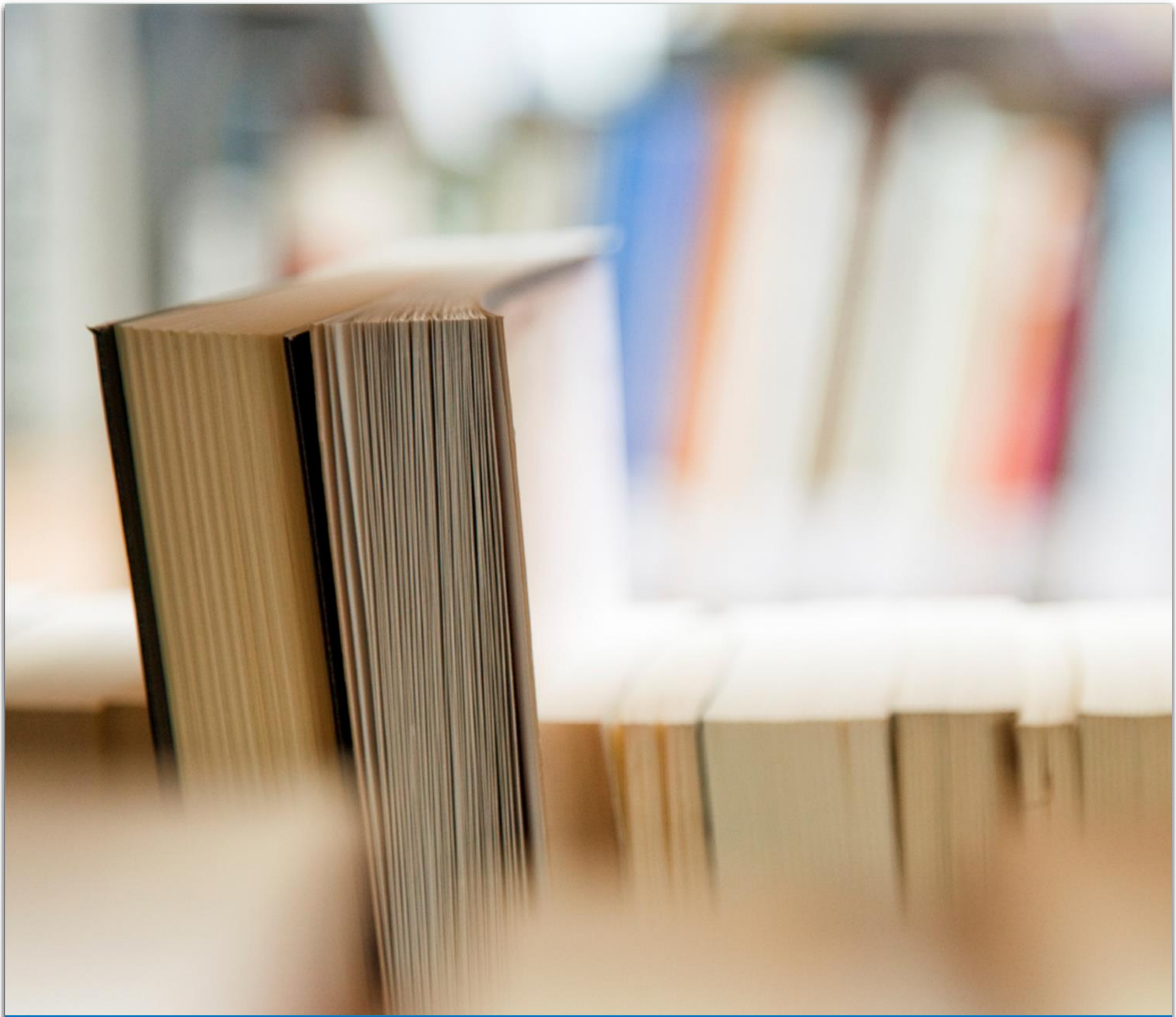

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UNIT – 1: Business Environment and International Business

SYLLABUS

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1.1.2	Political Environment- Role of Government in Business
1.1.3	Legal Environment- Consumer Protection Act, FEMA
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Unit – 1: Sub Unit - 1.1
CONCEPT AND ELEMENTS OF BUSINESS ENVIRONMENT

1.1.1 Economic Environment- Economic Systems, Economic Policies (Monetary and Fiscal Policies):

Economic Environment: The **economic environment** refers to all the economic factors that affect commercial and consumer behavior. The economic environment consists of all the external factors in the immediate marketplace and the broader economy. These factors can influence a business, i.e., how it operates and how successful it might become.

The economic environment consists of different things for different people. For example, for a farmer, the weather and price of fertilizers are important factors.

"The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company."

"These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro)."

Economic environment – factors: The economic environment consists of microeconomic and macroeconomic factors.

Microeconomic factors: The microeconomic environment refers to things that happen at the individual company or consumer level. They do not affect the whole economy. Below are some microeconomic factors that may influence a business:

- Competitors.
- Demand.
- Market size.

- Suppliers.
- Supply.
- How you supply your goods, i.e., the distribution chain. For example, through retail stores, distributors, the Internet, etc.

Macroeconomic factors: The macroeconomic environment, on the other hand, refers to things that affect the entire economy. Macroeconomics is concerned with general or large-scale economic factors, such as:

- Unemployment
- Inflation.
- Interest rates.
- GDP growth. GDP stands for **G**ross **D**omestic **P**roduct. In other words, is the economy in recession, is it booming, etc.?
- Taxes.
- Exchange rates, i.e., how much currencies are worth in relation to one another.
- How much discretionary income consumers have, i.e., income after paying tax, social security, etc.
- Levels of consumer confidence.
- Savings rates.

What is an Economic System?

Economic systems are the means by which countries and governments distribute resources and trade goods and services. They are used to control the five factors of production, including: labor, capital, entrepreneurs, physical resources and information resources. In everyday terms, these production factors involve the employees and money a company has at its disposal, as well as access to **entrepreneurs**, the people who want to run companies or start their own businesses. The physical materials and resources needed to run a business, along with the data and knowledge companies use to be successful, are also factors in production. Different economic systems view the use of these factors in different ways.

Types of Economic Systems: There are many economies around the world. Each has its own distinguishing characteristics, although they all share some basic features. Each economy functions based on a unique set of conditions and assumptions. Economic systems can be categorized into four main types: traditional economies, command economies, mixed economies, and market economies.

1. Traditional economic system: The traditional economic system is based on goods, services, and work, all of which follow certain established trends. It relies a lot on people, and there is very little division of labor or specialization. In essence, the traditional economy is very basic and the most ancient of the four types.

Some parts of the world still function with a traditional economic system. It is commonly found in rural settings in second- and third-world nations, where economic activities are predominantly farming or other traditional income-generating activities.

There are usually very few resources to share in communities with traditional economic systems. Either few resources occur naturally in the region or access to them is restricted in some way. Thus, the traditional system, unlike the other three, lacks the potential to generate a surplus. Nevertheless, precisely because of its primitive nature, the traditional economic system is highly sustainable. In addition, due to its small output, there is very little wastage compared to the other three systems.

2. Command economic system: In a command system, there is a dominant, centralized authority – usually the government – that controls a significant portion of the economic structure. Also known as a planned system, the command economic system is common in communist societies since production decisions are the preserve of the government.

If an economy enjoys access to many resources, chances are that it may lean towards a command economic structure. In such a case, the government comes in and exercises control over the resources. Ideally, centralized control covers valuable resources such as gold or oil. The people regulate other less important sectors of the economy, such as agriculture.

In theory, the command system works very well as long as the central authority exercises control with the general population's best interests in mind. However, that rarely seems to be the case. Command economies are rigid compared to other systems. They react slowly to change because power is centralized. That makes them vulnerable to economic crises or emergencies, as they cannot quickly adjust to changed conditions.

3. Market economic system: Market economic systems are based on the concept of free markets. In other words, there is very little government interference. The government exercises little control over resources, and it does not interfere with important segments of the economy. Instead, regulation comes from the people and the relationship between supply and demand.

The market economic system is mostly theoretical. That is to say, a pure market system doesn't really exist. Why? Well, all economic systems are subject to some kind of interference from a central authority. For instance, most governments enact laws that regulate fair trade and monopolies.

From a theoretical point of view, a market economy facilitates substantial growth. Arguably, growth is highest under a market economic system.

A market economy's greatest downside is that it allows private entities to amass a lot of economic power, particularly those who own resources of great value. The distribution of resources is not equitable because those who succeed economically control most of them.

4. Mixed system: Mixed systems combine the characteristics of the market and command economic systems. For this reason, mixed systems are also known as dual systems. Sometimes the term is used to describe a market system under strict regulatory control.

Many countries in the West follow a mixed system. Most industries are private, while the rest, comprised primarily of public services, are under the control of the government.

Mixed systems are the norm globally. Supposedly, a mixed system combines the best features of market and command systems. However, practically speaking, mixed economies face the challenge of finding the right balance between free markets and government control. Governments tend to exert much more control than is necessary.

What is an Economic Policy? An economic policy refers to actions that a government may take to alter the economy of a city, state, or nation. It is usually comprised of various measures, through which the government seeks to influence the overall economy. There are three methods through which a government typically seeks to control the economy with its budget, known as the allocative, stabilization, and distributive functions. While all three functions are always used collaboratively, their emphasis may change with each new government, era, and global economy.

The allocative function refers to how much of the government's budget will be allocated to certain projects.

Monetary policy: Monetary policy is a central bank's actions and communications that manage the money supply. That includes credit, cash, checks, and money market mutual funds. The most important of these forms of money is credit. It includes loans, bonds, and mortgages.

Monetary policy increases liquidity to create economic growth. It reduces liquidity to prevent inflation. Central banks use interest rates, bank reserve requirements, and the number of government bonds that banks must hold. All these tools affect how much banks can lend. The volume of loans affects the money supply.

Objectives of Monetary Policy: Central banks have three monetary policy objectives.[1] The most important is to manage inflation. The secondary objective is to reduce unemployment, but only after controlling inflation. The third objective is to promote moderate long-term interest rates.

Types of Monetary Policy: Central banks use contractionary monetary policy to reduce inflation. They reduce the money supply by restricting the amount of money banks can lend. The banks charge a higher interest rate, making loans more expensive. Fewer businesses and individuals borrow, slowing growth.

Central banks use expansionary monetary policy to lower unemployment and avoid recession. They increase liquidity by giving banks more money to lend. Banks lower interest rates, making loans cheaper. Businesses borrow more to buy equipment, hire employees, and expand their operations. Individuals borrow more to buy more homes, cars, and appliances. That increases demand and spurs economic growth.

Monetary Policy Tools: All central banks have three tools of monetary policy in common. First, they all use open market operations. They buy and sell government bonds and other securities from member banks. This changes the reserve amount the banks have on hand. A higher reserve means banks can lend less. That's a contractionary policy. In the United States, the Fed sells Treasurys to member banks.

The second tool is the reserve requirement, in which the central banks tell their members how much money they must keep on reserve each night. Not everyone needs all their money each day, so it is safe for the banks to lend most of it out. That way, they have enough cash on hand to meet most demands for redemption. Previously, this reserve requirement has been 10%. However, effective March 26, 2020, the Fed has reduced the reserve requirement to zero.[8]

When a central bank wants to restrict liquidity, it raises the reserve requirement. That gives banks less money to lend. When it wants to expand liquidity, it lowers the requirement. That gives members banks more money to lend. Central banks rarely change the reserve requirement because it requires a lot of paperwork for the members.

The third tool is the discount rate. That's how much a central bank charges members to borrow funds from its discount window. It raises the discount rate to discourage banks from borrowing. That reduces liquidity and slows the economy. It lowers the discount rate to encourage borrowing. That increases liquidity and boosts growth.[9]

In the United States, the Federal Open Market Committee sets the discount rate a half-point higher than the fed funds rate. The Fed prefers banks to borrow from each other.

Most central banks have many more tools. They work together to manage bank reserves.

Fiscal policy: Fiscal policy is what the government employs to influence and balance the economy, using taxes and spending to accomplish this. Fiscal policy tries to nudge the economy in different ways through either expansionary or contractionary policy, which try to either increase economic growth through taxes and spending or slow economic growth to cutback inflation, respectively. Basically, fiscal policy intercedes in the business cycle by counteracting issues in an attempt to establish a healthier economy, and uses two tools - taxes and spending - to accomplish this.

Fiscal policy is often utilized alongside monetary policy, which involves the banking system, the management of interest rates and the supply of money in circulation.

The main goals of fiscal policy are to achieve and maintain full employment, reach a high rate of economic growth, and to keep prices and wages stable. But, fiscal policy is also used to curtail inflation, increase aggregate demand and other macroeconomic issues.

Tools of Fiscal policy: The first tool is taxation. That includes income, capital gains from investments, property, and sales. Taxes provide the income that funds the government. The downside of taxes is that whatever or whoever is taxed has less income to spend on themselves, which is why taxes are unpopular.

The second tool is government spending—which includes subsidies, welfare programs, public works projects, and government salaries. Whoever receives the funds has more money to spend, which increases demand and economic growth.

Types of Fiscal Policy: Expansionary Fiscal Policy and Contractionary Fiscal Policy

- **Expansionary Fiscal Policy:** Expansionary fiscal policy is used by the government when attempting to balance out the contraction phase of the business cycle (especially when in or on the brink of a recession), and uses methods like cutting taxes or increasing government spending on things like public works in an attempt to stimulate economic growth. Expansionary fiscal policy, therefore, attempts to fix a decrease in demand by giving consumers tax cuts and other incentives to increase their purchasing power (and, how much they spend).

  The goal behind expansionary fiscal policy is to lower tax rates and increase consumer aggregate demand, which will increase demand for products, requiring businesses to hire more employees to support the higher demand - and thus, increase employment.
- **Contractionary Fiscal Policy:** On the other hand, contractionary fiscal policy entails increasing tax rates and decreasing government spending in hopes of slowing economic growth for various reasons. In this way, the government may deem it necessary to halt or deter economic growth if inflation caused by increased supply and demand of cash gets out of hand.

  In this manner, contractionary fiscal policy reduces the amount of money in circulation, and, therefore - the amount available for consumers to spend. If an economy is booming and growing too rapidly (as may be caused by expansionary fiscal policy) - which, according to normal rates, should be no more than 3% per year - contractionary fiscal policy may be required to right it.

So, contractionary fiscal policy is often employed when the growth of the economy is unsustainable and is causing inflation, high investment prices, unemployment below healthy levels and recession.

Fiscal Policy Versus Monetary Policy Comparison Chart

	Fiscal Policy	**Monetary Policy**
Definition	Fiscal policy is the use of government expenditure and revenue collection to influence the economy.	Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest to attain a set of objectives oriented towards the growth and stability of the economy.
Principle	Manipulating the level of aggregate demand in the economy to achieve economic objectives of price stability, full employment, and economic growth.	Manipulating the supply of money to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment.
Policy-maker	Government (e.g. U.S. Congress, Treasury Secretary)	Central Bank (e.g. U.S. Federal Reserve or European Central Bank)
Policy Tools	Taxes; amount of government spending	Interest rates; reserve requirements; currency peg; discount window; quantitative easing; open market operations; signalling

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UNIT: 2 Accounting and auditing

Unit – 2: Sub Unit-1
Basic accounting Principles; Concepts and Postulates

Sl. No.	Topics
1	2.1.1Accounting and Book Keeping
2	2.1.1.1 Objectives of accounting
3	2.1.1.2 Classification of Accounting
4	2.1.2 Accounting Principles
5	2.1.3 Capital and Revenue Items
6	2.1.4 Financial statement
7	2.1.4.1 Objectives of Financial Statements
8	2.1.4.2 Users of Financial Statement
9	2.1.4.3 Components of Financial statement

2.1.1 Accounting and Book Keeping

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes recording, classifying, summarizing, analysing, and reporting these transactions to those who are associated with the business. Accounting can be classified as financial accounting, cost accounting and management accounting.

Book keeping is the process of recording financial transactions on a daily basis. With the help of book keeping business entity is able to track all transaction related information relating to operating, investing and financial activities.

Distinguish between Book Keeping and Accounting

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Book Keeping	Accounting
Bookkeeping is mainly related to identifying, measuring, and recording, financial transactions	Bookkeeping is mainly related to identifying, measuring, and recording, financial transactions
Management can't take a decision based on the data provided by bookkeeping	Management can't take a decision based on the data provided by bookkeeping
The objective of bookkeeping is to keep the records of all financial transactions proper and systematic	The objective of bookkeeping is to keep the records of all financial transactions proper and systematic
Financial statements are not prepared as a part of this process	Financial statements are not prepared as a part of this process
Bookkeeping doesn't require any special skill sets	Bookkeeping doesn't require any special skill sets

2.1.1.1 Objectives of accounting

- To maintain full and systematic records of business transactions
- To ascertain profit or loss of the business.
- To depict financial position of the business.
- To provide accounting information to the interested parties.

2.1.1.2 Classification of Accounting

a) Financial accounting

Financial accounting is the process of preparing financial statements that companies' use to show their financial performance and position to people outside the company, Including investors, creditors, suppliers, and customers.

b) Cost accounting

Cost accounting is the process of determining the costs of goods and services to be produced by an organisation. It involves the recording, classification, allocation of various expenditures. This data is generally used in financial accounting. Cost accounting is basically associated with the estimation of cost of a product and services.

c) Management Accounting

Management accounting is the presentation of financial data and business activities for the internal management of the organization. Management accounting basically present the business financial data and information to the internal management of the company in such a manner that it can be used by the management for taking different managerial decisions.

2.1.2 Accounting Principles

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.

What is GAAP?

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

Accounting Principles can be classified as

a) **Accounting Concept**

The term concept includes those basic assumptions, conditions and ideas upon which the science of accounting is based.

- **Separate entity concept**

  The separate entity concept suggests that the financial transactions and balances of a business entity are to be accounted for distinctly from those of its owner. Therefore, when it comes to accounting, a business entity is entirely separated from its owner. That is why an owner's equity is placed on the liability side of a balance sheet. So as per this concept business and owner of the business is separate person. The proprietor is treated as a creditor to the extent of his capital.

