

# NCERT Solutions for Class 12 Business Studies Chapter 8 Controlling

## Short Answer Type Questions

### 1. Explain the meaning of controlling.

**Ans:** Controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisations resources are being used effectively and efficiently for the achievement of desired goals. Controlling is, thus a goal oriented function. Controlling is a very important managerial function. Because of controlling manager is able to compare actual performance with the planned performance. In order to control the activities at all levels manager needs to perform controlling function.

### 2. Planning is looking ahead and controlling is looking back comment.

**Ans:** Planning and controlling are inseparable. Planning is the primary function of every organisation it is the thinking process, which means looking ahead or making plans that how desired goal is achieved in future thus it is called a forward looking function on the other hand controlling is a systematic function which measures the actual performance with the planned performance. It compared and analysed the whole process of an organisation and take correcting actions. Thus, it is a backward looking function but the statement “Planning is looking ahead and controlling is looking back” is partially correct because it should be understood that planning is guided by past experiences and the corrective action initiated by control function which aims to improve future performance. Thus, planning and controlling are both backward looking as well as a forward looking functions.

### 3. ‘An effort to control everything may end up in controlling nothing’. Explain.

**Ans:** It’s a well known fact that “Jack of all master of none” when we start controlling everything it results in controlling nothing because it is not possible at one time to control various activities as this process may neither be economical nor easy. Control thus focus on KRAs (Key Result Areas). It means instead of controlling all activities,

control where the critical points goes wrong and by which organisation suffers. Thus, KRAs are set as critical points and one should be aware that he has to control what.

#### **4. Write a short note on budgetary control as a technique of managerial control.**

**Ans:** Budgetary control is a technique of managerial control in which all operations are planned and this will help us in knowing how much we have to spend in order to achieve the future result. It compared the actual result with budgetary standards. This comparison reveals the necessary actions to be taken so that the organisational objectives are accomplished. Budgeting offers the following advantages

- (i) Budgeting focuses on specific and time bound targets.
- (ii) Budgeting is a source of motivation to the employees they set the standards against which their performance will be appraised and thus, enables them to perform better.
- (iii) Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.
- (iv) It helps the management in setting standards.

#### **5. Explain how management audit serves as an effective technique of controlling.**

**Ans:** Management audit is a technique which helps in measuring the efficiency and effectiveness of management. It is a comprehensive and constructive review. Thus, we can say it is defined as the review of the functioning performance and to improve its efficiency in future period hence it serves as an effective technique of controlling following points are proving the same.

- (i) It helps to locate present and potential deficiencies in the performance of management functions.
- (ii) It helps to improve the control system of an organisation by continuously monitoring the performance of management.

(iii) It ensures updating of existing managerial policies and strategies in the light of environmental changes.

This results in efficient controlling of management.

## Long Answer Type Questions

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

**Ans:** Controlling is a systematic process involving following steps

(i) **Setting Performance Standards** The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured.

Standards can be set in both quantitative as well as qualitative terms.

Some of the qualitative standards are—cost to be incurred, product units to be produced, time to be spent in performing a task etc. Improving goodwill and motivation level of employees are examples of qualitative standards.

#### (ii) **Measurement of Actual Performance**

Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. Some of the techniques used for measuring the performance are personal observation, sample checking performance reports etc.

#### (iii) **Comparing Actual Performance with Standards**

This step involves comparison of actual performance with the standards. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

#### **(iv) Analysing Deviations**

Some deviations in performance can be expected in all activities. It is therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

#### **(v) Taking Corrective Action**

The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished. In case the deviations cannot be corrected through managerial action, the standards may have to be revised.

### **2. Explain the techniques of managerial control.**

**Ans:** The various techniques of managerial control may be classified into broad categories

#### **(i) Traditional Techniques**

Those techniques which have been used by the companies for a long time now are traditional techniques. However, these have not become obsolete and are still being used by companies.

