the people by informing them about the availability of new products.

Thus, we can say that advertising is a useful marketing activity. Its drawbacks could be removed if the people and the Government keep a watch on the advertisers. People should satisfy themselves about the claims made by a producer before they purchase his products. The manufacturers of the advertisers should also avoid wasteful advertising and keep advertising expenditure within limits. They should also follow the ethical standards while advertising their products.

Section – D

Q.8. What is financial management? What is the role of financial manager of a company ? Explain various sources of finance in detail. (20)

Ans. Financial Management : *Financial Management is concerned with the managerial activities related to procurement and utilisation of funds for business purposes.* It deals with planning, organising, directing and controlling financial activities of the enterprise.

Role of financial manager : The financial manager of a business enterprise has to manage various aspects of the finance function which determine the scope of his duties. The functions of the financial manager are discussed below :

(1) *Formulation of Objectives* : The setting of objectives of finance department is the basic function of financial manager.

(2) *Estimating the Requirement of Capital* : The requirements of capital must be carefully estimated. The financial management must prepare budgets of various activities to estimate the financial requirements of the business.

(3) *Determining the Structure of Capital* : The financial manager has to determine the proper mix of equity and debt and short term and long-term debt ratio.

(4) *Choice of Source of Finance* : The management can raise finance from various sources like shareholders, debentureholders, banks and other financial institutions, public deposits, etc. The choice of the source or sources of finance should be done very carefully as they involve different costs and condition.

(5) *Disposal of Surplus* : The management has to decide how much to retain for ploughing back and how much to distribute as dividend to shareholders out of the surplus of the company.

(6) *Management of Cash* : Cash is required to pay-off creditors, purchase stocks of materials, pay to labour and to meet day-to-day expenses. There should not be any shortage of cash any time as it will damage credit-worthiness of the enterprise. It is also to be seen that there is no excess cash.

Sources of Finance: Various sources of finance for a company may be grouped under two heads, namely, (i) Owner's funds and (ii) Borrowed funds.

(1) Owner's fund: Ownership funds include capital contributed by the shareholders and the profits reinvested in the business. Ownership fund is raise d by the following:

(a) *Equity shares*: Equity shareholders provide capital on permanent basis to the company. They are the real owners of the company and they bear the risk of business. They het dividend only after the dividend on preference shares has been paid out of the profits of the company. At the time of winding up, equity capital can be paid back only after very claim including hat of preference shareholders had been settled.

(b) *Preference shares*: Preference shares are those which vary preferential rights as to the payment of dividend at a fixed rate and as to the repayment of capital. Thus , preference shareholders enjoy the following two preferential rights over the equity shareholders:

(i) They are entitled to receive a fixed rate of dividend out of the net profits of the company prior to declaration of dividend on equity shares.

(ii) They get priority over the equity shareholde5rw regarding return of capital in case of winding up of the company.

(c) *Retained profits*: Retained earnings denote the profits not distributed among the shareholders. It is also known as 'ploughing back of profits'. Under this method, the undistributed or retained profits of the company are used to finance the requirement of the company. The main feature of this method is that is an internal source of finance.

(2) Borrowed fund : Borrowed funds are raised by way of issue of debentures, rising of public deposits, loans and credit form banks, financial institutions, etc. the Retained fund is raised by following:

(a) *Debentures* : Debentures are creditor ship securities which provide funds to the company on loan basis rather than on capital basis. They constitute the dept capital of the company acknowledging it dept and undertaking to pay interest and principal on the dates specified in the document.

(b) *Public deposits* : Besides the issue of securities, the companies have been accepting public deposits to meet their medium-term requirements. The rate of interest on deposits' generally varies from 10 percent to 13 percent per annum depending upon the period of deposit and reputation of company. Companies generally receive public deposits for different periods ranging from 6 months to 3 years and allow for renewal of deposits.

(c) *Commercial Banks* : Commercial banks advance money to the business firms generally for meeting their short-term and medium-term requirements. Short-term financing is done by way of: (i) overdrafts, (ii) cash credits, (iii) discounting of bills.

These advances are given for short periods of up to one year and are meant for meeting working capital requirement of business. Bank also extends loans for purchasing fixed assets.

(d) *Financial Institutions* : Institutions finance means ling-term credit provided by the specialized financial institutions to industry and business. Industrial organizations can raise long-term loans from special financial institutions for the purchase of fixed assets and financing modernization and expansion programmers.

Q.9. Write short notes on :

(a) Functions of financial management. (5)

(b) Importance of financial management. (5)

(c) Factors affecting capital structure. (5)

(d) Objectives of financial management. (5)

Ans. (a) Functions of financial management : The functions of the financial management are discussed below :

(1) Formulation of objectives : The setting of objectives of finance department is the basic function of financial manager. These objectives must be in tune with then overall objectivies of the organisation.

(2) Estimating the requirement of capital : The requirement of capital must be carefully estimated. The financial management must prepare budgets of various activites to estimate the financial requirement of the business.

(3) Determining the structure of capital : The financial manager has to determine the proper mix of equity and debt and short-term and long-term debt ratio.These decision have to be taken in the light of costs or raising finance from different sources, period for which funds are required and several other factors.

(4) Choice of sources of finance : The management can raise finance from various sources like shareholders, debentureholders, banks and other financial institutions, public deposits, etc. The choice of the sources of finance should be done very carefully as they involve different costs and conditions.

(5) Disposal of surplus : The management has to decide how much to retain for plouging back and how much to distribute as dividend to shareholders out of the surplus of the company.

(6) Management of cash : Cash is required to pay-off creditors, purchase stocks of materials, pay to labour and to meet day-to-day expenses. There should not be any shoratge of cash any time as it will damage credit-worthiness of the enterprise. It is also to be seen that there is no excess cash.

(7) Financial Controls : Evalution of financial performance is an important task of finance manager. The overall measure of evaluation is Return On Investment (ROI). The other techniques of financial control and evaluation include budgetary control, cost control, internal audit, break-even anaysis and ratio analysis. The financial manager must lay emphasis on financial planning as well.

Ans.(b) Importance of financial management : The importance of the financial management is as follows:

(i) Financial Planning : Financial management helps to determine the financial requirement of the business concern and leads to take financial planning of the concern. Financial planning is an important part of the business concern, which helps to promotion of an enterprise.

(ii) Acquisition of Funds : Financial management involves the acquisition of required finance to the business concern. Acquiring needed funds play a major part of the financial management, which involve possible source of finance at minimum cost.

(iii) Proper Use of Funds : Proper use and allocation of funds leads to improve the operational efficiency of the business concern. When the finance manager uses the funds properly, they can reduce the cost of capital and increase the value of the firm.

(iv) Financial Decision : Financial management helps to take sound financial decision in the business concern. Financial decision will affect the entire business operation of the concern. Because there is a direct relationship with various department functions such as marketing, production personnel, etc.

(v) Improve Profitability : Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern. Financial management helps to improve the profitability position of the concern with the help of strong financial control devices such as budgetary control, ratio analysis and cost volume profit analysis.

(vi) Increase the Value of the Firm : Financial management is very important in the field of increasing the wealth of the investors and the business concern. Ultimate aim of any business concern will achieve the maximum profit and higher profitability leads to maximize the wealth of the investors as well as the nation.

(vii) Promoting Savings : Savings are possible only when the business concern earns higher profitability and maximizing wealth. Effective financial management helps to promoting and mobilizing individual and corporate savings.

Ans.(c) Factors Affecting Capital Structure: The following factors must be considered while determining the structure of a company :

(a) Trading on Equity: The word 'equity' denotes the ownership of the company. Trading on equity means taking advantage of equity share capital to borrowed funds on reasonable basis. It refers to the additional profits that equity shares earn because of issuing other forms of securities, viz., preference shares and debentures. It is based on the primise that if the rate of interest on borrowed capital and the rate of dividend on preference capital are lower than the general rate of company's earnings, the equity shareholders will get advantage in the form of additional profits. Thus, by adopting a judicious mix of long-term loans (debentures) and preference shares with equity shares, return on equity shares can be maximised.

(b) Exercise of control : The control of a company is entrusted to the board of directors elected by the equity shareholders. The equity shareholders have the voting rights which can be exercised in the general body meeting to direct board of directors of the company. But the preference shareholders possess very limited voting right and the debenture holders have not voting right. If the board of directors and shareholders of a company wish to retain control over the company in their hands, they may not allow to issue equity shares to the public. In such a case, more funds can be raised by issuing preference shares and debentures.

(c) Flexibility of Financial Structure : In an enterprise, the capital structure should be such that there is both contractions as well as relaxation in plans. Debentures and loans can be refunded back as the time requires. While equity capital cannot be refunded at any point which provides rigidity to plans. Therefore, in order to make the capital structure possible, the company should go for issue of debentures and other loans.

(d) Cost of Financing : In a capital structure, the company has to look to the factor of cost when securities are raised. It is seen that debentures at the time of profit earning of company prove to be a cheaper source of finance as compared to equity shares where equity shareholders demand an extra share in profits.

(e) Period of Financing : When funds are required for permanent investment in a company, equity share capital is preferred. But when funds are required to finance expansion programme and the management of the company feels that it will be able to redeem the funds within the life-time of the company, it may issue redeemable preference shares and debentures.

(f) Statutory Requirements : The structure of capital of a company is also influenced by the statutory requirements. For instance, banking companies have been prohibited by the Banking Regulaiton Act to issue any type of securites except equity shares.

(g) Sizes of a company : Small size business firms capital structure generally consists of loans from banks and retained profits. While on the other hand, big companies having goodwill, stability and an established profit can easily go for issuance of shares and debentures as well as loans and borrowings from financial institutions. The bigger the size, the wider is total capitalization.

(h) Types of Investors : The shape of the capital structure is influenced by the likings of the potential investors. Therefore, securities of defferent kinds and varying denominations are issued to attract the people who have the desire to have a say in the management of the company. Debentures and preference shares are issued to attract those people who preference safety of investment and certainty of return on investment.

Ans.(d) Objectives of financial management : The objectives of financial management of a big enterprise are stated below :

(1) Procurement of funds : The traditional objectives of financial management is procurement of funds .The adequate and regular supply of funds is to be maintained.

(2) Utilisation of funds : The modern concept of financial management emphaises on optimum utilisation of funds .A proper balance of profitability ,liquidty and safiey is to be achieved.

(3) Optimum Capital structure : The cost of procurement of funds should be minimised by planning optimum capital structure.A sound and economical combination of securities must be achieved.

(4) Return to shareholders : The Shareholders return should be maximised .it can be achived by concentrating on market share price.The market price of shares is largely depands upon the performance of the company .The market price of shares is a good indicator of net an important goal of financial management .

(5) Expansion and growth : The surplus should be enough for expansion and growth .Self sufficiency in case of permanent financial requirement by ploughing back of profits is a good indicator of financial health of the company.

(6) Coordination : The coordiantion of activites of the finance department with other departments of the enterprise is necessary .It is also required to match the objectives of financial management with the general objectives of the company.

FUNDAMENTALS OF MANAGEMENT

Model Test Paper-II
Paper Code: HUMC-08-G

Note : Question no. 1 is compulsory. Attempt one question from each section. Total five questions are to be attempted including Q.No. 1.

Q.1.Explain the following in short form : **(2 × 10 = 20)**

(i) Define Management.
(ii) Management vs Administration.
(iii) What is Manpower-planning?
(iv) What are the various types of training?
(v) What is Marketing Research?
(vi) Define Advertising.
(vii) Importance of production planning and control.
(viii) What is Capital Structure?
(ix) Functions of Financial Manager.
(x) What is EOQ?

Ans.(i) Management : Management is defined as an art of getting things done through others.

OR

Management is the process of utilisation of human resources and physical resources (i.e. capital, machine, materials, etc.) in such a manner that organizational objectives are achieved effectively and efficiently.

Ans.(ii)Management vs Administration :

Basic	**Management**	**Administration**
1. Definition	Management means getting the work done through and with others by leading and motivating them.	Administration is concerned with the formulation of objectives, plans and policies of the organisation.
2. Nature of functions	Management refers to execution of decisions. It is a doing function.	Administration relates to decision-making. It is a thinking function.
3. Stage of Performance	It is concerned with implementation of policies laid down by administration.	It is concerned with determination of major objectives and policies.
4. Leading of Human Efforts	It is actively concerned with direction of human efforts at the operative level.	It is not directly concerned with direction of operative personnel.
5. Type of Authority	Management has operational authority to execute administrative decision.	Administration has authority to take strategic and policy decisions.

Ans.(iii)Manpower planning : Man power(Human resource) planning may be defined as *a process by which the management ensure the right number of people and the right kinds of people at the right place at the right time doing the right things for which they are best suited for the achievement of organisational objectives*. It is the process of developing and determining objectives, policies and procedures of procurement of manpower.

In the words of **Dale S. Beach**, "*Manpower planning is a process of determining and ensuring that the organisation will have an adequate number of qualified personnel.*"

Ans.(iv)Types of training : Depending upon the purpose of training, the following kinds of training programmes are used in industry :

(1) Induction or orientation training.

(2) Apprenticeship training

(3) Internship training.

Ans.(v)Marketing Research : Marketing research is the systematic search for an analysis of facts related to a marketing problem. It is shifting from fact finding, information gathering activity to a problem solving and action recommending function.

Ans.(vi)Advertising : American Marketing Association has defined advertising as "*any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor,*"

According to **William J.Stanton,** " *Advertising consists of all the activities involved in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service or idea; this message, called an advertisement, is disseminated through one or more media and is paid for by the identified sponsor.*"

According to **Frank Prespray**, "*Advertising is printed written, spoken or graphic salesmanship. Advertisement are designed to sell the products of the advertiser and to influence favourably the public mind, individually and collecively with respect to the interest of the advertiser.*"

Ans.(vii) Importance of production planning and control : Production planning and control offer the following Importance :

(1) *Efficient use of Resources* : An efficient system of production planning and control is supported by a good quality control procedure which helps in the efficient utilisation of materials, machines and the time of the workers.

(2) *Economy* : There is better utilisation of plant capacity and working time as everything is planned well in advance of the operation. This lowers the unit cost of production.

(3) *Coordination* : Production planning and control can be used as an instruments of formalising coordination in purchasing, marketing, quality control, cost control and other activities related to the production of goods and services.

(4) *Avoid Bottlenecks* : Since there is an even flow of production because of effective production because of effective production control, bottlenecks and work stoppages are avoided. This also increases the morale of the workers.

(5) *Inventory Control* : Production planning is based on business forecasts. It helps in maintaining proper levels of inventory of different kinds of materials and work-in-process.

Ans.(viii) Capital Structure : Capital structure refers to the proportion of different kinds of securities raised by a firm as long-term finance. According to C.W. Gerstenberg, "*The type of securities to be issued and proportionate amounts that make up the capitalisation is known as capital structure or financial structure.*"

Ans.(ix)Functions of Financial Manager : The financial manager of a business enterprise has to manage various aspects of the finance function which determine the scope of his duties. The functions of the financial manager are discussed below :

(1) *Formulation of Objectives* : The setting of objectives of finance department is the basic function of financial manager.

(2) *Estimating the Requirement of Capital* : The requirements of capital must be carefully estimated. The financial management must prepare budgets of various activities to estimate the financial requirements of the business.

(3) *Determining the Structure of Capital* : The financial manager has to determine the proper mix of equity and debt and short term and long-term debt ratio.

(4) *Choice of Source of Finance* : The management can raise finance from various sources like shareholders, debentureholders, banks and other financial institutions, public deposits, etc. The choice of the source or sources of finance should be done very carefully as they involve different costs and condition.

(5) *Disposal of Surplus* : The management has to decide how much to retain for ploughing back and how much to distribute as dividend to shareholders out of the surplus of the company.

(6) *Management of Cash* : Cash is required to pay-off creditors, purchase stocks of materials, pay to labour and to meet day-to-day expenses. There should not be any shortage of cash any time as it will damage credit-worthiness of the enterprise. It is also to be seen that there is no excess cash.

Ans.(x)EOQ : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs.

Section-A

Q.2. Define Management. Explain the functions of Management and its Objectives. (20)

Ans. Management can be defined as the process of utilisation of human resources and physical resources (i.e., capital, machines, materials, etc.) in such a manner that organisation objectives are achieved effectively and efficiently. In other words, management involves planning, organising, staffing, directing and controlling the activities of the enterprise for the efficient utilisation of r[illegible] achieve organisational goals.

[illegible]**ns of Management :** The functions of management are Planning, Organizing, [illegible]ting and Controlling.

[illegible]**anning :** It is the basic function of management. Planning is determination of [illegible]ction to achieve desired goals. Thus, planning is a systematic thinking about ways &

means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources.

Planning involves the following steps:

(i) Determination of objectives.
(ii) Forecasting of future trends.
(iii) Formulation of policies and programmes.
(iv) Preparation of schedules and procedures.
(v) Formulation of budgets.

2. Organizing : It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. Organizing as a process involves:

(i) Identification of activities.
(ii) Classification of grouping of activities.
(iii) Assignment of duties.
(iv) Delegation of authority and creation of responsibility.
(v) Coordinating authority and responsibility relationships.

3. Staffing : It is the function of manning the organization structure and keeping it manned. The main purpose o staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. Staffing involves:

(i) Manpower Planning
(ii) Recruitment, selection & placement.
(iii) Training & development.
(iv) Remuneration.
(v) Performance appraisal.
(vi) Promotions & transfer.

4. Directing : It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

(i) Supervision
(ii) Motivation
(iii) Leadership
(iv) Communication

5. Controlling : It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. Therefore controlling has following steps:

(i) Establishment of standard performance.
(ii) Measurement of actual performance.
(iii) Comparison of actual performance with the standards and finding out deviation if any.
(iv) Corrective action.

Objectives of Management : The broad purposes or objectives of the managment are as follows :

(1) Optimum utilisation of resources : The most important objectives of the management is to use various resources of the enterprise in a most economic way. The proper use of men, materials, machines, and money will help a business to earn sufficient profits to satisfy various interests i.e. proprietor, customers, employees etc. All these interests will be served well only when physical resources of the business are properly utilised.

(2) Growth and development of business : By proper planning, organisation and direction etc., management leads a business to growth and development on sound footing. It helps in profitable expansion of the business. It provides a sense of security among the employers and employees.

(3) Better quality goods : The aim of the sound management has always been to produce the better quality products at minimum cost. Thus, it tries to remove all types of wastages in the business.

(4) Ensuring regular supply of goods : The another objective of management is to ensure the regular supply of goods to the people. It checks the artificial scarcity of goods in the market. Hence, it keeps the prices of goods within permissible limits.

(5) Discipline and morale : The management maintains the discipline and boosts the morale of the individuals by appying the principles of decentralisation and delegation of authority. It motivates the employees through monetary and non-monetary incentives. It helps in creating and maintaining better work culture.

(6) Mobilising best talent : The employment of experts in various fields will help in enhancing the efficiency of various factors of production. There should be a proper environment which should encourage good persons to join the enterprise. The better pay scales, proper amenities, future growth potentialities will attract more people in joining a concern.

(7) Promotion of research and development : Management undertakes the research and development to take lead over its competitors and meet the uncertainties of the future. Thus, it provides the benefits of latest research and technology to the society.

(8) Minimise the element of risk : Management involves the function of forecasting. Thought the exact future can never be predicted yet on the basis of previous experience and existing circumstances, management can minimise the element of risk.

(9) Improving performance : Management should aim at improving the performance of each and factor of production. The environment should be so congenial that workers are able to contribute their maximum to the enterprise. The fixing of objectives of various factors of production will help them in improving their performance.

(10) Planning for future : Another important purpose of management is to prepare a prospective plan. No management should feel satisfied with today's work. Future plans should take into consideration what is to be done next. Future performance will depend upon present planning. So, planning for future is essential to every organisation.

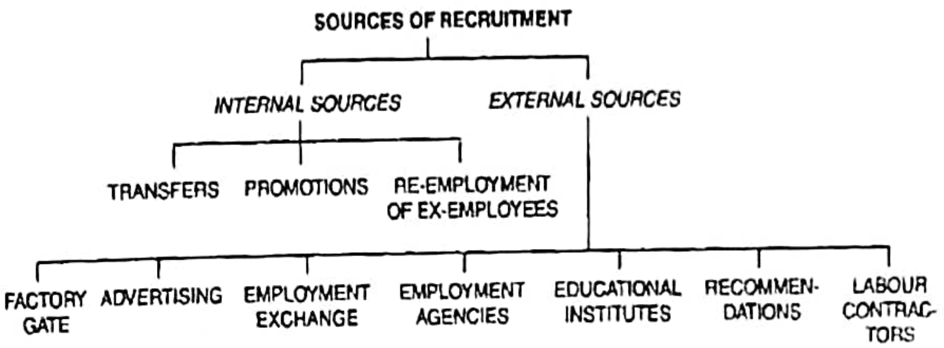
Q.3. What is the difference between recruitment and selection? Explain the various sources of recuritment. (20)

Ans. Both recruitment and selection are the two phases of the employment process. The difference between them are:

S.No	Recruitment	Selection
1.	It aims at searching for sources of labour and stimulating people to apply for job.	It aims at selection of right kinds of people for various jobs.
2.	It is a positive process.	It is a negative process as it involves rejection of unsuitable candidates.
3.	It creates a large pool of application for job.	It leads to screening out unsuitable candidates.

4.	It is a simple process. It involves contacting the various sources of labour.	It is a complex and time-consuming process. The candidates have to clear a number of hurdles before they are selected for jobs.

