Name:-
Roll No:-
Branch:-

MEFA Assignment-2.

1. What is National Income? What are the methods for measuring National Income?

National Income:-

National Income of any country means the complete value of the goods and services produced by any country during its financial year.

Three Important methods for measuring National Income.

1) **Income Method**

National Income is calculated using this method as a flow of factor incomes. Labor, capital, land and entrepreneurship are main components of production.

Labor is compensated with wages and salaries, money is compensated with interest, the land is compensated with rent & entrepreneurship with profit.

National Income is calculated as a flow of income in this case

NI = Employee compensation + Operating surplus (w+R+p+I) + Net income + Net factor income from overseas

wages = w
Rental Income = R
P = Profit
I = mixed-Income

2) **Product / value-Added Method**

National Income is calculated using this method as a flow of goods and services. During a year, we determine the monetary value of all final goods and services generated in an economy.

The term "final goods" refers to goods that are consumed immediately

Intermediate goods are goods that are used in manufacturing process. To avoid duplicate counting, we can use the value-add^n approach which calculates value-add^n at each stage of production & then adds them together to get GDP

NI = G.N.P – cost of capital – Depreciation – Indirect Taxes

3) Expenditure Method

National Income is calculated using this method as a flow of expenditure. Government consumption expenditure, gross capital formation and net factors are all factors to consider

$GDP = C + I + G + (X - M)$

C = consumer spending on goods & services

I = Investor spending on business capital goods

G = Govt spending on public goods & services

X = Exports

M = Imports

2. Explain the features and phases of business cycle.

Features

1. Occurs Periodically :- The different phases of a Business cycle occur from time to time. At certain times, these periods will vary according to the Economic conditions of the industry.

2. Synchronous:

The features of a Business cycle aren't restricted to a single firm or industry. They originate in a free Economy & are prevalent. Since different kinds of industries are interrelated, the business in one firm disturbs that in another firm

3. Major sectors are affected: It's been noticed that fluctuations occur not only at the level of prod^n but also in other variables. As the process of consumption is deferred the courses of the Business Cycle are

4. Profit variation : Profits fluctuate more than any other income source. This makes any kind of business a tricky and uncertain profession for many.

5. Worldwide Impact : Business cycles are international in nature. If depression occurs in one country, then it is bound to spread to other nations too.

Phases

1. Expansion :- It is characterized by employment increase, economic growth, & rise in prices

2. Peak : It is considered to be the highest point in the business cycle. A business cycle is said to have reached a peak when there is max o/p, employment is full or near to full.

3. Contraction: Once the peak is reached, the Economy usually enters into the contraction phase. Here the growth slows down and unemployment increases.

4. Trough: The contraction then hits the trough point. & It is the time that the economy has its bottom. Once again, the economy will hit bottom & the next phase of expansion & contraction will start.

3) What is meant by Ratio Analysis? Explain briefly about various types of ratios

Ratio Analysis:- A ratio is defined as the indicated quotient of 2 mathematical expressions and as the relationship between 2 or more things

Types of Ratios

1. Liquidity Ratio -

The ability of business to pay the amount due to stakeholders as and when it is due is known as liquidity. It is essential short term in nature.

This includes current ratio, quick ratio & cash ratio.

2. Average /solvency Ratio

It shows the proportions of debt and equity in financing the firms assets

3. Activity Ratio

It reflects the firm's efficiency in utilizing its assets

4. Profitability Ratio

It measures overall performance and effectiveness of the firm

4. Define Accounting. Discuss Accounting concepts and conventions

Accounting:- It is the process of identifying, measuring and communicating economic info to permit informed judgements and decisions by users of the information

Accounting concept :-

It refers to the basic assumptions, usus & principles which work as the basis of recording of business transactions and preparing accounts

i) Business entity concept: This concept implies that the affairs of a business to be treated as being quite separate from non-business activities of its owners.

ii) Going Concern

This concept states that a business firm will continue to carry on its activities for an indefinite period of time.

iii) Dual Aspect

All assets of the business are either provided from the funds of the owners or from the funds of the creditors.

iv) Cost Concept

- It deals with the purpose of accounting all transaction recorded at their monetary cost of acquisition

v) Objective Evidence

Every transaction should be supported by business documents as they act as valid proof.

Accounting Convention

It refers to common practices which are universally followed in recording and presenting accounting information of business

i) Convention of disclosure

- The disclosure of all significant information to the reader.
- Disclosure does not imply that all info that any one could desire is to be included in accounting stmts.

ii) Convention of consistency

- Accounting practices should remain unchanged from one period to another.

iii) Convention of conservatism

- uncertainities and risks inherent in business transactions should be given a proper consideration

iv) Convention of materiality

According to this, only those events or items should be recorded which have a significant bearing and insignificant things should be ignored.