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COMMERCE

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UNIT-1

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COMMERCE (UNIT-I)

MARKETING

INTRODUCTION:

- Our country, with population of over 120 crore is one of the biggest markets in the world.
- Our country, based on socialist pattern of growth and development, has moved away from license raj and centrally controlled system to free economy.
- These reforms in the form of liberalization, deregulation, relaxation of trade and investment controls and privatization have led to increase in exports and foreign exchange reserves, higher competition and efficiency in the market place and availability of a variety of goods and services.
- In olden days, goods were produced based on actual demand and hardly and marketing effort was required.

EXAMPLES:

- The job of the salesperson was simply to book orders.

MEANING OF MARKETING:

- The term market is derived from the Latin word "marcatus" which means merchandise trade or place were business is contracted it refers to the place actual buying & selling take place or were buyer & sellers personally meet together to effect purchase & sales.
- Marketing is the performs of business activity that direct flow of goods and services from producer to consumer.
- It includes all activities having to with effective changes in ownership & possession of goods and services.
- Business people uses the term markets refer to various grouping of customers such as product or service.

EXAMPLES:

- The common examples of marketing at work include television, commercials, billboards on the side of the road magazine advertisements etc…….
- Television market geographic market.

DEFINITION OF MARKETING:

- According to Philip kotler Marketing is social and managical process by which individuals and groups, obtain what they need and want through creating and exchanges product and value with others.

MARKETING CONCEPTS

1) Production Concept,
2) Product Concept,
3) Selling Concept,
4) Marketing Concept,
5) Societal Marketing Concept.

These concepts are described below;

PRODUCTION CONCEPT:

- The idea of production concept – "Consumers will favor products that are available and highly affordable". This concept is one of the oldest Marketing management orientations that guide sellers.
- Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective.

- Most times; the production concept can lead to marketing myopia. Management focuses on improving production and distribution efficiency in some situations.

PRODUCT CONCEPT:

- The product concept holds that the consumers will favor products that offer the most in quality, performance and innovative features.

Here; under this concept,

- Marketing strategies are focused on making continuous product improvements.
- Product quality and improvement are important parts of marketing strategies, sometimes the only part. Targeting only on the company's products could also lead to marketing myopia.

FOR EXAMPLE;

- ✓ Suppose a company makes the best quality Floppy disk. But a customer does really need a floppy disk?
- ✓ She or he needs something that can be used to store the data. It can be achieved by a USB Flash drive, SD memory cards, portable hard disks, and etc.
- ✓ So that company should not look to make the best floppy disk. They should focus to meet the customer's data storage needs.

SELLING CONCEPT:

- The selling concept holds the idea- "consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort".
  - Here the management focuses on creating sales transactions rather than on building long-term, profitable customer relationships.
  - The aim is to sell what the company makes rather than making what the market wants. Such aggressive selling program carries very high risks.
  - In selling concept the marketer assumes that customers will be coaxed into buying the product will like it, if they don't like it, they will possibly forget their disappointment and buy it again later. This is usually very poor and costly assumption.
  - Typically the selling concept is practiced with unsought goods. Unsought goods are that buyers do not normally think of buying, such as insurance or blood donations.
- These industries must be good at tracking down prospects and selling them on a product's benefits.

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QUESTIONS

1) Many people want BMW, only a few are able to buy" this is an example of ______

A) Need C) Demand

B) Want D) Status

2) _______ is a combination of quality, service & price.

A) Marketing Triad C) Customer Satisfaction Triad

B) Customer Value Triad D) Service Quality Triad

3) **_______ is the act of obtaining a desired object from someone by offering something in return.**

A) Marketing Myopia C) Exchange

B) Selling D) Delivery

4)**_____ is the father of Modern Marketing**

A) Peter Drucker C) Lester Wunderman

B) Philip Kotler D) Abraham Maslow

5) Want for a specific product backed by an ability to pay is called _____

A) Demand C) Want

B) Need D) Customer

6) Marketing is a process which aims at ________

A) Production C) The satisfaction of customer needs

B) Profit-making D) Selling products

7)________ is not a type of Marketing Concept.

A) The Production Concept C) The Social Marketing Concept

B) The selling Concept D) The Supplier Concept

8) A place where goods are bought and sold against the price consideration between the buyers and the sellers is called ______

A) Exchange C) E-Commerce

B) Market D) Transaction

9) ______ are the form of human needs take as shaped by culture & individual personality.

A) Wants C) Needs

B) Demands D) Social Needs

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UNIT-2

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COMMERCE (UNIT-II)

ADVERTISEMENTS

WHAT DO YOU MEAN BY ADVERTISEMENT?

- **Advertisement** (ad) Paid, non-personal, public communication about causes, goods and services, ideas, organizations, people, and places, through means such as direct mail, telephone, print, radio, television, and internet. An integral part of marketing, **advertisements** are public notices designed to inform and motivate.

TYPES OF ADVERTISING:

- Newspaper. Newspaper advertising can promote your business to a wide range of customers.
- Magazine. Advertising in a specialist magazine can reach your target market quickly and easily.
- Radio
- Television.
- Directories
- Outdoor and transit.
- Direct mail, catalogues and leaflets.
- Online.

WHAT IS ADVERTISING AND EXAMPLE?

- **Examples** of above the line **advertising** are TV, radio, & newspaper **advertisements**. Below the line **advertising** include conversion focused activities which are directed towards a specific target group. **Examples** of below the line **advertising** are billboards, sponsorships, in-store **advertising**, etc

WHAT IS ADVERTISEMENT AND ITS IMPORTANCE?

- **Advertising** is the best way to communicate to the customers. **Advertising** helps informs the customers about the brands available in the market and the variety of products useful to them. ... Let us take a look on the main objectives and **importance** of **advertising**.

WHAT ARE THREE MAIN OBJECTIVES OF ADVERTISEMENTS?

- The three general ad objectives are to **inform**, to **persuade** and to **remind customers**. Within these broad **goals**, companies normally have more **specific**, quantified objectives, as well.

WHAT IS SOCIAL ADVERTISEMENTS?

- **Social advertising is advertising** that relies on **social** information or networks in generating, targeting, and delivering marketing communications. ... **Social advertising can** be part of a broader **social** media marketing strategy designed to connect with consumers.

WHAT IS GOOD ADVERTISEMENTS?

- A **good advert**: When designing an **advert** ensure it includes a high impact, provocative and memorable image. The image used should reflect your brand values and be relevant and engaging to your target audience. Ensure your **ad** features a strong, snappy headline to capture attention.

WHAT IS A BAD ADVERTISEMENT?

- False Advertising" is the use of dishonest, erroneous, misleading, baseless information to advertise or promote products and services to consumers. ... When people choose not to buy the products due to their association with negative brand image, sales suffer, which is sometimes the result of **bad advertisements**.

WHAT DOES NEGATIVE ADVERTISING MEAN?

- **Negative advertising** is an **advertising** technique which encourages using a product to avoid a **negative** consequence rather than to achieve a beneficial result.

WHAT IS UNETHICAL ADVERTISING?

- **Unethical advertising** is when you promise something you cannot deliver. ... Using **advertising** in a way that is misleading and uses false claims to get the public to buy the product they are trying to sell is **unethical**, because of its misuse of the information that is presented to the public.

<u>What Is Advertising?</u>

- Advertising is the action of calling public attention to an idea, good, or service through paid announcements by an identified sponsor.

According to Kotler –

- *Advertising is any paid form of non-personal presentation & promotion of ideas, goods, or services by an identified sponsor.*

According to the Advertising Association of the UK –

- *Advertising is any communication, usually paid-for, specifically intended to inform and/or influence one or more people.*
- A simpler (and modern) definition of advertising can be – A paid communication message intended to inform people about something or to influence them to buy or try something.

CHARACTERISTICS OF ADVERTISING:

- **Paid Form:** Advertising requires the advertiser (also called sponsor) to pay to create an advertising message, to buy advertising media slot, and to monitor advertising efforts.
- **Tool For Promotion:** Advertising is an element of the promotion mix of an organization.
- **One Way Communication:** Advertising is a one-way communication where brands communicate to the customers through different mediums.
- **Personal Or Non-Personal:** Advertising can be non-personal as in the case of TV, radio, or newspaper advertisements, or highly personal as in the case of social media and other cookie-based advertisements.

TYPES OF ADVERTISING:

- Advertising activities can be categorized into above the line, below the line, and through the line advertising according to their level of penetration.
- **Above the line advertising** include activities that are largely non-targeted and have a wide reach. Examples of above the line advertising are TV, radio, & newspaper advertisements.
- **Below the line advertising** include conversion focused activities which are directed towards a specific target group. Examples of below the line advertising are billboards, sponsorships, in-store advertising, etc.
- **Through the line advertising** include activities which involve the use of both ATL & BTL strategies simultaneously. These are directed towards brand building and conversions and make use of targeted (personalized) advertisement strategies. Examples of through the line advertising are cookie based advertising, digital marketing strategies, etc.
- Advertising activities can also be categorized into 5 types based on the advertisement medium used. These types of advertisements are:
    - **Print Advertising:** Newspaper, magazines, & brochure advertisements, etc.
    - **Broadcast Advertising:** Television and radio advertisements.
    - **Outdoor Advertising:** Hoardings, banners, flags, wraps, etc.

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UNIT II – ADVERTISEMENTS

1)............... Suggest to the consumer that he or she can avoid some negative experience through the purchase and use of a product or through a change in behavior.

a) Responsibility appeal
b) Fear appeals
c) Sex appeals
d) Family appeals

2) Gross rating points (GRPs) are

a) Reach multiplied by frequency
b) Reach multiplied by rating
c) Rating multiplied by frequency
d) Cost divided by reach

3) Three common advertising appeals include

a) Objectivity, timeliness and frequency
b) Fear, sex, and humor
c) Guilt, ego and enrichment
d) Possessiveness, pride and social status

4).......... are directed at a specialized and relatively small-sized target audience such as manufactures.

a) Trade Advertising
b) Industrial Advertising
c) Consumer Advertising
d) Corporate Advertising

5) The first step in the advertising decision process is

a) Set the budget
b) Specify the objectives of the advertising program
c) Identify the target audience
d) Select the appeal

6) Most advertising messages are made up of two types of elements. They are

a) Functional and persuasive
b) Expository and persuasive
c) Informational and persuasive
d) Informational and creative

7) An advertising message usually focuses on

a) The models in the ad.
b) Advantages of the product over competing ones
c) Availability of the product
d) Key benefits of the product that are important to the buyer

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COMMERCE (UNIT-III)

MANAGEMENT ACCOUNTING

- The term management accounting refers to accounting for the management i.e. accounting which provides necessary information to the management for discharging its functions. It is the presentation of accounting information to assist management in the creation of policy and in the day to day operation. Thus, management accounting provides information to management for planning, organizing, directing, and controlling of business operations.

DEFINE MANAGEMENT ACCOUNTING

- In the words of Robert.N.Antony "Management accounting is concerned with accounting information that is useful to management".
- "Management accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and in the day to day operations of an undertaking".

NATURE AND FEATURE/CHARACTERISTIC OF MANAGEMENT ACCOUNTING.

1. Supply information:

- It provides information to the management and not decisions. It is just like a map. The way in which the data is used depends up on the efficiency of the management. It provides information to the management for decision making purpose.

2. Forecasting:

- It is concerned with future. It is not confined only to the collection of historical data or facts but also attempts to highlight up on "what should have been". So, it helps in planning for the future because decisions are always taken for future course of action.

3. Increase in efficiency:

- Management accounting acts as a vehicle for enhancing the working efficiency of the organization. The efficiency of various departments and divisions can be improved by fixing targets. The actual performance is compared with target to ascertain the deviations. The process for fixing and achieving the targets leads to improvement in overall efficiency.

4. Techniques and concepts:

- It uses special techniques and concepts to make accounting data more useful. It makes a study of costs by dividing the total costs into fixed, semi variable and variable components. The technique usually used includes marginal costing, uniform costing etc.

5. Cause and effect analysis:

- ❖ Management accounting serves as a cause and effect analyzer. Financial accounting discloses the results but does not account for its reasons.

6. No fixed norms:

- ❖ It has no set of rules and format like double entry system of book keeping. The required information is provided in a manner as it suits the management. Thus, the format and method of presentation of information will differ from concern to concern depending up on their individual requirements.

7. Assists management:

- ❖ It assists management in several ways in its functions but does not replace it. It is an integral part of business management. It provides all assistance to management in all of its functions. By providing the accounting information in the required form, and at the required time it helps management.

8. Decision making:

- ❖ Management accounting helps the management in the process of decision making. It provides required information to the management to take its decisions.

9. Internal use:

- ❖ The information provided by management accounting is purely meant for internal use. Management accounting is basically designed for internal use of the management; it is a very little use to external parties.

SCOPE OF MANAGEMENT ACCOUNTING.

- ❖ Management accounting is concerned with presentation of accounting information in the most useful way for the management. Its scope is very wide and broad. The following are some of the areas of specialization included in management accounting:

1. Financial accounting:

- ❖ Management accounting is mainly concerned with the re-arrangement of the information provided by financial accounting. Hence, management cannot obtain full control and coordination of operations with out a properly designed financial accounting system.

2. Cost accounting:

- ❖ Standard costing, marginal costing, opportunity cost analysis, differential costing and other cost techniques play a useful role in operation and control of the business undertaking.

3. Revaluation accounting:

- ❖ This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.

4. Budgetary control:

- ❖ This includes framing of budgets, comparison of actual performance with the budgeted performance, computation of variances, finding of their causes etc.

5. Inventory control:

- ❖ It includes control over inventory from the time it is acquired till its final disposal.

6. Statistical methods:

- ❖ Graphs, charts, pictorial presentation, index numbers and other statistical methods make the information more impressive and intelligible.

7. Interim reporting:

- ❖ This includes preparation of monthly, quarterly, half yearly income statements and other related reports, cash flow and fund flow statements etc.

8. Taxation:

- ❖ This includes computation of income in accordance with the tax laws, filing of returns and making tax payments.

9. Office services:

- ❖ This includes maintenance of proper data processing and other office management services, reporting on best use of mechanical and electronic devices.

10. Internal audit:

- ❖ Development of a suitable internal audit, system for internal control etc

OBJECTIVES OF MANAGEMENT ACCOUNTING.

