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CONSPECTUS : "THE SYNOPSIS"



ACCOUNTANCY

CH-1

ACCOUNTING FOR PARTNERSHIP FIRMS-FUNDAMENTALS

Partnership-According to section 4 of IPA 1932-"Partnership is the relation between 2 persons who have agreed to share the profits of their common business.

Minimum No. of partners-2

Maximum No. of partners can be 50(as per Companies Act,2013,Misellaneous)

Partnership Deed-Written document carrying all the terms and conditions.

Provisions in absence of Partnership Deed-

- No Salary/Remuneration/Commission.
- No Partner is allowed to get IOC.
- PSR will be equal.
- No IOD to be charged.
- IOL to be provided @6% p.a.

Accounts to be maintained:

(1) P&L Appropriation A/c:(Proforma)

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To IOC to partners($P \times R \times T/100$)	.....	By Profit & Loss A/c(N.P- after providing for Rent paid to a partner and Interest on Partner's Loan)	.....
(To be calculated on Opening Capital)	.....	By IOD from partners ($P \times R \times T/100$)*	.....
To Salary of partners(Annual)	.....		
To Commission to partners			
To General Reserve			
To Profit transferred to Partner's Capital A/cs (Divisible Profit)			
	Total		Total

Average Period is to calculated=

* CASE 1 WHEN FIXED AMOUNT IS WITHDRAWN:

COMMON FORMULAE-Time Left After First Withdrawal+ Time Left After Last Withdrawal/2

a)at the beginning of the each month $T - \frac{12+1}{2} = 6.5$ OR $6 \frac{1}{2}$ Months

b)at the middle of each month $T - 11.5 + 0.5/2 = 6$ Months

c)at the end of the each month $T - 11 + 0/2 = 5.5$ OR $5 \frac{1}{2}$ Months

d) at the beginning of the each quarter $T - \frac{12+1}{2} = 6.5$ OR $6 \frac{1}{2}$ Months

e) at the middle of the each quarter $T - 10.5 + 1.5/2 = 6$ Months

f) at the end of the each quarter $T - 9 + 0/2 = 4.5$ Months

CASE 2 WHEN VARYING AMOUNTS ARE WITHDRAWN ON VARYING DATES:

IOD can be calculated with product method (Total of products X Rate/100 X 1/12) or can be calculated separately for each month.

CASE 3 WHEN THE DATE OF WITHDRAWAL IS NOT MENTIONED

Interest is to be charged for 6 Months.

(2) Partner's Capital A/c: It can be prepared with two methods (Fixed Capital & Fluctuating Capital Method):(Proforma)

- In case of Fluctuating Method only 1 account is to be prepared.

Particulars	A	B	Particulars	A	B
To Drawings	.....	.....	By Balance b/d (opening Capital)	.....	.....
To IOD	.....	.....	By Cash/Bank A/c	.....	.....
To P&L	.....	.....	By Interest on Capital A/c	.....	.....
To Balance c/d(closing capital)	.....	.....	By Salary	.....	.....
			By Commission A/c	.....	.....
			By P&L Appropriation A/c	.....	.....
	XXXXX	XXXXX		XXXXX	XXXXX

- In case the capitals of partners remain fixed, two accounts are to be prepared:
 - Partner's capital A/c(only opening capital, additional capital and permanent withdrawal of capital is shown)
 - Partner's Current A/c(IOC, IOD, Commission, Salary related to partners is to be shown)

GUARANTEE OF PROFIT-It is an assurance to a new partner of certain amount.

Situation 1-When 2 or more partners give guarantee, deficiency will be adjusted through their Capital A/cs.

Situation 2-When only one partner gives guarantee, deficiency will be adjusted through his Capital A/cs.

Situation 3-When guarantee is given by the firm to the partner, deficiency will be borne by the firm.

Situation 4-In absence of any information, deficiency if any will be borne by the old partners in their old ratio.

PAST ADJUSTMENTS OR ADJUSTMENTS IN CLOSED ACCOUNTS

It is to be done in case of commissions and omissions (In such a situation necessary adjustments are to be made through an account called P&L Adjustments a/c or directly in the Partners capital account by determining the amount with a Statement of Adjustment)

In case IOC is an item of omission OPENING CAPITAL is to be ascertained;

(CLOSING CAPITAL+DRAWINGS-PROFIT(if any)+LOSS(if any)-ADDITIONAL CAPITAL)
FORMAT OF STATEMENT OF ADJUSTMENT

Particulars	Partner 1	Partner 2	Total
(A)Amount they should get:	.....	.....	
IOC	.....	.....	
Salary	.....	.....	
Commission	.....	.....	
Less: IOD	(.....)	(.....)	
(B)Amount wrongly distributed	.....	.....	
	XXXXX	XXXXX	
(A)-(B) NET EFFECT			

Finally an adjusting entry is to be passed;
Gaining Partner's Capital A/c.....Dr

To Sacrificing Partner's Capital A/c

- Goodwill means good name and reputation of a business.
- It helps the business to earn more profits.
- It is treated as an intangible asset.
- It is shown in the books when a running business is purchased.
- Self-generated goodwill is not shown in the books.

CALCULATION OF PURCHASED GOODWILL, IN CASE IT IS NOT GIVEN OR HIDDEN:

Debit all Assets

GOODWILL(Balancing Figure)

Credit all Liabilities

CALCULATION OF SELF-GENERATED GOODWILL

It is also called as INTERNAL GOODWILL

It is calculated when there is:

- Change in PSR
- Admission of a partner
- Retirement or Death of a partner

METHODS OF VALUATION OF GOODWILL

(1) Average Profit Method

Goodwill=Average Profit X No. of years of purchase

(2) Super Profit Method

Goodwill=Super Profit X No. of years of purchase

[SP=AP-NP (Average Capital Employed X Normal Rate of Return/100)]

(3) Capitalization Method

By Average Profit

Goodwill=AP X 100/Normal Rate of Return

By Super Profit

Goodwill=SP X 100/Normal Rate of Return

Capital Employed can be determined by

Asset side approach--C E=Total Assets-Outside Liabilities

Liabilities side approach—CE=Capital+ Reserves and profit-Non-Trade Investments-Fictitious Assets-Goodwill

CH 2

CHANGE IN PROFIT SHARING RATIO (Reconstitution of Partnership Firm)

Adjustments to be done when there is change in PSR

- Calculation of Sacrificing Ratio and Gaining Ratio
- Treatment of goodwill
- Treatment of Reserves and accumulated Profits
- Revaluation of Assets and Reassessment of Liabilities
- Adjustment of Capital

(I)Sacrificing ratio=OLD RATIO-NEW RATIO

Gaining ratio=NEW RATIO-OLD RATIO

(II)Treatment of Goodwill

- When purchased goodwill appears in the books of the firm.
Old Partner's Current/Capital A/c..... Dr.
To Goodwill A/c
- When goodwill is self-generated(given in adjustment)

Gaining Partner's Current/Capital A/c..... Dr.
To Sacrificing Partner's Current/Capital A/c

- In case old goodwill is appearing in the Balance Sheet(is to be w/o)

Old Partner's Capital A/c
To Goodwill A/c

(III) Treatment of Reserves and accumulated Profits-

In case of accumulated profits and reserves

General Reserve.....Dr.
Profit and Loss A/c.....Dr.
Workmen's Compensation Reserve.....Dr.
Investment Fluctuation Reserve A/c...Dr
To Old Partners Capital or Current A/c

In case of loss and fictitious assets

Old Partner's Capital/Current A/c
To Preliminary Expenses
To Advertisement Suspense
To Profit & Loss A/c (Loss)
To Misc. Expenditure

If partners do not want to distribute the reserves

Gaining Partner's Capital A/c.....Dr.
To Sacrificing Partner's Capital A/c (Final amount to adjusted is to be derived)

(IV) REVALUATION ACCOUNT

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Dec. in value of asset		By Inc. in value of assets	.....
To Inc. in value of liabilities		By Dec. in value of liabilities	.....
To Unrecorded Liabilities		By Unrecorded Assets	.....
To Profit to be transferred to Partner's Capital A/C		By Loss to transferred to Partner's capital A/c	.....
Old Partner's Capital A/c			

ADJUSTMENT OF CAPITAL

CH-3 ADMISSION OF A PARTNER

According to Partnership Act 1932 Sec.31-"No person shall be introduced as a partner into a firm without the consent of old partners and does not thereby become liable for any act of the firm before he /she became a partner.

