Commerce

Last Minute Suggestion

[500 Most Important Key Points]

1. These first concepts, also called principles of management are the underlying factors for successful management. Henri Fayol explored this comprehensively and, as a result, he synthesized the 14 principles of management.

2. Henri Fayol 's principles of management and research were published in the book '*General and Industrial Management*' (1916).

3. According to Henri Fayol, the accompanying power or authority gives the management the right to give orders to the subordinates.

4. The management principle 'Unity of command' means that an individual employee should receive orders from one manager and that the employee is answerable to that manager.

5. Motivation and productivity are close to one another as far as the smooth running of an organization is concerned.

6. There are two types of remuneration namely non-monetary (a compliment, more responsibilities, credits) and monetary (compensation, bonus or other financial compensation).

7. The management principle of equity often occurs in the core values of an organization.

8. The management principle 'esprit de corps' of the 14 principles of management stands for striving for the involvement and unity of the employees.

9. The 14 principles of management can be used to manage organizations and are useful tools for forecasting, planning, process management, organization management, decision-making, coordination and control.

10. Management has been described as a social process involving responsibility for economical and effective planning & regulation of operation of an enterprise in the fulfillment of given purposes.

11. According to KOONTZ, "Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be".

12. Organizing: It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals.

13. Staffing: It is the function of manning the organization structure and keeping it manned.

14. Supervision- implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.

15. Motivation- means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

16. Leadership- may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

17. Communications- is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.

18. The purpose of controlling is to ensure that everything occurs in conformities with the standards.

19. An organizational structure defines how activities such as task allocation, coordination, and supervision are directed toward the achievement of organizational aims.

20. A formal organizational structure is necessary for the management of a bigger number of people, because it unites different business activities, processes and people and formalizes their relationships to achieve the common objectives of the organization.

21. The formal organizational structure of an organization is a type of a social network.

22. The formal organizational structure is created intentionally by the process of organizing.

23. Formal organizational structure results in creation of superior-subordinate relations.

24. Formal organizational structure clearly defines superior subordinate relationship, i.e., who reports to whom.

25. An informal organization is the social structure of the organization, as opposed to the formal structure of an organization.

26. Informal organizational structure gets created automatically without any intended efforts of managers.

27. Informal organizational structure is formed by the employees to get psychological satisfaction.

28. Informal organizational structure does not follow any fixed path of flow of authority or communication.

29. The Span of Control (also known as span of management) is the number of employees a manager can supervise as effectively as possible.

30. *Horizontal dimension:* This is the number of direct subordinates a manager actually supervises.

31. *Vertical dimension:* This is the number of levels that are (in) directly managed. It refers to the extent to which the manager's wishes trickle down to the lowest levels of the organization.

32. Graicemas has identified three specific kinds of superior-subordinate relationships in every organisation and leading to the question as to the number of subordinates which a superior can effectively manage.

33. Direct Single Relationship: This refers to relationships that are easily and clearly recognized by the individuals who are his immediate subordinates.

34. Direct Group Relationships: This means the group relationships between the superior and each possible combination of subordinates.

35. Cross Relationship: Cross relationships are mutual relationships among subordinates necessary for working under the same superior.

36. The term motivation is derived from the word 'motive".

37. "Motivation means a process of stimulating people to action to accomplish desired goods." —William G. Scott

38. Motivation is different from job satisfaction.

39. Maslow's Need Hierarchy Theory: It is probably safe to say that the most well-known theory of motivation is Maslow's need hierarchy theory Maslow's theory is based on the human needs.

40. *Physiological Needs:* These needs are basic to human life and, hence, include food, clothing, shelter, air, water and necessities of life.

41. *Safety Needs:* After satisfying the physiological needs, the next needs felt are called safety and security needs. These needs find expression in such desires as economic security and protection from physical dangers.

42. Esteem Needs: These needs refer to self-esteem and self-respect. They include such needs which indicate self-confidence, achievement, competence, knowledge and independence.

43. Self-Actualization Needs: This level represents the culmination of all the lower, intermediate, and higher needs of human beings.

44. The psychologist Frederick Herzberg extended the work of Maslow and proposed a new motivation theory popularly known as Herzberg's Motivation Hygiene (Two-Factor) Theory.

45. According to Herzberg, the opposite of satisfaction is not dissatisfaction.

46. McClelland's Need Theory: Another well-known need-based theory of motivation, as opposed to hierarchy of needs of satisfaction-dissatisfaction, is the theory developed by McClelland.

47. McClelland's need-theory is closely associated with learning theory, because he believed that needs are learned or acquired by the kinds of events people experienced in their environment and culture.

48. Need for Achievement: This is the drive to excel, to achieve in relation to a set of standard, and to strive to succeed.

49. Need for Power: The need for power is concerned with making an impact on others, the desire to influence others, the urge to change people, and the desire to make a difference in life.

50. Need for Affiliation: The need for affiliation is defined as a desire to establish and maintain friendly and warm relations with other people'. The need for affiliation, in many ways, is similar to Maslow's social needs.

51. McGregor's Participation Theory: Douglas McGregor formulated two distinct views of human being based on participation of workers. The first basically negative, labeled Theory X, and the other basically positive, labled Theory Y.

52. Urwick's Theory Z: Much after the propositions of theories X and Y by McGregor, the three theorists Urwick, Rangnekar, and Ouchi-propounded the third theory lebeled as Z theory.

53. Ouchi's Theory Z represents the adoption of Japanese management practices (group decision making, social cohesion, job security, holistic concern for employees, etc.)by the American companies.

54. Argyris's Theory: Argyris has developed his motivation theory based on proposition how management practices affect the individual behaviour and growth.

55. Vroom's Expectancy Theory: It is a cognitive process theory of motivation.

56. Expectancy: It relates efforts to performance.

57. Rewards may be of two kinds—intrinsic and extrinsic rewards.

58. Leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more organized and logical meaning.

59. Great man theories assume that the capacity for leadership is inherent – that great leaders are born, not made.

60. Trait theories assume that people inherit certain qualities and traits that make them better suited to leadership.

61. Contingency theories of leadership focus on particular variables related to the environment that might determine which particular style of leadership is best suited for the situation.

62. Situational theories propose that leaders choose the best course of action based upon situational variables.

63. Behavioral theories of leadership are based upon the belief that great leaders are made, not born.

64. Participative leadership theories suggest that the ideal leadership style is one that takes the input of others into account.

65. Management theories, also known as transactional theories, focus on the role of supervision, organization and group performance.

66. Relationship theories, also known as transformational theories, focus upon the connections formed between leaders and followers.

67. A performance appraisal is a regular review of an employee's job performance and overall contribution to a company. Also known as an "annual review,"

68. Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure.

69. Rating Scale Method**:** It is the most common method of assessing the performance. Under this method a scale is created from 1 to 10.

70. Essay Appraisal Method: It is also called the “free form method” because the superior gives a detailed description of its manpower’s performance.

71. Ranking Method: Under this, the manager compares the performance of employees with other employees of the same rank or grade.

72. Critical Incident Method: As the name suggests these are based on events or incidents.

73. Confidential Report System: This method is very well known in government organizations. Here the superiors will write a confidential report on the subordinates with respect to his/her behavior and duties in the organization.

74. Check List Method: Under this method, the appraiser is given a set of metaphors to be used for rating the employees.

75. Graphic Rating Scale Method: It is a widely accepted conventional technique of performance appraisal. Here the core traits of the employees are cautiously defined.

76. The BARS Method: This is called Behaviorally Anchored Rating Scale which is comparatively a new one. It's a combination of two methods like graphical rating scale and critical incident method.

77. Human Resource Accounting Method: This method measures the efficiency of personnel management behavior and how the people are used in an organization.

78. MBO (Management by Objectives)**:** It is a process where in both the managers and subordinates recognize common goals and characterize the individual's responsibility towards achieving those goals.

79. 360 Degree Performance Appraisal**:** The 360 degree performance appraisal system is a way to make sure the appraisal is done in a full-fledged way considering all the elements surrounded to the employee.

80. Product refers to a good or service that satisfies the needs and wants of customers.

81. Product Class**:** It is a group of products within the product family recognized as having a certain functional coherence.

82. Core Product**:** It includes the key feature of a product. It forms the basis for other product offering levels.

83. Augmented Product**:** It includes additional attributes of a product as compared to products offered by competitors.

84. The product life cycle is the process a product goes through from when it is first introduced into the market until it declines or is removed from the market.

85. Product development, also called new product management, is a series of steps that includes the conceptualization, design, development and marketing of newly created or newly rebranded goods or services.

86. Variable Price Policy: It is that policy in which the company charges different prices for sale of its like goods at a given time to similar buyers purchasing in comparable quantities under similar conditions of sale.

