

COMMERCE & ACCOUNTANCY

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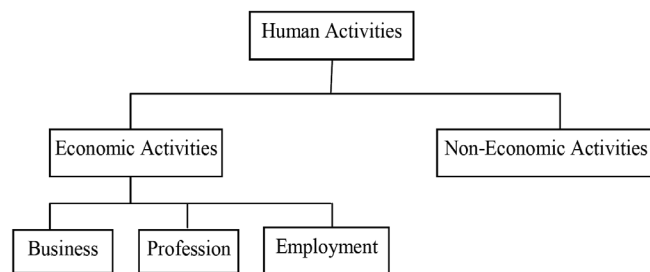
BUSINESS ORGANISATION AND MANAGEMENT

INTRODUCTION TO BUSINESS

In our day-to-day life, we use words like business, commerce, trade, industry, etc. quite often. These words have a definite meaning in 'Business Organisation'.

All of us participate in various kinds of works from the time we get up from bed in the morning till the time we go to sleep at night. We get up from bed in the morning, brush our teeth, take bath and get breakfast. Then children go to school or college to study, elders go to office or factory or shop or field to work, and housewives work at home. In the evening all of us come back home, take food and sleep. All the activities in which we, thus, participate from morning till night are called 'human activities'.

If you closely examine the human activities, you will find that some of these produce economic benefits e.g., working in a factory or in an office or at the farm. Some other activities like brushing teeth, taking breakfast, going to school, playing, cooking food for the family, etc., do not produce any direct economic benefits. Thus, we can classify the human activities into two groups: (1) non-economic activities, and (2) economic activities.



Classification of Human Activities

Non-economic Activities

These are the activities which are conducted by the human beings due to love and affection, social obligation, religious obligation, physical requirement, patriotism, etc., but not for earning money. The housewife cooking

for the family, children going to school and playing games, people going to a temple or a mosque for prayer, a social worker working for the uplift of the poor, etc., are some such examples. Persons who participate in such activities do not get any direct economic benefit. Non-economic activities are carried out with the motive of providing services to others with a non-monetary objective. An example is the working of Non-Government Organisations (NGOs). These activities are first and foremost undertaken for satisfaction of personal, social, religious, cultural and sentimental requirements of human beings. Non-Economic activities are described by the nonappearance of a financial partner or where the cost paid by the consumer is not corresponded to the expense of the product or service. A few models are:

- ♦ **Charitable activities:** Labour searching for a social benefit purely based on solidarity and without monetary advantages. For instance government funded education institutes, community work or social assistance.
- ♦ **Household activity:** like tidying, washing dishes, child care, sewing garments or home economics.
- ♦ **Independency:** Navigating under privileged and under marginalised sectors of society in their upliftment and independence in order to meet their livelihood.
- ♦ **Voluntarily skilling:** People who facilitate marginalised individuals in achieving employment by training in skills.

Economic Activities

These are activities which are undertaken by human beings for earning money or livelihood. These economic activities are concerned with production, exchange and distribution of goods and services. For example, a doctor works in the hospital, a teacher working in a school, an employee going to his office, a farmer working in the field etc. They are all doing this to earn his or her livelihood or to acquire wealth.

Differences between Economic and Non-Economic Activities

Bases of Difference	Economic Activities	Non-economic Activities
Meaning	These are the activities which are performed for financial gain. These activities generate revenue which may provide financial stability to the organisation for example working in the factory, office etc.	These are the activities which are performed to fulfill social, psychological and mental necessities. For example functioning of NGO, like help age, save the children, CRY, etc.
Propose	These activities are undertaken with a financial motive.	These activities are undertaken with social and mental needs.
Outcomes	These activities result in the generation and dissemination of goods and services.	These activities result in personal contentment.

BUSINESS LAW AND COMPANY LAW

INDIAN CONTRACT ACT, 1872

The Indian Contract Act envisages the way we enter into a contract. The basic framework of contracting is covered in the Indian Contract Act and it is an important area of law. An agreement enforceable by law is a contract. Thus, in a contract there must be: an agreement and the agreement must be enforceable by law. An agreement comes into existence whenever one or more persons promise to one or others, to do or not to do something. If an agreement is incapable of creating a duty enforceable by law, it is not a contract. This means that an agreement is a wider term than a contract. 'All contracts are agreements but all agreements are not contracts.' Agreements of moral, religious or social nature are not contracts because they are not likely to create a duty enforceable by law.

To make a contract valid, it needs to have the essential elements. There must be a 'lawful offer' and a 'lawful acceptance' of the offer, thus resulting in an agreement. There must be an intention among the parties that the agreement should be attached by legal consequences and create legal obligations. An agreement is legally enforceable only when each of the parties to it gives something and gets something. The something given or obtained is the price for the promise and is called 'consideration.' Free consent of all the parties to an agreement is another essential element of a valid contract. There are numerous types of contracts based on enforceability, mode of creation and the extent of execution.

NATURE, ELEMENTS AND FORMATION OF CONTRACT

Nature

The law of contract in India is contained in the Indian Contract Act, 1872. It extends to the whole of India except the state of Jammu and Kashmir and came into force on 1 September 1872. The Act is not exhaustive. It does not deal with all the branches of the law of contract. There are separate Acts that deal with contracts relating to negotiable instruments, transfer of property, sale of goods, partnership, insurance, etc. Again, the Act does not affect any usage or custom of trade (Sec. 1). A minor amendment in Section 28 of the Act was made by the Indian Contract (Amendment) Act, 1996.

According to Section 2 (h) of the Indian Contract Act: 'An agreement enforceable by law is a contract.' A contract, therefore, is an agreement the object of which is to create a legal obligation, i.e., a duty enforceable by law.

From the above definition, we find that a contract essentially consists of two elements: (1) An agreement, and (2) Legal obligation, i.e., a duty enforceable by law.

♦ **Agreement:** As per Section 2(e), 'Every promise and every set of promises, forming the consideration for each other, is an agreement.' Thus it is clear from this

definition that a 'promise' is an agreement. What is a 'promise'? The answer to this question is contained in Section 2(b) which defines the term: 'When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted, becomes a promise.' An agreement, therefore, comes into existence only when one party makes a proposal or offer to the other party and that other party signifies his assent (i.e., gives his acceptance) thereto. In short, an agreement is the sum total of 'offer' and 'acceptance'.

♦ **Legal obligation:** As stated above, an agreement to become a contract must give rise to a legal obligation, i.e., a duty enforceable by law. If an agreement is incapable of creating a duty enforceable by law, it is not a contract. Thus an agreement is a wider term than a contract. 'All contracts are agreements but all agreements are not contracts.' Agreements of moral, religious or social nature, such as a promise to lunch together at a friend's house or to take a walk together are not contracts because they are not likely to create a duty enforceable by law for the simple reason that the parties never intended that they should be attended by legal consequences.

In business agreements, the presumption is usually that the parties intend to create legal relations. Thus, an agreement to buy certain specific goods at an agreed price e.g., 100 bags of wheat at 430 per bag is a contract because it gives rise to a duty enforceable by law, and in case of default on the part of either party, an action for breach of contract could be enforced through a court provided other essential elements of a valid contract as laid down in Section 10 are present, namely, if the contract was made by free consent of the parties competent to contract, for a lawful consideration and with a lawful object.

Thus, it may be concluded that the act restricts the use of the word 'contract' to only those agreements that give rise to legal obligations between the parties.

Essential Elements

A contract has been defined in Section 2(h) as 'an agreement enforceable by law'. To be enforceable by law, an agreement must possess the essential elements of a valid contract as contained in Sections 10, 29 and 56. According to Section 10, all agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration, with a lawful object, are not expressly declared by the Act to be void, and, where necessary, satisfy the requirements of any law as to writing or attestation or registration. We now will discuss the essential features of a contract in brief here.

BANKING, INSURANCE, FINANCIAL MARKETS AND AUDITING

BANKING IN INDIA

Introduction

- ◆ A bank is generally understood as an institution which provides fundamental financial services such as accepting deposits and lending loans. Banking sector acts as the backbone of modern world.
- ◆ Due to the importance of the financial stability in a country, banks are highly regulated in most countries.

Historical Development

- ◆ The Riksbank of Sweden, which had sprung from a private entities, established in 1656 is the oldest central bank in the world. It acquired the sole right of note issue in 1897. But the fundamentals of the art of banking have been developed by the Bank of England (1864).
- ◆ A large number of central banks were established between 1921 and 1954 in compliance with the resolution passed by the International Finance Conference held at Brussels in 1920. The South African Reserve Bank (1921), the Central Bank of China (1928), The Reserve Bank of New Zealand (1934), The Reserve Bank of India (1935), the Central Bank of Ceylon (1950) and the Bank of Israel (1954) were established.

Dr. B.R. Ambedkar's Ph.D. thesis on 'The Problem of the Rupee - Its origin and solution' was the reference tool and provided guidelines for the Reserve Bank of India Act of 1934.

History of Indian Banks

- ◆ The first bank in India was Bank of Hindustan established in the year 1770 under the British Rule.
- ◆ During 18th century, the banking system in India was controlled and dominated by the Presidency Banks.

Three Presidency Banks were :

1. Bank of Bengal (1806)
2. Bank of Bombay (1840)
3. Bank of Madras (1843)

State Bank of India

- ◆ The Three presidency banks were merged to form "**The Imperial Bank of India**" in 1921. Its previous name was Imperial Bank of India. It was created in 1921 by amalgamating the three Presidency Banks of Bengal (1806), Bombay (1840) and Madras (1843). Imperial Bank of India was partially nationalised on July 1, 1955 and renamed as State Bank of India (SBI). In 1959, eight banks of former princely states were brought under SBI as its associates.
- ◆ On April 1, 2017 all associate banks and Bharatiya Mahila Bank were merged with SBI. SBI is the largest public sector bank in the country.

- ◆ Previously major part of SBI's share was held by RBI. To endow RBI with only the regulatory functions, and to unload its administrative work, RBI's share holding was transferred to the Government of India.