- **Going concern Concept**

  According to this 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. So as per this concept it is assume that business will remain in operation for the foreseeable future.

- **Dual Concept**

  According to this concept every transaction has two sides i.e. debit and credit. If one account is debited, another account must be credited. Every business transaction involves duality of effects. (i) Yielding of that benefit (ii) The giving of that benefit.

- **Money Measurement Concept**

  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.

- **Cost Concept or Historical cost concept**

According to this concept the assets should be recorded at the cash amount (or the equivalent) at the time that an asset is acquired. Further, the amount recorded will not be increased for inflation or improvements in market value.

- **Accounting period concept**

Accounting is a continuous process in any business undertaking. Every businessman wants to know the result of his investment and efforts at frequent intervals. Accountants choose some shorter period to measure the result. Therefore, one year has been, generally, accepted as the accounting period. This period is called accounting period. Financial period chosen, in this regard, should be neither too long nor too short.

- **Realisation Concept**

According to realisation concept, which is also known as the "revenue recognition concept", revenue is considered as being earned on the date on which it is realized, i.e., the date on which goods and services are transferred to customers either for cash or for credit. "Credit transactions create debtors and the promise of debtors to make payment is sufficient for the purpose of realising revenue. The realisation concept is important in ascertaining the exact profit earned during a period in a business concern. This concept is very important as it prevents firms from inflating their profits by recording sales and incomes that are likely to accrue.

- **Matching Concept**

  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". So as per matching concept in determining the net profit from business operations all cost which is applicable to revenue of the period should be charged against that.

- **Accrual Concept**

  According to this concept all the transactions should be recorded in the same accounting periods when they actually occur, rather than in the periods when there are actual cash outflow for the transaction.

b) **Accounting Conventions**

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. To be clear, these are nothing but unwritten laws.

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- **Convention of Consistency**

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.

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- **Convention of full disclosure**

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.

- **Convention of Conservatism**

According to this 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.

- **Convention of Materiality**

This convention is contrary to the convention of full disclosure. As per convention of full disclosure all the information whether it is significant or insignificant should be disclosed fully in financial statement but as per materiality only the material facts or significant information should be disclosed in financial statement and financial statement should not be disclosed insignificant information.

2.1.3 Capital and Revenue Items

Capital expenditure

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.

Examples: Purchase of plant and Machinery, motor car, furniture, addition to office building etc.

Revenue Expenditure
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.
Examples: Payment of salaries, rent, commission etc.
Deferred Revenue Expenditure
It 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. These expenses are unusually large in amount and, essentially, the benefits are not consumed within the same accounting period. These expenses are large in amount and, essentially, the benefits are not consumed within the same accounting period. Part of the amount which is charged to profit and loss account in the current accounting period is reduced from total expenditure and rest is shown in the Balance Sheet as a fictitious asset.
Example: Advertisement Expense
Revenue Profit
It is nothing but the positive difference between revenue and the operating expenses.
(Revenue> Operating expenses)
Revenue Loss
It is nothing but the negative difference between revenue and the operating expenses.
(Revenue< Operating expenses). Revenue losses on normal business activity are part of the profit and loss account.
Capital loss
Discount on issue of shares and losses on sale of fixed assets are the capital loss and would be set off against the capital profits only.
Capital profit
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
Revenue Receipt
Sale of stock, commission received, and interest on investment received are the main examples of revenue receipts. Revenue receipts will be credited to the profit and loss account.
Capital Receipts
Sale of fixed assets, capital employed or invested, and loans are the example of capital receipts. Capital receipts will affect the Balance-sheet.

2.1.4 Financial statement

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. These statements are prepared to give users outside of the company, like investors and creditors, more information about the company’s financial positions. Publicly traded companies are also required to present these statements along with others to regulatory agencies in a timely manner. Financial statement not only represents the profit and loss of the business but also the assets and liabilities of the business.

2.1.4.1 Objectives of Financial Statements

(i) It provides necessary information about the financial activities to the interested parties.
(ii) It provides necessary information about the efficiency or otherwise of the management, regarding the proper utilisation of the scarce resources.

(iii) It help to evaluate the earning capacity of the firm by supplying a statement of financial position, a statement of periodical earnings together with a statement of financial activities to the various interested persons.

(iv) It provides necessary data to the government for taking proper decisions relating to duties, taxes and price control, etc. and for some legal and control purposes.

(v) It also provides necessary data and information to the managers for internal reporting and formulation of overall policies.

(vi) It also helps to safeguard the interest of shareholders who are not allowed to go through the day-to-day affairs of the firm.

2.1.4.2 Users of Financial Statement

Financial statement is used by the following parties that are associated with the business organisation-

i) Creditors;
ii) Debtors;
iii) Potential Investors;
iv) Employees;
v) Lenders;
vi) Government.

2.1.4.3 Components of Financial statement

Financial statement includes the following three components-

i) Income Statement or Profit & Loss account
ii) Balance Sheet or The Position Statement
iii) Statement of Changes in Financial Position (Cash flow statement.)

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Unit 3: Business Economics

Sub Unit-1: Meaning and scope of business economics

Sl. no	Topics
1	3.1: Meaning
2	3.2: Scope
3	3.2.1: Demand analysis and forecasting
4	3.2.2: Cost and production analysis
5	3.2.3: Pricing decisions, policies and practices
6	3.2.4: Profit analysis
7	3.2.5: Capital management
8	3.2.6: Effective utilization of business resources
9	3.2.7: Effective use of economic policies for business development
10	3.2.8: Others
11	3.3: Economies of Scale

Unit – 3: Sub unit - 1
Meaning and scope of business economics

3.1 Meaning

In simple words, business economics is the discipline which helps a business manager in decision making for achieving the desired results. In other words, it deals with the application of economic theory to business management.

According to Spencer and Siegelman, Business economics is "the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management". According to Mc Nair and Meriam, "Business economics deals with the use of economic modes of thought to analyze business situation". From the above said definitions, we can say that business economics makes in depth study of the following: i) Understanding the business in a better way ii) Identification of the business areas where economic analysis can be applied iii) Planning for the future based on the past events iv) Decision making

3.2 Scope (Nature) Of Business Economics:

Business economics is a developing science. Its scope is gradually increasing in the modernized world. It covers the following areas

3.2.1 Demand analysis and forecasting: The foremost aspect regarding scope is demand analysis and forecasting. A business firm is an economic unit which transforms productive resources into saleable goods. Since all output is meant to be sold, accurate estimates of demand help a firm in minimizing its costs of production and storage. A firm must decide its total output before preparing its production schedule and deciding on the resources (land, labour, capital and technology) to be employed. Demand forecasts serves as a guide to the management for maintaining its market share in competition with its rivals, thereby securing its profit.

3.2.2 Cost and production analysis: A firm's profitability depends much on its costs of production. A wise manager would prepare cost estimates for a range of output and identify the factors that cause deviations in cost (increase or decrease). Once the factors are known, it can be possible to determine the optimum level of output where the cost of production would be minimum. Production processes are under the charge of engineers but the business manager works to carry out the production function analysis in order to avoid wastage of materials and time. Sound pricing policies (determining selling price) depend much on cost control. The main topics discussed under cost and production analysis are: Cost concepts, cost-output relationships, Economies and Diseconomies of scale and cost control.

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3.2.3 Pricing decisions, policies and practices: Another task before a business economist is the pricing of a product. Since a firm's income and profit depend mainly on the price of the product, the pricing policies and all such decisions are to be taken after careful analysis of the nature of the market in which the firm operates. The important topics covered in this field of study are: Market Structure Analysis, Pricing Practices and Price Forecasting.

3.2.4 Profit analysis: Each and every business tends to earn profit. It is the profit that increases the competitive strength of a firm in the long run. Economists tell us that profits are the reward for taking risk in uncertain situations. A successful business economist is one who can form more or less correct estimates of costs and revenues at different levels of output. The more successful an economist is in reducing uncertainty, the higher are the profits earned by the business. Therefore, profit-planning and profit measurement constitute the most challenging area of business economics.

3.2.5 Capital management: Another challenging problem for a modern business economist is planning the capital investment. Investments are made in the plant and machinery and buildings which are very high. Therefore, capital management requires top level decisions. It deals with Cost of capital, Rate of Return and Selection of projects etc.

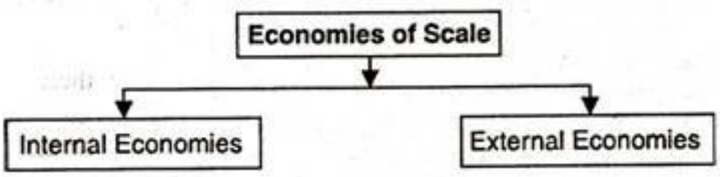
3.2.6 Effective utilization of business resources: It also studies how well resources can be put to best possible use. Various tools and techniques are used to determine least cost-maximum profit combinations. Methods such as linear programming, networking analysis are used in determining the optimal levels of performance.

3.2.7 Effective use of economic policies for business development: Business economics is micro in character but it is always influenced by macro factors. For example, an individual firm's idea (micro economic) of manufacturing plastic bags may be affected by the ban on plastic by the government (macroeconomic). Thus economic policies (macro) have to be carefully studied in order to make proper business decisions. Sometimes economic policies of government also create favorable environment for business units. For instance, Make In India initiative has motivated banks to give more loans to fund seeking companies.

3.2.8 Others: a. Supply analysis b. Competitor analysis c. Distribution and transportation management d. Inventory management e. Linear programming f. Environmental issues g. Business cycles.

3.3 Economies of Scale:

As the scale of production is increased, up to a certain point, one gets economies of scale. Beyond that, there are its diseconomies to scale Marshall has classified economies to scale into two parts as under:



I. Internal Economies:

As a firm increases its scale of production, the firm enjoys several economies named as internal economies. Basically, internal economies are those which are special to each firm. For example, one firm will enjoy the advantage of good management; the other may have the advantage of specialization in the techniques of production and so on.

"Internal economies are those which are open to a single factory, or a single firm independently of the action of other firms. These result from an increase in the scale of output of a firm and cannot be achieved unless output increases." Cairncross

Prof. Koutsoyannis has divided the internal economies into two parts:

A. Real Economies

B. Pecuniary Economies

A. Real Economies:

Real economies are those which are associated with the reduction of physical quantity of inputs, raw materials, various types of labour and capital etc.

These economies are of the following types:

I. Technical Economies:

Technical economies have their influence on the size of the firm. Generally, these economies accrue to large firms which enjoy higher efficiency from capital goods or machinery. Bigger firms having more resources at their disposal are able to install the most suitable machinery.

Therefore, a firm producing on large scale can enjoy economies by the use of superior techniques.

Technical economies are of three kinds:

(i) Economies of Dimension:

A firm by increasing the scale of production can enjoy the technical economies. When a firm increases its scale of production, average cost of production falls but its average return will be more.

(ii) Economies of Linked Process:

A big firm can also enjoy the economies of linked process. A big firm carries all productive activities. These activities get economies. These linked activities save time and transport costs to the firm.

(iii) Economies of the Use of By-Products:

All the large sized firms are in a position to use its by-products and waste-material to produce another material and thus, supplement to their income. For instance, sugar industries make power, alcohol out of the molasses.

2. Marketing Economies:

When the scale of production of a firm is increased, it enjoys numerous selling or marketing economies. In the marketing economies, we include advertisement economies, opening up of show rooms, appointment of sole distributors etc. Moreover, a large firm can conduct its own research to effect improvement in the quality of the product and to reduce the cost of production. The other economies of scale are advertising economies, economies from special arrangements with exclusive dealers. In this way, all these acts lead to economies of large-scale production.

3. Labour Economies:

As the scale of production is expanded them accrue many labour economies, like new inventions, specialization, time saving production etc. A large firm employs large number of workers. Each worker is given the kind of job he is fit for. The personnel. officer evaluates the working efficiency of the labour if possible. Workers are skilled in their operations which save production, time and simultaneously encourage new ideas.

4. Managerial Economies:

Managerial economies refer to production in managerial costs and proper management of large-scale firm. Under this, work is divided and subdivided into different departments. Each department is headed by an expert who keeps a vigil on the minute details of his department. A small firm cannot afford this specialization. Experts are able to reduce the costs of production under their supervision. These also arise due to specialization of management and mechanization of managerial functions.

5. Economies of Transport and Storage:

A firm producing on large scale enjoys the economies of transport and storage. A big firm can have its own means of transportation to carry finished as well as raw material from one place to another. Moreover, big firms also enjoy the economies of storage facilities. The big firm also has its own storage and go down facilities. Therefore, these firms can store their products when prices are unfavorable in the market.

B. Pecuniary Economies:

Pecuniary economies are those which can be had after paying less prices for the factors used in the process of production and distribution. Big firms can get raw material at the low price because they buy the same in the large bulk. In the same way, they enjoy a lot of concessions in bank borrowing and advertisements.

These economies occur to a large firm in the following:

(i) The firms producing output on a large-scale purchase raw material in bulk quantity. As a result of this, the firms get a special discount from suppliers. This is a monetary gain to the firms.

These economies occur to a large firm in the following:

(i) The firms producing output on a large-scale purchase raw material in bulk quantity. As a result of this, the firms get a special discount from suppliers. This is a monetary gain to the firms.
(ii) The large-scale firms are offered loans by the banks at a low interest rate and other favorable terms.
(iii) The large-scale firms are offered concessional transportation facilities by the transport companies because of the large-scale transportation handling.
(iv)The large-scale firms advertise their products on large scales and they are offered advertising facilities at lower prices by advertising firms and newspapers.

II. External Economies:
External economies refer to all those benefits which accrue to all the firms operating in a given industry. Generally, these economies accrue due to the expansion of industry and other facilities expanded by the Government. According to Cairncross, "External economies are those benefits which are shared in by a number of firms or industries when the scale of production in any industry increases." Moreover, the simplest case of an external economy arises when the scale of production function of a firm contains as an implicit variable the output of the industry. A good example is that of coal mines in a locality.

Prof. Cairncross has divided the external economies into the following parts as:
1. Economies of Concentration:
As the number of firms in an area increases each firm enjoys some benefits like, transport and communication, availability of raw materials, research and invention etc. Further, financial assistance from banks and non-bank institutions easily accrue to firm. Concentrations in industries lead to economies of concentration.

2. Economies of Information:
When the number of firms in an industry expands, they become mutually dependent on each other. In other words, they do not feel the need of independent research on individual basis. Many scientific and trade journals are published. These journals provide information to all the firms which relates to new markets, sources of raw materials, latest techniques of production etc.

3. Economies of Disintegration:
As an industry develops, all the firms engaged in it decide to divide and sub-divide the process of production among themselves. Each firm specializes in its own process. For instance, in case of moped industry, some firms specialize in rims, hubs and still others in chains, pedals, tires etc. It is of two types-horizontal disintegration and vertical disintegration.
In case of horizontal disintegration each firm in the industry tries to specialize in one particular item whereas, under vertical disintegration every firm endeavors to specialize in different types of items. Material of one firm may be available and useable as raw materials in the other firms. Thus, wastes are converted into by-products.
The selling firms reduce their costs of production by realizing something for their wastes. The buying firms gain by getting other firms' wastes as raw materials at cheaper rates. As a result of this, the average cost of production declines.

➢ **Significance of Economies of Scale:**
The significance of economies of scale is discussed as under:
(a) Nature of the Industry:

The foremost significance of economies of scale is that it plays an important role in determining the nature of the industry i.e. increasing cost industry, constant cost industry or decreasing cost industry.

(b) Analysis of Cost of Production:

When an industry expands in response to an increase in demand for its products, it experiences some external economies as well as some external diseconomies. The external economies tend to reduce the costs of production and thereby causing an upward shift in the long period average cost curve, whereas the external diseconomies tend to raise the costs and thereby causing an upward shift in the long period average cost curve. If external diseconomies outweigh the external economies, that is, when there are net external diseconomies, the industry would be an Increasing cost industry.

- **What are Economies of Scope?**

Economies of scope describe situations in which the long-run average and marginal cost of a company, organization, or economy decreases, due to the production of some complementary goods and services. An economy of scope means that the production of one good reduces the cost of producing another related good.

While economies of scope are characterized by efficiencies formed by variety, economies of scale are characterized by volume. The latter involves the reduction of the average cost, or the cost per unit, that stems from increasing production for one single type of product. Economies of scale helped drive corporate growth in the 20th century, for example through assembly line production.

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Unit 4: Business Finance

Unit – 4: Sub Unit - 1

Scope and sources of finance; Lease financing

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Sl. No.	Topics
1	4.1.1 What is finance?
2	4.1.1.1 Scope of business finance
3	4.1.1.2 What is Sources of finance?
4	4.1.1.3 Different sources of finance
5	4.1.2 Lease Financing

4.1.1 What is finance?

Finance is the art and science of managing money. It can also be defined as the art of collection of funds and investment of funds.

4.1.1.1 Scope of business finance

No doubt, the scope of finance function is wide because this function affects almost all the aspects of a firm's operations. The finance function includes judgments about whether a company should make more investment in fixed assets or not.

It is largely concerned with the allocation of a firm's capital expenditure over time as also related decisions such as financing investment and dividend distribution. Most of these decisions taken by the finance department affect the size and timing of future cash flow or flow of funds.

At the present state, the academic discipline of finance includes the following specialized areas in its scope.

1. Public Finance

Like business organizations, governments (local, state or federal) raise and spend large sum of money, but unlike business organizations, they pursue non-profit goals. To deal with governmental financial matters, a separate and specialized field of finance has emerged as public finance.

2. Securities and Investment Analysis

This area is of interest to individuals and institutional investors. It covers mainly measurement of risk and return on investment in securities.

3. Institutional Finance

Institutional finance deals with issues of capital formation and the organizations that perform the financing function of the economy. Therefore, it mainly studies saving and capital formation and institutions involved in this process such as banks, insurance companies, provident and pension funds, etc.

4. International Finance

International finance studies economic transactions among nations, corporations and individually internationally. It is concerned with flows of money across international boundaries.