Sources of Recruitment : The sources of recruitment of employees may be either *internal* or *external*. Internal sources of recruitment means the personnel already working in the organisation. External sources denote recruitment from sources outside the organisation.



Internal Sources : The internal sources of recruitment include transfer and promotion:

(1) Transfer : It means shifting a worker from one job to another having similar status and responsibilities.

According to Dale Yoder, "*A transfer involves the shifting of an employee from one job to another without special reference to changing responsibilities or compensation*". Transfer means shifting of an employee from one job to another, one unit to another or one shift to another and may involve a new geographical location.

(2) Promotion : *A promotion is the transfer of an employee to a job that pays more money or that enjoys some preferred status*. A promotion involves reassignment of an employee to a position having higher pay, increased responsibilities, more privileges, increased benefits and greater potential. The purpose of a promotion is to provide a vacancy which is worth more to the organisation than the incumbents' present position.

Accroding to Pigors and Myres, "*Promotion is the advancement of an employee to a better job-in terms of greater responsibilities, greater skills, higher status and higher pay*". The existing employees may be given training for promotion to higher position in the enterprise. If a vacancy is filled from within the enterprise, it acts as a stimulating force for the employees to develop themselves.

(3) Re-employment of Ex-employees : It refers to employing the employees who have left the organisation because of some reason. It may be on a temporary or permanent basis.

External Sources : Many a time, suitable candidates are not available from the internal sources. In order to meet the demands of the company, the external sources have to be used. The personnel departement may use the following external sources of recruitment :

(1) Direct Recuitment : The unemployed persons may contact the employment section of various enterprises to ascertain if they can be casually employed. Many firms follows the practice of recruitment at factory gate to fill casual vacancies. Such workers are known as

Budli Worders. This method is very useful for recruiting unskilled worders. It does not involve cost of advertising the vacancies. Whenever the regular workers absent themselves in large number or whenever there is rush of work, this source of recruitment may be used.

(2) Casual Callers : In case of reputed organisations, many qualified people apply for employment on their own initiative. Such applications are known as unsolicited applications or casual callers. They serve as a good source of manpower. A proper file may be kept of such applications and the candidates may be called whenever the need arises.

(3) Advertising : Advertising a job has become the fashion of the day with the large companies particularly when the vacancy is for a higher post or when there are a large number of vacancies. This helps in approaching the candidates spread over different parts of the country. Information about the job descriptions and job specifications can be given in the advertisement so that only the candidates who think themselves to be suitable may apply only. This method also increases the choice of the management.

(4) Employment Exchanges : There is a network of employment exchanges in the country which is run by the Government has also made it compulsory for the employers to fill some vacancies through the employement exchanges. Thus, employment exchanges play an important role.

(5) Placement Agencies : Professional bodies have come into existence which provide their services to the enterprises for recruitment and selection of employees. These agencies specialise in the supply of particular categories of workers.

(6) Management Consultants or Head Hunters : Management consultancy frms help the organisations to recruit technical, professional and managerial personnel. They specialise in middle level and top level executive placements. They maintain data bank of persons with different qualification and skills and even advertise the jobs on behalf of their clients to recruit right type of personnel.

(7) Campus Recruitment : Colleges and institutes of management and technology have become a popular source of recruitment for technical, professional and managerial jobs.

Many big organisations maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel fro various jobs. Recruitment from educational institutions is the well-established practice of business and other organisations. This is referred to as "campus recruitment".

(8) Recommendations by the Existing Employees : Some employers recruit employees on the basis of recommendations of the existing workers. This policy creates goodwill among the present employees and helps in finding reliable candidates.

(9) Labour Contractors : Recruitment may also take place through intermediaries known as agents or labour contractors. In some cases, the labour contractors are themselves the members of the companies concerned. This system of recruitment has lost popularity these days. If a labour contractor leaves enterprise, the workers employed through him will also leave the organisation. Thus, it is not a reliable method of employment.

Section-B

Q.4. What are the objectives of production planning and control? Discuss the steps in production planning and control. (20)

Ans. Refer Q.5 of paper Model Test Paper -III

Q.5. What is inventory control? Define various techniques of inventory control. **(20)**

Ans. . Refer Q.4 of paper Model Test Paper -I

Section-C

Q.6. Difference between Marketing and Selling. Explain the various functions of Marketing. **(20)**

Ans. The following are the differences between marketing and selling :

Basis	Marketing	Selling
1. Focus	Marketing focuses on customer's needs of want-satisfying goods.	Selling focuses on seller's needs, i.e., converting his goods into cash.
2. Sequence	Marketing bagins before actual production takes place.	Selling takes place after the production.
3. Emphasis	Emphasis is given on product planning and development to match products with customers needs.	Emphasis is placed on sale of good already produced.
4. Customer vs Product	Customer is treated as king. He is given supreme importance.	Product is given priority or supreme importance.
5. Aim	Marketing aims at profits through customer satisfaction.	Selling aims at profits through sales volume.
6. Approach	Integrated approach to marketing is followed. Marketing includes marketing research, product planning, pricing advertising etc.	Fragmented approach to selling is followed. Attempt is made to sell whatever is porduced.
7. Perspective	Marketing has a long-term perspective as it lays emphasis on growth and stability of business.	Selling has a short-term perspective as it emphasises profit maximisation.
8. Principle	The principle of caveat vendor(let the seller beware) is followed.	The principle of caveat emptor(let the buyer beware) is followed.

Marketing Manager performs the following functions :

(i) Marketing research.
(ii) Product planning and development,
(iii) Buying and assembling,
(iv) Selling,
(v) Standardisation, grading and branding.
(vi) Packaging,
(vii) Storage,
(viii) Transportation,
(ix) Advertising,
(x) Pricing.

(1) Marketing Research : It means the intelligence service of the organisation. Marketing research helps in analysing the buyer's habits, relative popularity of a product, effectiveness of advertisement media, etc. Its major task is to provide the marketing manager with timely and acurate information so that better decisions can be made. The scope of marketing research is very wide. It may cover all the areas of business which have bearing on the marketing function. In the words of W.J. Stanton, "*Marketing research is the systematic search for an* *analysis of facts related to a marketing problem*. It is shifting from fact finding, information gathering activity to a problem solving and action recommending function."

(2) Product Planning and Development : *A product is something which is offered by a business firm to customers to satisfy their needs.*

Product planning and development involves a number of decision, namely what to manufacture of buy, how to have its packaging, how to fix its price and how to sell it. The design, quality, colours, size and other features of the product can be determined by conducting marketing research. The production department will be guided by the requirements of the users.

(3) Buying and Assembling : It involves what to buy, what quality, how much, from whom, when and at, what price. People in business buy to increase sales or to decrease costs. Purchasing agents are much influenced by quality, service and price. The products that the retailers buy for resale are determined by the need and preferences of their customers.

Assembling means collection of goods already purchased from different sources at a common point. It is also used in another sense. Raw materials are purchased and assembled in order to produce goods and services.

(4) Selling : It is core of marketing. It is concerned with the persuasion of prospective buyers to actually complete the purchase of an article. Setting pays an important part in realizing the ultimate aim of earning profit. Selling is enhanced by means of personal selling, advertising, publicity and sales promotion.

Negotiated sale may take the following forms, namely, (a) sale by inspection, (b) sale by sample, (c) sale by description, (d) sale by grade, and (e) sale by brand.

(5) Standardisation, Grading and Branding : Standardisation means setting up of specifications of a product. Grades of agricultural products are based on these specifications and standards. Industrial goods are given brand names by their manufacturers to convey to the customers that their goods conform to certain will defined standards. These activities promote the sale of products.

(6) Packaging : Packaging has become one of the essential services of modern marketing. Packaging facilitates the sale of a product. It acts as a silent salesman of the manufacturer, particularly at a place where is widespread use of self-service, automatic vending and other self-selection methods of retail selling. Sometimes, packages are duly sealed to ensure products of right quality to the consumers. In the absence of are duly sealed to ensure products may be distributed to the consumers by unscrupulous dealers.

(7) Storage : Storage of goods in ware houses has become an indispensable service these days. Poducers, manufacturers, traders, mercantile agents, importers and exporters engaged in business have to store their goods in warehouses. Goods are produced or procured in business have to store their goods in warehouses. Goods are produced or procured well in advance of the demand. They are stored in warehouses till they are actually sold in the market. Thus, warehousing creates time utility. In addition, modern warehouses perform certain marketing services also such as grading, packaging, labelling, etc.

(8) Transportation : Modern organisation produce on a large scale to cater to the requirements of customers scattered throughout the country. This calls for transportation of goods from the place of production to the place of consumption. Transportation provides the physical means which facilitate the movement of persons, goods and services from one place to another.

(9) Advertising : Advertising has become an important function of marketing in the competitive world. It helps to spread the message about the product and thus promote its sale. It facilitates creation of a non-personal link between the advertiser and the receivers of the message.The important of advertising has increased in the modern era of large scale production and tough competition in the market. Business firms use several media of advertisement to sell their products. These include newspapers, magazines, radio, television, cinema halls, hoardings, window displays, etc.

(10) Pricing : Determination of price of a product is an important function of a marketing manager. Price of a product is influenced by the cost of product and services offered, profit margin desired, prices fixed by the rival firms and Government policy.

Q.7. Define advertising. What are its objectives ? Is advertising a social waste ? (20)

Ans. American Marketing Association has defined advertising as "*any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor.*"

According to **William J.Stanton,** " *Advertising consists of all the activities involved in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service or idea; this message, called an advertisement, is disseminated through one or more media and is paid for by the identified sponsor.*"

According to **Frank Prespray.** "*Advertising is printed written, spoken or graphic salesmanship. Advertisement are designed to sell the products of the advertiser and to influence favourably the public mind, individually and collecively with respect to the interest of the advertiser.*"

Objectives of Advertisement : The objectives of Advertisement are written as follows:

(a) To introduce a new product by creating interest for it among the prospective customers.

(b) To support personal selling programme. Advertising may be used to open customer's doors for salesmen.

(c) To reach people inaccessible to salesman.

(d) To enter a new market or attract a new group of customers.

(e) To flight competition in the market and to increase the sales.

(f) To enhance the good will of the enterprise y promising better quality products and services.

Advertising a Social Waste?

Advertising is often criticised as a wasteful activity and an unnecessary evil. Its critics offer the following arguments to prove their contention :

(i) Multiplication of Needs : Advertising multiplies the needs of the people by inducing them to buy even those things which are not required by them. Since an advertisement is continuously repeated, it creates a desire in the mind of the people to buy the advertised product.

(ii) Burden on the Buyers : The amount of money spent by an advertiser on his product's advertisement is added to the distribution cost of the product. Thus, the customers have to pay more for the product advertised.

(iii) Creation of Confusion : The consumers get confused when they are exposed to excessive advertising of certain products. For instance, different models of T.V.s of a large number of brands are advertised which makes it difficult for a buyer to make a choice of the right T.V. Similarly, there are so many brands of beauty soaps, detergents, tooth pastes, etc.

(iv) Creation of Monopoly : Advertising may lead to monopoly of a brand. It is argued that big manufacturers who can afford large amount of money on advertising can create brand monopoly and eliminate the small producers.

(v) Wasteful Expenditure : Advertising does not always increase the demand of the product. When the demand is inelastic, advertising shifts demand from one producer to another. That means a large amount of money spent on advertising by the manufacturers goes waste. It has also been observed that a large number of advertisements either escape the attention of the people or are ignored by them.

(vi) Socially Undesirable : Sometimes, advertising undermines ethical and aesthetic values. It may make the people start bothering for appearance and design of the product rather than the real utility. Some advertisers also use indecent language and photographs to advertise their products which is highly objectionable from the society's point of view.

Despite its drawbacks, *advertising is a necessary marketing activity in the present business environment*. It is *not always social waste.*

- It enables a manufacturer to introduce his products in the market and sell them.
- Advertising helps in educating the people regarding new uses of various products.
- It also strengthens the freedom of choice of the people.
- It sustains the press and gives employment to people.
- Advertising increases the standard of living of the people by informing them about the availability of new products.

Thus, we can say that advertising is a useful marketing activity. Its drawbacks could be removed if the people and the Government keep a watch on the advertisers. People should satisfy themselves about the claims made by a producer before they purchase his products. The manufacturers of the advertisers should also avoid wasteful advertising and keep advertising expenditure within limits. They should also follow the ethical standards while advertising their products.

Section-D

Q.8. Define Financial Management. What are its functions and importance ?(20)

Ans. Financial Management : *Financial Management is concerned with the managerial activities related to procurement and utilisation of funds for business purposes.* It deals with planning, organising, directing and controlling financial activities of the enterprise.

Functions of financial management : The functions of the financial management are discussed below :

(1) *Formulation of objectives* : The setting of objectives of finance department is the basic function of financial manager. These objectives must be in tune with then overall objectivies of the organisation.

(2) *Estimating the requirement of capital* : The requirement of capital must be carefully estimated. The financial management must prepare budgets of various activites to estimate the financial requirement of the business.

(3) *Determining the structure of capital* : The financial manager has to determine the proper mix of equity and debt and short-term and long-term debt ratio.These decision have to be

taken in the light of costs or raising finance from different sources, period for which funds are required and several other factors.

(4) *Choice of sources of finance* : The management can raise finance from various sources like shareholders, debentureholders, banks and other financial institutions, public deposits, etc. The choice of the sources of finance should be done very carefully as they involve different costs and conditions.

(5) *Disposal of surplus* : The management has to decide how much to retain for plouging back and how much to distribute as dividend to shareholders out of the surplus of the company.

(6) *Management of cash* : Cash is required to pay-off creditors, purchase stocks of materials, pay to labour and to meet day-to-day expenses. There should not be any shoratge of cash any time as it will damage credit-worthiness of the enterprise. It is also to be seen that there is no excess cash.

(7) *Financial Controls* : Evalution of financial performance is an important task of finance manager. The overall measure of evaluation is Return On Investment (ROI). The other techniques of financial control and evaluation include budgetary control, cost control, internal audit, break-even anaysis and ratio analysis. The financial manager must lay emphasis on financial planning as well.

Objectives of financial management : The objectives of financial management of a big enterprise are stated below :

(1) *Procurement of funds* : The traditional objectives of financial management is procurement of funds .The adequate and regular supply of funds is to be maintained.

(2) *Utilisation of funds* : The modern concept of financial management emphaises on optimum utilisation of funds .A proper balance of profitability ,liquidty and saftey is to be achieved.

(3) *Optimum Capital structure* : The cost of procurement of funds should be minimised by planning optimum capital structure.A sound and economical combination of securities must be achieved.

(4) *Return to shareholders* : The Shareholders return should be maximised .it can be achived by concentrating on market share price.The market price of shares is largely depands upon the performance of the company .The market price of shares is a good indicator of net an important goal of financial management .

(5) *Expansion and growth* : The surplus should be enough for expansion and growth .Self sufficiency in case of permanent financial requirement by ploughing back of profits is a good indicator of financial health of the company.

(6) *Coordination* : The coordiantion of activites of the finance department with other departments of the enterprise is necessary .It is also required to match the objectives of financial management with the general objectives of the company.

Importance : An important requirement for the success of a business organisation relates to raising of sufficient amount of funds for financing various investment opportunities. No business enterprise can prosper until it has got sufficient financial resources at its disposal to install latest machines and equipments, build plants and buildings, meet day-to-day expenses, arrange for the transport of raw materials and finished products, and pay wages and salaries. Labour-intensive techinques are being replaced by capital intensive techniques these days, and the business houses prefer to carry on business on a large scale. These developments have increased the significance of the finance function of business.

Business enterprises require capital for three main purposes : (i) financing fixed capital requirements ; (ii) financing working capital requirements ; and (iii) financing improvement and expansion programmes. Different sources have to be tapped to raise finance for varying periods. It is not an easy task to raise sufficient amount of capital needed by the business. The investors have to be convinced about the safety of their funds and a reasonable rate of return on their funds. For this purpose, it is essential to have sound financial plans and policies. The administration of financial policies and programmes has also to be done with great care so that reasonable rate of return is ensured for the survival and growth of the business. It is the major duty of finance manager to ensure that financial resources of the business are put into those ventures which will ensure safety of funds and adequate return.

Q.9. Explain in brief the various long term sources of raising finance. (20)

Ans. Long Term Finance : It is required for investments in fixed assets like land and building, plant and mechinery and for financing expansion programmes. In other words, long term finance is required to meet fixed capital requriements. Fixed capital is the core of the business. The sources for raising long term finance are the following :

(1) Issue or sale of Shares.

(2) Sale of debentures.

(3) Financial Institutions.

(4) Retained Earnings or ploughing back of Profits.

Besides lease financing are also becoming increasingly popular today.

(1) Equity share : Equity shareholders provide capital on permanent basis to the company. They are the real owners of the company and they bear the risk of business. They get dividend only after the dividend on preference shares has been paid out of the profits of the company. At the time of winding up, equity capital can be paid back only after every claim including that of preference shareholders has been settled. Since equity shareholders bear higher risk, they also stand a chance of getting higher dividend if the company's earnings are higher.

(2) Preference shares : Preference shares are those which carry preferential rights as to the payment of dividend at a fixed rate and as to the repayment of capital. Thus, preference shareholders enjoy the following two preferential rights over the equity shareholders :

(i) They are entitled to receive a fixed rate of divident out of the net profits of the company prior to declaration of dividend on equity shares.

(ii) They get priority over the equity shareholders regarding return of capital in case of winding up of the company.

Preference shares may be classified as follows :

(i) *Cumulative and Non-cumulative Preference Shares* : The holders of cumulative preference shares are entitled to arrears of dividend on their shares to be paid out or the profits of subsequent years, if in any year the dividend on them cannot be paid. If in a particular year, they are not paid the dividend, they will be paid such arrears in the next year before any dividend can be distributed among the equity shareholders. But the dividend on non-cumulative shares does not accumulate if the dividend is not paid in any year.

(ii) *Convertible and Non-convertiable Preference Shares* : If the preference shareholders are given a right to convert their holdings into equity shares within a given period of time, such shares will be known as convertible preference shares. The preference shares which cannot be converted into equity shares are known as non-conversible preference shares.

(3) Debentures or Debt Capital : Debentures are creditorship securities which provide funds to the company on loan basis rather than on capital basis. They constitute the debt capital of the company. A debenture is a document issued by a company acknowledging its debt and undertaking to pay interest and principal on the dates specified in the document. The debentureholders are entitled to periodical payment of interest at a fixed rate and are also entitled to redemption of their debentures as per terms of debenture issue. The debentureholders are the creditors of the company. Their rights depends upon the type of debentures issued by the company.

(4) Financial Institution : Institutional finance means long-term credit provided by the specialised financial institutions to industry and business. Industrial organisations can raise long-term loans from special financial institutions for the purchase of fixed assets and financing modernisation and expansion programmes. Such financial institution include Industrial Finance Corporation of India (IFCI), and Industrial Investment Bank of India (IIBI) at the national level and State Financial Corporations in respective states. Since these insitutions aim at promoting the industrial development of the country, they are also known as Development Banks.

The national level institutions providing term loans to business and industry are as follows:

(i) Industrial Finance Corporation of India.

(ii) National Industrial Development Corporation.

(iii) Industrial Investment Bank of India.

(iv) Life Insurance Corporation of India.

(5) Lase Finance : A lease is a form of financing used by a firm to acquire the use of assets. Through lease, business firms can acquire the economic use of assets for a stated period of time without owning it.

Leasing involves the divorce of ownership from the economic use of an asset/equipment. It is a contract in which a specific equipment required by the lessee is purchased by the lessor (financier) from a manufacturer/vendor selected by the lessee. The lessee has possession and use of the asset on payment of the specified rentals over a predetermined period of time. Leasing is, thus, a device of financing/moneylending. The position of a lessee is akin to that of a person who owns the same asset with borrowed money. The real function of a lessor is not renting of asset but lending of funds/finance/credit and lease financing is, in effect, a contract of lending money. The lessor (financier) is the nominal owner of the asset as the possession and economic use of the equipment vests in the lessee. The lessee is free to choose the asset according to his requirements and the lessor does not take recourse to the equipment as long as the rentals are regularly paid to him.

FUNDAMENTALS OF MANAGEMENT

Model Test Paper-III
Paper Code: HUMC-08-G

Note : *Attempt five questions in all, selecting one question from each Section. Question No. 1 is compulsory. All questions carry equal marks.*

Q.1. Attempts all the ten questions : **(2 × 10 = 20)**

(a) Define the concept of management.

(b) What do you mean by personel management ?

(c) Explain the concept of promotion.

(d) What do you mean by production management ?

(e) Define the concept of marketing information system.

(f) What do you mean by marketing research ?

(g) Explain the old concept of marketing management.

(h) What do you mean by financial management?

(i) Define the concepts of source of finance.

(j) What do you mean by leverage.

Ans.(a) Management : Management is defined as an art of getting things done through others.

OR

Management is the process of utilisation of human resources and physical resources (i.e. capital, machine, materials, etc.) in such a manner that organizational objectives are achieved effectively and efficiently.

Ans.(b) Personel management : The personnel or human resources of an organisation consist of all individuals who are engaged in any of the organisation's activites. Procurement, training and motivation of such individuals or personnel is known as personnel management. In the words of Dale yoder, "Personnel management is that phase of management which deals with the effective control and use of manpower as distinguished from other sources of power."