Public Sector Banks

- ◆ All nationalised banks are Public Sector Banks (PSB). The IDBI which was a development financial institution was converted into a bank. It was added to PSBs.
- ◆ India Post Payments Bank was set up on September 1, 2018 in New Delhi. The government has a 100 per cent share holding in it. Therefore, there are a total of 20 public sector commercial banks including SBI, India Post Payments Bank and IDBI.

Commercial banks

- ◆ Commercial banks are institutions that conduct business with profit motive by accepting public deposits and lending loans for various investment purposes.
- ◆ They do not provide, long-term credit, as liquidity of assets is to be maintained.

Functions of Commercial Banks :

- ◆ The functions of commercial banks are broadly classified into primary functions and secondary functions.

Primary Functions

1. Accepting Deposits

It implies that commercial banks are mainly dependent on public deposits. There are two types of deposits :

- ◆ **Demand Deposits** : It refers to deposits that can be withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.
- ◆ **Time Deposits** : It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits. These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

2. Advancing Loans

It refers to granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

Secondary Functions

The secondary functions can be classified under three heads, namely, agency functions, general utility functions and other functions.

FINANCIAL ACCOUNTING

ACCOUNTING STANDARDS

INTRODUCTION TO ACCOUNTING STANDARDS

To ensure transparency, consistency, comparability and reliability of financial statements, it is essential to standardise the accounting principles and policies. If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading and providing a distorted picture of the business, rather than the true.

Accounting Standards provide framework and standard accounting policies for treatment of transactions so that the financial statements of different enterprises become comparable. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of measurement, presentation and disclosure of accounting transactions and events in the financial statements. In U.S. "Federal Accounting Standard Board" is framing standards from time to time. The "Accounting Standards Board", set up on 1990 issues, 'Financial Reporting Standard', in U.K. In India, the institute of Chartered Accountants constitutes "Accounting Standard Board". This board is independent in the formulation of standards in India.

Objectives of Accounting Standard

The motive of Accounting Standards is centered around harmonisation of accounting policies and practices followed by different business entities, and standardise the diverse accounting practices.

- ◆ Accounting Standard eliminate the non comparability of financial statements and thereby improving the reliability of financial statements.
- ◆ Accounting Standard provide a set of standard accounting policies, valuation norms and disclosure requirements.

Benefits of Accounting Standards

Benefits : Standards eliminate confusing variations in the accounting treatments used to prepare financial statements.

- ◆ Standards may call for disclosure beyond that required by law.
- ◆ Standards facilitate comparison of financial statements of companies situated in different parts of the world, and also different companies situated in the same country.

NEED FOR GLOBAL STANDARDS

Each country has its own rules and regulation for financial reporting. The enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. This problem is lessened with convergence of accounting standards

because it simplifies the process of preparing the individual and group financial statements and thereby reduces the cost of preparing the financial statements using different set of accounting standard.

The harmonization of financial reporting around the world, through United International Accounting Standards, will help the investors who wish to invest outside their own country. Financial statements prepared using a common set of Accounting Standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. In short the global standards benefits the national economy by increasing growth of its international business.

International Accounting Standards

The International Accounting Standard Committee (IASC), responsible for developing international accounting standards, was established in June 1973. It is presently known as International Accounting Standard Board (IASB). This Board comprises the professional accountancy bodies of over 75 countries (including the Institute of Chartered Accountants of India).

The members of IASB have undertaken the responsibility to support the standards promulgated by IASC and to propagate those standards in their respective countries. IASB publishes its standards in a series of pronouncements, called International Financial Reporting Standard (IFRS).

Every major nation is moving towards adopting the IFRS to some extent. Large number of authorities requires public companies to use IFRS for stock exchange listing purpose, and in addition banks, insurance companies and stock exchange may use them for their statutorily required reports.

Many lenders and regulatory and government bodies are looking to IFRS to fulfil local financial reporting obligations relating to financing or licensing.

FORMULATION OF ACCOUNTING STANDARDS IN INDIA

The Institute of Chartered Accountants of India (ICAI) being a premier accounting body in the country took upon itself the leadership role by constituting the Accounting Standards Board (ASB) in 1977. The ASB has taken significant initiatives to ensure that the standard setting process is fully consultative and transparent. The ASB considers International Financial Reporting Standards while framing Indian Accounting Standards, and try to integrate them, with the applicable laws, customs, usage and business environment in the country.

The composition of ASB includes representatives of Industries (namely ASSOCHAM, CII, FICCI) regulators,

CORPORATE ACCOUNTING

ISSUE, FORFEITURE OF SHARES & REISSUE OF SHARES

A company form of organization is the third stage in the evolution of forms of organization. Its capital is contributed by a large number of persons called shareholders who are the real owners of the company. But neither it is possible for all of them to participate in the management of the company nor considered desirable. Therefore, they elect a Board of Directors as their representative to manage the affairs of the company. In fact, all the affairs of the company are governed by the provisions of the Companies Act, 1956. A company means a company incorporated or registered under the Companies Act, 1956 or under any other earlier Companies Acts. According to Chief Justice Marshal, "a company is a person, artificial, invisible, intangible and existing only in the eyes of law. Being a mere creation of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence". A company usually raises its capital in the form of shares (called share capital) and debentures (debt capital.) This chapter deals with the accounting for share capital of companies.

SHARE CAPITAL OF A COMPANY

A company, being an artificial person, cannot generate its own capital which has necessarily to be collected from several persons. These persons are known as shareholders and the amount contributed by them is called share capital. Since the number of shareholders is very large, a separate capital account cannot be opened for each one of them. Hence, innumerable streams of capital contribution merge their identities in a common capital account called as 'Share Capital Account'.

CATEGORIES OF SHARE CAPITAL

From accounting point of view the share capital of the company can be classified as follows:

- ◆ **Authorised Capital:** Authorised capital is the amount of share capital which a company is authorised to issue by its Memorandum of Association. The company cannot raise more than the amount of capital as specified in the Memorandum of Association. It is also called Nominal or Registered capital. The authorised capital can be increased or decreased as per the procedure laid down in the Companies Act. It should be noted that the company need not issue the entire authorised capital for public subscription at a time. Depending upon its requirement, it may issue share capital but, in any case, it should not be more than the amount of authorised capital.
- ◆ **Issued Capital:** It is that part of the authorised capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum. The authorised capital which is not offered for public

subscription is known as 'unissued capital'. Unissued capital may be offered for public subscription at a later date.

- ◆ **Subscribed Capital:** It is that part of the issued capital which has been actually subscribed by the public. When the shares offered for public subscription are subscribed fully by the public the issued capital and subscribed capital would be the same. It may be noted that ultimately, the subscribed capital and issued capital are the same because if the number of shares, subscribed is less than what is offered, the company allot only the number of shares for which subscription has been received. In case it is higher than what is offered, the allotment will be equal to the offer. In other words, the fact of over subscription is not reflected in the books.
- ◆ **Called up Capital:** It is that part of the subscribed capital which has been called up on the shares. The company may decide to call the entire amount or part of the face value of the shares. For example, if the face value (also called nominal value) of a share allotted is Rs. 10 and the company has called up only Rs. 7 per share, in that scenario, the called-up capital is Rs. 7 per share. The remaining Rs. 3 may be collected from its shareholders as and when needed.
- ◆ **Paid up Capital:** It is that portion of the called-up capital which has been actually received from the shareholders. When the shareholders have paid all the call amount, the called-up capital is the same to the paid-up capital. If any of the shareholders has not paid amount on calls, such an amount may be called as 'calls in arrears'. Therefore, paid up capital is equal to the called-up capital minus call in arrears.
- ◆ **Uncalled Capital:** That portion of the subscribed capital which has not yet been called up. As stated earlier, the company may collect this amount any time when it needs further funds.
- ◆ **Reserve Capital:** A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve Capital' of the company. It is available only for the creditors on winding up of the company.

Let us take the following example and show how the share capital will be shown in the balance sheet. Sunrise Company Ltd., New Delhi, has registered its capital as ₹ 40,00,000, divided into 4,00,000 shares of ₹ 10 each. The company offered to the public for subscription of 2,00,000 shares of Rs. 10 each, as ₹ 2 on application, ₹ 3 on allotment, ₹ 3 on first call and the balance on final call. The company received applications for 2,50,000 shares. The company finalized the allotment on 2,00,000 shares and rejected applications for 50,000 shares. The company did not make the final call. The company received all the

MARKETING

MARKETING

Meaning

The word 'market' is derived from the latin word 'Marcatus' which means merchandise, trade or place of business.

Definition of marketing

- ◆ According to American Marketing Association "marketing is concerned with the people and activities involved in the flow of goods and services from the producer to the consumer".
- ◆ In the words of Philip Kotler "Marketing is a human activity directed at satisfying human needs and wants through exchange process".

FUNDAMENTAL CONCEPTS AND APPROACHES

Production Concept

At first, marketing concept was production-oriented. Production of goods and services was given much importance.

Sales Concept

In the next stage, sales assumed greater significance. Efforts were made to increase sales through promotional activities like salesmanship, advertising, etc.,

Consumer Orientation Concept

- ◆ Modern day marketing concept is based on the philosophy of consumer orientation.
- ◆ According to this concept all the business activities start and end with the consumer.
- ◆ Without consumer there is no need for production.
- ◆ As a result, no business can exist and hence no marketing process.
- ◆ Hence consumer is the king of modern marketing process.

Social Marketing Concept

- ◆ In recent years, the concept of social marketing is gaining importance.
- ◆ Under this concept, marketing plan aims at a desired social change by producing goods or services acceptable to the consumer.
- ◆ Social marketing is also called 'management oriented concept'.

APPROACHES TO THE STUDY OF MARKETING

The following are the approaches to the study of marketing.

Product or commodity approach / Descriptive approach

Under this approach, the study of marketing is on the basis of commodity or product.

Institutional approach

Under this approach, the study of marketing is on the basis of different institutions engaged in marketing. The institutions normally include producers, wholesales, agents, retailers and other institutions.

Functional approaches

Under this approach, the marketing process is studied from the point of view of marketing functions.