5. Financial Management

Business firms face problems dealing with acquisition of funds and optimum methods of employing the funds. Thus, financial management studies financial problems in individual firms, seeks low-cost funds and seeks profitable business activities.

The popularity of finance is increasing day by day. It is because the study of finance offers rewarding careers opportunities mainly in above areas.

4.1.1.2 What is Sources of finance?

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Sources of finance mean the sources from which capital or fund of the business enterprises are collected.

4.1.1.3 Different sources of finance

Sources of finance can be classified on the basis of repayment period of the funds. It can be classified as long term sources, middle term sources and short term sources. Again on the basis of ownership of sources of finance it may be classified as owned capital and loan capital or borrowed capital. Owned capital is sourced from promoters of the company or from the general public by issuing new equity shares and borrowed capital is sourced from outside sourced. On the bass of generation of funds it can be classified as internal sources of funds and external sources of funds. When the owners generated the funds within the organization is called internal sources of funds. The example of internal sources of funds is retained earnings, etc. The fund which is arranged from outside the business is called external sources of funds. For instance, issuance of equity shares to public, debentures, commercial banks loan, etc.

a) Long term sources of funds

Long term sources of funds means capital requirements for a period of more than 5 years to 10, 15, 20 years or maybe more depending on other factors. Capital expenditures in fixed assets like plant and machinery, land and building, etc of business are funded using long-term sources of finance. Part of working capital which permanently stays with the business is also financed with long-term sources of funds.

i) Equity share capital

Equity shares are the main source of finance of a firm. It is issued to the general public. Equity shareholders do not enjoy any preferential rights with regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business by enjoying voting rights and all the shareholders collectively are the owners of the company. There are basically four types of equity issues namely new issue, bonus issue, right issue and sweat issue.

ii) Preference share capital

Preference shares are one of the special types of share capital having fixed rate of dividend and they carry preferential rights over ordinary equity shares in sharing of profits and also claims over assets of the firm. It is ranked between equity and debt as far as priority of repayment of capital is concerned.

Types of preference share

Preference share can be classified as cumulative preference share, non- cumulative preference share, convertible preference share, non- convertible preference share, redeemable preference share, irredeemable preference share, participating preference share and non- participating preference share.

iii) Retained earnings

Retained earnings are the portion of profits which is not distributed among the shareholders but retained and used in business is called retained earnings. It is also referred to as ploughing back of profit. This is one of the important sources of internal financing used for fixed as well as working capital. Retained earnings increase the value of shareholders in case of a growing firm.

Retained profits have several major advantages:

They are cheap (though not free) – effectively the "cost of capital" of retained profits is the opportunity cost for shareholders of leaving profits in the business (i.e. the return they could have obtained elsewhere)

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They are very flexible – management have complete control over how they are reinvested and what proportion is kept rather than paid as dividends

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They do not dilute the ownership of the company

iv) Debenture

A debenture is a type of debt instrument that is not secured by collateral and usually has a term greater than 10 years. Debentures are backed only by the creditworthiness and reputation of the issuer. Both corporations and governments frequently issue debentures to raise capital or funds. Debenture is considered as the sources of loan or borrowed capital. For collecting funds through debenture institution need to pay interest periodically at certain predetermined rate of interest.

Types of Debenture

Debenture can be classified as redeemable, irredeemable, convertible, non-convertible, mortgage, naked and first and second debenture.

v) Venture capital funding

Venture capital funding is a source of private equity for Start- up, small expanding companies, and private companies that are planning to go public. The start-up business is usually at the earliest stages of development. In addition, it may be little more than an idea and a business plan. Because the start-up enterprise has no record of success, the venture capital investment is considered risky. In return for the venture capital funding, the venture capitalist typically wants high returns on the loan as well as a stake in the equity of the start-up company. A venture capitalist is an investor who invests in risky start-up businesses. The venture capital investor provides funding to an entrepreneur who may not have access to substantial bank loans or other sources of capital. Venture capitalists also invest in small companies that are expanding. They also invest in private companies planning to go public. They will often want to participate in the decision-making of the business in which they invest. Share capital issued by a company for the first time is also known as venture capital.

Venture capital financing involves following stages-

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.

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.

First stage or Emerging stage

First stage financing typically coincides with the company's market launch, when the company is finally about to start seeing a profit.

Expansion stage

In this stage the company is seeing exponential growth and needs additional funding to keep up with the demands.

Bridge stage

The final stage of venture capital financing, the bridge stage is when companies have reached maturity. Funding obtained here is typically used to support activities like mergers, acquisitions, or IPOs.

b) Short –term sources

Short term fund is required for funding day- to-day operations of a business and its repayment period must be less than 1 year. The need for short-term finance arises to finance the current assets of a business like an inventory of raw material and finished goods, debtors, minimum cash and bank balance etc. Short-term financing is also named as working capital financing.

i) Trade credit

Trade credit is an important external source of working capital financing. It is a short-term credit extended by suppliers of goods and services in the normal course of business, to a buyer in order to enhance sales. Trade credit arises when a supplier of goods or services allows customers to pay for goods and services at a later date. Cash is not immediately paid and deferral of payment represents a source of finance.

ii) Public deposit

Public deposits refer to the unsecured deposits invited by companies from the public mainly to finance working capital needs. A company wishing to invite public deposits makes an advertisement in the newspapers. Any member of the public can fill up the prescribed form and deposit the money with the company. The company in return issues a deposit receipt. This receipt is an acknowledgement of debt by the company. The terms and conditions of the deposit

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are printed on the back of the receipt. The rate of interest on public deposits depends on the period of deposit and reputation of the company.

A company can invite public deposits for a period of six months to three years. Therefore, public deposits are primarily a source of short-term finance. However, the deposits can be renewed from time-to-time. Renewal facility enables companies to use public deposits as medium-term finance.

iii) Factoring

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. In other words, a cash-strapped business, unable to get desperately needed funds, sells off its invoices, that are called account receivables, to a third party and in exchange, gets the much needed cash.

4.1.2 Lease Financing

Lease financing is a method of financing through agreement between the owner and user of assets for a specified period of time. Under this type of financing ,the lessor i.e. the leasing company purchases the assets from the manufacturers or dealers or produces the assets and gives lease to the lessee i.e., the user and the lessee pays the instalments at periodical intervals. The instalments are treated as rent of the asset until the last payment is made. Lease financing is an alternative to the purchase of an asset out of own or borrowed funds.

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Lease financing is made through the following form of leasing:

i) **Sale and lease back**-A sale and lease-back agreement generally occurs in a situation where the lessee has already acquired a property but needs to free up capital in order to maintain operational cash flows. In such a case, 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.

ii) **Direct leasing**- Direct sale refers to the situation where the lessor directly leases the property to the lessee. The lessor either owns the property already or buys it from the manufacturer.

iii) **Leveraged leasing**-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. In this situation, the **lender holds title to the leased asset**, while all lessee payments are collected by the lessor and passed to the lender. The lender can repossess the asset in the event of a lessee payment default in this arrangement; the lessor can recognize depreciation expenses on the asset for tax purposes, while the lessee can deduct its lease payments from taxable income.

iv) **Financial lease-**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.

v) **Operating lease-** 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. The Lessor gives the right to the Lessee in return for regular payments for an agreed period of time.

Unit – 5: Business Statistics and Research Methods

Unit – 5: Sub Unit - 1
Measures of Central Tendency

5.1.1 Definition: Central tendency is a descriptive summary of a dataset through a single value that reflects the center of the data distribution. Along with the variability (dispersion) of a dataset, central tendency is a branch of descriptive statistics.
The central tendency is one of the most quintessential concepts in statistics. Although it does not provide information regarding the individual values in the dataset, it delivers a comprehensive summary of the whole dataset.

5.1.2 Objectives and Functions of Averages

- **Representative of the group:** An average represents all the features of a group; hence the results about the whole group can be deduced from it.
- **Brief description:** An average gives us simple and brief description of the main features of the whole data.
- **Helpful in comparison:** The measures of central tendency or averages reduce the data to a single value which is highly useful for making comparative studies. For example, comparing the per capita income of two countries, we can conclude that which country is richer.
- **Helpful in formulation of policies:** Averages help to develop a business in case of a firm or help the economy of a country to develop.
- **Base of other statistical Analysis:** Other statistical devices such as mean deviation, co-efficient of variation, co-relation, analysis of time series and index numbers are also based on the averages.

5.1.3 Characteristics or Essentials of a Good Average: The following are the main features of averages:

- **Simplicity:** The fundamental feature of the average is that it should be easy calculate and simple to follow.
- **Representation:** Average should represent the entire mass of data.
- **Rigidly Defined:** Averages should be rigidly defined. If it is so, instability in its value will be no more and would always be a definite figure.
- **Algebraic Treatment:** Averages are always capable of further algebraic treatment.
- **Clear and Stable Definition:** A good average should have a clear and stable definition.
- **Absolute Number:** A good average should be an absolute number.
- **Effect of fluctuations of Sampling:** A good average should not be affected by actuations of sampling. In other words, if different samples are taken from the production of rice, the mean of these samples should be equal.
- **Not affected by skewness:** A good average is one which is not affected by skewness in the distribution. Contrary to this, if it is affected by skewness, it cannot become a true representative.

- **Based on all values of a variable:** An average is said to be a true preventative only when it is based on all the values of a variable otherwise, it cannot considered a good average.
- **No Effect of Extreme values:** For a good average, it should not be unduly affected by extreme values. If it is so, it will not be a true representative.
- **Value can be found by Graphic Method:** A good average is one which can found by arithmetic as well as graphic method.
- **Possible to find control Tendency for open end class interval:** In many distributions ends are open. So, a good average is one which can be calculated even in en end class intervals.

5.1.4 Measures of Central Tendency: Generally, the central tendency of a dataset can be described using the following measures:

- **Mean (Average):** Represents the sum of all values in a dataset divided by the total number of the values.
- **Median:** The middle value in a dataset that is arranged in ascending order (from the smallest value to the largest value). If a dataset contains an even number of values, the median of the dataset is the mean of the two middle values.
- **Mode:** Defines the most frequently occurring value in a dataset. In some cases, a dataset may contain multiple modes while some datasets may not have any mode at all.
- Even though the measures above are the most commonly used to define central tendency, there are some other central tendency measures, including, but not limited to, geometric mean, harmonic mean, midrange, and geometric median.
- The selection of central tendency as a measure depends on the properties of a dataset. For instance, mode is the only central tendency measure of categorical data while a median works best with ordinal data.
- Although mean is regarded as the best measure of central tendency for quantitative data, it is not always the case. For example, mean may not work well with quantitative datasets that contain extremely large or extremely small values. The extreme values may distort the mean. Thus, you may consider other options of central tendency.
- The measures of central tendency can be found using a formula or definition. Also, they can be identified using a frequency distribution graph. Note that for the datasets that follow a normal distribution, the mean, median, and mode are located on the same spot on the graph.

- **Arithmetic Mean:** The arithmetic mean of a set of observed data is defined as being equal to the sum of the numerical values of each and every observation divided by the total number of observations.

  Properties of Arithmetic Mean:

  Property 1: If all the observations assumed by a variable are constants, say "k", then arithmetic mean is also "k".

  For example, if the height of every student in a group of 10 students is 170 cm, the mean height is, of course 170 cm.

  Property 2: The algebraic sum of deviations of a set of observations from their arithmetic mean is zero. That is, for unclassified data, $\sum(x - \bar{x}) = 0$.

And for a grouped frequency distribution, $\sum f(x - \bar{x}) = 0$.
For example, if a variable "x" assumes five observations, say 10, 20, 30, 40, 50, then $\bar{x} = 30$.
The deviations of the observations from arithmetic mean $(x - \bar{x})$ are -20, -10, 0, 10, 20.
Now, $\sum(x - \bar{x}) = (-20) + (-10) + 0 + 10 + 20 = 0$
Property 3: Arithmetic mean is affected due to a change of origin and/or scale which implies that if the original variable "x" is changed to another variable "y" effecting a change of origin, say "a" and scale, say "b", of "x". That is $y = a + bx$.
Property 4: If there are two groups containing n_1 and n_2 observations $\bar{x}_1$ and $\bar{x}_2$ are the respective arithmetic means, then the combined arithmetic mean is given by $\bar{x} = (n_1\bar{x}_1 + n_2\bar{x}_2) / (n_1 + n_2)$. This property could be extended to more than two groups and we may write it as $\bar{x} = \sum n\bar{x} / \sum n$
Here, $\sum n\bar{x} = n_1\bar{x}_1 + n_2\bar{x}_2 + \ldots\ldots\ldots\ldots$
$\sum n = n_1 + n_2 + \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots$
Some Other Properties of Arithmetic Mean
1) It is rigidly defined.
2) It is based on all the observations.
3) It is easy to comprehend.
4) It is simple to calculate.
5) It is least affected by the presence of extreme observations.
6) It is amenable to mathematical treatment or properties.

- **Geometric Mean**

Introduction: A special type of average where we multiply the numbers together and then take a square root (for two numbers), cube root (for three numbers) etc.
In mathematics, the **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). The geometric mean is defined as the *n*th root of the product of *n* numbers,.
A geometric mean is often used when comparing different items—finding a single "figure of merit" for these items—when each item has multiple properties that have different numeric ranges.[3] For example, the geometric mean can give a meaningful value to compare two companies which are each rated at 0 to 5 for their environmental sustainability, and are rated at 0 to 100 for their financial viability. If an arithmetic mean were used instead of a geometric mean, the financial viability would have greater weight because its numeric range is larger. That is, a small percentage change in the financial rating (e.g. going from 80 to 90) makes a much larger difference in the arithmetic mean than a large percentage change in environmental sustainability (e.g. going from 2 to 5). The use of a geometric mean normalizes the differently-ranged values, meaning a given percentage change in any of the properties has the same effect on the geometric mean. So, a 20% change in environmental sustainability from 4 to 4.8 has the same effect on the geometric mean as a 20% change in financial viability from 60 to 72.
The geometric mean applies only to positive numbers.[4] It is also often used for a set of numbers whose values are meant to be multiplied together or are exponential in

nature, such as data on the growth of the human population or interest rates of a financial investment.

The geometric mean is also one of the three classical Pythagorean means, together with the aforementioned arithmetic mean and the harmonic mean. For all positive data sets containing at least one pair of unequal values, the harmonic mean is always the least of the three means, while the arithmetic mean is always the greatest of the three and the geometric mean is always in between (see Inequality of arithmetic and geometric means.)

- **Harmonic Mean**

In mathematics, the **harmonic mean** (sometimes called the **subcontrary mean**) is one of several kinds of average, and in particular, one of the Pythagorean means. Typically, it is appropriate for situations when the average of rates is desired.

The harmonic mean can be expressed as the reciprocal of the arithmetic mean of the reciprocals of the given set of observations.

Harmonic mean is a type of average that is calculated by dividing the number of values in the data series by the sum of reciprocals ($1/x_i$) of each value in the data series. A harmonic mean is one of the three Pythagorean means (the other two are arithmetic mean and geometric mean). The harmonic mean always shows the lowest value among the Pythagorean means.

The harmonic mean is often used to calculate the average of the ratios or rates. It is the most appropriate measure for ratios and rates because it equalizes the weights of each data point. For instance, the arithmetic mean places a high weight to large data points, while geometric mean gives a lower weight to the smaller data points.

In finance, the harmonic mean is used to determine the average for financial multiples such as price-to-earnings (P/E) ratio. The financial multiples should not be averaged using the arithmetic mean because it is biased toward larger values. One of the most common problems in finance that uses the harmonic mean is the calculation of the ratio of a portfolio that consists of several securities.

Formula for Harmonic Mean

The general formula for calculating a harmonic mean is:

Harmonic mean = $n / (\sum 1/x_i)$

Where:

- n – the number of the values in a dataset
- x_i – the point in a dataset

The weighted harmonic mean can be calculated using the following formula:

Weighted Harmonic Mean = $(\sum w_i) / (\sum w_i/x_i)$

Where:

- w_i – the weight of the data point
- x_i – the point in a dataset

Relationship among the Average:

In any distribution where the original items differ in size, then
either the values of A.M > G.M > H.M (or)
H.M < G.M < A.M in case all items are identical then A.M. = G.M = H.M

Median: In statistics and probability theory, the **median** is the value separating the higher half from the lower half of a data sample, a population or a probability distribution. For a data set, it may be thought of as the "middle" value. For example, the basic advantage of the median in describing data compared to the mean (often simply described as the "average") is that it is not skewed so much by a small proportion of extremely large or small values, and so it may give a better idea of a "typical" value. For example, in understanding statistics like household income or assets, which vary greatly, the mean may be skewed by a small number of extremely high or low values. Median income, for example, may be a better way to suggest what a "typical" income is. Because of this, the median is of central importance in robust statistics, as it is the most resistant statistic, having a breakdown point of 50%: so long as no more than half the data are contaminated, the median will not give an arbitrarily large or small result.

Use of Median: The median can be used as a measure of location when one attaches reduced importance to extreme values, typically because a distribution is skewed, extreme values are not known, or outliers are untrustworthy, i.e., may be measurement/transcription errors.

As a median is based on the middle data in a set, it is not necessary to know the value of extreme results in order to calculate it. For example, in a psychology test investigating the time needed to solve a problem, if a small number of people failed to solve the problem at all in the given time a median can still be calculated.

The median is simple to understand and easy to calculate, while also a robust approximation to the mean, the median is a popular summary statistic in descriptive statistics. In this context, there are several choices for a measure of variability: the range, the interquartile range, the mean absolute deviation, and the median absolute deviation.

For practical purposes, different measures of location and dispersion are often compared on the basis of how well the corresponding population values can be estimated from a sample of data. The median, estimated using the sample median, has good properties in this regard. While it is not usually optimal if a given population distribution is assumed, its properties are always reasonably good. For example, a comparison of the efficiency of candidate estimators shows that the sample mean is more statistically efficient when — and only when — data is uncontaminated by data from heavy-tailed distributions or from mixtures of distributions.[*citation needed*] Even then, the median has a 64% efficiency compared to the minimum-variance mean (for large normal samples), which is to say the variance of the median will be ~50% greater than the variance of the mean.