Adjustments to be made at the time of admission

- Calculation of NPSR, Sacrificing Ratio and Gaining Ratio (Same way to calculate like PSR)
- Treatment of goodwill(.....".....)
- Treatment of Reserves and accumulated Profits(.....".....)
- Revaluation of Assets and Reassessment of Liabilities.(.....".....)
- Adjustment of Capital

Case 1 When new partner's capital is given and old partners adjust their capitals according to new partner's capital (Excess or deficiency is adjusted through CASH A/c)

Case 2 When new partner's capital is given and old partners adjust their capitals according to new partner's capital. (Excess or deficiency is adjusted through CURRENT A/c)

Case 3 When new partner's capital is not given and is calculated on the basis of total capital.

Case 4 When new partner's capital is not given and is calculated on the basis of combined capital or adjusted capital.

Case 5 When new partner's capital is given and old partners adjust their capital accordingly.

CH-4	RETIREMENT OF A PARTNER AND DEATH OF A PARTNER				
	A partner may retire with the consent of all the partners or if there is an agreement or as per the will.				
	Adjustments to be made at the time of Retirement/Death of a partner • Calculation of NPSR, Sacrificing Ratio and Gaining Ratio (Same way to calculate like PSR) • Treatment of goodwill(.....".....) • Treatment of Reserves and accumulated Profits(.....".....) • Revaluation of Assets and Reassessment of Liabilities.(.....".....) • Adjustment of Capital (between/among the remaining partners) • Preparation of Partner's Loan Account(if any) (Payment of balance amount due to the retiring partner in lump-sum or in installment or may be treated as loan) In case of death, in addition to the dues pertaining to capital, IOC, Share in profits(accumulated and of revaluation) and reserves, Commission, Remuneration, Salary after the deductions like losses, Drawings and IOD an amount due on account of Profit till the date of his/her existence is to be provided to the legal heir called as the EXECUTOR. (It can be Case 1-If it				
CH-5	DISSOLUTION OF A PARTNERSHIP FIRM				
	According to Section 39 of Indian Partnership Act,1932,the dissolution of Partnership between all the partners of a firm is called 'Dissolution of the Firm' Indicators: • Business gets closed down. • All the books are closed. • Assets are realized and Liabilities are paid off. • Economic relationship among the partners get ended. • In some cases dissolution can be ordered by the court. The partnership firm is dissolved in the following cases: • BY MUTUAL AGREEMENT • COMPULSORY DISSOLUTION • ON HAPPENING OF AN EVENT • BY NOTICE • BY ORDER OF THE COURT Complete treatment of items on the event of Dissolution: 1-) TREATMENT OF ASSETS GIVEN IN THE BALANCE SHEET <table border="1"> <tr> <td>Transfer following assets to the debit side of Realization A/c</td><td>Following Assets need not to be transferred</td></tr> <tr> <td> ✓ Land & Building ✓ Plant & Machinery ✓ Motor vehicle ✓ Furniture ✓ Investment ✓ Stock ✓ Debtors(Gross value) ✓ B/R </td><td> ✓ Cash/Bank Balance ✓ P&L A/c (Loss) ✓ Advertisement Suspense ✓ Deferred Revenue Expenditure ✓ Miscellaneous Expenditure ✓ Preliminary Expense </td></tr> </table> • Realized value of all assets should be shown on the credit side of Realization A/c. • If the realized value of Tangible asset is not given it should be considered as realized at book value.	Transfer following assets to the debit side of Realization A/c	Following Assets need not to be transferred	✓ Land & Building ✓ Plant & Machinery ✓ Motor vehicle ✓ Furniture ✓ Investment ✓ Stock ✓ Debtors(Gross value) ✓ B/R	✓ Cash/Bank Balance ✓ P&L A/c (Loss) ✓ Advertisement Suspense ✓ Deferred Revenue Expenditure ✓ Miscellaneous Expenditure ✓ Preliminary Expense
Transfer following assets to the debit side of Realization A/c	Following Assets need not to be transferred				
✓ Land & Building ✓ Plant & Machinery ✓ Motor vehicle ✓ Furniture ✓ Investment ✓ Stock ✓ Debtors(Gross value) ✓ B/R	✓ Cash/Bank Balance ✓ P&L A/c (Loss) ✓ Advertisement Suspense ✓ Deferred Revenue Expenditure ✓ Miscellaneous Expenditure ✓ Preliminary Expense				

- If the realized value of Intangible asset is not given it should be considered as NIL.
- 2)- TREATMENT OF LIABILITIES GIVEN IN THE BALANCE SHEET**
(All external Liabilities should be transferred to the credit side of Revaluation Account)

Transfer following Liabilities to the credit side of Realization A/c	Following Liabilities need not to be transferred
✓ Sundry Creditors ✓ B/P ✓ Bank Loan ✓ Outstanding Expenses ✓ Loan from Partner's Spouse ✓ Loan from Relative of Partner ✓ Bank Overdraft ✓ Employees Provident Fund (EPF)	✓ General Reserve ✓ Contingency Reserve ✓ Retained Earnings ✓ P&L(Profit) ✓ Workmen Compensation Reserve ✓ Other free reserves/profits (if any)

- All liabilities will be paid off and is shown on the debit side of REALIZATION A/C
- If there is no information about payment of any liability, then it should be assumed as paid at actual value.
- Provisions, Reserves, investment Fluctuation Reserves are just transferred but they are not paid as they are not the external liabilities.

3) TREATMENT OF PROVISIONS AGAINST ASSETS

LIABILITIES	AMOUNT	ASSETS	AMOUNT
		Debtors	
		Less: Provision for Doubtful Debts	
		Debts	

Treatment:

Particulars	Amount	Particulars	Amount
Debtors	✓	Provision for doubtful Debts	✓

4) Treatment of Investment Fluctuation Reserve

- If Investment and IFR both are given, show investment on the debit side of Realization A/c and IFR on the credit side.
- If only IFR is given, It should be transferred to Credit side of Partners' Capital/Current A/c.

4) ASSET GIVEN TO CREDITORS

If any asset is taken over by the creditors in full settlement, no journal entry is to be recorded.

5) Treatment of Realization Expenses

Case 1-When Realization Expenses are paid by the firm;

Realization A/c.....Dr.

To Cash A/c

Case 2- When Realization Expenses are paid by the partner (on behalf of the firm);

Realization A/c.....Dr.

To Partner's Capital/Current A/c

Case 3- When Realization Expenses are paid by the firm but is to be borne by the partner:

Partner's Capital/Current A/c.....Dr.

To Cash/Bank

Case 4- When Realization Expenses are paid by the partner and is to be borne by the partner:

(NO ENTRY)

Case 5 When actual expenses are borne by the partner and he is compensated by the firm through a fixed amount;

Realization A/cDr.

To Partner's Capital A/c

6) Treatment of Workmen Compensation Reserve

- When WCR is given in the B/S and no other information is given.
WCR A/cDr.
 To Partners' Capital A/c
- When WCR is given in the B/S and adjustment is given for it with less amount
WCR A/cDr.
 To Realization A/c (amount to the extent of liability transferred)
 To Partner's Capital A/c
 To Bank A/c
- When WCR is given in the B/S and adjustment is given for it with more amount
 - WCR A/cDr. (the amount of Reserve appearing in the B/S)
 To Realization A/C
 - Realization A/cDr (Actual amount paid)
 To Bank
- When WCR and liability and liability for compensation are same.
 - WCR A/cDr.
 To Realization A/c
 - Realization A/c
 To Bank A/c
- When WCR is given only in adjustment
 - Realization A/c
 To Bank A/c

7) Treatment of Loan given by Partner to the firm:

- When partner has given loan to the firm and takes it back at the time of dissolution:
 - (i) No effect on Realization A/c
 - (ii) Loan by Partner A/cDr.
 To Bank A/c
- When partner accept any asset for loan-No entry to be passed in Realization A/c.