87. Non-Variable Price Policy: It is also called as 'one price' policy because, the company charges similar price for sale of like goods at a given time to a class of buyers purchasing in comparable quantities under similar conditions of sale.

88. Discounts: Discount is the price differential that reduces the quoted price so that the buyer pays much less than the quoted price.

89. Rebates***:*** 'Rebate' is a deduction of the quoted price.

90. Leader Price Policy: Leader pricing is one where the firm in the industry initiates the price changes and these price changes are so effective that other firms follow suit.

91. Psychological pricing is to do with creating a typical consumer perception so that the consumer is made to buy the product.

92. Penetration Price Policy: As opposed to the concept of skimming price strategy, it is an attempt to set new product prices low relative to the costs.

93. Promotional Pricing: The intention of promotional pricing is to stimulate early purchase on the part of consumers.

94. Sales promotion is an important tool of promotion which supplements personal selling and advertising efforts.

95. Discount Coupons: A discount coupon is a certificate that entitles its holder to a specified saving on the purchase of a specified product.

96. Public Relations***:*** Public relations activities strive for creating a good image of the enterprise in the eyes of the customers and the society.

97. Promotion Mix: It refers to all the decisions related to promotion of sales of products and services.

98. Personal Selling: Personal selling means selling personally. This involves face to face interaction between seller and buyer for the purpose of sale.

99. Cyber marketing is one of the options for direct marketing.

100. CRM is concerned with managing detailed information about individual customers and all customer "touch points" to maximize customer loyalty.

101. The economic environment refers to all the economic factors that affect commercial and consumer behavior.

102. The microeconomic environment refers to things that happen at the individual company or consumer level.

103. The macroeconomic environment, on the other hand, refers to things that affect the entire economy.

104. Economic systems are the means by which countries and governments distribute resources and trade goods and services.

105. Mixed systems combine the characteristics of the market and command economic systems.

106. Monetary policy is a central bank's actions and communications that manage the money supply.

107. Fiscal policy: Fiscal policy is what the government employs to influence and balance the economy, using taxes and spending to accomplish this.

108. Consumer Protection Act: A Consumer Protection Act is piece of legislation that is passed with regard to the provision and administration of protecting the rights of consumers within a country or nation.

109. FEMA: The Foreign Exchange Management Act (1999) or in short FEMA has been introduced as a replacement for earlier Foreign Exchange Regulation Act (FERA). FEMA became an act on the 1st day of June, 2000.

110. Corporate Social Responsibility (also known as CSR, corporate conscience, and corporate citizenship) is the integration of socially beneficial programs and practices into a corporation's business model and culture.

111. Franchising: Franchising is a form of licensing, which is most often used as market entry modes for services such as fast foods, business to-consumer services and business-to-business services.

112. Joint Ventures: A joint venture is a contractual arrangement whereby a separate entity is created to carry on trade or business on its own, separate from the core business of the participants.

113. Strategic Alliances: Strategic alliance is when the mutual coordination of strategic planning and management that enable two or more organisations to align their long term goals.

114. Greenfield Investment: Greenfield investment is a mode of entry where the firm starts from scratch in the new market and opens up own stores while using their expertise.

115. Acquisitions: Acquisition is a very expensive mode of entry where the company acquirers or buys an already existing company in the foreign market.

116. Specific Duty: Specific duty is based on the physical characteristics of goods.

117. Ad valorem Duty: These duties are imposed "according to value."

118. Sliding Scale Duty: The import duties which vary with the prices of commodities are called sliding scale duties.

119. Countervailing Duty: It is imposed on certain imports where products are subsidised by exporting governments.

120. Revenue Tariff: A tariff which is designed to provide revenue to the home government is called revenue tariff.

121. Anti-dumping Duty: At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping.

122. Foreign Portfolio Investment (FPI): Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country.

123. Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

124. Platform FDI Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

125. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

126. Current Account: The current account monitors the flow of funds from goods and services trade (import and export) between countries.

127. Capital Account: The capital account monitors the flow of international capital transactions. These transactions include the purchase or disposal of non-financial assets (for example, land) and non-produced assets.

128. Financial Account: The financial account monitors the flow of funds pertaining to investments in businesses, real estate, and stocks.

129. Free trade area. This is the most basic form of economic cooperation.

130. Common market. This type allows for the creation of economically integrated markets between member countries.

131. Customs union. This type provides for economic cooperation as in a free-trade zone.

132. Economic union. This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies.

133. Trade creation is an economic term related to international economics in which trade flows are redirected due to the formation of a free trade area or a customs union.

134. Trade diversion is an economic term related to international economics.

135. Free Trade Area: In a free trade agreement, all trade barriers among members are eliminated, which means that they can freely move goods and services among themselves.

136. Full Integration: The full integration of member countries is the final level of trading agreements.

137. ASEAN: ASEAN was preceded by an organization formed on 31 July 1961.

138. SAARC: The South Asian Association for Regional Cooperation (SAARC) was established with the signing of the SAARC Charter in Dhaka on 8 December 1985.

139. NAFTA: The North American Free Trade Agreement (NAFTA) was an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America.

140. UNCTAD: The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body.

141. TRIPS: Trade-Related Aspects of Intellectual Property Rights (TRIPS) is arguably the most important and comprehensive international agreement on intellectual property rights.

142. Central tendency is a descriptive summary of a dataset through a single value that reflects the center of the data distribution.

143. Median: The middle value in a dataset that is arranged in ascending order (from the smallest value to the largest value).

144. Geometric mean is a mean or average, which indicates the central tendency or typical value of a set of numbers by using the product of their values (as opposed to the arithmetic mean which uses their sum).

145. Harmonic mean (sometimes called the subcontrary mean) is one of several kinds of average, and in particular, one of the Pythagorean means.

146. Mode: The mode is the number that appears most frequently in a set.

147. In case of a positively skewed frequency distribution, the mean is always greater than median and the median is always greater than the mode.

148. In case of a negatively skewed frequency distribution, the mean is always lesser than median and the median is always lesser than the mode.

149. In statistics, dispersion (also called variability, scatter, or spread) is the extent to which a distribution is stretched or squeezed.

150. Range: It is simply the difference between the maximum value and the minimum value given in a data set.

151. Standard Deviation: The square root of the variance is known as the standard deviation i.e. S.D. = $\sqrt{\sigma}$.

152. Coefficient of Quartile Deviation: The Quartile Deviation is a simple way to estimate the spread of a distribution about a measure of its central tendency (usually the mean).

153. Coefficient of Mean Deviation: It is calculated to compare the data of two series. The coefficient of mean deviation is calcvilated by dividing mean deviation by the average.

154. Coefficient of Dispersion: The coefficients of dispersion are calculated along with the measure of dispersion when two series are compared which differ widely in their averages.

155. Skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean.

156. *Negative skew*: The left tail is longer; the mass of the distribution is concentrated on the right of the figure.

157. *Positive skew*: The right tail is longer; the mass of the distribution is concentrated on the left of the figure.

158. Absolute skewness: This is obtained by finding the difference between any two measures of dispersion viz: Mean, Median and Mode.

159. Co-efficient of skewness: This is obtained by dividing the Skewness by any measure of dispersion.

160. In Rank Correlation Coefficient the observations or measurements of the bivariate variable is based on the ordinal scale in the form of ranks.

161. *Linear regression* quantifies the relationship between one or more *predictor variable(s)* and one *outcome variable.*

162. Nonlinear regression is a form of regression analysis in which data is fit to a model and then expressed as a mathematical function.

163. Simple regression: When only two variables are studied to find the regression relationships, it is known as simple regression analysis.

164. Multiple Regression: When more than two variables are studied and their relationships are simultaneously worked out, it is a case of multiple regression.

165. Bayes' Theorem: In statistics and probability theory, the Bayes' theorem (also known as the Bayes' rule) is a mathematical formula used to determine the conditional probability of events.

166. Normal distribution, also known as the Gaussian distribution.

167. Standard Deviation: The *standard deviation* measures the dispersion of the data points relative to the mean.

168. Qualitative Research: Qualitative research is a process that is about inquiry.

169. Quantitative Research: Qualitative research is a structured way of collecting data and analyzing it to draw conclusions.

170. Sampling is the process of converting continuous signal to discrete form.

171. Accounting principles are the general rules and guidelines that companies are required to follow at the time of preparing and reporting financial statement to the users of accounting information.

172. GAAP (Generally Accepted Accounting Principles) is a Technical concept that describes the basic rules, concepts, conventions and procedures that represent accepted accounting practices at a particular time.

173. An accounting convention refers to common practices which are universally followed in recording and presenting accounting information of the business entity. Conventions denote customs or traditions or usages which are in use since long.

174. Money measurement concept of accounting defines and states that financial accounting is concerned only with the items which can be quantified and expressed in monetary terms.