Marketing functions are classified into three Categories. They are :

i. Functions of Exchange

- (a) Buying
- (b) Assembling
- (c) Selling

ii. Functions of Physical Supply

- (a) Transportation
- (b) Storage

iii. Facilitating Functions

- (a) Financing
- (b) Risk Bearing
- (c) Standardization
- (d) Market Information
- (e) Promotion

Management approach

- ◆ This approach combines certain features of the first three approaches.
- ◆ It considers marketing as management function. It is also called decision - making approach.
- ◆ This approach is of recent origin.
- ◆ It is based on the fact that marketing is purely a management function
- ◆ The changes in marketing are mainly due to two factors.
- ◆ They are "controllable" and "uncontrollable" factors. Price, advertising and personal selling are controllable factors.
- ◆ Economic, sociological and political forces are uncontrollable factors.

Legal approach

Under this approach, the importance is given to the effect of transfer of title in a legal way

Economic approach

- ◆ Under this approach, marketing is that part of economics, which deals with creation of utilities.
- ◆ The word "utility" means, the capacity of the commodity to satisfy human wants.
- ◆ There are four kinds of utilities to a product
- ◆ They are, form utility, place utility, time utility and possession utility.

ADVERTISING

Introduction:

- ◆ Advertising is a promotional activity for marketing a commodity.
- ◆ In the present world of mass production and distribution, advertising serves as a powerful tool in the marketing machinery.
- ◆ Similar type of goods are manufactured by different producers. They face tough competition in the market.
- ◆ Every producer is trying to create demand for his product.
- ◆ Advertising helps the manufacturer to increase his sales or maintaining his market.
- ◆ It is only through proper advertising a new product can be introduced in the market.

Meaning :

- ◆ Advertising means a non-personal stimulation of demand for a product.
- ◆ It is the activity through which visual or oral messages are addressed to the general public.
- ◆ Advertising aims at influencing the public to buy goods or services.
- ◆ The purpose of advertising is to create desire for the products among the consumers.
- ◆ Advertising carries a convincing message about the availability, utility and superiority of a commodity.

Definition

The word 'Advertising' is derived from two Latin words, Ad and vert, which means "turn towards". Hall defines advertising as "Salesmanship in writing, print or pictures or spreading information by means of the written and printed word and the pictures" Stanton says, "Advertising consists of all the activities in presenting to a group, a non-personal, oral, or visual, openly sponsored message regarding a product, service or idea".

Objectives of advertising

- ◆ To make an immediate sale
- ◆ To build a primary demand
- ◆ To introduce a price deal
- ◆ To inform about product's availability
- ◆ To increase market share
- ◆ To inform about new products
- ◆ To build overall company image
- ◆ To develop overseas market

Advantages of advertising

Advertising is thought to be an art of creating demand for a product. The merits of advertising may be stated as follows:

(i) Benefits to manufacturers :

- ◆ Advertising increases the sales volume of the product.

- ◆ It helps to establish a direct contact between manufacturers and consumers.

(ii) Benefits to salesmen :

- ◆ It makes salesman job easier.
- ◆ It saves the salesman's time

(iii) Benefits to consumers :

- ◆ It guides the consumer to choose the product.
- ◆ It reduces their shopping time.

(iv) Benefits to community :

- ◆ Modern advertisements are highly informative
- ◆ It gives more income to newspapers.

Objections of advertising (Demerits)

Economic objections :

- ◆ Advertising is not productive. It is a wasteful expenditure.
- ◆ It increases the cost of goods.

Social objections :

- ◆ Most of the advertisements are short lived.
- ◆ They contain tall claims and the consumers do not enjoy the benefit in full.

Ethical objections :

Advertising appeals make people to use such products, which may affect their health. For example, liquor and cigarettes.

MEDIA OF ADVERTISING

- ◆ Medium is a device through which an advertising message is conveyed to consumers.
- ◆ The media of advertising may be broadly classified into four types.

They are :

- (1) Indoor advertising
- (2) Outdoor advertising
- (3) Direct advertising
- (4) Promotional advertising

Indoor advertising

Where people get the message without stepping out of their home or within the four walls or by sitting at their home is called as indoor advertising.

The indoor advertising is also known as indirect advertising.

The indoor advertising may be classified as :

1. Press media

- (a) News papers; and
- (b) Magazines

2. Audio - visual media

- (a) Radio advertising
- (b) Television advertising
- (c) Film advertising

MANAGEMENT ACCOUNTING

Meaning

- ◆ The accounting which provides necessary information to the management for discharging its functions is called Management Accounting
- ◆ The functions of management are planning, organizing, directing and controlling.
- ◆ Thus, the management accounting provides information to the management.
- ◆ So, that, planning, organizing direction and controlling of business operations can be done in an orderly manner.

Concept of Management Accounting

- ◆ In ordinary language, management accounting is described as a tool of management.
- ◆ Management accounting is of recent origin.
- ◆ The term was first used in USA in 1950.

Definition of Management Accounting

The Institute of Chartered Accountants of England stated that any form of accounting which enables a business to be conducted more efficiently can be regarded as "Management Accounting".

Functions of Management Accounting

The basic functions of management Accounting are as follows:

- (i) Provides data
- (ii) Modifies data
- (iii) Analyses and interprets data
- (iv) Serves as a means of communication
- (v) Facilitates control
- (vi) Uses qualitative information

Provides data

Management accounting serves as a vital source of data for management planning.

Modifies data

The accounting data required for managerial decisions is properly compiled and classified.

Analyses and interprets data

The accounting data is analyzed meaningfully for effective planning and decision – making.

Serves as a means of communication

Management accounting provides a means of communicating management plans upward, downward and outward through the organization.

Facilitates control

Management accounting helps in translating given objectives and strategy into specified goals for attainment by a specified time and secures effective accomplishment of these goals in an efficient manner.

Uses of qualitative information

Management accounting does not restrict itself to financial data for helping the management in decision making but also uses such information which may not be capable of being measured in monetary terms.

BENEFITS OF MANAGEMENT ACCOUNTING

The following are the benefits of management accounting :

- ◆ Increase in efficiency
- ◆ Effective planning
- ◆ Performance Evaluation
- ◆ Profit maximization
- ◆ Reliability
- ◆ Elimination of wastages
- ◆ Effective communication
- ◆ Employee morale
- ◆ Control and co-ordination

Increase in efficiency

Management accounting contributes significantly towards increasing efficiency in operation of a firm. (eg.) Budgets, Standards, reports, etc.

Effective Planning

Policy formulation and planning of operations become more effective through the 'decision data' provided by management accounting.

Performance Evaluation

Evaluating performance of employees, departments, etc. is facilitated by management accounting through variance Analysis, control ratios, etc.

Profit Maximization

Management accounting is helpful in profit planning to pursue decisions which can optimize profits.

Reliability

The tools used by Management Accounting usually make the data supplied to management accurate and reliable.

Elimination of wastages

Standard costs, Budgets, cost control techniques, etc. contribute towards elimination of wastages, production of defectives, etc.

Effective communication

Regular and systematic reporting ensures constant flow of information about operations at various levels of Management.

Employee Morale

Morale of employees can be created and sustained through attainable standards, practical budgets and incentive schemes.

CAPITAL BUDGETING

Meaning:

- (i) Capital expenditure budget or capital expenditure decisions is a process of making decisions regarding investments in fixed assets which are not meant for sale such as land, building, machinery or furniture, etc.
- (ii) The work 'investment' refers to the expenditure which is required to be made in connection with the acquisition and the development of long term facilities including fixed assets
- (iii) It refers to a process by which management selects those investment proposals which are worth while for investing funds.
- (iv) For this purpose, the management has to decide whether or not to acquire or add to or replace fixed assets in the light of overall objectives of the firm.
- (v) Thus, capital budgeting can be defined as follows : "capital budgeting" is long term planning for making and financing proposed capital outlay."

Procedure for capital budgeting

The following procedure may be adopted in preparing capital budget.

1. Origination of investment proposal
2. Screening the proposals
3. Evaluation of projects
4. Establishing priorities
5. Final approval
6. Evaluation of the programme

Origination of investment proposal :

- (i) The first step in capital budgeting process is the conception of a profit making idea.
- (ii) The proposal may come from rank and file worker of any department or from any line officer.
- (iii) The department head collects all the investment proposals and reviews them in the light of financial and risk policies of the organization in order to send them to the capital expenditure planning committee for consideration.

Screening the proposals :

- (i) In large organizations a capital expenditure planning committee is established for the screening of various proposals received by it from the heads of various departments and the line officers of the company.
- (ii) The committee screens the various proposals within the long-range policy-frame work of the organization.
- (iii) It is to be ascertained by the committee whether the proposals are within the selection criterion of the firm, or they do not lead to department imbalances or they are profitable.

Evaluation of projects :

- (i) The next step in capital budgeting process is to evaluate the different proposals in terms of the cost of capital,

the expected returns from alternative investment opportunities, and the life of the assets with any of the following evaluation techniques.

- (a) Pay – back method
- (b) Return on Investment method
- (c) Discounted cash flow method
- (d) Accounting rate of return method

Establishing priorities :

- (i) After proper screening of the proposals, the uneconomic and unprofitable proposals are dropped.
- (ii) The profitable projects or in other words accepted projects are then put in priority.
- (iii) It facilitates their acquisition or construction according to the sources available and avoids unnecessary and costly delays and serious cost over – runs.

Final approval :

- (i) Proposals finally recommended by the committee are sent to the top management along with the detailed report, both of the capital expenditure and of sources of funds to meet them.
- (ii) The management affirms its final seal to proposals taking in view the urgency, profitability of the projects, and all the available financial resources.
- (iii) The projects are then sent to the budget committee for incorporating them in the capital budget.
- (iv) Last, but not least important step in the capital budgeting process is an evaluation of the programme after it has been fully implemented.
- (v) Budget proposals and net investment in the projects are compared periodically and on the basis of such evaluation, the budget figures may be reviewed and presented in a more realistic way.