8) Loan given by the firm to the partner:

- When loan is adjusted against capital
 Partner's Capital A/c
 To Loan to Partner
- When loan is recovered in cash
 Bank A/cDr
 To Loan to Capital A/c

Accounts to be prepared on the event of Dissolution

(1) REALIZATION ACCOUNT-

Particulars	Amount	Particulars	Amount
-------------	--------	-------------	--------

To Sundry Assets		By Sundry Liabilities	xxxx
Land & Building	xxxx	(Only outsiders liabilities)	
Plant & Machinery	xxxx	By Provision on Assets	
Furniture	xxx	By Cash /Bank A/c (Assets	xxxx
Debtors	xxxx	Realized)	xxxx
B/R	xxxx	By Cash/Bank A/c	
To Cash/Bank A/c (Liability	xxxx	(unrecorded Assets)	xxxx
paid)		By Partner's Capital	
To Partner's Capital	xxxx	(Assets taken over by	xxxx
(Liability taken over by		partners)	
Partner)		By Partners Capital A/cs	
To Cash/Bank A/c	xxxx	(Loss transferred to Partners,	xxxx
(Realization Exp.)		if any)	
To Partners Capital A/cs	xxxx		
(Profit transferred to			
Partners			
	XXXX		XXXX

(2) Partner's Loan A/c (if any)

(3) Partner's Capital Account

(4) Cash/Bank A/c

NOTE-Memorandum Balance Sheet-In case B/S is not given a Memorandum B/s is prepared to derive missing figures of Assets, Liabilities and Capital.

Chapter- FINANCIAL STATEMENTS OF COMPANIES

Financial statements prepared at the end of the accounting period. They provide information about the profitability and the financial position of the business.

As per Section 2 (40) of Companies Act, 2013 Financial Statement of a Company include:

- 1) Statement of Profit and loss
- 2) Balance Sheet
- 3) Notes to Accounts
- 4) Cash Flow Statement

Balance Sheet and Statement of Profit and Loss of a company must be prepared as per the format given in Schedule III.

Schedule III does not provide any horizontal format. The new vertical format given below:

Statement of Profit and Loss

Name of the Company _____

Profit and Loss Statement for the year ended _____

	Particulars	Note No.	Figure for the current reporting period	Figure for the previous reporting period
	1	2	3	4
I	Revenue from operation		***	***
II	Other Income		***	***
III	Total Revenue (a)		***	***

IV	Expenses: Cost of material consumed Purchases of stock in trade Changes in inventories of finished goods, work in progress and Stock-in-Trade Employees Benefit Expenses Finance cost Depreciation and Amortisation Expenses Other Expenses	*** *** *** *** *** *** ***	*** *** *** *** *** *** ***
V	Total Expenses (b)	***	***
VI	Profit before Tax (b-a) Less : Income Tax	*** (**)	*** (**)
VII	Profit after Tax	***	***

Details of items come under the heads mentioned in Statement of Profit or Loss:

- Other Income: Interest earned/received, Dividend received, Profit on sale of fixed assets/Investment, Rent received, Discount received, Commission received, sale of miscellaneous items, Refund of tax
- Cost of material consumed = Opening inventory of material + Purchases of material – Closing inventory of material.
- Change in inventories = Opening inventory – closing inventory
- Employees benefit expenses = Wages, salaries, bonus, leave encashment, contribution to provident fund and staff welfare expenses.
- Finance cost = Interest expenses such as interest on overdraft, debentures & term loan and other borrowing cost (Discount/loss on issue of debentures, premium payable on redemption of debenture)

Pro-forma of Balance Sheet

Name of the Company _____

Balance Sheet as at _____

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I. EQUITY AND LIABILITIES			
1. Shareholder's Funds			
a) Share Capital			
b) Reserves and Surplus			
c) Money received against share warrant			
2. Share Application money pending allotment			
3. Non-Current Liabilities			
a. Long Term borrowing			
b. Deferred Tax Liability			
c. Other Long term liabilities			

		d. Long term provisions					
		4. Current Liabilities					
		a. Short term borrowings					
		b. Trade payables					
		c. Other current liabilities					
		d. Short term provisions					
		Total					
		II. ASSETS					
		1. Non-current Assets					
		Property, Plant and Equipment and Intangible Assets					
		i. Property, Plant and Equipment (Tangible)					
		ii. Intangible Assets					
		iii. Capital work in progress					
		iv. Intangible assets under development					
		b. Non-current Investment					
		c. Deferred Tax Assets					
		d. Long term loans and advances					
		e. Other Non-Current Assets					
		2. Current Assets					
		a. Current Investment					
		b. Inventories					
		c. Trade receivables					
		d. Cash and Cash equivalents					
		e. Short term loans and advances					
		f. Other current assets					
		Total			***	***	
		• Reserve and Surplus: General reserve, capital reserve, securities premium, Investment fluctuation reserve, Surplus i.e. balance in statement of Profit and loss. • Long term borrowings: Bonds/Debentures, Long term loans, Public deposits • Long term provisions: Provision for Employees Benefit • Short term borrowings: Borrowings which are due for payment within 12 months. Such as loans payable on demand. • Trade payables: Sundry creditors and Bills payables • Other current liabilities: Current maturities of long term debts; Interest accrued but not due on borrowings; Interest accrued and due on borrowings; Income received in advance; unpaid dividends; Excess application money which is due for refund and interest accrued thereon; unpaid matured deposits and interest accrued thereon; unpaid matured debentures and interest accrued thereon; outstanding expenses; calls in advance; unclaimed dividend; provident fund payable • Short term provisions: Provision for doubtful debts; Provision for employees benefits; Provision for tax • Cash and cash equivalent: Balance with bank; Cash in hand; cheques/draft and short term investment. • Contingent liability: (To be stated in Notes to accounts): Claims against the company not acknowledge as debt; Bills receivable discounted from bank not yet due for payment; proposed dividend for current year.					

Chapter- Financial Statements Analysis

In financial statement analysis, the data given in financial statement is classified into simple groups and a comparison of various groups is made with one another to point out the strength and weakness of the business.

Features of Financial statement analysis:

- a. To present the complex data contained in financial statements in simple and understandable form.
- b. To classify the items contained in financial statement in convenient and rational groups.
- c. To make comparisons between various groups to draw various conclusions.

Objectives of Financial Statement Analysis:

- i) To measure the Earning capacity or profitability.
- ii) To measure solvency
- iii) To measure the financial strength
- iv) To make comparative study with other firms
- v) To provide useful information to the management

Limitations of Financial Analysis

- i) Affected by window dressing
- ii) Do not reflect in price level changes
- iii) Different Accounting policies
- iv) Difficulty in Forecasting

Chapter- Comparative Statements**Comparative Balance Sheet**

(As at 31st March _____ & _____)

Format of Comparative Balance Sheet

Particulars	Note No.	Previous Year	Current Year	Absolute Change	% change
1		2	3	4	5
		A	B	(B-A)= C	C/A* 100= D

Comparative Statement of Profit & Loss

(For the year ended 31st March, _____ & _____)

Particulars	Note No.	Previous Year	Current Year	Absolute Change	% change
1		2	3	4	5
		A	B	(B-A)= C	C/A* 100= D

Chapter- Common Size Statement**Common Size Balance Sheet**

(As at 31st March _____ & _____)

Format of Common Size Balance Sheet

Particulars	Note No.	Absolute Amount	Percentage of Balance Sheet
-------------	----------	-----------------	-----------------------------

1		Previous Year	Current Year	Previous Year	Current Year
		Rs.	Rs.	%	%
I. EQUITY AND LIABILITIES:					
1. Share Holder's Fund					
2. Non-Current Liabilities				100 %	100 %
3. Current Liabilities					
Total					
II. ASSETS					
1. Non-Current Assets				100 %	100 %
2. Current Assets					
Total					
Common Size Statement of Profit & Loss (For the year ended 31 st March, _____ & _____)					
Particulars	Note No.	Absolute Amount		Percentage of Balance Sheet	
1		Previous Year	Current Year	Previous Year	Current Year
		Rs.	Rs.	%	%
I. Revenue From Operation				100 %	100 %
II. Add: Other Income					
III. Total Revenue (I+II)					
IV. Expense (IV)					
Total Expenses					
V. Profit before Tax (III-IV)					
VI. Less: Tax					
VI. Profit after Tax (V-VI)					
Chapter- Ratio Analysis					
1. Liquidity Ratio 1. Current Ratio = Current Assets ÷ Current Liabilities * Current Assets = Current investment+ Inventories(excluding Spare parts and loose tools and stores)+ Trade receivables(Bills Receivables+ Sundry debtors-Provisions for doubtful debts)+ Cash and cash equivalents+ Short term loans and advances+ Other current assets(Prepaid expenses, accrued incomes, advance tax, interest receivables, etc.) Current assets can also be calculated as: Current assets = Current liabilities+ Working capital					

OR

Total assets – Non-current assets

***Current liabilities**= Short term borrowings(including Bank overdraft and cash credit)+ Trade payables(Bills payables+ sundry creditors)+ Other current liabilities(Current maturities of long term debts+ unclaimed dividends+ Interest accrued on borrowings+ Income received in advance+ outstanding expenses)+ Short term provisions.