175. According to going concern concept an enterprise will continue to function in the coming future without the need of the entity to be liquidated emerging or to cut down on its operational activities.

176. Matching concept of accounting defines and states that "while preparing the income statement, revenue and profits are matched with the related expenses incurred in generating them".

177. The consistency principle states that once you decide on an accounting method or principle to use in your business, you need to stick with and follow this method throughout your accounting periods.

178. According to this convention all the information that has an impact on business's financial statements should be disclosed or included alongside to the statement. So as per this convention all the information whether it is significant or not has to be disclose fully.

179. According to principle of conservatism approach probable losses has to be accounted but probable gains should not be included in financial statement. So, this concept allows accountants to anticipate future losses, rather than future gains.

180. Capital expenditure refers to the investment used by a business to acquire, maintain, and upgrade fixed assets i.e. to expand business and to generate additional profits.

181. Revenue expenditure refers to the expenses incurred for day-to-day activities and are not capitalized because they do not provide benefits extending beyond the current year.

182. Deferred Revenue expenditure can be defined as the expenditure which is revenue in nature and incurred in one accounting period but its benefits are to be derived in multiple future accounting periods.

183. The premium received on issue of shares, and the profits on sale of fixed assets are the major examples of capital profit .Capital profit should be transferred to the capital reserve account, which is used to set off capital losses in future if any.

184. Components of Financial statement
Income Statement or Profit & Loss account, Balance Sheet or The Position Statement, Statement of Changes in Financial Position (Cash flow statement.)

185. A Partnership Deed is a written agreement or document among the partners specifying rules and regulations and is signed by all the partners and stamped as per the Stamp Act with an aim to prevent possible disputes & disagreements among the partners at a future date.

186. If nothing is mentioned in partnership deed Interest on loan or advance will be allowed at 6% P.a.

187. A nominal partner is one who does not have any real interest in the business but lends his name to the firm, without any capital contributions, and doesn't share the profits of the business.

188. Sacrificing ratio = Old Ratio – New Ratio

189. Gaining ratio= New ratio- Old ratio

190. The judgement of leading case of Garner vs. Murry (1903) : As per this case the deficiency of insolvent partner must be borne by the other solvent partners in proportion to their capital, after each solvent partner has brought in cash equal to his own share of loss on realization.

191. In case of redemption of preference share out of any profits, available for dividends, an equal amount must be transferred to a reserve known as "***Capital redemption Reserve***". Capital redemption reserve can only be utilized for issuing fully paid bonus share to the equity shareholders.

192. Authorized capital is the amount of capital with which the company intends to get itself registered. This is the amount of share capital which a company is authorized to issue.

193. Called up capital is that amount of the nominal value of shares subscribed for which the company has asked its shareholders to pay by means of calls or otherwise.

194. Pro- rata allotment is made in case of oversubscription of shares. It can be defined as the process of issuing of shares in proportion of the shares applied for.

195. Section 52(2) of Companies Act, 2013 basically talks about usage of premium, i.e. the areas where the premium amount can be applied.

196. Value Per Share under Assets-Backing Method or Intrinsic Value Method $=\frac{\text{Net Assets}-\text{Preference Share Capital}}{No.of\ Equity\ Shares}$

197. Value Per Share under Earning Yield method = (Expected rate of earning/Normal rate of return) X Paid up value of equity share
Expected rate of earning = (Profit after tax/paid up value of equity share) X 100

198. Value per share under Dividend Yield method= (Expected rate of dividend/normal rate of return) X 100
Expected rate of dividend = (profit available for dividend/paid up equity share capital) X 100

199. Value per share under fair value method=$\frac{Intrinsic\ value+Yield\ value}{2}$

200. After any forfeited share has been re-issued, any balance left in forfeited share account represents a capital profit. It is transferred to Capital reserve Account. When all forfeited shares have been issued, the credit balance left on the share forfeiture account is transferred to capital reserve account. But, if all the forfeited shares are not re-issued, the proportionate profit is to be calculated only on the re-issued shares. Only that profit can be transferred.

201. Winding up and dissolution are not same. Winding up is a process and dissolution is the end result.

202. Internal reconstruction means a recourse undertaken to make necessary changes in the capital structure of a company without liquidating the existing company. In internal reconstruction neither the existing company is liquidated, nor is a new company incorporated.

203. The term 'External Reconstruction' means the winding up of an existing company and registering itself into a new one after a rearrangement of its financial position. Thus, there are two aspects of 'External Reconstruction', one, winding up of an existing company and the other, rearrangement of the company's financial position.

204. a) Contribution= Sales- variable cost
b) Contribution= Fixed cost+ Profit
c) Contribution= sales*P/V ratio
So, Variable cost= Sales*(1-P/V ratio)

205. A) B/E(in units)=$\frac{Fixed\ Cost}{Contribution\ per\ unit}$

B) B/E (in sales value)= $\frac{Fixed\ Cost}{\frac{P}{V}ratio}$

206. a) P/V ratio= $\frac{Contribution\ per\ unit}{Selling\ price\ per\ unit}$

b) P/V ratio= $\frac{Change\ in\ contribution}{Change\ in\ sales}$

c) P/V ratio= $\frac{Change\ in\ profit}{Change\ in\ sales}$

207. Cash BEP (in units)= $\frac{Cash\ Fixed\ cost}{Cash\ contribution\ per\ unit}$

Cash fixed cost= Fixed costs- Non-cash expenses

208. a) Margin of safety=Total Sales- B/E Sales

b) Margin of safety= $\frac{Total\ sales-\frac{B}{E}Sales}{Total\ sales} \times 100$

209. Basic standard can be defined as the standard which is unaltered and is used over for a longer period of time and do not reflect current conditions. It is also known as the fixed or static standard.

210. **a)** Material Price Variance = (Standard Price – Actual Price) x Actual Quantity
b) Material Usage Variance = (Standard Quantity for actual output – Actual Quantity) x Standard Price

211. a) Labour rate variance = (Standard Rate Per Hour – Actual Rate Per Hour) x Actual Hours
b) Labour Efficiency Variance = (Standard Hours for Actual Out Put – Actual Hours) x Standard Rate

212. a) Variable overhead efficiency variance = (Actual Output – Standard Output) x Standard Rate
b) Variable overhead expenditure variance = (Standard Output x Standard Rate) – (Actual Output x Actual Rate)

213. a) Fixed overhead expenditure variance = Standard Fixed Overhead – Actual Fixed Overhead
b) Fixed overhead volume variance = (Actual Output x Standard Rate per unit) – Standard Fixed Overhead

214. a) Sales volume variance = (Budgeted Quantity – Actual Quantity) x Budgeted Price
b) Sales price variance = (Budgeted Price – Actual Price) x Actual Quantity

215. Target cost = Selling Price – Profit Margin

216. Formula for Ratio Analysis

217. In narrow sense fund means **cash**. In broader sense fund means **all the financial resources** used in the business. In popular sense funds means **working capital**.

218. Cash equivalents include bank accounts and marketable securities, which are debt securities with maturities of less than 90 days.

219. A cash flow statement is prepared by classifying all the activities into cash flow from operating activities, cash flow from financing activities and cash flow from investing activities.

220. The Lev and Schwartz model states that the human resource of a co is the summation of value of all the Net present value (NPV) of expenditure on employees. The human capital embodied in a person of age r is the present value of his earning from employment.

221. According to this model value of an individual human is determined applying the following formula

$$V_r = \frac{I(t)}{(1+r)^{(t-r)}}$$

222. Current cost accounting (CCA) method was proposed by the Sandilands Committee of UK.

223. International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

224. Indian Accounting Standard (Ind AS) are a set of accounting standards notified by the Ministry of Corporate Affairs (MCA), which are converged standards with IFRS (International Financial Reporting Standards). These are popularly known as Ind AS.

225. At present **there are two sets of accounting standards** in India:

- The existing accounting standards under Companies (Accounting Standard) Rules, 2006; and
- The IFRS converged Indian Accounting Standards (known as Ind AS)

226. Clean or Unqualified report will be given by the auditor if the auditor is satisfied that the accounts, Balance Sheet, Profit and Loss Account and Cash Flow statement do represent a true and fair view and they are prepared in conformity with the accounting principles and statutory requirements.

227. Qualified Report In qualified report the auditor believes that overall financial statements are not fairly stated. This report is generally positive because it indicates that the auditor has found nothing wrong in the financial documentation.

228. Disclaimer Report The auditor may disclaim or refuse opinion on the accounts, Profit and Loss Account and the Balance Sheet, when he does not have sufficient information to base his opinion.

229. Efficiency Audit-Efficiency Audit is directed towards the measurement of whether corporate plans have been effectively executed. It is concerned with the utilization of resources in an economic and most remunerative manner to achieve the objectives of the concern.

