

**CBSE Class-12 Business Studies
Question Paper 2017 Delhi Set-2**

General Instructions:

- Answer to questions carrying 1 mark may be from one word to one sentence.
- Answer to questions carrying 3 marks may be from 50 to 75 words.
- Answer to questions carrying 4-5 marks may be about 150 words.
- Answer to questions carrying 6 marks may be about 200 words.
- Attempt all parts of a question together.
- Question Nos. 1 to 8 are very short-answer questions carrying 1 mark each.
- Question Nos. 9 to 13 carry 3 marks each.
- Question Nos. 14 to 19 carry 4 marks each.
- Question Nos. 20 to 22 carry 5 marks each.
- Question Nos. 23 to 25 carry 6 marks each.

Q1. What is meant by 'financial management'?

Ans. Financial management refers to the efficient acquisition, allocation and usage of funds by the company.

Q2. Why is 'employment interview' conducted in the process of selection?

Ans. The purpose of employee interview in the process of selection is to evaluate the applicant's suitability for the job by seeking information from him.

Q3. Sunita took her niece, Aishwarya for shopping to 'Benetton' to buy her a dress on the occasion of her birthday. She was delighted when on payment for the dress she got a discount voucher to get 20% off for a meal of Rs 500 or above at a famous eating joint. Identify the technique of sales promotion used by the company in the above situation.

Ans. The technique of sales promotion adopted by the company is Usable Benefits.

Q4. Meca Ltd. a reputed automobile manufacturer needs Rupees ten crores as

additional capital to expand its business. Atul Jalan, the CEO of the company wanted to raise funds through equity. On the other hand the Finance Manager, Nimi Sahdev said that the public issue may be expensive on account of various mandatory and non-mandatory expenses. Therefore, it was decided to allot the securities to institutional investors. Name the method through which the company decided to raise additional capital.

Ans. The method of raising the additional capital is 'Private Placement'.

Q5. Differentiate between 'formal' and 'informal' organisation on the basis of 'origin.'

Ans. The difference between formal and informal organisation on the basis of 'origin' is tabulated below.

Basis of difference	Formal organisation	Informal organisation
Origin	Arises from formal rules and policies of the organisation	Arises from social interactions among the employees beyond the official boundaries of authority

Q6. Give the meaning of 'motivation' as an element of directing.

Ans. Motivation refers to a process of inducing and stimulating an individual to act/behave in a certain manner. That is, it refers to encouraging and urging the employees to perform to the best of their capabilities to achieve the desired organisational goals. Motivation varies as per the desires and expectations of the employees and can take various forms such as promotion, appraisal and recognition.

Q7. Alpha Enterprises is a company manufacturing water geysers. The company has a functional structure with four main functions Production, Marketing, Finance and Human Resource. As the demand for the product grew, the company decided to hire more employees. Identify the concept which will help the Human Resource Manager in deciding the actual number of persons required in each department.

Ans. The concept which will help the Human Resource Manager in deciding the actual number of persons required in each department is Workload Analysis.

Q8. Hina Sweets is a renowned name for quality sweets since 1935. Harsh the owner of Hina Sweets was worried as the sales had declined during the last three months. When he enquired from the Sales Manager, the Sales Manager reported that there were some complaints about the quality of sweets. Therefore Harsh ordered for sample checking of sweets. Identify the step taken by Harsh that is related to one of the functions of management.

Ans. The step that is being performed by Harsh is Measurement of Actual Performance under the controlling function of management.

Q9. Explain briefly 'discipline' and 'scalar chain' as principles of general management.

Ans. (i) Discipline: Discipline implies that an organisation should follow the rules and regulations and ensure conformity to the set rules and policies. It is important for both the management as well as the workers that they honour their commitments and clear and fair agreements.

(ii) Scalar chain: Scalar chain refers to a pre-defined, formal path of authority and communication in the order of the highest to the lowest. Every individual in an organisation follows this chain of authority for communication.