##### **(a) Personal Observation**

Personal observation enables the manager to collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally in their job.

##### **(b) Statistical Reports**

Statistical analysis in the form of averages, percentages, ratios, correlation etc. Present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of

charts, graphs, tables etc enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

### **(c) Break-even Analysis**

It is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profits and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as break-even point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities.

### **(d) Budgetary Control**

It is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational goals are accomplished. A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities.

### **(ii) Modern Techniques**

Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. They provide a new thinking on the ways in which various aspects of an organisation can be controlled.

### **(a) Return on Investment**

Return on Investment (ROI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. It can be calculated as under

$$\text{ROI} = \frac{\text{Net income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total investment}}$$

ROI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects ROI in an adverse manner.

(b) **Ratio Analysis** It refers to analysis of financial statements through computation of ratios. The most commonly used ratios are

### **Liquidity Ratios**

Liquidity ratios are calculated to determinedly short term solvency of business.

### **Solvency Ratios**

Ratios which are calculated to determine the long term solvency of business are known as Solvency ratios.

### **Profitability Ratios**

These ratios are calculated to analyse the profitability position of a business.

### **Turnover Ratios**

They are calculated to determine the efficiency of operations based on effective utilisation of resources.

(iii) **Responsibility Accounting** Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'responsibility centres'. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types

(a) **Cost Centre**

A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost incurred in the centre but not for the revenues e.g., production department.

(b) **Revenue Centre**

A revenue centre is held responsible for generating revenue, e.g., marketing department.

(c) **Profit Centre**

A profit centre is responsible for both cost and revenue e.g., repair and maintenance department.

(d) **Investment Centre**

An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets.

(iv) **Management Audit**

**Management audit** refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. The main advantages are

(a) Helps to locate weaknesses.

(b) It helps to improve control system.

(c) Ensures updating of existing managerial policies and strategies in the light of environmental changes.

(v) **PERT and CPM**

Programme evaluation and review technique and critical path method are important network techniques useful in planning and controlling. These techniques are especially useful in planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and inter-related activities. These techniques deal with time scheduling and resource allocation for these activities and aims at effective execution of projects within given time schedule and structure of costs.

#### **(vi) Management Information System**

MIS is a computer based information system that provides information and support for effective managerial decision-making. A decision maker requires up-to-date

accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers.

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

**Ans:** Control is an indispensable function of management. Without control the best of plans can go away. A good control system helps an organisation in the following way

#### **(i) Accomplishing Organisational Goals**

The controlling function measures progress towards the organisational goals and brings to light the deviations. If any, and indicates corrective action. It thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

#### **(ii) Judging Accuracy of Standards**

A good control system enables management to verify whether the standards set are accurate and objective an efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.



### **(iii) Making Efficient Use of Resources**

By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with pre-determined standards and norms. This ensures that resources are used in the most efficient and effective manner.

### **(iv) Improving Employee Motivation**

A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus motivates them and helps them to give better performance.

### **(v) Ensuring Order and Discipline**

Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimise dishonest behaviour on the part of the employees by keeping a close check on their activities.

### **(vi) Facilitating Co-ordination in Action**

Controlling provides direction to all activities and efforts for achieving organisational goals. Each department and employee is governed by pre-determined standards which are well co-ordinated with one another. This ensures that overall organisational objectives are accomplished.

Although controlling is an important function of management. It suffers from the following limitations also

**(i) Difficulty in Setting Quantitative Standards** Control system loses some of its effectiveness when standards cannot be defined in quantitative terms. This makes measurement of performance and their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

**(ii) Little Control on External Factors** Generally an enterprise cannot control external factors such as government policies, technological changes competition etc.

(iii) **Resistance from Employees** Control is offer resisted by employees. They see it as a restriction on their freedom. For instance, employees might object when they are kept under a strict watch with the help of Closed Circuit Televisions (CCTVs).