230. Propriety Audit-The propriety Audit is concerned with executive actions and plans bearing on the finance and expenditure of the company. The auditor has to judge whether the planned expenditure is designed to give optimum results.

231. A system audit is a disciplined approach to evaluate and improve the effectiveness of a system. Audits are carried out in order to verify that the individual elements within the system are effective and suitable in achieving the stated objectives.

232. Seed capital: Venture capital financing starts with the **seed-stage** when the company is often little more than an idea for a product or service that has the potential to develop into a successful business down the road.

233. Start-up Capital: In the start-up stage, companies have typically completed research and development and devised a business plan, and are now ready to begin advertising and marketing their product or service to potential customers.

234. Factoring is a source of finance for small businesses. Factoring is a financial transaction between a business owner and a third party that provides instant cash to the former in exchange for the account receivables of the business.

235. In **Sale and lease back**, the lessee sells their property to the lessor and then leases it back from the lessor and makes monthly payments. This allows the lessee to free up cash to make other investments or use the money to manage day-to-day operational expenses. So this kind of lease is suitable for the situation where liquidity crisis exist.

236. A leveraged lease is a tax-advantaged lease arrangement in which a lessor borrows funds to acquire an asset that is then leased to a lessee.

237. Finance lease refers to the lease where the finance company owns the asset legally during the tenure of the lease but all the risk and reward associated with the asset are transferred to the lessee by the lessor and at the end of the lease term lessee also gets the ownership of the asset.

238. Operating lease is a contract wherein the owner, called the Lessor, permits the user, called the Lessee, to use of an asset for a particular period which is shorter than the economic life of the asset without any transfer of ownership rights.

239. Explicit cost of capital: It is the rate that the firm pays to procure financing. It is paid for financing from equity shares, preference share, debenture etc. It is arises when funds are raised.

240. Implicit cost of capital: It is the rate of return associated with the best investment opportunity foregone. It is paid for reserve & surplus. It arises when funds are used.

241. Specific cost of capital: The cost of each source or component is known as specific cost of capital.

242. Composite cost of capital: It is the overall cost of capital and determined after combining the cost of capital of all sources. It is also known as weighted cost of capital, combined cost of capital and overall cost of capital.

243. $K_e = \frac{D1}{Po} + g$

Again, $P_0 = \frac{D1}{Ke-g}$

$P_1 = \frac{D2}{ke-g}$

Where, k_e= Cost of equity, D_1= expected dividend at the end of the first year, g= rate of growth, P_0= Current market price per share, D_2= expected dividend at the end of the 2^{nd} year.

244. Cost of Equity using the Capital Assets Pricing Model (CAPM)

- $E(Ri) = R(f) + \beta[E(m) - R(f)]$
- R(f) = Risk-Free Rate of Return
- β = Beta of the stock
- E(m) = Market Rate of Return
- [E(m)-R(f)] = equity risk premium

245. Beta is used to measure the systematic risk (the volatility) of the asset relative to the market. Beta can be found by dividing the covariance of the asset and market's returns by the variance of the market.

β_i < 1: Asset i is less volatile (relative to the market)

β_i = 1: Asset i's volatility is the same rate as the market

β_i > 1: Asset i is more volatile (relative to the market)

236. K_r=k_e (1-t)(1-c)
Where, K_r= Cost of retained eranings, K_e= cost of equity, t= marginal tax rate applicable to shareholders, c=brokerage, commission

237. When a firm capital includes only equity and retained earnings it is called **Simple capital structure.** On the other hand when the firm's capital structure includes different sources of capital it is called **complex capital structure.**

238. NI theory was proposed by **Durand, D.** As per Net Income (NI) approach capital structure decision of a firm has direct relationship with the cost of capital and the value of the firm. A firm can increased its value by lowering the cost of capital and a firm can reduce its cost of capital by using more debt capital in the capital structure.

239. Net Operating Income (NOI) Approach was also proposed by **Durand, D.** As per this approach capital structure decision of a firm has no relationship with the cost of capital and the value of the firm i.e. the value of the firm remains unaffected by its capital structure.

240. As per Traditional Approach use of debt in the capital structure up to specific point results in increase in the value of the firm, beyond which, any increase debt in the capital structure result in the reduction in the value of the firm.

241. Modigliani and Miller advocate capital structure irrelevancy theory, which suggests that the valuation of a firm is irrelevant to the capital structure of a company. Whether a firm is highly leveraged or has a lower debt component in the financing mix has no bearing on the value of a firm.

242. Assumptions of **Modigliani-Miller (M-M) Approach.**

243. DOL= $\frac{\%\ \textit{Change in EBIT}}{1\%\ \textit{Change in sales}}$

Or, DOL= $\frac{\textit{Total Contribution}}{\textit{EBIT}}$

244. DFL= $\frac{\%\ \textit{Change in EPS}}{1\%\ \textit{Change in EBIT}}$ **or,** $\frac{EBIT(1-t)}{(EBIT-I)(1-t)-P}$ (When preference dividend is there**)**

DFL= $\frac{EBIT}{EBT}$ **(**When no preference dividend is there**)**

245. Degree of Combined leverage (DCL)= $\frac{\%\ \textit{Change in EPS}}{1\%\ \textit{Change in Sales}}$ **or, DOL*DFL or,** $\frac{\textit{Contribution}\ (1-t)}{(EBIT-I)(1-t)-P}$

246. The point of indifference can be calculated using the following formula:

$$\frac{(X-I1)(1-T)-Pd}{N1}=\frac{(X-I2)(1-T)-Pd}{N2}$$

247. Once investment decision is made it cannot be changed easily without much financial loss. So decision should be taken carefully for **irreversibility** nature of capital budgeting.

248. Capital rationing decision-It is the financial situation in which a firm has only fixed amount to allocate among competing capital expenditures.

249. Profitability Index (PI) method is the ratio of the present value of future cash benefits, at the required rate of return to the present value of initial cash outflow of the investment.

250. Internal Rate of Return (IRR) method is defined as the rate at which the net present value of the investment is zero. The discounted cash inflow is equal to the discounted cash outflow.

251. Cash Flow= Net Profit after tax+ Depreciation

252. ***Payback period*** is the time in which the initial outlay of an investment is expected to be recovered through the cash inflows generated by the investment.

253. **Gross working capital:** It is the total amount of current assets. It refers to the amount of funds which is invested in current assets.

254. Net working capital: It is the amount which is excess of current assets over current liabilities. So, it is the excess of long-term sources of funds which is invested in current assets.

255. Positive Working capital: If the amount of current assets exceeds the amount of current liabilities, the difference is treated as positive working capital.

256. Negative working capital: If the amount of current assets is less than the current liabilities, the difference is treated as negative working capital.

257. Zero working capital: If the amount of current assets is equal with the current liabilities, it will be called as zero working capital.

258. Permanent/fixed working capital
It is minimum amount of working capital which is required to be maintained on a continuous and uninterrupted basis.

259. Variable/Fluctuating working capital: It is the amount over and above the permanent working capital and it is needed to meet seasonal as well as unforeseen requirements.

260. According to **Hedging/Matching approach**, the maturity of the source of funds should match the nature of the assets to be financed. According to this approach, the permanent portion of funds required should be financed with long-term funds and the seasonal portion with short-term funds.

261. Conservative approach: According to this approach estimated requirement of total funds should be finance from long term funds and short term funds will be used only to meet contingencies.

262. Trade-off between Hedging and Conservative approach: This approach deals with trade-off between two extreme matching approach and conservative approach. According to this approach average of the minimum and maximum monthly requirements of funds during a given point of time can be financed from long term sources of funds and for any additional financing need, can be financed from short term sources.

263. An organization hold inventories for various reasons, which include **speculative purposes, functional purposes, physical necessities etc.**

264. The two most important models of cash management are
The Baumol's EOQ Model
The Miller – Orr' Model

265. According to **Walter's model** firm's value will be maximum in the following cases

i) if the firm retain the entire earnings and pays no dividend when cost of capital (k) is lower than the rate of return on investment (r) (r>k). In this case firms will be considering as growth firm.
ii) if the firm pays the entire earnings in the form of dividend when cost of capital (k) is higher than the rate of return on investment (r) (r<k). In this case firms will be considering as declining firm.
ii) When cost of capital (k) is equal to the rate of return on investment (r) firms will remain indifferent whether earnings are retained or distributed. In this case firms will be considering as normal firm.

266. As per Walters model,

$$P= \frac{D+r/Ke(E-D)}{Ke}$$

Where, D= Dividend per share, r= rate of return on investment, k_e = Cost of capital, E= earnings per share, P= Market price per share

267. Assumptions of Walters Model

268. According to **Gordon's model**

i) When the rate of return is greater than the cost of capital i.e. $r>k$, the price per share increases as the dividend pay-out ratio decreases.

ii) When the rate of return is lower than the cost of capital i.e. $r<k$, the price per share increases as the dividend pay-out ratio increases.

iii) When the rate of return is equal to the cost of capital i.e. $r=k$, the price per share does not vary with the changes in the dividend pay-out ratio.