Current liabilities can also be calculated as:

Current liabilities = Current assets - Working capital

OR

Total debts – long term debts

2. Liquid Ratio/ Quick Ratio/ Acid Test Ratio = Liquid assets OR Quick Assets ÷ Current Liabilities

Liquid Assets= Current Assets- (Inventories+ Prepaid expenses)

*Liquid assets are those assets which are either in the form of cash or cash equivalents or can be converted into cash with in a very short period of time without a loss of value.

*Normally, a quick ratio of 1:1 is considered satisfactory. Higher the quick ratio, better the short-term financial position.

2. SOLVENCY RATIO

1. Debt Equity Ratio= Debt ÷ Equity

***Debt**= Long-term Borrowing + Long-term Provisions

OR

Total Debt - Current Liabilities

OR

Capital Employed - Equity.

*** Equity/ Shareholders' Fund**= Share Capital+ Reserves and Surplus

OR

Total Assets- Total Debts

Shareholders' Fund include Equity share capital, preference share capital, securities premium reserves, general reserve, capital reserve, other reserves, balance of statement of profit and loss. However, advertisement suspense account (deferred revenue expenditure) should be deducted.

Note: A Debt Equity ratio of 2:1 may be considered satisfactory. If the debt equity ratio is more than that, it is alarming signal for long-term lenders. Therefore, the lower this ratio, the better it is for long-term lenders.

2. Total assets to debt ratio= Total Assets (Non-Current Assets+ Current Assets) ÷ Debt (Long - term debt).

Traditionally, 2:1, total assets to debt ratio is considered safe for investors. A low ratio represents a risky financial position as the business is heavily dependent on outside loans for its existence and vice-versa.

3. Proprietary Ratio= Shareholders' Fund ÷ Total Assets × 100

OR

Shareholders' Fund ÷ Total Assets.

Normally, proprietary ratio of 1:1 is considered as ideal ratio. Higher the ratio better is the long-term solvency position of the business and low ratio indicates greater risk to the creditors.

4. Interest Coverage Ratio= Profit before interest and tax ÷ Fixed Interest charged on borrowings

A high interest coverage ratio means lenders of long-term borrowings are more secure as far as regular payment of interest is concerned. A very low interest coverage ratio shows unsafe position for both company and lenders. If profits and interest are equal, it is not a good sign as there will be no dividend for shareholders.

5. Debt to Capital Employed Ratio= Debt ÷ Capital Employed or (Debt + Equity)

It helps to judge the Financial Leverage and Trading on Equity of the company.

***Capital Employed: It can be calculated from two approaches:**

Liability approach: Capital employed= Shareholders' Fund+ Non-Current liabilities

Assets Approach: Non-current Assets+ Working Capital

3. Activity Ratio/ Turnover Ratio

1. Inventory Turnover Ratio= Cost of revenue from operation ÷ Average inventory

***Cost of revenue from operation=** Opening inventory+ Net Purchases+ Direct expenses-Closing inventory OR

Revenue from operation- Gross Profit

***Average Inventory=** (Opening inventory+ Closing inventory)/2

2. Trade Receivable Turnover Ratio= Credit revenue from operation ÷ Average trade receivable

***Credit revenue from operation=** Revenue from operation- cash revenue from operation

***Average trade receivable=**[Opening receivables(Debtor+ B.R) + Closing receivable(Debtor+ B.R)/2]

Debt Collection Period: It provides an approximation of the average time that it takes to collect money from debtors.

It is determined as :

Debt Collection period= 365/ Trade receivable turnover ratio (days)
OR

12/ Trade receivable turnover ratio (months)
OR

52/ Trade receivable turnover ratio (weeks)

3. Trade Payable Turnover Ratio= Credit Purchases ÷ Average trade payable

***Credit purchases=** Total purchases – cash purchases

****Average trade payables=** Opening payables (Creditor+ B.P)+ Closing payable(creditor+ B.R)/2

Average Payment Period: It provides an approximation of the average time taken to make payment to the creditors.

It is determine as :

Average payment period= 365/ Trade payable turnover ratio (days)
OR

12/ Trade payable turnover ratio (months)

		OR 52/ Trade payable turnover ratio (weeks) 4.Fixed Assets Turnover Ratio = Revenue from Operation or Cost of revenuefrom operation ÷ Net Property Plant and Equipment (Fixed Assets) 5. Net Assets Turnover Ratio / Capital Turnover Ratio = Revenue from Operation/ Cost of Revenue from operation ÷ Net Assets /Capital Employed Net Assets = Net Fixed Assets + Net Current Assets (Current Assets – Current Liabilities) Cost of Revenue from Operation = Revenue from Operation – Gross Profit 4. Working Capital Turnover Ratio= Revenue from operation OR Cost of revenue from operation ÷ Working capital *Working capital=Current Assets- Current Liabilities 4. Profitability Ratio 1. Gross Profit Ratio= Gross Profit ÷ Revenue from Operation*100 Gross Profit = Revenue from Operation – Cost of revenue from operation 2. Operating Ratio= Operating cost (Cost of revenue from operations + Operating expenses) ÷ Revenue from operations*100. *Operating Cost= These are the cost which are associated with the operating activities of the business. e.g. employees benefit expenses and other expenses = Office expenses+ Administrative expenses+ Selling and distribution expenses+ Employees benefit expenses+ Depreciation and amortizations expenses. *Non-operating income and expenses (those income and expenses which are not incurred for the operating activities of the business) are excluded. 3. Operating Profit Ratio= Operating Profit ÷ Revenue from operations × 100 *Operating Profit= Gross profit+ Other operating income- other operating expenses OR Net Profit(before tax)+ Non-Operating Expenses - Non Operating income *Non-operating expenses= interest on borrowings, loss on sale of fixed assets etc. *Non-operating incomes= interest earned on investments, profit on sale of fixed assets etc. 4. Net Profit Ratio= Net Profit(after tax) ÷ Revenue from operations × 100 5. Return on Investment= Net profit before interest, tax and dividend ÷ Capital employed × 100 *Capital Employed: It can be calculated from two approaches: Liability approach:Capital employed= Shareholders' Fund+ Non-Current liabilities Assets Approach:Non-current Assets+ Working Capital		
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ECONOMICS

PART-B

INDIAN ECONOMIC DEVELOPMENT

CHAPTER 1: INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Basic Purpose of British Rule in India was to use Indian Economy as feeder economy for the development of British Economy.

Before the Advent of British Rule, Indian Economy was: **(i) Prosperous Economy; (ii) Agrarian Economy; and (iii) Well Known for its Handicraft Industries.**

Effect of British Rule: The economic policies pursued by Colonial Government were concerned more with the protection and promotion of their own economic interests. Their policies brought a fundamental change in the 'Structure of Indian Economy':

Agricultural Sector: During the British Rule, India's economy was overwhelmingly rural and agricultural in character. There was stagnation in the agricultural sector caused due to the following reasons:

- (i) Land Settlement System
- (ii) Commercialisation of Agriculture
- (iii) Low Level of Productivity:
- (iv) Scarcity of investment:

Industrial Sector: India's Industrial sector was in poor state during the British rule.

De-industrialisation-

(i) Decline of Handicraft Industry: British Government systematically destroyed Indian handicraft industries to satisfy two motives: (a) To get raw materials from India at cheap rates to be used by upcoming modern industries in Britain; and (b) To sell finished products of British industries in Indian market at higher prices.

(ii) Adverse effects of decline of Handicraft Industry: The decline of Indian handicrafts resulted in: (a) Heavy Unemployment; and (b) Increase in import of finished goods from Britain.

(iii) Lack of Capital Goods Industries: During the British rule, there was hardly any capital goods industry and British rulers did not pay any attention for their promotion.

(iv) Low contribution to Gross Domestic Product (GDP).

(v) Limited role of Public Sector: Public sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

Foreign Trade: The restrictive policies adopted by colonial government adversely affected the India's foreign trade.

- (i) India became an exporter of primary products and an importer of finished consumer goods,
- (ii) British Government maintained a monopoly control over India's exports and imports. The Suez Canal served as a direct route for the ships operating between India and Britain.
- (iii) Drain of Indian wealth during British Rule: Export Surplus was used: (a) To make payments for expenses incurred by an office set up by the colonial government in Britain; (b) To meet expenses on war fought by the British government; and (c) To import invisible items.

Demographic Condition: First official census conducted in 1881 revealed unevenness in India's population growth.

Year 1921 is described as the Year of the Great Divide.

- (1) High Birth Rate & Death Rate
- (ii) Extremely Low Literacy rate
- (iii) Poor Health facilities
- (iv) High Infant Mortality Rate
- (v) Low Life Expectancy
- (vi) Widespread Poverty

Occupational Structure: During the colonial period, the occupational structure of India showed little sign of change.

(i) Predominance of Primary Occupation, i.e. Agricultural Sector.

(ii) Regional Variation:

Infrastructure: The infrastructural facilities during British rule were very poor.

(i) Roads:

(ii) Railways:

(iii) Air and Water Transport:

(iv) Communication:

The postal services remained inadequate.

State of Indian Economy on the Eve of Independence

(1) **Colonial Economy:** In India, colonial exploitation has a long history and British rule, which resulted in huge drain of wealth from India.

(ii) **Semi-feudal Economy:** By the close of British period, there were two aspects of Indian Economy:

(a) Introduction of Feudal System; and (b) Introduction of Capitalist System.

(iii) **Stagnant Economy:** Indian economy was a stagnant economy as country's growth of aggregate real output during the first half of 20th century was less than 2%.

(iv) **Backward Economy:** Indian economy was backward and underdeveloped due to many reasons, like low level of productivity, traditional methods of agriculture, etc.

(v) **Depleted (or Depreciated) Economy:** It refers to an economy, where no arrangements have been made to replace the physical assets, depreciated due to excessive use.

(vi) **Amputated Economy:** The Britishers policy of 'divide and rule' always promoted discrimination between various groups on the basis of religion, caste, language and culture.

IMPORTANT DATES:

Battle of Plassey 1757

Introduction of Zamindari System or Permanent Settlement System by Lord Cornwallis 1793

Introduction of Railways in India by the British 1850

First Railway Bridge linking Bombay with Thane 1853

Opening of Suez Canal 1869

First Official Census 1881

Setting up of Tata Iron and Steel Company (TISCO) 1907

Year of Great Divide 1921

CHAPTER-2 INDIAN ECONOMY (1950 – 1990)

Important Events during this period

First Industrial Policy Resolution 1948

Setting up of Planning Commission in India with Prime Minister as its Chairperson 1950

Launch of First Five Year Plan 1951

Industries (Development and Regulation) Act 1951

Karve Committee or Village & Small-Scale Industries committee constituted 1955

Duration of First Five Year Plan 1st April 1951 to 31st March 1956

Second Industrial Policy Resolution 1956

First Phase of Green Revolution (Adopted High Yield Variety Programme) 1966

New Economic Policy (NEP) 1990

Planning Commission replaced by NITI Aayog 2015

Types of Economic Systems: Economic Systems are generally of 3 different types:

(1) **Capitalist Economy:** A capitalist economy is the one in which the means of production are owned, controlled and operated by the private sector.

(2) **Socialist Economy:** A socialist economy is the one in which the means of production are owned, controlled and operated by the government.

(3) **Mixed Economy:** A mixed economic system refers to a system in which the public sector and the private sector are allotted their respective roles for solving the central problems of the economy.

• India adopted the Mixed Economy: In this view, India would be a socialist society, with a strong public sector, but also with private property and democracy.

Economic Planning: For the development of Indian Economy, it was necessary for the Government to plan the economy. Economic Planning can be defined as making major decisions (what, how and for whom to produce) by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economy as a whole.

Goals of Five Year Plans

(i) Growth; (ii) Modernisation; (iii) Self-reliance; (iv) Equity.

Growth: Growth refers to increase in the country's capacity to produce the output of goods and services within the country.

Modernisation is needed to raise the standard of living of people. Modernisation includes:

(i) Adoption of New Technology:

(ii) Change in Social Outlook:

Self-reliance under Indian conditions means overcoming the need of external assistance.

self-reliance was considered a necessity because of two reasons: (a) To reduce foreign dependence; (b) To avoid foreign interference.

Equity aims to ensure that every Indian should be able to meet his or her basic needs (food, house, education and health care) and inequality in the distribution of wealth should be reduced.

Agriculture: The agricultural sector accounted for the largest share of workforce. So, agricultural development was focused right from the First Five Year Plan.

The measures undertaken to promote growth in the agricultural sector can be broadly categorised as: **(i)**

Land Reforms; and (ii) Green Revolution.

Land Reforms primarily refers to change in the ownership of landholdings. Land reforms were needed to achieve the objective of Equity in agriculture.

(i) **Abolition of Intermediaries:**

(ii) **Land Celling:**

• **New Agricultural Strategy:** Green Revolution in India: Green Revolution refers to the large increase in production of food grains due to use of high yielding variety (HYV) seeds. HYV Seeds raised agricultural yield per acre to incredible heights. HYV seeds need reliable irrigation facilities and financial resources to purchase fertilizers and pesticides.

Important Effects of Green Revolution

(i) Attaining Marketable Surplus

(ii) Buffer Stock of Food Grains

(iii) Benefit to low-income groups

Risks involved Under Green Revolution

(i) Risk of Pest Attack

(ii) Risk of Increase in income inequalities:

Favourable steps by Government to Overcome the Risks:

Government provided loans at low interest rate to small farmers so that they could buy needed inputs. As a result, the green revolution benefited the small as well as rich farmers.

Industrial Development: Five Year Plans stressed a lot on the industrial development.

Role of Public Sector in Industrial Development:

There was a need for leading role of Public Sector due to the following reasons:

1. Shortage of Capital with Private Sector:

2. Lack of incentives for private sector

3. Objective of Social Welfare:

Classification of Industries:

The Industrial Policy Resolution 1956, reclassified industries into three categories:

- (i) **Schedule A:** This category comprised of industries which would be exclusively owned by the state
 - (ii) **Schedule B:** In this schedule, 12 industries were placed, which would be progressively state-owned
 - (iii) **Schedule C:** This schedule consisted of the remaining industries which were to be the private sector
- Small-Scale Industry** (SSI): Small-scale Industry is defined with reference to maximum investment allowed on the assets of a unit.

(i) Small-scale industries are more labour Intensive, i.e., they generate more employment. (ii) Need for Protection from Big Firms: Small-scale industries cannot compete with big industrial firms.

So (a) Government reserved production of a number of products for them; and (b) They were also given concessions.

Foreign Trade: Foreign trade in India includes all imports and exports to and from India. In order to be self-reliant India has followed the strategy of replacing many imports by domestic production.

Import Substitution refers to a policy of replacement or substitution of imports by domestic production. This policy can serve 2 definite objectives:

(a) Savings of precious foreign exchange; and (b) Achieving self-reliance.

- Protection from Imports made through 'Tariffs' and 'Quotas.'

- Reason for Import Substitution

- (i) To enable them to compete against the goods produced by more developed economies.

- (ii) To prevent drain of foreign exchange reserves on the import of luxury goods.

CHAPTER 3. LIBERALISATION, PRIVATISATION AND GLOBALISATION

Reasons for Economic Reforms: The various reasons for making major economic reforms in the country were

- (i) Poor Performance of Public Sector
- (ii) Fall in foreign exchange reserves
- (iii) Deficit in Balance of Payments
- (iv) Huge burden of debts
- (v) Inflationary Pressures
- (vi) Inefficient Management

The New Economic Policy (NEP) was announced to create a more competitive environment in the economy and remove barriers to entry and growth of firms. NEP can be broadly classified into two kinds of measures:

(i) Stabilisation Measures; and (ii) Structural Reform Measures.

Stabilisation Measures: They refer to short-term measures which aim at:

- (i) Correcting weaknesses of BOP by maintaining sufficient foreign exchange reserves.
- (ii) Controlling inflation by keeping rising prices under control.

Structural Reform Measures: They refer to long-term measures which aim at:

- (i) Improving efficiency of the economy.
- (ii) Increasing international competitiveness.

Main Policies of New Economic Policy: The government initiated a variety of policies which fall under three heads: **(i) Liberalisation; (ii) Privatisation and (iii) Globalisation.**

Liberalisation included the following economic reforms:

- (i) Industrial Sector Reforms (ii) Foreign Exchange Reforms
- (iii) Financial Sector Reforms (iv) Trade and Investment Policy Reforms
- (v) Tax Reforms

Privatisation means transfer of ownership, management and control of public sector enterprises to the entrepreneurs in the private sector. Privatisation can be done in 2 ways: **(a) Transfer of ownership and management to Private Sector; and (b) Disinvestment.**

• **Globalisation** means integrating the national economy with the world economy through removal of barriers on international trade and capital movements.

Demonetisation is the act of removing a currency unit of its status as Legal Tender.

Features of Demonetisation

1. It is viewed as a Tax Administration Measure.
2. It has indicated that Tax Evasion will no longer be tolerated.
3. It led to channelizing savings into the formal financial system.
4. It aims to create a less-cash or cash-lite economy.

Goods and Services Tax (GST) is a single tax on the supply of goods and services, right from the manufacture to the consumer. It is a value added tax levied on manufacture, sale and consumption of goods and services

Important Dates Relevant to this Chapter

Establishment of General Agreement on Trade and Tariff (GATT) with 23 countries as the global trade organisation - 1948

Economic Crisis in India - 1991

New Economic Policy (NEP) or Economic Reforms: Liberalisation, Privatisation and Globalisation (LPG) Policy was announced by Indian Government - 1991

World Trade Organisation (WTO) was founded as successor to GATT Removal of quantitative restrictions on imports of manufactured consumer goods and agricultural products - 2001

Launch of 'Make in India' Initiative - 2014

Demonetisation of Currency by Indian Government - 8th November, 2016

Goods and Services Tax (GST) Act passed in the Parliament - 29th March, 2017

GST came effective - 1st July 2017.

CHAPTER 4. HUMAN CAPITAL FORMATION

Physical Capital includes all those inputs which are required for further production, like plant machinery, tory, buildings, raw materials, etc.

Human Capital refers to the skills which a person acquires through education, training and/or experience, ding to his/her value to the production process. It is the stock of skill, ability, expertise, education and knowledge embodied in the people.

Human Capital Formation refers to the process of addition made to the stock of skilled and capable people the country over a period of time.

Sources of Human Capital Formation: The different sources are:

- (1) Expenditure on Education:
- (ii) Expenditure on Health:
- (iii) On-the-Job-Training:
- Expenditure on Migration:
- (v) Expenditure on Information:

Importance or Role of Human Capital Formation:

- (1) Effective use of Physical Capital
- (ii) Higher Productivity and Production
- (iii) Stimulates Innovations and creates ability to absorb new Technologies
- (iv) Modernization of Attitudes
- (v) Increases Life Expectancy
- (vi) Improves Quality of Life
- (vii) Control of Population Growth

Problems of Human Capital Formation

1. Insufficient Resources
2. Serious inefficiencies
3. Brain Drain
4. High Growth of Population
5. Several Imbalances
6. Lack of Proper Manpower Planning
7. Weak Science and Technology

Human Capital Vs Human Development

Human Capital considers education and health as a means to increase labour productivity, while according to human development, education and health are integral to human well-being.

Human Capital treats human beings as a means to increase in productivity, while according to human development, human beings are ends in themselves.

Important Dates Relevant to this Chapter

- Education Commission recommendation to spend at least 6% of GDP on education-1964-66
- Tapas Majumdar Committee appointed by Indian Government - 1998
- 'Right to Education Act' was enacted by the Indian Government to make free education a fundamental right of all children in the age group of 6-14 years. - 2009
- India was declared a 'Polio Free' country by WHO - 27th March, 2014

CHAPTER 5. RURAL DEVELOPMENT

Rural Development refers to continuous and comprehensive socio-economic process, attempting to improve all aspects of rural life.

Process of Rural Development:

- (i) Development of Human Resources:
- (ii) Development of Infrastructure:
- (iii) Land Reforms:
- (iv) Alleviation of Poverty:
- (v) Development of productive resources of each locality to enhance opportunities of employment.

Rural Credit: Growth of rural economy depends on timely infusion of rural capital.

Sources of Rural Credit: There are two main sources of rural credit: **(i) Non-Institutional Sources; and (ii) Institutional Sources.**

Non-Institutional Sources: These are the traditional source of agricultural credit in India. The major non-institutional sources are:

- (i) Moneylenders
- (ii) Traders and Commission Agents
- (iii) Rich Landlords
- (iv) Relatives

Institutional Sources: Some of the important institutional sources of agricultural credit are:

- (1) Co-operative Credit
- (ii) Land Development Banks
- (iii) Commercial Bank Credit
- (iv) Regional Rural Banks
- (v) The Government
- (vi) National Bank for Agricultural and Rural Development (NABARD)
- (vii) Self-Help Group (SHG) Bank Linkages Programme for Micro Finance

Problems faced in Rural Banking

- (i) Insufficiency
- (ii) Inadequate Coverage of institutional sources
- (iii) Inadequate Amount of Sanction

Agricultural Marketing is a process that involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Problems Faced by Farmers

- Lack of Storage Facilities
- Manipulations by Big Traders
- Lack of Market Information
- Less attention to poor or marginal farmers
- Growing Overdues

Measures to Improve Agricultural Marketing

1. **Regulated Markets:** Regulated markets have been organised with a view to protect the farmers from the malpractices of sellers and brokers.
2. **Infrastructural Facilities:** Government aims to provide physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units.
3. **Cooperative Marketing:** The aim is to realise fair price for farmers' products.
4. **Different Policy instruments:** In order to protect farmers, government initiated following policies

Minimum Support Prices (MSP): To safeguard farmers' interest, government fixes MSP on various agricultural products

Maintenance of Buffer stocks: Buffer stock is created in the years of surplus production and is used during shortages.

(PDS): It operates through a network of ration shops and fair price shops. They offer essential commodities like wheat, rice, kerosene, etc, at a price below the market price, to the weaker sections of the society.

Emerging Alternate Marketing channels

- (i) **Origin of Farmers market:** The concept of Farmers Market was started to give boost to the small farmers by providing them direct access to the consumers and eliminating the middlemen.
- (i) **Alliance with National and Multinational Companies:** Several national and multinational fast food chains are increasingly entering into contracts/alliances with farmers.

Reason for Diversification: The need for diversification arises because there is greater risk in depending exclusively on farming and to provide productive sustainable livelihood options to rural people..

Types of Diversification: It includes two aspects:

- (i) **Diversification of Crop Production:** It involves a shift from single-cropping system to multi-cropping system.

- (ii) **Diversification of Productive Activities:** It involves shift of workforce from agriculture to other allied activities and non-agriculture sector.

Non-Farm Areas of Employment: Some of the important non-farm areas of employment are:

- (1) **Animal Husbandry** (or Livestock Farming) is that branch of agriculture, which is concerned with the breeding, rearing and caring of farm animals.
- (ii) **Dairying** is that branch of agriculture which involves breeding, raising and utilisation of dairy animals for the production of milk and the various dairy products processed from it.
- (ii) **Fisheries** refer to the occupation devoted to the catching, processing or selling of fish and other aquatic animals.

(iv) **Horticulture** refers to the science or art of cultivating fruits, vegetables, tuber crops, flowers, medicinal and aromatic plants, spices and plantation crops.

(v) **Information Technology (IT)** refers to that branch of engineering that deals with the use of computers and telecommunications to retrieve and store and transmit information.

Organic Farming is the form of agriculture that relies on techniques such as crop rotation, green manure, compost and biological pest control. The chemical fertilizers and pesticides are not used in organic farming. Natural fertilizers like cow dung, vermicompost are used.

Benefits of Organic Farming

- (i) Economical Farming
- (ii) Generates income through exports
- (iii) Provides Healthy Food
- (iv) Source of Employment
- (v) Safety of environment
- (vi) Sustains Soil Fertility

Challenges before Organic Farming

- (i) Less Popular
- (ii) Lack of infrastructure and marketing facilities
- (iii) Low Yield
- (iv) Shorter food life
- (v) Limited choice of crops

Evaluation of Rural Development: Following changes are required for development of rural sector.

- (i) Stress on Diversification
- (ii) Rural and Urban Linkage
- (iii) Better Facilities
- (iv) More Emphasis on Sustainable Development

CHAPTER: 6 EMPLOYMENT: GROWTH, INFORMALISATION AND OTHER ISSUES

Worker is an individual, who is involved in some economic activity, to earn a living. Workers include all those people, who are engaged in work, whether for others (ie, paid workers) or for themselves (self-employed workers). For example, farmers, managers, labourers, doctors, barbers, professors, etc.