Mode: The mode is the number that appears most frequently in a set. A set of numbers may have one mode, more than one mode, or no mode at all. Other popular measures of central tendency include the mean, or the average (mean) of a set, and the median, the middle value in a set.

Understanding the Mode

In statistics, data are distributed in various ways. The most often cited distribution is the classic normal (bell-curve) distribution. In this, and some other distributions, the mean (average) value falls at the mid-point, which is also the peak frequency of observed values. For such a distribution, this value is also the mode—the most frequently occurring value in the data.

In other distributions, the most frequent value may differ from the modal value. For instance, the average frequency of people born with six fingers is around 0.2%, but the mode is zero since the most common outcome is five fingers.

Key Takeaways

- In statistics, the mode is the most commonly observed value in a set of data.
- For the normal distribution, the mode is also the same value as the mean and median.
- In many cases, the modal value will differ from the average value in the data.

Examples of the Mode

For example, in the following list of numbers, 16 is the mode since it appears more times in the set than any other number:

- 3, 3, 6, 9, **16, 16, 16**, 27, 27, 37, 48

A set of numbers can have more than one mode (this is known as *bimodal* if there are two modes) if there are multiple numbers that occur with equal frequency, and more times than the others in the set.

- **3, 3, 3**, 9, **16, 16, 16**, 27, 37, 48

In the above example, both the number 3 and the number 16 are modes as they each occur three times and no other number occurs more often.

If no number in a set of numbers occurs more than once, that set has no mode:

- 3, 6, 9, 16, 27, 37, 48

A set of numbers with two modes is **bimodal**, a set of numbers with three modes is **trimodal**, and a set of numbers with four or more nodes is **multimodal**.

Advantages and Disadvantages of the Mode

Advantages:

- The mode is easy to understand and calculate.
- The mode is not affected by extreme values.
- The mode is easy to identify in un-grouped data and discrete frequency distribution.
- The mode is useful for qualitative data.
- The mode can be computed in an open-ended frequency table.
- The mode can be located graphically.

Disadvantages:

- The mode is not well defined.
- The mode is not based on all values.
- The mode is stable for large values and will not be well defined if the data consist of a small number of values.
- The mode is not capable of further mathematical treatment.
- Sometimes data have one mode, more than one mode, or no mode at all.
- Empirical Relationship between Mean, Median and Mode
- In case of a moderately skewed distribution, the difference between mean and mode is almost equal to three times the difference between the mean and median. Thus, the empirical mean median mode relation is given as:

Mean – Mode = 3 (Mean – Median)

Mean Median Mode Relation with Frequency Distribution

- **Frequency Distribution with Symmetrical Frequency Curve**

If a frequency distribution graph is having a symmetrical frequency curve, the mean, median, and mode will be equal.

- **For Positively Skewed Frequency Distribution**

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

- **For Negatively Skewed Frequency Distribution**

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

UNIT – 6: Business Management and Human Resource Management

Sub Unit – 1: PRINCIPLES AND FUNCTIONS OF MANAGEMENT

SL. NO	TOPICS
6.1.1	Fayol's 14 Principles of Management
6.1.2	The Importance of the Principles of Management
6.1.3	Functions of Management

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Unit – 6: Sub Unit - 1
Principles and Functions of Management

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Management is essential to any organization that wishes to be efficient and achieve its aims. Without someone in a position of authority there would be organizational anarchy with no structure and very little, if any focus. It has been said that management has four basic functions – planning, organizing, leading and controlling. Common sense dictates that without these principles of management being in place an organization would have trouble achieving its aims, or even coming up with aims in the first place! A classic theory on the principles of management was written by Henri Fayol. It seeks to divide management into 14 principles. We'll take a look at these basic principles of management and explain them in easy to understand terminology.

In the last century, organizations already had to deal with management in practice. In the early 1900s, large organizations, such as production factories, had to be managed too. At the time there were only few (external) management tools, models and methods available.

Thanks to scientists like Henri Fayol (1841-1925) the first foundations were laid for modern scientific management. 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. Henri Fayol 's principles of management and research were published in the book '*General and Industrial Management*' (1916).

6.1.1 Fayol's 14 Principles of Management

14 principles of Management are statements that are based on a fundamental truth. These principles of management serve as a guideline for decision-making and management actions. They are drawn up by means of observations and analyses of events that managers encounter in practice. Henri Fayol was able to synthesize 14 principles of management after years of study.

Division of Work: In practice, employees are specialized in different areas and they have different skills. Different levels of expertise can be distinguished within the knowledge areas (from generalist to specialist). Personal and professional developments support this. According to Henri Fayol specialization promotes efficiency of the workforce and increases productivity. In addition, the specialization of the workforce increases their accuracy and speed. This management principle of the 14 principles of management is applicable to both technical and managerial activities.

Authority and Responsibility: In order to get things done in an organization, management has the authority to give orders to the employees. Of course with this authority comes responsibility. According to Henri Fayol, the accompanying power or authority gives the management the right to give orders to the subordinates. The responsibility can be traced back from performance and it is therefore necessary to make agreements about this. In other words, authority and responsibility go together and they are two sides of the same coin.

Discipline: This third principle of the 14 principles of management is about obedience. It is often a part of the core values of a mission and vision in the form of good conduct and respectful interactions. This management principle is essential and is seen as the oil to make the engine of an organization run smoothly.

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Unity of Command: 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. If tasks and related responsibilities are given to the employee by more than one manager, this may lead to confusion which may lead to possible conflicts for employees. By using this principle, the responsibility for mistakes can be established more easily.

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Unity of Direction: This management principle of the 14 principles of management is all about focus and unity. All employees deliver the same activities that can be linked to the same objectives. All activities must be carried out by one group that forms a team. These activities must be described in a plan of action. The manager is ultimately responsible for this plan and he monitors the progress of the defined and planned activities. Focus areas are the efforts made by the employees and coordination.

Subordination of Individual Interest: There are always all kinds of interests in an organization. In order to have an organization function well, **Henri Fayol** indicated that personal interests are subordinate to the interests of the organization (ethics). The primary focus is on the organizational objectives and not on those of the individual. This applies to all levels of the entire organization, including the managers.

Remuneration: Motivation and productivity are close to one another as far as the smooth running of an organization is concerned. This management principle of the 14 principles of management argues that the remuneration should be sufficient to keep employees motivated and productive. There are two types of remuneration namely non-monetary (a compliment, more responsibilities, credits) and monetary (compensation, bonus or other financial compensation). Ultimately, it is about rewarding the efforts that have been made.

The Degree of Centralization: Management and authority for decision-making process must be properly balanced in an organization. This depends on the volume and size of an organization including its hierarchy. Centralization implies the concentration of decision making authority at the top management (executive board). Sharing of authorities for the decision-making process with lower levels (middle and lower management), is referred to as decentralization by **Henri Fayol. Henri Fayol** indicated that an organization should strive for a good balance in this.

Scalar Chain: Hierarchy presents itself in any given organization. This varies from senior management (executive board) to the lowest levels in the organization. **Henri Fayol**'s "hierarchy" management principle states that there should be a clear line in the area of authority (from top to bottom and all managers at all levels). This can be seen as a type of management structure. Each employee can contact a manager or a superior in an emergency situation without challenging the hierarchy. Especially, when it concerns reports about calamities to the immediate managers/superiors.

Order: According to this principle of the 14 principles of management, employees in an organization must have the right resources at their disposal so that they can function properly in an organization. In addition to social order (responsibility of the managers) the work environment must be safe, clean and tidy.

Equity: The management principle of equity often occurs in the core values of an organization. According to **Henri Fayol**, employees must be treated kindly and equally. Employees must be in the right place in the organization to do things right. Managers should supervise and monitor this process and they should treat employees fairly and impartially.

Stability of Tenure of Personnel: This management principle of the 14 principles of management represents deployment and managing of personnel and this should be in balance with the service that is provided from the organization. Management strives to minimize employee turnover and to have the right staff in the right place. Focus areas such as frequent change of position and sufficient development must be managed well.

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Initiative: Henri Fayol argued that with this management principle employees should be allowed to express new ideas. This encourages interest and involvement and creates added value for the company. Employee initiatives are a source of strength for the organization according to Henri Fayol. This encourages the employees to be involved and interested.

Esprit de Corps: The management principle 'esprit de corps' of the 14 principles of management stands for striving for the involvement and unity of the employees. Managers are responsible for the development of morale in the workplace; individually and in the area of communication. Esprit de corps contributes to the development of the culture and creates an atmosphere of mutual trust and understanding.

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. Although they are obvious, many of these matters are still used based on common sense in current management practices in organizations. It remains a practical list with focus areas that are based on Henri Fayol 's research which still applies today due to a number of logical principles.

6.1.2 The Importance of the Principles of Management

Having a clear management structure in place is vital for any successful organization. Efficient and well intentioned management sets the tone for the rest of the staff. It is common for the attitude approach of managers to filter through the entire organization, so having managers working in an exemplary way is an excellent example for employees to follow.

6.1.3 Functions of Management

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. It is a dynamic process consisting of various elements and activities. These activities are different from operative functions like marketing, finance, purchase etc. Rather these activities are common to each and every manger irrespective of his level or status.

Different experts have classified functions of management. According to *George & Jerry*, "There are four fundamental functions of management i.e. planning, organizing, actuating and controlling".

According to Henry Fayol, "To manage is to forecast and plan, to organize, to command, & to control". Whereas Luther Gullick has given a keyword '**POSDCORB**' where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. But the most widely accepted are functions of management given by KOONTZ and O'DONNEL i.e. **Planning**, **Organizing**, **Staffing**, **Directing** and **Controlling**.

For theoretical purposes, it may be convenient to separate the function of management but practically these functions are overlapping in nature i.e. they are highly inseparable. Each function blends into the other & each affects the performance of others.

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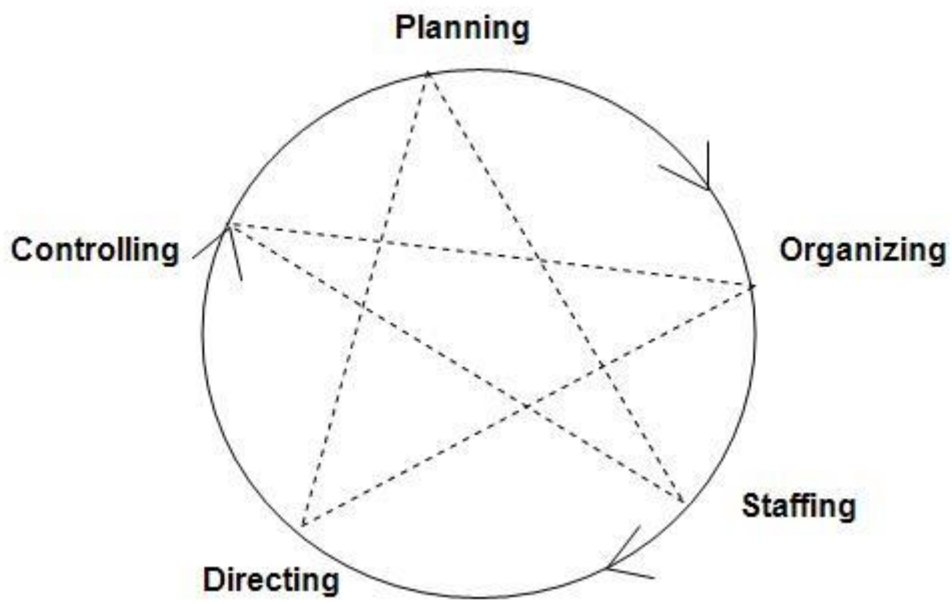

Planning: It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to KOONTZ, "Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be". A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

Organizing: It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, "To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel's". To organize a business involves determining & providing human and non-human resources to the organizational structure. Organizing as a process involves:

- Identification of activities.
- Classification of grouping of activities.
- Assignment of duties.
- Delegation of authority and creation of responsibility.
- Coordinating authority and responsibility relationships.

Staffing: It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behavior etc. The main purpose o staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to Kootz & O'Donell, "Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed under the structure". Staffing involves:

- Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).
- Recruitment, Selection & Placement.
- Training & Development.
- Remuneration.
- Performance Appraisal.
- Promotions & Transfer.

Directing**:** It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

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

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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.

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

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

Controlling**:** It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to *Theo Haimann*, "Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation". According to Koontz & O'Donell "Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished". Therefore controlling has following steps:

a. Establishment of standard performance.
b. Measurement of actual performance.
c. Comparison of actual performance with the standards and finding out deviation if any.
d. Corrective action.

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Unit: 7 Banking and Financial Institutions

Unit – 7: Sub Unit - 1
Overview of Indian financial system

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Sl. No.	Topics
1	**7.1.1 Overview of Indian Financial system**
2	**7.1.2 Components of Indian Financial System**
3	**7.1.3 Functions of Indian Financial system**

7.1.1 Overview of Indian Financial system

The financial system refers to set of complex and interconnected components consisting financial institutions, financial markets, financial instruments, financial regulators and financial services. The aim of the financial system is to facilitate the circulation of funds in an economy. Financial system helps in movement of funds from surplus unit to deficit spending unit. Financial system can be defined as "the integrated form financial institutions, financial markets, financial securities, and financial services which aim to circulate the funds in an economy for economic growth".

7.1.2 Components of Indian financial system

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

7.1.3 Functions of Indian Financial system

- The financial system helps in optimal allocation of financial resources in an economy.
- It helps in establishing a link between savers and investors.

- The financial system allows 'asset-liability change'. When they accept deposits from customers, banks make claims against themselves, but they also make assets when providing loans to customers.
- Economic resources (i.e., money) are transferred from one party to another through the financial system.
- The financial system ensures the efficient functioning of the payment mechanism in the economy. All transactions between buyers and sellers of goods and services are easily affected due to the financial system.
- In the case of mutual funds, the financial system helps in risk change by diversification.
- The financial system increases the liquidity of financial claims.
- The financial system helps in finding the prices of financial assets from the contact of buyers and sellers. For example, the value of the securities is determined by capital market demand and supply forces.
- The financial system helps reduce the cost of transactions.

Sub Unit: 2 Types of banks: Commercial banks; Regional Rural Banks (RRBs); Foreign banks; Cooperative banks

Sl. No	Topics
4	7.2.1 Types of Banks
5	7.2.1.1 Commercial Banks
6	7.2.1.2. Small Finance Banks
7	7.2.1.3 Payments Banks
8	7.2.1.4 Cooperative Banks
9	7.2.2 Functions of commercial banks

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7.2.1 Types of Banks

Banks can be broadly be classified as Commercial Banks, Small Finance bank, Payment Banks and Co-Operative Bank

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7.2.1.1. Commercial Banks

Commercial Bank can be described as a financial institution that offers basic investment products like a savings account, current account, etc. to the individuals and corporates. Along with that, it provides a range of financial services to the general public such as accepting deposits, granting loans and advances to the customers. It is a profit making company, which pays interest at a low rate to the depositors and charges higher rate of interest to the borrowers and in this way, the bank earns the profit.

Structure of commercial banks

Commercial banks are classified into two categories i.e. **scheduled commercial banks** and **non-scheduled commercial banks.**

A) Schedule Commercial Banks

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs, they have to satisfy the RBI that their affairs are carried out in the interest of their depositors. All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. As per market capitalisation on June, 2020 HDFC Bank rank first and State bank of India rank second in India. In case of Private sector banks HDFC rank first as per market capitalisation and SBI rank first in case of public sector banks as per market capitalisation.

I) Public Sector Banks

When the Government holds more than 51% of the share capital of a publicly listed banking company, then that bank is called as Public sector bank.

i) SBI and its subsidiaries banks

State Bank of India (SBI) is the country's largest commercial bank in terms of assets, deposit and employees. It is a government –owned corporation which offers a wide range of general banking services from loans and advances to corporates and individuals in India and abroad. All subsidiary banks of SBI and Bhartiya Mahila Bank have been merged into SBI in April 2017.

ii) Nationalised Banks

In 1955, Imperial Bank of India was nationalised and was given the name State Bank of India. On 19th July, 1969, major 14 Indian commercial banks were nationalised. In 1980, another 6 banks were nationalised. Till the year 1980, approximately 80% of the banking segment in India was under government's ownership.

Objectives of Nationalisation of Banks

- To mobilise savings of the people to the maximum possible extent and utilise them for productive purposes;
- To meet the legitimate credit needs of private sector industry and trade (big or small);
- To counter the menace of money lenders;
- To bring about development and financial inclusion in rural areas to benefit farmers and other small scale/cottage industries;
- To increase the reach of bank towards rural areas i.e. to counter the urban bias;
- To make the banking industry tilt towards social purpose instead of profit making org. as was the trend then;
- To check (stop) the use of the bank credit for speculative and other unproductive purposes.

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iii) Regional Rural Banks

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. NABARD holds the apex position in the agricultural and rural development. For examples Assam Gramin Vikash Bank, Bangiya Gramin Vikash Bank, Karnataka Gramin Bank etc.

II) **Private Sector Banks**

When the private individuals own more than 51% of the share capital, then that banking company is a private one. However, these banks are publicly listed companies in a recognized exchange.

Name of Some Private Sector Banks operating in India

Axis Bank, ICICI Bank, Kotak Mahindra Bank, Indusind Bank, IDFC Bank, DCB Bank, Federal Bank, Bandhan Bank, Yes Bank etc.

III) **Foreign Sector Banks**

Banks set up in foreign countries, and operate their branches in the home country are called as foreign banks.

Name of Some Foreign Sector Banks operating in India

Hong Kong and Shanghai Banking Corporation (HSBC),
Citibank,
American Express Bank,
Standard Chartered Bank,
DBS Bank

B) Non- schedule Commercial Banks

Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country. They work on the lines of a cooperative society and help people in need with mutual aspirations. A few local area banks are: **Coastal Local Area Bank Ltd (Vijayawada), Capital Local Area Bank Ltd (Phagwara), Subhadra Local Area Bank Ltd (Kolhapur)**, Krishna Bhima Samruddhi Local Area Bank Ltd

7.2.1.2. Small Finance Banks

This is a niche banking segment in the country and is aimed to provide financial inclusion to sections of the society that are not served by other banks. The main customers of small finance banks include micro industries, small and marginal farmers, unorganized sector entities and small business units. These are licensed under Section 22 of the Banking Regulation Act, 1949 and are governed by the provisions of RBI Act, 1934 and FEMA.