269. As per Gordon's Model: $P=\frac{E(1-b)}{k-b.r}$

Where, P= Market price per share, E =earnings per share, b=Retention ratio, r= rate of return on investment.

270. Irrelevance theory of dividend: According to this theory payment of dividend has no impact on the value of the firm and value of the firm is solely determined by the earning power and risk of its assets.

271. Credit risk is a measure of the creditworthiness of a borrower.

272. Liquidity risk is the risk that a company or bank may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

273. When the correlation coefficient between assets returns is negative unity, it is possible to combine them in a manner will eliminate all risk.

274. Systematic risk **Beta (β)** of a security can be calculated by applying the below formula

$$\beta s=\frac{\sigma m\times\sigma s\times rsm}{\sigma 2_{sm}}$$

275. Transaction Risk: It occurs when a company buys products or services in a different currency or has receivables in a different currency than their operating currency.

276. Translation Risk: It occurs when a company's financial statement reporting is affected by the exchange rate volatility.

277. Economic Risk: A company faces economic risk when the volatility in the exchange rate market can cause changes in the market value of the company.

278. A hedge is an investment that protects your finances from a risky situation. Hedging is done to minimize or offset the chance that your assets will lose value. It also limits your loss to a known amount if the asset does lose value.

279. Arbitrage is the process of simultaneously buying and selling a financial instrument on different markets, in order to make a profit from an imbalance in price.

280. Triangular arbitrage is the result of a discrepancy between three foreign currencies that occurs when the currency's exchange rates do not exactly match up. This type of arbitrage is a riskless profit that occurs when a quoted exchange rate does not equal the market's cross-exchange rate.

281. Locational Arbitrage: A strategy in which a trader seeks to profit from differences in the exchange rate offered by different banks on the same currency. These differences are small and short-lived.

282. Covered interest arbitrage is a strategy in which an investor uses a forward contract to hedge against exchange rate risk. Covered interest rate arbitrage is the practice of using favourable interest rate differentials to invest in a higher-yielding currency, and hedging the exchange risk through a forward currency contract.

283. There are five components of Indian Financial system namely, Financial institutions, financial markets, financial assets or instruments or securities, financial services and financial regulators.

284. The government of India set up Regional Rural Banks (RRBs) on October 2, 1975. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, and small entrepreneurs.

285. A payments bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple words, it can carry out most banking operations but can't advance loans or issue credit cards.

286. The Cash Reserve Ratio (CRR) is an effective instrument of credit control. Under the RBl Act of, l934 every commercial bank has to keep certain minimum cash reserves with RBI.

287. Open market operation refers to buying and selling of government securities in open market in order to expand or contract the amount of money in the banking system.

288. Bank rate is the rate at which the Central bank lends money to the commercial banks for their liquidity requirements. Bank rate is also called discount rate.

289. Under SLR, the government has imposed an obligation on the banks to; maintain a certain ratio to its total deposits with RBI in the form of liquid assets like cash, gold and other securities.

290. The **Credit Rationing** is a measure undertaken by the central bank to limit or deny the supply of credit based on the investor's creditworthiness and an increased loan demand.

291. In **Expansionary** monetary policy central bank increase the money supply by reducing interest rate, lower the reserve requirement of the banks and purchase government securities.

292. In case of **Contractionary** monetary policy central bank reduce the money supply in the market by increasing interest rate, selling government bonds and increasing reserve requirement of the banks.

293. Demonetisation refers to the process of removing or stripping the legal status of a currency.

294. Investment banking is a special segment of banking operation that helps individuals or organisations raise capital and provide financial consultancy services to them.

295. Merchant banking can be defined as a skill-oriented professional service provided by merchant banks to their clients, concerning their financial needs, for adequate consideration, in the form of fee.

296. A bank may be concentrating only on the collection of deposits and lend or invest the money within a particular region or certain chosen activity like investing the funds only in Government Securities. This type of restricted minimum banking activity is referred to as 'Narrow Banking'.

297. The central Bank of India, RBI establish in 1935 on the recommendation of **Hilton-Young Commission.**

298. On 1st April, 2020 Oriental Bank of Commerce and United Bank of India merged into **Punjab National Bank**; Syndicate Bank into **Canara Bank**; Allahabad Bank into **Indian Bank**; and Andhra and Corporation banks into **Union Bank of India.**

299. Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.

300. Capital Adequacy Ratio = (Tier I + Tier II + Tier III (Capital funds)) /Risk weighted assets.

301. In 1988, BCBS introduced **capital measurement system called Basel capital accord**, also called as Basel 1. It focused almost entirely on **credit risk**.

302. In June '04, Basel II guidelines were published by BCBS, which were considered to be the refined and reformed versions of Basel I accord.

303. Basel III is an international regulatory accord that introduced a set of reforms designed to **improve the regulation, supervision, and risk management within the banking sector**. Basel III is an iterative step in the on-going effort **to enhance the banking regulatory framework**. In 2010, Basel III guidelines were released. These guidelines were introduced **in response to the financial crisis of 2008.**

304. Three pillars of BASEL III norms; **Pillar 1** : Minimum Regulatory Capital Requirements based on Risk Weighted Assets (RWAs) ,**Pillar 2** : Supervisory Review Process and **Pillar 3**: Market Discipline

305. In Risk Transfer approach, the risk is shifted to a third party. The third-party, like insurance company or vendor, is paid to accept or handle the risk on your behalf and hence the ownership, as well as impact of the risk, is borne by that third party.

306. Banks are required to classify NPAs further into standard assets, Substandard, Doubtful and Loss assets.

307. Treasury Bill is a short-term money market instrument having a maturity period of less than 364 days or 1 year and issued by the RBI on behalf of the Government to fulfil the short term requirement of the Government.

308. At present, treasury bills are issued in three maturities — 91-day, 182-day and 364-day. In 1997 the government also issued 14-day immediate treasury bills.

309. Call money is defined as the money borrowed or lent for a single day and repaid on the next working day.

310. Notice money is defined as the money borrowed or lent for a period ranging between two to fourteen days. If the funds are transacted for more than 14 days then it is called as "**Term Money".**

311. BSE introduced an electronic trading system known as BSE On-line Trading (BOLT) in 1995.

312. The National Stock Exchange of India Limited (NSE or NSEIL) was set up by IDBI and some other all India financial institutions in November 1992.

313. Over the Counter Exchange of India (OTCEI) was set up in Oct.1990 jointly by the UTI, ICICI, IDBI, SBI Capital Market Limited, IFCI, LICI, GICI and its subsidiaries and Canbank Financial Services Ltd.

314. Dematerialization is a process through which physical securities such as share certificates and other documents are converted into electronic format and held in a Demat Account.

315. Currently, there are two depositories registered with SEBI and are licensed to operate in India:NSDL (National Securities Depository Ltd.),CDSL[Central Depository Services (India) Ltd.]

316. Re-materialisation is the process by which a client can get his electronic holdings converted into physical certificates.

317. SEBI was founded on April 12, 1992, under the SEBI Act, 1992.

318. The primary reason for setting up SEBI was **to prevent malpractices in the capital market of India, to provide protection to the investors, to promote fair and proper function of capital market and promote the development of the capital markets.**

319. IDBI Bank is an Indian government-owned financial service company, formerly known as **Industrial Development Bank of India**, was established in 1964 to provide credit and other financial facilities for the development of the fledgling Indian industry.

320. IDBI introduced in 1976 the soft loan scheme to provide financial assistance to product units in selected industries viz., cement, cotton, textiles. jute, sugar and certain engineering industries to modernize.

321. Initially established in 1948, the Industrial Finance Corporation of India was converted into a public company on 1 July 1993 and is now known as Industrial Finance Corporation of India Ltd.

322. Industrial Credit and Investment Corporation of India (ICICI) was incorporated in the year 1955, as a company registered under the Companies Act. The ICICI was incorporated to finance small scale and medium industries in the private sector.

323. In order to promote small scale industries in the country, a special Act was passed in Parliament in April 1990 for starting of Small Industries Development Bank of India. SIDBI is a wholly owned subsidiary of IDBI.

324. Unit Trust of India (UTI) is a statutory public sector investment institution which was set up in February 1964 under the Unit Trust of India Act, 1963. UTI began operations in July 1964.

325. It is the apex banking institution to provide finance for Agriculture and rural development. National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982.

326. Government of India passed State Financial Corporation Act in the year 1951 and empower the state to established State Financial Corporation.