- ❖ The fundamental object of management accounting is to assist management in their functions of formulating policies, making decisions, planning activities and controlling business operations. The main objectives or purposes of management accounting are:

1. Planning and policy formulation:

- ❖ Planning is one of the primary functions of management. It involves forecasting on the basis of available information, setting goals, framing policies, determining the alternative courses of action and deciding on the programme of activities to be undertaken.

2. Help in the interpretation process:

- ❖ The main object of management accounting is to present financial information to the management. The management accounting presents accounting information in an intelligible manner and explains with the help of statistical devices like charts, diagrams etc.

3. Helps in decision making:

- ❖ Management accounting makes decision making process more modern and scientific by providing significant information relating to various alternatives in terms of cost and revenue.

4. Controlling:

- ❖ Management accounting is a useful device of managerial control. The management is able to control performance of each and every individual with the help of management devices like standard costing and budgetary control.

5. Motivating:

- ❖ The setting of goals, planning the best and economical course of action, measuring the results ect increase the effectiveness of the organization and motivate the workers and targets are laid down for employees.

6. Helps in organizing:

- ❖ Management accounting stresses more on budget centres, investment centres, cost centre and profit centres with a view to control costs and responsibilities. All these are helpful in setting up of effective and efficient organization frame work.

7. Co-ordination operations:

- ❖ It helps in overall control and co-ordination of business operations. It provides tools which are helpful in coordinating the activities of different sections or departments

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UNIT III

1) Statement of cash flows includes
   a) Financing Activities
   b) Operating Activities
   c) Investing Activities
   d) All of the Above
2) In cash flows, when a firm invests in fixed assets and short-term financial investments results in
   a) Increased Equity
   b) Increased Liabilities
   c) Decreased Cash
   d) Increased Cash
3) A firm that issues stocks and bonds to raise funds results in
   a) Decreases Cash
   b) Increases Cash
   c) Increases Equity
   d) Increases Liabilities
4) The purchase value of assets over its serviceable life is categorized as
   a) Appreciated Liabilities
   b) Appreciated Assets
   c) Depreciation
   d) Appreciation
5) The basic financial statements include
   a) Statement of Cash Flows
   b) Statement of Retained Earnings
   c) Balance Sheet and Income Statement
   d) None of the Above
6) The statement of cash flow clarifies cash flows according to
   a) Operating and Non-operating Flows
   b) Inflow and Outflow
   c) Investing and Non-operating Flows
   d) Operating, Investing, and Financing Activities
7) Cash flow example from a financing activity is
   a) Payment of Dividends
   b) Receipt of Dividend on Investment
   c) Cash Received from Custome
   d) Purchase of Fixed Asset
8) Cash flow example from an investing activity is
   a) Issue of Debenture
   b) Repayment of Long-term Loan
   c) Purchase of Raw Materials for Cash
   d) Sale of Investment by Non-Financial Enterprise

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UNIT-4

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COMMERCE (UNIT-IV)

Introduction of capital expenditure decisions:

- Capital expenditure decisions are just the opposite of operating expenditure decisions. It is the planning, evaluation and selection of capital expenditure proposals, the benefits of which are expected to accrue over more than one accounting year.

The capital expenditure decisions have the following features:

1) They involve large amounts of fund
2) They involve greater amount of risk.
3) Capital expenditure decisions are irreversible.
4) Cash outflows and inflows occur at different points of time.

Meaning of Capital Expenditure Decisions:

- The capital expenditure decision is the process of making decisions regarding investments in fixed assets which are not meant for sale such as land, building, plant & machinery, etc. Thus it refers to long-term planning for proposed capital expenditures and includes raising of long-term funds and their utilization.
- The key function of the finance manager is selection of the most profitable project for investment. This task is very crucial because any action taken by the manager in this area affects the working and profitability of the firm for many years to come.

Nature of Capital Expenditure Decisions:

- Capital expenditure decisions involve acquisition of assets that have a long life span and which provide benefits spread over a long period of time.

The nature of capital expenditure decisions can be explained in brief as under:

i. Substantial Investments:

- Capital expenditure decisions involve large amounts of funds. Such decisions have its effect over a long span of time.

ii. Irreversible Decision:

- Capital expenditure decisions once approved represent long term investments that cannot be reversed or withdrawn any time. Withdrawal or reversal of such decisions may lead to considerable financial losses to the firm.

iii. Estimation of Future Cash Inflows:

- Preparation of capital expenditure budget involves forecasting of cash inflows over several years for evaluating the profitability of projects.

iv. Maximization of Shareholder's Wealth:

- It helps protect the interest of the shareholders as well as of the firm because it avoids over-investment and under-investment in fixed assets.

Purpose of Capital Expenditure Decisions:

- The capital expenditure decision or capital budgeting is a process that plans to ascertain the long-term investments of the firm. The main purpose of capital budgeting is to recognize as well as prioritize capital investments on the basis of maximum returns to the business. It is also considered as a managerial tool required for efficient management of collected capital of the firm.

Objectives of Capital Expenditure Decisions:

- Financing decisions are one of the most crucial and critical decisions of a firm as they have a significant impact on the profitability of the firm.

There are number of objectives of capital expenditure decisions, some of which are:

i. Increasing Output:

- Output may be increased by utilizing existing facility or through expansion by installing new plant and machinery.

ii. Cost Reduction:

- The existence of a firm depends on profitability, which in turn depends on the production of goods or services at a reasonable price. This is possible if over/under-investment in fixed assets is avoided.

iii. Providing Contemporary Goods:

- Consumer tastes change every day. To satisfy the new demands from customers, either proper utilization of existing facility or installation of the latest machinery is necessary—which is not possible without proper capital expenditure decision.

Capital Expenditure: Rules and Items for Determining Capital Expenditure!

- Capital Expenditure is that expenditure which results in the acquisition of permanent asset or fixed asset which is used continuously in the business for the purpose of earning revenue any amount spent on the asset which will result in increasing the production or reducing the cost of production may also be treated as Capital Expenditure.

Rules for Determining Capital Expenditure:

1) Expenditure incurred for acquiring Land, Building, Machinery, Investments, Patents or Furniture etc. are permanent or fixed assets. The fixed asset is used in the business for earning profit and not for resale, is called a Capital Expenditure. For instance, when we purchase furniture it is a capital expenditure and at the same time to the Furniture Shop, who is engaged in buying and selling of furniture, it is not capital expenditure.
2) Expenditure incurred for putting an old asset in working condition or for putting a new asset to use, is capital expenditure. For instance, an old machine is purchased for Rs. 10,000 and Rs 2,000 is spent for its repairs and installation and the total expenditures are capita, expenditure.
3) Expenditure incurred on an existing asset which results in the improvement or extension of the business by increasing the earning capacity of the asset or by reducing the cost of production is also called capital expenditure. For instance, installations of machine or additions to buildings or plant etc. are capital expenditure.
4) When benefit of expenditure is not fully consumed in one period but spread over several periods, is called capita, expenditure. For instance, expenditure met for massive advertisements.
5) Expenditure which increases the earning capacity in any way of a fixed asset can be called capital expenditure. For instance, amount spent on cinema theatre for air conditioning.
6) Expenditure spent on raising the capital required for earning profit is called capital expenditure. For instance, underwriting commission, brokerage etc.

Items of Capital Expenditure:

1) Cost of Land, Building, Plant and Machinery.
2) Cost of lease hold Land and Building.
3) Cost of manufacture or purchase of furniture and fixtures.
4) Cost of office Cars, Vans, Lorries or Vehicles.
5) Cost of installation of lights, fans etc.
6) Cost of erection of Plant and Machinery.
7) Cost of Trade Mark, Patents, Copy rights, Patterns and Designs.
8) Preliminary Expenses.
9) Cost of Goodwill.
10) Cost of addition to and extension of existing fixed assets.
11) Cost of development in case of Mines and Plantations.
12) Cost of invention.
13) Cost of increasing capacity of fixed asset.
14) Cost of administration in industrial enterprises incurred during the period of construction.

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UNIT IV

1) The problems associated with marginal costing are
   a) Difficulties in divisions of costs
   b) Problem of valuation of stocks
   c) Ignores time elements
   d) All of the above
2) Where selling price is determined on the basis of cost-plus method.
   a) Absorption costing
   b) Marginal costing
   c) Both a and b
   d) None of the above
3) Managers utilizes marginal costing for
   a) Make or buy decision
   b) Utilization of additional capacity
   c) Determination of dumping price
   d) All of the above
4) Which of the following are advantages of marginal costing
   a) Makes the process of cost accounting more simple
   b) Helps in proper valuation of closing stock
   c) Useful for standard and budgetary control
   d) All of the above
5) Under absorption costing, managerial decisions are based on
   a) Profit
   b) Contribution
   c) Profit volume ratio
   d) None of the above
6) Which of the following statements are true about absorption & marginal costing?
   a) In absorption costing, cost is divided into three major parts while in marginal costing, cost is divided into two main parts
   b) In absorption costing period is important and in marginal costing product is important
   c) Both a and b
   d) None of the above
7) Absorption costing is also known as
   a) Historical costing
   b) Total costing
   c) Both a and b
   d) None of the above
8) Given production is 1,00,000 units, fixed costs is Rs 2,00,000 Selling price is Rs 10 per unit and variable cost is Rs 6 per unit. Determine profit using technique of marginal costing.
   a) Rs 2,00,000
   b) Rs 8,00,000
   c) Rs 6,00,000
   d) None of the above

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COMMERCE – UNIT - V

COSTING

WHAT IS COSTING WITH EXAMPLES?

- Product **costing** is the process of determining the business expenses associated with the manufacture of a product.
- For **example**, a company manufacturing both laptop computers and cell phones may allocate expenses based on the number of machine hours used to produce each product.

DIFFERENCE BETWEEN COST AND COSTING:

- **Costing**. '**Cost**' is a term whereas '**Costing**' is a process for determining the **cost**. It may be called a technique for ascertaining the **cost** of production of any product or service **in the** business organization.

WHAT IS COSTING METHODS:

- Product **costing methods** are used to assign a **cost** to a manufactured product. The main **costing methods** available are process **costing**, job **costing**, direct **costing**, and throughput **costing**. Each of these **methods** applies to different production and decision environments.

TYPES OF COSTING SYSTEM:

- There are two main **cost** accounting **systems**: the job order **costing** and the process **costing**. Job order **costing** is a **cost** accounting **system** that accumulates manufacturing costs separately for each job.

HOW DO YOU PROCESS COSTING?

- Accounting, **process costing** is a method of assigning production costs to units of output. In **process costing** systems, production costs are not traced to individual units of output. Costs are assigned first to production departments. Then assign the costs to units of output as they move through the departments.

HOW DO YOU DO COSTING?

- Add together your total direct materials costs, your total direct labor costs and your total manufacturing overhead costs that you incurred during the period to determine your total product costs. Divide your result by the number of products you manufactured during the period to determine your product cost per unit

WHICH ARE THE DIFFERENT TYPES OF COSTS?

- For analyzing the various costs it is imperative to first understand the types of costs.

FIXED COSTS:

- The costs that remain constant despite changes in production, process or projects are referred to as fixed costs. For example, in a manufacturing unit the salaries of the office staff will remain fixed irrespective of the production.

VARIABLE COSTS:

- These costs vary with the production, process or project changes. For example, in an organization manufacturing toy the material and labour cost will be dependent on the production.

OPPORTUNITY COSTS:

- The cost incurred in selecting one option over another is called opportunity cost. For example in a toy manufacturing unit with limited labour hours and material, the decision to produce one particular toy say 'Dancing Monkey' will result in non-production of an other toy say 'Spinning top'. So while considering the profitability of toy 'Dancing Monkey' the organization has to consider the profit of 'Spinning top' that it forgoes.

SUNK COSTS:

- Certain costs are incurred and cannot be recovered these are sunk costs. Continuing with our example of toy manufacturing unit, sunk costs would refer to machinery cost that has been incurred.

Which are the techniques in Cost Accounting?

- The techniques of costing facilitate managerial decision making. The different types are

Marginal Costing

- As per this technique, the management may decide the number of units to be produced. Suppose a toy unit is already producing 100 units of 'Dancing Monkey' toy, this technique will help the management understand that if the production is increased to 150, will it be profitable. In this technique, only the variable costs for additional units produced will be considered. Fixed costs are not taken into consideration as they do not vary with changes in production.

Standard Costing

- ❖ In this technique of costing the costs incurred are compared to the predetermined cost of the product, process or project. The variances are analyzed to bring about cost-effectiveness.

Direct Costing

- ❖ In this technique all the direct costs incurred for a particular product, process or project are charged to it and the indirect costs are written off to profit and loss.

Historical Costing

- ❖ It is comparison of all costs incurred after the process is performed.

Uniform Costing

- ❖ In this technique same costing practices are followed across certain units to facilitate comparison.

Absorption costing

This is a method of full costing. In this all costs are charged to the product, process or project.

Which are the various methods of Costing?