Q10. State any three limitations of planning.

Ans. The limitations of planning are listed below.

(i) Reduced creativity: Plans are made by only the top management, and the lower levels of management are not allowed to deviate from the pre-defined course. Thus, in the process, lower level managers tend to lose their creativity.

(ii) Gigantic costs: As planning is based on future predictions, it requires much thought, analysis, scientific calculations, etc., which are to be used for formulating a course of action. This involves high costs.

(iii) False security: Managers tend to rely on pretested plans. However, there is no guarantee that a plan that worked well in the past will be successful in the future. The plan may fail because of unforeseen changes.

Q11. Explain any three points that highlight the importance of directing function of management.

Ans. It is through directing that the operation of an organisation actually begins. As a function of management, directing is useful in many ways as discussed below:

- (i) **Achieving objectives:** The function of directing initiates the actual action in an organisation. An individual cannot start working without proper instructions and directions. Directing helps individuals to complete the assigned task properly and on time. In addition, directing in the form of supervision and motivation helps the employees to achieve their targets more efficiently.
- (ii) **Integration of efforts:** Every organisation comprises of a number of employees who have different jobs assigned to them and work at different levels. It is only through directing that their individual efforts are integrated and channelised towards the common organisational goals.
- (iii) **Employee development:** Proper directing guides employees in the right direction. Elements of directing such as motivation and leadership encourage the employees to work to the best of their capabilities.

Q12. Ginika, Tanish and Rohit were friends from college days and now they are doing different kinds of business. They regularly meet and discuss their business ideas and exchange notes on customer satisfaction, marketing efforts, product designing, selling techniques, social concerns etc.

In one of such meetings, Ginika drew the attention of Tanish and Rohit towards the exploitation of consumers. She told that most of the sellers were exploiting the consumers in various ways and were not paying attention towards the social, ethical and ecological aspects of marketing, whereas she was not doing so.

Tanish told that they were under pressure to satisfy the consumers, but stated that the consumers would not buy or not buy enough unless they were adequately convinced and motivated for the same.

Rohit stressed that a company cannot achieve its objectives without understanding the needs of the customers. It was the duty of the businessmen to keep consumer satisfaction in mind because business is run by the resources made available to them by the society. He further stated that he himself was taking into consideration the needs of the customers.

Identify the various types of thinking that guided Ginika, Tanish and Rohit in the making efforts of their business. Also, state one more feature of the various types of thinking identified that is not given in the above para.

Ans. The concept of thinking followed by Ginika is the Societal Marketing Concept. According to this concept, organisations should not only identify the immediate needs of the target market, but also aim at long-term well-being and interests of the consumers.

Feature: The emphasis of this thinking, is that the organisation should pay due consideration to social and environmental problems such as pollution, deforestation, population explosion and inflation. The concept of thinking followed by Tanish is the Selling concept. According to this concept, a consumer would purchase the product only when he is sufficiently convinced regarding the features, quality, etc., of the product.

Feature: This thinking emphasizes that firms must focus on rigorous selling and promotion techniques so as to increase the sale of their product.

The concept of thinking followed by Rohit is Marketing concept. The marketing concept believes that customer satisfaction plays a vital role in the long-run success of any organisation. Herein, the organisations must aim towards appropriately identifying such needs of customers and satisfying them in an effective manner.

Feature: This thinking emphasizes that a firm should not just independently work towards customer satisfaction, but also aim at satisfying the customers better than its competitors.

Q13. Somnath Ltd. is engaged in the business of export of garments. In the past, the performance of the company had been up-to the expectations. In line with the latest technology, the company decided to upgrade its machinery. For this, the Finance Manager, Dalmia estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis. Dalmia therefore, began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources of the business. For the remaining funds he is trying to find out alternative sources from outside. Justify the financial concept discussed in the above para. Also state the objectives to be achieved by the use of financial concept, so identified.