327. The first State Financial Corporation was established in Punjab in the year 1953. Presently 18 SFCs are operating in India.

328. Net Assets Value
(NAV)=
$$\frac{Value\ of\ investment + Receivables + Accrued\ Income + Other\ Current\ Assets - Liabilities - Accrued\ Expenses}{No.of\ Outstanding\ Unit}$$

329. Performance of Mutual Fund is evaluated by using Sharpe Model, Jenson model and Treynor model.

330. Sector funds invest solely in one specific sector, theme-based mutual funds. As these funds invest only in specific sectors with only a few stocks, the risk factor is on the higher side.

331. Growth mutual funds invest the money primarily in growth-sector equity stocks. As their name suggests, the main objective of Growth Mutual funds is capital appreciation.

332. IRDAI is an autonomous apex statutory body for regulating and developing the insurance industry in India. It was established in 1999 through an act passed by the Indian Parliament.

333. Financial inclusion is the set of measures put in place to combat banking and financial exclusion.

334. A visible presence of **e- banking was evident to the customers since 1981**, with the introduction of the Automated Teller Machine (ATM).

335. In India, HSBC set the trend and set up the first ATM machine here in 1987.

336. Originally founded in the 1970s, SWIFT (The Society for Worldwide Interbank Financial Telecommunication) was created when banks around the world decided to collaborate to solve the problem of **cross-border payments**.

337. An RTGS (Real Time Gross Settlement**)** money transfer happens on a real-time basis. The bank of the person to whom the money is transferred gets 30 minutes to credit it to his/her account.

338. The NEFT (National Electronic Fund Transfer) is perhaps one of the most common ways of transferring money online from one bank account to another.

339. The nationalization of general insurance business from 1 Jan 1973, was the effect of the General Insurance Business (Nationalization) Act.

340. Reinsurance is a method where by the original insurer transfer all or part of risk he has assumed to another company or companies with the object of reducing his own commitment to an reducing his own commitment to an amount that he can bear for his own account commensurate with his financial resources in the event of loss.

341. Purposive tax planning: Planning taxes with a particular objective in mind

Permissive tax planning: Tax planning that is under the framework of law

Long range and Short range tax planning: Planning done at the start and end of a fiscal year respectively.

342. The Income Tax Act came into force from 1st April 1961.

343. The period of 12 months commencing on the first day of April every year and ending on 31st March is called as Assessment year.

344. The income from foreign companies by providing the services in project connected with security of India is 100% exempted from tax liability.

345. An individual is said to be resident in India if
(a) It is in India in the previous year for a period of 182 days or more
(b) It is in India for period of 60 days or more during the previous and 365 days or more during the four years immediately preceding previous year.

346. The awards and rewards are exempted from Income Tax if Payment is in cash or in kind.

347. Income received in India whether occurred in India or outside India, the tax incidence in case of non-resident is taxable as per slab.

348. Income deemed to be received in India whether occurred in India or outside India, the tax incidence in case of resident is taxable as per slab.

349. The tax incidence for company or firm in which income received in India and company is resident is Taxable.

350. The tax incidence for company or firm in which income received in India and company for non-resident is Taxable.

351. Dividend from Indian company is exempted from income tax.

352. Section 10 section of the Income Tax Act exempted incomes.

353. Section 6 of Income Tax Act is related to residential status.

354. The meaning of exempted income- Not included in total income, Agricultural income, Not taxable under income tax.

355. The Company may have the residential status as Resident or Non-resident.

356. The agricultural income includes- Income from sale of crop, Income from preparation of crop, Income from nursery, Tea garden, commodity farming.

357. If the agricultural income is More than ₹5,000 and total income is exceeding exemption limit then the agricultural income is considered for calculating tax.

358. The Income Tax Act, 1961 broadly covers- Basic charging income, Rebates and reliefs, Incomes exempted from income tax.

359. The capital gain is chargeable under section 45 of Income Tax Act.

360. Any rent or revenue derived from land which is situated in India and is used for agricultural purpose is exempted from tax

361. An individual is resident and ordinarily resident of India if
(a) Person had been resident in India at least 2 out of 10 previous years immediately preceding the relevant previous year
(b) Person been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year

362. The Resident HUF is ordinarily resident in India, if He has been resident in India at least 2 years out of 10 previous years immediately

363. The term income includes the legal and illegal types of incomes.

364. Winning from lotteries is the causal income.

365. The way of tax liability by taking full advantage provided by the Act is tax planning.

366. The income is chargeable under the head of salary under Section 15 of IT Act.

367. Pension is fully taxable under the salary head.

368. The assesses can claim relief under Section 89(1) for arrears or advance salary.

369. The Payment of Gratuity Act came into force in 1972.

370. The children education allowance, the amount exempted from taxable income is limited to ₹100 per month per child upto 3 children.

371. The entertainment allowance is applicable to government employee.

372. Income accrued outside India and received outside India is taxable in case of Resident and ordinary resident (ROR) only.

373. Gross Total Income is arrived after adding Income under five heads of Income, after applying clubbing provisions and making adjustment of set off and carry forward of losses and after allowing deduction under section 80C to 80U

374. Deduction under section 80C to 80U cannot exceed gross total income

375. Encashment of earned leave is given by section 10(10AA) of Income Tax Act, 1961.

376. The house rent allowance (HRA) under the salary head of Income Tax Act is given by Sec 10(13A)

377. For computation for Income tax liability for individual, the health and Education Cess is 4%.

378. Advance salary is taxable and advance against salary is Not taxable.

379. Any commission due or received by a partner of a firm from the firm shall not be regarded as salary income under section 15.

380. Rent from House Property let out by an assessee to his employees when such letting is incidental to his main business will be chargeable to tax under head Profit and Gain from Business and Profession.

382. The Annual Value has been defined under section 23(1) of Income Tax Act, 1961.

383. Deduction from annual value is allowed under section 24.

384. 30% standard deduction from annual value is allowed.

385. Deduction allowed from annual value is Interest on loan for constitution, Interest on loan for repair, Statutory deduction.

386. Income from property held under trust for charitable or religious purposes is exempt from tax.

387. The deduction of life insurance premia, contribution to provident fund, etc. will is done under Section 80C of Income Tax Act, 1961.

388. Minors income is clubbed to Father's income or mother's income whichever is greater

389. Deduction in respect of medical insurance premium is allowed under section 80D.

390. National Sports Fund is eligible for 100% deduction.

391. Mr. Sharma contributed to a political party; he can avail deduction under Section 80GGC

392. The deduction for donation to National Foundation for Communal Harmony is 100%

393. Section 140(A) is related to self-assessment.

394. Interest is paid to partners under section 40B.

395. Exemption under section 10(37) is available to an individual or an HUF.

396. Section 139A deals with PAN.

397. Offer 2(a): When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal.

398. Acceptance 2(b): When the person to whom the proposal is made, signifies his assent there to, the proposal is said to be accepted.

399. Promise 2(b): A Proposal when accepted becomes a promise. In simple words, when an offer is accepted it becomes promise.

400. Promisor and promisee 2(c): When the proposal is accepted, the person making the proposal is called as promisor and the person accepting the proposal is called as promisee.

401. Consideration 2(d): When at the desire of the promisor, the promisee or any other person has done or abstained from doing or does or abstains from doing or promises to do or to abstain from doing something such act or abstinence or promise is called a consideration for the promise. Price paid by one party for the promise of the other Technical word meaning QUID-PRO-QUO i.e. something in return.

402. Agreement 2(e): Every promise and set of promises forming the consideration for each other. In short, Agreement = promise + consideration

403. Contract 2(h): An agreement enforceable by Law is a contract.

Therefore, there must be an agreement and it should be enforceable by law.

404. Reciprocal Promises 2(f): Promises which form the consideration or part of the consideration for each other are called 'reciprocal promises'.

405. Void agreement 2(g): An agreement not enforceable by law is void.

406. Voidable contract 2(i): An agreement is a voidable contract if it is enforceable by Law at the option of one or more of the parties there to (i.e. the aggrieved party), and it is not enforceable by Law at the option of the other or others.

407. Void contract 2(j): A contract becomes void when it ceases to be enforceable by law.

408. General Principles of Law of Contract – Sections 01 to 75

409. Contract relating to Sale of Goods – Sections 76 to 123

410. Special Contracts- Indemnity, Guarantee, Bailment & Pledge and Agency – Sections 124 to 238

411. Contracts relating to Partnership – Sections 239 to 266

412. Coercion (Section 15): "Coercion" is the committing, or threatening to commit, any act forbidden by the Indian Penal Code under(45,1860), or the unlawful detaining, or threatening to detain, any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.