Ans.(c)Promotion : *A promotion is the transfer of an employee to a job that pays more money or that enjoys some preferred status.* A promotion involves reassignment of an employee to a position having higher pay, increased responsibilities, more privileges, increased benefits and greater potential. The purpose of a promotion is to provide a vacancy which is worth more to the organisation than the incumbents' present position.

According to Pigors and Myres, "*Promotion is the advancement of an employee to a better job-in terms of greater responsibilities, greater skills, higher status and higher pay*".

Ans.(d)Production management : According to Elwood S.Buffa, " Production management deals with decision-making related to production processes, so that resulting goods or service is produced according to the specification, in the amounts and by the schedule demanded, and at minimum cost. In accomplishing these objectives, production managment is associated with two broad areas of activities : the design and control of production system," Production management deals with managerial functions related to the production system and operation and controle of production system, i.e., production planning and control.

Ans.(e)Marketing information system (MIS) : A marketing information system (MkIS) is a management information system (MIS) designed to support marketing decision making. Jobber (2007) defines it as a "system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis." In addition, the online business dictionary defines Marketing Information System (MkIS) as "a system that analyzes and assesses marketing information, gathered continuously from sources inside and outside an organization or a store." Furthermore, "an overall Marketing Information System can be defined as a set structure of procedures and methods for the regular, planned collection, analysis and presentation of information for use in making marketing decisions."

Ans.(f) Market Research : Marketing research is the intelligence service of a business enterprise. It means the careful and objective study of product design, markets and such transfer activities as physical distriution and warehousing, advertising and sales management.

Ans.(g)Old concept of marketing management : The old concept of marketing is referred to a system where more emphasis was laid on production. It was based on the idea that consumer will buy what the seller produces.

Ans.(h)Financial management : *Financial Management is concerned with the managerial activities related to procurement and utilisation of funds for business purposes.* It deals with planning, organising, directing and controlling financial activities of the enterprise.

Ans.(i) Source of finance : Various sources of finance for a company may be grouped under two heads, namely, (i) Owner's funds and **(ii)** Borrowed funds.

(1) Owner's fund:

(a) *Equity shares*

(b) *Preference shares*

(c) *Retained profits*

(2) Borrowed fund :

(a) *Debentures*

(b) *Public deposits*

(c) *Commercial Banks*

(d) *Financial Institutions*

Ans.(j) Leverage : Accoding to Ezra Solomon. "Leverage is the ratio of net returns on shareholders' equity and the net rate of return on total capitalisation.

Accoding to J.E. Walter. "Leverage may be defined as percentage return on equity to percentage return on capitalisation.

Accoding to S.C. Kuchhal. "Leverage may be defined as meeting a fixed cost of paying a fixed return for employing resources or funds."

Section-A

Q.2. What do you mean by management ? Explain the main characteristics and importance of management in current scenario in industrial environment. (20)

Ans. Management : Management can be defined as the process of utilisation of human resources and physical resources (i.e., capital, machines, materials, etc.) in such a manner that organisation objectives are achieved effectively and efficiently. In other words, management involves planning, organising, staffing, directing and controlling the activities of the enterprise for the efficient utilisation of resources to achieve organisational goals.

The basic features or characteristics of managements are as follows :

(i) Managements is Goal-Oriented : The purpose of managements is to achieve the goals of the organisation. For instance, management of a business aims at satisfaction of custromers, earning of profits and increasing the goodwill and image of the business. There is no need of management if there are no predetermined goals or objectives.The succcess of management is judged by the extent to which organinational goals are achieved. The basic purpose of managment is to achieve maximum efficiency of the organisation.

(ii) Management is a Continuous Process : Management is continuous process, i.e., its function are repeated time and again. Management does not shop anywhere. It is an ongoing process of planning the activities and execution of plans through organising, staffing, directing and controlling.

(iii) Management is a Coordinative Force : The essence of management is the coordination or integration of human and other resources for effective performance. It brings together physical and financial resources and leads the human resources for the efficient use of non-human resources. All these resources are properly organised and divided into various work units for the purpose of achieving greater coordination. Management acts as a catalytic agent in getting maximum productivity.

(iv) Managment is an Intangible Force : Management has been called the *unseen force*. Its presence is evident by the results of its efforts -orderliness, informed employees, buoyant spirit and higher output. Thus, feeling of management is results are apparently known. People ofthen comment on the effectivencess (or ineffectiveness) or management on the basis of the end results although they cannot observe it during operation.

(v) Managment is a Part of Group Effort : Management is an integral part of any group activity. It is essential to undertake any organised activity. It involves the use of group efforts in the pursuit of well defined goals or objectives. It cannot exist independent of the group of organisation it manages.

(vi) Mangement Accomplishes Results through the Cooperation of others : The managers cannot do everything themselves. They must have the necessary ability and skills to get work accomplished through the efforts of others. They must motivate the subordinates for the accomplishment of the tasks assigned to them. It is through motivation that managers can influence the behaviour of their subordinates.

(vii) Management Balances Effectiveness and Efficiency : Sound management requires that all organisational activities are performed effectively and efficiently. An organisation is said to be effective if it is able to accomphish its objectives. It will be termed as efficient if it is able to accomplish its objectives by making optimum use of resources. For example, each of the two product managers of a company is given the target to produce 2000 refrigerators per month. Both attain their targets and so are effective. But the cost of production per refrigerator of the first Production Manager is Rs. 9,000 per set and that of the second is ₹ 9,800 per set. The first Production Manager will be termed both effective and efficient.

(viii) Management is a Dynamic Discipline : Management is a field of study which is taught in universitives and management institutes. In fact, managments is multidisciplinary in nature. It contains principles drawn from many social sciences like authropology, psychology, sociology, etc. Much of management literature is the result like association of these disciplines.

(ix) Management is a Science as well as an Art : Management has an organised body of knowledge consisting of distinct concepts, principles and techniques which have wide application. So it is treated as a science. The application of these concepts, principle and techniques requires specialised knowledge and skills on the part of the manager. Since the skills acquired by a manager are his personal possession, management is viewed as an art. The skills can be learnt through training and experience.

(x) Man agement is Pervasive or Universal : Management is essential for effective performance of any orgainsed activity. Thus, it is universal in nature. The principles and techniques of managements have universal application. They can be applied to all types of organisations-business, social, educational and religious. However, the principles and techniques should not be applied blindly as they are not rigid laws. They should be modified to suit the given situation and the type or organisation.

The importance of management in current scenario in industrial environment :

1. Accomplishment of Goals : It is the management which determines the goals of the organisation and of various departments and functional groups. The goals are communicated to the employees to seek cooperation. All organisational activities are directed towards the organisational objectives. Clear–cut definition of goals is essential for the success of any organisation.

2. Effective Utilisation of Resources : Management ensures optimum utilisation of resources. Through planning and organisation, managment eliminates all types of wastages and achieves efficiency in all business operations. Management motivates workers to put in their best performance. This would lead to the effective working of the business.

3. Sound Organisation : Management establishes sound organisation for the accomplishment of the desired objectives. It clarifies authority responsibility relationships among various positions in the enterprise. It fills various positions with persons having the right qualifications and training. Management also provides the workers with proper environment and encourages the spirit of co–operation.

4. Providing Vision and Foresight : Management keeps itself in touch with the external environment and supplies vision and foresight to the enterprise. It helps in predicting what is going to happen in future which will influence the working of the enterprise. It also takes steps to ensure that the enterprise is able to meet the demands of changing environment.

5. Harmony in Work : In an organisation employees come from different background. they have different attitudes and different style of working and if every one start following his own style, it can lead to chaos and confusion in the organisation. By giving directions managers bring uniformity and harmony in the action of employees.

6. Help the Employees the Achieving Personal Objectives : Every manager motivates and leads his team in such a manner that individual members are able to achieve personal goals while contributing to the overall organisational objective. Through motivation and leadership management helps individuals to develop team spirit, cooperation and commitment to group success.

7. Development of Society and Nation : Management plays a pivotal and crucial role in economic and social development of a country. The development of a country lies on the quality of management and available resources. Management can increase the national income and standard of living of the people by producing maximum cost. Thus management is important at national level and is regarded as a key for the economic growth of country.

Q.3. Explain the following : (20)

(a) System approach of Management.

(b) Difference between Recruitment and selection.

Ans.(a)System approach of Management: The systems approach is based on the view that an organisation is a system composed of elements that are interrelated and interdependent. According to Cleland and King, *"A system is composed of related and dependent elements which, when in interaction, form a unitary whole"*. It is simply an assemblage or combination of things or parts, forming a complex whole. Its important feature is that it is composed of a hierarchy of subsystems. The world as a whole can be considered to be a system in which various national economies are subsystems. In turn, each national economy is composed of its various industries, each industry is composed of firms, and of course, a firm can be considered a system composed of subsystems such a production, marketing, finance, accounting and so on. Thus, each system may comprise several subsystems and, in turn, each subsystem may be further composed of sub–systems.;

Basic features of systems approach : The basic features of systems approach are as under :

(i) A system consists of interacting elements. It is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole.

(ii) The various subsystems are studied in their interrelationships rather than in isolation from each other.

(iii) An organisational system has a boundary that determines which parts are internal and which are external.

(iv) A system does not exist in a vacuum. It receives in formation, materials and energy from other systems as inputs. These inputs undergo a transformation process within the system and level the system as outputs to other systems.

(v) An organisation is a dynamic system as it is responsive to its environ–ment. It is vulnerble to changes in its environment such as government policies, new technology, competition in the market, etc.

Criticism of system approach : The systems approach is not free from limitations. It has the following deficiencies :

(i) The systems approach cannot be considered a unified theory of organisation. This is in no way a unified body of thought. Systems approach fail to take a comprehensice study to analyse the organisations form different angles.

(ii) The systems approach has failed to specify the nature of interactions and inter dependencies between an organisation and its external environment.

(iii) The systems approach has failed to spell out the precise relationship between various subsystems.

(iv) The systems approach does not provide action framework applicable to all types of organisations.

(v) The systems approach does not offer any tools or techniques for analysis and synthesis of the system and environment

Ans.(b) Difference between Recruitment and selection are :

S.No.	Key points	Recruitment	Selection
1.	Concept	Recruitment is a process of searching for prospective employees (candidates or applicants) and stimulating them to apply for vacant post in the organisation.	Selection is a process of evaluating and selecting the required (or fixed number of personal from the list of applicants. The process basically involves choosing the fit candidates, or rejecting unfit candidates, or a combination of both.
2.	Objectives	The basic objective is to attract a maximum number of candidates to provide more options for better selection.	The basic objective is to choose the most fit out of the available candidates.
3.	Interdependence	Recruitment is a base for selection.	Selection of candidates is based on recruitment. Candidates are selected from those who have applied for.
4.	Nature	It is positive process as all those who applied are equally accepted.	Mostly, it is negative (or rejection) process as more candidates are rejected than those who are selected.
5.	Main activities	It includes searching prospective candidates and stimulating them to apply for the posts. It is not very intensive. It is a simple and short process.	It consists of securing information about candidates, evaluating information, and choosing the right member of most fit candidates. It is an intensive process.
6.	Responsibility and Tasks	Recruitment activities are carried out by the adminis–trative staff and it involves receiving, calssifying and recording applicants.	Mostly, selection activities are carried out by the middle and the top level executives. It involves conducting tests, taking interviews, checking references, placement, etc.
7.	Ending point	Recruitment ends when time limit to receive the applications is over.	Selection ends with picking up of a certain number of candidates from the pool of applicants and their placement.
8.	Time and cost	The time period of recruitment may be short or long depending upon the permitted time limit. It may be a day, a week, or more than a week. It is less expensive.	Selection depends on the number of applicants who applied for and the selection process followed. It may be a single–stage process or multi–stage process. It is an expensive process.

Section-B

Q.4. What do you mean by inventory management and explain various methods used in inventory control in an organization. **(20)**

Ans. Inventory management : Inventory management is a science primarily about specifying the shape and percentage of stocked goods. It is required at different locations within a facility or within many locations of a supply network to precede the regular and planned course of production and stock of materials.

Methods of Inventory Control : The most popular methods or systems of inventory control used by industrial enterprises include the following :

(i) Fixation of various stock level

(ii) Economic Order Quantity (EOQ).

(iii) Perpetual Inventory Control.

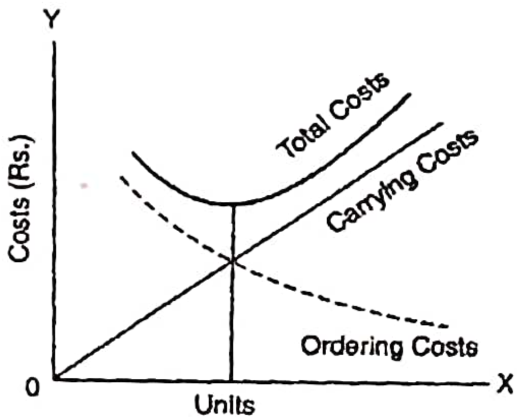
(iv) Periodical Stocking.

(v) ABC analysis

(vi) VED analysis.

(i) Fixation of various stock level: Under this method various stock levels are fixed scientifically to avoid over stocking and under stocking of materials. Over stocking of materials leads to unnecessary blockage of materials and investment and under stocking of material leads to disputation in production. These are the following stock levels which help for planning of materials.

(ii) Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.



Economic order quantity

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs as shown in fig. At this level, total costs of inventory would be the minimum or most favourable to the buyer.

Economic order quantity is determined at that level where the total of ordering costs and carrying costs is the minimum.

Economic Order Quantity can be calculated with the help of the following formula :

$$EOQ = \sqrt{\frac{2AS}{PC}}$$

where A = Annual usage in units.
S = Cost of placing orders.
P = Price of material per unit
C = Cost of storage of material.
EOQ = Economic order quantity

(iii) Perpetual Inventory Control : Perpetual Inventory Control Method requires a stock record or register for every item. Receipts are recorded from goods received notes and disbursements from stores requistion. Thus, a running balance of stock on hand is available after every receipt or disbursement. As the name implies, the method provides an up-to-date record of inventories so that the chances of misappropriation are reduced. Record requisitions are placed when the balance reaches some predetermined minimum quantity.

The operation of the perpetual inventory system may be outlined as follows :

(1) The stock records are maintained and up-to-date posting of transactions is made therein so that current balance may be known at any time.

(2) Different sections of the stores are taken up by rotation for physical checking. Every day some items are checked so that every item may be checked for a number of items during the year.

(3) Stores received but awaiting inspection are not mixed up with regular stores at the time of physical verification because entries relating to such stores have not yet been made in the stock records.

(4) Notice of the particular items to be verified each day is given to the storekeeper only on the date of actual verification so that surprise element in stock verification may be maintained.

(5) The physical stock available in the store, after counting, weighing, measuring or listing, as the case may be, is properly recorded in bin cards or inventory tags or stock verification sheets.

(iv) Periodical Physical Checking or Stock-Taking : The Periodical Physical Count Method requires an occasional count of stock to determine inventory balance on hand. The inventory count is recorded on the inventory sheets. The usage of stores is determined by adding current receipts to the old balance and subtracting the new balance on hand. Recorder requistion can be placed when occasional counting reveals that only a small quantity of a certain item is on hand or when the storekeeper notices that stock is running low. This method is practicable only in case of insignificant items because in case of other items varying usage may deplete stock and may cause an out of stock position between two inventory taking periods.

(v) Inventory Control Through ABC Analysis : A. B. C. analysis is always a better control system. Under this method inventory items are classified in to three categories such as A. B. C. basing upon its value and cost significance. The number of items and the value of each class is expressed as percentage of the total and categorize as under.

Items of high value and small in numbers termed as 'A'

Items of moderate value and moderate in number is termed as 'B'

Items of small in value and large in number is termed as 'C'

A diagramatic view of ABC analysis is shown in fig.

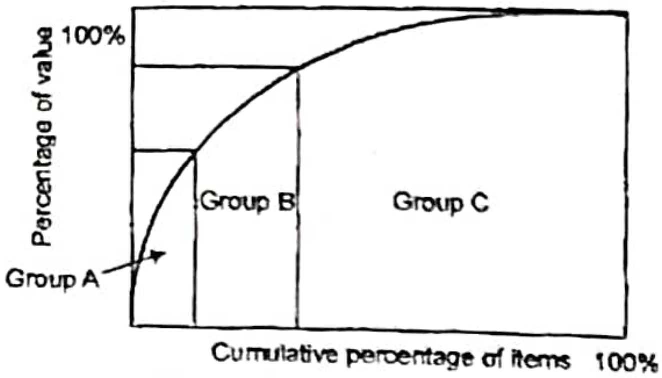


Fig. : ABC Analysis Curve

The significance of ABC analysis is that a very close control is exercised over the items of 'A' group which account for a high percentage of costs while less stringent control is adequate for category 'B' and very little control would suffice for category 'C' items.

All types of material control *i.e.*, purchase, stores and issue are to be strictly applied in case of the items of 'A' group. In case of the 'C' items an elaborate material control is not exercised because these items represent a very small portion of the material costs. These items can be purchased once a year and various stock levels i.e., minimum level, maximum level, ordering level etc. may not be adhered to. All the time, efforts and costs saved on the C group items by not having an elaborate control can be usefully utilised on the A and B group items.

(vi) VED Analysis : This method is used for control of spare parts. VED is the symbol of:

1. Vital spare parts: Are those spares whose cost of stock out is very high.
2. Essential spare parts: Are those spares which are essential for the production to continue.
3. Desirable spare parts: Are those spares which are needed but their absence even a week or more will not lead to stoppage of production.

The space parts can be divided into three categories-vital, essential or desirable-keeping in view the criticality to production. The spares, the stock-out of which even for a short time will stop production for quite some time and where the cost of stock-out is very high, are known as vital spares. The spares, the absence of which cannot be tolerated for more than a few hours or a day and the cost of lost production is high and which are essential for the production to continue, are known as essential spares. The desirable spares are those spares which are needed but their absence for even a week or so will not lead to stoppage of production. Some spares, though negligible in monetary value, may be vital for the production to continue and require constant attention. Such spares may not receive the attention they deserve if they are maintained according to ABC analysis because their value of consumption is small. So, in their cases, VED analysis is made to get the effective results.

Q.5. What do you mean by production control and Explain the step involved in production control. (20)

Ans. Production Control : There is lot of disagreement between different experts of management regarding the meaning of production control. The term itself appears to be quite confusing and misleading. In literary sense control means action to check/regulate.

In the opinion of Mary Gushing Niles, "Control is maintaining a balance in activities towards a goal or set of goals evolved during production planning." Planning only outlines some course of action whereas control is an execution process involving standardisation, evaluation and corrective functions.

According to Fayol, "Control consists in verifying whether everything occurs in conformity with the adopted plan and established principles. The objective of control is to point out weaknesses and shortcomings, if any, in order to rectify them and prevent recurrence. It operates on everything viz. material, equipment, men, operations etc. For control to be effective, it must be applied within reasonable time and be followed-up sanctions."

Thus production control is some scientific procedure to regulate an orderly flow of material and co-ordinate various production operations to accomplish the objective of producing desired item. In right quantity of desired quality at the required time by the best and the cheapest method i.e., to attain highest efficiency in production.

Alternately, production control is the function of management which plans, directs and controls the material supply and processing activities of an enterprise; so that specified products are produced by specified methods to meet an approved sales programme. It ensures that the activities are carried in such a way that the available labour and capital are used in the best possible way.

Steps in production planning and control : The basic phase, steps or elements of production planning and control are : (i) routing; (ii) loading ; (iii) scheduling ; (iv) dispatching ; (v) follow-up or expenditing and (vi) corrective measures. These phase are dicussed below.

(i) *Routing* : Routing deals with laying down of path along which materials are to travel in the process of production. It determines the sequence in which various operations will be performed. According to Spriegel and Lansburgh, "Routing involves the determination of the path the work shall following and the necessary sequence of operations."

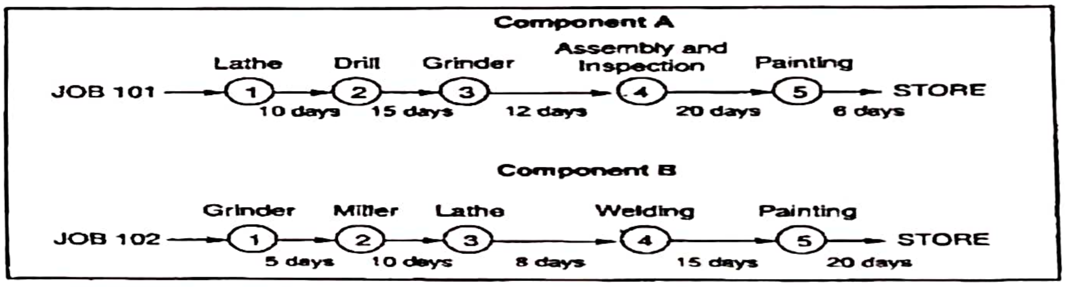


Fig : Routing and scheduling (Route is represential arrows and time schedule by number of days)

(ii) *Scheduling* : Scheduling determines when various operations are to be performed. It leads to fixing up of starting and completion times for the various operations to be performed. Scheduling for each job should be integrated with routing as shown in Fig. It is difficult to route an item efficiently through a plant without previously designed schedules and it is equally difficult to prepare schedules without determining the routing or sequence of operations. The other information required to draw production schedule include : (a) date of delivery specified by the customer ; (b) past production records ; (c) production capacity ; and (d) availability of equipment, materials and specialised skills.

(iii) *Loading* : After the route has been established, the work can be loaded against the concerned machines and equipment. Loading deals with the quantity of work assigned to a machine or a worker.