Since each business is so varied from the other, the method of costing cannot be uniform. The different methods of costing used by different businesses are summarized here under:

Method	Type of Business
Job Costing – The costs incurred for a particular job can be easily identified	Advertising
Contract costing – Similar to job costing but the duration of assignment is longer.	Construction
Unit costing – The costs are incurred for a fixed quatiny.	Mining
Batch costing – The costs incurred for a fixed number of units forming a batch	Manufacturing of spare parts
Process costing – The processes involved are easily distinguished.	Textile units
Operating costing – The costs are incurred for services rendered.	Hospitals

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UNIT V: COSTING

1) Cost estimation include(s) the following expenditure(s)
   a) Pattern Making
   b) Tool Making
   c) Selling Expenses
   d) All Of The Above
2) To calculate the probable cost of the product, knowledge of following factors involves
   a) Production time required
   b) Use of previous estimates of comparable parts
   c) Effect of change in facilities on costing rates
   d) All of the above
3) Cost accounting is a specialized branch of accounting which deals with
   a) Classification, recording, allocation and control of costs
   b) Classification, processing, allocation and directing
   c) Classification, recording, planning and control of costs
   d) Classification, recording, allocation and directing
4) Expenditure incurred on material, labour, machinery, production and inspection are summed up to find the
   a) Total cost of product
   b) Selling price of product
   c) Factory cost of product
   d) None of the above
5) Match the following

Type of costing	Type of industry
a. Job costing	1. Utility services
b. Process costing	2. Automobile industry
c. Departmental costing	3. ship building
d. Operating costing	4. paper making

The correct answer is
   a) a-2, b-3, c-1, d-4
   b) a-3, b-4, c-2, d-1
   c) a-4, b-2, c-1, d-3
   d) a-3, b-2, c-1, d-4

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UNIT-6

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UNIT-VI

Meaning of Differential Cost

- Differential cost is the change in the costs which may take place due to increase or decrease in output, change in sales volume, alternate method of production, make or buy decisions, change in product mix etc. So, differential cost is the result of an alternative course of action.
- For example, difference in costs may arise because of replacement of labour by machinery and difference in costs of two alternative courses of action will be the differential cost.
- It may be remembered that differential cost may be increase or decrease in costs. Suppose, present cost is Rs. 2,50,000 when the work is done by labour and the expected cost Rs. 2,25,000 when the work is done by machinery.
- In this case, differential cost will be decrease in costs Rs. 25,000 (i.e., Rs. 2,50,000 — Rs. 2,25,000) and the decision of replacement of labour by machinery should be implemented by the firm because differential cost of Rs. 25,000 (decrease in cost) will increase the profits of the firm by Rs. 25,000.
- If change in cost occurs due to change in level of activity, differential cost is referred to as incremental cost in case of increase in output and decremental cost in case of decrease in output. However, in practice, no distinction is made between differential cost and incremental or detrimental cost and two terms are used to mean the same thing.
- Differential costs are often taken as marginal costs or incremental costs. But this is not the case. In differential cost analysis costs are calculated on the basis of absorption or total costing technique, but in marginal costing technique, costs are calculated on the basis of variable costs only and fixed costs are not taken.
- But if the alternate course of action does not involve any extra fixed costs change in variable costs will become differential costs and there will be no difference between marginal costs and differential costs.

- Differential cost is the change in cost which may result from the adoption of an alternate course of action or change in the level of activity. Change in cost may take place due to change in fixed costs and variable costs, so differential cost is the aggregate of changes in fixed costs and variable costs which take place due to the adoption of an alternate course of action or change in the level of output.
- The ascertainment of differential cost becomes easy if a flexible budget is prepared by the concern because it shows cost at various levels of activity.

Characteristics of Differential Cost:

- The following are the essential characteristics of differential costs:
  1) Differential cost analysis is not made within the accounting records rather it is made outside the accounting records, Differential costs may, however, be incorporated in the flexible budgets because they budget costs at various levels of activity.
  2) Total differential costs are considered in differential cost analysis. Cost per unit is not taken into consideration.
  3) Total differential revenues are compared with total differential costs before advocating an alternate course of action. A change in course of action is recommended only if differential revenues exceed differential costs.
  4) The items of cost which do not change for the alternatives under consideration are ignored, only the difference in items of costs are considered because differential costs analysis is concerned with changes in costs.
  5) The changes in costs are measured from a common base point which may be a present course of action or present level of production.
  6) Differential cost analysis is related to the future course of action or future level of output, so it deals with future costs. Historical costs or standard costs may be used but they should be suitably adjusted to future conditions.
  7) For making a choice among the various alternatives, the alternative which gives the maximum difference between the incremental revenue and incremental cost is recommended to be adopted.

Determination of Differential Cost:

- Differential cost is the change in cost that results from adoption of an alternative course of action. It can be determined simply by subtracting cost of one alternative from cost of another alternative or from the cost at one level of activity, the cost at another level of activity.

- In the following illustration, differential cost, from two alternatives, i.e., running at 70% capacity and 90% capacity, has been discussed:
- The differential costs can also be determined with the help of linear equations as follows: At two levels of activity, the equations of costs can be represented as:

  $y1 = ma1 + F$

  $y2 = ma2 + F$

  where, y1 and y2 are costs at two levels of activity and

  m = marginal cost per unit

  a1 and a2= levels of activity

  F = fixed cost.

  Hence, Differential Cost, i.e., y2—y1 = (ma2+ F)-(ma1 + F)

  = m (a2-a1)
- Thus, in above illustration, where marginal cost at 70% level of activity is Rs. 49,000, the differential cost between 90% and 70% level of activity will be

  = 49,000 x 20/70 = Rs. 14,000.

Essential Features of Differential Costing:

1) The data used for differential cost analysis are cost, revenue and investments involved in the decision-making problem.
2) Differential costs do not find a place in the accounting records. These can be determined from the analysis of routine accounting records.
3) The total cost figures are considered for differential costing and not the cost per unit.
4) Differential cost analysis determines the choice for future course of action and hence it deals with the future costs but even then historical or standard costs, adjusted to the future requirements may be used in differential costing.
5) Differential costing involves the study of difference in costs between two alternatives and hence it is the study of these differences, and not the absolute items of cost, which is important. Moreover, elements of cost which remain the same or identical for the alternatives are not taken into consideration.
6) The differences are measured from a common base-point.
7) The alternative which shows the highest difference between the incremental revenue and the differential cost is the one considered to be the best choice.

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UNIT VI

1) **The two aspects of material control are accounting aspect and .... aspect.**
   a) Financial
   b) Economic
   c) Social
   d) Operational

2) **Material control aims at achieving effective .... management.**
   a) Marketing
   b) Production
   c) Organization
   d) Material

3) **Stores ledger is maintained in the .... department.**
   a) Cost accounting
   b) Stores
   c) Purchase
   d) Production

4) **Bin card is a record of .... only.**
   a) Quality
   b) Quantity
   c) Numbers
   d) None

5) **Bin card is maintained by**
   a) Purchase department
   b) Production department
   c) Marketing department
   d) Stores keeper

6) **With regard to break –even charts and break-even analysis, which of the following is true?**
   a) It is assumed that variable cost fluctuates in direct proportion to output
   b) The break the break-even point is at the intersection of the sales line and the variable cost line
   c) A break-even chart shown the maximum profit possible
   d) A break-even chart is capable of dealing with any change of product mix

7) **The following data relate to two output levels of a department :**
   Machine hours 17,000 18,500 Overheads (`) 2, 46,500 2,51,750 The variable overhead rate per hour is ` 3.50. The amount of fixed overheads is:
   a) ` 5,250
   b) ` 59,500
   c) ` 1,87,000
   d) ` 2, 46,500

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COMMERCE (UNIT-VII)

INTRODUCTION

- Entrepreneurship environment refers to the various facets within which enterprises- big, medium, small and other have to operate. The environment therefore, influences the enterprise. By and large, an environment created by political, social, economic, national, legal forces, etc influences entrepreneurship.
- Entrepreneurial environment is broadly classified into six important segments, namely,
    1) Political environment
    2) Economic environment
    3) Social environment
    4) Technological environment
    5) Legal environment
    6) Cultural environment

Environment

- **Political-**Political Atmosphere, Quality of Leadership
- **Economic-**Economic Policies, Labour, Trade, Tariffs, Incentives, Subsidies
- **Social-**Consumer, Labour, Attitudes, Opinions, Motives
- **Technological-**Competition And Risk, Efficiency, Productivity, Profitability
- **Legal-**Rules, Regulations
- **Cultural-**Structure, Aspirations And Values

Private Enterprise and Development

- The existence of uncertainty in the economic call for the attention of entrepreneurs to play a leading role in the growth process. Individual entrepreneurs such as farmers and small businessmen and individual enterprises such as manufacturing, construction, transport, and wholesale enterprises and collective farms continually face risks. Whether they are privately or publicly owned, they must take account of uncertainty. Private entrepreneurs and the managers of private enterprises take risk, despite the heavy costs of failure because of the possibility of high profits or large bonuses. In any case, they must run their business efficiently if they are to make a profit and survive. The problem usually arises because major industrial decisions, which will affect the lives of thousands of ordinary people, are taken without proper planning and without public consultation. The result is that environmental activists have no choice but to fight a rear-guard action. This often gives the impression that environmental activists are against all growth and industry. In fact, they are more than conscious of the need for a balanced approach to growth and industry. All they say is that industrial decisions ought to be taken after considering the impact on environment and also that the public has a right to know all details.

❖ Environmental activists have repeatedly pointed out the havoc caused by some of our petrochemical, heavy chemical, dyestuff and other polluting industries, as also the environmental damage caused by large-scale open mining, quarrying and deforestation, which will take decades to reverse. For their dogged determination, these environments deserve our gratitude.

❖ At the same time, it is now clear that technology has advanced significantly to allow efficient use of resources. Worldwide, industry has become conscious of the need to use renewable resources as far as possible and utilize non-renewable resources within planned limits. With potential development taking place in the industry, we should learn from past incidences of industrial disasters leading environmental disaster and ensure further growth, consistentwithenvironmental protection.

❖ In contrast, the managers of public enterprises (whether directly or indirectly state-owned or collectively-owned) tend to be risk averters. Indeed, risk-aversion is usually, and perhaps inevitably, the emphasis of public service training. Entrepreneurs and managers of these enterprises must be offered incentives to boost their efficiency and take risks. In this case, devising appropriate incentives become imperative. A variety of possible measures- some positive, such as bonuses for managers, and some negative, such as budget and operational controls- can be used in the public sector; even so, the problem oftenremaining tractable.

❖ If an economy is made up of a large number of entrepreneurial units, risks can be spread among them. Even though some enterprises may fail, others will be successful and the economy as a whole can grow rapidly. When inefficient units do not have access to subsidies or to other public assistance, they must improve their competitive position or disappear

- ❖ Such failures need not be excessively costly because the economy's expansion creates job and income earning opportunity for entrepreneurs and employees of falling enterprises. Some of these may be in "informal" or small-scale activities and may not be counted in the formal employment sector. Nonetheless, they provide gainful employment.
- ❖ Unfortunately, experience shows that private enterprises have to compete to survive. In most countries public enterprises are protected from failure by implicit or explicit subsidies. Public enterprises are often expected to create employment opportunities for political reasons. But allowing public enterprises to operate inefficiently will mean very heavy costs in the long run. It affects not only a country's ability to produce efficiently but also its capacity to save and invest for future production.

ENTREPRENEURIAL URGE

- ❖ Entrepreneurship is the creative 'elan' of industrial development, which for historical reasons is feeble in backward areas. It is not feasible to expect entrepreneurial urge among people who live in poverty, illiteracy and ignorance. Conceptualization of entrepreneurship in terms of self-confidence, optimism, achievement motivation and other such attributes constituting the variable, residual non-marketed services receiving the residual profit income as payment (Kilby) does not have any meaning in backward areas; because these qualities themselves need a minimum of economic well-being below which the hard preoccupations with the basic needs of life leave no room for critical reflection and initiative necessary for any enterprise. Entrepreneurial qualities are born of an environment through individuals' creative response opotential opportunities.
- ❖ An entrepreneur needs a clear perception of economic opportunities and the investment capacity to pursue these opportunities. In backward areas where the basic struggle for existence is so tough, per capita income so low and where illiteracy or low level of education prevents access to business information or ideas, there is neither perception of opportunities nor the capacity to exploit these opportunities. Not only the environment is timid without brisk activities or aggressive ideas but also men are too deprived to have an urge to know and grow. When we think of the capacity to participate in the development process, into the cosmetic growth of the soil by outsiders' investment and outsiders' profit. No effort will be successful to convert such people into entrepreneurs unless we realize the basic symbiotic nature of entrepreneurship so inextricably integrated with their total life-situation and environment. Therefore, in developing an environment and changing the life-situation, we take the first step to develop entrepreneurship.

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UNIT VII

1) An individual who starts, creates and manages a new business can be called
   a) A leader
   b) A manager
   c) A professional
   d) An entrepreneur
2) Trademarks relate to .
   a) Practice and knowledge acquired through experience
   b) The protection of proprietary information of commercial value
   c) The right to reproduce ones own original work
   d) rand identity
3) Which could provide an individual with the motivation to start a new business venture?
   a) The financial rewards.
   b) A desire to be independent.
   c) Risk taking
   d) All the above.
4) Which of the following factors should not be included in PESTLE analysis?
   a) Government re-cycling policy.
   b) Proposed reduction in interest rates.
   c) Competitor activity.
   d) Demographic change
5) Which industrial sector promotes small-scale businesses and Entrepreneurship, and has lower barriers to market entry?
   a) Service.
   b) Manufacturing.
   c) Distribution.
   d) Agriculture.
6) Why are small businesses important to a country's economy?
   a) They give an outlet for entrepreneurs.
   b) They can provide specialist support to larger companies.
   c) They can be innovators of new products.
   d) All the above.
7) A business arrangement where one party allows another party to use a business name and sell its products or services is known as .
   a) A cooperative.
   b) A franchise.
   c) An owner-manager business.
   d) A limited company.

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UNIT-VIII

- The word entrepreneur has been taken from the French language originally meant to designate an organizer of musical (or) other entertainments. Entrepreneur According to Noah Webster, Entrepreneur is "one who assumes the risk and managing a Business"
- According to Joseph. A**. Schumpetar**, Entrepreneur is one who innovates raises money, assembles inputs, chooses managers and sets the organization going with his ability to identity them and opportunities which other are not able to fulfil such economic opportunities.

ENTREPRENEURIAL DEVELOPMENT PROGRAMME

EDP- INTRODUCTION :

- Entrepreneur is the person with a vision, with the drive and with the ability to bear risk. He is the 'spark plug' who transforms the economic scene. Hence, it is said that an economy is an effect for which entrepreneurship is the cause.
- Entrepreneurship development has, therefore, become a matter of great concern in all developed and developing countries all over the world. But, the real problem is how to develop entrepreneurship.
- Entrepreneurship development programmes (EDP) are deemed to offer the solution to this problem.
- The process of entrepreneurial development incorporates equipping a prospective entrepreneur with institutional support system and back up used for enterprise development and sharpening his entrepreneurial competencies.

EDP- MEANING:

- Entrepreneurship Development Programme (EDP) means "a Programme designed to help a person in strengthening and fulfilling his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. Towards this end, it is necessary to promote his understanding of motives, motivation pattern, their impact on behavior and entrepreneurial value.
- Thus, EDP is designed to identify persons with entrepreneurial abilities and to train them to set up new enterprise. In a simple way, it deals with careful identification and potential entrepreneurs need based entrepreneurial training and pre and post project implementation.

OBJECTIVES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

- To develop and strengthen their entrepreneurial quality.
- To analyze environmental set up relation to SSI and other business.
- To create awareness about business opportunities.
- To select product.
- To formulate project for the product.
- To understand projects and procedure involved in setting up of a small enterprise.
- To acquire the necessary managerial skill, knowledge, post training assistance.
- To enable to take decision.
- To identify and train potential entrepreneur.
- To create awareness of various law procedure relating to entrepreneurship.
- To argument the numbers of entrepreneurs for increasing the space of industrialization.
- Possibility to create dispersal of ownership.
- TO industrialize rural and back word areas.
- To generate self-employment for the educated unemployed youth.