413. Undue influence (Section 16): "Where a person who is in a position to dominate the will of another enters into a contract with him and the transaction appears on the face of it, or on the evidence, to be unconscionable, the burden of proving that such contract was not induced by undue influence shall lie upon the person in the position to dominate the will of the other."

414. Fraud (Section 17): "Fraud" means and includes any act or concealment of material fact or misrepresentation made knowingly by a party to a contract, or with his connivance, or by his agent, with intent to deceive another party thereto of his agent, or to induce him to enter into the contract. Mere silence is not fraud. a contracting party is not obliged to disclose each and everything to the other party. There are two exceptions where even mere silence may be fraud, one is where there is a duty to speak, then keeping silence is fraud. or when silence is in itself equivalent to speech, such silence is fraud.

415. Misrepresentation (Section 18): " causing, however innocently, a party to an agreement to make a mistake as to the substance of the thing which is the subject of the agreement".

416. Mistake of fact (Section 20): "Where both the parties to an agreement are under a mistake as to a matter of fact essential to the agreement, the agreement is void". A party cannot be allowed to get any relief on the ground that he had done some particular act in ignorance of law. Mistake may be bilateral mistake where both parties to an agreement are under mistake as to the matter of fact. The mistake must relate to a matter of fact essential to the agreement.

417. According to Section 14, consent is said to be free when it is not caused by coercion or undue influence or fraud or misrepresentation or mistake

418. According to Section 13, " two or more persons are said to be in consent when they agree upon the same thing in the same sense (*Consensus-ad-idem*)

419. The **Indian Contract Act, 1872** prescribes the law relating to contracts in India and is the key act regulating **Indian contract law**. The Act is based on the principles of English Common Law.

420. The **Indian Contract Act, enacted 25 April 1872 and commenced 1 September 1872**

421. Communication when complete: The communication of a proposal is complete when it comes to the knowledge of the person to whom it is made.

422. Revocation of proposals and acceptances: A proposal may be revoked at any time before the communication of its acceptance is complete as against the proposer, but not afterwards.

423. Acceptance must be absolute: In order to convert a proposal into a promise, the acceptance must— (1) be absolute and unqualified; (2) be expressed in some usual and reasonable manner, unless the proposal prescribes the manner in which it is to be accepted. If the proposal prescribes a manner in which it is to be accepted, and the acceptance is not made in such manner, the proposer may, within a reasonable time after the acceptance is communicated to him, insist that his proposal shall be accepted in the prescribed manner, and not otherwise; but if he fails to do so, he accepts the acceptance.

424. Acceptance by performing conditions, or receiving consideration: Performance of the conditions of a proposal, or the acceptance of any consideration for a reciprocal promise which may be offered with a proposal, is an acceptance of the proposal.

425. Promises, express and implied: In so far as the proposal or acceptance of any promise is made in words, the promise is said to be express. In so far as such proposal or acceptance is made otherwise than in words, the promise is said to be implied.

426. Who are competent to contract: Every person is competent to contract who is of the age of majority according to the law to which he is subject2 , and who is of sound mind and is not disqualified from contracting by any law to which he is subject.

427. Agreement in restraint of marriage, void: Every agreement in restraint of the marriage of any person, other than a minor, is void.

428. Agreement in restraint of trade, void: Every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void.

429. Agreement contingent on impossible events void: Contingent agreements to do or not to do anything, if an impossible event happens, are void, whether the impossibility of the event is known or not to the parties to the agreement at the time when it is made.

430. Agreement to do impossible act.: An agreement to do an act impossible in itself is void

431. Mode of communicating or revoking rescission of voidable contract: The rescission of a voidable contract may be communicated or revoked in the same manner, and subject to the same rules, as apply to the communication or revocation of a proposal

432. "Contract of guarantee", "surety", "principal debtor" and "creditor": A "contract of guarantee" is a contract to perform the promise, or discharge the liability, of a third person in case of his default. The person who gives the guarantee is called the "surety"; the person in respect of whose default the guarantee is given is called the "principal debtor", and the person to whom the guarantee is given is called the "creditor". A guarantee may be either oral or written.

433. "Continuing guarantee": A guarantee which extends to a series of transactions, is called a "continuing guarantee".

434. Revocation of continuing guarantee: A continuing guarantee may at any time be revoked by the surety, as to future transactions, by notice to the creditor.

435. Discharge of surety when creditor compounds with, gives time to, or agrees not to sue, principal debtor: A contract between the creditor and the principal debtor, by which the creditor makes a composition with, or promises to give time to, or not to sue, the principal debtor, discharges the surety, unless the surety assents to such contract.

436. Guarantee obtained by misrepresentation invalid: Any guarantee which has been obtained by means of misrepresentation made by the creditor, or with his knowledge and assent, concerning a material part of the transaction, is invalid.

437. Guarantee obtained by concealment invalid: Any guarantee which the creditor has obtained by means of keeping silence as to material circumstances, is invalid.

438. Implied promise to indemnify surety: In every contract of guarantee there is an implied promise by the principal debtor to indemnify the surety, and the surety is entitled to recover from the principal debtor whatever sum he has rightfully paid under the guarantee, but, no sums which he has paid wrongfully.

439. "Bailment" "bailor" and "bailee" defined: A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

440. "Pledge" "pawnor", and "pawnee" defined: The bailment of goods as security for payment of a debt or performance of a promise is called "pledge". The bailor is in this case called the "pawnor". The bailee is called the "pawnee".

441. “Agent” and “principal” defined: An “agent” is a person employed to do any act for another, or to represent another in dealings with third persons. The person for whom such act is done, or who is so represented, is called the “principal”.

442. Definitions of express and implied authority: An authority is said to be express when it is given by words spoken or written. An authority is said to be implied when it is to be inferred from the circumstances of the case; and things spoken or written, or the ordinary course of dealing, may be accounted circumstances of the case.

443. Termination of agency: An agency is terminated by the principal revoking his authority; or by the agent renouncing the business of the agency; or by the business of the agency being completed; or 43 by either the principal or agent dying or becoming of unsound mind; or by the principal being adjudicated an insolvent under the provisions of any Act for the time being in force for the relief of insolvent debtors.

444. Agent’s lien on principal’s property: In the absence of any contract to the contrary, an agent is entitled to retain goods, papers and other property, whether movable or immovable of the principal 46 received by him, until the amount due to himself for commission, disbursements and services in respect of the same has been paid or accounted for to him.

445. Application of provisions of Act 9 of 1872: The unrepealed provisions of the Indian Contract Act, 1872, save in so far as they are inconsistent with the express provisions of this Act, shall continue to apply to contracts for the sale of goods.

446. “Mercantile agent” means a mercantile agent having in the customary course of business as such agent authority either to sell goods, or to consign goods for the purposes of sale, or to buy goods, or to raise money on the security of goods;

447. The Sale of Goods Act. : Come into force on the 1st day of July, 1930.

448. “Future goods” means goods to be manufactured or produced or acquired by the seller after the making of the contract of sale;

449. Stipulations as to time: Unless a different intention appears from the terms of the contract, stipulations as to time of payment arc not deemed to be of the essence of a contract of sale. Whether any other Stipulation as to time is of the essence of the contract or not depends on the terms of the contract.

450. Condition and warranty: (1) A stipulation in a contract of sale with reference to goods which are the subject thereof may be a condition or a warranty. (2) A condition is a stipulation essential to the main purpose of the contract, the breach of which gives rise to a right to treat the contract as repudiated. (3) A warranty is a stipulation collateral to the main purpose of the contract, the breach of which gives rise to a claim for damages but not to a right to reject the goods and treat the contract as repudiated. (4) Whether a stipulation in a contract of sale is a condition or a warranty depends in each case on the construction of the contract. A stipulation may be a condition, though called a warranty in the contract.

451. "Unpaid seller" defined: (1) The seller of goods is deemed to be an "unpaid seller" within the meaning of this Act— (a) when the whole of the price has not been paid or tendered; (b) when a bill of exchange or other negotiable instrument has been received as conditional payment, and the condition on which it was received has not been fulfilled by reason of the dishonour of the instrument or otherwise. (2) In this Chapter, the term "seller" includes any person who is in the position of a seller, as, for instance, an agent of the seller to whom the bill of lading has been endorsed, or a consignor or agent who has himself paid, or is directly responsible for, the price.

452. The Negotiable Instruments Act, 1881 (NI Act) was enacted on **09 December 1881** and came into force on **01 March 1882** with a view to regulate the exchange of negotiable instruments such as promissory notes, bill of exchange and cheques.

453. "Holder in due course".—"Holder in due course" means any person who for consideration became the possessor of a promissory note, bill of exchange or cheque if payable to bearer,

454. Discharge by allowing drawee more than forty-eight hours to accept: If the holder of a bill of exchange allows the drawee more than 5 [forty-eight] hours, exclusive of public holidays, to consider whether he will accept the same, all previous parties not consenting to such allowance are thereby discharge from liability to such holder.