(iv) *Dispatching or issuing Instructions* : According to Alford nand Beatty, "Dispatchig deals with setting the productive activities in motion through release of order and instructions in accordance with previously planned timings as embodied in operation sheets. Route cards and loading schedules.

(v) *Expediting or Follow-up* : Expediting involves follow up of operations of various workshops to ensure that production of goods take place as per predetermined schedules.

(vi) *Corrective Measures* : Corrective action is needed to make any system of production planning and control effective. By resorting to corrective measures, the production manager maintains full control over the production activities.

Section-C

Q.6. What do you mean by marketing Mix of a firm ? Discuss the major components of a marketing mix. **(20)**

Ans. According to William J. Stanton, "*Marketing mix describes the combination of the four inputs which constitute the core of a company's marketing system, the product, the price structure, the promotional activities, and the distribution system.*" Every business enterprise has to determine its marketing mix for the satisfaction of needs of the costomers.

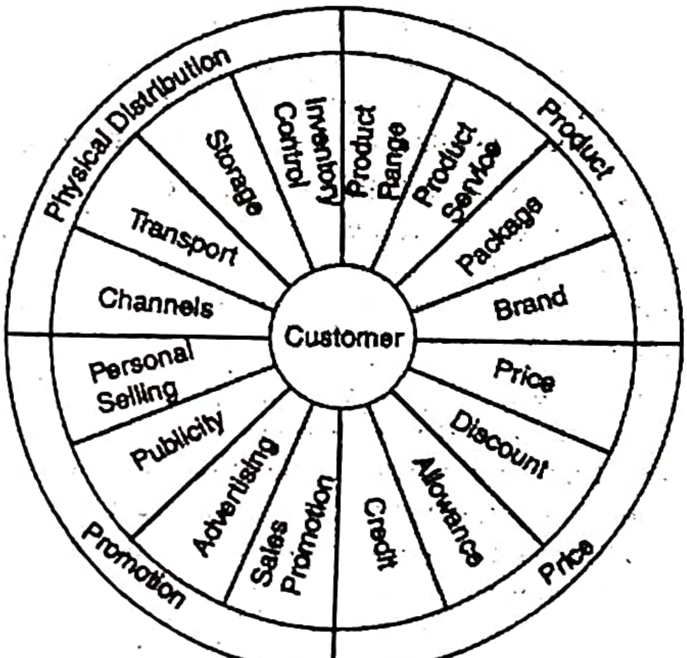


Fig.(1) : Marketing Mix.

Marketing mix represents a blending mix for the satisfaction of needs of the customers. Marketing mix represents a blending of decisions in four areas–product, pricing, promotion and physical distribution. These elements are inter–related because decision in one area usually affects actions in the others.

Marketing–mix is a combination of several–mixes. As shown in Fig.(1), marketing–mix encompasses product–mix (brand, quality, weight, etc.); price–mix (unit price, discount, credit, etc); promotion–mix (advertising, salesmanship and sales promotion); and place–mix (distribution channels, transport, storage, etc).

The basic purpose of determining the marketting mix is to satisfy the needs and wants of the customers in the most effective manner. As the needs of the customers and the environmental factors changes, the marketing mix is also changed. Thus, marketing mix is a dynamic concept. It concentrates on how to satisfy the needs of the customers. If the needs of the customers changes, the marketing mix will also be changed. Thus, marketing mix basically concentrates on the customer as shown in Fig.(1).

Components of marketing mix : Marketing mix implies a firm's total marketing programme. It involves decisions with regard to : (i) product, (ii) price (iii) promotion, and (iv) place as shown in Fig.(1). E.J. McCarthy has called these four marketing decision variables as the "four P's" of the marketing mix. Every firm has to determine its optimum marketing mix (*i.e.* best combination of all marketing variables or ingredients) so that it can realise its goals such as return on investment, sales volume, market share, etc.

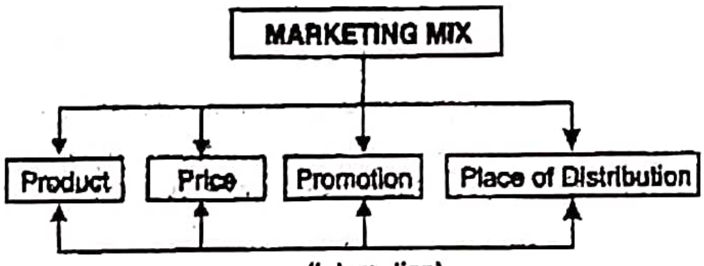


Fig.(2) : Interaction between Components of Marketing Mix.

Various elements of marketing mix are interrelated and interdependent as shown in Fig.(2). For instance, fearures of a product determine its price, but the price the customers can pay also determines the product features. The choice of channels is determined by the nature of product and its price. Similarly, promotional activities add to the cost of the product; the natural of product and its price also influence the kind of promotion to be done. A brief description of the elements of marketing mix is given below :

1. Product : Product mix involves planning, developing and producing the right types of products and services to be marketed by the firm. It deals with the product range, durability and other qualities. Apart from producing the right products, emphasis should also be laid on their branding, packaging, colour and other features. In short, product planning and development involves decisions about : (i) quality of the product, (ii) size of the product (iii) design of the product, (iv) volume of production, (v) packaging, (vi) branding, (vii) warrnties and after sale service, (viii) product testing, (ix) product range, etc.

The above product decisions are very important to ensure the sale of products. While buying a product, the customer does not merely look for the physical product, but a 'bundle of satisfaction'. For instance, the buyer of a refrigerator is not purchasing compressor and cooling chamber only. He also looks for attractive colour and design, durability, low noise quick cooling and so on. This is why, product mix is to be properly planned to meet the requirements of different kinds of customers.

2. Price : It is one of the most difficult tasks of the marketing manager to fix the right price. The marketing manager has to do lot of exercise to determine the price. He should determine the price in such a way that the firm is able to sell its products successful. Pricing also involves establishing policies regarding credit and discount. The variables that vitally influence pricing are: demad of the product in question, its cost, the buying capacity of various kings of customers, actual and potential competition, and government regulations.

Pricing decision and policies have direct influence on the sales volume and profits of the firm. Price, therefore, is an important element of the marketing mix. Right price can be determined through pricing research and by adopting test marketing techniques.

3. **Promotion :** Promotion deals with informing and persuading the customers regarding the firm's product. It involves decisions about advertising, giving free articles on purchase of the particular commodities, conducting contests, role of personal selling by the salesmen, and other sales promotion techniques. Advertising and personal selling are important tools to promote the sale of products of a firm. The use of promotional activities like contest, free distribution of sample, etc., is also significant to fight competition in the market. Thus, a mix of advertising, personal selling and sales promotion are used for the promotion of a firm and its goods.

4. **Place or physical Distributioln Mix :** Place mix entails activities that are necessary to transfer ownership of goods to customers and to make available goods at the right time and place. Thus, it includes decisions about the channels of distribution and the place at which the products should be displayed and made available to the customers. It is management's responsibility to select and manage trade channels through which the products will reach the customer at the right time and to develop a physical distribution system for handling and transporting the products though these channels.

The important channels used for physical distribution of goods are wholesalers and retailers. In some cases, the manufacturers even own the retail outlets. For example, there are oil companies that own stations distribution their petroleum products. Many manufacturers also sell directly to consumers by way of door-to-door sales persons. Whatever may be the channel selected, the marketing managers are also responsible for measuring channel performance and making changes when perfomance falls short of expected goals. In addition, he has to develop a system of handling and transporting the products through these channels. Will the product be transported to middlemen by rail or by truck ? If by truck, should the company by its own vehicles or engage a transporter to do the transporting ? What is the best route over which the goods should be move? There are some of the decisions which the marketing managers have to take in the field of physical distribution.

Q.7. Explain the following : (20)

(a) Explain the characteristics in an ideal MIS.

(b) Explain the importance of marketing research in present industrial scenario.

Ans. (a) The characteristics in an ideal MIS: MIS should have the following characteristics :

- **Available :** MIS should provide information readily available to management whenever required.
- **Understandable :** The information provided by MIS should be simple and easily understandable.
- **Relevant :** The information provided must be meaningful to the decision maker and it should lie in his areas of responsibility.
- **Complete :** Information should include all the elements, necessary for decision making system should not leave any important information and every effort should be made to obtain it.

- **Concise and clear :** Information presented must be clear and concise. Information should be to the point it should not be more, it should not be less.
- **Reliability :** The information should be accurate with facts and validated. Incorrect or unreliable information creates confusions in decision making. Thus MIS should provide reliable information.
- **Cost effective :** MIS should not be too costly; the cost of gathering data and analyzing it must be measured against benefits arriving from such information.
- **Timeliness :** Information should be provided on time, as premature information can become obselete; similarly, many decisions may not take place, if the information is not provided at rignt time.
- **Predictable :** MIS must be able to predict the problem areas before its occurance.
- **Effective :** It must aid in decision making process and take corrective actions effectively.

Ans.(b) Importance of marketing research in present industrial scenario: Marketing is one of the most important areas of any business enterprise. Making of right type of decisions in this area determines the success of the enterprise. Correct and sound marketing decision can be made only if right type of information is available to the management. The required information can be made available by conducting marketing research. The significance of marketing research has increased because of serve competition in the market, frequent technological changes and the emergence of buyer's market. Marketing research is also the cornerstone of the marketing concept. No business enterprise can clain to be customers centred without the performance of the marketing research function. Marketing research is an available to satisfy the demands of the customers.

There is generally a time lag between the production and consumption due to large scale production. The greater the time lag, the greater is the need for marketing research. The taste and behaviour of the consumers change very fast. It is always necessary to have information about such changes and adjust production accordingly. If it is not done, the products manufactured by the firm may not be sold in the market.

The gap between the manufacturers and the customers has increased these days because of the expense of a large chain of middlemen. There is virtually no communication between the manufacturers and the consumers. In order to fill up this communication gap, marketing research is necessary. It will help in knowing the needs, opinions and reactions of the customers. This will enable the management to take appropriate decision to supply the kinds of goods and services demanded by the customers. Marketing research will also facilitate in catching up with the new developments brought about by science and technology.

Section-D

Q.8. What do you mean by financial management ? Explain the scope of financial management in present scenario in India. (20)

Ans. Financial management : *Financial Management is concerned with the managerial activities related to procurement and utilisation of funds for business purposes.* It deals with planning, organising, directing and controlling financial activities of the enterprise.

Scope of financial management : Recent developments in business have placed the financial manager in a central vv position in most of the big enterprises. Financial manager is incharge of the management of the funds of the enterprise. He is concerned with the determination of requirements of funds, selecting and tapping various sources of funds and allocation of funds to particular assets – fixed and current.

Financial management involves four type of decisions : (i) investment decision– financial plan, capital budgeting, etc. (ii) working capital decision – liquid assets, (iii) financing decisions– determination of capital structure or financing mix ; and (iv) dividend decisions – dividend policy. Since most business activities involve the use of funds, financial management has come to occupy an important place in the modern business enterprises.

(i) Investment Decisions : The investment decisions comprise capital budgeting and current assets decisions. Capital budgets decisions are more important because they relate to allocation of capital and commit funds to long–term assets which would yield benefits in future. Because the future is always uncertain, capital budgeting decisions involve some risk. Therefore, these projects should be evaluated in terms of risk and uncertainty. Capital budgeting also involves the decision of recommitting runds when an old assets is to be replaced.

The financial manager is also concerned with management of current assets. He must arrange current assets so as to maximise profitability relative to the amount tied–up in an asset. He is responsible for maintaining an adequate level of liquidity. This is also known as management of working capital.

(ii) Working capital decisions : There are two concepts of working capital, namely, gross working capital and net working capital. Both the concepts are relevant for short–term financial decisions. Gross working capital refers to the firm's investment in current assets such as cash, debts, inventory, short–term securities, etc. Net working capital refers to the difference between current assets and current liabilities. It may be noted that current assets are those assets which are convertible into cash within an accounting year (*i.e.*, 12 moths), and current liabilities are those liabilities which are likely to mature for payment within an accounting year. Current liabilities include creditors, bills payable, outstanding expenses and bank overdraft.

Efficient working capital decisions are important to maintain liquidity in the firm. The firm must have suficient working capital to pay–off day–to–day expenses and debts. The working capital needs should be properly forecasted and as cash flow statement should be prepared every year. Funds must be invested in short–term assets in such a way that they are available when neede without any loss of value.

(iii) Financing decisions : There relate to raising of funds. The finance manager must decide when, where and how to acquire funds to meet the investment needs of the company. Funds are available from various sources under different types of agreements and for varying periods of time. The finance manager is required to obtain a balanced capital structure for the company so as to maximise the market price per share. The use of debt capital affects the return and risks of the equity shareholders. If the financial leverage is favourable, the return on equity will increase and vice–versa. Thus, debt financing involves risk also. A proper balance will have to be struck between debt and equity.

(iv) Divided decisions : Such decision are related to dividend policy of the company. The finance manager has to decide whether the company should distribute all profits or retain them, distribute a portion and retain the balance. Profits should be retained and ploughed back in the business if proper investment opportunities are available. The dividend policy of the company should maximise the market value per share. For this, the finance manager should determine the optimum dividend payout ratio. He has also to consider the question of dividend stability, cash dividend and stock dividend or bonus shares.

Q.9. What do you mean by capital structure ? Bring out the qualities of an optimum capital structure. **(20)**

Ans. Capital Structure : Capital structure refers to the proportion of different kinds of securities raised by a firm as long-term finance. According to C.W. Gerstenberg, "*The type of securities to be issued and proportionate amounts that make up the capitalisation is known as capital structure or financial structure.*"

Qualities of an optimum capital structure : Following are the qualities of an optimal of capital structure.

1. Simpliticy : A sound capital structure is simple in the and in the initial stage there are limits to the number of issues and types of securities. If the capital structure is complicated from the very beginning by issuing different types of securities, the investors hesitate to invest in such a company. The company may also face difficulties in raising additional capital in future. Thus it is advisable to issue equity and preference shares in developing an optimum capital structure. Debentures and should be reserved for future financial requirements.

2. Minimum cost : A sound capital structure attempts to establish the security–mix in such a way as to raise the requisite funds at the lowest possible cost. As the cost of various sources of capital is not equal in all circumstances it is ascertained on the basis of weighted average cost of capital. The management aims at keeping the expenses of issue and fixed annual payments at a minimum in order to maximise the return to equity shareholders.

3. Maximise Return : A balanced capital structure is devised in such a way so as to maximise the profits of the corporation through a proper policy of trading on equity so as to minimise the cost of capital.

4. Minimum Risk : An ideal capital structure possesses the quality of minimum risk. such as – increase in taxes, rates of interest, costs, etc., and decreases in prices and value of shares as well as natural calamities adversely affect the company's earning. Therefore, the capital structure should be devised in such a way as to enable it to afford the burden of these risks easily.

5. Maximum Control : A sound capital structure retains the ultimate control of a company with the equality of shareholders who have the right to elect directors. Due consideration is given to the question of control in management while deciding the issue of securities. The existing shareholders may not be able to retain control. If a large number of equity shares are issued the company issues preference shares or debentures instead of equity shares to the public because preference shares carry limited voting rights and debentures do not have any voting rights. The capital structure of a company is changed in such a way which would favourably affect the voting structure of the existing shareholders and increase their control on the company's affairs.

6. Flexible : A flexible capital structure enables the company to make the necessary changes in it according to the changing conditions and make it possible to procure more capital whenever required or redeem the surplus capital.

7. **Liquid :** In order to achieve proper liquidity for the solvency of a corporation, all such debts are avoided which thereaten the solvency of the company. A proper balance between fixed assets and current assets is maintained according to the nature and the size business.

8. **Conservative :** In division of the capital structure, a company follows the policy of conservatism. It helps in maintaining the debt capacity of the company even in unfavourable circumstances.

9. **Balanced capital :** A balance is necessary for the optimum capital structure of a company. As both, under–capitalisation and over–capitalisation are injurious to the financial interests of a company, there is a proper coordination between the quantum of capital and the financial needs of the corporation. A fair capitalisation enables a company to make full utilisation of the available capital at minimum cost.

10. **Balanced Leverage :** A sound capital structure attempts to secure a balance leverage by issuing both types of securities, i.e., ownership securities and creditorship securities. Shares are issued when the rate of capitalisation is high, while debentures are issued when rate of interest is low.

FUNDAMENTAL OF MANAGEMENT

Model Test Paper-IV
Paper Code: HUMC-08-G

Note : *Question No. 1 is compulsory. Attempt any four questions from the rest of paper choosing one from each Section.*

Q.1.(a) Seniority and merit are two criteria for promotion. Which should be given preference ? (2)

Ans. Promotion should be based on both seniority and merit. The sound promotion policy should be based on both the consideration, i.e. seniority and ability. It should primarily be based on the merit of employees giving due weightage to seniority as shown in figure. Long term factors are also relevant while considering the promotion of employees. An employee who is best fitted for an immediate promotion may not necessarily have the greatest long term potential. That means, the most deserving candidate at the moment may seem to be a senior employee who has the ability to move only one more step up the promotional ladder, but it may be better to promote a junior man who may eventually advance to higher management.

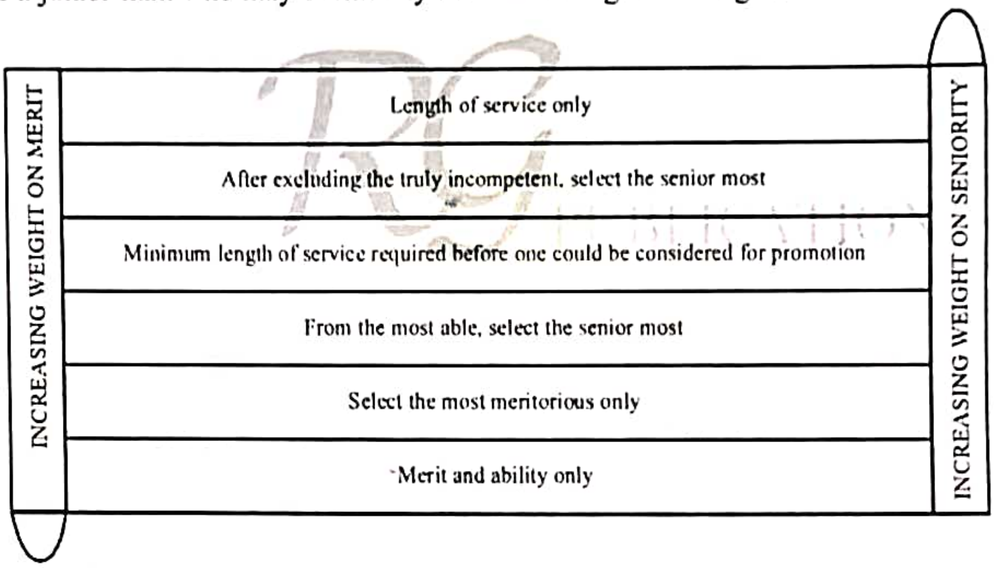


Fig.: Spectrum of merit and seniority in promotion

Q1.(b) Define Economic Order Quantity. (2)

Ans. Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents the quantity of an item which is most economical to order when fresh supplies are required. At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.

Q.1.(c) Criticize Advertising. (2)

Ans. Criticism of Advertising : Advertising is often criticised as a wasteful activity and an unnecessary evil. Its critics offer the following arguments to prove their contention :

(i) Multiplication of Needs : Advertising multiplies the needs of the people by inducing them to buy even those things which are not required by them. Since an advertisement is continuously repeated, it creates a desire in the mind of the people to buy the advertised product.

(ii) Burden on the Buyers : The amount of money spent by an advertiser on his product's advertisement is added to the distribution cost of the product. Thus, the customers have to pay more for the product advertised.

(iii) Creation of Confusion : The consumers get confused when they are exposed to excessive advertising of certain products. For instance, different models of T.V.s of a large number of brands are advertised which makes it difficult for a buyer to make a choice of the right T.V. Similarly, there are so many brands of beauty soaps, detergents, tooth pastes, etc.

(iv) Creation of Monopoly : Advertising may lead to monopoly of a brand. It is argued that big manufacturers who can afford large amount of money on advertising can create brand monopoly and eliminate the small producers.

(v) Wasteful Expenditure : Advertising does not always increase the demand of the product. When the demand is inelastic, advertising shifts demand from one producer to another. That means a large amount of money spent on advertising by the manufacturers goes waste. It has also been observed that a large number of advertisements either escape the attention of the people or are ignored by them.

(vi) Socially Undesirable : Sometimes, advertising undermines ethical and aesthetic values. It may make the people start bothering for appearance and design of the product rather than the real utility. Some advertisers also use indecent language and photographs to advertise their products which is highly objectionable from the society's point of view.

Q.1.(d) What is the importance of management ? (2)

Ans. The importance of management in current scenario in industrial environment :

1. Accomplishment of Goals
2. Effective Utilisation of Resources
3. Sound Organisation
4. Providing Vision and Foresight
5. Harmony in Work
6. Help the Employees the Achieving Personal Objectives
7. Development of Society and Nation

Q.1.(e) "Management is a continuous process." Comment. (2)

Ans. Management is a continuous process, i.e., its functions are repeated time and again. Management does not stop anywhere. It is an ongoing process of planning the activities and execution of plans through organising, staffing, directing and controlling.

Q.1.(f) What is the role of Human Resource Manager ? (2)

Ans. The purpose of Human Resource Management (HRM) is to hire, train and develop staff and where necessary to discipline or dismiss them. Through effective training and development, employees at enterprise achieve promotion within the company and reach their full potential.