EDP CONSISTS OF THREE BROAD PHASES.

1. Pre-training Preparation:

- It comprises policy issues related to the objectives of the programme; laying down criteria of success; recruitment, selection and training of trainers; development of training material for different levels of applicant population of entrepreneurs and publicity strategy.

2. Entrepreneurial Training:

- It centres on the entrepreneurs themselves. Allied issues to be tackled-location, methodology, use of training material, trainer-trainee relations and coordination among faculty form different development institutions.

3. Post-Training Care:

- This consists of making available necessary information, counseling and support to the entrepreneur in his enterprise-building efforts.
- It is notable that every EDP has to pass through these phases and each phase involves a considerable amount of work some times within the organization, but most of the time in cooperation with other development institutions. Any deficiency in any of these phases can affect the outcome of the program me.
- A centrally sponsored scheme, **Training of Rural Youth for Self-Employment' - (TRYSEM)** was launched by the Government of India by the Department of Rural Development on 15th August 1979. To provide training facilities and create self-employment among rural unemployed youths.
- The scheme - TRYSEM aimed at providing basic technical and entrepreneurial skill to the rural poor in the age group of 18-35 years enable them take up income generating activities (self/wage employment). TRYSEM is a facilitating component of the Integrated Rural Development Programme (IRDP)
- Objective of the scheme is to provide some financial assistance to needy Indian women in distress who have been deserted by their overseas Indian / foreigner husbands for obtaining counselling and legal services
- The scheme - TRYSEM aimed at providing basic technical and entrepreneurial skill to the rural poor in the age group of 18-35 years enable them take up income generating activities (self/wage employment). It had been laid down that the coverage of youth from SC/ST communities should be at least 50% of rural youth trained. Out of the total beneficiaries, at least 50% should be women. The scheme had been merged into Swarnajayanti Gram SwarojgarYojana (SGSY) with IRDP, DWCRA etc. from April, 1999.
- Poverty alleviation and improving the living standards of people have been the central theme of Economic **Poverty Alleviation Programmes (PAP)** have been launched.
- *They are as follows.*
    - **IRDP:** Integrated Rural Development Propgramme – launched in 1979
    - **TRYSEM:** Training of Rural Youth for Self Employment – August 15, 1979
    - **JRY:** Jawahar Rozgar Yojana – April 1989
    - **NRY:** Nehru Rozgar Yojana – Urban counterpart of JRY – It has been in operation since October 11, 1989.
    - **SUME:** The Scheme of Urban – Micro Enterprises
    - **SUWE:** The Scheme of Urban – Wage Employment
    - **EAS:** Employment Assurance Scheme Operational from October 2nd 1993

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UNIT VIII

1) ------ An entrepreneur is someone who assumes the major risks of a new business by committing which of the following?
   a) Equity.
   b) Time.
   c) Career.
   d) All of the above.
2) An informal group of innovative employees who are permitted to digress temporarily from their regular tasks to develop new ideas are referred to as:
   a) Underground.
   b) Skunkworks.
   c) Yahoos.
   d) Intrapreneurs.
3) It is estimated that approximately _____ percent of small businesses fail within the first five years.
   a) 10.
   b) 25.
   c) 50.
   d) 75
4) Which of the following is not a personal characteristic often found in an entrepreneur?
   a) Self-confident.
   b) Independent-minded.
   c) Perceptive.
   d) Follower.
5) The period of business when an entrepreneur must position the venture in a market and make necessary adjustments to assure survival is called the:
   a) Pre-startup stage.
   b) Startup stage.
   c) Early growth stage.
   d) Later growth stage.
6) Which of the following is usually included in a business plan?
   a) Detailed description of the product or service.
   b) Marketing and promotional plans.
   c) Management and staffing.
   d) All of the above.
7) Which of the following is a reason why a person might prefer to purchase a franchise rather than open a completely new business?
   a) Higher failure rate.
   b) Increased independence.
   c) Ability to benefit from previous experience.
   d) Reduced royalty fees.
8) According to the textbook, which of the following management functions is the least well done?
   a) Planning.
   b) Organizing.
   c) Leading.
   d) Controlling.

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UNIT-9

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UNIT – IX: STATISTICS AND ITS IMPORTANCE

Introduction:

- In the modern world of computers and information, technology, the importance of statistics is very well recognized by all the disciplines. Statistics has originated as a science of statehood and found applications slowly and steadily in agriculture, economics, commerce, biology, medicine, industry, planning, education and so on. As on date there is no other human walk of life, where statistics can't be applied.

What is the use of statistics

- The **Purpose of Statistics**: **Statistics** teaches people to **use** a limited sample to make intelligent and accurate conclusions about a greater population. The **use** of tables, graphs, and charts play a vital role in presenting the data being used to draw these conclusions

What statistical data means?

- A collection of numerical **data**. 2. the mathematical science dealing with the collection, analysis, and interpretation of numerical **data** using the theory of probability, especially with methods for drawing inferences about characteristics of a population from examination of a random sample.

What does statistics mean in writing?

- Noun. (used with a singular verb) the science that deals with the collection, classification, analysis, and interpretation of numerical facts or data, and that, by use of mathematical theories of probability, imposes order and regularity on aggregates of more or less disparate elements.

Why do we study statistics?

- To summarize, the five **reasons to study statistics** are to be able to effectively conduct research, to be able to read and evaluate journal articles, to further develop critical thinking and analytic skills, to act a an informed consumer, and to know when you need to hire outside **statistical** help.

What are the two meanings of statistics?

- ❖ Briefly describe the **two meanings** of the word **statistics**. The first **meaning** of the word **statistics** is based on the numerical **facts**. ... **Both** of these are numerical **facts** that describe a **statistic**. The second **meaning** of the word **statistics** is based on the discipline of study.

Why do we study statistics?

- ❖ To summarize, the five **reasons to study statistics** are to be able to effectively conduct research, to be able to read and evaluate journal articles, to further develop critical thinking and analytic skills, to act a an informed consumer, and to know when you need to hire outside **statistical** help.

Why is it important to know statistics?

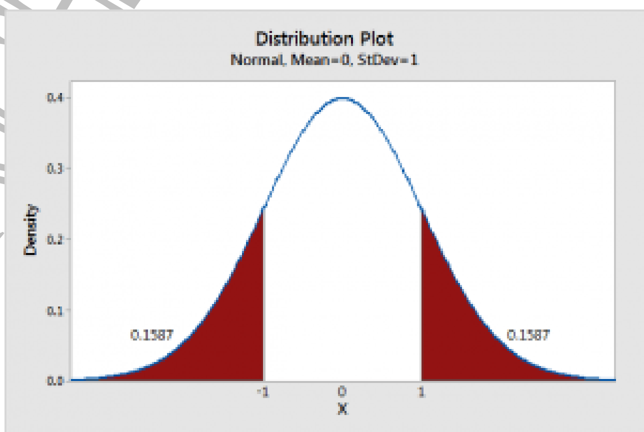
- ❖ **Statistical** knowledge helps you use the proper methods to collect the data, employ the correct analyses, and effectively present the results. **Statistics** is a crucial process behind how we make discoveries in science, make decisions based on data, and make predictions.

Is Statistics science or math?

- ❖ **Statistics** is a **mathematical science** pertaining to the collection, analysis, interpretation or explanation, and presentation of data. It is applicable to a wide variety of academic disciplines, from the physical and social **sciences** to the humanities. **Statistics** are also used for making informed decisions.

Importances of statistics:

- ❖ The field of statistics is the science of learning from data. Statistical knowledge helps you use the proper methods to collect the data, employ the correct analyses, and effectively present the results. Statistics is a crucial process behind how we make discoveries in science, make decisions based on data, and make predictions. Statistics allows you to understand a subject much more deeply.



- In this post, I cover two main reasons why studying the field of statistics is crucial in modern society. First, statisticians are guides for learning from data and navigating common problems that can lead you to incorrect conclusions. Second, given the growing importance of decisions and opinions based on data, it's crucial that you can critically assess the quality of analyses that others present to you.
- Personally, I think statistics is an exciting field about the thrill of discovery, learning, and challenging your assumptions. Statistics facilitates the creation of new knowledge. Bit by bit, we push back the frontier of what is known. To learn more about my passion for statistics as an experienced statistician, read more about me.

Statistics Uses Numerical Evidence to Draw Valid Conclusions

- Statistics are not just numbers and facts. You know, things like 4 out of 5 dentists prefer a specific toothpaste. Instead, it's an array of knowledge and procedures that allow you to learn from data reliably. Statistics allow you to evaluate claims based on quantitative evidence and help you differentiate between reasonable and dubious conclusions. That aspect is particularly vital these days because data are so plentiful along with interpretations presented by people with unknown motivations.
- Statisticians offer critical guidance in producing trustworthy analyses and predictions. Along the way, statisticians can help investigators avoid a wide variety of analytical traps.
- When analysts use statistical procedures correctly, they tend to produce accurate results. In fact, statistical analyses account for uncertainty and error in the results. Statisticians ensure that all aspects of a study follow the appropriate methods to produce trustworthy results. These methods include:
    - Producing reliable data.
    - Analyzing the data appropriately.
    - Drawing reasonable conclusions.

Statisticians Know How to Avoid Common Pitfalls

- Using statistical analyses to produce findings for a study is the culmination of a long process. This process includes constructing the study design, selecting and measuring the variables, devising the sampling technique and sample size, cleaning the data, and determining the analysis methodology among numerous other issues. The overall quality of the results depends on the entire chain of events. A single weak link might produce unreliable results. The following list provides a small taste of potential problems and analytical errors that can affect a study.

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UNIT IX

1) A numerical value used as a summary measure for a sample, such as a sample mean, is known as a
   a) Population Parameter
   b) Sample Parameter
   c) Sample Statistic
   d) Population Mean
2) Statistics branches include
   a) Applied Statistics
   b) Mathematical Statistics
   c) Industry Statistics
   d) Both A and B
3) To enhance a procedure the control charts and procedures of descriptive statistics are classified into
   a) Behavioral Tools
   b) Serial Tools
   c) Industry Statistics
   d) Statistical Tools
4) Sample statistics are also represented as
   a) Lower Case Greek Letter
   b) Roman Letter
   c) Associated Roman Alphabets
   d) Upper Case Greek Letter
5) Individual respondents, focus groups, and panels of respondents are categorised as
   a) Primary Data Source
   b) Secondary Data Sources
   c) Itemised Data Sources
   d) Pointed Data Sources
6) The variables whose calculation is done according to the weight, height and length and weight are known as:
   a) Flowchart Variables
   b) Discrete Variables
   c) Continuous Variables
   d) Measuring Variables
7) A method used to examine inflation rate anticipation, unemployment rate and capacity utilisation to produce products is classified as
   a) Data Exporting Technique
   b) Data Importing Technique
   c) Forecasting Technique
   d) Data Supplying Technique
8) Graphical and numerical methods are specialized processes utilised in
   a) Education Statistics
   b) Descriptive Statistics
   c) Business Statistics
   d) Social Statistics
9) The scale applied in statistics which imparts a difference of magnitude and proportions is considered as
   a) Exponential Scale
   b) Goodness Scale
   c) Ratio Scale
   d) Satisfactory Scale

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UNIT – X: SAMPLING TECHNINQUES

Introduction

- If the required information is collected from only a few units of the population and not from all the units such a survey is known as a sample survey. The findings of the survey are generalized for the population. The generalized conclusion is not based on the enumeration of all the units of the population. Hence it may be near or far away from the fact. A suitable sampling technique ensures that a conclusion is not far away from the fact. A sample technique is universal in nature. Consciously or unconsciously, it is adopted in everyday life. Only a handful of rice is examined before buying a sack. From a bunch of grapes only one fruit is tasted.

Population

- Population or Universe refers to the aggregate of statistical information on a particular character of all the members covered by an investigation/enquiry. Population size refers to the total number of members of the population. For example, The population of books in the National Library.

Sample

- Statisticians use the word sample to describe a portion chosen form the population. A finite subset of statistical individuals defined in a population is called a sample. When the sample drawn is perfectly representative, it is identical with its parent population almost in every respect except that it is smaller than the population.

Sample Size

- The number of units in a sample is called the sample size.

Sampling Unit

- The constituents of a population which are individuals to be sampled form the population and cannot be further subdivided for the purpose of the sampling at a time are called sampling units. For example, to know the average income per family, the head of the family is a sampling unit.

Sampling Frame

- In order to cover the population decided upon, there should be some list, map or other acceptable material (called the frame) which serves as a guide to the population to be covered. The list or map must be examined to be sure that it is reasonably free from defects. The sampling frame will help us in the selection of sample. All the account numbers of the savings bank account holders in the bank are the sampling frame in the analysis of perception of the customers regarding the servicer rendered by the bank.

Reasons for Selecting a Sample

- Taking a sample instead of conducting a census offers several advantages:
  - The sample can save money and time.
  - For given resources the sample can broaden the scope of the study.
  - Because the research process is sometimes destructive, the sample can save product.
  - If accessing the population is impossible, the sample is the only option.
  - Draw inferences about population

Objects of Sampling Theory

- To estimate population parameter on the basis of sample statistic.
- To set the limits of accuracy and degree of confidence of the estimates of the population parameter computed on the basis of sample statistic.
- To test significance about the population characteristic on the basis of sample statistic.

Types of Sampling

- There are different types of sample designs based on two factors viz., the representation basis and the element selection technique. On the representation basis, the sample may be probability sampling or it may be non –probability sampling.
- Probability sampling is based on the concept of random selection, whereas non - probability sampling is 'non-random' sampling. On element selection basis, the. Sample may be either unrestricted or restricted. When each sample element is drawn individually from the population at large, then the sample so drawn is known as 'unrestricted sample', whereas all other forms of sampling are covered under the term 'restricted sampling'.

Probability Sampling Methods are:

- ❖ Simple Random Sampling
- ❖ Stratified Random Sampling
- ❖ Systematic Random Sampling
- ❖ Cluster Random Sampling

The simple random sampling is also known as unrestricted random sampling and the other are known as restricted sampling.

Non-Random Sampling are:

- ❖ Judgment sampling
- ❖ Convenience sampling
- ❖ Quota sampling

1. Simple random sampling

- ❖ This is the simplest and most popular technique of sampling.A simple random sample is a sample selected from a population in such a way that every member of the population has an equal chance of being selected This method implies that if N is the size of the population and n units are to be drawn in the sample, then the sample should be taken in such a way that each of the NCn samples has an equal chance of being selected.

Simple random sampling gives:

1) Each element in the population an equal chance of being included in the sample and all choices are independent of each other.
2) Each possible sample combination an equal chance of being chosen. The method of simple random sampling eliminates the chance of bias or personal prejudices in the selection of units.Random samples may be selected
   a) Lottery method
   b) Table of random numbers

(a)Lottery Method

- ❖ This is the most popular and simple method of selecting a random sample from a finite population. In this method, all items of population are numbered on separate slips of paper of identical size, shape and color. These slips are folded and mixed up in a box and a blind fold selection is made. For a required sample size, the same number of slips are selected. It indicate that the selection of each item thus depend on chance.

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UNIT X

1) Which of the following is an example of time series problem?
   1. Estimating number of hotel rooms booking in next 6 months.
   2. Estimating the total sales in next 3 years of an insurance company.
   3. Estimating the number of calls for the next one week.

   a) Only 3
   b) 1 and 2
   c) 2 and 3
   d) 1,2 and 3

2) Which of the following is not an example of a time series model?
   a) Naive approach
   b) Exponential smoothing
   c) Moving Average
   d) None of the above

3) Which of the following can't be a component for a time series plot?
   a) Seasonality
   b) Trend
   c) Cyclical
   d) None of the above

4) Which of the following is relatively easier to estimate in time series modeling?
   a) Seasonality
   b) Cyclical
   c) No difference between Seasonality and Cyclical
   d) None of the above

5) Sum of weights in exponential smoothing is _____.
   a) <1
   b) 1
   c) C>1
   d) None of the above

6) The last period's forecast was 70 and demand was 60. What is the simple exponential smoothing forecast with alpha of 0.4 for the next period.
   a) 63.8
   b) 65
   c) 62
   d) 66

7) What does auto covariance measure?
   a) Linear dependence between multiple points on the different series observed at different times
   b) Quadratic dependence between two points on the same series observed at different times
   c) Linear dependence between two points on different series observed at same time
   d) Linear dependence between two points on the same series observed at different times

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UNIT-11

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UNIT- XI

Accounting Concepts and conventions-Amalgamation, Absorption and Reconstruction of companies

INTRODUCTION:

- ❖ The main aim of a business is to earn profit. For earning profit, the businessmen will either purchase the goods in one market at certain price or sell it in another market at higher price or will convert the raw materials into finished products sands eel it to the different customers at a price which will give him some percentage of profit on cost of production.
- ❖ Account came into practice as an aid to human memory by recording daily transactions of business. Modern accounting is often called the language of a business.
- ❖ Though according is as old as money itself, the modern system of accounting owes its origin to locapaciopi, an Italian who first published his book on double entry system of accounting in 1494.

MEANING OF ACCOUNTING:

- ❖ Accounting is concerned with the use to which theses records are put, their analysis and interpretation. Such accounting records are required to be maintained to measure the income of the business and communicate the information so that it may be used by managers, owners and other parties.

DEFINE ACCOUNTING.

- ❖ According to AICPA, " accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money or money's worth, transactions and events which are, in part at least , of a financial character and interpreting the results them of".
- ❖ American Accounting Association defines," accounting as "the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information".

MEANING OF BOOK KEEPING.

- ❖ Book keeping is the art and science of recording , classifying and summarizing business transactions in money or money's worth accurately and systematically so that the businessman may be able to know his profit or loss during a specified period and also his financial position on a particular data.
- ❖ Book keeping is thus the recording business transactions in a systematic manner. In the words of carter," Book keeping is the science and art of correctly recording in books of account all those transactions that result in the transfer of money or money's worth".

DIFFERENCE BETWEEN ACCOUNTING AND BOOK KEEPING.

S. NO	POINT OF DIFFERENCE	BOOK KEEPING	ACCOUNTING
1	Object	The object of book keeping is to prepare original books of accounts. It is restricted to journal and ledge accounts.	The object of accounting is to record analyze and interpret the business transactions.
2	Scope	It has limited scope and is concerned with the recording of business transactions.	It has wider scope as compare to book keeping.
3	Level of work	It is restricted to clerical work of recording transactions.	It is concerned with low level, medium level and top level management. Low level clerks prepare the accounts, medium level report it and top level interpret it.
4	Mutual dependence	Book keeping for getting the accounting records and for making them meaningful.	Accounting has to depend on book keeping for getting the accounting records and for making them meaningful.
5	Result of the business	It does not show the net result and financial position of a business. The work of book keeping extends only up to the preparation of trail balance.	Accounting shows the net result of the business activities. It tells us the profit earned or the loss incurred and the position of assets and liabilities.

OBJECTIVES OF ACCOUNTING.

The most important objective of accounting is o provide information t the interested users to enable them to make business decisions.

1. Maintenance of record of business:

The main purpose of accounting is to identify business transactions of financial nature and enter them into appropriate books of accounts. Business transactions are classified as assts, liabilities, revenue and expenses and accordingly passed through books.

2.Calculation of profit or loss:

Earning profit is the main purpose for which a business is carried on. This information is available from the statement prepared for ascertaining it, called the profit and loss account.

3.Depiction of financial position:

At the end of an accounting period, a position statement known as the balance sheet is prepared. The value of assets and liabilities are depicted in the balance sheet.

4.Making information available to various groups:

The result obtained from accounting records may be communicated to interested parties like owners, investors, creditors, bankers, government, employees etc. Accounting makes information available to all those interested parties.

ADVANTAGES OF ACCOUNTING.

The following are the main advantages of accounting.

Replacement of memory:

In a large business, it is very difficult for a business man to remember all the transactions. Accounting provides records which will furnish information as and when desired and thus it replaces human memory.

Evidence in court:

Properly maintained accounts are often treated as good evidence in the court to settle a dispute.

Settlement of taxation liability:

It accounts are properly maintained, it will be of great assistance to the businessman in settling the income tax and sale tax liability otherwise tax authorities may impose any amount of tax which the businessman will have to pay.

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UNIT 11

1) As per AS – 14 purchase consideration is what is payable to
   a. Shareholders
   b. Creditors
   c. Debenture holders
   d. Shareholders and Debenture holders
2) When amalgamation is in the nature of merger, the accounting method to be followed is:
   a. Equity method
   b. Purchase method
   c. Pooling of interests method
   d. Consolidated method
3) When amalgamation is in the nature of Purchase, the accounting method to be followed is:
   a. Equity method
   b. Purchase method
   c. Pooling of interests method
   d. Consolidated method
4) Amalgamation is said to be in the nature of merger if:
   a. All assets and liabilities of Transferor Company are taken over by the transferee company.
   b. Business of Transferor Company is intended to be carried on by the transferee company.
   c. Purchase consideration must be paid in equity shares by the transferee company except for fraction shares.
   d. All of the above
5) Amalgamate adjustment account is opened in the books of transferee company to incorporate:
   a. The assets of the transferor company
   b. The liabilities of the transferor company
   c. The statutory reserves of the transferor company
   d. The non – statutory reserves of the transferor company
6) Goodwill arising on amalgamation is to be
   a. Retained in the books of the transferee company
   b. Amortized to income on a systematic basis normally five years
   c. Adjusted against reserves or profit and loss account balance
   d. All of the above

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COMMERCE - UNIT-XII

Company Liquidator's Final statement- Different Methods of valuation of shares and Goodwill.

LIQUIDATION OF COMPANIES

A company is a legal person that is a company is created by law. As such it can be put to an end only through a legal process. Such legal process is known as liquidation. So winding up is the last stage in the life of the company.

Winding up

- Winding up is a legal process of putting an end to the life of the company.

Definition:

- "Winding up is a process whereby the life of the company is ended and its property administrated for the benefit of its creditors and members. An administrator, called liquidator is appointed and he takes the control of the company, collects its assets, profits and debts & finally distributes any surplus among the members in accordance with their rights."

Liquidators final statement of account Give a proforma of such an account.

- Liquidator's final statement of account takes the form of cash account where on the left hand side he records the receipts on different accounts and on the right hand side various payments. This account is prepared by all liquidators whatever may be the made of winding up of the company. After preparing the final statement, the liquidator submits it to that party who appointed him.
- Though it is prepared just like account, it is a statement, not an account because double aspects of transaction are not recorded. "To" in debit side and "By" in credit side are used in this statement. The following format can be used for preparing the statement:

Liquidator's Final Statement of Account:

Receipts	Rs	Payments	Rs.
To Cash in Hand Or Cash at Bank	xxxx	By Legal Charges	xxxx
To Assets realized		By Liquidator's Remuneration:	
Land and Buildings	xxxx	(i) __% on amount realized from assets	xxxx
Plant and Machinery	xxxx	(ii) __% on amount paid to creditors	xxxx
Furniture	xxxx	(iii) __% on amount paid to shareholders	xxxx
Stock	xxxx	By Liquidator's Expenses or Cost of Winding up	xxxx
Debtors, etc.	xxxx	By Debentureholders having a floating charge	xxxx
To Surplus amount received on securities from Secured Creditors	xxxx	By Preferential Creditors	xxxx
To Calls from Shareholders @ Rs.___ on ____ shares.	xxxx	By Other Unsecured Creditors	xxxx
		By Preference Shareholders (Refund of Capital)	xxxx
		By Equity Shareholders (Refund of Capital)	xxxx
	xxxx		xxxx

LIQUIDATOR'S REMUNERATION CALCULATED

The liquidator must make the payments in the following order:

1. Legal Charges:

- These include expenses incurred on filing the suit or the recovery of amounts due to the company or in defending the claims filed against the company.

2. Liquidator Remuneration:

❖ The liquidator normally gets the remuneration in the form of commission which is usually based as a percentage on the value of assets realized and amount paid to unsecured creditors.

(i) Commission on amount realized from assets:

- While calculating liquidator's remuneration on assets realized, cash in hand and bank balance is not included because such balance already exists and the liquidator has made no effort in this respect. However, if the list of assets realized by the liquidator includes cash in hand and bank balance also, these must be taken into account for the purpose of commission.
- The liquidator gets commission on the surplus from such assets left after making the payment of secured creditors because he makes an effort of realising the surplus of such assets from secured creditors. However, if he sells the assets himself, he gets commission on the total proceeds of such assets. If nothing is mentioned in the question, it is assumed that the secured assets have been sold by the liquidator.

(ii) Commission on amount paid to Unsecured Creditors:

- If the liquidator is to get a commission on amount paid to unsecured creditors, preferential creditors will also be included for the unsecured creditors; preferential creditors will also be included for the purpose of calculation of remuneration unless otherwise stated because they are also unsecured creditors.

Calculation of Commission: It will be calculated in two ways viz:

(a) If the amount available is sufficient to make the full payment of unsecured creditors, the commission is calculated as follows:

$$\frac{\textbf{Amount of unsecured creditors X Rate of commission}}{\textbf{100}}$$

(b) If the amount available is not sufficient to make the full payment of unsecured creditors, the commission is calculated as follows:

$$\frac{\textbf{Amount available for unsecured creditors X Rate of commission}}{\textbf{100 + Rate of commission}}$$

(iii) Commission on amount paid to shareholders:

- Sometimes the liquidator is allowed a commission on the amount distributed among shareholders. In such a case, the commission is calculated on the amount left after paying to unsecured creditors as per following formula:

$$\frac{\textbf{Amount available for shareholders X Rate of commission}}{\textbf{100 + Rate of Commission}}$$

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UNIT 12

1. A company is having 40,000 equity shares of Rs 15 paid. If the dividend per share is Re.1 and the expected rate of return is `12%, the market value of share will be --------------------

   (a) A.Rs.12.
   (b) B. Rs.8.33.
   (c) C. Rs.10.
   (d) D. Rs.12.5.

2. A business had a capital of Rs 80,000 at the end. It had earned a profit of Rs10,000 during the year. The average capital employed of the business will be

   (a) RS 85,000
   (b) RS 75,000
   (c) RS 70,000
   (d) RS 90,000

3. For Calculating the Value Of Equity Share By Intrinsic Value Method, It Is Essential To Know

   (a) Normal Rate of Return
   (b) Expected Rate of Return
   (c) Net Assets
   (d) None of these

4. For Calculating Price Earnings Ratio, It Is Essential To Know

   (a) Market Value per Share
   (b) Nominal Value Per Share
   (c) Paid-Up Value Per Share
   (d) None OF the above

5. Under the Net Assets Method, the Value of Share Depends On the Amount That Would Be Available To

   (a) Preference Creditors
   (b) Equity Share Holders
   (c) Creditors
   (d) Debenture Holders

6. For Calculating The Price Earnings Ratio, It Is Essential To Know

   (a) Market Value per Share
   (b) Nominal Value Per Share
   (c) Paid Up Value Per Share
   (d) None of the above

7. A Contributor Is a

   (a) Unsecured Creditor
   (b) Preferential Creditor
   (c) Share Holder
   (d) Debenture Holder

8. List 'A' In Statement Of Affairs Gives The List Of

   (a) Assets Specifically Pledged
   (b) Assets Not Specifically Pledged
   (c) Preferential Creditors
   (d) Unsecured Creditors

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COMMERCE - UNIT XIII

INTERNATIONAL TRADE

What is international trade?

- International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP).
- If you walk into a supermarket and can buy South American bananas, Brazilian coffee and a bottle of South African wine, you are experiencing the effects of international trade.
- International trade allows us to expand our markets for both goods and services that otherwise may not have been available to us. It is the reason why you can pick between a Japanese, German or American car. As a result of international trade, the market contains greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer.

Example of international trade:

- The Dublin Horseshoe Company is a perfect example of a company that engages in international trade. International trade is the exchange of goods and services across country borders. ... The movement of imports and exports among countries is usually regulated by international trade organizations.

How International Trade Works

- International trade is the exchange of goods and services between countries. This type of trade gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events. Political change in Asia, for example, could result in an increase in the cost of labor, thereby increasing the manufacturing costs for an American sneaker company based in Malaysia, which would then result in an increase in the price that you have to pay to buy the tennis shoes at your local mall. A decrease in the cost of labor, on the other hand, would result in you having to pay less for your new shoes.

- ❖ Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewelry, wine, stocks, currencies, and water. Services are also traded: tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments.

KEY TAKE AWAYS

- International trade is the exchange of goods and services between countries.
- Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries.
- The importance of international trade was recognized early on by political economists like Adam Smith and David Ricardo.
- Still, some argue that international trade actually can be bad for smaller nations, putting them at a greater disadvantage on the world stage.

HISTORY OF INTERNATIONAL TRADE

- International trade has a rich history starting with barter system being replaced by Mercantilism in the 16th and 17th Centuries. The 18th Century saw the shift towards liberalism.
- It was in this period that Adam Smith, the father of Economics wrote the famous book 'The Wealth of Nations' in 1776 where in he defined the importance of specialization in production and brought International trade under the said scope. David Ricardo developed the Comparative advantage principle, which stands true even today.
- All these economic thoughts and principles have influenced the international trade policies of each country. Though in the last few centuries, countries have entered into several pacts to move towards free trade where the countries do not impose tariffs in terms of import duties and allow trading of goods and services to go on freely.
- The 19th century beginning saw the move towards professionalism, which petered down by end of the century.
- Around 1913, the countries in the west say extensive move towards economic liberty where in quantitative restrictions were done away with and customs duties were reduced across countries. All currencies were freely convertible into Gold, which was the international monetary currency of exchange. Establishing business anywhere and finding employment was easy and one can say that trade was really free between countries around this period.

- The First World War changed the entire course of the world trade and countries built walls around themselves with wartime controls. Post world war, as many as five years went into dismantling of the wartime measures and getting back trade to normalcy. But then the economic recession in 1920 changed the balance of world trade again and many countries saw change of fortunes due to fluctuation of their currencies and depreciation creating economic pressures on various Governments to adopt protective mechanisms by adopting to raise customs duties and tariffs.
- The need to reduce the pressures of economic conditions and ease international trade between countries gave rise to the World Economic Conference in May 1927 organized by League of Nations where in the most important industrial countries participated and led to drawing up of Multilateral Trade Agreement. This was later followed with General Agreement of Tariffs and Trade (GATT) in 1947.
- However once again depression struck in 1930s disrupting the economies in all countries leading to rise in import duties to be able to maintain favorable balance of payments and import quotas or quantity restrictions including import prohibitions and licensing.
- Slowly the countries began to grow familiar to the fact that the old school of thoughts were no longer going to be practical and that they had to keep reviewing their international trade policies on continuous basis and this interns lead to all countries agreeing to be guided by the international organizations and trade agreements in terms of international trade.
- Today the understanding of international trade and the factors influencing global trade is much better understood. The context of global markets have been guided by the understanding and theories developed by economists based on Natural resources available with various countries which give them the comparative advantage, Economies of Scale of large scale production, technology in terms of e commerce as well as product life cycle changes in tune with advancement of technology as well as the financial market structures.
- For professionals who are occupying management or leadership positions in Organizations, understanding the background to the international trade and economic policies becomes necessary as it forms the backdrop for the business organizations to charter their course for growth.

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UNIT 13

1. The Bretton Woods system came to an end in

(a) A)1968
(b) B)1971
(c) C) 1973
(d) D)1981

2. Special drawing rights (SRSs) is currently

(a) A weighted average of the exchange rates of several industrialized countries
(b) Based on the price of gold
(c) Based on the US dollar
(d) Based on the Euro

3. According to many economists, in order to have an optimum currency area a number of ingredients must exist. Which of the following is not one of these ingredients?

(a) Labour mobility
(b) Capital mobility.
(c) Stable inflation.
(d) Wage and price flexibility

4. Headquarter of International Bank for Reconstruction and Development of World Bank Group is located in

(a) Bretton Woods
(b) Brussels
(c) New York
(d) Russia

5. International Bank for Reconstruction and Development was established in

(a) 1941
(b) 1944
(c) 1945
(d) 1949

6. Bretton Woods Conference which remarks agreement of 'IMF' and 'IBRD' wing of World Bank was held on

(a) 1to 22 October, 1944
(b) 1 to 22 July, 1944
(c) 1 to 22 May, 1946
(d) 1 to 22 March, 1946

7 Services provided by International Bank for Reconstruction and Development includes

(a) Flexible loans
(b) financial derivatives
(c) Catastrophic risk financing
(d) all of above

8. Wing of World Bank Group which provides loans to developing countries with low income is

(a) IFC
(b) MIGA
(c) IDA
(d) IBRD

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COMMERCE - UNIT- XIV

MEANING

- An export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. Exports are a crucial component of a country's economy, as the sale of such goods adds to the producing nation's gross output.

WHAT ARE THE TYPES OF EXPORT?

- The export-traders include the export companies known as trading houses, trading companies, buying offices, buying agents, purchasing agents, resident buyers, sourcing agents, export representatives, export distributors, export agents, export management companies (EMCs), and manufacturers' representatives.

TYPES OF EXPORT BUSINESSES

- Export businesses are mainly classified into export-traders, export-manufacturers and service-exporters.

Export-Traders

- The export-traders include the export companies known as trading houses, trading companies, buying offices, buying agents, purchasing agents, resident buyers, sourcing agents, export representatives, export distributors, export agents, export management companies (EMCs), and manufacturers' representatives.
- The export-trader operates on a buy-and-sell basis or a commission/fee basis, or a combination of these two. In the buy-and-sell basis, the export-trader buys from export-manufacturers and adds a markup to the export price. In the commission/fee basis, the export-trader collects a commission or fee from the export-manufacturer or the foreign importer, or from both of them without adding a markup to the price.

Export-Manufacturers

- Export-manufacturers include the manufacturers, producers, assemblers and processors of export goods. Export-manufacturers either directly export the goods or indirectly export the goods through the export-traders.

Service-Exporters

- Service-exporters include the banks, ocean shipping (steamship) companies, air cargo companies or airlines, trucking companies, rail carriers, insurance companies, freight forwarders or consolidators, consulting firms, and miscellaneous service companies. Service-exporters provide services to export-traders and export-manufacturers.

WHAT IS EXPORT PROCESS?

- Processing of an export order starts with the receipt of an export order. An export order, simply stated, means that there should be an agreement in the form of a document, between the exporter and importer before the exporter actually starts producing or procuring goods for shipment

12 Steps Involved in the Processing of an Export Order – Explained!

- In reality, an export exercise is concluded successfully only after the exporter has been able to deliver the consignment in accordance with the export contract and receive payment for the goods.
- This involves practice of prescribed procedure to be performed (Branch 2000). The fact is that one does not need only to be very well informed about his/her export company, his/her products, his/her suppliers, his/her export chain, his/her market, the world market, but one also needs to know the export rules and terms, the different cultures that one targets and the final customers' needs.
- Then comes fulfilling these needs by the most competitive way and by adding value to one's services. This is so because all sell the same products with minor changes , but what makes the difference is the method and the value added services one provides to the ultimate consumers. Simply speaking, that making an export company is an easy process, but making d successful and long lasting export company is a very difficult task:
- Therefore, it seems pertinent now to make you learn the various steps' involved in the processing of an export order.

These are listed as follows:

1. Having an Export Order:

- Processing of an export order starts with the receipt of an export order. An export order, simply stated, means that there should be an agreement in the form of a document, between the exporter and importer before the exporter actually starts producing or procuring goods for shipment. Generally an export order may take the form of proforma invoice or purchase order or letter of credit. You have already learnt these just in the preceding section.

2. Examination and Confirmation of Order:

- Having received an export order, the exporter should examine it with reference to the terms and conditions of the contract. In fact, this is the most crucial stage as all subsequent actions and reactions depend on the terms and conditions of the export order.
- The examination of an export order, therefore, includes items like product description, terms of payment, terms of shipment, inspection and insurance requirement, documents realising payment and the last date of negotiation of documents with the bank. Having being satisfied with these, the export order is confirmed by the exporter.

3. Manufacturing or Procuring Goods::

- The Reserve Bank of India (RBI), under the export credit (interest subsidy) scheme, extends pre-shipment credit to exporter to finance working capital needs for purchase of raw materials, processing them and converting them into finished goods for the purpose of exports. The exporter approaches the bank on the basis of laid down procedures for the pre-shipment credit. Having received credit, the exporter starts to manufacture / procure and pack the goods for shipment overseas.

4. Clearance from Central Excise:

- As soon as goods have been manufactured/ procured, the process for obtaining clearance from central excise duty starts. The Central Excise and Sale Act of India and the related rules provide the refund of excise duty paid. There are two alternative schemes whereby 100 per cent rebate on duty is given to export products on the submission of the proof of shipment.
- The first scheme is to make payment of the excise duty at the time of removing the export consignment from the factory and file a claim for rebate of duty after exportation of goods. The second scheme is to remove goods from factory/warehouse without payment but under an appropriate bond with the excise authorities. The exporter needs to apply on a form known as AR4 or AR4A to the Central Excise Range Superintendent for obtaining excise clearance.
- Form A is filed when goods are to be cleared after examination by the excise inspector. In all other cases, form AR4A is filed.

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UNIT 14

1. Which of the following is not a basic objective of documentation in foreign trade?
   (a) to assure that the exporter will receive the payment
   (b) to assure that the importer will receive the goods
   (c) to eliminate risk of no completion
   (d) none of the above
2. Which of the following is not an important document in foreign trade?
   (a) a check for the value of goods
   (b) a draft
   (c) bill of lading
   (d) a letter of credit
3. ______ risk is the potential exchange loss from outstanding obligations as a result of exchange-rate fluctuations.
   (a) Trade
   (b) Exchange
   (c) Finance
   (d) Transaction
4. Foreign exchange risk can be reduced by using _____.
   (a) forward contracts
   (b) futures contracts
   (c) currency options
   (d) all of the above
5. Which of the following is not a condition for drafts to be negotiable?
   (a) must be in writing, signed by the drawer
   (b) must contain a promise to pay a certain sum if goods are received
   (c) must contain an order to pay
   (d) must be payable on sight or at a specified date
6. If a draft is made to bearer, payment should be made to _____.
   (a) a bank
   (b) drawer
   (c) acceptor
   (d) anyone who presents the draft
7. If a draft is accepted by a bank, it becomes a _____.
   (a) valid draft
   (b) demand draft
   (c) usance draft
   (d) banker's acceptance
8. Forms of countertrade include the following except ___.
   (a) simple barter
   (b) clearing arrangement
   (c) switch trade
   (d) mutual agreement

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COMMERCE - UNIT-XV

INTRODUCTION AND ORIGIN:

- The word bank is derived from the German word 'Banck' which mean joint stock fund. From Italian word 'Banco' means heap of money. The word bank is derived from the French word 'Bancus' or 'Banque' which means bench. Initially the bankers transacted their business of benches in the market place and bench resembled banking counter. So bench means a chest a place where valuables are kept.
- From English word "Bank" means "as an institution accepting money as deposit or lending. This bank is the common meaning prevalent today. Thus the origin of word bank can be traced as follows:
  - Bank – German – Joint Stock
  - Banco – Italian – Heap of money
  - Bancus / Banque – French – Bench / Chest a place where valuables are kept.
  - Bank - English – an institution accepting money as deposit or lending.
- The bank of Venice, established in 1157, is supposed to be the most ancient bank. Originally, it was not a bank in the modern sense, being simply an office for the transfer of the public debt.
- The beginning of English Banking may correctly be attributed to the London Goldsmiths. They used to receive their customer's valuables and funds for safe custody and issue receipts acknowledging the same. However, the ruin of goldsmiths marks a turning point in the history of English banking which resulted in the growth of private banking, and the establishment of the 'Bank of England' in 1694.

MEANING OF BANK:

- A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

DEFINITIONS OF BANK:

- "Banking is the business of accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdraw-able by cheque, draft, and order or otherwise." Indian Banking Regulation Act, 1949.section 5 (b),
- "A bank is an organisation whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure."-R.P. Kent .

BANKING REGULATION ACT, 1949:

- The **Banking Regulation Act, 1949** came into force on March 16, 1949. It contained various aspects related to banking in India. This is regulatory act .
- Its Main purpose is to:
  - Provide safety in the interest of depositors
  - Prevent misuse of powers by managers of banks
- Initially, the law was applicable only to banking companies. But, 1965 it was amended to make it applicable to cooperative banks and to introduce other changes. Primary Agricultural Credit Society and cooperative land mortgage banks are excluded from the Act. The Act provides a framework using which commercial banking in India is supervised and regulated.

Objectives In View:

- **Comprehensive Legislation:** The Indian Companies Act, 1913 was inadequate and unsatisfactory to regulate and control the business of banking in India and therefore, there was a need to have specific legislation containing comprehensive provisions, particularly to the business of banking in India.
- **To Prevent Bank Failures:** The bank failures were common in those days due to inadequacy of capital and hence prescribing minimum capital requirements was necessary. The banking Regulation Act, 1949 was enacted to prevent such bank failures by certain minimum capital requirements.
- **To Avoid Cut Throat Competition:** The Act passed aims for avoiding cut throat and wasteful competition among the banking companies. The Act also regulates the opening of branches and changing the location of the existing branches.
- **Ensuring Balanced Development of Banks:** In order to avoid indiscriminate opening of new branches and thereby ensuring balanced development of banking companies, the system of licensing is provided in this Act.

- **Safeguarding the Interests of Depositors:** The Act protects the interest of the depositors at the public at large by incorporating certain provisions such as prescribing cash reserves and liquidity ratios. This would enable the banks to meet the demand of the depositors.
- **Strengthening the Banking System:** This Act provides for compulsory amalgamation of weaker banks with stronger ones to facilitate strengthening the banking system of our country.
- **Controlling Foreign Banks:** The Act contains certain provisions which restrict the foreign banks to invest funds of the Indian depositors outside India.
- **Providing Quick and Easy Liquidation:** The Banking Regulation Act also provides for quick and easy liquidation of the banks if they are not able to continue further or amalgamate with other banks.
- The Banking Regulation Act, 1949 as amended up-to-date is divided into five parts and contains five schedules. This Act is applicable to all banking companies including co-operative banks. The provisions of this Act provide for achieving the above mentioned objectives for which the Act was enacted.

<u>CHARACTERISTICS / FEATURES / IMPORTANCE/NATURE OF A BANK:</u>

Meaning:

❖ A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

Banker is privileged debtor" and law of limitation.

Features:

➢ **Dealing in Money:** All banks basically deals with money as they are financial institute where we links for our moneys exchanges we will either gave or deposit money in banks or will led/barrow money from banks for our requirement as per we need.