Name of Small Finance Banks

Ujjivan Small Finance Bank Ltd., Jana Small Finance Bank Ltd., AU Small Finance Bank Ltd., Capital Small Finance Bank Ltd., etc.

7.2.1.3 Payments Banks

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. It can accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers.

Name of Payments Banks

Airtel Payments Bank, India Post Payments Bank, Fino Payments Bank, Paytm Payments Bank.

7.2.1.4 Cooperative Banks

Co-operative bank was set up by passing a co-operative act in 1904. They are organised and managed on the principal of co-operation and mutual help. The main objective of co-operative bank is to provide rural credit. The cooperative banks in India play an important role even today in rural co-operative financing. The enactment of Co-operative Credit Societies Act, 1904, however, gave the real impetus to the movement. The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit societies. Co-operative banks can be of following two types-

i) Central co-operative Banks

ii) State Co-operative Banks

7.2.2 Functions of commercial banks

Accepting Deposits:

The primary function of the commercial bank is **to accept deposits from the general public,** who possess surplus funds and are willing to deposit them so as to earn interest on it. Generally in a commercial bank four types of account can be opened by an individual or corporate house savings account, current account, fixed deposit and recurring deposit.

Advancing Loans:

Next important function performed by the commercial bank is lending money to the individuals and companies. The banks make loans to the customers in the form of term loans, cash credit, overdraft and discounting of bills of exchange.

Agency Services: There are some facilities provided by the commercial banks in which they act as an agent of the customers. Such services are:

- Collection and payment of rent, interest and dividend.
- Collection and payment of cheques and bills.

- Buying and selling securities.
- Payment of insurance premium and subscriptions.

General Utility Services:
Commercial banks provide general utility services to the customers and charge a fee for the same. It covers services like:

- Safekeeping of valuables, documents etc., in locker or vault.
- ATM card, credit card and debit card facility.
- Issue of demand draft, pay order and travellers cheque.
- Internet and mobile banking
- Sale of application forms of competitive exams.

Transfer of funds: Banks assist in the transfer of funds from one person to another or from one place to another through its credit instruments.

Credit Creation: The commercial banks are authorized to create credit, by granting more loans than the amounts deposited by the customers.

UNIT – 8: MARKETING MANAGEMENT

Sub Unit – 1: Marketing

SL. NO	TOPICS
8.1.1	**Concept and Approaches of Marketing**
8.1.2	**Marketing Channels**
8.1.3	**Marketing Mix**
8.1.4	**Strategic Marketing Planning**
8.1.5	**Market Segmentation**
8.1.6	**Targeting and Positioning**

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Unit – 8: Sub Unit - 1
Marketing

8.1.1 Concept and Approaches of Marketing: The marketing concept is the strategy that firms implement to satisfy customers' needs, increase sales, maximize profit and beat the competition. There are 5 marketing concepts that organizations adopt and execute. Marketing is a department of management that tries to design strategies that will build profitable relationships with target consumers.

The different Marketing Concepts are:

- Production Concept,
- Product Concept,
- Selling Concept,
- Marketing Concept,
- Societal Marketing Concept.

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These concepts are described below:

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

Most times; the **production concept can lead to marketing myopia**. Management focuses on improving production and distribution efficiency.

Although; in some situations; the production concept is still a useful philosophy.

Product Concept: The product concept holds that the consumers will favor products that offer the most in quality, performance and innovative features. Here; under this concept, marketing strategies are focused on making continuous product improvements. Product quality and improvement are important parts of marketing strategies, sometimes the only part. Targeting only on the company's products could also lead to marketing myopia.

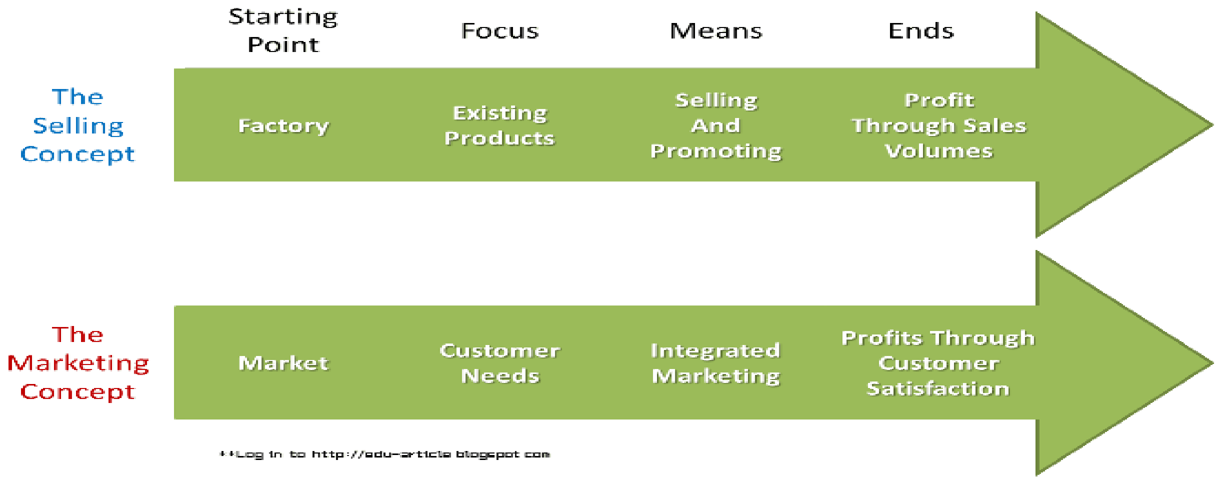
Selling Concept: The selling concept holds the idea- "consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort". Here the management focuses on creating sales transactions rather than on building long-term, profitable customer relationships. In other words; the aim is to sell what the company makes rather than making what the market wants. Such an aggressive selling program carries very high risks.

In selling concept the marketer assumes that customers will be coaxed into buying the product will like it, if they don't like it, they will possibly forget their disappointment and buy it again later. This is usually a very poor and costly assumption. Typically the selling concept is practiced with unsought goods. Unsought goods are that buyers do not normally think of buying, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on a product's benefits.

Marketing Concept: The marketing concept holds- "achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do".

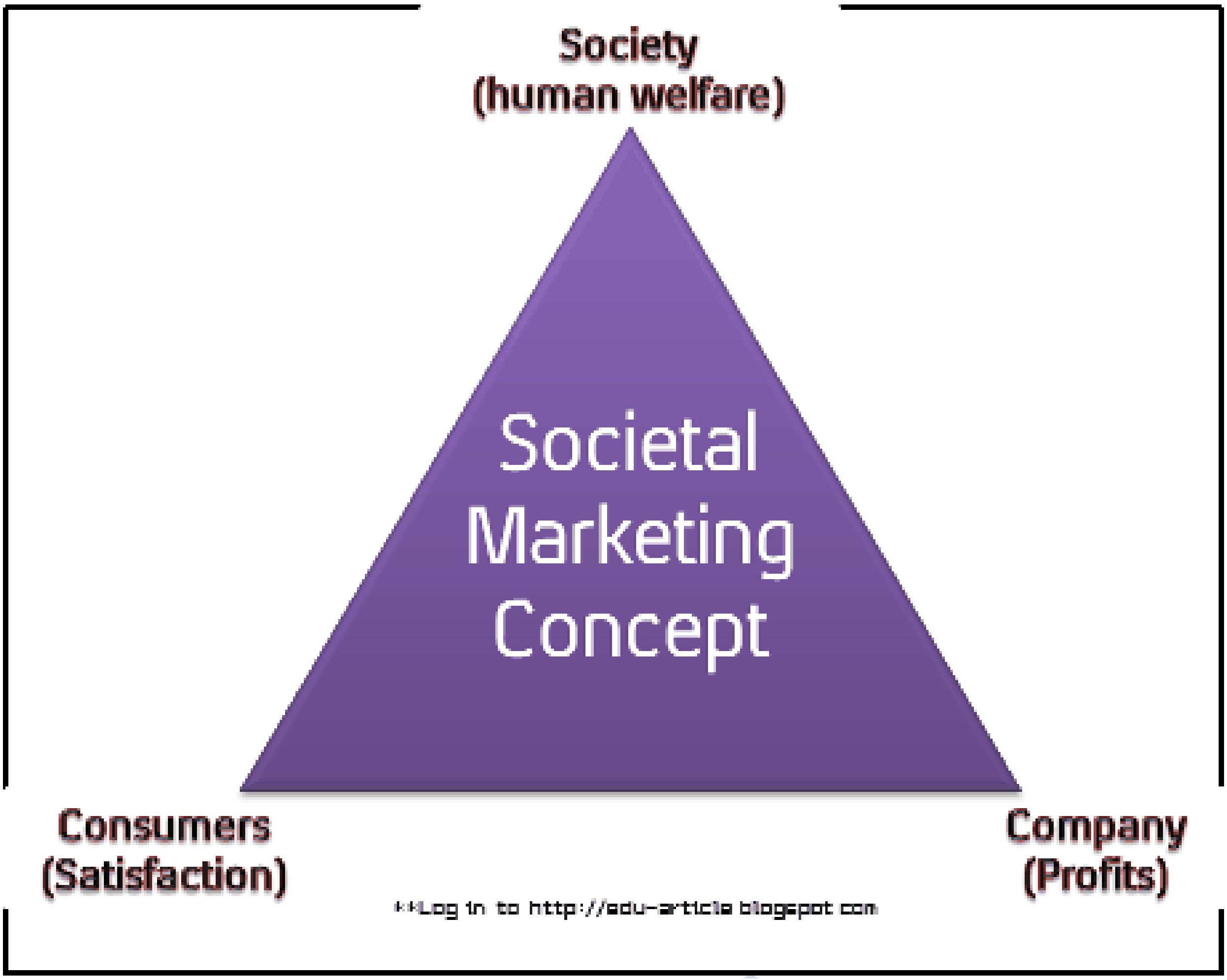
Here marketing management takes a "customer first" approach. Under the marketing concept, customer focus and value are the routes to achieve sales and profits. The marketing concept is a customer-centered "sense and responds" philosophy. The job is not to find the right customers for your product but to find the right products for your customers. The marketing concept and the selling concepts are two extreme concepts and totally different from each other.

Difference between Selling Concept and Marketing Concept



No.	The Selling Concept	The Marketing Concept
1	undertakes a large-scale selling and promotion effort	undertakes activities such as; market research,
2	The Selling Concept is suitable with unsought goods—those that buyers do not normally think of buying, such as insurance or blood donations.	The Marketing Concept is suitable for almost any type of product and market.
3	Focus on the selling concept starts at the production level.	Focus on the marketing concept starts at understanding the market.
4	Any company following selling concept undertakes a high-risk	Companies that are following the marketing concept require to bare less risk and uncertainty.
5	The Selling Concept assumes – “customers who are coaxed into buying the product will like it. Or, if they don’t like it, they will possibly forget their disappointment and buy it again later.”	Instead of making an assumption, The marketing concept finds out what really the consumer requires and acts accordingly to them.
6	The Selling Concept makes poor assumptions.	The marketing concept works on facts gathered by its “market and customer first” approach.

Societal Marketing Concept:



Societal marketing concept questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. The societal marketing concept holds "marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well-being".

It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The Societal Marketing Concept puts Human welfare on top before profits and satisfying the wants.

8.1.2 Marketing Channels: Marketing Channels can be defined as the set of people, activities, and the intermediary organizations that play a crucial role in transferring the ownership of the goods from the point of production or manufacturing to the point of consumption. Basically, they are the various channels or platforms through which the products reach to the consumers or the end-users. They are also known as the distribution channels.

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Four Types of Marketing Channels:

- Manufacturer to Consumer: This is one of the most simple and effortless types of the Marketing Channels as the goods produced reach to the consumers directly from the house of manufacturer. It works as cost-effective and profitable for both the parties involved as there is no further involvement of the middlemen such as retailer, wholesalers, and agents that charge their commission increasing the overall price of the products.
- Manufacturer to Retailer to Consumer: This type of Marketing Channels is one of the highly adopted and preferred channels in the industry. The manufacturers who specialize in the manufacturing of the shopping goods such as shoes, furniture, and fashion apparels amongst others opt for this Marketing Channel.
- Manufacturer to Wholesaler to Consumer: This category of Marketing Channel is usually adopted by the consumers who are looking out for bulk purchases of the specific items and procuring the same from the wholesaler works out quite easy and cost effective for them owing to the economies of scale factor plus no involvement of other intermediaries. The wholesaler reduces the cost to the consumer such as service cost or sales force cost making the items available to the consumer at cheaper rates.
- Manufacturer to Agent to Wholesaler to Retailer to Consumer: This type of Marketing Channel involves more than one middlemen or intermediary making the goods reach to the consumers. The agents or the middlemen helps and assists with the sale of the goods and charge their commission from the manufacturer. They are quite helpful when the goods need to reach the consumers in a short span of time.

Importance of Marketing Channels

- Information provider: The first and foremost aspect in the list of the importance of the Marketing Channels is that the middlemen such as agents provide the vital and crucial market information to the manufacturer that helps him to plan his production and other related business strategies accordingly. Developments in the market such as the change in the preferences in the taste of the consumer, entry of new manufactures in the market, shift in the government policies, and the various pricing points of the other manufacturers are given to the manufacturer without any additional cost owing to their relationship and working association with the manufacturer.
- Stability of the price: Yet another important function that is performed by the middlemen is that they maintain the stability of price by absorbing the increment along with keeping the overheads cost low and charge the consumers with the old price of the products. Their main motive behind this strategy is to have a strong foothold in the market due to the completion from the other middlemen in the market.
- Promotion: Another aspect in the importance of Marketing Channels is that the middlemen perform the function of promoting the goods of the manufacturer by planning and designing their own sales incentive and customer loyalty programs to attain their sales targets and increased market share objectives. This ultimately works for the benefit of the manufacturer and all the parties involved in the process.

- Pricing strategy: As the middlemen and the agents are at the sales field on a daily basis and have a thorough knowledge about the marketing dynamics and the customer preferences, many manufacturers ask for their suggestion whilst deciding on the pricing of the various products. The pricing and the features of the products are also customized for the different set of target markets and consumers along with the channel of distribution.
- Matching the demand and supply of the products: The main and significant function of the middlemen and commission agents in the Marketing Channels is to match the demand and supply of the products in the target market. They should provide the manufacturers with the crucial information on how to assemble the goods to match the taste and preferences of the targeted consumers that result in the ease of sales and attainment of the sales objectives of the manufacturer.

Unit 9: Legal Aspect of Business

Sub Unit-1: Indian Contract Act. 1872

Sl. No.	Topic
1	9.1.1 Elements of a valid contract:
2	9.1.2 Capacity of a parties:
3	9.1.3 Free consent:
4	9.1.4 Discharge of a contract:
5	9.1.5 Breach of contract and remedies against breach:
6	9.1.6 Quasi contract:

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Unit – 9: Sub Unit-1

Indian Contract Act. 1872

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9.1Indian Contract Act. 1872:

9.1.1 Elements of a valid contract:

Definition of Contract: A contract is an agreement made between two or more parties which the law will enforce. Sec 2(h) defines contract "as an agreement enforceable by law". Contract=Agreement + Enforceability at law.

Agreement: Agreement is defined as "every promise and every set of promises, forming consideration for each other".

Promise= a proposal when accepted becomes a promise.

Agreement = Offer+ Acceptance

Consensus Ad Idem: The parties to the agreement must have agreed about the subject matter of the agreement in the same sense and at the same time. Unless there is consensus ad idem, there can be no contract.

- **Enforceable by law:** An agreement, to become a contract, must give rise to a legal obligation or duty. An agreement may be social agreement or legal agreement. But only those agreements which are enforceable in a court of law are contracts.
  "All contracts are agreements, but all agreements are not necessarily contract"
- **Essential elements of a Valid Contract:**
  1. Offers and Acceptance 2. Legal Relationship 3. Lawful Consideration 4. Capacity of Parties 5. Free Consent 6. Lawful Objects 7. Writing and Registration 8. Certainty 9. Possibility of Performance 10. Not Expressly Declared Void.

1. Offers and Acceptance: It is one of the essentials of valid contract. There must an offer and acceptance of the same.

2. Legal Relationship: The parties to an agreement must create legal relationship. Agreements of a social or domestic nature do not create legal relations and as such cannot give rise to a contract

Example, X invited Y to a dinner Y accepted the invitation. It is a social agreement. If X fails to serve dinner to Y, Y cannot go to the courts of law for enforcing the agreement.

3. Lawful Consideration: Consideration is “something in return.” Consideration has been defined as the price paid by one party for the promise of the other.

Example: X agrees to sell his motor bike to Y for Rs. 1,00,000. Here Y’s promise to pay Rs. 1, 00,000 is the consideration for X’s promise to sell the motor bike and X’s promise to sell the motor bike is the consideration for Y’s promise to pay 1, 00,000.

4. Capacity of Parties: It means that the parities to an agreement must be competent to contract. A contract by a person of unsound mind is void ab-initio. Thus, a contract entered into by a minor or by a lunatic is void.

Example: X a minor borrowed Rs 8,000 from Y and executed mortgage of his property in favour of the lender. This was not a valid contract because X is not competent to contract.

5. Free Consent: For a valid contract it is necessary that the consent of parties to the contact must be free.

Example: X threatens to kill Y if he does not sell his car to X. Y agrees to sell his car to X. In this case, Y’s consent has been obtained by coercion and therefore, it cannot be regarded as free.

6. Lawful Objects: It is also necessary that agreement should be made for a lawful object. Every agreement of which the object or consideration is unlawful is illegal and the therefore void.

7. Writing and Registration: According to Contract Act, a contract may be oral or in writing. Although in practice, it is always in the interest of the parties that the contract should be made in writing so that it may be convenient to prove in the court.