This reduces the need for external recruitment and makes maximum use of existing talent. This is a cost-effective way for a business to manage its people.

The HRM function not only manages existing staff, it also plans for changes that will affect its future staffing needs. This is known as workforce planning. For example :

(i) The business may frow into new markets, such as enterprise moving into truck rental

(ii) It may use new technology which requires new skills e.g. global positioning equipment.

(iii) Staff may retire or be promoted, leaving gaps which need to be filled.

Q.1.(g) Explain Selection. **(2)**

Ans. Selection is the process of choosing the best person for a particular job. It leads to employment of workers. Selection is a negative process as it involves rejection of unsuitable candidates. More candidates are rejected than are selected. Selection involves several steps to weed out the unsuitable candidates for the hob under consideration. Criteria are laid down at each stage. Those who do not fulfil these criteria are rejected.

Q.1.(h) What are the sources of Finance ? **(2)**

Ans. Sources of Finance : Various sources of finance for a company may be grouped under two heads, namely, (i) Owner's funds and (ii) Borrowed funds.

Q.1.(i) State the objectives of Marketing ? **(2)**

Ans. Some of the major objectives of marketing management are as follows : 1. Creation of Demand 2. Customer satisfaction 3. Market share 4. Generation of profits 5. Creation of goodwill and public image.

The basic purpose of marketing management is to achieve the objectives of the business. A business aims at earning reasonable profits by satisfying the needs of customers.

Q.1.(j) What is the importance of inventory control ? **(2)**

Ans. Importance of Inventory Control : The importance of inventory control are as under :

(i) It ensures adequate supply of materials, stores, spares, etc. There is no shortage of any item at any stage of production.

(ii) It reduces investment in inventories, inventory carrying costs and losses due to obsolescence.

(iii) Materials are made available at the most economical rates.

(iv) Delays or interruptions in production due to non-availability of materials do not occur.

(v) Exact and accurate delivery dates can be forecast and orders can be booked accordingly.

(vi) Production schedule and delivery dates are maintained.

(vii) The materials are protected from spoilage, deterioration, pilferage etc.

(viii) There is an increase in overall efficiency /production of the organisation.

SECTION – A

Q.2. Define Management. Also explain the characteristics and principles of Management. (20)

Ans. Management : Management can be defined as the process of utilisation of human resources and physical resources (i.e., capital, machines, materials, etc.) in such a manner that organisation objectives are achieved effectively and efficiently. In other words, management involves planning, organising, staffing, directing and controlling the activities of the enterprise for the efficient utilisation of resources to achieve organisational goals.

The basic features or characteristics of managements are as follows :

(i) Managements is Goal-Oriented : The purpose of managements is to achieve the goals of the organisation. For instance, management of a business aims at satisfaction of custromers, earning of profits and increasing the goodwill and image of the business. There is no need of management if there are no predetermined goals or objectives.The succcess of management is judged by the extent to which organisational goals are achieved. The basic purpose of managment is to achieve maximum efficiency of the organisation.

(ii) Management is a Continuous Process : Management is continuous process, i.e., its function are repeated time and again. Management does not shop anywhere. It is an ongoing process of planning the activities and execution of plans through organising, staffing, directing and controlling.

(iii) Management is a Coordinative Force : The essence of management is the coordination or integration of human and other resources for effective performance. It brings together physical and financial resources and leads the human resources for the efficient use of non-human resources. All these resources are properly organised and divided into various work units for the purpose of achieving greater coordination. Management acts as a catalytic agent in getting maximum productivity.

(iv) Managment is an Intangible Force : Management has been called the *unseen force*. Its presence is evident by the results of its efforts -orderliness, informed employees, buoyant spirit and higher output. Thus, feeling of management is results are apparently known. People then comment on the effectiveness (or ineffectiveness) or management on the basis of the end results although they cannot observe it during operation.

(v) Managment is a Part of Group Effort : Management is an integral part of any group activity. It is essential to undertake any organised activity. It involves the use of group efforts in the pursuit of well defined goals or objectives. It cannot exist independent of the group of organisation it manages.

(vi) Mangement Accomplishes Results through the Cooperation of others : The managers cannot do everything themselves. They must have the necessary ability and skills to get work accomplished through the efforts of others. They must motivate the subordinates for the accomplishment of the tasks assigned to them. It is through motivation that managers can influence the behaviour of their subordinates.

(vii) Management Balances Effectiveness and Efficiency : Sound management requires that all organisational activities are performed effectively and efficiently. An organisation is said to be effective if it is able to accomphish its objectives. It will be termed as efficient if it is able to accomplish its objectives by making optimum use of resources. For example, each of the two product managers of a company is given the target to produce 2000 refrigerators per month. Both attain their targets and so are effective. But the cost of production per refrigerator of the first Production Manager is Rs. 9,000 per set and that of the second is ₹ 9,800 per set. The first Production Manager will be termed both effective and efficient.

(viii) Management is a Dynamic Discipline : Management is a field of study which is taught in universities and management institutes. In fact, managments is multidisciplinary in nature. It contains principles drawn from many social sciences like authropology, psychology, sociology, etc. Much of management literature is the result like association of these disciplines.

(ix) Management is a Science as well as an Art : Management has an organised body of knowledge consisting of distinct concepts, principles and techniques which have wide application. So it is treated as a science. The application of these concepts, principle and techniques requires specialised knowledge and skills on the part of the manager. Since the skills acquired by a manager are his personal possession, management is viewed as an art. The skills can be learnt through training and experience.

(x) Management is Pervasive or Universal : Management is essential for effective performance of any orgainsed activity. Thus, it is universal in nature. The principles and techniques of managements have universal application. They can be applied to all types of organisations-business, social, educational and religious. However, the principles and techniques should not be applied blindly as they are not rigid laws. They should be modified to suit the given situation and the type or organisation.

Foyol suggested fourteen principles of management which he found most frequently to apply in his work:

(1) Division of Work : It refers to the division of work among various individuals n the organization to bring about specialization in every activity.

(2) Authority and Responsibility : Authority denotes the right or power to give orders to the subordinates. Responsibility means the duty which the subordinate is expected to perform by virtue of his position in the organization.

(3) Discipline: Discipline means getting obedience to rules and regulations of the organization. According to Fayol, discipline is obedience application, energy and outward marks of respect. Discipline is very necessary for the smooth running of the organization.

(4) Unity of Command : This principle emphasizes that a subordinate should receive orders from one superior only. If he receives orders from more than one superior, he will not be able to carry out the orders in a proper manner.

(5) Unity of Direction : Foyol expressed this principle to mean one head and one plan for a group of activities having the same objectives. It is the condition essential to the unity of action, coordination of strength and focusing of efforts.

(6) Subordination of Individual Interest to the General Interest : The business enterprise is superior to individuals. The interests of the organization must prevail upon the personal interests of individuals.

(7) Remuneration of Personnel : The employees must be remunerated fully for their services rendered to the organization.

(8) Centralization : Foyol referred to centralization in the context of authority. It means concentration of authority at one place or at one level in the organization. It is a matter of finding the optimum degree for the particular concern.

(9) Scalar Chain : Scalar chain is the chain of superiors ranging from the ultimate authority to the lowest level in the organization.

(10) Order: There must be "a place for everything and everything in its place." This is what is meant by order. Foyol dealt with order in material things and also social order.

(11) Equity: Equity requires fair judgment in dealing with human resources. Personnel must be treated with kindness and equity if devotion and loyality are expected of them.

(12) Stability of Tenure of Personnel: This principle calls for lowest possible turnover of personnel for the well being of the enterprise.

(13) Initiative: Foyol wanted that the subordinate should be given an opportunity to take some initiative in thinking out and executing the plans. Employees get satisfaction when they are allowed to take initiative.

(14) Union in Strength: Literally speaking, the phrase esprit de corps means the spirit of loyalty and devotion which unites the members of group. It also means the regard for the honour of the group to which one belong.

Q.3.(a) What are different types of Training ? Explain in brief. (10)

Ans. Training : According of Edwin B. Flippo, "*Training is the act of increasing the knowledge and skills of an employee for doing a particular job.*" Training is an organised activity for increasing the technical skills of the employee to enable them to do particular jobs efficiently. In other words, training provides the workers with facility to gain technical knowledge and to learn new skills to do specific jobs. Training is equally important for existing and as well as new employees. It enables the new employees to get acquainted with their jobs and also increase the job-related knowledge and skills.

Objective of Training : The objective of training are as follows :

(i) To provide job related knowledge to the workers.

(ii) To impart skills among the workers systematically so that they may learn quickly.

(iii) To bring about change in the attitudes of the workers towards fellow workers, supervisor and the organisation.

(iv) To improve the productivity of the workers and the organisation.

(v) To reduce the number of accidents by providing saftey training to the workers.

(vi) To make the workers handle materials, machines and equipment efficiently and thus to check the wastage of time and resources.

(vii) To prepare workers for promotion higher jobs by imparting them advanced skills.

Types of Training : Depending upon the purpose of training, the following kinds of training programmes are used in industry:

1. Induction and Orientation Training : Induction is concerned with introducing or orienting a new employee to the organization and its procedures, rules and regulations. When a new employee reports for work, he must be helped to get acquainted with the work environment and fellow employee. It is better to give him a friendly welcome when he joins the organization, get him introduced to the organization.

2. Apprenticeship Training : Apprenticeship training involves imparting knowledge and skills in a particular craft or trade such as printing, toll making, etc. The Governments of various countries have passed laws which make it obligatory on certain employers to provide apprenticeship training to the young people. A apprenticeships training is desirable in industries which require a constant flow of new employees expected to become all round craftsmen. It is very much prevalent in printing trade, building and construction, and vocations like mechanists, electricians, welders, etc.

Q.3.(b) Describe the process of Selection. **(10)**

Ans. Selection procedure involves the following steps :

(*i*) Preliminary interview.

(*ii*) Application forms and their screening.

(*iii*) Employment test.

(*iv*) Final interview.

(*v*) Medical examination.

(*vi*) Appointment letter.

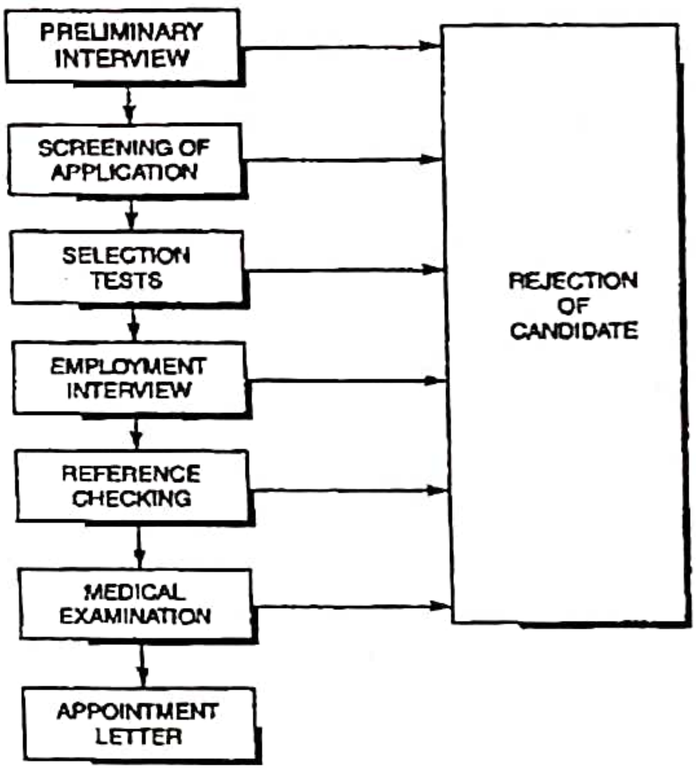


Fig. : Selection Procedure.

(*i*) **Preliminary interview :** The preliminary interview is generally taken for executive jobs. It is brief and has the job of eliminating the totally unsuitable candidates. Lack of certain requirements in education, training or experience may determine unsuitability. The candidates who clear the interview are asked to fill in the application blank.

***(ii)* Screening of application forms :** The application form is provided to the candidates on request. It asks for a written record of qualifications, experience and other qualities of the candidate. The application form should be as simple as possible and incorporate questions having effect on the suitability of the applicant for the job.

Application forms are processed by the screening committee and properly screened to select the candidates who are to be given the employment tests and called for an interview. The purpose of preliminary screening is to reject the totally unsuitable candidates. This will save a lot of time and money.

***(iii)* Selection or employment test :** Employment tests are being widely used to select persons for various jobs. These tests help in matching the characteristics of individuals with the vacant jobs so as to employ right type of personnel. The following types to tests are given to the candidates :

(*a*) Intelligence test.

(*b*) Aptitude test.

(*c*) Occupational or professional test.

(*d*) Personality test.

***(iv)* Employment interview :** After an applicant clears the various employment tests, he is called for final interview. The interview is taken by the Board consisting of the personnel manager and the representatives of other departments. The interview is held to determine suitability of the candidate and to provide him a complete picture of the responsibilities associated with the job.

Employment interview is of great importance to the applicant and the employer. There should be proper physical arrangement for the interview. It will enhance the reputation of the employer and give confidence to the condidates. Privacy and comfort should not be forgotten to ensure that the objectives of interview are achieved. If this is not done, there would be wastage of money on interviewing and right type of candidates may not be selected. The interviewers should also come fully prepared for the interview and should give proper attention to each candidate.

***(v)* Reference checking :** Many employers request names, addresses, and telephone numbers of reference for the purpose of verifying information and, gaining additional information on an applicant. Previous employers known persons, teacheres and university professors, can act as references.

***(vi)* Medical Examination :** Medical examination is given to the selected candidates to ascertain their physical capability and protect the employer from employing physically unsuitable candidates. Medical test is given by the medical expert appointed by the employer.

***(vii)* Appointment letter or job offer :** When a candidate has cleared the above listed hurdles in the selection procedure, he is given an appoinment letter and is requested to orientation and placed on the job for which he is appointed.

SECTION – B

Q.4. Define Inventory Control. Also explain the various methods of inventory control in detail. (20)

Ans. Inventory control: Inventory control is the process of deciding what and how much of various items are to be kept in stock. It also determines the time and quantity of various items to be procured. The basic objective of inventory control is to reduce investment in inventories and ensure that production process does not suffer at the same time. Inventory control requires the maintenance of inventory at an ideal level where the costs of carrying the inventories and the costs of not carrying the inventories are neutralized.

Methods of Inventory Control : The most popular methods or systems of inventory control used by industrial enterprises include the following :

(i) Fixation of various stock level

(ii) Economic Order Quantity (EOQ).

(iii) Perpetual Inventory Control.

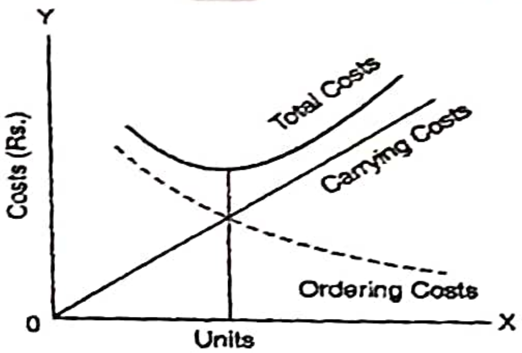
(iv) Periodical Stocking.

(v) ABC analysis

(vi) VED analysis.

(i) Fixation of various stock level: Under this method various stock levels are fixed scientifically to avoid over stocking and under stocking of materials. Over stocking of materials leads to unnecessary blockage of materials and investment and under stocking of material leads to disputation in production. These are the following stock levels which help for planning of materials.

(ii) Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.



Economic order quantity

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs as shown in fig. At this level, total costs of inventory would be the minimum or most favourable to the buyer.

Economic order quantity is determined at that level where the total of ordering costs and carrying costs is the minimum.

Economic Order Quantity can be calculated with the help of the following formula :

$$EOQ = \sqrt{\frac{2AS}{PC}}$$

where A = Annual usage in units.
S = Cost of placing orders.
P = Price of material per unit
C = Cost of storage of material.
EOQ = Economic order quantity

(iii) Perpetual Inventory Control : Perpetual Inventory Control Method requires a stock record or register for every item. Receipts are recorded from goods received notes and disbursements from stores requistion. Thus, a running balance of stock on hand is available after every receipt or disbursement. As the name implies, the method provides an up-to-date record of inventories so that the chances of misappropriation are reduced. Record requisitions are placed when the balance reaches some predetermined minimum quantity.

The operation of the perpetual inventory system may be outlined as follows :

(1) The stock records are maintained and up-to-date posting of transactions is made therein so that current balance may be known at any time.

(2) Different sections of the stores are taken up by rotation for physical checking. Every day some items are checked so that every item may be checked for a number of items during the year.

(3) Stores received but awaiting inspection are not mixed up with regular stores at the time of physical verification because entries relating to such stores have not yet been made in the stock records.

(4) Notice of the particular items to be verified each day is given to the storekeeper only on the date of actual verification so that surprise element in stock verification may be maintained.

(5) The physical stock available in the store, after counting, weighing, measuring or listing, as the case may be, is properly recorded in bin cards or inventory tags or stock verification sheets.

(iv) Periodical Physical Checking or Stock-Taking : The Periodical Physical Count Method requires an occasional count of stock to determine inventory balance on hand. The inventory count is recorded on the inventory sheets. The usage of stores is determined by adding current receipts to the old balance and subtracting the new balance on hand. Recorder requistion can be placed when occasional counting reveals that only a small quantity of a certain item is on hand or when the storekeeper notices that stock is running low. This method is practicable only in case of insignificant items because in case of other items varying usage may deplete stock and may cause an out of stock position between two inventory taking periods.

(v) Inventory Control Through ABC Analysis : A. B. C. analysis is always a better control system. Under this method inventory items are classified in to three categories such as A. B. C. basing upon its value and cost significance. The number of items and the value of each class is expressed as percentage of the total and categorize as under.
Items of high value and small in numbers termed as 'A'
Items of moderate value and moderate in number is termed as 'B'
Items of small in value and large in number is termed as 'C'

A diagramatic view of ABC analysis is shown in fig.

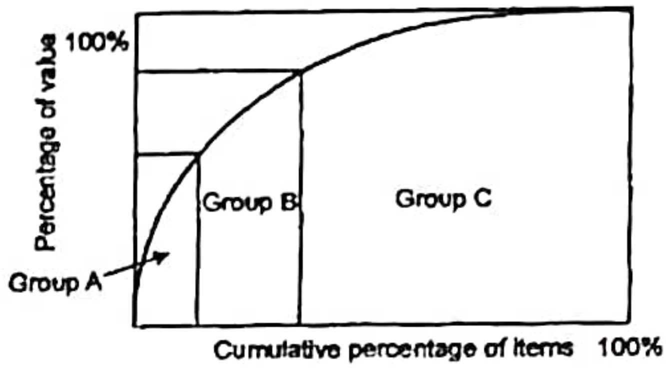


Fig. : ABC Analysis Curve

The significance of ABC analysis is that a very close control is exercised over the items of 'A' group which account for a high percentage of costs while less stringent control is adequate for category 'B' and very little control would suffice for category 'C' items.

All types of material control *i.e.*, purchase, stores and issue are to be strictly applied in case of the items of 'A' group. In case of the 'C' items an elaborate material control is not exercised because these items represent a very small portion of the material costs. These items can be purchased once a year and various stock levels i.e., minimum level, maximum level, ordering level etc. may not be adhered to. All the time, efforts and costs saved on the C group items by not having an elaborate control can be usefully utilised on the A and B group items.

(vi) VED Analysis : This method is used for control of spare parts. VED is the symbol of :

1. Vital spare parts: Are those spares whose cost of stock out is very high.
2. Essential spare parts: Are those spares which are essential for the production to continue.
3. Desirable spare parts: Are those spares which are needed but their absence even a week or more will not lead to stoppage of production.

The space parts can be divided into three categories-vital, essential or desirable-keeping in view the criticality to production. The spares, the stock-out of which even for a short time will stop production for quite some time and where the cost of stock-out is very high. are known as vital spares. The spares, the absence of which cannot be tolerated for more than a few hours or a day and the cost of lost production is high and which are essential for the production to continue, are known as essential spares. The desirable spares are those spares which are needed but their absence for even a week or so will not lead to stoppage of production. Some spares, though negligible in monetary value, may be vital for the production to continue and require constant attention. Such spares may not receive the attention they deserve if they are maintained according to ABC analysis because their value of consumption is small. So, in their cases, VED analysis is made to get the effective results.

Q.5. Explain the meaning, importance and stages of production planning and control. (20)

Ans. Production Planning and Control : The term 'production and control' is widely used in the area of industrial management. It signifies the need of planning and control of production system. Planning and control functions should be performed in an integrated manner. There is no use of planning if there is no system of control to see if the plans are being properly executed and the results are being adequently evaluated. Control is dependent on planning a standards of performance to be used in quality control other types of control are laid down at the planning stage.

Production Planning : Production planning is an important area of production management. Planning is a prerequisite to anything. Systematic planning is necessary for production operations like any other business activity. To ensure proper utilization of human and non-human resources in the production process, production planning involves deciding and advance what to do, when to do it, where to do, how to do it and who is to do it, and how the results are to be evaluated, thus production planning essentially consists of planning production activities in an industrial enterprise before the actual operations start.