➢ **Individual / Firm / Company:** A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

➢ **Acceptance of Deposit:** A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers.

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UNIT 15

1. Which one is not the part of Migration to new capital adequacy framework based on the three pillar approach namely?
   a. Minimum capital requirement
   b. Supervisory review
   c. Market discipline
   d. Book keeping
2. Which was the first Bank to be established in 1148?
   a. SBI
   b. CBI
   c. Reserve bank
   d. Casa de sangiorgio
3. Italian money lenders were known as Banechi or Banacheri because
   a. They had a lot of money
   b. They had a money bank
   c. They kept a special type of table to transact their business
   d. All of the above
4. Which of the following are the objectives and functions of IDBI?
   a. To provide technical and administrative assistance for promotion or expansion of industry.
   b. To undertake market and investment research and surveys as also technical and economic studies in connection with development of industry.
   c. To act as lender of last resort and to finance projects that are in conformity with national priorities.
   d. All of these.
5. Banks can avail refinance against loans made to industrial units from
   a. DICGC
   b. NABARD
   c. ECGC
   d. IDBI
6. What is the most widely used tool of monetary policy?
   a. Issuing of notes
   b. Open market operations
   c. Discount rate
   d. None of these

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UNIT- XVI: CAPITAL MARKET

DEFINITION

- Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions.

DESCRIPTION

- Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities. Capital market consists of primary markets and secondary markets. Primary markets deal with trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. Another important division in the capital market is made on the basis of the nature of security traded, i.e. stock market and bond market.
- **Capital market instruments** used for **market** trade include stocks and bonds, treasury bills, foreign exchange, fixed deposits, debentures, etc. As they involve debts and **equity securities**, the **instruments** are also called **securities**, and the **market** is referred to as **securities market**.
- Capital market are financial markets which can be defined as "The market for long-term funds where securities such as common stock, and bonds are traded as well as long term funds (both equity and debt funds) A raised with and outside the country".
- Both the primary market for new issues and the secondary market for existing securities are part of the capital market. In other words, capital market deals with a operations of new issues– primary market and buying and selling of securities–secondary market.
- New issues made by companies constitute the primary market, while trading in existing securities comprise secondary market.

- In simple terms, capital market cover sale activities of financial institutions non-banking finance companies etc., to meet long term financial requirements which are normally considered as more than one-year period. The capital market the helps in mobilizing saving of the economic sectors and directing them towards productive use which aids in maintaining economic growth.

- New issues "Primary securities"– "Primary market": Mobilization of funds from cash surplus Sectors to cash deficit sectors such as the government and the corporate sector.
- Issue of "secondary securities"- "Primary market": Mobilization of funds from cash surplus sector of financialintermediariessuchasbakingasnon-bakingfinancialinstitutions.
- Secondarymarket–buying&selingofsecuritiesfacilitateliquidityinthemarket.
  - Secondary market plays pivotal role in mobilizing funds by attracting investors as this market ensure quick at nominal cost. To maintain growth ,market liquidity plays an important role.
  - Number of profitable projects requires long term financial investment. Many investors are reluctant to invest in such long gestation project as they relinquish control over their savings.
  - Secondarymarketprovidesaplatformbyensuringinvestorquickexitatnominalcostand helps in mobilization of funds.
  - Hence, existence of an efficient capital market is necessary for creating conductive
    - Climate for investment and economic growth.

Capitalmarketisthepartoffinancialsystemwhichisconcernedwithraisingcapitalfundsby dealing in shares, bonds, and other long -term investments. The market where investments instruments like bonds, equities and mortgages are trade disown as the capital market. The difference types of financial instruments that are traded in the capital market are:

- ✓ Equity instruments
- ✓ Credit market instruments
  - Insurance instruments
  - Foreign exchange instruments
- ✓ Hybrid instrument

DEFINITIONOFCAPITAL MARKET.

- "Capital market is an organized market mechanism for effective and efficient transfer of money capital or financial resources from the investing class to the entrepreneur class in the private

- Public of the economy". H.T. Parikh State, "By capital market I mean the market for a**ll** financial instruments, short-termand long terms are also commercia industrial and government papers".
- "Capital market is generally understood as the market for long-term funds. The capital market provideslong-termdebt&equityfinanceforthegovernmentandcorporatesectors".
- **According to Arun k. Data,** The capital market may be defined as "The capital marketize complex of institution investments and practices with established links between the demand for and supply of different types of capital gains".

Role of capital market:

- It is only with the help of capital market; long term funds are raised by the business community.
- It provides opportunity for the public to invest their savings in attractive securities which provide a higher return.
- Awe**l**ldevelopedcapitalmarketiscapableofatractingfundsevenfromforeigncountry.
- Capital market is the barometer of the economy by which you can study the economic conditions of the country.
- It enables the country to achieve economy growth as capital formation is promoted through the capital market.
  - ✓ Capitalmarketprovidesopportunitiesfordifferentinstitutionssuchascommercialbanks.
  - ✓ MutualFundsinvestmenttrustetctoearnagoodreturnontheinvestingfunds.

FUNCTIONS OFCAPITAL MARKET

- Mobilization of savings to finance long-term investments.
- Facilitates trading of securities.
- Minimization of transaction and information cost.
- Encourage wide range of ownership of productive assets.
- Quick valuation of financial instruments like shares and debentures.
- Facilitates transaction settlement, as per the definite time schedules.
- Offering insurance against market or price risk, through derivative trading
- Improvement in the effectiveness of capital a**ll**ocation, with the help of competitive price mechanism.
- Capital market is a measure of inherent strength of the economy.
  - It is one of the best source of finance, for the companies, and offers a spectrum of investment avenues to the investors, which in turn encourages capital creation in the economy.

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UNIT 16

1. Who controls the capital market in India?
   a) SEBI
   b) RBI
   c) IRDA
   d) NABARD
2. Which of the following reasons is not responsible for the ups and downs in the Sensex?
   a) Monetary policy
   b) Political instability
   c) None of the following
   d) Rain
3. How many companies are included in the SENSEX of India?
   a) 30
   b) 50
   c) 111
   d) 25
4. Which of the following is component of capital market
   a. Equity market
   b. Debt market
   c. Derivative market
   d. All of the above
5. Which organization regulates capital market?
   a. Government of India
   b. RBI
   c. SEBI
   d. None of the above
6. Transaction cost of trading of financial instruments in centralized market is classified as which of the following
   a. Low transaction costs
   b. Fixable costs
   c. High transaction costs
   d. Constant costs
7. In primary markets, property of shares which made it easy to sell newly issued security is considered as which of the following?
   a. Money flow
   b. Decreased liquidity
   c. Increased liquidity
   d. Large funds
8. Money market where debt and stocks are traded and maturity period is more than a year is classified as which of the following?
   a. Shorter term markets
   b. Capital markets
   c. Counter markets
   d. Long term markets
9. In capital markets, which of the following are the major suppliers of trading instruments?
   a. Liquid corporations
   b. Instrumentals corporations
   c. Manufacturing corporations
   d. Government and corporations

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UNIT- XVII: COMPANY LAW

JOINT STOCK COMPANIES

INTRODUCTION:

- With the advent of Industrial Revolution and the factory system of production, large scale production has become the order of the day. To meet the ever-expanding needs of the fast growing population, large-sized industrial organisation has become indispensable. The traditional forms of business units, namely, sole proprietary concerns and partnership firms, with their limited financial resources and managerial capability, cannot meet the challenges forced by the need for massive production and speedy distribution. Joint stock company form of organisation provides the key to this problem. This is better suited for mobilising large capital resources and ensuring highly sophisticated managerial skills for running giant-sized industrial enterprises.

COMPANY – MEANING

INTRODUCTION OF COMPANY:

- The term "compaisny" derived from the Latin word "companies" where "com" means "together" and "pan s" means "bread". It refers to an association of persons formed to attain a common purpose.
- As the capital of a company is contributed jointly by a large number ofpersons, a company is called a **JOINT STOCK COMPANY**.

MEANING AND DEFINITION OF COMPANY:

- "Company" means a voluntary association of individuals formed for the purpose of attaining a common social or economic end.
- According to sec. 2(20) of the Companies Act, 2013, "Company means a company incorporated under this Act or under any previous company Law"
- "A corporation is a legal person just as much as an individual, but with no physical existence".

\- Justice Cave.

FEATURES OF A COMPANY:

1. Separate legal entity

- A company is a person created by law. It means that it comes into existence only by complying with all formalities prescribed under the Companies Act, 2013. It enjoys a separate personality of its own, different from the members composing it. This enables a company to enter into valid contracts with others including its members and deal with the property in any way it likes. It can sue others in its own name and be sued in its own name by others including its members.

2. Perpetual Succession- Continuity of Life

- "Members may come and go but the company can go on forever" (Lord Gower). This is because company's existence does not depend upon the existence of even promoters who were instrumental in its formation. Neither change in the membership of the company nor the death ofits members has any impact on the continuity of its life.

3. Common Seal

- Though the separate personality of the company is legally recognized, it needs human agency to act. Obviously it cannot sign. Any contract entered into by a company, to be valid, must bear the official seal of the company.

4. Limited Liability

- The liability of the members of a company is generally limited to the value of shares. When once the full value of the shares is paid up, there is no more liability for the shareholders. The feature of limited liability attracts a large number of investors to subscribe to the shares of the company.

5. Easy Transferability of Shares

- In the case of public limited companies, their fully paid shares can be transferred to others without any difficulty. However, in the case of private limited companies, the right to transfer the shares is subject to certain restrictions.

MERITS OF THE COMPANY:

- The distinctive features of a joint stock company are in fact its merits. They make this form of organization very popular and better fitted for starting large-sized business ventures.

1. Stability (Perpetual Life)

- While certain contingencies such as death, insanity or insolvency of partners lead to the dissolution of partnership, they do not have any effect on the continued existence of a company. The company enjoys perpetual succession despite change in its membership or change in its Board of directors.

- Large sized enterprises which take a long time to reach profit earning stage can be started only as company form of organisations which ensures long life.

2. Limited Liability

- The liability of a member of a joint stock company is limited to the amount remain unpaid on his shares. Once the full value of the shares is paid, a shareholder will not be called upon to contribute anything further even if the assets are inadequate to meet business debts. In view of this feature of limited liability, people come forward readily to invest in the shares of joint stock companies. Thus the savings of the community which lie scattered can be easily mobilised for financing business enterprises.

3. Easy and Speedy Transferability of Shares

- The fully paid up shares of a public limited company can be easily transferred from one person to another by following the procedure prescribed by the Companies Act, 1956. This facility is another attraction for the investing public to subscribe to the shares of the company.

4. Professionalization of Management

- In a company form of organisation there is complete divorce between ownership and management. Though shareholders are the real owners, they do not have any right to manage itsaffairs. Management of a company is entrusted to a Board of Directors elected by the shareholders from among themselves. The Board can secure the services of experts in variousfields of production and management.

5. Economies of large scale

- In view of the suitability of the company form of organisation for undertaking large sized industries, it can reap all the advantages of economies of large scale operation. Further there is scope for tremendous growth through expansion of its activities as rising of capital is not a problem for sound companies.

6. Better credit

- A company enjoys greater public confidence and reputation in the capital market as its functioning is subject to many legal restrictions with a view to protecting the interest of all the shareholders. In view of these merits joint stock form of organisation is very popular and is preferred to other forms especially for setting up large sized industrial undertakings.

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UNIT 17

1. What are the limits of number of members in a Private Company?

A) Fifty B) Seven

C) Twenty D) Two hundred

2. If XYZ is the holding company of P&R Ld.) then, which of the following statement is not true in this regard.

A) XYZ Ld.) controls the composition of Board of P&R

B) XYZ Ltd.) Hold679s more than 50% of the nominal value of the equity shares

C) Both A) & B)

D) None of the above

3. Which of the following is not a stage of the development of company?

A) Promotion B) Production

C) Incorporation D) Commencement of Business

4. Which of the following company/companies are registered by the Companies Act, 2013?

A) Government Company B) Private Company

C) Public Company D) All of the above

5. A public company must have at least———– directors whereas a private company must have at least ————–directors.

A) 3; 2 B) 2; 3

C) 2; 5 D) 8; 10

6. A subsidiary of a government company is also treated as a

A) Government Company B) Public Company

C) Private Company D) All of the above

7. The_____________ of a government company is appointed or reappointed by the Comptroller and Auditor General of India.

A) Auditor B) Company Secretary

C) Both A) and B) D) None of the above

8. Which of the following company is incorporated in a country outside India?

A) Private Company B) Foreign Companies

C) Government Company D) None of the above

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COMMERCE

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UNIT-18

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COMMERCE: UNIT- XVIII

INTRODUCTION OF AUDIT

- The term 'audit' is derived from the 'Latin' word 'audire' this means to 'hear'. The olden audit was only a cash book audit. But, the scope of modern audit is wider.

Meaning:

- Auditing is the intelligent and critical test of accuracy, adequacy and dependability of accounting data and accounting statements.
- The purpose is to satisfy that the balance sheet shows a true and fair view of the state of affairs of the business.
- Auditing is concerned with verification of accounting and financial records with a view to determining their accuracy and reliability.

Definition:

- "An audit is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate". –L.R.Dicksee

SCOPE OF AUDIT

- The scope of an audit is the determination of the range of the activities and the period of records that are to be subjected to an audit examination

.

Scope of an audit are;

1. Legal Requirements.
2. Entity Aspects.
3. Reliable Information.
4. Proper Communication.
5. Evaluation.
6. Test.
7. Comparison.
8. Judgments.

1. Legal Requirements

- The auditor can determine the scope of an audit of financial statements following the requirements of legislation, regulations or relevant professional bodies.
- The state can frame rules for determining the scope of audit work. In the same way, professional bodies can make rules to conduct the audit.

2. Entity Aspects

- The audit should be organized to cover all aspects of the entity as far as they are relevant to the financial statements being audited.
- A business entity has many areas of working. A small entity may have few functions while a large concern has many functions. The auditor has to go through all the functions of the business.
- The audit report should cover all functions so that the reader may know about all the workings of a concern.

3. Reliable Information

- The auditor should obtain reasonable assurance as to whether the information contained in the underlying accounting records and other source data is reliable and sufficient as the basis for the preparation of the financial statements.
- The auditor can use various techniques to test the validity of data. All auditors while doing the audit work usually apply the compliance test and substance test. The auditor can show such information in the report.