8. Certainty: For a valid contract the terms and conditions of an agreement must be clear and certain.

9. Possibility of Performance: If the act is legally or physically impossible to perform, the agreement cannot be enforced at law. Example: A agrees with B to discover treasure by magic and B agrees to pay Rs 1,000 to A. This agreement is void because it is an agreement to do an impossible act.

10. Not Expressly Declared Void: An agreement must not be one of those, which have been expressly declared to be void by the Act.

9.1.2 Capacity of a parties:

Section 10 requires that the parties shall be competent to contract.

Section 11- 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 subject, and

• Who is of sound mind, and is not disqualified from contracting by any law to which he is subject.

Person’s incompetent to contract

• Minor

• Persons of unsound mind

MINORS

According to Indian Majority Act, 1875, a person attains majority on completion of 18 years of his age. But when a guardian of a minor person or property has been appointed by the court, he attains majority on completion of 21 years of age. Mohoribibi v. Dharmadas Ghose

HELD: Minor’s agreement is void ab-initio

The position of Minor’s agreement and effect thereof is as under;

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(a) An agreement with a minor is void ab-initio.
(b) The law of estoppels does not apply against a minor. It means a minor can always his plead his minority despite earlier misrepresenting to be a major. In other words he cannot be held liable on an agreement on the ground that since earlier he had asserted that he had attained majority.
(c) Doctrine of Restitution does not apply against a minor i.e., As per section 70 Obligation of person enjoying benefit of non-gratuitous act does not apply.
(d) Ratification of agreement is not permitted: Ratification means approval or confirmation. A minor cannot confirm an agreement made by him during minority on attaining majority. If he wants to ratify the agreement, a fresh agreement and fresh consideration for the new agreement is required.
(e) Contract beneficial to Minor; A minor is entitled to enforce a contract which is of some benefit to him. Minority is a personal privilege and a minor can take advantage of it and bind other parties.
(f) Minor as an agent. A minor can be appointed an agent, but he is not personally liable for any of his acts.
(g) Minor's liability for necessities: "Any person supplying necessaries of life to persons who are incapable of contracting is entitled to claim the price from the other's property".

➢ **SOUND MIND FOR THE PURPOSES OF CONTRACTING (Section 12):**

A person is said to be of sound mind for the purposes of making a contract if, at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests.

• A person, who is usually of unsound mind, but occasionally of sound mind, may make a contract when he is of sound mind.

• A person, who is usually of sound mind, but occasionally of unsound mind, may not make a contract when he is of unsound mind.

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Other Disqualified Persons: The persons who are disqualified from entering into contract due to certain other reasons may be from legal status, political status or corporate status. Some of such categories of persons are given below;

1. **Alien Enemy:** An agreement with an Alien Enemy is void.
2. **Foreign Sovereign and Ambassadors:** Foreign sovereigns and their representatives enjoy certain privileges and immunities in every country. They cannot enter into contract except through their agents residing in India.
3. **Convicts:** A convict cannot enter into a contract while he is undergoing imprisonment.
4. **Insolvents:** An insolvent person is one who is unable to discharge his liabilities and therefore has applied for being adjudged insolvent or such proceedings have been initiated by any of his creditors. An insolvent person cannot enter into any contract relating to his property.
5. **Company or Statutory bodies:** A contract entered into by a corporate body or statutory body will be valid only to the extent it is within its Memorandum of Association

9.1.3 Free consent:

According to Sec 10 of the Indian Contract Act one of the essentials of a valid contract is "Free Consent"

Sec 13 defines "consent" as "Two or more persons are said to consent when they agree upon the same thing in the same sense". According to Sec 14, consent is said to be free when it is not caused by:

1. Coercion
2. Undue influence
3. Fraud

4. Misrepresentation
5. Mistake

1. COERCION: According to Sec 15 coercion means "Committing or threaten to commit any act forbidden by Indian Penal Code or unlawful detaining or threatening to detain any other persons property with a view to enter into an agreement. Effect of Coercion- When the consent of a party to an agreement is obtained by coercion; the contract becomes voidable at the option of the party, whose consent is so obtained. The burden of proving that the consent was obtained through coercion shall be upon the party who wants to set aside the contract on the plea of contract.

2. UNDUE INFLUENCE: Sometimes a party is compelled to enter into a contract against his will as a result of unfair persuasion by the other party. Section 16 defines undue influence as follows A contract is said to be induced by "undue influence", where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other.

Analyzing the provision of Section 16(1), we get the following essential features – i) A relation subsists between the parties whereby one of them is in a position to dominate the will of the other, ii) The dominant party uses his superior position to obtain an unfair advantage over the other.

3. FRAUD: Misrepresentation of facts may be intentional or innocent. Intentional misrepresentation has been termed as Fraud and innocent misrepresentation has been termed simply as 'misrepresentation' in the contract act. The essentials of fraud are:

1. There must be a representation or assertion and it must be false
2. The representation must relate to a fact
3. The representation must have been made with the intention of inducing the other party to act upon it
4. The representation must have been made with a knowledge of its falsity 5. The other party must have subsequently suffered some loss

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4. MISREPRESENTATION: Misrepresentation is a false representation made innocently without any intention of deceiving the other party. It may include two things: (a) Wrong statement of a material fact not known to be false (b) Non-disclosure of facts where there is a legal duty to disclose without intention to deceive **5. MISTAKE:** Mistake are of two type (a) Mistake of law (b) Mistake of fact Mistake of law Mistake of law is further divided into three categories:

(a) Mistake of Indian law
(b) Mistake of foreign law
(C) Mistake as to private rights of the parties – treated as mistake of fact. Here, the agreement will be void in case of bilateral mistake only.
Mistake of fact i) Bilateral mistake ii) Unilateral mistake

9.1.4 Discharge of a contract:

1. Discharge by Performance
2. Discharge by Agreement or Consent
3. Discharge by Impossibility of Performance
4. Discharge by Lapse of Time
5. Discharge by Operation of Law
6. Discharge by Breach of Contract

1. DISCHARGE BY PERFORMANCE:

i) ACTUAL PERFORMANCE: When both the parties perform their promises.

ii) ATTEMPTED PERFORMANCE: When the promisor offers to perform his obligation, but promise refuses to accept the performance. It is also known as tender.

2. DISCHARGE BY AGREEMENT OR CONSENT:

i) NOVATION (Sec 62): New contract substituted for old contract with the same or different parties.

ii) RESCISSION (Sec 62) : When some or all terms of a contract are cancelled

iii) ALTERATION (Sec 62): When one or more terms of a contract is/are altered by the mutual consent of the parties to the contract

iv) REMISSION (Sec 63): Acceptance of a lesser fulfilment of the promise made.

v) WAIVER: Mutual abandonment of the right by the parties to contract

vi) MERGER: When an inferior right accruing to a party to contract merges into a superior right accruing to the same party

3. DISCHARGE BY IMPOSSIBILITY OF PERFORMANCE

➢ Known to Parties

➢ Unknown to Parties

➢ Subsequent Impossibility

➢ Supervening Impossibility (Sec 56)

- Destruction of subject matter
- Non-existence of state of things
- Death or incapacity of personal services
- Change of law
- Outbreak of war

4. DISCHARGE BY LAPSE OF TIME: The limitation act 1963, clearly states that a contract should be performed within a specified time called period of limitation. If it is not performed and if the promisee takes no action within the limitation time, then he is deprived of his remedy at law.

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5. DISCHARGE BY OPERATION OF LAW:

- Death
- Merger
- Insolvency
- Unauthorized Alteration of The Terms Of A Written Agreement
- Rights & Liabilities Vesting In The Same Person

6. DISHARGE BY BREACH OF CONTRACT:

i) ACTUAL BREACH:

▪ At the time of performance

▪ During the performance

ii) **ANTICIPATORY BREACH**:

▪ By the act of promisor (implied repudiation)

▪ By renunciation of obligation (express repudiation)

9.1.5 Breach of contract and remedies against breach:

A remedy is a means given by law for the enforcement of a right Following are the remedies

[1] Rescission

[2] Suit upon damages

[3] Suit upon quantum meruit

[4] Suit for specific performance

[5] Suit for injunction Rescission

[1] Rescission

When a contract is broken by one party, the other party may sue to treat the contract as rescinded and refuse further performance. In such a case, he is absolved of all his obligations under the contract. The court may give rescission due to 1) Contract is voidable 2) Contract is unlawful

[2] Damages

Damages are monetary compensation allowed to the injured party by the court for the loss or injury suffered by him by the breach of a contract. Types of Damages:

1. Ordinary Damages
2. Special Damages
3. Vindictive Damages
4. Nominal Damages
5. Liquidated

[3] Damages Suit upon quantum meruit

The phrase quantum meruit literally means ‘as much as earned’. A right to sue on a quantum meruit arises when a contract, partly performed by one party, has been discharged by breach of contract by the other party. This right is performed not on original contract but on implied promise by other party for what has been done.

[4] Suit for specific performance

In certain cases of breach of contract damages are not an adequate remedy. The court may, in such cases, direct the party in breach to carry out his promise according to terms of the contract. This is a direction by the court for specific performance of the contract at the suit of the party not in breach.

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[5] Suit for injunction

When a party is in breach of a negative term of contract the court may, by issuing an order, restrain him by doing what he promised him not to do. Such an order of the court is called injunction.

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9.1.6 Quasi contract: In case of Quasi Contract there will be no offer and acceptance so, actually there will be no Contractual relations between the partners. Such a Contract which is created by Virtue of law is called Quasi Contract.

Unit 10: Income Tax and Corporate Tax Planning

Sub Unit-1: Income tax

Sl. No.	Topics
1	10.1.1 Basic concept
2	10.1.2 Residential status and tax incidence
3	10.1.3 Exempted incomes
4	10.1.4 Agriculture income
5	10.1.5 Computation of taxable income under various heads
6	10.1.6 Deductions from Gross total income
7	10.1.7Assessment of Individual
8	10.1.8 Clubbing of incomes

Unit – 10: Sub unit - 1
Income tax

10.1.1 Basic Concept:

***What is tax?**

At first we have to understand the meaning of tax. Tax is fee charged by a government on a product, income or activity. There are two types of tax- Direct and Indirect Taxes. Direct tax is directly levied on the income or wealth of a person. On the other hand indirect tax is levied on the price of goods and services (GST). The levy of income –tax in India is governed by the Income-tax Act 1961. The Act came into force on 1st 1962. The Act contains 298 sections and XIV schedules. Central Board of Direct Taxes (CBDT) looks after the administration of direct taxes and GST council for indirect tax.

***Assessment Year [(Sec. 2 (9)]:** Assessment Year means the period of twelve months starting from 1st April of every year and ending on March 31 of the next year. For example, the assessment year 2019-20 commences on April 1, 2019 and ends on March 31, 2020.

***Previous Year [(Sec. 3]:** Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. From the assessment year 1989-90 onwards, all assesses are required to follow financial year (i.e., April 1 to March 31) as the previous year. The uniform previous year has to be followed for all sources of income.

For newly formed company, the first previous year will be the period commencing from the date of setting up of the business/profession or the date on which the source of income comes into existence and ending on 31st March of the immediately following calendar year. So, the first previous year may be 12 months or less but never exceed 12 moths and the subsequent previous year would be of 12 months each (April to March). There is certain exception of the rule that the income of previous year assessable as the income of the immediately following assessment year, namely,

1. Shipping business of non-residents (Sec. 172)
2. Person leaving India (Sec.174)
3. Person likely to transfer property to avoid tax (Sec.175)
4. Discontinued business/profession (Sec. 176)

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***Person [(Sec. 2 (31)]:** The term person includes: (i) an individual, (ii) a hindu undivided family, (iii) a company, (iv) a firm, (v) an association of persons or a body of individuals, whether incorporated or not, (vi) a local authority, and (viii) every artificial juridical person, not falling within any of the preceding categories.

***Assessee [(Sec. 2 (7)]:** Assessee means a person by whom any tax or any other sum of money such as penalty or interest is payable under the Act.

***Charge of income-tax [(Sec. 4]:** The following basic principal followed when charging tax:

1. Income-tax is an annual tax on income
2. Tax rate is applicable for the assessment year. However this rule has certain exception (already explain in para 1.1.3).
3. Tax rates are fixed by the annual finance act and not by the Income tax Act.
4. Tax is charged on every person.
5. Tax is levied on total income of every assessee.

***Concept of Income [(Sec. 2 (24)]:** The definition of income in the Income-tax Act 1961 begins with the words "Income includes". Therefore, it is an inclusive definition and not an exhaustive one. Some important principals relating to income are discussed below:

1. Generally income means a periodic monetary return which accrues or is expected to accrue regularly from definite source. However, certain exception is there, the incomes which do not arise regularly are treated as income for tax purpose e.g. Crossword puzzles, Winning from lotteries.
2. Income actually indicates net receipts and not gross receipts. To get net receipts all the expenditures (related to earn such receipts) are deducted from the gross receipts. The expenditure which can be deducted while computing income under each head is prescribed under the income tax Act.
3. Income generally means to revenue receipts. Capital receipts are not included within the scope of income. However, Income-tax Act includes certain capital receipts within the definition of income e.g. capital gain i.e. gains on sale of a capital asset like land.
4. Income is taxable either on due basis or receipt basis. To compute income under the heads "profits and gains of business or profession" and "income from other sources", the method of accounting regularly employed by assessee should be considered, which can be either cash basis or mercantile basis.

***Heads of income:** The Act prescribes five heads of income. These are i) salaries, ii) income from house property, iii) profits and gains of business or profession, iv) capital gain, v) income from other sources.

These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Salary, pension earned is taxable under the head "salary". Rental income is taxable under the head "Income from house property". Income derived from carrying on any business or profession is taxable under the head "Profits and gain from business or profession". Profit from sale of a capital asset is taxable under the head "Capital Gain". The fifth head of income is the residuary head under which income taxable under the Act, but not falling under the first four heads, will be taxed.

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- [(Sec. 2 (8)]: This is the procedure by which the income of an assessee is determined by the Assessing Officer. It may be by way of a normal assessment or by way of reassessment of an income previously assessed.

10.1.2 Residential status and tax incidents:

The residential status of a person has to be determined to ascertain which income is to be included in computing the total income.

***Residential status of Individual [Sec. 6]:** In case of an individual, the duration for which he is present in India determines his residential status. Based on the time spent by him, he may be a) resident and ordinarily resident, b) resident but not ordinarily resident, c) non-resident.

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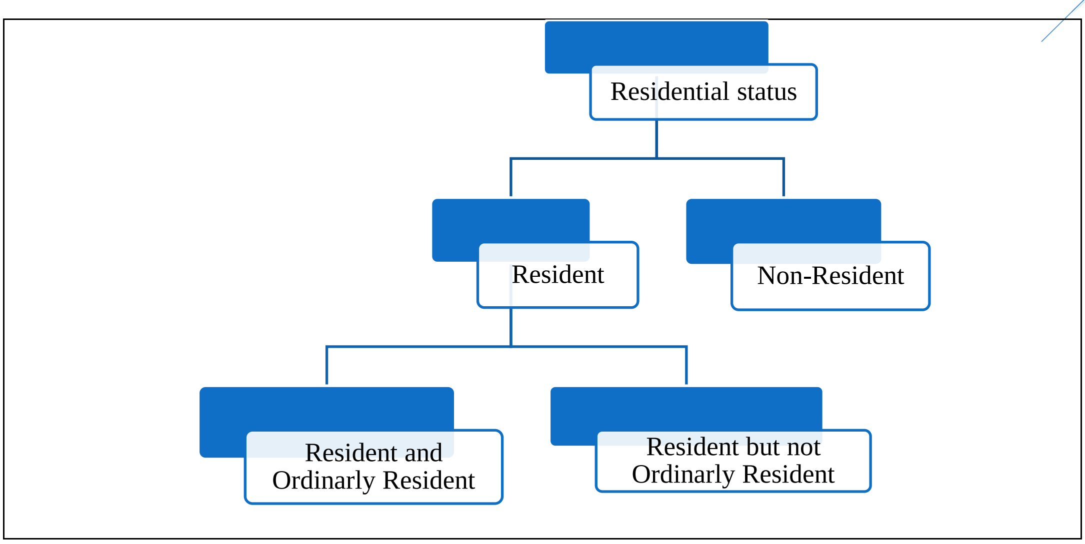

***Resident and ordinarily resident [Sec. 6(1), 6(6) (a)]**

A taxpayer would qualify as a resident of India if he satisfies one of the following 2 basic conditions:

a) Stay in India for a year is 182 days or more or

b) Stay in India 365 days or more for the 4 years immediately preceding the previous years **and** 60 days or more during the previous year

In the event an individual leaves India for employment during an FY, he will qualify as a resident of India only if he stays in India for 182 days or more. This otherwise means, condition (b) above of 60 days would not apply to him

***Resident Not Ordinarily Resident (RNOR)**

If an individual qualifies as a resident, the next step is to determine if he/she is a Resident Ordinarily Resident (ROR) or an RNOR. He will be a ROR if he meets both of the following conditions:

i) Has been a resident of India in at least 2 out of 10 previous years immediately preceding the relevant previous years and

ii) Has stayed in India for at least 730 days in 7 years immediately preceding the relevant previous year.

Therefore, if any individual fails to satisfy even one of the above conditions, he would be an RNOR.

***Non-resident**

An individual satisfying neither of the conditions stated in (a) or (b) above would be an NR for the year.

***Rule of residence in brief:**

Resident and Ordinarily Resident (ROR)	He must satisfy one of the basic condition [i.e. (a) or (b)] and at same time he has to satisfy two additional conditions [i.e. (i) and (ii)]

Resident but Not Ordinarily Resident (RNOR)	He must satisfy at least one of the basic conditions [i.e. (a) or (b)] and he may satisfy one or none of the additional conditions.
Non-Resident	He satisfies none of the basic conditions. Additional conditions are not relevant.

Consider the case of Mr X, Business Head for Asia Pacific regions for a private firm. Mr X was born and brought up in India. He has to travel to various locations of the continent for business purposes. He has spent 200 days travelling in the current financial year. Also, he has been travelling abroad from the past two years and has stayed out of India for about 400 days in this period.

When you consider this information to figure out the resident status of Mr X, you will understand that he has only spent 165 days in India during the current financial year. That proves the first condition wrong. It is given that Mr X has been travelling only from the past two years.