Control Planning: Production control is also a significant area of production management. Controlling is the process that measures current performance and ensures that it is as per quality standards laid down in advance. Production control involves (i) Dispatching (ii) Expediting or follow up, and (iii) Corrective action. It is highly integrated with production planning as it involves guiding production along the lines set by the production planners. The main purpose of production control is that the production should be produced by the best and cheapest methods and it should be of the required quality and produced at right time. Production control is a must in any productive enterprise.

Importance of Production Planning and Control : Production planning and control offer the following Importance :

(i) Efficient use of Resources : An efficient system of production planning and control is supported by a good quality control procedure which helps in the efficient utilisation of materials, machines and the time of the workers.

(ii) Economy : There is better utilisation of plant capacity and working time as everything is planned well in advance of the operation. This lowers the unit cost of production.

(iii) Coordination : Production planning and control can be used as an instruments of formalising coordination in purchasing, marketing, quality control, cost control and other activities related to the production of goods and services.

(iv) Avoid Bottlenecks : Since there is an even flow of production because of effective production because of effective production control, bottlenecks and work stoppages are avoided. This also increases the morale of the workers.

(v) Inventory Control : Production planning is based on business forecasts. It helps in maintaining proper levels of inventory of different kinds of materials and work-in-process.

Stages of Production Planning and Control : The basic phase, steps or elements of production planning and control are : (i) routing; (ii) loading ; (iii) scheduling ; (iv) dispatching ; (v) follow-up or expenditing and (vi) corrective measures. These phase are discussed below.

(i) *Routing* : Routing deals with laying down of path along which materials are to travel in the process of production. It determines the sequence in which various operations will be performed. According to Spriegel and Lansburgh, "Routing involves the determination of the path the work shall following and the necessary sequence of operations."

(ii) *Scheduling* : Scheduling determines when various operations are to be performed. It leads to fixing up of starting and completion times for the various operations to be performed.

Scheduling for each job should be integrated with routing as shown in Fig. It is difficult to route an item efficiently through a plant without previously designed schedules and it is equally difficult to prepare schedules without determining the routing or sequence of operations. The other information required to draw production schedule include : (a) date of delivery specified by the customer ; (b) past production records ; (c) production capacity ; and (d) availability of equipment, materials and specialised skills.

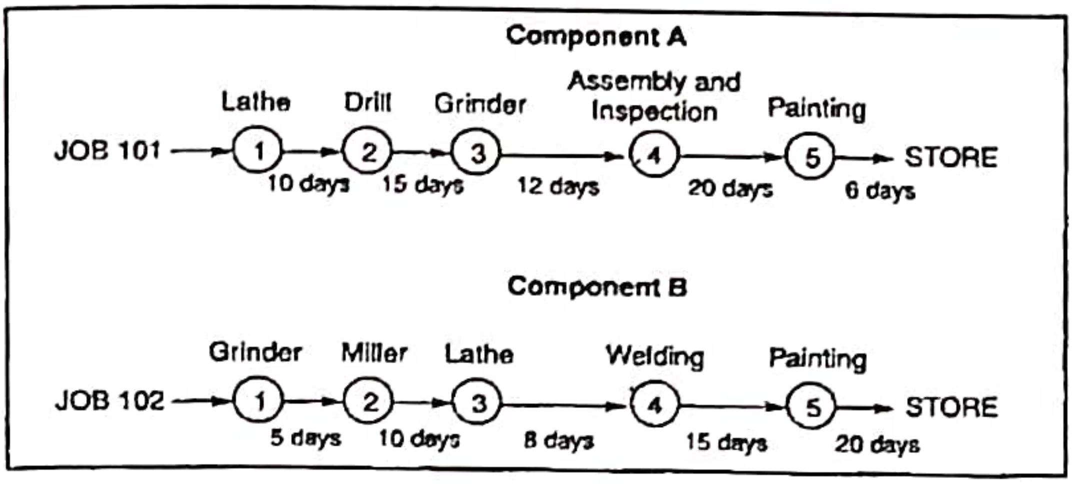


Fig : Routing and scheduling (Route is represential arros and time schedule by number of days

(iii) *Loading* : After the route has been established, the work can be loaded against the concerned machines and equipment. Loading deals with the quantity of work assigned to a machine or a worker.

(iv) *Dispatching or issuing Instructions* : According to Alford nand Beatty, "Dispatchig deals with setting the productive activities in motion through release of order and instructions in accordance with previously planned timings as embodied in operation sheets. Route cards and loading schedules.

(v) *Expediting or Follow-up* : Expediting involves follow up of operations of various workshops to ensure that production of goods take place as per predetermined schedules.

(vi) *Corrective Measures* : Corrective action is needed to make any system of production planning and control effective. By restoring to corrective measures, the production manager maintains full control over the production activities.

SECTION – C

Q.6. Define Advertising. Explain the functions and criticism of advertising with the help of examples. (20)

Ans. American Marketing Association has defined advertising as "*any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor*,"

According to **William J.Stanton,** " *Advertising consists of all the activities involved in presenting to a group a non-personal, oral or visual, openly sponsored message regarding* *a product, service or idea; this message, called an advertisement, is disseminated through one or more media and is paid for by the identified sponsor."*

According to **Frank Prespray**, "*Advertising is printed written, spoken or graphic salesmanship. Advertisement are designed to sell the products of the advertiser and to influence favourably the public mind, individually and collectively with respect to the interest of the advertiser.*"

Function of Advertising : Following are the main functions of advertising :

(1) It encourages the prospective buyers to purchase the products.

(2) It is indispensible in the introduction of a new product in the market.

(3) It acts as a patent instrument in the hands of the manufacturer for increasing the sales by creating permanent demand for the product.

(4) It is considerably helpful in decreasing the number of middlemen.

(5) It builds up the reputation of the producer hereby enhancing the goodwill of the concern.

(6) It educates the people in the use of new products and tells about the different uses of the existing products.

(7) It extends many employment opportunities to different type of people like artists, singers, actors, models and painters etc.

Criticism of Advertising :

Advertising is often criticised as a wasteful activity and an unnecessary evil. Its critics offer the following arguments to prove their contention :

(i) Multiplication of Needs : Advertising multiplies the needs of the people by inducing them to buy even those things which are not required by them. Since an advertisement is continuously repeated, it creates a desire in the mind of the people to buy the advertised product.

(ii) Burden on the Buyers : The amount of money spent by an advertiser on his product's advertisement is added to the distribution cost of the product. Thus, the customers have to pay more for the product advertised.

(iii) Creation of Confusion : The consumers get confused when they are exposed to excessive advertising of certain products. For instance, different models of T.V.s of a large number of brands are advertised which makes it difficult for a buyer to make a choice of the right T.V. Similarly, there are so many brands of beauty soaps, detergents, tooth pastes, etc.

(iv) Creation of Monopoly : Advertising may lead to monopoly of a brand. It is argued that big manufacturers who can afford large amount of money on advertising can create brand monopoly and eliminate the small producers.

(v) Wasteful Expenditure : Advertising does not always increase the demand of the product. When the demand is inelastic, advertising shifts demand from one producer to another. That means a large amount of money spent on advertising by the manufacturers goes waste. It has also been observed that a large number of advertisements either escape the attention of the people or are ignored by them.

(vi) Socially Undesirable : Sometimes, advertising underlines ethical and aesthetic values. It may make the people start bothering for appearance and design of the product rather than the real utility. Some advertisers also use indecent language and photographs to advertise their products which is highly objectionable from the society's point of view.

Q.7. Define Marketing Research. Explain the advantage the importance, objective and limitations of marketing problems ? (20)

Ans. Marketing Research : It means the intelligence service of the organisation. Marketing research helps in analysing the buyer's habits, relative popularity of a product, effectiveness of advertisement media, etc. Its major task is to provide the marketing manager with timely and accurate information so that better decisions can be made. The scope of marketing research is very wide. It may cover all the areas of business which have bearing on the marketing function. In the words of W.J. Stanton, "*Marketing research is the systematic search for an analysis of facts related to a marketing problem.* It is shifting from fact finding, information gathering activity to a problem solving and action recommending function."

Advantages of Marketing Research : A business enterprise can derive the following benefits by conduction market research :

(i) Marketing research facilitates forecasting of demand for the products of the firm. This will help in adjusting the production schedules accordingly.

(ii) Marketing research helps in knowing the probability of acceptance of the product in its present form. Such type of research may lead to alterations in design, colour and other features of the product to make it more acceptable by the consumers.

(iii) Marketing research reduces wasteful expenditure on production and advertisement. It tells in advance the products and services which are required by the customers.

(iv) Marketing research helps in discovering new markets and in understanding the behaviour of various types of customers.

(v) Marketing research can be used to study the effectiveness of existing channels of distribution, advertising, sales promotion activities and other merketing activities.

(vi) Marketing research provides invaluable information which not only affects the working of the Marketing.

(vii)Marketing research helps in knowing the reaction of the middle-men in regard to the company's marketing policies. This may lead to the discovery of the new lines of production which can be taken up alongwith the existing products.

Importance of Marketing Research : Sucesss of an organization depends largely on marketing management. If marketing is not carried properly, a business can't be run profitably. For successful implemention of marketing process, marketing research is of outmost necessity. Consumer oriented and competitive markets have further increased the importance of marketing research.

- Marketing research provides valuable information which provides basic for sound and accurate decision. In other words, top management's function of decision making becomes easy with the help of marketing research.

- Marketing research has brought the producer and the ultimate consumer very close to each other by crossing the walls raised by marketing intermediates. It has greatly filled the communication gap between the producer and the consumer. It studies in detail the buying habits of consumers, their tastes and preferences, needs, options and reactions etc. According to S.H. Turner "*Marketing research involves a study of consumer preferences, habits and attitudes*".

- Marketing research provides valuable information with regard to new developments and innovations brought about by rapid growth of science and technology. On account of these developments, prompt adjustments and changes in various policies viz., advertising, sales pricing and distribution etc. have got to be made so that a business concern can keep itself upto date in the dynamic market place.

- Marketing management has accepted the real challenge of finding new customers, new products and new markets with the help of vital instruments of marketing research.

- Marketing research has greatly reduced the possibility of error and has provided right goods at right places, at right time and at right price. According to Smallbone "Marketing research then is the hand maiden of good management but can never be a substitute for it".

Objectives of Marketing Research : Marketing research is usually conducted to achieve the following objectives :

(i) *To know about the persons who buy the firm's product* : Marketing research tries to reveal the nature of persons who buy, the frequency of their buying and the sources of their buying. It also includes the social status and the regional location of the customers.

(ii) *To find out the Impact of Promotional efforts* : Marketing research facilities appraising and improving the methods of sales promotion. It also leads to measure the effectiveness of advertising, pricing policies and channels of distribution.

(iii) *To Know customers Response to a new product* : This is also Known as product testing. Marketing research is frequently used to know the opinion of the customers about the satisfaction govern by a new product. This helps in Knowing the desired improvements in quality, design, size, packing, distribution method, etc.

(iv) *To forecast sales* : Marketing research helps in sales forecasting and market planning. The researches make sales forecast on the basis of the response from the customers and the distribution media.

(v) *To study the Goodwill of the firm in comparison with the competing firms* : This helps in revealing the imporatant information regarding the moves of the competitors, new products and substitutes entering the market and their impact over the firm's products.

Limitations of Marketing Research : The following are the limitations of marketing research :

(1) It requires large finances on account of its costly techniques. Small firms can't afford it.

(2) Its techniques are applicable in gathering and interpreting information from human beings. The information given by individuals may not be correct which ultimately affects the result shown by marketing research.

(3) It provides only probable, complex and abstract solutions where as traditional management expects 'definite, simple and concrete solutions.

(4) It can't be carried out successfully when some executives prefer to relay more on their own judgement and decision.

(5) It can be profitably and effectively carried out by the experts possessing sound knowledge of statistics, data processing and operational research etc. These competent and expert personnel may not be available.

SECTION – D

Q.8. Define Capital Structure. Also explain the various sources of Finance.(20)

Ans. Capital Structure : Capital structure refers to the proportion of different kinds of securities raised by a firm as long-term finance. According to C.W. Gerstenberg, "*The type of securities to be issued and proportionate amounts that make up the capitalisation is known as capital structure or financial structure.*"

Sources of Finance : Various sources of finance for a company may be grouped under two heads, namely, (i) Owner's funds and (ii) Borrowed funds.

(1) Owner's fund: Ownership funds include capital contributed by the shareholders and the profits reinvested in the business. Ownership fund is raised by the following:

(a) *Equity shares*: Equity shareholders provide capital on permanent basis to the company. They are the real owners of the company and they bear the risk of business. They het dividend only after the dividend on preference shares has been paid out of the profits of the company. At the time of winding up, equity capital can be paid back only after very claim including hat of preference shareholders had been settled.

(b) *Preference shares*: Preference shares are those which vary preferential rights as to the payment of dividend at a fixed rate and as to the repayment of capital. Thus , preference shareholders enjoy the following two preferential rights over the equity shareholders:

(i) They are entitled to receive a fixed rate of dividend out of the net profits of the company prior to declaration of dividend on equity shares.

(ii) They get priority over the equity shareholder regarding return of capital in case of winding up of the company.

(c) *Retained profits*: Retained earnings denote the profits not distributed among the shareholders. It is also known as 'ploughing back of profits'. Under this method, the undistributed or retained profits of the company are used to finance the requirement of the company. The main feature of this method is that is an internal source of finance.

(2) Borrowed fund : Borrowed funds are raised by way of issue of debentures, rising of public deposits, loans and credit form banks, financial institutions, etc. the Retained fund is raised by following:

(a) *Debentures* : Debentures are creditor ship securities which provide funds to the company on loan basis rather than on capital basis. They constitute the debt capital of the company acknowledging it dept and undertaking to pay interest and principal on the dates specified in the document.

(b) *Public deposits* : Besides the issue of securities, the companies have been accepting public deposits to meet their medium-term requirements. The rate of interest on deposits generally varies from 10 percent to 13 percent per annum depending upon the period of deposit and reputation of company. Companies generally receive public deposits for different periods ranging from 6 months to 3 years and allow for renewal of deposits.

(c) *Commercial Banks* : Commercial banks advance money to the business firms generally for meeting their short-term and medium-term requirements. Short-term financing is done by way of: (i) overdrafts, (ii) cash credits, (iii) discounting of bills.

These advances are given for short periods of up to one year and are meant for meeting working capital requirement of business. Bank also extends loans for purchasing fixed assets.

(d) *Financial Institutions* : Institutions finance means long-term credit provided by the specialized financial institutions to industry and business. Industrial organizations can raise long-term loans from special financial institutions for the purchase of fixed assets and financing modernization and expansion programmers.

Q.9. What is Financial Management ? Discuss its scope, objectives and functions. **(20)**

Ans. Financial management : *Financial Management is concerned with the managerial activities related to procurement and utilisation of funds for business purposes.* It deals with planning, organising, directing and controlling financial activities of the enterprise.

Scope of financial management : Recent developments in business have placed the financial manager in a central position in most of the big enterprises. Financial manager is incharge of the management of the funds of the enterprise. He is concerned with the determination of requirements of funds, selecting and tapping various sources of funds and allocation of funds to particular assets – fixed and current.

Financial management involves four type of decisions : (i) investment decision– financial plan, capital budgeting, etc. (ii) working capital decision – liquid assets, (iii) financing decisions– determination of capital structure or financing mix ; and (iv) dividend decisions – dividend policy. Since most business activities involve the use of funds, financial management has come to occupy an important place in the modern business enterprises.

(i) Investment Decisions : The investment decisions comprise capital budgeting and current assets decisions. Capital budgets decisions are more important because they relate to allocation of capital and commit funds to long–term assets which would yield benefits in future. Because the future is always uncertain, capital budgeting decisions involve some risk. Therefore, these projects should be evaluated in terms of risk and uncertainty. Capital budgeting also involves the decision of recommitting funds when an old assets is to be replaced.

The financial manager is also concerned with management of current assets. He must arrange current assets so as to maximise profitability relative to the amount tied–up in an asset. He is responsible for maintaining an adequate level of liquidity. This is also known as management of working capital.

(ii) Working capital decisions : There are two concepts of working capital, namely, gross working capital and net working capital. Both the concepts are relevant for short–term financial decisions. Gross working capital refers to the firm's investment in current assets such as cash, debts, inventory, short–term securities, etc. Net working capital refers to the difference between current assets and current liabilities. It may be noted that current assets are those assets which are convertible into cash within an accounting year (*i.e.*, 12 months), and current liabilities are those liabilities which are likely to mature for payment within an accounting year. Current liabilities include creditors, bills payable, outstanding expenses and bank overdraft.

Efficient working capital decisions are important to maintain liquidity in the firm. The firm must have suficient working capital to pay–off day–to–day expenses and debts. The working capital needs should be properly forecasted and as cash flow statement should be prepared every year. Funds must be invested in short–term assets in such a way that they are available when neede without any loss of value.

(iii) Financing decisions : There relate to raising of funds. The finance manager must decide when, where and how to acquire funds to meet the investment needs of the company. Funds are available from various sources under different types of agreements and for varying periods of time. The finance manager is required to obtain a balanced capital structure for the company so as to maximise the market price per share. The use of debt capital affects the return and risks of the equity shareholders. If the financial average is favourable, the return on equity will increase and vice–versa. Thus, debt financing involves risk also. A proper balance will have to be struck between debt and equity.

(iv) Divided decisions : Such decision are related to dividend policy of the company. The finance manager has to decide whether the company should distribute all profits or retain them, distribute a portion and retain the balance. Profits should be retained and ploughed back in the business if proper investment opportunities are available. The dividend policy of the company should maximize the market value per share. For this, the finance manager should determine the optimum dividend payout ratio. He has also to consider the question of dividend stability, cash dividend and stock dividend or bonus shares.

Objectives of financial management : The objectives of financial management of a big enterprise are stated below :

(1) Procurement of funds : The traditional objectives of financial management is procurement of funds .The adequate and regular supply of funds is to be maintained.

(2) Utilisation of funds : The modern concept of financial management emphaises on optimum utilisation of funds .A proper balance of profitability and saftey is to be achieved.

(3) Optimum Capital structure : The cost of procurement of funds should be minimised by planning optimum capital structure.A sound and economical combination of securities must be achieved.

(4) Return to shareholders : The Shareholders return should be maximised .it can be achived by concentrating on market share price.The market price of shares is largely depends upon the performance of the company .The market price of shares is a good indicator of net an important goal of financial management .

(5) Expansion and growth : The surplus should be enough for expansion and growth .Self sufficiency in case of permanent financial requirement by ploughing back of profits is a good indicator of financial health of the company.

(6) Coordination : The coordiantion of activites of the finance department with other departments of the enterprise is necessary .It is also required to match the objectives of financial management with the general objectives of the company.

Functions of financial management : The functions of the financial management are discussed below :

(1) Formulation of objectives : The setting of objectives of finance department is the basic function of financial manager. These objectives must be in tune with then overall objectivies of the organisation.

(2) Estimating the requirement of capital : The requirement of capital must be carefully estimated. The financial management must prepare budgets of various activites to estimate the financial requirement of the business.

(3) Determining the structure of capital : The financial manager has to determine the proper mix of equity and debt and short-term and long-term debt ratio.These decision have to be taken in the light of costs or raising finance from different sources, period for which funds are required and several other factors.

(4) Choice of sources of finance : The management can raise finance from various sources like shareholders, debenture holders, banks and other financial institutions, public deposits, etc. The choice of the sources of finance should be done very carefully as they involve different costs and conditions.

(5) Disposal of surplus : The management has to decide how much to retain for ploughing back and how much to distribute as dividend to shareholders out of the surplus of the company.

(6) Management of cash : Cash is required to pay-off creditors, purchase stocks of materials, pay to labour and to meet day-to-day expenses. There should not be any shoratge of cash any time as it will damage credit-worthiness of the enterprise. It is also to be seen that there is no excess cash.

(7) Financial Controls : Evalution of financial performance is an important task of finance manager. The overall measure of evaluation is Return On Investment (ROI). The other techniques of financial control and evaluation include budgetary control, cost control, internal audit, break-even anaysis and ratio analysis. The financial manager must lay emphasis on financial planning as well.

FUNDAMENTALS OF MANAGEMENT

July - 2021
Paper Code:-HSMC-08-G

Note : *Attempt five questions in all, selecting one question from each Section. Question No. 1 is compulsory. All questions carry equal marks.*

Q.1 All parts are compulsory and have equal marks : (15)

(a) Capital Budgeting

(b) EOQ

(c) Role of advertising in marketing

(d) Production control

(e) Objective of management

Ans. (a) Capital Budgeting : Capital budgeting is the process of making investment decisions in long term assets. It is the process of deciding whether or not to invest in a particular project as all the investment possibilities may not be rewarding.

Thus, the manager has to choose a project that gives a rate of return more than the cost financing such a project. That is why he has to value a project in terms of cost and benefit.

Following are the categories of projects that can be examined using capital budgeting process :

1. The decision to buy new machinery
2. Expansion of business in other geographical areas
3. Replacement of an obsolete equipment
4. New product or market development etc

Thus, capital budgeting is the most important responsibility undertaken by a financial manager. This is because :

1. It involves the purchase of long term assets and such decisions may determine the future success of the firm.

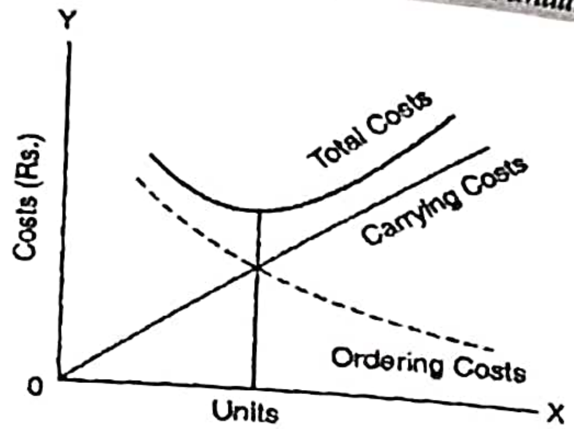
2. These decisions help in maximizing shareholder's value.