Labour Force: It refers to all those people who are actually working (ie, who have a job) and all those who are not working though seeking a job and are available for work (ie, who are willing to work, but not getting work).

Labour Force Participation Rate: The ratio of labour force to total population is called Labour Force Participation Rate.

Work Force: The number of persons, who are actually employed at a particular time are known as work force. •

Number of Unemployed People: $\text{Unemployed People} = \text{Labour Force} - \text{Work Force}$.

Worker-Population Ratio is calculated by dividing the total number of workers in India by the population in India and multiplying it by 100. Higher ratio indicates that high proportion of its population is involved in economic activities.

Employment is an activity which enables a person to earn means of living. Employment may be either in the form of: (i) Self-employment; (ii) Wage Employment.

Self-Employment: An arrangement in which a worker uses his own resources to make a living, is known as self-employment. For example, shopkeepers, traders, businessmen, etc.

Wage Employment: An arrangement in which a worker sells his labour and earns wages in return, is known as wage employment. Wage employment is of two types:

(i) Regular Workers

(ii) Casual Workers

Regular Workers (Regular Salaried Employees): When a worker is engaged by someone or by an enterprise and is paid wages on a regular basis, then such worker is known as regular salaried employee. For example, Professors, Teachers, etc.

Casual Workers: Workers who are casually engaged and, in return, get remuneration for the work done, are termed as casual workers.

Jobless Growth refers to a situation when the economy is able to produce more goods and services without a proportionate increase in employment opportunities.

Casualisation of Workforce: The process of moving from self-employment and regular salaried employment to casual wage work is known as casualisation of workforce.

Informalisation of Workforce refers to a situation whereby the proportion of workforce in the informal sector to total workforce increases.

Formal or Organised Sector: All the public enterprises and private establishments which employ 10 or more hired workers, are called formal sector establishments.

Informal or Unorganised Sector includes all those private enterprises which hire less than 10 workers. In short, Unemployment refers to a situation in which people are willing and able to work at the existing wage rate, but do not get work.

Types of Unemployment in India: Some of the major types of unemployment in our country are: Disguised Unemployment is a situation where in the number of workers engaged in a work is more than actually/optimally required. Seasonal Unemployment refers to the unemployment that occurs during certain seasons of the year. Open Unemployment refers to that economic phenomenon in which persons are able and willing to work at the prevailing wage rate, but fail to get work.

Causes of Unemployment: The important causes of the unemployment problem in India are:

- (i) Slow Rate of Economic Growth
- (ii) Population Explosion
- (iii) Underdeveloped Agriculture
- (iv) Defective Educational System
- (v) Slow Growth of Industry
- (vi) Decline of Cottage and Small-scale Industries
- (vii) Faulty Planning
- (viii) Inadequate Employment Planning
- (ix) Low Capital Formation

Remedial Measures for Unemployment: The unemployment problem in India can be solved with the help of following measures:

- (1) Accelerating growth rate of GDP
- (ii) Control of Population Growth
- (iii) Development of Agricultural Sector
- (iv) Encouragement to Small-scale Enterprises
- (v) Improvements in Infrastructure
- (vi) Special Employment Programs
- (vii) Improvement of Employment Exchanges
- (viii) Creation of Self-employment opportunities
- (ix) Reform of Educational System & Skill Growth
- (x) Manpower Planning

Government Policies and Employment Generation: Government's efforts can be broadly categorised into two aspects:

Direct Employment: By employing people in various departments for administrative purposes.

Indirect Employment: With increase in output of goods and services of government enterprises, the number of employment opportunities in the economy will increase.

Employment Generation Programmes: Government has also implemented a number of Employment Generation Programmes, like National Rural Employment Guarantee Act-2005, Prime Minister's Rozgar Yojana, Swarna Jayanti Shahri Rozgar Yojana, etc.

Important Dates Relevant to this Chapter

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005
Government launched Pradhan Mantri Kaushal Vikas Yojana (PMKVY) or Skill India
16th July, 2015

CHAPTER 7: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Environment is defined as the total planetary inheritance and the totality of all resources. It includes: (i)

Biotic Elements include all living elements like birds, animals and plants, forests, fisheries, etc...

(iii) Abiotic Elements include non-living elements like air, water, land, etc.

Functions of the Environment: The environment performs four vital functions:

(1) Provides resources for production

(ii) Environment assimilates waste

(iii) Environment sustains life

(iv) It provides aesthetic services

Reasons for Environmental Crisis: The various reasons for environmental crisis are:

(1) Population explosion and advent of industrial revolution.

(ii) Intensive and Extensive extraction of both renewable and non-renewable resources.

(iii) Extinction of many resources.

(iv) Affluent consumption and production standards of the developed world.

(v) Development process has polluted the atmosphere and has resulted in increased incidence of respiratory and water-borne diseases.

(vi) Global environmental issues such as Global Warming and Ozone Depletion.

Global Warming is the observed and projected increase in the average temperature of earth's atmosphere and oceans. The global warming is due to increase in the greenhouse gas concentrations, like water vapour, carbon dioxide, methane and ozone in the atmosphere.

Ozone Depletion refers to destruction of ozone in the ozone layer due to presence of chlorine from manmade chlorofluorocarbons (CFCs) and other forces. It is caused by high levels of chlorine and bromine compounds in the stratosphere.

Montreal Protocol is a historical treaty designed by the members of the United Nations to protect the ozone layer by phasing out CFC, which is supposed to be the main reason for ozone depletion. Under the Montreal Protocol, all the signing members agreed to freeze the consumption and production of CFC by the year 2013.

Challenges to India's Environment: Air pollution, water contamination, soil erosion, deforestation and wildlife extinction are some of the most pressing environmental concerns of India. The priority issues identified are:

Land Degradation

Soil Erosion

Water Pollution

Degradation of Forests or

Biodiversity Loss

Air Pollution

Deforestation

Land Degradation refers to a decline in the overall quality of soil, water or vegetation condition, commonly caused by human activities.

Degradation of Forests or Deforestation involves the permanent destruction of indigenous forests and woodlands.

Soil Erosion takes place when the surface soil is washed away through excessive rains and floods.

Biodiversity Loss: Biodiversity is a term used to describe the enormous variety of life on Earth, i.e. it refers to every living thing, including plants, bacteria, animals, and humans.

Water Pollution is caused when toxic substances enter rivers, streams and other water bodies and get dissolved or lie suspended in water.

Air Pollution is the presence of pollutants like smoke, dust particles, etc. in air in such concentration, which are harmful to man and the environment.

Sustainable Development refers to the development process that meets the needs of present generation without compromising on the ability of the future generations to meet their respective needs.

Ways to achieve Sustainable Development

- (i) Restrict use of renewable resources
- (ii) Substitute non-renewable with renewable resources
- (iii) Become Input Efficient
- (iv) Control Pollution
- (v) Control the growth of population

Strategies for Sustainable Development: The following strategies need to be adopted to achieve sustainable development:

- (1) Use of Non-conventional sources of energy
- (ii) Use of cleaner fuels
- (iii) Establishment of Mini-Hydel Plants
- (iv) Traditional Knowledge and Practices
- (v) Use of Bio-compost
- (vi) Control of Biopest
- (vii) Change in unsustainable patterns of consumption and production

Important Dates Relevant to this Chapter

- Government set up Central Pollution Control Board (CPCB) 1974
- Environment Protection Act 1986
- India signed 'Montreal Protocol' along with its London Amendment 17th September, 1992

CHAPTER 8 : COMPARATIVE DEVELOPMENT EXPERIENCES OF INDIA AND ITS NEIGHBOURS

Development Path of India, Pakistan and China:

All the three countries have many similarities in their developmental strategies. All of them started their developmental path at the same time. All of them started planning their development strategies in similar ways. India announced its first Five Year Plan in 1951, Pakistan announced in 1956 and China in 1953.

- India and Pakistan adopted similar strategies, such as adopting Mixed Economic Structure, introducing Import Substitution Policy and raising public expenditure on social development.
- Till 1980s, all the three countries had similar growth rates and per capita incomes.

COMPARATIVE STUDY – INDIA, CHINA AND PAKISTAN

Demographic Indicators

Population: China is the most populous country in the world and India is the second most populated country. As compared to China or India, population of Pakistan is very less.

Growth Rate of Population: Annual growth rate of population is the lowest (0.46%) in China as compared to India (1.03%) and Pakistan (2.05%).

