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NCERT Solutions for 12th Class Business Studies: Chapter 8- Controlling



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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 organisation's 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, a manager is able to compare actual performance with the planned performance. In order to control the activities at all levels, a manager needs to perform the 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 a desired goal is achieved in the 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 compares and analyses the whole process of an organisation and takes 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 the control function which aims to improve future performance. Thus, planning and controlling are both backward-looking as well as 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 <https://www.indcareer.com/schools/ncert-solutions-for-12th-class-business-studies-chapter-8-controlling/>

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.

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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

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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.

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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

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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

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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 <https://www.indcareer.com/schools/ncert-solutions-for-12th-class-business-studies-chapter-8-controlling/>

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

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Liquidity ratios are calculated to determine 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

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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**

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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

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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.

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(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.

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