Pay-back method or pay-back method of Evaluating projects

Pay Back Method

- i) This method is also known as pay-off, pay-out or replacement period method.
- ii) It is most popular and widely recognised traditional method of evaluating capital projects
- iii) It represents the number of years required to recover the original cash outlay invested in a project.
- iv) It is based on the principle that every capital expenditure pays itself back over a number of years.
- v) It attempts to measure the period of time it takes for the original cost of the project to be recovered from the additional earnings of the project.
- vi) It means, where the total earnings (or net cash inflow) from investment equals the total outlay, that period is pay back period.
- vii) The standard recoupment period is fixed by the management taking into account a number of considerations.

COST ACCOUNTING

Meaning:

- (i) Cost Accounting is a method of accounting of cost.
- (ii) The process of recording and accounting for all the elements of cost is called cost accounting.
- (iii) It includes the ascertainment of cost.
- (iv) Thus, cost accounting relates to the collection, classification, ascertainment of cost and its accounting and control relating to the various elements of cost.
- (v) The elements of costs are 1. Material 2. Labour 3. Expenses

Materials:

- 1. The material cost is the cost of commodities supplied to an undertaking.
- 2. Material cost is of two types. They are direct material and Indirect material

Labour:

- 1. Labour is the remuneration paid for physical or mental effort expended in production and distribution.
- 2. Labour cost is also divided into direct labour and indirect labour.

Expenses:

- 1. Expenditure other than material and labour is the third element of cost.
- 2. Expenses are of two Types. They are direct expenses and Indirect expenses.

Expenses are excluded from the costing

The following expenses are excluded from the cost.

- 1. Capital expenditure or capital losses
 - i) Purchase of fixed assets
 - ii) Loss on sale of fixed assets
 - iii) Preliminary expenses written off
- 2. Transfer to Reserves, income-tax paid, dividend or bonus to share holder, etc.,
- 3. Financial items, like cash discounts, interest on loan, interest on debentures, etc.,

Objectives of costing

The Main objectives or purposes or functions or aims of costing are:

- (i) Cost finding or cost ascertainment
- (ii) Control of cost.
- (iii) Reduction of cost
- (iv) Fixation of selling price
- (v) Framing business policy

METHODS OF COSTING

The costing methods can be grouped into two categories Viz,

- (i) Specific order costing
- (ii) Operation costing

Specific order costing

- (i) This method of costing is applicable, where the work consists of specific orders of jobs or batches or contracts.

- (ii) Job costing, Batch costing and contract costing come under this category.

Operation Costing:

- (i) This method of costing is applicable, where standardized goods or services results from a sequence of continuous operations.
- (ii) Process costing, unit costing, and operation costing come under this category.

The various method of costing are discussed below:

Job costing:

- (i) It is applicable to an industry where goods are made against individual orders from customers.
- (ii) It is a form of specific order costing, where the work is undertaken to the customer's specific requirements.
- (iii) The basic objects of this costing is to ascertain the cost of each job separately and any profit or loss thereon

Contract costing:

- (i) It is applicable to the concerns where the construction work is carried on. The laying of roads, construction of bridges, dams and buildings, etc.,
- (ii) For each of the contracts a separate account is opened and the total cost incurred is identified.
- (iii) The contracts may take a long time for completion.
- (iv) It is also known as terminal costing

Batch costing:

- (i) It is applied where orders for identical products are placed in convenient lots or batches.
- (ii) It is defined as "It is a form of specific order costing which applies where similar articles are produced in batches either for sale or for use within an undertaking".
- (iii) In most cases, the costing is similar to job costing.
- (iv) Cost per unit is ascertained by dividing the total cost of the batch by number of units of the batch

Process costing:

- (i) This method of costing is used where the input is processed through several distinct processes to be converted in to finished products.
- (ii) In process costing a separate account is maintained for each process.
- (iii) The process is carried out in a continuous sequence where the raw material is introduced in the first process and the finished product of each process becomes raw material for the subsequent process until the last process where from the finished product is transferred to finished stock account.

Operating Costing:

- (i) This method is applicable to service industries where no product is produced but same services are rendered.
- (ii) Examples: Transport services, Loading houses, cinema Theatres, Hospital etc.,

DIFFERENTIAL COSTING

DIFFERENTIAL COSTING

Meaning:

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 cost of two alternative courses of action will be the differential cost.

It may be remembered that differential cost may increase or decrease in costs.

Suppose, present cost is ₹ 2,50,000 when the work is done by labour and the expected cost ₹ 2,25,000 when the work is done by machinery.

In the case, differential cost will decrease in costs (i.e. 250000 - 225000) and the decision of replacement of labour by machinery should be implemented by the firm because differential cost of ₹ 25000 (decrease in cost) will increase the profits of the firm by ₹ 25000.

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 cost or decremental cost and these 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.

Differential cost is the change in cost which may result from the adoption of an alternative course of action or change in the level of activity.

Change in cost may take place, due to change in fixed cost and variable costs, so differential cost is the aggregate of change in fixed cost and variable cost.

The ascertainment of differential cost becomes easy if a flexible budget is prepared because it shows costs at various levels of activity.

Practical application of differential cost:

Differential cost analysis is helpful in solving two types of problems, viz., those that involves capital outlay and those which do not.

The first type of problems are:

1. Make or buy decision.
2. Decision to accept a special order.

3. Decision to drop a product line.
4. Decision regarding equipment replacement.
5. Decision regarding construction facilities.
6. Decision regarding selling or further processing.
7. Decision regarding temporary shut down.
8. Decision regarding additional shifts.

The second type problems are:

1. Determination of the most profitable levels of production and price.
2. Acceptance of offer at a lower price or offering a quotation at lower selling price in order to increase capacity.
3. Depth of processing.

First Type Problems:

Make or Buy decision:

It is a common type of business decision for a company to determine whether to make or buy materials, parts or completed products.

Manufacturing or making often requires a capital investment so that a decision to make must always be made whenever the expected cost savings provide a higher return on the required capital investment than can be obtained by employing these funds in an alternative investment bearing the same risk.

Decision to accept a special order:

Frequently, the management of a company is offered a special order for one of its products at a price lower than its customary selling price.

When a business is operating at something lower than its normal volume, such a special order can prove attractive depending on the effect of incremental revenues and costs on overall profits of the business.

In this case also, differential cost system provides a useful means for appraising the economic benefits of such an opportunity.

Decision to drop a product line:

Another problem requiring differential cost analysis relates to adding or dropping a product line in a multi product company.

In the case a product is eliminated, its sales revenue and certain costs will also be eliminated and, if a product is added, the reverse will be true.

Decision regarding Equipment replacement:

One of the more important decisions involving alternative choice is whether or not to buy new capital equipment.

Generally, the economic advantage offered by such an investment is the realization of operating cost savings which are translated into increased net profits.

Therefore, some means of applying relevant cost to the measurement of such increased profit and in turn, to the incremental capital investment is necessary.

ENTREPRENEURIAL DEVELOPMENT

ENTREPRENEURIAL DEVELOPMENT:

Meaning:

- ◆ The dictionary meaning of the word Entrepreneur is given as a person "who starts the business"
- ◆ Entrepreneur is a person 'who starts an enterprise, business or a firm.
- ◆ He works for himself and also provides employment to others.
- ◆ He is his own boss.

Origin of the term:

- ◆ The Term "entrepreneur" is derived from the French word *entreprendre* which means to undertake,
- ◆ The term "entrepreneur" was applied to business by the French economist Cantillon in the 18th century, to designate a dealer who purchases means of production for combining them into market products.

Scope of Entrepreneurial Development:

- ◆ The scope of any subject is determined by its nature.
- ◆ Entrepreneurial development is basis wide, comprehensive flexible, small in size and simple.
- ◆ It does not require any formal education.
- ◆ Thus, the application and scope of the subject matter also wide.
- ◆ The managerial and creative skills developed for entrepreneurship are useful not only in business but also applied to social causes and in government organization.
- ◆ It also promotes entrepreneurship in large business houses.
- ◆ The concept can be applied any area of development like economic development, rural development, export development, social development etc.

Definitions of an Entrepreneur:

According to Joseph A. Schumpeter, Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organization going with his ability to identify them and opportunities which others are not able to fulfil such economic opportunities.

Intrapreneurs:

- ◆ The entrepreneurial talents available within the organization are called Intrapreneurs.
- ◆ Companies should provide such entrepreneurial talent (persons) with adequate financial support and freedom so that their business ideas can be developed.
- ◆ Successful talents should be rewarded with promotion and bonus.
- ◆ The employees who provide such extraordinary talents, are known as "Intra corporate Entrepreneurs"
- ◆ Intrapreneurs are the managers emerging in big organizations.
- ◆ The senior level managers are encouraged by the entrepreneur to generate new ideas and then convert them into products through research and developmental activities within the frame work of an organization.
- ◆ The new concept has become very popular now.

Role of Entrepreneurial Development:

- ◆ Industrialization is an effective instrument of growth and welfare of the country.
- ◆ Industry, being the secondary sector to generate national income and contribute significantly to the process of economic development.
- ◆ The industrialization depends on the entrepreneurial development of the country.
- ◆ The industrial entrepreneur is the backbone of an economy

Functions of an Entrepreneur:

Arthur H. Cole describes an entrepreneur as a decision maker and describes the following as functions of an entrepreneur.

1. The determination of objectives of the enterprise and any change of those objectives and conditions required are made advantageous.
2. The development of an organization including excellent relations with subordinates and all employees.
3. Securing adequate financial resources, the relations with existing and potential investors.
4. The requisition of efficient technological equipment and the revision of it as new machinery appeared.
5. The development of a market for the products and the devising of new products to meet or anticipate consumers demand and
6. The maintenance of good relations with government authorities and with society at large.

Besides the above functions, a few more can be added such as.

- ◆ Idea generation and scanning of the best suitable idea
- ◆ Product analysis and market research
- ◆ Determination of form of ownership/organization
- ◆ Completion of promotional formalities
- ◆ Undertaking the business operations.

Recently many writers have outlined the following three as broad functions of an entrepreneur.

1. Innovation
2. Risk - taking
3. Organisation and management of the business with proper control and supervision

According to R.V. Clemence, innovation means "doing the new things or the doing or things that are already being done in a new way"

It includes new process of production, introduction of new products, creation of new markets, discovery of new and better source of raw materials and finally the creation of a better form of industrial organization.