3. Principles applicable to capital budgeting process also apply to other corporate decisions like working capital management.

Ans.(b)Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs as shown in fig. At this level, total costs of inventory would be the minimum or most favourable to the buyer.

Economic order quantity is determined at that level where the total of ordering costs and carrying costs is the minimum.



Economic order quantity

Economic Order Quantity can be calculated with the help of the following formula :

$$EOQ = \sqrt{\frac{2AS}{PC}}$$

where A = Annual usage in units.
S = Cost of placing orders.
P = Price of material per unit
C = Cost of storage of material.
EOQ = Economic order quantity

Ans.(c)Role of advertising in marketing : Advertising helps in spreading information about the advertising firm, its products, qualities and place of availability of its products and so on. It helps to create a non-personal link between the advertiser and the receivers of the message. The significance of advertising has increased in the modern era of large scale production and tough competition in the market. Advertising is needed not only to the manufacturers and traders but also to the customers and the society.

Ans.(d)Production control : The production control is the function of management which plans, directs and controls the material supply and processing activities of an enterprise so that specified products are produced by specified methods to meet an approved sales programme. It ensures that activities are carried out in such a way that the available labour and capital are used in the best possible way.

The term production control to include the following:
1. The production plan or planning
2. Scheduling
3. Machine or labour utilization or dispatching
4. Stock control
5. Manufacturing control or routing and
6. Progress

Ans.(e) Objective of management : The following are the objectives of management:
(i) *Organisational Objectives*:
(a) Survival- It exists for a long time in the competitive market.

(b) Profit- It provides a vital incentive for the continued successful operations.

(c) Growth- The success of an organization is measured by growth and expansion of activities.

(ii) *Social Objectives*: It involves the creation of benefit for society.

(iii) *Personal Objectives*: These are the objectives of employees like good salary, promotion, social recognition, healthy working conditions.

Unit – I

Q.2. Derive the terms 'Management'. "Is management science, art and profession" ? Justify your answer. (15)

Ans. Management : Management can be defined as the process of utilisation of human resources and physical resources (i.e., capital, machines, materials, etc.) in such a manner that organisation objectives are achieved effectively and efficiently. In other words, management involves planning, organising, staffing, directing and controlling the activities of the enterprise for the efficient utilisation of resources to achieve organisational goals.

Management as an Art : Art is the experienced and personal utilisation of subsisting information to accomplish solicited outcomes. It can be procured via education, research and practice. As art is involved with the personal utilisation of data some kind of inventiveness and creativity is needed to follow the fundamental systems acquired. The essential characteristics of art are as follows:

The presence of theoretical knowledge : Art assumes the presence of specific academic knowledge. Specialists in their particular fields have obtained specific elementary postulates which are appropriate to a specific sort of art. For instance, the literature on public speaking, acting or music, dancing is publicly acknowledged.

Personalised application : The application of this primary information differs from person to person. Art, hence, is a highly personalised notion.

Based on custom and creativity : Art is practical. Art includes the creative practice of subsisting intellectual knowledge. We know that music is based on 7 notes. However, what makes the style of a musician different or distinctive is his performance of these notes in an artistic way that is uniquely his own solution.

Management as a Science : Science is an organised collection of knowledge that emphasises definite universal truths or the action of comprehensive laws. The central characteristics of science are as follows :

The organised body of knowledge : Science is a precise entity of knowledge. Its systems are based on a purpose and consequence association.

Universal validity : Scientific conventions have global genuineness and application.

Systems based on experimentation : Scientific conventions are originally formed via research and then tested via repeated trial and error under the regulated situations.

Management as a Profession : The profession can be described as an occupation upheld by specific education and practice, in which entry is limited. A profession has the following features:

The well-defined theory of knowledge : All services are based on a well-defined form of education that can be procured through education.

Restricted entry : The entrance to a profession is defined through an examination or through obtaining an educational degree. For instance, to become a chartered accountant in India an aspirant has to clear a detailed examination regulated by the Institute of Chartered Accountants of India (ICAI).

Professional community : All professions are affiliated to a professional association which controls entry, presents a certificate of training and expresses and supports a system of government. To be qualified to study in India, lawyers have to become members of the Bar Council which monitors and regulates their actions.

Q.3. What is Staffing ? Explain the process of staffing in an organization. And also explain the importance of manpower planning. (15)

Ans. Staffing : Staffing comprises of those activites which are essential to keep manned the positions created by the organisation structure. It includes the task of determining the requirements with regard to number and types of people for the jobs to the done ,laying down qualifications for various job and recruiting, selecting and training people to perform those jobs efficiently.

Following are the important steps involved in the process of staffing :

Step 1. Estimating Manpower Requirements/Manpower Planning : The process of manpower planning can be divided into two parts. One is an analysis for determining the quantitative needs of the organisation, i.e., how many people will be needed in the future. The other part is the qualitative analysis to determine what qualities and characteristics are required for performing a job.

The former is called the quantitative aspect of manpower planning in which we try to ensure a fair number or personnel in each department and at each level. It should neither be too high nor too low leading to overstaffing or under-staffing respectively. The second aspect is known as qualitative aspect of manpower planning wherein we try to get a proper fit between the job requirement and the requirement on the part of personnel in terms of qualification, experience and personality orientation.

Step 2. Recruitment and Selection : The second step after manpower planning is recruitment and selection. These are two separate functions, which usually go together. Recruitment aims at stimulating and attracting job applicants for positions in the organisation. Selection consists of making choice among applicants. To choose those which are most suited to the job requirement keeping in view the job analysis information.

Selection processes must begin by precisely identifying the task to be performed and also drawing a line between successful and unsuccessful performance. Thereafter, the process of selection tries to find out how far a job applicant fulfils those characteristics or traits needed to successfully perform the job.

Step 3. Placement and Orientation : Placement refers to place the right person on the right job. Once the job offer has been accepted by the selected candidate, he is placed on his new job. Proper placement of an employee reduces absenteeism, employee's turnover and accident rates. Orientation/Induction is concerned with the process of introduction or orienting a new employee to the organisation.

The new employee is introduced to fellow employees, given a tour of the department and informed about such details as hours of work, overtime, lunch period, rest rooms, etc. They are mostly informed about the company, the job and work environment. They are encouraged to approach their supervisors with questions and problems.

Step 4. Training and Development : It is more accurately considered as a process of skill formation and behavioural change. It is a continuous process of the staffing function. Training is more effectively conducted when the actual content of jobs for which people are being trained and developed is known.

Training programmes should be devised to impart knowledge, develop skills and stimulate motives needed to perform the job. Development involves growth of an employee in all respects. It is a wider concept. It seeks to develop competence and skills for future performance. Thus, it has a long-term perspective.

Step 5. Performance Appraisal : It means evaluating a performance employee's current and past performance as against certain predetermined standards. This process includes defining the job, appraising performance and providing feedback.

Step 6. Promotion and Career Planning : Managers must encourage employees to grow and realise their full potential. Promotions are an integral part of people's career. They usually mean more pay, responsibility and job satisfaction.

Step 7. Compensation : It refers to all forms of pay or rewards paid to employees by the employer/firm. It may be in the form of direct financial payments (Time based or Performance based) like salaries and indirect payments like paid leaves.

Importance of manpower planning : The importance of manpower planning are as follows :

(*i*) Shortage or surplus of manpower in various departments will be revealed by manpower planning. Corrective steps ca be taken in time.

(*ii*) Manpower forecasting provides a basis of recruitment, transfer and training of employees.

(*iii*) It reduces labour costs by avoiding surplus of manpower. Overstaffing can be known quickly and steps taken accordingly.

(*iv*) It helps in identifying talents available in the organisation. Training for promotion could be given to the talented employees.

(*v*) It facilitates growth and diversification of business. Suitable employees are made available to handle new jobs. Adequate arrangements can be made to ensure the availability of technical personnel.

(*vi*) It leads to a greater awareness of the importance of sound manpower management throughout the organisation.

(*vii*) It serves as a tool to evaluate the effect of alternative manpower actions and policies.

Unit – II

Q.4. Explain the production management with their objectives. Which type of function perform by a production manager in an organization ? Define all those functions. (15)

Ans. According to Elwood S.Buffa, " Production management deals with decision-making related to production processes, so that resulting goods or service is produced according to the specification, in the amounts and by the schedule demanded, and at minimum cost. In accomplishing these objectives, production managment is associated with two broad areas of activities : the design and control of production system," *Production management deals with managerial functions related to the production system and operation and controle of production system, i.e., production planning and control.*

Objectives of Production Planning and Control : The production planning and control department aims at achieving the following objectives :

(i) To determine the *sequence of operations* which will ensure continuous production with the least possible interruption.

(ii) To issue *coordinated work schedules* of production to the foremen of various workshops.

(iii) To *plan plant capacity* that will provide sufficient facilities for furture production programmes.

(iv) To maintain *sufficient inventories* of materials to support the continuous flow production.

(v) To *maintain production and employment levels* that are relatively stable and consistent with the volume of sales.

(vi) To *follow up production schedules* to ensure that delivery promises are kept.

(vii) To *evaluate the performance* of various workshops and individuals.

Functions of production management : Production management involves a wide range of activities from the plant location to the packaging of products to be distributed by the marketing department of the enterprise. Production management has a very wide scope and it includes the following operations :

(i) Design of Product : It is the top management which determines the product to be produced by the firm. But the designing of the product is the responsibility of the production manager. The product designing deals with form and function. The form design deals with the product's shape and appearance whereas the functional design deals with its working.

(ii) Design of Production System : Production system is the framework within which the conversion if inputs into output occurs. There are three basic kinds of production system, namely, process production, job production and intermittent production. The choice of a production system will depend upon the type of product to be produced and the scale of production carried on by the firm.

(iii) Production Planning and Control : It deals with the determination and regulation of production processes. After the production system has been designed and activated, the production manager is concerned with production planning. He establishes the exact sequence of operation of each individual item, part or assembly and lays down the schedule of its completion. Production planning is followed by production control. Production control is a process by which actual performance is compared with the predetermined standards. The production manager has to apply to control in these important areas : (a) control of inventories, (b) control of flow of raw materials into the plant, and (c) control of work-in-process.

(iv) Selection of Location : Plant should be located at such place where production and distribution costs are the minimum. Costs which influence the locational decision include cost of land, rental value, transportation costs, labour cost, cost of water and power, etc. Other factors which influence the selection of location are : process inputs, process outputs, process requirements. Government policy, availability of site, personal Prefences etc.

(v) Layout of Plant : The plant layout represents an arrangement of machines and facilities. The plant layout should be efficient to achieve economy and efficiency in operations of the production department. An efficient layout is one that allows materials to move through the necessary operations rapidly and in the most direct way possible. It takes care of the intensity of in-process items and tries to shorten all heavily travelled routes. The type of layout depends mainly upon the type of production system adopted by the production department.

(vi) Selection of Plant and Equipment : The choice of plant and equipment depends upon : (a) What is available or what can be made available? i.e., technoligical feasibility constraints, and (b) what is economically reasonable ? i.e. cost contraints. The quality of output, life of the machine and adaptability of the facilities are also important considerations.

(vii) Research and Development : Research means critical investigation in order to acquire new knowledge. Applied research explores information for the practical problems in mind and thus is directed to achieve immediate solution to practical problems. Development comes after applied research. It involves design and fabrication of new products and the testing their usefulness keeping in view the needs and demands of customers.

Q.5. What is the inventory control and its importance ? Explain the following terms with the help of an example :

(a) EOQ

(b) ABC

(c) VED

Ans. Inventory control: Inventory control is the process of deciding what and how much of various items are to be kept in stock. It also determines the time and quantity of various items to be procured. The basic objective of inventory control is to reduce investment in inventories and ensure that production process does not suffer at the same time. Inventory control requires the maintenance of inventory at an ideal level where the costs of carrying the inventories and the costs of not carrying the inventories are neutralized.

Importance of Inventory Control : The importance of inventory control are as under:

(i) It ensures adequate supply of materials, stores, spares, etc. There is no shortage of any item at any stage of production.

(ii) It reduces investment in inventories, inventory carrying costs and losses due to obsolescence.

(iii) Materials are made available at the most economical rates.

(iv) Delays or interruptions in production due to non-availability of materials do not occur.

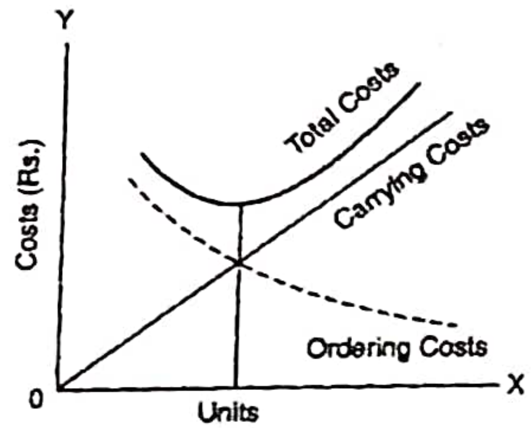
(v) Exact and accurate delivery dates can be forecast and orders can be booked accordingly.

(vi) Production schedule and delivery dates are maintained.

(vii) The materials are protected from spoilage, deterioration, pilferage etc.

(viii) There is an increase in overall efficiency /production of the organisation.

Economic Order Quantity (EOQ) : The economic order quantity or reorder quantity represents *the quantity of an item which is most economical to order when fresh supplies are required.* At such level of reorder, the total of ordering costs and inventory carrying costs would be the minimum.



Economic order quantity

E.O.Q. is the quantity at which the ordering costs are equal to the inventory costs as shown in fig. At this level, total costs of inventory would be the minimum or most favourable to the buyer.

Economic order quantity is determined at that level where the total of ordering costs and carrying costs is the minimum.

Economic Order Quantity can be calculated with the help of the following formula :

$$EOQ = \sqrt{\frac{2AS}{PC}}$$

where A = Annual usage in units.
S = Cost of placing orders.
P = Price of material per unit
C = Cost of storage of material.
EOQ = Economic order quantity

Inventory Control Through ABC Analysis : A. B. C. analysis is always a better control system. Under this method inventory items are classified in to three categories such as A. B. C. basing upon its value and cost significance. The number of items and the value of each class is expressed as percentage of the total and categorize as under.

Items of high value and small in numbers termed as 'A'

Items of moderate value and moderate in number is termed as 'B'

Items of small in value and large in number is termed as 'C'

A diagramatic view of ABC analysis is shown in fig.

The significance of ABC analysis is that a very close control is exercised over the items of 'A' group which account for a high percentage of costs while less stringent control is adequate for category 'B' and very little control would suffice for category 'C' items.

All types of material control *i.e.*, purchase, stores and issue are to be strictly applied in case of the items of 'A' group. In case of the 'C' items an elaborate material control is not exercised because these items represent a very small portion of the material costs. These items can be purchased once a year and various stock levels i.e., minimum level, maximum level, ordering level etc. may not be adhered to. All the time, efforts and costs saved on the C group items by not having an elaborate control can be usefully utilised on the A and B group items.

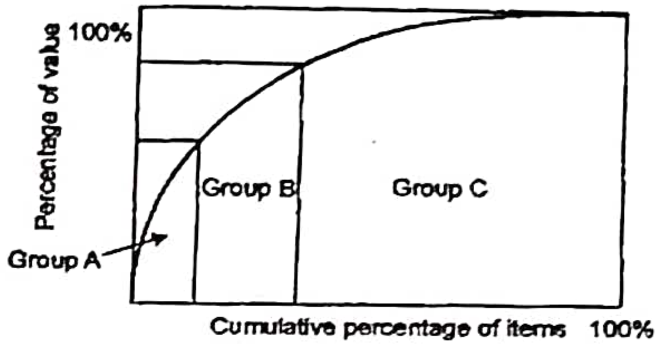


Fig. : ABC Analysis Curve

VED Analysis : This method is used for control of spare parts. VED is the symbol of :

1. Vital spare parts: Are those spares whose cost of stock out is very high.
2. Essential spare parts: Are those spares which are essential for the production to continue.
3. Desirable spare parts: Are those spares which are needed but their absence even a week or more will not lead to stoppage of production.

The space parts can be divided into three categories-vital, essential or desirable-keeping in view the criticality to production. The spares, the stock-out of which even for a short time will stop production for quite some time and where the cost of stock-out is very high, are known as vital spares. The spares, the absence of which cannot be tolerated for more than a few hours or a day and the cost of lost production is high and which are essential for the production to continue, are known as essential spares. The desirable spares are those spares which are needed but their absence for even a week or so will not lead to stoppage of production. Some spares, though negligible in monetary value, may be vital for the production to continue and require constant attention. Such spares may not receive the attention they deserve if they are maintained according to ABC analysis because their value of consumption is small. So, in their cases, VED analysis is made to get the effective results.

Unit – III

Q.6. What is the difference between Marketing and Selling ? Explain the all concepts of marketing. **(15)**

Ans. The following are the differences between marketing and selling :

Basis	Marketing	Selling
1. Focus	Marketing focuses on customer's needs of want-satisfying goods.	Selling focuses on seller's needs, i.e., converting his goods into cash.
2. Sequence	Marketing bagins before actual production takes place.	Selling takes place after the production.
3. Emphasis	Emphasis is given on product planning and development to match products with customers needs.	Emphasis is placed on sale of good already produced.
4. Customer vs Product	Customer is treated as king. He is given supreme importance.	Product is given priority or supreme importance.
5. Aim	Marketing aims at profits through customer satisfaction.	Selling aims at profits through sales volume.
6. Approach	Integrated approach to marketing is followed. Marketing includes marketing research, product planning, pricing advertising etc.	Fragmented approach to selling is followed. Attempt is made to sell whatever is porduced.
7. Perspective	Marketing has a long-term perspective as it lays emphasis on growth and stability of business.	Selling has a short-term perspective as it emphasises profit maximisation.
8. Principle	The principle of caveat vendor(let the seller beware) is followed.	The principle of caveat emptor(let the buyer beware) is followed.

Concepts of marketing : Marketing concepts or marketing management philosophies refer to the philosophies utilized by the businesses to direct their marketing efforts. Mainly, marketing concepts denote the philosophies a business uses to define and accomplish the needs of its customers, serving both the consumer and the company. The same philosophy cannot be helpful for all types of businesses. So, different types of businesses use different marketing management philosophies or marketing concepts.

There are mainly five marketing management philosophies but nowadays a new concept or philosophy is added to the existing ones.

1. Holistic Marketing Concept
2. Societal Marketing Concept
3. Marketing Concept
4. Selling Concept
5. Product Concept
6. Production Concept

Production Concept : This concept is based on an idea that inexpensive and widely available products generate more sales because customers prefer those. This is quite similar to the Say's Law which states 'Supply creates its own demand'. So, companies produce the product on a large scale and make sure that it is easily available everywhere to the customer.

The large scale of production of the product helps the companies to avail the economies of scale which lead to inexpensive products and thus attracting more customers.

The drawback of this concept is that it focuses only on production but not on the product quality which in the long run may cause decreased sales if the product is not up to the mark.

This philosophy is only applicable when the demand exceeds the supply. Again, a customer is not always attracted to an inexpensive product because his/ her purchase decision may be influenced by other factors.

Applicability of this Concept :

- Companies who have a worldwide market for their products may apply this concept.
- Companies enjoying a monopoly advantage may use this concept.
- Any company whose product's demand exceeds its supply may follow it.

Product Concept : This concept is based on an idea that customers prefer quality products whatever may be their price and availability. According to this concept, companies concentrate on developing a better quality product which is usually expensive.

The drawback of this concept is that it focuses only on the product quality but not on other factors like usability, availability, price, etc. So, it may fail to attract those customers whose attentions are on the other mentioned factors.

Applicability of this Concept :

- Companies belonging to the technology industry may apply this concept.
- Companies enjoying a monopoly advantage may use this concept.

Selling Concept : Selling Concept is only concerned with selling the product whatever may be the quality of the product and need of the customer. The chief motive is making money, not developing a relationship with the customers. So, there is less possibility of repeated sales. Companies applying this philosophy can even deceive the customers to sell their products.

The drawback of this concept is that it lacks foresightedness because the companies focus on selling what they produce instead of focusing on the need of the market.

Applicability of this Concept :

- Companies only concerned with short-term profits follow this concept which may lead to marketing myopia, a situation where a company focuses only on selling a product instead of fulfilling customer needs.
- Dishonest or illegal companies may apply this concept.

Marketing Concept : A company following selling concept cannot have long-term existence in the market because it cannot fulfill customers' needs. Companies have to make products fulfilling their customers' needs to be successful in today's era. So, the marketing concept came into existence. This concept is based on an idea that customers buy the products accomplishing their needs. Companies based on marketing philosophy perform customer-researches to know their needs and wants and make products to meet the same better than their competing companies. In this way, the company builds a customer relationship, becomes profitable and earns goodwill. But still, many companies follow other philosophies and generate profits. The choice of the concept is totally dependent on the demand, supply, and the engaged parties' needs.

Applicability of this Concept :

- Businesses engaged in perfect competition may follow this concept.
- Businesses who want long-term existence in the market can apply this concept.

Societal Marketing Concept : The societal marketing concept is based on the marketing concept just adding the philosophy of social welfare with it. Companies concentrate on fulfilling their customers' needs as well as contributing to social welfare without polluting or affecting the environment and natural resources. According to this concept, company or business being a part of the society has ***corporate social responsibilities*** such as eliminating illiteracy, poverty, controlling alarming population growth, ensuring better health and treatment facilities, helping victims of different natural calamities like flood, cyclone, excess cold, draught, etc.

Applicability of this Concept :

- Many big reputed companies like banks, TV channels, telecommunication companies, etc. follow this concept.

Holistic Marketing Concept : The holistic marketing concept is newly added to the existing marketing management concepts. According to this concept, a business and its different parts are one single entity and have a common goal, aligned and integrated activities to achieve that goal. This concept focuses on meeting customer needs in a better and consistent way as well as performing the social responsibilities.

The holistic marketing concept is very important for brand building, consistency, efficiency, and effectiveness.

Applicability of this Concept :

- Many big reputed companies like banks, TV channels, telecommunication companies, etc. are now applying this concept.

Q.7. Define the term 'Advertising. Explain the sources of advertising which a company can adopt to increase their sale. (15)

Ans. Advertising : American Marketing Association has defined advertising as "*any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor.*"

According to **William J.Stanton,** " *Advertising consists of all the activities involved in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service or idea; this message, called an advertisement, is disseminated through one or more media and is paid for by the identified sponsor.*"

A manufacturer or a trader can make use of the following advertising media to spread his message to the people : (i) Press advertising, (ii) Outdoor advertising, (iii) Film advertising, (iv) Radio advertising, (v) Television advertising, (vi) Direct mail advertising, (vii) Display advertising, and (viii) Speciality advertising.

(1) Press Advertising or Print Media : Press advertising, *i.e.,* advertising through newspapers, magazines, journals, etc. is commonly used by modern businessmen. It may be note that advertising is an important source of finance for the press or print media. Because of advertisements, the subscribers get newspapers and periodicals at subsidised rates.

(*a*) *Newspaper Advertising* : Newspaper reading is a common habit among the educated people. Besides daily newspaper, there are bi-weekly and weekly newspapers also. Newspapers reach almost every place and are read by all kinds of people. Therefore, newspaper can be used as a medium of advertisement with great advantage.

(*b*) *Magazine Advertising* : Magazines or periodicals are an excellent medium of advertisement when high quality of printing in colour is desired. Magazine advertisements can be directed towards a particular class of people. Thus, they avoid wasteful expenditure on advertising. For example, health and sports goods can be advertised in magazines like sports week, sports star, etc.

(2) Outdoor Advertising : Outdoor advertising has gained wide popularity these days. Its purpose is to attract the attention of the people at busy roads and markets. It includes the use of poster displays, bill board displays and electric displays.

(*a*) *Poster Displays* : Posters are fixed on walls of buildings, bridges, and other public places. It is also quite common to write slogans and other message about the products in bold letters on the walls to attract the attention of the people even from a long distance. That is why, it is also known as 'Mural Advertising'. Mural advertising is frequently used advertise fans, fertilizers, tonics, beauty aids and other consumer items.

(*b*) *Bill Board Displays* : Painted or bill board displays involve the advertisements directly pained on the boards meant for this purpose. They are quite big in size are fixed at outstanding locations like busy markets and crossings. They are also erected on tops of bridges and important buildings.

(*c*) *Electrical Displays* : Electrical display involves the use of electric light or neon tubes to attract the attention of people, particularly during night. Generally, a short message is illuminated in tubes of different colours so that it is conspicuous and attractive. Electrical displays are fixed at heavy traffic centres.

(*d*) *Vehicular Displays* : It has become a fashion these days to use modes of public transport for advertising. The space outside and inside the buses, railway carriages and other vans may be hired by the businessmen to spread their messages. Vehicles give mobility to the message.

(3) Film Advertising : Films are an important medium of advertisement. A business concern may get a short motion picture prepared and distribute it to different cinema houses for displaying it before the commencement of the regular shows or during the period of intermission. Such films are accompanied by running commentary to explain the features, uses and superiority of the product. But film advertisement can be adopted only by the well-established firms. Since it involves high cost, small business firms can get cinema slides prepared for display in the cinema halls.

(4) Radio Advertising : Radio advertisements have gained greater popularity these days. Advertisements are broadcast from the transmitting stations of the commercial service of All India Radio and picked up by the receiving sets owned by the public. Radio advertisements are normally broadcast along with popular programmes of music. Even the sponsored programmes of music, interviews and plays can also be broadcast over the radio.

(5) Television Advertising : Television is the fast growing medium of advertisement because of huge expansion of electronic media and cable network. It makes its appeal through both the eye and the ear. Products can be demonstrated as well as explained as in film advertisement. Advertising may take the form of short commercials and sponsored programmers.

(6) Direct Mail Advertising : Direct mail is probably the most selective of all the advertising media. It is used to send the message directly to the selected people. For this purpose. The advertise has to maintain a list which can be expanded or contracted by adding or removing names from the list. But a severe limitation is posed by the difficulty of getting and maintaining a good mailing list.

Advertisements that are sent by direct mail be in the form of circular letters, leaflet folders, calenders, booklets and catalogues. Circular letters are sent to the prospective customers to inform them about the merits of the product and the create their interest in the product. Booklets and catalogues contain the information about the products advertised. Information about the terms of sale and prices of different varieties of the product is given to the prospective customers through catalogues.

(7) **Internet Advertising :** It is the most recent advertising medium. It is an interactive medium and can deliver message more effectively.

Unit – IV

Q.8. Explain the capital structure of a company and its sources of finance with their pros and cons. (15)

Ans. Capital Structure : Capital structure refers to the proportion of different kinds of securities raised by a firm as long-term finance. According to C.W. Gerstenberg, "*The type of securities to be issued and proportionate amounts that make up the capitalisation is known as capital structure or financial structure.*"

The capital structure involves two decisions-

(a) Type of securities to be issued are equity shares, preference shares and long term borrowings (Debentures).

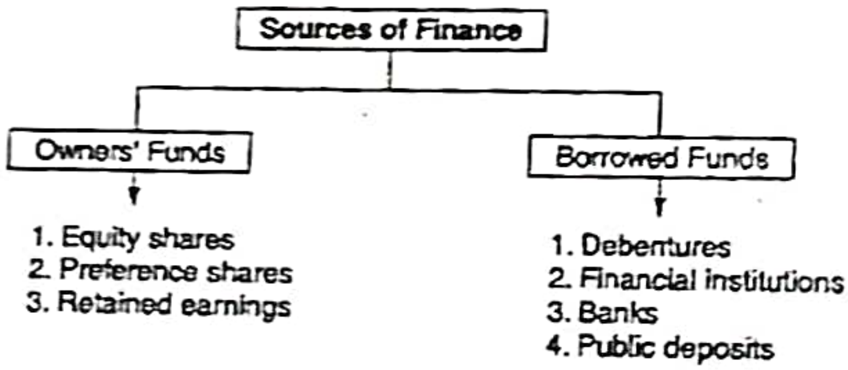
(b) Relative ratio of securities can be determined by process of capital gearing. On this basis, the companies are divided into two-

Highly geared companies - Those companies whose proportion of equity capitalization is small.

Low geared companies - Those companies whose equity capital dominates total capitalization.

For instance - There are two companies A and B. Total capitalization amounts to be USD 200,000 in each case. The ratio of equity capital to total capitalization in company A is USD 50,000, while in company B, ratio of equity capital is USD 150,000 to total capitalization, i.e, in Company A, proportion is 25% and in company B, proportion is 75%. In such cases, company A is considered to be a highly geared company and company B is low geared company.

Sources of Capital : Various sources of finance for a company may be grouped under two heads, namely, (i) Owners' Funds and (ii) Borrowed Funds.



Owners' Funds or Ownership Capital : Ownership capital means the funds contributed by the owners(or shareholders) and the profits reinvested in the business.

Borrowed Funds (or Borrowed Capital) : These funds are raised by way of loans and credit from the public, banks and financial institutions. The sources of borrowed capital include debentures, public deposits, banks etc.

Equity Shares : Equity shareholders provide capital on permanent basis to the company. They are the real owners of the company and they bear the risk of business.

Merites of Equity Shares :

(i) Equity share capital constitutes the permanent resources of the company.

(ii) Equity shares do not impose any obligation on the company to pay a fixed rate of dividend to their holders.

(iii) A company with sufficient paid-up equity capital is viewed with considerable favour by the lenders. The company can raise loans from the market.

Demerits of Equity Shares :

(i) Equity shareholders have the risk of no returns or fluctuating returns because of which conservative investors do not prefer equity shares.

(ii) Excessive issue of equity shares may lead to over capitalisation.

(iii) If the company issues only equity shares, it will lose the opportunity of trading on equity by issuing other securities.

Preference Shares : Preference shares are those which carry preferential rights as to the payment of dividend at a fixed rate and as to the repayment of capital.

Merits of Preference Shares :

(i) The preference shares attract funds from those investors who prefer safety of their investments and a fixed rate of return on their investments. This helps to enlarge the sources of funds for the company.

(ii) Preference shares do not impose heavy burden on the company because they carry a fixed rate of dividend.

(iii) The management can retain control over the company by issuing preference shares to outsiders because the preference shareholders have only restricted voting rights.

(iv) By issuing preference shares, a company can raise finance for a long-term without creating any charge over its assets.

Demerits of Preference Shares :

(i) The investors may not like preference shares as they have restricted voting rights only.

(ii) Because of the issue of the preference shares, the rights of equity shareholders over the assets of the company are diluted.

(iii) Issue of these shares restricts the flexibility of the company in certain cases.

(iv) The existence of preference shares may affect the credit-worthiness of the company.

Retained Profits : Retained earnings denote the profits not distributed among the shareholders. Under this method, the undistributed or retained profits of the company are used to finance the requirements of the company. The main feature of this method is that it is an internal source of finance.

Merits of Retained Earnings :

(i) It is a very economical method of financing because it does not involve any cost of floatation like printing of prospectus, advertisement, payment of brokerage, etc.

(ii) It makes the company financially strong, increases its credit worthiness and enables it to float new securities in the market and borrow from the public and financial institutions without any difficulty.

(iii) There is no obligation to pay any interest or dividend as funds are raised internally.

(iv) The internal source of financing does not require any security as in case of raising of loans against issue of secured debentures.

(v) Retained earning enable the company to absorb the shocks due to economic depression and uncertainty of the capital market.

Limitations of Retained Earnings :

(i) Misutilisation of fund : The management of a company may misuse the retained earnings by investing them in unprofitable areas or by spending them unnecessarily.

(ii) Over-capitalisation : The management may utilise the retained earning for issuing bonous shares to the equity shareholders which may lead to over capitalisation.

(iii) Dissatisfaction of Shareholders : The existing shareholders may be dissatisfied with the company because they get lower rate of dividend.

Debentures or Debt Capital : Debentures are creditorship securities which provide funds to the company on loan basis rather than on capital basis. They constitute the debt capital of the company. A debenture is a document issued by a company acknowledging its debt and undertaking to pay interest and principal on the dates specified in the document.

Merits of Debentures :

(i) Appeal to conservative Investors : Debentures are liked by the investors who give weightage to safety of principal and a continuous income on their principal.

(ii) Regular Return : Debentureholders get interest at a fixed rate at periodical intervals. the return is assured irrespective of the profits earned by the company.

(iii) Trading on Equity : Debentures offer an opportunity to the company to trade on equity and thereby increase the return of equity shareholders.

(iv) Flexibility : Debentures provide financial flexibility as they can be redeemed when the company has surplus funds.

(v) Tax Relief : Interest paid on debentures is deductible from the profits of the company for income tax purpose. Thus, the company enjoys tax benefit by issuing debentures.

Demerits of Debentures :

(i) Burden of Interest : Debentures require the company to bear a fixed burden of interest every year irrespective of profits earned. If a company does not have stable earnings, this liability will create problems.

(ii) Charge on Assests : Debentureholders prefer safety of their investments and so they like secured debentures. A company which is not willing to offer its assets as security may not be able to raise finance by issuing debentures.

(iii) Effect on Credit Standing : If the capital structure of a company is loaded heavily with debentures, banks and other financial institutions do not show a favourable attitude towards the company.

Public Deposits : Besides the issue of securities, the companies have been accepting public deposits to meet their medium-term requirements. Any person who is interested to deposit the money in a company can fill up a specified form and deposit the money with the company. The company in return issues a deposit receipt which is an acknowledgement of debt by the company.

Merits of Public Deposits :

(i) Cheaper Source : It is beneficial to the company since it receive funds at lower rates of interest as compared to the rates charged by banks and special financial institutions.

(ii) Trading on Equity : Public deposits help in trading on equity if the company is earning more than the rate of interest paid on public deposits. A company can pay a higher rate of dividend to its shareholder and thus raise its reputation.

(iii) Independence in Management : The depositors do not have any right to interfere with the internal management of the company. Thus, there is no dilution of control of shareholders.

(iv) Flexibility : Public deposits allow flexibility financing. They could be raised when needed and refunded when not required.

Demerits of Public Deposits :

(i) Unreliability : This method is not dependable because it is difficult to predict whether public deposits would be forthcoming to the desired extent.

(ii) Misuse of Funds : Depositors do not get any security for their deposits. Money deposited by them may be used by the management in any way it likes.

(iii) Fixed Obligation : Interest on public deposits is a charge against the company's profits. It is to be paid even if the company is incurring losses.

(iv) Limited to Medium-term : Public deposits are available for a short-or medium-term though they can be renewed.

(vi) Unsuitable : New companies and companies with uncertain earnings cannot raise finance through public deposits.

Financial Institutions : Institutional finance means long-term credit provided by the specialised financial institutions to industry and business. Industrial organisations can raise long-term loans from special financial institutions for the purchase of fixed assets and financing modernisation and expansion programmes. Such financial institutions include Industrial Finance Corporation of India (IFCI), and Industrial Investment Bank of India (IIBI) at the national level and State Financial Corporations in respective states. Since these institutions aim at promoting the industrial development of the country, they are also known as Development Banks.

The national level institutions providing term loans to business and industry are as follows:

(*i*) Industrial Finance Corporation of India.

(*ii*) National Industrial Development Corporation.

(*iii*) Industrial Investment Bank of India.

(*iv*) Life Insurance Corporation of India.

Merits of Institutional Finance : The merits of raising loans from financial institutions are as follows :

(*i*) They provide long-term and medium-term finance to industrial undertakings for purchase of new plant and machinery, expansion, modernisation, etc.

(*ii*) They purchase the shares and debentures of companies and thus provide them capital for long-term periods.

(*iii*) They help the companies in raising capital from the capital market.

(*iv*) They underwrite the public issues of shares and debentures by the companies.

(*v*) They grant loans in foreign currency for the import of machinery and equipment from other countries.

(*vi*) They provide guarantees for loans raised by industrial concerns from other sources and even from foreign markets.

(*vii*) They offer technical assitance in setting up new projects.

Limitations of Institutional Finance : The limitations of raising funds from financial institutions are as follows :

(*i*) Complex Procedure : The borrowing firms have to follow rigid land long procedures for the sanction of loans. Thus, the process of getting loans from the institutions in time consuming.

(*ii*) Restrictions on Borrowers : The financial institution may impose restrictions on the borrowing company. For example, it may limit the rate of diided to be declared for the shareholders.

(*iii*) Interference in Management : The financial institution may nominate its representations for berths on the Board of Directors of the company. The nominated directors might interfere in the smooth functioning of the company.

Commercial Banks : Commercial banks advance money to the business firms generally for metting their short-term and medium-term requirements. Short-term financing is done by way of : (*i*) overdrafts, (*ii*) cash credits, (*iii*) discounting of bills. These advances are given for short period of up to one year and are meant for meeting working capital requirement of business. Banks also extend loans for purchasing fixed assets. Such loans are known as term loans as they are to be paid back over a number of years ranging up to five years. The modes of advances have been discussed below :

(*i*) Overdraft : As the name implies, overdraft allows the customer to overdraw from his current account with the bank. This facility is extended by the bank to its regular customers who enjoy good financial status. It is a type of temperoray financing of the working capital requirements of the customer. Interest is charged by the bank on the amount actually over drawn.

(*ii*) Cash Credit : Under the arrangement, the bank fixes a cash credit limit for the customer. The customer can withdraw up to this limit any number of times. Thus, it is a revolving credit arrangement. Unlike a loan, it is a running account from which money can be withdrawn from time to time, subject to the stipulated amount. The borrower has to pay interest only on the amount actually utilised.

(*iii*) Discounting of Bills : Commercial banks extend credit to business concerns by discounting their credit instruments like bills of exchange, promissory notes and hundies. Such a document is discounted by the bank at the price lower than its face value. The difference is the amount of interest charged by the bank.

(*iv*) Loans : In the case of a loan, the back makes a lump-sum payment to the borrower or credits his accounts with the money advanced. It is given for the purchase of some assets for a fixed period at an agreed rate of interest. Repayments may be made in instalments or at the expiry of certain period. The customer has to pay interest no the total amount advanced less the instalments repaid. A load once repaid in full or in part cannot be drawn again by the borrower.

Loan is granted by the bank for some specific purpose such as purchase of plant and machinery. The repayment is made by the borrower in instalments as per the agreement between the bank and the borrower.

Merits of Bank Finance : The advantages of bank finance are as follows :

(*i*) Economical : Short-term credit from banks is generally cheaper as compared to any other source of short-term finance.

(*ii*) Flexibility : The banks have different schemes of financing the needs of business; thereby considerable flexibility can be maintained.

(*iii*) Concessional Rates : Commercial banks provide credit to small units at concessional rates under their special schemes as per the directives of the Reserve Bank of India.

(*iv*) Consultancy : Commercial banks act as friend, philosopher and guide to their clients. They guide them as to the most appropriate scheme of finance and schedule of repayment.

(*v*) Easy Repayment : Banks allow the borrowers to repay the advance in easy instalments.

(*vi*) No Interference : Banks don't interfere in the working of the borrowing as is the case with the special financial institutions which insist on their nominees on the Board of Directors of the borrowing company.

Demerits of Bank Finance : The disadvantages of bank finance are so follows :

(*i*) Short Period : Credit from a bank is available for a short period only. The firm may find it difficult to pay the amount borrowed.

(*ii*) Lengthy Procedure : Financing from commercial banks requires signing of a number of documents involving cost as well as time.

(*iii*) Need for Security : Commercial banks rarely grant unsecured credit to business firms. Arrangement of tangible security may be a great problem for the borrowing unit.

(*iv*) Uncertainty : Sometimes, banks refuse to extend or renew the credit arrangement to the business firm. Thus, this is not a reliable source of finance.

(*v*) Interest Burden : Interest on bank finance is a burden. Interest has to be paid whether the business earns profits or not.

Q.9. What is financial management and their objective ? Also explain the approaches of financial management and their criticism. (15)

Ans. Financial management : *Financial Management is concerned with the managerial activities related to procurement and utilisation of funds for business purposes.* It deals with planning, organising, directing and controlling financial activities of the enterprise.

Objectives of financial management : The objectives of financial management of a big enterprise are stated below :

(1) Procurement of funds : The traditional objectives of financial management is procurement of funds .The adequate and regular supply of funds is to be maintained.

(2) Utilisation of funds : The modern concept of financial management emphaises on optimum utilisation of funds .A proper balance of profitability ,liquidty and saftey is to be achieved.

(3) Optimum Capital structure : The cost of procurement of funds should be minimised by planning optimum capital structure.A sound and economical combination of securities must be achieved.

(4) Return to shareholders : The Shareholders return should be maximised .it can be achived by concentrating on market share price.The market price of shares is largely depands upon the performance of the company .The market price of shares is a good indicator of net an important goal of financial management .

(5) **Expansion and growth :** The surplus should be enough for expansion and growth .Self sufficiency in case of permanent financial requirement by ploughing back of profits is a good indicator of financial health of the company.

(6) **Coordination :** The coordiantion of activites of the finance department with other departments of the enterprise is necessary .It is also required to match the objectives of financial management with the general objectives of the company.

The Two Approaches to Financial Management : As methods of business have evolved, also compounded by the addition of technology, there have been broadly two approaches to financial management – the traditional approach and the modern approach. It is important to understand this before we go on about the scope.

The Traditional Approach to Finance Management : In this approach, which was mostly seen in the 20th century, the focus was on procuring funds for the company and allocation of these for the best functioning possible. This approach only focussed on long-term growth and did not take into consideration management strategy, working capital, planning, capital budgeting techniques, etc.

Instead, the finance manager considered having funds for liquidation, expansion, re-organization as more important. Traditionally, the finance manager was not responsible for ensuring that the funds are utilized effectively, instead their work was confined to getting funds regularly from external sources. This type of approach was only fit for big corporations and is often deemed as narrow and ineffective.

The Modern Approach to Finance Management : With increasing competition, the advent of strong and effective technology, and the emergency of powerful small businesses, it became vital for the management to make use of existing resources in the most effective manner. Thus, the traditional approach is rendered ineffective in the fast-paced, growing, and dynamic business environment.

The modern approach focussed on procurement of funds and actively using it but in an optimum manner. Some of the main elements that this approach has are financial planning, capital budgeting, determination of cost of capital, working capital, management of income, financial standards for business success, and more.

As an output of this approach, three critical decisions are taken in three domains – investment decision, financing decision, and dividend decision.