Also, it is said that he has travelled for 400 days in the past two years. That means, in the past four years, Mr X has stayed in India for more than 365 days (1061 days). You must remember that he has stayed for 165 days in the current year. Therefore, the second condition holds good. Mr X is a resident taxpayer.

Alternatively, consider that he had to work from the headquarters of his firm, located in Kota Kinabalu, Malaysia for the past six years. He has only visited his parents for a week, twice a year during this time. That means, he has resided in India for 449 days in the past six years and the same applies for the current financial year too. In this case, one condition is not met. Therefore, Mr X is RNOR.

An individual who does not fall under either of the above categories can be considered as a non-resident. For example, Ms G went to London to join a reputed university for a graduation course (three years). While studying there, her professor suggested her to join a post-graduate course at the same university (two years).

She had to get an internship certificate to complete the course. Upon completion, the firm offered her a permanent position. She has been an employee there for the past four years. That is, Ms G has stayed out of India for nine years now. She receives rental income from the property that she inherited from her parents. Both the conditions applicable for ROR are not satisfied. That makes Ms G a non-resident.

***Residential status of a Hindu Undivided family [Sec. 6(2)]**

Place of control	**Residential status of family**
Wholly in India	Resident
Wholly out of India	Non-resident
Partly in India and partly outside India	Resident

*N.B-if the karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident

***Residential status of the firm and association of persons [Sec. 6(2)]**

Place of control	**Residential status of family**
Wholly in India	Resident
Wholly out of India	Non-resident
Partly in India and partly outside India	Resident

*N.B-A firm/an association of persons cannot be "ordinarily" or "not ordinarily resident".

***Residential status of a company [Sec. 6(3)]**

section	**Company**	**Residential status**
6(3)(i)	Indian company	Always resident in India
6(3)(ii)	A foreign company (if turnover/gross receipt in the previous year is more than Rs. 50 crore)	Resident if its place of effective management during the relevant previous year, is in India
6(3)(iii)	A foreign company (if turnover/gross receipt in the previous year is Rs. 50 crore or less)	Always non-resident in India

***Residential status of "every other person "[Sec. 6(4)]:** Every other person is resident in India if control and management of his affairs is wholly or partly situated within India during the relevant previous year. On the other hand, every person is non-resident in India if the control and management of his affairs is wholly situated outside India

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Previous Year Question with Explanation

Unit – 1: Business Environment and International Business

1. Which one of the following is not the main objective of 'Fiscal Policy' of India?
1. To increase liquidity in economy.
2. To promote price stability.
3. To minimize the inequality in income and wealth.
4. To provide employment opportunities

2. Liberalization means:
1. Reducing numbers of reserved industries from 17 to 8.
2. Liberating the industry, trade and economy from unwanted restriction.
3. Opening up economy to the world by attaining international competitiveness.
4. Free determination of interest rate.

3. Which is the most appropriate mode of entry in international business to an enterprise with little experience of international markets?
1. Acquisition
2. Strategic Alliance
3. Joint Venture
4. Exporting

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4. Globalisation is the term used to describe the process of removal of restriction on which one of the following:
1. Foreign trade
2. Investment
3. Both 1 and 2.
4. None of the above.

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5. Who among the following has given Absolute Advantage Model of international trade?
1. Adam Smith
2. David Recardo
3. Hackscher Ohlin
4. William Petty

<u>Answer with Reference</u>

SL. NO.	QUESTION NO.	ANSWER	REFERENCE NO.
1.	2	1	1.1.1
2.	3	2	1.1.1
3.	20	4	1.2.3
4.	5	3	1.2.2
5.	48	1	1.3

UNIT: 2 Accounting and auditing

1. **Assertion (A)**: Personal transactions of the owners of the business are not recorded in the books.
Reasoning (R): According to the business entity concept, each business enterprise is Considered as an accounting unit separate from owners.
Code:
(1) Both (A) and (R) are correct and (R) is the correct explanation of (A).
(2) Both (A) and (R) are correct but (R) is not the correct explanation of (A).
(3) (A) is correct but (R) is not correct.
(4) (A) is wrong but (R) is correct.

2. Which one of the following statements is not true?
(1) An expenditure intended to benefit current year is revenue expenditure.
(2) Amount paid for acquiring goodwill is capital expenditure.
(3) Wages paid for installation of a new machine is usually debited to wages account.
(4) Revenue expenditure is not intended to benefit future period.

3. Which one of the following receipts is of revenue nature?
(1) Amount realised from the sale of investments
(2) Dividend received on investment
(3) Amount borrowed from a bank
(4) Compensation received from municipal corporation for the acquisition of land for the construction of road.

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4. Which of the following is deferred revenue expenditure?
(1) Legal expenses incurred on the purchase of land.
(2) Expenses on a mega advertisement campaign while launching a new product.
(3) Expenses incurred on installation of a new machine.
(4) Wages paid for construction of an additional room in the building.

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5. The amount of depreciation charged to Profit and Loss Account varies every year under:
(1) Fixed instalment method
(2) Annuity method
(3) Diminishing balance method
(4) Insurance policy method

<u>Answer with Reference</u>

SL. NO.	ANSWER	REFERENCE NO.
1.	1	2.1.2
2.	3	2.1.3
3.	2	2.1.3
4.	2	2.1.3
5.	3	2.1.3

UNIT 4: Business Finance

1. A 'sale and lease back' arrangement is more suitable for a lessee having:
1. Liquidity crisis
2. Surplus fund
3. High profit
4. No-profit no-loss

2. Cost of Equity Share Capital is more than cost of Debt because:
(1) Equity shares are not easily saleable.
(2) Equity shares do not provide the fixed dividend rate.
(3) Generally, the face value of equity shares is less than the face value of debentures.
(4) Equity shares have high risk than debts.

3. Debt financing is a cheaper source of finance because of
(1) Time value of money
(2) Rate of interest
(3) Tax deductibility of interest
(4) Dividends are not payable to lenders

4. Lease which includes a third party (a lender) is known as
(1) Direct lease
(2) Sales and lease-back
(3) Leveraged lease
(4) Inverse lease

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5. Which of the following is not a source of credit information of prospective customers?
(1) Letter of credit
(2) Bank Reference
(3) Trade Enquiry
(4) Credit Bureau

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Answer with Reference

SL. NO.	ANSWER	REFERENCE NO.
1.	1	4.1.2
2.	4	4.1.1.3
3.	3	4.1.1.3
4.	3	4.1.1.3
5.	1	***

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Unit – 5: Business Statistics and Research Methods

1. Match the items of List – I with the items of List – II and indicate the code of correct matching:

List – I	**List – II**
i. Geometric mean	a. Averaging the ratio of two different measuring units
ii. Mode	b. Averaging percentage changes in a particular variable
iii. Harmonic mean	c. Knowing the middle value in a distribution
iv. Median	d. Knowing the most frequency occurring value in the data set

Codes:

	a	b	c	d
(1)	i	iii	ii	iv
(2)	i	iv	iii	ii
(3)	iii	i	iv	ii
(4)	iii	ii	i	iv

2. Which one of the following is a false description?

(1) In a moderately asymmetrical distribution, the empirical relationship between Mean, Mode and Median suggested by Karl Pearson is Mean – Mode = 3 (Mean – Median)

(2) Coefficient of variation is an absolute measure of dispersion.

(3) Measure of skewness indicates the direction and extent of skewness in the distribution of numerical values in the data set.

(4) Kurtosis refers to the degree of flatness or peakedness in the region around the mode of a frequency curve.

3. A set of data can be distinguished from other set of data by means of:

1. Central value and dispersion
2. Central value, dispersion and skewness
3. Central value, dispersion, skewness and kurtosis
4. None of the above

4. Choose the correct code for the following statements being correct or incorrect.

Statement I: The geometric mean of the two regression coefficients of X and Y variables gives the value of the coefficient of correlation.

Statement II: If the population distribution is not normal and a sampling distribution of mean is prepared by taking small sized samples, the sampling distribution of mean is not normal.

Code:

Options:

1. Statement I is correct, but II is incorrect.
2. Both the statements I and II are incorrect.
3. Statement II is correct, but I is incorrect.
4. Both the statements I and II are correct.

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5. There is a very high inverse relationship between measures of ‘Overweight’ and ‘life expectancy’. Which one of the following value of the coefficient of correlation is consistent with the statement?
(1) 0.80
(2) 0.20
(3) −0.20
(4) −0.80

Answer with Reference

SL. NO.	QUESTION NO.	ANSWER	REFERENCE NO.
1.	17	3	5.1
2.	17	2	5.1, 5.2, and 5.3
3.	19	3	5.2, and 5.3
4.	6	4	5.4 and 5.9.3
5.	27	4	5.4

Unit – 6: Business Management and Human Resource Management

1. According to Henry Fayol, which of the following qualities are required in a manager?
(1) Physical, mental, moral, educational, technical and experience
(2) Physical, mental, moral, administrative, technical and experience
(3) Physical, mental, moral, conceptual, technical and experience
(4) Physical, mental, moral, conceptual, technical and commercial

2. Which of the following statements relating to Henry Fayol are correct ?
Statement I : Authority and responsibility are related and former arises from latter.
Statement II : Espirit de Corps is an extension of the principle of unity of command.
Statement III : Unity of command means only one command at a time.
Statement IV : There are fourteen basic principles identified by Henry Fayol.
Codes:
(1) Statements I, II and IV
(2) Statements II and III
(3) Statements I and IV
(4) Statements II and IV

3. Statement (I): Management is not just a creature of the economy; it is a creator as well.
Statement (II): He who can manage, can manage anything.
Code:
(1) Statement (I) is correct but (II) is incorrect.
(2) Statement (II) is correct but (I) is incorrect.
(3) Both the statements (I) and (II) are incorrect.
(4) Both the statements (I) and (II) are correct.

4. Promoting team spirit, harmony and unity within the organization is the principle of
(1) Order
(2) Scalar Chain
(3) Esprit de corps
(4) Equity

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5. Areas of establishing objectives under MBO are:

i. Market standing	iv. Public accountability
ii. Innovation	v. Productivity
iii. Industrial relations	vi. Industrial policy

Codes:
1. iii, iv, v, and vi
3. i, ii, v, and vi
2. i, ii, iv, and v
4. ii, iii, iv, and v

Answer with Reference

SL. NO.	QUESTION NO.	ANSWER	REFERENCE NO.
1.	21	1	6.1.1
2.	25	4	6.1.1
3.	22	4	6.1
4.	16	3	6.1.1
5.	23	2	6.2

Unit: 7 Banking and Financial Institutions

1. Interest earned by a depositor against a deposit with a commercial bank for custodial service:
A. is a fund-based income
B. is a fee-based income
C. is a combination of fund and fee-based gain
D. is a commitment-based gain

2. Select the major principles which banks strive to incorporate in their working from the following:
(a) Profitability
(b) Labour welfare
(c) Social welfare
(d) Safety
(e) HRD
(f) Liquidity
A. (a), (b), (d), (e)
B. (a), (c), (d), (f)
C. (c), (d), (e), (f)
D. (a), (b), (c), (d)

3. Identify the years in which different phases of Bank Nationalisation took place in India:
(a) 1950 (b) 1955 (e) 1969 (d) 1949 (e) 1980
A (a), (b), (e), (d)
B. (b), (c), (e)
C. (b), (d), (e)
D. (c), (d), (e)

4. Assertion (A): Reserve Bank of India is an important regulatory and administrative authority to execute FEMA provisions.
Reason (R): Being monetary authority and custodian of foreign exchange, Reserve bank of India enjoys requisite expertise of FEMA administration.
In the context of the above two statements, which one of the following options is correct?
1. Both (A) and (R) are correct and (R) is the right explanation of (A)
2. Both (A) and (R) are correct but (R) is not the right explanation of (A)
3. Both (A) and (R) are incorrect
4. (A) is correct and (R) is not correct

5. Assertion (A) : The Reserve Bank of India is entrusted with the management of the public debt and issue of new loans and treasury bills on behalf of the central and state Governments.
Reasoning (R): The Governor and the Deputy Governors of Reserve Bank of India are appointed by the Central Government.
Code:
(1) (A) is correct but (R) is not correct.
(2) (A) and (R) both are correct but (R) is not the right explanation of (A).
(3) (A) and (R) both are correct and (R) is the right explanation of (A).

Answer with Reference

SL. NO	ANSWER	REFERENCE NO.
1.	A	7.2.1.1
2.	B	7.2.1.1
3.	B	7.2.1.1
4.	1	7.3.1
5.	2	7.3.1

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UNIT – 8: Marketing Management

1. Target marketing involves which of the following activities?
a) Market positioning
b) Market targeting
c) Market behaviour
d) Market segmentation

Code:
1) a and b
2) b and d
3) a, b and, d
4) b, c, and d

2. Horizontal marketing system comprises of:
1) The producer, wholesaler and retailer acting in a unified system.
2) Multichannel marketing.
3) Two or more marketing channels to reach one or more customer segments.
4) Two or more unrelated companies put together resources to exploit an emerging market.

3. Which of the following positioning strategies is adopted by marketers to position their product in two categories simultaneously?
(1) Point of Difference
(2) Point of Parity
(3) Straddle Positioning
(4) Emotional Positioning

4. Name the process in which a buyer posts its interest in buying a certain quantity of item and sellers compete for the business by submitting lower bid until there is only one seller left.
(1) Internet
(2) Reverse auction
(3) B2B market place
(4) B2C market place

5. Straddle positioning uses:
(a) Point of parity
(b) Point of difference
Codes:
(1) (a) only
(2) (b) only
(3) Both (a) and (b)
(4) Neither (a) nor (b)

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Answer with Reference

SL. NO.	QUESTION NO.	ANSWER	REFERENCE NO.
1.	27	3	8.1
2.	29	4	8.1
3.	50	3	8.1.6
4.	53	2	8.1
5.	50	3	8.1.6

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Unit 10: Income Tax and Corporate Tax Planning

1. Given is the information related to a house:
Municipal Value (M.V.) Rs.1,50,000
Fair Rent Rs.1,80,000
Standard Rent Rs.1,60,000
Actual Rent Rs.20,000 pm
Municipal tax paid by owner is 20% of M.V. Unrealised rent RS.40,000 (conditions of rule 4 satisfied). What is the annual value of the house?
Options:
1. RS. 2,10,000
2. RS. 1,60,000
3. RS. 1,50,000
4. RS. 1,70,000
Answer: (4)
Explanation: Given
Fair Rent (FR) - ₹180000

Municipal Value (MV) - ₹150000
Standard Rent (SR) - ₹160000
Actual Rent - ₹240000
Step I = Reasonable expected rent of the property (MV or FR, whichever is higher, but subject to maximum of SR) between MV and FR, FR is higher but, FR is higher than SR, so, ₹160000 will be the RER.
Step II = Rent received after deducting unrealised rent but before adjusting loss due to vacancy (unrealised rent 40,000 and no loss due to vacancy), here we got ₹240000-₹40000=200000
Step- III = Amount computed in Step I and Step II, whichever is higher (between ₹160000 and ₹200000), we got ₹200000
So, GAV will be ₹200000- (20% on MV i.e. ₹150000) = ₹200000-₹30000 = ₹170000

2. Exemption, under Sec.54 F of the Income Tax Act, 1961, shall not be allowed if the assessee, on the date of transfer owns:
(1) Any residential house
(2) A residential house which is let out
(3) A house which is self-occupied
(4) More than one residential house
Answer: (4)
Explanation:
Section 54F of the IT Act allows an exemption on capital gain from sale of any property other than a residential house. Taxpayer should not own more than one residential house on the date of transfer, other than the one bought for claiming exemption under this section.

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3. The income from the sale of a machinery used in business is treated as:
(1) Income from business and profession
(2) Short-term capital gain
(3) Long-term capital gain
(4) Income from other sources
Answer: (2)
Explanation: According to section 50 of Income tax act if an assessee has sold a capital asset forming part of block of assets (building, machinery etc) on which the depreciation has been allowed under Income Tax Act, the income arising from such capital asset istreated as short term capital gain.

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4. As per the Income Tax Act, 1961 for the assessment year 2015-16, a deduction u/s 80 QQB for authors of books of literacy, artistic or scientific nature is allowed upto
(1) ₹1,00,000
(2) ₹2,00,000
(3) ₹2,40,000
(4) ₹3,00,000
Answer: (4)
Explanation: Authors who write books and present the same to publishers can avail deductions under Section 80QQB of the Income Tax Act 1961. The maximum amount available for deduction under this section is Rs 3,00,000 or original amount of royalty amount received (whichever is less).

5. Gratuity received by a government employee is
(1) exempted upto ₹3,50,000
(2) exempted upto ₹10,00,000
(3) fully exempted
(4) fully taxable
Answer: (3)
Explanation: As per current law, gratuity received by a government employee is fully exempt from tax. The maximum amount they can receive is Rs 20 lakh as per amendments made following the 7th Pay Commission recommendations. However, for non-government employees the maximum tax-exempt gratuity limit is Rs 10 lakh as of now.

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Model Questions with Explanation

Unit – 1

1. -------- consists of economic conditions, economic policies, industrial policies and economic system.

A.Business Environment

B.Economic Environment

C.Natural environment

D.None of the above

Answer: B

Explanation: The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro).

2. External environment of business is

A.Physical

B.Demographical

C.Economic

D.All of these

Answer: D

3. The economic environment of a business includes

A.Economic system

B.Economic policies

C.Economic conditions

D.All of these

Answer: D

4. An analysis of the external environment enables a firm to identify -

A.Strengths and opportunities

B.Strength and weakness

C.Weakness and threats

D.Opportunities and threats

Answer: D

Explanation: Opportunities are openings or chances for something positive to happen, but you'll need to claim them for yourself.

Threats include anything that can negatively affect your business from the outside, such as supply chain problems, shifts in market requirements, or a shortage of recruits.

5. Which of the following are the dimensions of the business environment: -

A. Economic & Social

B. Technological & Economic

C. Legal & Social

D. All of the above

Answer: D

Unit: 2
Accounting and auditing

1. Which one of the following concepts is used as fund in the preparation of Funds Flow Statement?
A. Current Assets
B. Working Capital
C. Cash
D. All Financial Resources
Answer: D
Explanation: 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**.