Risk bearing means provisions for capital in order to enable the entrepreneurs to establish and run the enterprises. An important function of an entrepreneur is to reduce uncertainty in his plan of investment and expansion of the enterprise.

STATISTICS

Introduction :

The word 'Statistics' came into existence in the 18th century.

The word 'Statistics' has been derived from, the Latin Word 'Status', or Italian word 'Statista' or the German word 'Statistik' which means a Political State.

Meaning :

- ◆ Statistics deals with the scientific principles and methods of collection, classification, presentation and interpretation of data.
- ◆ Statistics is an aggregate of facts. Individual facts do not constitute statistics.
- ◆ For example, the height of an individual does not constitute statistics. But the height of 50 students in a class constitute statistics.
- ◆ Statistical facts must be expressed quantitatively (in number)
- ◆ Qualitative terms like intelligence, literacy, etc. are not statistics.

Division of Statistics

The statistics can be divided into two.

- (a) Descriptive statistics
- (b) Inferential statistics

Descriptive Statistics :

It deals with any kind of data processing which is designed to summarise or describe the important features of the data without going further.

For example, Mean, Median, Mode, Standard deviation, correlation, correlation co-efficient, frequency distribution, etc.

Inferential Statistics :

This consists of methods used for drawing inferences (conclusions) from a totality of observations (called 'population') on the basis of knowledge about a part of the totality (known as sample)

This is known as Hypothesis.

Functions :

1. It presents facts in a definite form.
2. It facilitates comparison.

(The data collected may relate to the production and sales in a company in a year, and this should be useful to compare with those of previous year)

3. It studies relationship
4. It helps in formulation of policies.
5. It helps in testing hypothesis.

Importance

Statistics is a tool to the mankind to translate complex facts into simple and understandable facts.

Without statistics, the things like national income, individual production, consumption pattern, population and natural resources cannot be studied.

Scope of Statistics

- ◆ The scope of statistics is now so vast and ever expanding.
- ◆ Statistics is a tool of all sciences indispensable to research.
- ◆ It is almost used in all fields whether it be trade, industry, commerce, economics, biology, botany, astronomy, physics, chemistry, education, medicine, sociology and psychology.

Limitations

1. Statistics can be used only to study numerical valued data i.e. quantitative data.
Qualitative data like honesty, intelligence, poverty, etc. are not valued in statistics.
2. Statistical data are true only on an average. The statistical data can never be treated as universal truth.
3. It is liable to be misused. For example, two-third of the MLAs in a state assembly belongs to a political party, it is wrong conclusion, that the two-third of the people are in favour of the party.
4. The data must be uniform and homogenous. For example, the average wages paid to workers in one factory is ₹ 100 per week and in another factory ₹ 150 per week, here we cannot draw a conclusion because the working hours of the factories may differ.

PRIMARY DATA

- ◆ The data collected in the first time is called primary data.
- ◆ The primary data is original in character.
- ◆ This data can be collected by conducting survey.
- ◆ For example, census figures published by the Government of India will be a primary data.
- ◆ Normally, primary data are collected by Government bodies, Trade Unions, Reserve Bank, Chamber of Commerce and Research Organisations.
- ◆ The collection of primary data is a time and money consuming process.

Methods of collecting primary data :

1. Direct personal interview
2. Indirect oral interview
3. Information through correspondents
4. By sending questionnaire by mail
5. By sending schedule to be filled by the enumerators.

Secondary data

The data which is collected in the second time is called secondary data.

They are not original in characters. They are already available.

They can be obtained from the following

1. Publications of State & Central Govt.
2. Publications of UNESCO, UNO, WHO, etc.

SAMPLING

SAMPLING

- ◆ In every day life we come across persons making an assessment of the population through samples
- ◆ A housewife tests a small quantity of rice to see if it is well cooked.
- ◆ An auditor checks a sample of accounts to know the number of errors in the entire population of his accounts.
- ◆ The importance of theory of sampling lies in the fact that for a large population, it is neither practical nor possible to collect data for each and every number of the population.
- ◆ In testing the quality of bulbs produced by a company it is impossible to test every bulb manufactured by the company; it is quite sufficient if a sample is taken for testing and based on this test it is possible to draw conclusion about the population.
- ◆ Most of the industrial concerns have some sort of quality control over their manufactured goods, before sending to the market.
- ◆ If each and every item is tested, in some cases it may not be possible to send them to market.
- ◆ Thus, the propose of sampling is to get information about the population from the sample.
- ◆ To the extent to which we can do this with any accuracy depends on the choice of our sample or samples.
- ◆ The major advantage of the sampling is that it is very convenient and economical.

Methods of Sampling

The various methods of sampling can be grouped under two broad headings:

1. Probability sampling or Random sampling
2. Non probability sampling or non Random Sampling

Probability Sampling Methods

Probability sampling methods are those in which every item in the universe has a known chance, or probability of being chosen for the sample.

The important probability sampling methods are

- a. Simple or unrestricted Random sampling
- b. Restricted Random sampling

Simple or Unrestricted Random Sampling

Simple random sampling refers to that sampling technique in each and every unit of the population. It has an equal opportunity of being selected in the sample. Under this method, there are two categories of sampling.

- a. Lottery Method
- b. Table of Random Numbers

Lottery Method

- ◆ This is a very popular method of taking a random sample.
- ◆ Under this method, all items of universe are numbered or named on separate slips of paper of identical size and shape.

- ◆ These slips are then folded and mixed up in a container or drum.
- ◆ A blind fold selection is then made of the number of slips required to constitute the desired sample size.
- ◆ The selection of items thus depends entirely on chance. For example, if we want to take a sample of 10 persons out of a population of 100, the procedure is to write the names of all the 100 persons on separate slips of paper, fold these slips, mix them thoroughly and then make a blind fold selection of 10 slips.

Table of Random Numbers

The lottery method discussed above becomes quite cumbersome as the size of population increases. An alternate method of random selection is that of using the table of random numbers.

Restricted Random Sampling

Stratified Sampling

Under this sampling the universe is to be sub-divided or stratified into groups, which are mutually exclusive and include all items in the universe.

Systematic Sampling

- ◆ A systematic sample is formed by selecting one unit at random and then selecting additional units at evenly spaced intervals until the sample has been formed.
- ◆ This method is popularly used in those cases where a complete list of the population from which sample is to be drawn is available.
- ◆ This list may be prepared on alphabetical, geographical, numerical or some other order.
- ◆ The items are serially numbered. This method of sampling is also known as quasi-random sampling method.

Non-Probability Sampling Methods

Non probability sampling methods are those which do not provide every item in the universe with a known chance of being included in the sample. The following are the important sampling methods that are popularly used in practice.

- i. Judgement sampling
- ii. Convenience sampling
- iii. Quota sampling

Judgement Sampling

- ◆ In this method of sampling the choice of sample items depends exclusively on the judgement of the investigator.
- ◆ In otherwords, the investigator exercises his judgement in the choice and includes those items in the sample which he thinks are most typical of the universe with regard to the characteristics under investigation. For example, if sample of ten students is to be selected from a class of sixty for analyzing the spending habits of students, the investigator would select 10 students who, in his opinion, are representative of the class.

BASIC ACCOUNTING CONCEPTS

Business Entity Concept

- ◆ It is very important to note that for accounting purpose the business is treated as a unit or entity apart from its owners, creditors and others.
- ◆ In other words, the proprietor of an enterprise is always considered to be separate and distinct from the business which he controls.
- ◆ All the transactions of the business are recorded in the books of the business from the point of view of the business and an entity and even the proprietor is treated as a creditor to the extent of his capital.

Dual Aspect Concept

- ◆ Financial accounting is based on transactions.
- ◆ In every type of business there are numerous transactions.
- ◆ In each of the transactions, there are two aspects to be recorded.
- ◆ For example, if there is purchase of goods-it involves two aspects; one aspect is the receipt of goods and the other aspect is the immediate payment of cash (cash purchases) or the supplier (if credit purchase).
- ◆ The recognition of two aspects to every transaction is known as dual aspect analysis.
- ◆ Modern Financial accounting is based on such recognition and record of the two aspects of every transaction.
- ◆ Dual aspect concept is the basis for double entry system of book-keeping which is universally used.
- ◆ The governing principle of double entry system is that for every debit there is an equal and corresponding credit.
- ◆ Dual aspect concept is also the basis for accounting equation developed by American accountants.
- ◆ The equation is $\text{Assets} = \text{Equities}$.

Going Concern Concept

- ◆ According to International Accounting Standard - 1 (IAS-1) "The enterprises is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation."
- ◆ This concept assumes that a business entity has continuity of life.
- ◆ It will continue for an indefinite period of time.
- ◆ It has no need or intention to close down.
- ◆ This concept is important for valuation of assets and liabilities.
- ◆ As per this assumption, the business will exist for a long period.

Accounting Period Concept

- ◆ A business unit may continue for an indefinite period.
- ◆ It is possible to ascertain overall profit or loss of the business when it is liquidated.

- ◆ But practically it is not possible to wait for an indefinite period.
- ◆ The interested parties like owners or shareholders, creditors, tax authorities need periodical reports about the business performance.
- ◆ So, it is necessary to sub-divide the indefinite life span of a firm into smaller time units.
- ◆ Such smaller and usable time frame is called an accounting period.
- ◆ The usual accounting period is one year.
- ◆ Under the Companies Act or Banking Regulation Act, accounts are to be prepared for 12 months period.
- ◆ This time interval is called accounting period.

Money Measurement Concept

- ◆ All business transactions are measured expressed and recorded in terms of money.
- ◆ In other words, a fact or a happening which cannot be expressed in terms of money is not recorded in the accounting books.
- ◆ General health condition of the chairman of the company working conditions in which a worker has to work, sales policy purchased by the enterprise, etc., cannot be expressed in money terms and therefore not recorded in the books.
- ◆ In spite of the above limitation of money measurement concept, it remains indispensable, because it is the common denominator for recording diverse transactions in the books of accounts.

