

NCERT Solutions for Class-XII Business Studies

Chapter-8

Very Short Questions

1. Explain the meaning of controlling.
Sol. Controlling is referred to as the process of evaluation of the work that is done. It is all about setting standards for the work and then comparing the actual work that is done with the standard. It ensures that all the activities in a company are performed as per the decided plan.
2. Name the principle that a manager should consider while dealing with deviations effectively. State any one situation in which an organisation's control system loses its effectiveness.
Sol. Principle that should be adopted to deal with deviations is management by exception. An organisation's control system loses effectiveness when standards are not able to be defined in quantitative terms. For e.g. job satisfaction will be different for different employees.
3. State any one situation in which an organisation's control system loses its effectiveness.
Sol. A control system is bound to lose its effectiveness whenever the standards cannot be defined in quantitative terms thereby making it difficult to measure deviations happening between actual and standard performance. For example, job satisfaction cannot be described in quantitative terms as it is different for different employees.
4. Give any two standards that can be used by a company to evaluate the performance of its Finance & Accounting department.
Sol. Standards that are used by a company for evaluating performance of Finance and Accounting department are:
 1. Liquidity
 2. Flow of Capital
5. Which term is used to indicate the difference between standard performance and actual performance?
Sol. Deviation is the term that is used to indicate the difference between standard and actual performance.

Short Questions

1. 'Planning is looking ahead and controlling is looking back'. Comment.

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Sol. Planning is the process of creating a structure in advance regarding the work that needs to be done. It is helpful in defining the objectives and goals that need to be achieved by an individual or organisation. Therefore, it is said that planning is about looking ahead which involves predicting about the future. Controlling takes into consideration the assessment of past performance and comparing them with set standards. Due to these characteristics, it can be said to be backward looking. But all these statements are partially correct, as planning is done based on past experiences and how to do better, similarly controlling although looks at past performance, its aim is to improve the future performance. Hence it can be said that both planning and controlling are both forward and backward-looking functions.

2. 'An effort to control everything may end up in controlling nothing'. Explain.

Sol. This statement is with regard to the principle of management by exception. In this rule it is said that it is not possible to control everything effectively. This principle states that instead of trying to control all the deviations, there should be some defined ranges that are set up and only when the deviations go beyond the range then it should be notified to managers for control measures.

3. Write a short note on budgetary control as a technique of managerial control.

Sol. Budgetary control is a technique that is related to preparing of plans in the form of budgets. It is a financial statement that tells us what needs to be achieved and the policies that need to be followed for the time period. Performance is compared with the standards that were set in budget. Such a comparison helps in identification of deviation and helps in taking corrective steps. There can be different budgets for different divisions. Budgets act as motivation for the employees and encourages the employees to reach the objectives. With proper budgeting measures resources can be evenly distributed and utilized appropriately.

4. Explain how management audit serves as an effective technique of controlling.

Sol. Management audit is the process of appraisal of the management in an organisation. It is useful in improving the effectiveness of the management and also increases efficiency. It evaluates the functions of the managers and highlights areas where deficiencies are observed. The following point will be helpful in explaining the importance of management audit as a technique of controlling:

1. It helps in identifying deficiencies in the work which will help in taking corrective measures necessary for the improvement.

2. By performing management audit, various management activities can be monitored which helps in improving overall efficiency of the organisation.

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3. Enhanced coordination can be observed between employees and departments as work is monitored for effectiveness.

4. Helps organisation to adapt environmental changes and this can be ensured by having strategies and policies updated continuously.

5. Mr. Arfaaz had been heading the production department of Write well Products Ltd., a firm manufacturing stationary items. The firm secured an export order that had to be completed on a priority basis and production targets were defined for all the employees. One of the workers, Mr. Bhanu Prasad, fell short of his daily production target by 10 units for two days consecutively. Mr. Arfaaz approached Ms. Vasundhara, the CEO of the Company, to file a complaint against Mr. Bhanu Prasad and requested her to terminate his services. Explain the principle of management control that Ms. Vasundhara should consider while taking her decision.