2. Window dressing is prohibited due to
A. Conservation Convention
B. Convention of Disclosure
C. Convention of Materiality
D. Arrear of book accounts.
Answer: (B)
Explanation: 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.

3. Assertion (A): Ratio analysis is one the tools employed to know the financial health of a concern.
Reason (R): Ratio analysis is not the only technique available to take investment decision.
Codes:
A. Both (A) and (R) are true and (R) is the correct explanation of (A).
B. Both (A) and (R) are true, but (R) is incorrect explanation of (A).
C. (A) is true, but (R) is false
D. (A) is false, but (R) is true.
Answer: A
Explanation: Financial Ratio is a quantitative relationship between two variables taken from the financial statement. This ratio is a very useful tool for analysing financial health of an organisation. It helps the users of financial statement to analyse the financial statement and take appropriate decision about their activities.

4. In accounting, profit prior to incorporation is treated as
A. Revenue Reserve
B. Secret Reserve
C. Capital Reserve
D. General Reserve
Answer: D
Explanation: The premium received on issue of shares, profit prior to incorporation 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 and this profit cannot be distributed as dividend. Any profit made prior to incorporation of the business should be treated as capital reserve.

5. Receipts and Payments Account is prepared by
A. Manufacturing concerns
B. Non-Trading concerns
C. Trading concerns
D. Companies registered under Companies Act, 1956
Answer: B
Explanation: A receipt and payment account is a summarized cash book for a given period. This is a summary of the cash transactions as in the cash book. Non-profit organizations prepare receipt and payment account at the end of the year. With the help of this account and some additional information, we prepare income and expenditure account to disclose the true results of non-profit organizations. Income and Expenditure account is a nominal account.

Unit- 3
Business Economics

1. When the demand curve is relatively highly elastic, the marginal revenue is
(A) Zero
(B) Unity
(C) Positive
(D) Negative
Answer: (C)
Explanation: The connection between marginal revenue and elasticity works like this: If the demand is elastic, then marginal revenue is positive. If the demand is inelastic, then marginal revenue is negative. If demand is unit elastic, then marginal revenue is zero.

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2. In which one of the following market situations the practice of price rigidity is found?
(A) Perfectly competitive market
(B) Monopolistic competitive market
(C) Oligopoly market
(D) Discriminating monopoly market
Answer: (C)
Explanation: The low elasticity does not increase the demand significantly as a result of the *price* cut. This asymmetrical behavioural pattern results in a kink in the demand curve and hence there is *price rigidity* in oligopoly *markets*.

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3. During short-run, the optimum level of output corresponds to that level of output where
(A) MC is the minimum
(B) AVC is the minimum
(C) AC is the minimum
(D) AFC stops declining
Answer: (C)
Explanation: *In* the *short run* the *levels* of usage of some input are fixed and costs associated. This curve indicates the firm's total cost of *production for* each *level of output*. Average variable cost first falls, reaches a *minimum* point.

4. The opportunity cost is a term which describes
(A) A bargain price for a factor of production.
(B) Production cost related at the optimum level of production.
(C) Average variable cost.
(D) The loss of the reward in the next best use of that resource.
Answer: (D)

Explanation: *Opportunity cost* is the return of a foregone option less than the return on your chosen option. Considering *opportunity costs* can guide you to more profitable decision-making.

5. Which one of the following is not the basic assumption of Cardinal Utility analysis?
(A) Rationality of Consumer.
(B) Utility cardinally measurable.
(C) Diminishing marginal utility of money.
(D) Hypothesis of independent utilities.
Answer: (C)
Explanation: An important assumption of cardinal utility analysis is that when a consumer spends varying amount on a good or various goods or when the price of a good changes, marginal utility of money remains unchanged.

Unit - 4
Business Finance

1. Which method does not consider the time value of money?
A. Net Present Value
B. Internal Rate of Return
C. Average Rate of Return
D. Profitability
Answer: C
Explanation: The **Average Rate of Return or ARR**, measures the profitability of the investments on the basis of the information taken from the financial statements rather than the cash flows. It is also called as **Accounting Rate of Return.** The formula for calculating the average rate of return is:
Average Rate of Return = Average Income / Average Investment over the life of the project.

2. Which formula is used measure the degree of Operating leverage?
A. EBIT/sales
B. C/EBIT
C. EBIT/EBT
D. EBIT/C
Answer: B
Explanation: **DOL**$= \frac{\textbf{Total Contribution}}{\textbf{EBIT}}$

3. Which one is more appropriate for cost of retained earnings?
A. Weighted Average Cost of Capital
B. Opportunity cost to the firm
C. Expected rate of return by the investor
D. None of the above
Answer: B
Explanation: The cost of those retained earnings equals the return shareholders should expect on their investment. It is called an opportunity cost because the shareholders sacrifice an opportunity to invest that money for a return elsewhere and instead allow the firm to build capital.

4. Match the following with the most suitable options.

List-I	List-II
a. Modigliani-miller approach	1. Commercial paper
b. Net Operating income approach	2. Working capital
c. Short term money market instrument	3. Capital structure
d. Factoring	4. Arbitrage

Codes:

	a	b	c	d
A.	4	3	1	2
B.	3	4	1	2
C.	3	2	1	4
D.	4	2	3	1

Answer: A

Explanation: Modigliani-miller approach is associated with the concept of arbitrage, Net operating income approach is the theory of capital structure, Commercial paper is a short-term instrument of money market and factoring is the source of working capital.

5. ABC Ltd. has declared 40% dividend. Which one of the following does it mean?
A. The company has declared 40% of net profit as dividend.
B. The company has declared 40% of profits after tax as dividend.
C. The company will provide dividend 40% on issued capital.
D. The company will provide dividend 40% on paid-up capital.

Answer: D

Explanation: Dividend is paid on the face value of share and not the market value of shares and it is paid on the paid up share capital.

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Unit – 5
Business Statistics and Research Methods

1. The most frequent observation in a data set is called
  a. mode
  b. median
  c. range
  d. mean

Answer: b

Explanation: In statistics and probability theory, a **median** is a value separating the higher half from the lower half of a data sample, a population or a probability distribution. For a data set, it may be thought of as "the middle" value.

2. The summary statistics which measure the middle or center of the data are called
  a. logarithms
  b. measures of central tendency
  c. measures of dispersion
  d. proportions

Answer: b

Explanation: In statistics, a **central tendency** (or **measure of central tendency**) is a central or typical value for a probability distribution. It may also be called a **center** or **location** of the distribution. Colloquially, measures of central tendency are often called averages. The term central tendency dates from the late 1920s. The most common measures of central tendency are the arithmetic mean, the median, the mode and the range.

3. The sum of deviations of values from their mean is always

a, 1
b. 0
c. 2
d. 3

Answer: b

4. The average of all observations in a set of data is known as

a. median
b. range
c. mean
d. mode

Answer: c

Explanation: The "mean" is the "average" you're used to, where you add up all the numbers and then divide by the number of numbers.

5. The median in the set 6, 4, 2, 3, 4, 5, 5, 4 would be

a. 3
b. 6
c. 5
d. 4

Answer: d

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Unit – 6

Business Management and Human Resource Management

1. Who said “Management is management of Men, Money, Machinery, Materials and Information’’?

(A) Peter Drucker
(B) Heny Fayol
(C) Koontz & O’Donell
(D) Anonymous

Answer: D

2. ____ is getting things done through and with other people.

(A) Managing
(B) Controlling
(C) Directing
(D) None of the above

Answer: A

3. ____ among the following was the first to identify four functions of management
(A) Henry Fayol
(B) F.W. Taylor
(C) Max Weber
(D) Harold Koontz
Answer: A

4. Fayol's principle of division of work can be applied to the following kind of work
(A) Technical
(B) Managerial
(C) Both
(D) None of these
Answer: C
Explanation: The **division of work** is the course of tasks assigned to, and completed by, a group of workers in order to increase efficiency. Division of work, which is also known as division of labor, is the breaking down of a job so as to have a number of different tasks that make up the whole. This means that for every one job, there can be any number of processes that must occur for the job to be complete.

5. General theory of administration is the expression of
(A) Henry Fayol
(B) F.W. Taylor
(C) Max Weber
(D) F.L. Brech
Answer: C

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Unit - 7
Banking and Financial Institutions

1. Match the following:
a. Credit Control 1. MCA
b. Corporate Control 2. SEBI
c. IPO Control 3. IRDA
d. ULIP Control 4. RBI
Codes:

	a	b	c	d
(A)	4	2	3	1
(B)	4	1	2	3
(C)	2	3	4	1
(D)	4	1	3	2

Answer: (B)
Explanation: Credit control is one of the important function of RBI, SEBI is apex authority of control of capital market where from the companies collect their long term fund and Initial Public Offering (IPO) is also control by SEBI, all the companies are control by Ministry of Corporate Affair (MCA) and Unit –Linked Insurance Plan (ULIP) is control by IRDA.

2. Which one among the following has not started Commercial Banking?
(A) SIDBI
(B) IDBI
(C) ICICI
(D) UTI
Answer: (A)
Explanation: SIDBI has not entered in commercial banking service.

3. What is OTP in credit card transactions?
(A) Odd Transaction Password
(B) Owner's Trading Password\
(C) One Time Password
(D) One Time Pin code
Answer: (C)
Explanation: OTP- One Time Password

4. The powers of Controller of Capital Issues of India is now shifted to
(A) Ministry of Finance
(B) SEBI
(C) AMFI
(D) Ministry of Corporate Affairs
Answer: (B)
Explanation: Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947.

5. The success of E-banking depends upon: www.netugc.com
i. Multi-layer Security System
ii. Risk and Surveillance Management
iii. Updated Flawless Softwares
iv. Stringent Legal Frame-work
(A) i and ii
(B) i,ii, and iii
(C) ii, iii, and iv
(D) i, ii, iii and iv
Answer: (B)

Unit – 8
Marketing Management

1. The following is not a type of Marketing Concept
A. The production concept
B. The selling concept
C. The societal marketing concept
D. The Supplier Concept
Answer: d

2. The term marketing refers to:

A. Advertising, Sales Promotion, Publicity and Public Relational activities

B. A new product needs ideas, Developments, concepts and improvements.

C. Sales Planning, Strategy and Implementation

D. A philosophy that stresses customer value and satisfaction.

Answer: d

Explanation: Marketing refers to activities a company undertakes to promote the buying or selling of a product or service. Marketing includes advertising, selling, and delivering products to consumers or other businesses. Some marketing is done by affiliates on behalf of a company.

3. Marketing is a process which aims at **-------------------.**

A. Production

B. Profit-making.

C. The satisfaction of customer needs

D. Selling products

Answer: c

Explanation: Marketing process includes ways in which value can be created for the customers to satisfy their requirements. It is an endless series of actions and reactions between the customers and the companies making attempt to create value for and satisfy the needs of customers.

In marketing process, the situation is examined to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are taken, plan is executed, and results are monitored.

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4. Marketing management is **_________.**

A. developing marketing strategies to move the company forward

B. managing the marketing process

C. monitoring the profitability of the company's products and services

D. the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value

Answer: d

Explanation: Marketing management is the organizational discipline which focuses on the practical application of marketing orientation, techniques and methods inside enterprises and organizations and on the management of a firm's marketing resources and activities.

5. The most formal definition of marketing is **------------------.**

A. An organizational function and a set of process for creating, communicating and delivering, value to customers and that benefit the organization.

B. Improving the quality of life for consumers

C. Meeting needs profitability

D. Marketing is an organizational function includes the 4Ps

Answer: a

Unit-9
Legal Aspect

1. Which of the following statements is true?
(A) The Competition Commission of India is headed by a person having Judicial background.
(B) The definition of the term 'goods' as given in the Competition Act, 2002, is the same as given in the Sale of Goods Act, 1930.
(C) Both (A) and (B) are true.
(D) None of the above is true.
Answer: (C)
Explanation: Eligibility of members: The Chairperson and every other Member shall be a person of ability, integrity and standing and who, has been, or is qualified to be a judge of a High Court, or, has special knowledge of, and professional experience of not less than fifteen years in international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs, administration or in any other matter which, in the opinion of the Central Government, may be useful to the Commission.
In the Competition Act, 2002 "goods" means goods as defined in the Sale of Goods Act, 1930 (8 of 1930) and includes— (A) products manufactured, processed or mined; (B) debentures, stocks and shares after allotment; (C) in relation to goods supplied, distributed or controlled in India, goods imported into India;

2. Which one of the following is not included in the Consumer Rights as per the Consumer Protection Act, 1986?
(A) Right to be protected against marketing of hazardous goods and services.
(B) Right to be heard.
(C) Right to a physical environment that will protect and enhance quality of life.
(D) Right to seek redressal of legitimate complaints.
Answer: (C)
Explanation: The Consumer Protection Act, 1986, defines Right to Information as 'the right to be informed about the quality, quantity, potency, purity, standard and price of goods so as to protect the consumer against unfair trade practices'.

3. A consumer can file a complaint under the Consumer Protection Act, 1986, on any of the following grounds except:
(A) Sale of defective goods
(B) Provision of deficient service
(C) Charging very high price
(D) Unfair trade practice
Answer: (C)
Explanation: A complaint may be made in writing under the following circumstances: Loss or damage is caused to the consumer due to unfair or restrictive trade practice of a trader or service provider; the article purchased by a consumer is defective; the services availed of by a consumer suffer from any deficiency; a trader or service provider, as the case may be, has charged for the goods or for the service mentioned in the complaint a price in excess of the stipulated price; Goods or services, which will be hazardous to life and safety, when used, are being offered for sale to the public.

4. The term quasi-contract is used in Indian Contract Act in
(A) Section 68 to 72
(B) Section 69
(C) Section 71
(D) non of these
Answer: (A)
Explanation: Sections 68 – 72 of the Indian Contract Act, 1872 detail five circumstances under which a Quasi contract comes to exist. Remember, there is no real contract between the parties and the law imposes the contractual liability due to the peculiar circumstances.

5. Indicate the ground on which a complaint under the Consumer Protection Act, 1986, shall be invalid.
(A) A product having short weight.
(B) A service provided free of cost.
(C) A misleading advertisement given in newspaper.
(D) None of the above.
Answer: (B)

Unit-10
Income Tax

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1. Mr. X, after about 20 years' stay in India, returns to America on January 29, 2009. He came to India in June 2011. His residential status for the Assessment year 2012-13 will be
(A) Ordinarily Resident
(B) Not Ordinarily Resident
(C) Non-Resident
(D) Resident or Non-Resident
Answer: (A)
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Explanation: here Mr. X stayed in India for 243 days in the previous year, he fulfils one of the basic conditions. He also satisfied the two additional conditions under section 6(6) i.e. (condition-i) he is resident 2 years out of 10 previous year immediately preceding the relevant previous year and (condition-ii) stayed more than 730 days during 7 years immediately preceding the relevant previous year. So, he is Ordinarily Resident.

2. Which of the following statements is/ are true
1. Section 147 is related to re-assessment
2. Section 148 is related to regular assessment.
3. Section 145 is related to best judgement assessment
4. Section 140A is related to self-assessment
(A) Both 1 and 3 are true
(B) Both 1 and 4 are true
(C) Both 2 and 3 are true
(D) Both 3 and 4 are true
Answer: (B)
Explanation:
Section 147: For the purpose of assessment or reassessment under this **section**, the Assessing Officer may assess or reassess the **income** in respect of any issue, which has escaped assessment, and such issue comes to his notice subsequently in the course of the proceedings under this **section**,
Section 148: As per Section 147 of the Income Tax Act, 1961, the Income Tax Department has the power to reassess an individual's previously filed income tax returns. The Assessing Officer

could pick your income tax return for reassessment subject to some pre-defined criteria by sending a notice under section 148 for income Escaping Assessment.
Section 145: Joining or continuing in unlawful assembly, knowing it has been commanded to disperse.—Whoever joins or continues in an unlawful assembly, knowing that such unlawful assembly has been commanded in the manner prescribed by law to disperse, shall be punished with imprisonment of either description for a term which may extend to two years, or with fine, or with both.
After section 140 of the Income-tax Act, the following (section shall be inserted, namely: —

Self-assessment

"140A. (1) Where a return has been furnished under section 139 and the tax payable on the basis of that return as reduced by any tax already paid under any provision of this Act exceeds five hundred rupees, the assessee shall pay the tax so payable within thirty days of furnishing the return.

3. Donation to National Children's Fund will come in which of the following deduction under Sec. 80G of Income Tax Act, 1961.
(A) 100 percent deduction without any qualifying limit.
(B) 50 percent deduction without any qualifying limit.
(C) 100 percent deduction subject to qualifying limit.
(D) 50 percent deduction subject to qualifying limit.
Answer: (B)
Explanation: Under the existing provisions of section 80G an assessee is allowed a deduction from his total income in respect of donations made by him to certain funds and institutions. The deduction is allowed at the rate of fifty per cent of the amount of donations made except in the case of donations made to certain funds and institutions specified in clause (i) of sub-section (1) of section 80G, where deduction is allowed at the rate of one hundred per cent. In the case of donations made to the National Children's Fund, deduction is allowed at the rate of fifty per cent of the amount so donated.

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4. Application for applying a PAN is given in form no.
(A) 48C
(B) 49A
(C) 42B
(D) 54
Answer: (B)
Explanation: *Form No.* : 49A. *Application* for allotment of Permanent Account Number under section 139A of the Income-tax Act, 1961.

5. Unabsorbed depreciation which could not be set off in the same assessment year, can be carried forward up to
(A) 4 years
(B) 8 years
(C) 10 years
(D) Indefinite period
Answer: (D)
Explanation: Unabsorbed depreciation can be carried forward for indefinite period and can beset off against any other income (other than salary). The unabsorbed depreciation can be carried forward even if the business related to such depreciation have been dis-continued.

Last Minute Suggestion

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.

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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.

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Abbreviation:
1. Text: Unit wise separate pdf
2. PYQs: Previous Years Questions
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4. LMS: Last Minute Suggestion
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