Cost Concept or Historical Concept

- ◆ Accounting is a historical record of the transactions.
- ◆ According to this concept, assets are recorded at the price paid to acquire them.
- ◆ This cost is the basis for all subsequent accounting for the assets.
- ◆ The assets are gradually depreciated on the basis of the cost and the effective life of the asset.
- ◆ The market value of assets are not considered either for valuation or depreciation of such assets.
- ◆ Market value cannot be accurately ascertained.
- ◆ For example, if a piece of land is purchased for ₹ 5,00,000 and its market value is ₹ 8,00,000 at the time of preparing final accounts, the land value is recorded only for ₹ 5,00,000.
- ◆ Thus, the balance sheet does not indicate the price at which the asset could be sold for.

Revenue Realisation Concept

- ◆ In accounting, the amounts received (or receivable) for the sale of output are called revenues.
- ◆ 'Revenue' is the gross inflow of cash, receivables or other consideration arising in the course of an enterprise from the sale of goods, services and from holding of assets.

COMPANY LIQUIDATORS FINAL STATEMENT OF ACCOUNTS

Company Liquidators Final Statement of Accounts:

Meaning of Liquidation:

Liquidation or winding up is a process by which a company is dissolved. 'Liquidation' is used for winding up by many persons.

The process of winding up of the company is carried out by a person who is called Liquidator. He is entrusted with the following duties.

- a. Selling of the assets of the company
- b. Paying off its Liabilities
- c. If any deficiency to pay to the creditors, the shareholders (now called contributories) are called upon to pay the unpaid amount on their shares.
- d. If there is any surplus after clearing of the liabilities, it may be distributed to the contributories according to their rights under the articles.
- e. After going through the above processes the registrar of companies removes the name of the company,
- f. Liquidation of a company can take place under both the cases, namely, when the company is insolvent and not solvent.

Modes of winding up:

A company may be wound up by

- a. By the court- (in the case of compulsory winding up)
- b. Voluntary winding up, They are
 1. Members voluntary winding up
 2. Creditors voluntary winding up
- c. Winding up, subject to supervision of the court

Contributory:

The term contributory means the holder of fully paid shares, a contributory cannot be asked to pay more than the unpaid value of shares. The liability of a contributory is legal and not contractual.

Order of Payment:

- ◆ The company debts and liabilities should be discharged in the following order
 - a. Secured creditors
 - b. Cost of liquidation
 - c. Preferential creditors
 - d. Debenture holders with interest
 - e. Unsecured creditors
 - f. Preference shareholders
 - g. Equity shareholders

Preferential creditors:

- ◆ All revenues, taxes, cesses and "rates from the company to the central or state government or local: authority having become due and payable within 12 months next before the commencement of winding up.
- ◆ All wages, salaries, commission to any employee due for 4 months is considered as preferential creditors.

- ◆ Salary payable to each individual should not exceed ₹ 1000 (old rate) is considered as preferential creditors.
- ◆ From the year 1997 onwards the rule is changed that ₹ 20,000 per individual salary payable is considered as preferential creditors. (New Rule)

Statement of Affairs:

- ◆ Where the court has made the winding up order or appointed the official liquidator, there shall be made out and submitted to the official liquidator a statement as to the affairs of the company is called statement of affairs.
- ◆ The statement of affairs containing the list A to G details of assets and liabilities of the company.
 - a. List 'A' Assets not specifically pledged
 - b. List 'B' Assets specifically pledged
 - c. List 'C' Preferential creditors
 - d. List 'D' Debenture holder having floating charge
 - e. List 'E' Unsecured creditors
 - f. List 'F' Preference shareholders
 - g. List 'G' Shareholders
 - h. List 'H' surplus or Deficiency

Liquidators final statement of Account:

- ◆ It is the duty of the liquidator to realize the assets of the company under liquidation and settle the account of every creditor proving his claim against the company.
- ◆ It is therefore, necessary for him to prepare a statement solving how much he realized and how the same was disbursed among the claimants.
- ◆ In other words, he has to maintain a proper cash book for recording his receipts and payments and has to submit a summary of the same to the court in case of compulsory winding up and to the company in case of voluntary winding up.
- ◆ Such document is called liquidators final statements of account. This account mostly consist of the following particulars

- a. Amount realized by the liquidator
- b. Payment of various liabilities

Amount realized by the liquidator

- a. Cash in hand and cash at bank
- b. Surplus from secured creditors
- c. Sale proceeds of the assets
- d. Contributions made by contributories

Payment of Various liabilities:

- a. Legal expenses
- b. Liquidators' remuneration
- c. Liquidators' expense/Cost of winding up
- d. Payment to debenture holders
- e. Payment to preferential creditors
- f. Payment to unsecured creditors
- g. Payment to preference shareholders
- h. Payment to equity shareholders

EXTERNAL TRADE OR INTERNATIONAL TRADE OR FOREIGN TRADE

Meaning

External or international trade means exchange of goods and services between peoples of different countries.

External trade may be :

- a. Export trade
 - b. Import trade
 - c. Enterpot trade
- ◆ If goods and services of a country are sold in one or two or more foreign countries it is called export trade.
 - ◆ If a country buys goods and services from one or more foreign countries, it is called import trade.
 - ◆ If the goods are imported into a country for re-export to some other country or countries, it is called enterpot trade.
 - ◆ Foreign trade can be bilateral or multilateral.
 - ◆ It is bilateral when it is between any two nations.
 - ◆ It is multilateral when each country buys from and sells to any other country.

Documents used in External trade

1. Commercial documents
2. Financial documents
3. Transport documents
4. Risk-covering documents
5. Official / regulating documents

Consular invoice

- ◆ It is a type of commercial document. It is a special type of invoice required in the case of imports made by a few countries e.g. Philippines and South America.
- ◆ Generally, it is in a prescribed format and certified by the consular office of the importer's country, situated in the exporter's country.
- ◆ The invoice gives particulars of the goods shipped, their quantity, value, etc. for determination of customs duty and quick clearance in the importing country.

Bill of lading

It is one of the types of transporting document.

It is used in case of movement of goods by water transport. It is a formal receipt given by the ship owner or his authorized agent (captain or master of the ship) that the goods mentioned in the bill of lading are shipped on a specified date and vessel and that these goods are deliverable to a specified person or to his order.

The three main features of bill of lading are

- i. It is a evidence of contract of carriage
- ii. It is a receipt for goods shipped and
- iii. It is a document of title to the goods specified therein.

A bill of lading contains the following particulars to be filled in by the exporter. They are name of the ship, place of loading, port of destination, date of shipment, description of goods, name of the exporter, name of the importer, number of packages, marks on packages and freight charges, etc.

Types of Bill of lading

There are three main types of bill of lading. They are:

Clean Bill of Lading

If the conditions of the packages are good, a clean bill of lading is issued. It indicates that the shipper has received the goods

Foul or dirty or claused bill of lading

If some of the bales or packages are found damaged a foul or claused bill of lading is issued.

Charter party Bill of lading

It is issued to a party who has hired space in the ship, either in full or in part. Charter may be

- (a) time charter i.e. for a specified period.
- (b) Voyage charter i.e. for one or more voyages
- (c) Mixed charter; i.e. for specified time and voyage

Certificate of Origin

- ◆ It indicates the country (origin) where the goods have been originally produced.
- ◆ It is generally issued by chamber of commerce, Export Promotion Council, Trade Association, etc.
- ◆ It comes under the type of official document.

Letter of Credit

- ◆ When the exporter is not sure about the credit standing of the importer, he would like to protect himself against non-payment.
- ◆ He will ask the importer to open a letter of credit in his favour with the importer's banker.
- ◆ That is, at the request of the importer, his banker agrees to issue a letter of credit in which the issuing banker gives an undertaking, that the bills duly drawn by the exporter will be honoured.
- ◆ The letter of credit contains details regarding the amount upto which the bill will be honoured, terms of credit, documents to accompany the bill, etc.

Types of letter of Credit

Revocable letter of credit

- ◆ It can be cancelled or amended by the issuing bank without notice to the exporter.
- ◆ It is only an advice and not an undertaking to the exporter.

Irrevocable letter of credit

- ◆ It is also called as confirmed letter of credit. It cannot be cancelled or amended by the issuing bank.
- ◆ Hence, it is safer for the exporter.

Documentary Letter of Credit

Where the Bill of Exchange drawn by the exporter is to be accompanied by other shipping documents, it is called a documentary letter of credit

Clean Letter of credit

Where no documents need accompany the bill, it is known as clean letter of credit.

EXPORT PROMOTION

Export Promotion

- ◆ Export Promotion Forms the Vital Aspect of Export Management
- ◆ The International Market is highly Competitive, and a country can fare itself well only by undertaking all measures in the field of Export Promotion.
- ◆ An Exporter has to compete not only with his Country Exporters, but also with other Country Exporters.
- ◆ Such Stiff Competition has to be won by marking, available high quality goods at a competitive price.
- ◆ While marking the quality high, it is not possible for an exporter to keep the price low.
- ◆ He Needs various concessions and rebates to make the price competitive. The assistance or help is given by the Government to help him sell high quality variety products at reasonable price.
- ◆ The incentive given by the Government help him sell high quality variety products at reasonable price.
- ◆ Hence, the starting point in Export Promotion is the Policy of the Government relating to promotion of Export and the various incentives measures undertaken by the Government in order to encourage the prospective exporter.
- ◆ The Assistance given in the form of Exceptions from certain taxes, Draw Back of Duties and simplified Procedures in the Operation of Foreign Exchange will go a long way in helping the Exporter in his effort to compete in the International Market.

Export Policy Measures:

- ◆ Export Policy Measures refer to those Measures which are introduced through Export Policy announced by the Government from time to time.
- ◆ In our country, in recent years, Import-Export Policy has provided a stable framework so as to minimize year to year uncertainties and enable entrepreneurs to plan their activities in a long term prospective.
- ◆ In recent years some changes were made in the policy in order to improve the quality of incentives and their administration and to simplify and rationalise policy and procedures.
- ◆ In particular, some modifications were made in the Export-Import Policy to give further impetus to Export Promotion.