Ans. The concept stated in the question is Financial Planning. It involves designing the blueprint of the overall financial operations of a company such that right amount of funds are available for various operations at the right time. That is, it tends to forecast what amount of fund would be required at what time as per the growth and performance of the

company.

Objectives of Financial Planning

Proper financial planning is a prerequisite for the successful growth of any organisation, regardless of whether they are new or existing ones. The two main objectives of financial planning are as given below:

- 1. Ensure timely availability of funds:** Financial planning involves estimating the amount of funds required for various business operations and the time when these funds would be required. It also involves identifying the probable sources from which the funds can be obtained.
- 2. Proper utilisation of funds:** It implies ensuring that situations of both inadequate funds as well as surplus funds are avoided. While on the one hand, inadequate funds hinder the smooth operations of the firm; on the other hand, excess funds add to the cost of business and encourage unnecessary and wasteful expenditure. Thus, financial planning ensures that the funds are properly and optimally utilised.

Q14. Sanchit, after completing his entrepreneurship course from Sweden returned to India and started a coffee shop 'Aroma CoffeeCan' in a famous mall in New Delhi. The speciality of the coffee shop was the special aroma of coffee and wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular, Sanchit was keen to find out the reason. He appointed Sandhya, an MBA from a reputed college, as a Manager to find out the causes for the same. Sandhya took feedback from the clients and found out that though they loved the special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed and found out that there were many unnecessary obstructions in between which could be eliminated. She fixed a standard time for processing the order. She also realised that there were some flavours whose demand was not enough. So, she also decided to stop the sale of such flavours. As a result within a short period Sandhya was able to attract the customers. Identify and explain any two techniques of scientific management used by Sandhya to solve the problem.

Ans. The techniques of scientific management used by Sandhya to solve the problem are:

- (a) **Standardisation of work:** Standardisation of work implies setting milestones or benchmarks for any work or activity. It aims at establishing standards of excellence against which actual performance can be measured. Standardisation can be set in terms of process,

raw material, product or time. Standards are to be followed by the managers in the production process, and standardisation has the objective of ensuring that the final product is of fixed size, characteristic and quality. Various other techniques given by Taylor, such as method study, fatigue study and time study, are based on the concept of standardisation.

(b) Simplification of work: Simplification of work involves eliminating unnecessary diversifications in the product in terms of variety, size and dimension. It aims at fuller utilisation of the resources, reducing the inventories and increasing the turnover. It also helps in reducing the costs of labour and machines. Along with this, simplification aims at removing the unnecessary steps involved in a process to achieve efficiency.

Q15. Ashutosh Goenka was working in 'Axe Ltd.', a company manufacturing air purifiers. He found that the profits had started declining from the last six months. Profit has an implication for the survival of the firm, so he analysed the business environment to find out the reasons for this decline.

(a) Identify the level of management at which Ashutosh Goenka was working.

(b) State three other functions being performed by Ashutosh Goenka.

Ans. (a) Ashutosh Goenka was working at the level of 'top management'.

(b) The other functions performed by managerial staff employed at top level are enlisted below.

(i) Coordinates different activities of the organisation for the accomplishment of the common goals

(ii) Works towards the survival of the organisation

(iii) Drafts various plans and policies

Q16. Give the meaning of 'procedure' and 'rule' as types of plans.

Ans. (i) Procedure: A procedure is a set of routine steps defined in a chronological order that are to be followed for the enforcement of a policy. They include a detailed description of the exact manner in which a task is to be performed. Generally, procedures are developed for the insiders, i.e. the employees of the organisation. They consist of steps in a sequential manner which are undertaken to implement a policy or a particular work. In short, we can say that procedures are the steps that require to be carried out within a broad policy framework.