455. Prime Minister Narendra Modi launched GST into operation on the midnight of **1 July 2017**. But GST was almost two decades in the making since the concept was first proposed under the Atal Bihari Vajpayee government.

456. Punishment for identity theft: Whoever, fraudulently or dishonestly make use of the electronic signature, password or any other unique identification feature of any other person, shall be punished with imprisonment of either description for a term which may extend to three years and shall also be liable to fine which may extend to rupees one lakh.

457. Penalty for misrepresentation: Whoever makes any misrepresentation to, or suppresses any material fact from the Controller or the Certifying Authority for obtaining any licence or 1 [electronic signature] Certificate, as the case may be, shall be punished with imprisonment for a term which may extend to two years, or with fine which may extend to one lakh rupees, or with both.

458. Punishment for publishing or transmitting of material containing sexually explicit act, etc., in electronic form.–Whoever publishes or transmits or causes to be published or transmitted in the electronic form any material which contains sexually explicit act or conduct shall be punished on first conviction with imprisonment of either description for a term which may extend to five years and with fine which may extend to ten lakh rupees and in the event of second or subsequent conviction with imprisonment of either description for a term which may extend to seven years and also with fine which may extend to ten lakh rupees. Sec.67A

459. "Designated partner" means any partner designated as such pursuant to section 7;

460. "Limited Liability Partnership" means a partnership formed and registered under LLP Act 2008.

461. The law of demand: states that the demand for a commodity increases when its price decreases and it falls when its price rises, other things remaining constant.

462. The law of demand can also be presented through a demand curve. A demand curve is a locus of points showing various alternative price quantity combinations.

463. Giffen Goods: exception to the law of demand is the classic case of Giffen goods

464. Substitutes goods: Two commodities are deemed to be substitutes for each other if change in the price of one affects the demand for the other in the same direction. (tea and coffee, Ed positive)

465. Complementary Goods: A commodity is deemed to be a complement for another when it complements the use of the other or when the use of the two goods goes together so that their demand changes (increases or decreases) simultaneously. (car and petrol, Ed negative)

466. Elasticity of demand is the percentage changes in demand as a result of one per cent in the price of the commodity.

467. The measure of elasticity of demand between any two finite points on a demand curve in known as arc elasticity.

468. Perfectly inelastic Demand: When the demand does not change at all; or the change in demand is zero.

469. (1) **Camera** – Highly elastic, since it is luxury good.
(2) **Salt** – Highly inelastic, since it has no substitutes
(3) **Liril soap**: Highly elastic, since there is a large number of competitive brands available.
(4) **Newspaper**: Inelastic, since it has become a necessity for almost all households.

470. Cross elasticity of demand is defined as the percentage change in quantity demanded of one good caused by a 1 percentage change in the price of some other good.

$$e_c = \frac{\%\Delta Q_x}{\%\Delta P_y}.$$

471. General relationship between AR and MR: 1. AR increases as long as MR is higher than AR (or when MR > AR, AR increases).
2. AR is maximum and constant when MR is equal to AR (or when MR = AR, AR is maximum).
3. AR falls when MR is less than AR (or when MR < AR, AR falls)

472. When Price remains Constant: It means, the revenue from every additional unit (MR) is equal to AR. As a result, both AR and MR curves coincide in a horizontal straight line parallel to the X-axis.

473. When Price falls with rise in output: Revenue from every additional unit (i.e. MR) will be less than AR. As a result, both AR and MR curves slope downwards from left to right.

474. Under Pure Competition: The average revenue curve is a horizontal straight line parallel to the X-axis and the marginal revenue curve coincides with it. This is because under pure (or perfect) competition the number of firms selling an identical product is very large.

475. AR, MR and Elasticity: From the **formula MR** = **AR** (e – 1/e) we can know what would be the **marginal revenue**, if **elasticity** and **AR are** given to us.

476. Meaning of Utility : The term utility in Economics is used to denote that quality in a good or service by virtue of which our wants are satisfied. In, other words utility is defined as the want satisfying power of a commodity. According to, Mrs. Robinson, "Utility is the quality in commodities that makes individuals want to buy them."

477. Utility is Measurable: Assume that utility is cardinally measureable. Therefore, utility of one unit of good equals to the units of money that a consumer is willing to pay, which means that 1 utility = 1 unit of money

478. Consumer's Equilibrium through Utility: In theoretical terms, consumer's equilibrium is achieved at a point when he/she reaches to the maximum level of his/her satisfaction, given resources and other conditions. On the other hand, in technical terms, a consumer reaches his maximum satisfaction level when the last unit of money spent on each goods yield the same utility.

479. Utility is Relative : Utility of a good never remains the same. It varies with time and place. Fan has utility in the summer but not during the winter season.

480. Consumer reaches equilibrium when: MUx = Px(MUm) Or Mux/Px (MUm) = 1

481. Ordinal Utility (J.R. Hicks): In ordinal utility, the consumer only ranks choices in terms of preference but we do not give exact numerical figures for utility.

482. Indifference Map: An Indifference Map is a set of Indifference Curves. It depicts the complete picture of a consumer's preferences.

483. Properties of an Indifference Curve or IC: 1. An IC slopes downwards to the right 2. An IC is always convex to the origin 3. Indifference curves never intersect each other 4. A higher IC indicates a higher level of satisfaction as compared to a lower IC 5. An IC does not touch the axis.

485. Budget Line: a budget line shows all possible combinations of two goods that a consumer can buy within the funds available to him at the given prices of the goods. All combinations that are within his reach lie on the budget line.

486. Law of return to scale: "The law of variable proportion states that if the inputs of one resource is increased by equal increment per unit of time while the inputs of other resources are held constant, total output will increase, but beyond some point the resulting output increases will become smaller and smaller." Leftwitch.

487. Stage of operation: Stage II becomes the relevant and important stage of production. Production will not take place in either of the other two stages. It means production will not take place in stage III and stage I. Thus, a rational producer will operate in stage II.

488. Fixed Costs or Supplementary Costs: The cost that remains fixed at any level of output is known as the fixed cost. These costs must be paid whether there is production or not. These costs include, depreciation allowance, interest on fixed capital, license fee, salaries to permanent staff etc.

489. Relation between Total, Fixed and Variable Costs: TC = TFC + TVC

490. Short-run AC is curve: In the short-run average cost curves are of U-shape. It means, initially it falls and after reaching the minimum point it starts rising upwards.

491. MC Curve: Marginal cost means the addition made to total cost on account of producing one more unit of output. In the beginning, when a firm increases its output, total costs as well as variable costs start increasing at a diminishing rate.

492. Cost Elasticity: On the basis of the relation between MC and AC we can develop a new concept, viz., the concept of cost elasticity. It measures the responsiveness of total cost to a small change in the level of output.

It can be expressed as:

$$E_C = \frac{\%\text{ change in } TC}{\%\text{ change in } Q} = \frac{\Delta TC/TC}{\Delta Q/Q} = \frac{\Delta TC}{\Delta Q} \div \frac{TC}{Q} = MC \div AC.$$

493. Theory of absolute cost advantage: Adam Smith propounded the theory of absolute cost advantage as the basis of foreign trade; under such circumstances an exchange of goods will take place only if each of the two countries can produce one commodity at an absolutely lower production cost than the other country.

494. Conditions for the Equilibrium of an individual firm: **1. MC = MR 2. The MC curve cuts the MR curve from below.**

495. The kinked demand curve model (By American economist Sweezy): This model suggests that prices will be fairly stable and there is little incentive for firms to change prices. Therefore, firms compete using non-price competition methods.

496. Price wars: Firms in oligopoly may still be very competitive on price, especially if they are seeking to increase market share. In some circumstances, we can see oligopolies where firms are seeking to cut prices and increase competitiveness.
A feature of many oligopolies is selective price wars. For example, supermarkets often compete on the price of some goods (bread/special offers) but set high prices for other goods, such as luxury cake.

497. Collusion: Another possibility for firms in oligopoly is for them to collude on price and set profit maximising levels of output. This maximises profit for the industry.

498. Price discrimination: According to Robinson, “Price discrimination is charging different prices for the same product or same price for the differentiated product.”

499. Price penetration: This strategy means using lower initial price to capture a large market. These forces the customers to buy the product and company can capture a very big share and leave very small share for competitors.

500. Skimming Pricing: Skimming pricing is known as charging high price in initial stages. This can be followed by a firm by charging skimming price for a new product in pioneering stage. When demand is either unknown or more inelastic at this stage, market is divided into segments on the basis of different degree of elasticity of demand of different consumers. The demand for new products is likely to be less price elastic in the early stages, that is, the initial high price helps to “Skim the Cream” of the market which is relatively insensitive to price.