Financial And Fiscal Incentives And Assistances

The Government Of India has introduced a series of financial and fiscal measures to encourage Exporters and to promote Exports.

These Measures Include:

- (a) Duty Drawback Scheme(DBK)
- (b) Exemptions of Sales tax
- (c) Exemptions of Excise Dut
- (d) Refund of Octroi Duty
- (e) Exemption of Income tax

- (f) Concession in Railway Freight and Air Freight
- (g) Finance at Low Rates of Interest
- (h) Marketing Development Assistance
- (i) Export Credit Risk Insurance

Export Marketing Assistance:

Apart from Providing Financial Assistance to develop export markets, the Government Of India also provides non-financial marketing assistance to promote and market our export goods and services. These measures include:

- (a) Market Orientation Tours
- (b) Overseas Market Surveys
- (c) Trade Fairs and Exhibitions
- (d) Bilateral Agreements
- (e) Sponsoring Trade Delegations and Study-Cum-Sales Teams
- (f) Collection and Dissemination of Market Information
- (g) Export Packaging Assistance
- (h) Training Facilities
- (i) Buyer-Seller Meets, Etc...

Export Production Assistance:

The Exporters are provided with a number of facilities and assistance in respect production of goods for export purpose.

These Measures Includes:

- (1) IRMAC Scheme
- (2) Priority in Allotment of Foreign Exchange for the Import of Capital Goods Equipment
- (3) Priority in Supply of Indigenous or Raw Materials at International Prices
- (4) Technical and Managerial Guidance
- (5) Quality Control Assistance and Guidelines
- (6) Granting of Permission for Foreign collaboration
- (7) Re-Orientation of Industrial Licensing and Import Licensing Policy Towards Export.
- (8) Relaxation of MRTTP Act provisions, Etc...'

Institutional And Infra Structural Measures:

The Government of India has established a number of organisations which are entrusted with the promotional efforts in the field of exports.

These Organisations are :

- (a) Export Promotion Council (EPC)
- (b) Commodity Boards (CBs)
- (c) Indian Institute of Foreign Trade (IIFT)
- (d) Indian Institute of Packing (IIP)
- (e) Export Inspection Council (EIC)
- (f) Export Credit and Guarantee Corporation of India (ECGC)
- (g) Export-Import Bank of India (EXIM)
- (h) Free Trade Zones/Exports Processing Zones (FTZ/EPZ)
- (i) Indian Council of Arbitration
- (j) Federation of Indian Export Organizations (FIEO), Etc...

CAPITAL MARKET

MEANING:

- ◆ Capital Market is a market for long term loans.
- ◆ Capital market is a market for raising funds for capital formation and investment.
- ◆ Investment comes from savings and mobilization of savings is a major function of the capital market.
- ◆ It allocates the funds and diverts the funds from less profitable to more profitable ventures.
- ◆ In other words, it acts as an intermediary between the savers and investors.
- ◆ It involves all the facilities and institutional arrangements for borrowing and lending of long term capital.
- ◆ That is, it is the market for buying and selling of long term financial instruments.

INSTITUTIONS IN THE CAPITAL MARKET :

- ◆ The capital market consists of a number of individuals and institutions.
- ◆ In this the commercial banks are important investors in the capital market; but they are largely interested in government securities and to a smaller extent only in debentures of companies.
- ◆ Secondly LIC and GIC are important institutions in Indian Capital Market. Their major interest is also in government securities.
- ◆ Thirdly, Provident Fund constitutes a major medium of saving in the economy and they are also interested only in government securities.
- ◆ Fourthly, there are several special financial institutions started soon after independence of India for the purpose of catering the needs of capital market.
- ◆ They are IFCI, ICICI, UTI, IDBI All these aim at providing long term capital to the private sector.

INSTRUMENTS USED IN CAPITAL MARKET:

- ◆ The Indian Capital Market consists of two important securities. They are (1) Gilt-edged securities (2) Industrial securities.
 - ◆ The Gilt edged securities refer to government securities.
 - ◆ The industrial securities refer to the securities which are issued by the private companies.
 - ◆ These financial securities may be broadly classified into two. They are
- (1) Ownership securities like equity shares and preference shares
 - (2) Debt instruments called debentures and bonds.

TYPES OF CAPITAL MARKET :

Capital Market consists of market for both new issue and old issues. The market for new issue is called 'Primary Market'.

PRIMARY MARKET:

- ◆ Primary Market is the market for new issues.
- ◆ Its operations include new issue of shares by new companies and by existing companies, rights issue to existing shareholders, public offers and issue of debt instruments, such as debentures, bonds etc.,
- ◆ It deals with new securities issued for the first time to the public.
- ◆ It functions as a direct link between the companies which require a provision for funds and the investing public.
- ◆ The new issue market has no physical existence. But the services are commonly taken over by the brokers and commercial banks in India.
- ◆ There are various specialized agencies like merchant bankers, underwriters, issue houses which are undertaken issue of securities to investors and organizations.

SECONDARY MARKET:

- ◆ Secondary Market is a market where the securities issued in the primary market are resold.
- ◆ Thus, the growth of secondary market depends on the primary market.
- ◆ More number of companies entering the primary market, the greater is the volume of trade in the secondary market.
- ◆ Trading activities in the secondary market in India are done through recognized Stock Exchanges.
- ◆ There are 21 regional stock exchanges in India and one National Stock Exchange.

DEVELOPMENT BANKS:

- ◆ Development Banks are established mainly to provide long term loans for industry and agriculture.
- ◆ The commercial banks are providing only short-term and medium-term loans.
- ◆ But no banks come forward to give long term loans to Industries. So the development banks were established in our country.
- ◆ In India these banks are classified into two-categories, viz.

- (1) National Level Development Banks
- (2) State Level Development Banks.

The National level development banks are operated throughout the country. They are

- (1) Industrial Finance Corporation of India (IFCI)
- (2) Industrial Development Bank of India (IDBI)-
- (3) Industrial Credit and Investment Corporation of India (ICICI)
- (4) National Bank for Agricultural and Rural Development (NABARD)

The state level banks operated throughout the state in which they have been established.

- (1) State Finance Corporations (SFCs)
- (2) State Industrial Development Corporation (SIDCO).

INCOME - TAX - BASIC CONCEPTS

Meaning of Tax :

- ◆ 'Tax' is levied by the government, for resource mobilisation, to help the government take up schemes and projects for economic development and solve the basic problems of the poor.
- ◆ Our taxation structure provides for variety of taxes, viz., Income tax, wealth tax, sales tax, VAT, customs and Excise duties.
- ◆ Among them Income tax and wealth tax are direct taxes.
- ◆ Sales tax, customs and excise duties are indirect taxes.
- ◆ In India, the Income tax was first introduced in 1860 by Sir. James Wilson in order to the losses suffered by the Government for Military operations.
- ◆ The present Income tax Act was passed in the year 1961, which came into force from April, 1962.
- ◆ It applies to whole of India. It is a comprehensive Act with 298 sections and XII schedules.

Definition of Important Terms :

1. **Assessment :** Assessment is a procedure by which the name of an assessed is determined by the assessing officer.
2. **Assessee :** Assessee is a person by whom any tax or other sum of money is payable under the Income-tax Act.
3. **Deemed Assessee :** In certain cases a person is liable not only for his own income but also for the income of others, is treated as deemed assessee or representative assessee.
4. **Assessee - in - default :** A person fails to fulfil his statutory obligation as per the Income Tax Act, he is called "Assessee-in-default"
5. **Person :** According to Sec.2(31) the term person includes the following.
 - (i) An Individual
 - (ii) A Hindu Undivided Family
 - (iii) A Company
 - (iv) A Firm
 - (v) An Association of persons
 - (vi) Body of individuals
6. **Previous Year :** The year in which the income is earned is known as previous year.

The term previous year is defined as "the financial year immediately preceding the assessment year"

The financial year consists of 12 months starting from 1st April of each year ended with 31st March of next year.

7. **Assessment Year :** Income earned is taxable in the next year. This is called Assessment year.

Assessment year is defined as "the year in which the income is earned in the previous year assessed to tax"

Thus, the current assessment year is 2014-15 for the previous year is 2013 - 14

EXEMPTED INCOMES

Incomes can be broadly classified into two categories.
(A) Taxable Income (B) Exempted Income

Taxable incomes are forming part of total income and are subject to tax.

Various items of 'exemptions' specified in section 10 of the Income tax Act.

They are :

1. Agricultural Income
2. Sum received by a member of HUF
3. Share of profit of a partner from partnership firm
4. Gifts and awards, received from relatives is exempted from tax. If it is received from unrelated persons upto ₹ 50,000 is exempted.
5. Remuneration of foreign trainees.
6. Allowances or perquisites received by Government employees working outside India.
7. Compensation received by victim of Bhopal gas leak disaster
8. Sum received under Life Insurance Policy
9. Allowances of MPs, MLAs and MLCs.
10. Income of an Approved Scientific Research Association
11. Income of an European Economic Community (EEC)
12. Income of the SAARC Fund
13. Income of venture capital fund

Residential Status

- ◆ An Individual may be
 - (i) Resident and ordinarily Resident
 - (ii) Resident but not ordinarily Resident
 - (iii) Non-resident in India.

Resident and Ordinarily Resident

- ◆ An individual said to be resident in India if he satisfies any one of the two basic conditions.

Basic conditions :

- (a) An Individual is in India during the relevant previous year for a period amounting in all to 182 days or more.
- (b) He is in India for a period of 60 days or more during the previous year and 365 days or more during the four years preceeding the relevant previous year.

Exception :

- (i) 60 days is extended to 182 days for Indian citizen leaving India during the previous year for employment purposes or as a member of Indian ship
- (ii) Indian citizen or a person of Indian origin living outside India coming to visit India in the previous year, the basic condition of 60 days is replaced by 182 days.

Additional Conditions : A resident individual becomes ordinarily resident in India if he satisfies both the following additional conditions besides satisfying any one of the basic conditions.