(ii) Rule: A rule refers to a standard or specific statement that gives information about what

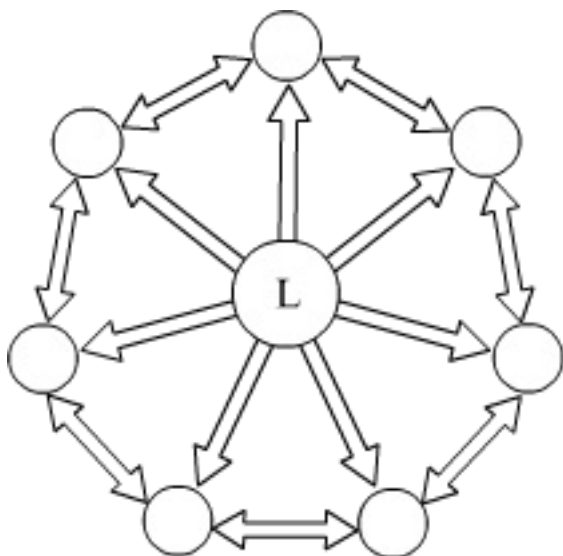
is to be done and what is not to be done. Rules are the simplest type of plans that do not allow any kind of flexibility. They signify the managerial decision that a particular task or action has to be performed or not. Such rules do not allow any scope for compromise or change unless a policy decision is taken by the managers.

Q17. Umang Gupta is the Managing Director of Denver Ltd. The company had established a good name for itself and had been doing well. It was known for timely completion of orders. The Production Manager, Ms. Kanta was efficiently handling the processing of orders and had a team of fourteen motivated employees working under her. Everything was going on well. Unfortunately she met with an accident. Umang knew that in the absence of Ms. Kanta, the company may not be able to meet the deadlines. He also knew that not meeting the deadlines may lead to customer dissatisfaction with the risk of loss of business and goodwill. So, he had a meeting with his employees in which accurate and speedy processing of orders was planned. Everybody agreed to work as team because the behaviour of Umang Gupta was positive towards the employees of the organisation. Hence everyone put in extra time and efforts and the targets were met on time. Not only this, Umang visited Ms. Kanta and advised her to take sufficient rest.

(a) Identify the leadership style of Umang Gupta and draw a diagram depicting the style.

(b) State any two values highlighted by the behaviour of Umang Gupta.

Ans. (a) Democratic or Participative Leadership style



(b) Values involved

(i) Positive attitude towards employees

(ii) Considerate towards employees' health and their well-being

Q18. Explain briefly 'transfers' and 'promotions' as internal sources of recruitment.

Ans. (i) Transfers: Through transfers, job vacancies are filled by shifting suitable individuals working in another department of the organisation to the department where the vacancies exist. Transfers can be said to be a horizontal process in which the employees transferred are generally not given any higher responsibilities or job positions.

(ii) **Promotions:** Through promotions, job vacancies in higher positions are filled by promoting selected lower level employees. It is a vertical process in which the employees who are promoted are given greater responsibilities.

Q19. These days, the development of a country is also judged by its system of transferring finance from the sector where it is in surplus to the sector where it is needed most. To give strength to the economy, SEBI is undertaking measures to develop the capital market. In addition to this there is another market in which unsecured and short-term debt instruments are actively traded everyday. These markets together help the savers and investors in directing the available funds into their most productive investment opportunity.

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

(b) Also, explain briefly three other functions performed by this market.

Ans. (a) Allocative function

(b) Functions performed by Financial Markets

(i) **Establishes the price-** It provides a platform for the interaction of the demand and the supply of funds, thereby helping in determining the price of the asset being traded.

(ii) **Facilitates liquidity-** It renders liquidity to the assets in the sense that through trading (sale and purchase of assets) in the financial market, the assets can easily be converted into cash or cash equivalents.

(iii) **Reduces the cost of transaction-** It provides useful information about the various securities that are traded. In this way, it helps in reducing the cost of transaction in terms of time, effort and money for both the buyers and sellers.