(iv) **Costly Affair** Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. It cannot justify the expenses involved. Managers must ensure that the costs of installing and operating a control system should not exceed the benefits derived from it.

#### **4. Discuss the relationship between planning and controlling.**

**Ans:** Planning and controlling are inseparable, they are twins of management. A system of control pre-supposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans.

Planning is clearly a pre-requisite for controlling. Controlling cannot be accomplished with planning. With planning there is no pre-determined understanding of the desired performance, planning seeks consistent, integrated and articulated programmes while controlling seeks to compel events to conform to plans.

## **Application Type Questions**

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 the management how the undesirable behaviour can be controlled.

### **Answers**

1. To avoid biased appraisal, performance appraisal should be taken by a committee of experts.

2. The statements are not so expensive, so it can be ignored.

3. Strict and immediate disciplinary action should be taken.

4. Mass bunking should not be allowed.

5. Secret suggestion box can be used to collect feedback about the boss for appraisal.

6. Performance records of employees to be maintained.

7. If minor can be overlooked.

8. Strict quality control techniques should be used.

9. Time and motion study should be used to fix standard.

10. The use of scientific techniques can help in fixing the most feasible and optimum standards.

## Case Problem

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.

1. Identify the benefits the company will derive from a good control system.

**Ans:** When company starts following a good control on operations, it leads to derive benefits which are

(i) Helps in achieving desired goals.

(ii) Judging accuracy of operations.

(iii) Making efficient and effective use of resources.

(iv) Improving employee morale.

(v) Ensuring proper flow of orders and the whole system is in discipline.

(vi) It facilitates the co-ordination and improve the performance of every individual.

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?

**Ans:** Company relates its planning with control in this line of business by implementing effective control system as this will help in two aspects planning makes controlling effective and efficient whereas controlling improves future planning because it is like a postmortem of past activities to find out deviations from the standards and in order to ensure that its plans are actually implemented and targets are attained they will take the help from controlling process as it is a systematic process and it leads to following benefits

(i) **Setting Up of Standards** In this step, company set some targets against which the actual performance is measured.

(ii) **Measuring of Performance** In this step, company is able to measure the performance and evaluating that what is actually done by the employees.

(iii) **Compare Performance** After evaluating the actual result, company compares the actual performance with the planned one this helps in knowing that the desired goal is achieved or not.

(iv) **Analysing Deviations** This refers to the difference between actual and desired performance. It helps in knowing to the company that the deviation is positive or negative. It needs focus on which part rather than analysing whole.

(v) **Taking Corrective Measures** Final step is to know the type of deviation and trying to remove this deviation and in future it matches with the plans.

**3.** Give the steps in the control process that the company should follow to remove the problems it is facing.

**Ans:** The company should follow these steps in a systematic manner

(i) Setting performance standards

(ii) Measurement of actual performance

(iii) Comparison of actual performance with standards

(iv) Analysing deviations

(v) Taking corrective actions

4. What techniques of control can the company use?

**Ans:** The company should follow the modern techniques to control the system

(i) **ROI** (Return on Investment)

It is a useful technique of controlling overall performance of a company. It indicates how effectively resources are being used, facilitates balanced use of capital employed, focuses on profits and relates them to capital invested.

(ii) **Responsibility Accounting** Under this technique, organisation is divided into centres which is responsible for overall growth of various departments. Responsibility centres in the organisation are

(a) **Cost Centre** Under this, one can check the production and operational cost.

(b) **Revenue Centre** Sales or marketing departments come under this, it is responsible for generating revenue.

(c) **Profit Centre** Profit = Revenue – Cost. It ensures the actual profit derived from the business.

(d) **Investment Centre** This centre ensures the optimum use of assets and it makes use of return on investment.

(iii) **MIS** (Management Information System)

It is a control technique which provides information and support for effective managerial decision making. It provide accurate information to the managers, helps in planning, controlling, provides cost effective information and many more.