Sol. In this situation the principle of management by exception should be followed. This principle states that any effort to control everything may end up having control of nothing. Only deviations that are beyond the limit will need to be acknowledged and appropriate actions need to be taken. Therefore Mr. Bhanu should not be terminated for such a small reason.

Long Answer Type Questions

1. Explain the various steps involved in the process of control.

Sol. Controlling is the process of systematic approach for managing activities in an organisation. It includes the following steps:

1. **Setting Standards:** This step involves setting standards and developing of benchmarks on the basis of which actual performance can be determined. Standards can be either qualitative and quantitative.
2. **Measure actual performance:** After setting standards, the next step is determining actual performance that is taking place through the activities. These can be determined by observation, obtaining data from performance reports.
3. **Comparing performances:** This step involves comparing of the actual performance with the standard. It helps determine the deviations which guides managers in assessing the performance and take necessary steps.
4. **Analysing Deviation:** When comparing actual performance with set standards there will be deviations. It is therefore important to find these deviations in the key areas. The methods most used are Critical Point Control and Management by exception.
5. **Corrective measures:** Deviations reaching beyond admissible limits, the management needs to take corrective actions. This step is all about correcting the errors so that they do not happen again. It is the last step that is taken in the process of controlling.

2. Explain the techniques of managerial control.

Sol. Managerial control techniques can be divided into two categories

1. Traditional Technique
2. Modern Technique

Traditional techniques are techniques that were followed by managers in old days. Following techniques can be discussed:

1. Personal Observation: Managers oversee the work conducted by employees in this technique. Managers will be getting a right information which makes workers keen on performing well. It is a time-consuming process though.
2. Statistical Reports: Managers can get the performance data which is in the form of average, percentages or ratio and it can be easily represented in charts and graphs. Therefore, comparison of performance with standards is determined.
3. Break-Even Analysis: To determine profit or loss break even analysis is used. It is that point where total costs becomes equal to total revenue. Using this technique managers can determine profit or loss and thereby devise ways to generate profit.
4. Budgetary Control: It is a technique where future business operations are determined in the form of budgets. It sets standards for measuring of actual performance.

Modern techniques are more recently introduced. It provides ideas for having a better control. Following methods are seen:

1. Return on Investment: It is referred to as the gains or similar benefits that are earned on the amount of investment done. It gives a good idea of the returns a company is earning with the amount of investment done.
2. Ratio Analysis: It is calculating various ratios for analysing the financial statement. Ratios such as liquidity ratio, solvency ratio etc help determine the stability of a business.
3. Responsibility Accounting: Various responsibility centres are established and each centre head is responsible for the outcome of

the centres. The responsibility centre includes cost centre, revenue centre, investment centre and profit centre.

4. Management Audit: It is an audit of the management processes. It checks capability of the management and identifies the deficiencies present in the system. It is done through continuous monitoring.
5. PERT and CPM: These are modern management techniques that help determine the scheduling and resource allocation, it enables project execution in most effective way. These techniques are used in construction, ship building industries etc.
6. MIS: Management Information System is the process of controlling that helps in effective decision making. It also is cost effective and helps in collection and dispersal of information across levels.

3. Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

Sol. Following are the importance of controlling in an organisation:

1. Controlling helps in achieving of organisational goals by optimum use of resources and correcting deficiencies in the process.
2. It helps in determining the accuracy of the standards set by management. It also helps in reviewing the standards as per changing business requirement.
3. It also helps an employee to become motivated as they know what the management expects from them.
4. It also enables effective decision making in the organisation by promoting order and discipline.
5. It improves coordination among employees and departments which helps organisation productivity.

Controlling is effective for management but there are certain problems that are faced by organisations which are highlighted below:

1. The set of standards cannot be set for both qualitative and quantitative terms as qualitative terms make controlling less effective.
2. Changing factors in business environment results in changing of control mechanisms in an organisation.
3. Controlling will be resisted if it is against the comfort level of employees.
4. Controlling is a costly affair as infrastructure needs to be setup.

Discuss the relationship between planning and controlling.

Planning and controlling are very closely related functions of management. Planning is the process of creating a structure in advance regarding the work that needs to be done. It is helpful in defining the objectives and goals that needs to be achieved by an individual or organisation. Therefore, it is said that planning is about looking ahead which involves predicting about future. Controlling takes into consideration the assessment of past performance and comparing them with set standards. Due to these characteristics, it can be said to be backward looking future.

Various objectives that are determined by planning will serve as set of standards against which performance will be determined. If no standards and objectives are present there will be no control necessary. Similarly, only planning without control, no one will be monitoring the work which will lead to inefficiency and lack of productivity. Planning and control complement each other.

But all these statements are partially correct, as planning is done based on past experiences and how to do better, similarly controlling although looks at past performance, its aim is to improve the future performance. Hence it can be said that both planning and controlling are both forward and backward-looking functions and both are very important for an organisation point of view.

4. A company 'M' limited is manufacturing mobile phones both for domestic Indian market as well as for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing.
- (a) Identify the benefits the company will derive from a good control system.
 - (b) How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained.
 - (c) Give the steps in the control process that the company should follow to remove the problems it is facing.

Sol. (a) The following benefits will be derived:

- (i) Deficiencies in system will be identified and corrective steps can be taken accordingly. It helps organisation to move towards the objective in a right way.

(ii) Accuracy of set standards can be determined. If needed set of standards can be appropriately modified.

(iii) Optimum resource utilisation will occur so there will be less wastage of resources and more efficiency.

(iv) The employees will be aware of their roles and expectations from the management which motivates them to achieve the objective of organisation.

(a) Planning and controlling are closely related functions. While planning is all about what objectives need to be achieved and the steps to follow, controlling is about evaluating the work as per standards and taking necessary corrective actions as required. In the current situation plans can be made with regard to customer satisfaction, sales and pricing policy. In the event of lack of standards there will be no control.

(b) Following steps can be followed in controlling:

1. Standards should be setup which will serve as benchmark for comparison against actual performance. Standards can be either qualitative or quantitative.
 2. After setting of the standards, actual performance needs to be analysed. It can be done by personal observation and collecting reports of performance.
 3. The next step would be to compare the performances with standard and find deviations, then necessary corrective steps can be taken to rectify them.
 4. Deviations that are over the permissible range should be worked upon. It can be analysed using critical point control and management by exception methods.
 5. The corrective steps is the last part of controlling as it works towards correcting deficiencies of the organisation.
5. Mr. Shantanu is a chief manager of a reputed company that manufactures garments. He called the production manager and instructed him to keep a constant and continuous check on all the activities related to his department so that everything goes as per the set plan. He also suggested him to keep a track of the performance of all the employees in the organisation so that targets are achieved effectively and efficiently.

Sol. (a) Describe any two features of Controlling highlighted in the above situation. (Goal Oriented, continuous and pervasive - any 2).

(b) Explain any four points of importance of Controlling. Following features of controlling are highlighted here

- i. By keeping a close watch in progress of work and constantly engaging in work towards attaining goals of organisation. It is goal oriented approach.
- ii. Controlling is a pervasive function which can be exercised by managers of any level, division or department.

a. Following are the points of controlling

1. Controlling helps in achieving of organisational goals by optimum use of resources and correcting deficiencies in the process.
2. It helps in determining the accuracy of the standards set by management. It also helps in reviewing the standards as per changing business requirement.
3. It also helps an employee to become motivated as they know what the management expects from them.
4. It also enables effective decision making in the organisation by promoting order and discipline.
5. It improves coordination among employees and departments which helps organisation productivity.

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