1. He has been resident in India in atleast two out of 10 previous years preceding the relevant previous year ; and

INCOME TAX AUTHORITIES

Income tax Authorities

Various administrative and Judicial authorities needed to administer the act are provided u/s 116 of the Income tax Act, 1961. These authorities have been grouped into two main wings - Administrative and Judicial.

Administrative Authorities (Sec. 116)

Under this wing, the authorities are under :

1. The Central Board of Direct Taxes
2. Direct General of Income - Tax / Chief Commissioner of Income - Tax.
3. Directors of Income - tax / Commissioner of Income - tax / Commissioners of Income - tax / (Appeals)
4. Additional Directors of Income tax or Additional Commissioners of Income-tax
5. Joint Director of Income - tax / Joint Commissioner of Income - tax
6. Deputy Director of Income - tax / Deputy Commissioner of Income tax
7. Assistant Director of Income - tax / Assistant Commissioner of Income tax
8. Income - tax officers / Tax Recovery Officers
9. Inspectors of Income Tax.

Judicial Authorities :

Under this wing, the authorities are as under :

1. The Central Board of Direct Taxes
2. Appellate Tribunal
3. Commissioner of Income Tax (Appeals)

Powers

Central Board of Direct Taxes (CBDT)

The Central Board of Direct Taxes is the highest executive authority whose powers of administration, supervision and control extend over the whole I.T. Department. It is constituted under the Central Board of Revenue Act, 1963.

Powers of CBDT :

The CBDT has been vested with a wide variety of powers, important among them are :

1. Power to make rules
2. Power to issue orders, directions and instructions
3. Power to appoint I.T. authorities
4. Power to authorise I.T. authority
5. Power to determine functions and Jurisdiction
6. Power to issue general or special orders for collection of revenue
7. Power to entertain objections
8. Empowered to declare as a company
9. Power to issue directions
10. Granting authority regarding search and seizure.
11. Furnishing of information
12. Officers to function concurrently
13. Order of transfer

Powers of Direct General, Chief Commissioner and Commissioner

1. Issue orders
2. Transfer of any case
3. Search and seizure
4. Requisition of books
5. Competent to make enquiry
6. Notice for re-assessment
7. Refund to be withheld
8. Exclusion of period for calculation of Interest
9. Enhancing or modifying the assessment
10. Waiver or reduction of penalty
11. Assessing officer to obtain prior approval
12. Authorised to appoint
13. Issue orders to furnish information

Power of directors / Commissioners / Additional Directors / Additional Commissioners

1. They have the powers of an assessing officer, transfer cases, grant a approval for an order issued by assessing officer for audit of accounts by non-company assessees.
2. Grant approval for re-opening of cases beyond the limit of 4 years.
3. They also have the power to revise any order passed by assessing officer to appeal to Appellate Tribunal against the orders passed by commission.

Power of Joint Commission / Joint Directors of Income tax :

1. Power to call for information u/s 133
2. Empowered to enter any place
3. Collect information
4. Competent to make enquiry
5. Serve notice
6. Power to make assessment
7. Joint Commissioner to issue directions
8. Power in trying a suit
9. Competent to exercise powers under section 131

Forms - New ITR Forms

I.T.R. - 1 (i.e. Salary) :

Individuals have salary income, house property income (excluding loss b/f) income from other sources (not being winnings from lottery and from horse race)

I.T.R. - 2 :

For individuals and HUF not having income from business or profession.

I.T.R - 3 :

For individuals or HUF being partners in firm and not carrying sole proprietorship.

I.T.R. - 4 :

For individuals and HUF having income from proprietorship.

INTRODUCTION TO GST

- ◆ GST is a destination-based, multi-stage, comprehensive tax on the supply of goods and services.
- ◆ Replaced 17 indirect taxes (Excise, VAT, Service Tax, CST, Entry Tax, etc.) and 23 cesses.
- ◆ Implemented on 1st July 2017 via the 101st Constitutional Amendment Act, 2016.
- ◆ Based on the "One Nation, One Tax, One Market" principle.

Constitutional Framework

- ◆ Article 246A: Grants concurrent powers to Parliament and State Legislatures to levy GST.
- ◆ Article 279A: Establishes the GST Council (Chairman: Union Finance Minister + State Finance Ministers).
- ◆ Article 269A: Governs Inter-State GST (IGST) distribution.

GST Council

Functions:

- ◆ Recommends GST rates, exemptions, thresholds.
- ◆ Resolves disputes between states.
- ◆ Decides on special provisions for NE & hill states.

Decision-making:

3/4th majority required (Centre has 1/3rd weightage, States have 2/3rd).

Types of GST in India

Type	Levied By	Applicability	Revenue Sharing
CGST	Central Govt.	Intra-State supply	Central Govt.
SGST	State Govt.	Intra-State supply	State Govt.
UTGST	Union Territory	Intra-UT supply	UT Govt.
IGST	Central Govt.	Inter-State supply + Imports	Shared between Centre & State

Taxable Event under GST

Definition of Supply (Sec. 7)

Inclusions:

- ◆ Sale, transfer, barter, exchange, rental, lease, disposal.
- ◆ Import of services (even without consideration).
- ◆ Supplies between related persons or distinct persons (e.g., branch transfers).

Schedule I: Transactions treated as supply without consideration (e.g., permanent transfer of business assets, gifts above ₹ 50,000).

Composite & Mixed Supplies

Type	Definition	Tax Treatment
Composite Supply	Naturally bundled (e.g., hotel stay + breakfast)	Tax rate of principal supply
Mixed Supply	Not naturally bundled (e.g., electronics + warranty)	Tax rate of the item with the highest rate

Consideration under GST (Sec. 2(31))

Definition: Any payment (monetary or non-monetary) for a supply.

Inclusions:

- ◆ Subsidies directly linked to supply.
- ◆ Deposits (unless refundable).

Exclusions:

- ◆ Government subsidies (unless linked to price).
- ◆ Discounts after supply (unless recorded in invoice).

Levy & Collection of GST (Sec. 9)

Levy of Tax

- ◆ CGST/SGST: On intra-state supplies.
- ◆ IGST: On inter-state supplies + imports.
- ◆ Reverse Charge Mechanism (RCM):

Recipient pays GST (e.g., GTA services, legal services to business).

Tax Rates

Rate	Goods	Services
0%	Essential items (milk, books, vegetables)	-
5%	Packaged food items, medicines	Transport, restaurants
12%	Processed foods, mobile phones	Hotels, business-class air tickets
18%	Electronics, capital goods	Telecom, IT services
28%	Luxury items (cars, tobacco)	5-star hotels, race clubs

Cess

Additional compensation cess on luxury/sin goods (e.g., tobacco, aerated drinks).

Exemptions from GST

Absolute Exemptions (Schedule III)

No GST on:

- ◆ Fresh vegetables, milk, eggs, books, newspapers.
- ◆ Healthcare & educational services.

CONSUMER PROTECTION

"A Consumer" means any person who-

- ◆ buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised, or under any system of deferred payment, when such use is made with the approval of such person, but does not include a person who obtains such goods for resale or for any commercial purpose; or
- ◆ hires or avails of any service for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such service other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first mentioned person, but does not include a person who avails of such service for any commercial purpose.

CONCEPT OF CONSUMER PROTECTION

Consumer protection means safeguarding the interest and rights of consumers. In other words, it refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business and to provide them with speedy redressal of their grievances. The most common business malpractices leading to consumer exploitation are given below:

- ◆ Sale of adulterated goods i.e., adding something inferior to the product being sold.
- ◆ Sale of spurious goods i.e., selling something of little value instead of the real product.
- ◆ Sale of sub-standard goods i.e., sale of goods which do not confirm to prescribed quality standards.
- ◆ Sale of duplicate goods.
- ◆ Use of false weights and measures leading to underweight.
- ◆ Hoarding and black-marketing leading to scarcity and rise in price.
- ◆ Charging more than the Maximum Retail Price (MRP) fixed for the product.
- ◆ Supply of defective goods.
- ◆ Misleading advertisements i.e., advertisements falsely claiming a product or service to be of superior quality, grade or standard.
- ◆ Supply of inferior services i.e., quality of service lower than the quality agreed upon.
- ◆ E-commerce will now be governed by all the laws that apply to direct selling. All the e-commerce platforms will have to disclose sellers' details, such as their address, website, email, etc and other conditions related to refund, exchange, terms of contract and warranty on their website to increase transparency.

The above instances show the exploitation of consumers in the context of goods and services. In a democratic nation like India, should we allow this to happen? So, the measures adopted by the government or non-government organisations (NGOs) for safeguarding the interests of the consumers constitute consumer protection.

Examples of Consumer Exploitation in India:

- ◆ Coca Cola was found guilty of supplying drinks unfit for human consumption, which was upheld by the State Consumer Commission and had to pay ₹ 1 lakh for damages to the consumer.
- ◆ The after sales service provider of the television set charged ₹ 500 as service charge though he repaired the set within the warranty period.
- ◆ The tickets issued to different passengers on the same day for the same journey showed the same seat number.
- ◆ Penalty of ₹ 50 was charged by SBI after issuing the cheque book to the customer showing that the balance available in the account was less than the minimum required balance for issue of cheque book
- ◆ The supply of cooking gas cylinder to the consumers is found to be underweight

IMPORTANCE OF CONSUMER PROTECTION

Consumer Protection has a vast agenda. It includes educating consumers about their rights and responsibilities and also helps in getting their grievances redressed. Consumer Protection is imperative to both the consumers and the business.

The importance of consumer protection from the consumers' point of view can be understood from the following points:

(i) Consumer Ignorance

In the light of widespread ignorance of consumers, it is necessary to educate consumers about the rights and reliefs available to them so as to prevent consumer exploitation.

(ii) Unorganised Consumers

Consumers need to be organised in the form of consumer organisations which would look after their interests. Though, in India, consumer organisations have been set up, adequate protection is required to be given to consumers till these organisations become powerful enough to protect and promote the interests of consumers.

(iii) Widespread Exploitation of Consumers

Consumers need protection against unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing etc.

From the point of view of Business

A business must also lay emphasis on protecting the consumers and adequately satisfying them. This is important because of the following reasons: