

NCERT SOLUTIONS

CLASS - 12th



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Class : 12th

Subject : Business Studies

Chapter : 8

Chapter Name : Controlling

Q1 An efficient control system helps to

- (a) Accomplishes organisational objectives
- (b) Boosts employee morale
- (c) Judges accuracy of standards
- (d) All of the above

Answer. (d) All of the above

Page : 233 , Block Name : Multiple Choice Type Answer Questions

Q2 Controlling function of an organisation is

- (a) Forward looking
- (b) Backward looking
- (c) Forward as well as backward looking
- (d) None of the above

Answer. (c) Forward as well as backward looking

Page : 233 , Block Name : Multiple Choice Type Answer Questions

Q3 Management audit is a technique to keep a check on the performance of

- (a) Company
- (b) Management of the company
- (c) Shareholders
- (d) Customers

Answer. (b) Management of the company

Page : 233 , Block Name : Multiple Choice Type Answer Questions

Q4 Budgetary control requires the preparation of

- (a) Training schedule
- (b) Budgets
- (c) Network diagram
- (d) Responsibility centres

Answer. (b) Budgets

Page : 233 , Block Name : Multiple Choice Type Answer Questions

Q5 Which of the following is not applicable to responsibility accounting

- (a) Investment centre
- (b) Accounting centre
- (c) Profit centre

(d) Cost centre

Answer. (b) Accounting centre

Page : 233 , Block Name : Multiple Choice Type Answer Questions

Q1 Explain the meaning of controlling.

Answer. Controlling refers to the process of evaluation and assessment of the work done. Controlling aims at setting standards and then comparing the actual performance of the firm with the predetermined standards to find whether the performance of the organisation is upto the standards or not. If there are deviations from the standards then corrective measures are implemented by the organisation. Thus it ensures that goals and objectives of the organisation are achieved as per the standards. Controlling helps in utilising resources to their fullest capacity and in an efficient manner.

Page : 234 , Block Name : Short Type Answer Questions

Q2 'Planning is looking ahead and controlling is looking back.' Comment.

Answer. The statement that 'planning is looking ahead and controlling is looking back' is only partially true.

Planning refers to the process of determining the particular course of action which the organisation has to adopt. Planning is a process wherein it is decided what is to be done, and accordingly deciding the required course of action. Planning decides the actions to be taken to achieve the goals and objectives of the organisation and their manner of achievement. In this way, planning is looking ahead.

As against planning, the controlling function involves measuring the actual performance against the predetermined standards. As controlling assesses and evaluates the past performance of the organisation, it can be said to be backward looking.

However, planning involves setting standards for the future performance of the organisation, but these standards are set after taking into consideration the past experiences. Thus it is a backward looking function.

Similarly, controlling involves taking corrective actions for the achievement of goals and objectives in future on the basis of past performance. Thus it is a forward looking fun as well.

Page : 234 , Block Name : Short Type Answer Questions

Q3 'An effort to control everything may end up in controlling nothing.' Explain.

Answer. Controlling refers to the process of finding the deviations of the actual performance of the organisation against the predetermined standards. These activities are to be evaluated after taking into consideration the goals of the organisation. However it must be noticed that an organisation cannot aim to control each and every activity. Deviations in areas of importance must be attended to with priority.

According to the principle of management by exception, control must be done by exception. An attempt should be made to control all the key area activities of the organization and not all the activities. It is based on the belief that controlling everything would result in controlling nothing. Thus only those deviations are given due attention which are key area activities and in which the deviations are beyond a certain limit. For this purpose, a range must be determined beyond which no deviations should be there. However if the deviations cross the permissible range, then they are given due attention.

Page : 234 , Block Name : Short Type Answer Questions

Q4 Write a short note on budgetary control as a technique of managerial control.

Answer. Under the technique of budgetary control, budgets are prepared for each activity and operation in the organisation. Budget refers to defining the goals and objectives which are to be achieved in quantitative terms. Then the actual results of the activities are compared with the budgetary standards. Accordingly, the work done is assessed and evaluated. Deviations from the set standards are identified and corrective actions are decided. In an organisation, a budget can be prepared for various divisions such as the sales budget and the production budget.

However, it must be remembered that for the budgeting technique to be effective, the estimates with regard to the future should be made carefully.

By setting budgets, employees know the standards against which their performance would be evaluated. This motivates employees to improve their performance and achieve the standards so set. In addition, budgetary standards promote coordination among different divisions/departments of the organisation. Moreover, through proper budgeting, the resource requirement of various departments can be assessed. Accordingly, the resources can be allotted to different divisions. In this way, it helps in optimum utilisation of resources.

Page : 234 , Block Name : Short Type Answer Questions

Q5 Explain how management audit serves as an effective technique of controlling.

Answer. A management audit refers to the critical appraisal of the overall performance of the management. The basic objective of audit is to improve performance effectiveness and efficiency of the management. Under this technique, various activities of managers are evaluated, and accordingly, deficiencies and deviations are identified.

A management audit is an effective form of controlling. This can be explained as follows:

- Identification of Deficiencies: This technique helps in identifying the deficiencies in the present work. In addition, it helps in recognising the probable deficiencies which may crop up in the future performances. Accordingly, it helps in identifying the corrective measures which would be required.
- Improves Efficiency: This technique helps in keeping a close watch on various management activities. In this way, it helps in improving the effectiveness and efficiency management operations.
- Enhances Coordination: By closely monitoring the work, this technique promotes coordination among various departments in the organisation.
- Adapting to Environmental Changes: A management audit technique keeps a close watch on managerial practices. It ensures that the policies and strategies of the management are up-to-date and according to the changes taking place in the business environment.

Page : 234 , Block Name : Short Type Answer Questions

Q1 Explain the various steps involved in the process of control.

Answer. Steps involved in the controlling process:

→ Setting Standards: The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets, production targets). It must be kept in mind that the set standards should facilitate easy comparison.

→ Measuring Actual Performance: The next step in the controlling process is to measure the performance of the various activities. For this, various techniques can be used such as personal observation and performance reports. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.

→ Comparing Performance: After the actual performance is measured, it is then compared with the pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.

→ Analysing Deviation: With the comparison of the actual performance with the set standards, the deviations in performance are identified. For analysing deviations, the following methods can be used:

→ Critical Point Control: According to this technique, rather than controlling all the activities in the management, only the key result areas (those that affect the entire organisation) should be focused on.

→ Management by Exception: According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.

→ Not only should deviations be identified, but their causes must also be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.

→ Corrective Measures: In case deviations are beyond the acceptable range, it becomes necessary to take corrective action. It must be ensured that the deviations do not occur again.

Page : 234 , Block Name : Long Type Answer Questions

Q2 Explain the techniques of managerial control.

Answer. The techniques of managerial control can be classified in two categories as Traditional Techniques and Modern Techniques.

Traditional techniques have been in use by managers since long ago. The following are traditional techniques of managerial control:

→ Personal Observation: Under this technique, managers directly oversee the work done. It ensures that managers get the right information, and prompts workers to perform up to the mark. However, this technique proves to be very time consuming and cannot be used in cases where a large number of activities are to be used.

→ Statistical Reports: A statistical analysis of the performance is done in the form of averages, ratios and percentages. Such statistical analysis helps in easy comparison of the actual performance with the set standards.

→ Break-Even Analysis: It comprises a study of relationship between costs, volume and profits. Under this technique, the costs and profits at various levels of quantity are studied. Accordingly, the level of output where the profit is maximised is identified. Break-Even is said to occur when there is neither profit nor loss. That is the total revenue earned by the organisation equals the total cost incurred.

→ Budgetary Control: Under the technique of budgetary control, budgets are prepared for each activity and operation in the organisation. Here, the term budget refers to defining the goals and objectives which are to be achieved in quantitative terms. Then the actual results of the activities are compared with the budgetary standards. Accordingly, the work done is assessed and evaluated. Deviations from the set standards are identified and corrective actions are decided.

Modern Techniques refer to techniques which are recent in origin. The following are modern techniques of controlling:

→ Return on Investment: Return on investment refers to the benefits from investment. In other words, it is an assessment of whether the investment is beneficial. In an organisation, managers use this technique for comparing the performance of various departments or for comparing present actions and past performance.

→ Ratio Analysis: Various ratios are calculated to analyse the financial statements. The most commonly used ratios are as follows:

→ Liquidity Ratio: Analyses the short-term solvency of a business

→ Solvency Ratio: Evaluates the long-term solvency of a business

→ Profitability Ratio: Determines the position of the business with regard to profitability

→ Turnover Ratio: Analyses whether the activities are carried out efficiently

→ Responsibility Accounting: Under the system of responsibility accounting, various divisions in the organisation are set up as responsibility centres. Each division is given a target and it is the responsibility of the head of the division to achieve the set target. Different types of responsibility centres in an organisation can be cost centre, investment centre, profit centre and revenue centre.

→ Management Audit: Under this technique, a systematic assessment is made of the overall work and activities of the management of the company. The basic objective of this technique is to evaluate efficiency and effectiveness in the tasks of the management. Accordingly, it helps in identifying the areas which require corrective actions.

→ PERT and CPM: Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are based on network analysis. Under these techniques, the entire task is divided into various smaller activities. Each activity is then accorded a timeline and a cost estimate. In this way, it helps in effective execution of the tasks and activities.

→ MIS: Management Information System (MIS) is a computer-based controlling technique wherein managers are provided with timely data and information so as to help in the decision-making process. MIS proves to be cost effective in terms of information management.

Page : 234 , Block Name : Long Type Answer Questions

Q3 Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

Answer. Controlling refers to making sure that the various activities and tasks in an organisation are carried out according to the predefined goals and objectives.

Points highlighting the importance of planning in an organisation:

→ Achieving goals: Controlling ensures that various activities are carried out correctly according to the plans. It ensures that deviations if any are identified and appropriate corrective action is taken.

→ Reviewing standards: An effective control system ensures that the standards are set accurately. As the business environment changes, it ensures that the standards are also reviewed so as to adapt to the changes taking place.

→ Enables efficiency in resource utilisation: An effective control system ensures that there is minimum wastage of resources. In other words, it ensures that the resources are utilised optimally and in the most efficient manner.

- Better motivation: With controlling, employees know what is expected from them and how their performance would be evaluated. This clarity motivates employees to perform better.
- Maintain order: Controlling helps keep a close watch on the activities and behaviour of employees. In this way, it helps in maintaining order and discipline in the organisation.
- Ensures coordination: With proper controlling, the efforts of the various departments can be unified towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments.
- The controlling function has some limitations as well. Points highlighting the problems faced in an effective control system:
 - Setting standards in quantitative terms: For an effective control system, it is important that the standards are set in measurable or quantitative terms. However, it may not be possible in every case. When the standards are not set in quantitative terms, it becomes difficult to evaluate the performance.
 - No control over external forces: An organisation cannot control external forces such as government policies and technical changes. A change in such forces changes the standards of evaluation and thereby the entire control system.
 - Resistance: Close and continuous monitoring may receive resistance from employees which would make controlling difficult.
 - Expensive: A controlling system involves cost in terms of money, time and effort. A small organisation may not be able to afford the costs involved in the control system.

Page : 234 , Block Name : Long Type Answer Questions

Q4 Discuss the relationship between planning and controlling.

Answer. Controlling is closely related to planning. A good control system requires set standards for evaluation. These standards are provided by the plans defined by the organisation. In other words, plans serve as the base for controlling.

Controlling is essential for effective implementation of plans. It is essential to keep a close watch on the plans, identify any deviations and take appropriate corrective actions. Without proper controlling, planning would be futile.

In a similar manner, planning forms the base for controlling. Without planning, there would be nothing to control. Controlling is done only when there are predetermined standards against which evaluation can be done.

While planning involves intellectual thinking, decision making and deciding a course of action, controlling ensures that plans take the required course of action.

Both concepts of planning and controlling are interlinked as they are forward looking and backward looking. Planning is a process wherein it is decided what is to be done and accordingly deciding the required course of action. In other words, planning involves deciding the goals and objectives which are to be achieved and deciding the actions through which they are to be achieved. In this way, planning helps in predicting future actions; thus, it can be said to be looking ahead.

As against planning, the controlling function involves assessing and evaluating past performance against the pre-defined standards. As controlling assesses past performance, it can be said to be backward looking.

However, it must be remembered that planning decides the goals and actions for the future, but these decisions are taken on the basis of experiences and previous controlling actions. Thus, planning involves looking back as well.

In a similar manner, controlling not just involves assessing the past performance but also decides the corrections actions to be taken (in the future) and forms the base for plans.

Thus, the controlling function looks forward as well.

Page : 234 , Block Name : Long Type Answer Questions

Q1 Following are some behaviours that you and others might engage in on the job. For each item, choose the behaviour that management must keep a check to ensure an efficient control system.

1. Biased performance appraisals
2. Using company's supplies for personal use
3. Asking a person to violate company's rules
4. Calling office to take a day off when one is sick
5. Overlooking boss's error to prove loyalty
6. Claiming credit for someone else's work
7. Reporting a violation on noticing it
8. Falsifying quality reports

9. Taking longer than necessary to do the job
10. Setting standards in consultation with workers

You are also required to suggest to the management how the undesirable behaviour can be controlled.

Answer.

1. Biased performance appraisals: The appraisal of the performance should be fair and just. For this, specific standards must be set against which the performance would be evaluated.
2. Using company supplies for personal use: There is a need to control such behaviour. For this, a proper systematic record must be maintained of the supplies. In addition, a record must be kept for the purpose for which the supplies are used. In this way, the use of supplies can be closely monitored.
3. Asking a person to violate company rules: There is a need to control such behaviour. Every employee must be made clear with regard to the rules and regulations of the company. In addition, the consequences of actions should be clearly communicated. This would instil fear among employees with regard to adverse consequences of violation of rules, which in turn would discourage violation of company rules.
4. Calling office to take a day off when one is sick: Such behaviour should be encouraged. It is a good behaviour on part of employees to inform the superior when one is in need of a leave. In this way, his/her colleagues would be better prepared to handle the additional workload.
5. Overlooking boss's error to prove loyalty: Such behaviour should be discouraged. The employees must be encouraged to identify and report the errors of any kind irrespective of who is responsible for it. The encouragement can be in the form of incentives or other motivational techniques. Such a step would help in improving the overall work effectiveness and efficiency in the organisation.
6. Claiming credit for someone else's work: Such behaviour should be discouraged. A proper record must be maintained for the responsibilities given to various employees. In this way, credit in the form of incentives or appreciation would be given to the person who actually deserves it.
7. Reporting a violation on noticing it: Employees should be encouraged to report a violation irrespective of who does it. There must be open and free communication in the organisation.
8. Falsifying quality reports: Such behaviour should be checked. In this regard rather than reporting quality only at the last step, quality of a task should be checked at various steps while the task is in progress. In this way there would be minimum chances of falsifying reports.
9. Taking longer than necessary to do the job: This behaviour must be controlled. For this, any task when given must be with a set deadline. In case there is any deviation from the deadline,

the cause for it must be analysed and rectified at the earliest. Incentives can be given for completing the task within the set deadline.

10. Setting standards in consultation with workers: Such steps should be encouraged. While discussing the standards with workers, workers should be motivated and feel responsible to meet the standards so set. This would help in improving the overall efficiency in the organisation.

Page : 234 , Block Name : ApplicationType Answer Questions

Q1 A company 'M' limited is manufacturing mobile phones both for the 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 the 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.

Questions

1. Identify the benefits the company will derive from a good control system.
2. 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.
3. Give the steps in the control process that the company should follow to remove the problems it is facing.
4. What techniques of control can the company use? In all the answers keep in mind the sector of business the company is in.

Answer.

The company would derive the following benefits from a proper controlling system:

→ Controlling ensures that various activities are carried out correctly according to the plans. It ensures that deviations if any are identified and appropriate corrective action is taken.

→ An effective control system ensures that the standards are set accurately. As the business environment changes, it ensures that the standards are also reviewed so as to adapt to the changes taking place.

→ An effective control system ensures that there is minimum wastage of resources. In other words, it ensures that the resources are utilised optimally and in the most efficient manner.

→ With control, employees know what is expected from them and how their performance would be evaluated. This clarity motivates employees to perform better.

→ Controlling helps keep a close watch on the activities and behaviour of employees. In this way, it helps in maintaining order and discipline in the organisation.

→ With proper control, the efforts of the various departments can be unified towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments. company would derive the following benefits from a proper controlling system:

→ Controlling is closely related to planning. A good control system requires set standards for evaluation. These standards are provided by the plans defined by the organisation. In other words, plans serve as the base for controlling.

→ Controlling is essential for effective implementation of plans. It is essential to keep a close watch on the plans, identify any deviations and take appropriate corrective actions. Without proper controlling, planning would be futile.

→ In a similar manner, planning forms the base for controlling. Without planning, there would be nothing to control. Controlling is done only when there are predetermined standards against which evaluation can be done.

→ While planning involves intellectual thinking, decision making and deciding a course of action, controlling ensures that plans take the required course of action.

Steps to be followed in the controlling process:

→ Setting Standards: The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets, production targets). It must be kept in mind that the set standards should facilitate easy comparison.

→ Measuring Actual Performance: The next step in the controlling process is to measure the performance of the various activities. Techniques such as personal observation and performance reports can be used. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.

→ Comparing Performance: When the actual performance is measured, it is then compared with the pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.

→ Analysing Deviation: With the comparison of the actual performance with the set standards, deviations in performance are identified. For analysing deviations, Critical Point Control or Management by Exception can be used.

→ Corrective Measures: For deviations beyond the acceptable range, it becomes necessary to take corrective actions. It must be ensured that the deviations do not occur again.

→ The management can follow management by exception technique of controlling. According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.

Page : 235 , Block Name : Case studyType Answer Questions

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