Q20. Indian Youth Organisation (IYO) organised a visit of its members to an old age home to inculcate the habit of social work among them. The visit revealed that the living conditions of the inmates of the old age home were not hygienic. So, the IYO members decided to clean the premises. During their cleanliness drive, they realised that the old age home also required pest control. But some of the inmates of old age home were reluctant for it because they believed that the pest control may create health problems for them. IYO, therefore decided to provide ethical, safe and odourless pest control. They showed to the inmates of old age home a pamphlet of the proposed pest control product which promised easy, inexpensive and long lasting pest control. The inmates happily agreed and the pest control was carried out. It worked for a fortnight but to their dismay the effect started wearing off. IYO contacted the pest control company which kept on postponing their visit. After waiting for a month, IYO filed a case in the consumer court.

The consumer court was satisfied about the genuineness of the complaint and issued necessary directions to the pest control company.

(a) State any six directions that might have been issued by the court.

(b) Also, identify any two values that are being communicated by IYO to the society.

Ans. (a) The court may direct to

- (i) Repair the defective goods or remove the deficiency in service.
- (ii) Replacement of the defective good with a new one.
- (iii) Refund the price that was paid by the consumer for the good or service.
- (iv) Payment of compensation in cash for the loss or injury suffered.
- (v) Removal of misleading advertisement and issue of a correct advertisement henceforth.
- (vi) Payment of an appropriate amount (not less than 5% of the good in question) to be credited to the Consumer Welfare Fund.

(b) Values involved

- (i) Promoting cleanliness and hygiene
- (ii) Fulfilling social responsibility

Q21. Metlapp Networks and Technologies Ltd. is a leader in technology innovation in the United States, creating products and solutions for connecting the world. It has a large research and development team which invented the first smart watch, named as W-7. The watch besides showing the time also monitors few health parameters like

heart beat, blood pressure etc. While in search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of simplified export procedure and removal of quantitative as well as tariff restrictions in India.

It set up its office in Jamnagar with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices, there-by benefiting the customers.

(a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain these concepts.

(b) Also, explain briefly any three impacts of these concepts on Indian business and industry.

Ans. a. The two concepts related to the government policy discussed in the question are Liberalisation and Globalisation.

1. **Liberalisation:** Liberalisation refers to the removal of controls and restrictions imposed by the government. They indicated the end of the famous license-permit-quota raj in India.
2. **Globalisation:** Globalisation refers to the integration of economies of the world. It is the process associated with increasing openness, growing economic independence and promoting economic integration in the world economy.

b. The three major impacts of these concepts on Indian business and industry were:

1. **Increased competition:** As a result of measures such as abolition of the licensing policy, dereservation and encouragement to foreign direct investment, the competition faced by industries increased, both internally as well as externally, from foreign enterprises. This increase in competition was particularly felt in service industries, such as telecommunication, banking and insurance.
2. **Increased demand:** With the increased competition, producers increasingly became market-oriented. They began to produce goods keeping in mind the market demand. Therefore, the availability of goods and services for the consumers and the quality also increased tremendously. Thus, consumers gained from quality products and greater variety, and their demand for products increased.
3. **Change in business policies:** The government policies under the new industrial policy directly affected the functioning of business enterprises. As a result, they altered their policies and operations appropriately.

Q22. Describe briefly the relationship between controlling and planning.

Ans. Planning and controlling are closely interrelated functions of management. On one hand, Planning refers to the psychological process of thinking and deciding about what is to be done and how it is to be done. That is, planning decides the objectives to be achieved and the course of action to be followed. On the other hand, controlling refers to the process of managing and evaluating the work done in accordance with the standards and taking corrective measures, if there are any deficiencies. These standards that form the basis of controlling are provided by planning. The various objectives and policies as formulated under planning serve as standards against which the actual performance is evaluated. Controlling without planning is meaningless. If there are no standards, no objectives, there is nothing to control. That is, if the managers do not know what the final objective is, they do not have any standard against which they can judge the current performance and deficiencies. Similarly, planning without controlling holds no meaning. Once the plans are formulated, it becomes necessary to monitor and evaluate whether the performance is as per the desired plans. Controlling is a requisite for measuring whether the plan is being properly implemented, if there are any deficiencies in the work and if there is a need for taking corrective actions in order to achieve the planned goals. If there is no controlling, planning cannot be accomplished. Thereby, planning without controlling is of no use. Thus, it can be said that both planning and controlling complement each other.

Both the concepts of planning and controlling are interlinked in a way as they are forward looking as well as backward looking. Though it is said often that planning is looking forward and controlling is looking backward, however, the statement is only partially true. Though planning is a futuristic concept dealing with preparing plans and setting standards in advance, it is also based on past experiences and actions initiated in the controlling function. Thus, planning besides being forward looking, is backward looking as well. Similarly, although controlling is based on the past actions and deals with comparing the current actions with the pre-defined standards, it also focuses on taking the corrective actions to improve the future performance of the management. Thus, controlling besides looking back, also looks forward.

Hence, while on one hand, planning is a prerequisite for controlling, on the other hand, controlling is incomplete without planning. Both are inseparable functions that support each other towards the achievement of the goals of the organisation.

Q23. Mediquip Ltd. is a company dealing in distribution of medical equipments. The company recently imported 15000 units of sugar testing machines to test the sugar levels without taking blood samples. For deciding the marketing strategy, the Chief Executive Officer of the company called a meeting of the marketing heads of different zones. In the meeting, Sandeep, the North Zone Marketing Head, suggested that since the machines were sophisticated they need to visit hospitals to personally explain its working to the hospital staff who would be using the machines. He also suggested that additional trained people may be recruited for the same.

Himanshu, another Zonal Head, added that since lot of money had been spent on the import of the machines, the company was short of funds to pay to the additional staff as suggested by Sandeep.

Rahul, a newly appointed Zonal Head of South Zone suggested that since the size of the order is not large, a detailed study of the factors determining the choice of channels of distribution is required before making the right choice.

(a) Identify the factor influencing the choice of channels of distribution which were discussed in the meeting.

(b) Also, explain briefly the other consideration to be taken care of in each factor identified in part (a).

Ans. a. The three factors that are influencing the choice of channels of distribution in the given question are:

1. Product related factors (as the machinery is sophisticated)
2. Company characteristics (as the company do not have enough funds to pay for more employees)
3. Market related factors (as the size of the order is not large)

b. Other considerations in the cases are:

1. Product related factors: The decision regarding the appropriate channel of distribution is largely affected by the classification or the type of a product. Here, it is important to check whether the product is perishable or non-perishable; whether it is an industrial or a consumer product or the degree of complexity of the product. For instance, if a product is complex or sophisticated in nature then it would require shorter channels of distribution and careful handling.

2. Company characteristics: The characteristics of a company play an important role in making a decision regarding the channel of distribution. Generally a company's financial

strength and the degree of control that the company wishes to hold on the intermediaries affect the choice of channels of distribution. Keeping the first one in view, a company that is financially strong and has spare funds to spend would opt for a shorter channel of distribution. This is because the shorter channels of distribution generally require a greater amount of funds for activities like hiring more salesman or opening higher number of retail outlets. This is likely to increase the cost of the firm and thus only those companies that have a strong financial base can opt for direct channels. In contrast to this, the companies that have a weaker financial base will opt for longer or indirect channels as these channels do not involve such costs.

Similarly, a company that wishes to have a greater control over the intermediaries should also opt for shorter channels of distribution. The reason behind this lies in the fact that the direct or the shorter channels involve minimum numbers of intermediaries and thus are easily controllable. On the other hand, companies that exercise lesser control over the intermediaries can opt for longer channels of distribution.

3. Market related factors: Factors such as size of the market, geographical concentration of buyers, quantity demanded, etc. also affect the choice between the channels. For example, in case the size of order is small then shorter channels should be adopted, whereas in case of large orders, long channels should be adopted. Similarly, in case the size of market is small then shorter channels should be adopted and if the size of market is large, then long channels should be adopted.

Q24. Aman Chadha started 'Bulls Eye' a company for providing cyber security solutions to businesses. Its objective is to prevent, detect and respond to cyber attacks and protect critical data. He was a hardworking software engineer and an expert in cyber security. His reputation grew by leaps and bounds as he was not only a person of integrity but also did his work with utmost honesty and sincerity. The business started growing day by day.

He was delighted when he was offered a big project by the Ministry of Defence. While working on the project, he found that the volume of work made it impractical for him to handle all the work by himself. He decided to expand the team. The company maintained a close liaison with a local engineering college. During a campus placement, Ishan and Vrinda were appointed to work for the new project.

He found the new employees capable, enthusiastic and trustworthy. Aman Chadha was

thus, able to focus on objectives and with the help of Ishan and Vrinda, the project was completed on time. Not only this Aman Chadha was also able to extend his area of operations. On the other hand Ishan and Vrinda also got opportunities to develop and exercise initiative.

(i) Identify and briefly explain the concept used by Aman Chadha in the above case which helped him in focusing on objectives.

(ii) Also, state any four points of importance of the concept identified in (i) above.

Ans. The concept used by Aman Chadha is Delegation. This is because, Aman found the volume of work impractical to handle by himself and thus, decided to expand his team. After this, he delegated the tasks to Ishan and Vrinda so that Aman himself can focus on the objectives. Thus, here, he is delegating the tasks to his subordinates.

The following points highlight the importance of delegation.

1. **Managerial efficiency:** By delegating work to the subordinates, the managers can concentrate on priority areas and also venture into new areas. This freedom from the routine tasks enhances the efficiency of the managers.
2. **Employee proficiency:** As the subordinates are entrusted with the responsibility of completing a task, they get an opportunity to prove their abilities and apply their skills. This helps them to gain experience and improve their proficiency.
3. **Motivation:** Delegation provides the employees with psychological benefits, which motivate and encourage them to give their best to the organisation.
4. **Growth:** Delegation helps in the preparation of efficient and experienced managers who can take up leading positions during the growth phase of the organisation. This facilitates easy growth and expansion of the organisation.

Q25. Explain briefly any four factors that affect the working capital requirement of a company.

Ans. The various factors affecting working capital requirements of a company are discussed below.

(a) **Type of business:** Organisations that deal in services or trading (having small operating cycle) require less working capital than organisations dealing in manufacturing. This is because in organisations such as service or trading, the raw materials are generally the same as the final outputs and the sales transaction takes place immediately. In contrast, a manufacturing firm involves a large operating cycle and the raw materials need to be

converted into finished goods before they are finally sold. Therefore, such firms require large working capital.

Service or trading organisations → Small working capital requirement

Manufacturing organisations → Large working capital requirement

(b) Extent of credit allowed by the firm: Credit implies allowing sale proceeds without immediate receipt of the cash payment. If a company follows a liberal credit policy, then its number of debtors increases. This in turn increases the requirement of working capital for the business. On the other hand, a stringent credit policy reduces the requirement of working capital.

Liberal credit policy → Large working capital requirement

Stringent credit policy → Small working capital requirement

(c) Extent of availability of raw material: If the raw materials required by the company are such that they are easily available, then this suggests that the firm need not maintain a large stock of inventories of raw material. In such situations, the company requires less working capital. On the other hand, if the raw materials are not easily available or their supply is not smooth, then the company must maintain a huge stock of raw material to ensure uninterrupted operations, thereby requiring a large working capital.

Easy availability of raw material → Low working capital requirement

Difficulty in obtaining raw material → High working capital requirement

(d) Scale of operations: Companies operating on a large scale require large working capital. This is because such companies need to maintain high stock of inventory and debtors. In contrast, if the scale of operations is small, the requirement of working capital will be less.

Large scale of operation → Large working capital requirement

Small scale of operation → Low working capital requirement