4. Proper Communication

- The auditor should decide whether the relevant information is properly communicated in the financial statements.
- Accounting is an information system so facts and figures must be so presented that the reader can get information about the business entity. The auditor can mention this fact in his report.

- The principles of accounting can be applied to decide about the disclosure of financial information in the statements.

5. Evaluation

- The auditor assesses the reliability and sufficiency of the information contained in the underlying accounting records and other source data by making a study and evaluation of accounting systems and internal controls to determine the nature, extent, and timing of other auditing procedures.

6. Test

- The auditing assesses the reliability and sufficiency of the information contained in the underlying accounting records and other source data by carrying out other tests, inquiries and other verification procedures of accounting transactions and account balances as he considers appropriate in the particular circumstances.
- There are compliance tests and substantive tests to examine the data. The vouching, verification and valuation technique is also used.

7. Comparison

- The auditor determines whether the relevant information is properly communicated by comparing the financial statements with the underlying accounting records and other source data to see whether they properly summarized the transactions and events recorded therein.
- The auditor can compare the accounting records with financial statements to check that the same has been processed for preparing the final accounts of a business concern.

8. Judgments

- The auditor determines whether the relevant information is properly communicated by considering the judgment that management has made in preparing the financial statements, accordingly.
- The auditor assesses the selection and consistent application of accounting policies, how the information has been classified and the adequacy of disclosure.

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UNIT 18

1. The fundamental objective of the audit of a company is to:

(A). Protect the interests of the minority shareholders

(B). Detect and prevent errors and fraud

(C). Assess the effectiveness of the company's performance

(D). Attest to the credibility of the company's accounts

2. The concept of stewardship means that a company's directors

(A). Are responsible for ensuring that the company complies with the law

(B). Are responsible for ensuring that the company pays its tax by the due date

(C). Safeguard the company's assets and manage them on behalf of shareholders

(D). Report suspected fraud and money laundering to the authorities

3. Why do auditors concentrate their efforts on material items in accounts?

(A). Because they are easier to audit

(B). Because it reduces the audit time

(C). Because the risk to the accounts of their being incorrectly stated is greater

(D). Because the directors have asked for it

4. Which of the following is NOT the responsibility of a company's directors?

(A). Reporting to the shareholders on the accuracy of the accounts

(B). Establishment of internal controls

(C). Keeping proper accounting records

(D). Supplying information and explanations to the auditor

5. International auditing standards are issued by the:

(A). International Accounting Standards Board

(B). Financial Accounting Standards Board

(C). International Audit and Assurance Standards Board

(D). Auditing Practices Board

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UNIT-19

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COMMERCE – UNIT - XIX

Which is an example of a direct tax?

- **Direct tax**. A government levy on the **income**, property, or wealth of people or companies. A **direct tax** is borne entirely by the entity that pays it, and cannot be passed on to another entity. **Examples** include corporation **tax**, **income tax**, and social security contributions.

What are direct and indirect taxes give examples?

- The basic difference between a Direct tax and an indirect tax is: For example, Income tax is a form of direct tax. The person who bears Income tax and deposits the tax with the government is the same person i.e. the person who earns income. On the other hand, VAT, Excise duty etc are examples of Indirect taxes.

What is direct tax and its types?

- Broadly, there are two types of taxes that the Indian government levies on its citizens – direct tax and indirect tax. Definition or Meaning of Direct Tax: Direct taxes are those which are paid directly to the government by the taxpayer.

Taxes generally fall into the following broad categories:

- Income tax.
- Payroll tax.
- Property tax.
- Consumption tax.
- Tariff (taxes on international trade)
- Capitation, a fixed tax charged per person.
- Fees and tolls.

Here are five types of taxes you may be subject to at some point, along with tips on how to minimize their impact.

- Income Taxes. Most Americans who receive income in a given year must file a tax return.
- Excise Taxes.
- Sales Tax.
- Property Taxes.
- Estate Taxes.

What is direct tax in simple words?

- A direct tax is paid directly by an individual or organization to the imposing entity. A taxpayer, for example, pays direct taxes to the government for different purposes, including real property tax, personal property tax, income tax or taxes on assets.

What is an example of indirect taxes?

- Indirect taxes, on the other, do not look at the consumer's ability to pay but is the same for everyone who buys the goods or services. Examples of indirect taxes are excise tax, VAT, and service tax. Examples of direct taxes are income tax, personal property tax, real property tax, and corporate tax.

Which is not a indirect tax?

- Some examples of Direct Taxes are Income Tax, Surcharge, Gift Tax etc. ... Indirect Taxes are basically the taxes which are not directly levied on the Income of an Individual but is indirectly levied on the Expense incurred by the Individual.

What is the difference between direct tax and indirect?

- The direct tax is levied on person's income and wealth whereas the indirect tax is levied on a person who consumes the goods and services. The main difference between the direct and indirect tax is that the burden of direct tax cannot be shifted whereas the burden of indirect tax can be shifted.

What is tax and types of taxes?

- There are two types of taxes namely, direct taxes and indirect taxes. The implementation of both the taxes differs. You pay some of them directly, like the cringed income tax, corporate tax, and wealth tax etc while you pay some of the taxes indirectly, like sales tax, service tax, and value added tax etc.

What is direct tax code?

- The Direct Taxes Code (DTC) is an attempt by the Government of India (GOI) to simplify the direct tax laws in India. ... The DTC, when implemented will replace the Income-tax Act, 1961 (ITA), and other direct tax legislations like the Wealth Tax Act, 1957.

Which are the indirect taxes?

- Indirect tax. An indirect tax (such as sales tax, per unit tax, value added tax (VAT), or goods and services tax (GST), excise, tariff) is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer).

What are 3 types of taxes?

- The three types of taxes are the proportional tax, the progressive tax, and the regressive tax. A proportional tax imposes the same percentage of taxation on everyone, regardless of income. If the percentage tax rate is constant, the average tax rate is constant, regardless of income.

What does tax cut mean?

- A tax cut is a reduction in the rate of tax charged by a government. The immediate effects of a tax cut are a decrease in the real income of the government and an increase in the real income of those whose tax rates have been lowered.

Which type of tax is GST?

- GST stands for Goods and Services Tax, which is a single indirect tax in India which has been recently introduced to subsume all other taxes like Services Tax, VAT, Sales tax, Luxury tax, Entertainment tax, Excise Law etc.

What is the nature of direct tax?

- General meaning. In general, a direct tax is one imposed upon an individual person (juristic or natural) or property (i.e. real and personal property, livestock, crops, wages, etc.) as distinct from a tax imposed upon a transaction.

What are the direct taxes in India?

- The Government of India levies two types of taxes on the citizens of India – Direct Tax and Indirect Tax. Indirect taxes are usually transferred to another person after being initially levied as a direct tax. Common examples of an indirect tax include Goods and Services Tax (GST) and VAT.

What is direct tax?

- A direct tax is a tax that is paid by an individual or an organization to the imposing entity, or to be precise, Direct Tax is the one which is paid to the Government by taxpayers. These taxpayers include people and organization both. Also, it is directly imposed by the Government and cannot be transferred for payment to some other entity.
- With Direct Taxes, especially in a tax bracket system, it can become a disincentive to work hard and earn more money, as more money you earn, the more tax you pay.

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UNIT 19

1. Income tax is collected on all types of income except .

a) Agricultural Income
b) Industrial Income
c) Capital Gain
d) Household Property

2. The Income Tax Act came into force from .

a) 1st March 1971
b) 1st April 1971
c) 1st March 1961
d) 1st April 1961

3. The Income Tax Act came into force all over India except .

a) Andaman & Nicobar
b) Maldives
c) Jammu & Kashmir
d) None of the above

4. As per Income Tax Act, 1961, income tax is charged on the income of at a rates which are prescribed by the Finance Act of relevant assessment year.

a) Current year
b) One year before previous year
c) Previous year
d) None of the above

5. The tax payer liability is determined with reference to his or her .

a) Financial Status
b) Residential Status
c) All of the above
d) None of the above

6. As per the definition of Income, the income includes the following .

a) Profits and gains
b) Dividend declared
c) Voluntary contribution received by a trust created
d) All of the above

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INCOME TAX

UNIT-20

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COMMERCE (UNIT XX)

INCOME TAX AUTHORITIES

What do you mean by income tax authorities?

- **Income Tax** refers to the **tax you** pay directly to the government depending on your **income** or profit (for companies/local **authorities**). The money collected by this direct **tax** route is used by the Government for infrastructural developments and, also, to pay the employees of central and state government bodies.

Income Tax Authorities and their Powers

- The Government of India has constituted a number of **authorities** to execute the **Income Tax** Act and to control the **Income Tax** Department efficiently. The Central Board of Direct **Taxes** is the supreme body in the direct **tax** set-up.

What are the major powers of income tax authorities?

- Appointment of income tax authorities:
- The central board of direct taxes and it's powers:
- Powers of other income tax authorities:
- Director General/ Director:
- Joint Commissioners:
- Inspectors of Income-Tax:
- The scope of exercise of the powers given to the income-tax authorities:
- Jurisdiction of income-tax authorities:

Discovery, Production of evidence etc. (Section 131)

- This section gives certain powers to Assessing Officer, Deputy Commissioner (Appeals), Joint Commissioner, Commissioner (Appeals), the Principal Chief Commissioner or Chief Commissioner and the Dispute Resolution Panel referred to in section 144C.

- They are conferred powers vested in a Civil Court under the Code of Civil Procedure, 1908 while dealing with the following matters
  - Discovery and inspection
  - Enforcing the attendance of any person, including any officer of a banking company and examining him on oath
  - Compelling the production of books of account and documents, and
  - Issuing commissions
- Although these powers are exercised by a Court, the authorities act in a quasi-judicial capacity and ought to conform to the principles of judicial procedure. This section has given powers to AO to use his discretion to use these power if he suspects that any income is either concealed or likely to be concealed. These powers can be exercised even if there are no pending proceeding with him or with any income tax authority.

Some Important Points –

- Such Authorities not below the rank of Assistant Commissioner of income-tax, as may be notified by the Board have powers to inquire or investigate in respect of any person or class of persons relating to an agreement for the exchange of information under section 90 and 90A. This allows such authorities to collect information about any person even outside India. This is possible even if there are pending cases with such authority or any other Income-tax Authorities.
- This section also gives unrestricted powers to income-tax authorities (except for Assessing Officer and Assistant Director or Deputy Director) to impound or retain the books of account or other documents produced before it in any proceeding under this Act. However, AO or Assistant Director or Deputy Director don't enjoy such unrestricted power. They are subject to two restrictions – (i) he must record his reasons for impounding books of account or other documents; and (ii) if he desires to retain in his custody any such books or documents for a period exceeding 15 days (excluding holidays), he must obtain the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or Commissioner or Principal Commissioner or Principal Director or Director, as the case may be, for the purpose.

Search and Seizure (Section 132)

- This section provides income-tax authorities with wide powers related to conducting searches and seizures. In short, provisions of Criminal Procedure Code relating to searches and seizure would as far as possible be applicable to searches and seizures under this Act. Any contravention of the orders issued under this section would be punishable with imprisonment and fine under section 275A.

- This search and seizure can be authorized by authorities including Joint Commissioner or Joint Director and those above their ranking as may be empowered by the Board. However, those above Joint Director or Joint Commissioner may authorize authorities subordinate to it down to Income Tax officers and in between his rank. This section has placed high powers with Income-Tax Authorities. This allows them to enter any places including buildings, vehicles, vessels or aircraft if they have reason to suspect that books of account, documents, articles including money, jewelry, valuables etc. are being kept. They are given the power to seize them, place marks of identification on them or make a note or inventory thereof for the purpose. But, for things like bullion, jewelry or another valuable article that are kept as stock-in-trade, they are not supposed to seize them. However, they can take inventory of the same.
- This section also requires those with electronic documents or books of account to assist authorities to access it.

Some important Points

- Authorities are authorized to break keys of locks in case they are not readily available.
- Books of Accounts or such seized documents must be returned within 30 days after the completion of assessment order is passed under section 153A or 158BC. However, on recording the reasons, Commissioner or Director and above them can allow for no longer than 30 days from the day after the assessment proceedings for the relevant year are over.
- The person from whose custody such books of account or documents are seized can make copies of the same.
- This section also allows income-tax authorities to search any person present or who boards off at such place if he suspects of their involvement in concealing articles, books of account or documents.
- Commissioner or Principal Commissioner of Income-tax has the power to authorize the search of any building, place, vessel, vehicle, aircraft etc., within his territorial jurisdiction and also in cases where he has no jurisdiction if he has a reason to believe that delay in obtaining approval from those under whose jurisdiction it is, would be prejudicial to the interest of revenue.
- It is assumed that those books of account or handwritten notes found are true and can reasonably be assumed to have signed true.
- Where it is not practical due to weight or size or any other reason for the authorities to take possession of such seized articles, Authorized officer shall serve an order that owner or person who has its possession shall not remove them unless they obtain a previous permission of such authorized officer. This is also called a restraint order.

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UNIT 20

1. The income is chargeable under the head of salary under _______________ of Income Tax Act, 1961.

A) Section 15 B) Section 20

C) Section 14 D) Section 16

2. Pension is _______________ under the salary head.

A) Fully taxable B) Partially taxable

C) Not taxable D) None of the above

3. The salary of Member of Parliament is taxable under the head _______________.

A) Salary B) Income from Other Sources

C) Income from Business D) All of the above

4. The salary, remuneration or compensation received by the partners is taxable under the head _______________.

A) Income from Other Sources B) Income from Business

C) Salary D) None of the above

5. The death-cum-retirement gratuity received by the Government Employee or employee of local authority is _______________.

A) Partially exempted B) Fully exempted

C) Half taxable D) None of the above

6. Under Section 15 of Income Tax Act, the salary due in previous years and even if it is not received is _______________.

A) Taxable B) Not taxable

C) Partially taxable D) None of the above

7. The assesses can claim relief under _______________ for arrears or advance salary.

A) Section 89(1) B) Section 89(2)

C) Section 89(3) D) Section 89(4)

8. The Payment of Gratuity Act came into force in _______________.

A) 1973 B) 1980

C) 1991 D) 1972

9. If the assesses let out the building or staff quarters to the employee of business, the rent collected from such employees is assessable as income from _______________.

A) Business B) House Property

C) Other Sources D) None of the above