Density of Population: Density of population of China is the lowest as compared to India and Pakistan.

Sex Ratio; It is the lowest in India with 924 females per 1,000 males. In China and Pakistan, the corresponding figures are 949 and 943.

Fertility Rate; It is the highest in Pakistan, India comes second and China third.

Urbanisation; It is the highest in China (59%). In India and Pakistan, the corresponding figures are 34% and 37%

GROWTH INDICATORS:

Growth Rate of Gross Domestic Product (GDP); During 1980-90, China was having growth of 10.3%, which fell to 6.8% during 2015-17. Pakistan's growth rate was 6.3% in 1980-90, which fell to 5.3% during 2015-17 due to reform processes and political instability. India was at the bottom with just 5.7% growth rate during 1980-90, which recorded an increase to 7.3% during 2015-17.

Sectoral Contribution

In the last five decades, the contribution of agriculture sector to GVA in all the three countries has declined.

In the industrial sector, China has maintained a double-digit growth rate in 1980s, but began showing decline in recent years. For India and Pakistan, growth rate has declined.

In case of service sector, China was able to maintain its rate of growth during 1980-1990, while there was a positive growth of India's service sector output.

Human Development Indicators

Human Development Index (HDI); In 2019, HDI for India, China and Pakistan was estimated to be 0.645, 0.761 and 0.557 respectively.

Life Expectancy at Birth; China has the highest life expectancy of 76.9 years. India and Pakistan have the life expectancy of 69.7 and 67.3 years respectively.

Mean years of Schooling: It is highest in case of China with 8.1%, while the corresponding figures for India and Pakistan are 6.5% and 5.2% respectively. •

Gross National Income Per Capita (PPP US\$); In 2019, China's Gross National Income per capita was estimated to be US \$ 16,057, while it was just US \$ 6,681 for India and US \$ 5,005 for Pakistan.

People below Poverty Line: For the proportion of people below the international poverty rate of Pakistan has the largest number of poor people among the three countries.

China: The People's Republic of China (PRC), commonly known as China, was established in 1949, Geography: China is situated in eastern Asia and is the third largest country in the world.

Population and Language: It is the most populous country in the world. Most languages in China belong to the Sino-Tibetan language family.

Economy: Being one of the oldest civilizations, China has been the world's largest economy.

Great Leap Forward (GLF) campaign: Its aim was to transform agrarian economy into a modern economy through the process of rapid industrialization

Great Proletarian Cultural Revolution: Under this Revolution, students and professionals were sent to work and learn from the countryside.

Reforms Introduced in China: In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. In the later phase, reforms were initiated in the industrial sector.

Dual Pricing in the Reforms Process: Prices were fixed in two ways: (i) Farmers and industrial units were required to buy and sell on the basis of prices fixed by the government; and (ii) For other transactions, inputs and outputs were purchased and sold at market prices.

- **Special Economic Zones (SEZ);** To attract foreign investors, SEZ were set up.

Pakistan: Pakistan, officially the Islamic Republic of Pakistan, gained independence on 14 August, 1947.

Geography: Pakistan is located in South Asia and borders Central Asia and the Middle East.

Population and Language: It is the sixth most populous country in the world with 188 million people. The national language is Urdu and English is the official language.

Economy: Pakistan follows the mixed economy model.

Introduction of Various Policies: In the late 1950s and 1960s, Pakistan introduced a variety of regulated policy framework for growth of domestic industries.

Green Revolution; Introduction of Green Revolution and increase in public investment in infrastructure led to a rise in the production of food grains.

Importance to Role of Public Sector: In the early 1970s, nationalisation of capital goods industries took place.

Importance to Role of Private Sector in late 1970s; Government encouraged the private sector and also offered various incentives to them.

Financial Support during late 1970s: Pakistan received financial support, which helped the country in stimulating economic growth.

Reforms; In 1988, reforms were initiated in the country.

Maternal Mortality Rate: In China, for one lakh births, only 29 women die, whereas in India and Pakistan, maternal mortality rate is 133 and 140 respectively.

Access to Basic Drinking Water Source: China (96%) is ahead of India (93%) and Pakistan (91%), in providing basic drinking water source.

Important Dates Relevant to this Chapter

Establishment of People's Republic of China 1949

Pakistan 1956

1965

Pakistan 1988

Abolition of One-Child Policy in China	2015
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MACRO ECONOMICS

Content:

- *National Income and related aggregates.*
- *Money and Banking*
- *Determination of Income and Employment*
- *Government Budget and the Economy*
- *Balance of Payments*

FORMULAE(MACRO ECONOMICS)

National Income and Related Aggregates:

- Net Investment = Gross Investment – Depreciation
- Net Indirect Tax = Indirect Taxes – Subsidies
Market Price = Factor Cost + Net Indirect Taxes
OR
Market Price = Factor Cost + (Indirect Taxes – Subsidies)
- Net Factor Income from Abroad = Factor income earned from abroad – Factor income paid abroad
OR
Net Factor Income from Abroad = Net Compensation of Employees + Net Income from Property and Entrepreneurship + Net Retained Earnings
- National Income = Domestic Income + NFIA
- Depreciation = Gross Value – Net Value
- Gross Domestic Product at Factor Cost (GDP_{FC}) = GDP_{MP} – Net Indirect Taxes
- Net Domestic Product at Market Price (NDP_{MP}) = GDP_{MP} – Depreciation
- NDP_{FC} = GDP_{MP} – Net Indirect Taxes – Depreciation
- GNP_{MP} = GDP_{MP} + Net Factor Income from Abroad
- GNP_{FC} = GNP_{MP} – Net Indirect Taxes
- NNP_{MP} = GNP_{MP} – Depreciation
- NNP_{FC} = GNP_{MP} – Net Indirect Taxes – Depreciation
- Product or Value Added Method of calculating National Income:
- GDP_{MP} using Value Added Method $\sum GVA_{MP} = GDP_{MP}$
- Value Added = Value of Output – Intermediate Consumption
- Value of Output when the whole output is sold in a financial year. Value of Output = Sales
- Value of Output when the whole output is not sold in a financial year
Value of Output = Sales + Change in Stock & Change in Stock = Closing Stock – Opening Stock
- Value of Output = (Quantity × Price) + Change in Stock
- National Income or NNP_{FC} = GDP_{MP} – Depreciation – Net Indirect Taxes + NFIA
OR = Domestic Income or NDP_{FC} + NFIA
- Expenditure Method of calculating National Income:
- GDP_{MP} using Expenditure Method : $GDP_{MP} = \sum \text{Final Expenditure}$
 $\sum \text{Final Expenditure} = \text{Private Final Consumption Expenditure (PFCE)} + \text{Government Final Consumption Expenditure (GFCE)} + \text{Gross Domestic Capital Formation (GDCF)} + \text{Net Exports (NX)}$
- **Private Final Consumption Expenditure (PFCE)** PFCE = Household Final Consumption Expenditure + Non-profit Private Institutions Final Consumption Expenditure.

- **Government Final Consumption Expenditure (GFCE)** GFCE = Intermediate Consumption of Government + COE paid by Government + Direct purchases from abroad for embassies and consulates located abroad – Sale of goods and services produced by general government
- **Gross Domestic Capital Formation (GDCF)** GDFC = Gross Fixed Capital formation + Inventory Investment
OR GDCF = Gross Business Fixed Investment + Gross Residential Construction Investment + Gross Public Investment + Inventory Investment
- **Net Exports (X – M)** Net Exports = Exports – Imports or (X-M)
- **National Income using Expenditure Method** : National Income or $NNP_{FC} = \sum \text{Final Expenditure}$ or $GDP_{MP} - \text{Depreciation} - \text{Indirect taxes} + \text{NFIA}$

OR

$NNP_{FC} = \text{Domestic Income or } NDP_{FC} + \text{NFIA}$

Income Method of calculating National Income

- **Profit:** Profit = Corporate Tax + Dividend + Retained Earnings
- **Operating Surplus:** Operating Surplus = Rent + Royalty + Interest + Profit
OR
= Value of Output – Intermediate Consumption – Compensation of Employees – Mixed Income – Consumption of Fixed Capital – Net Indirect Taxes
- **National Income using Income Method** : $NNP_{FC} = NDP_{FC} + \text{NFIA}$
- Where, $NDP_{FC} = \text{Compensation of Employees} + \text{Profit} + \text{Rent \& Royalty} + \text{Interest} + \text{Mixed income}$
- National Income at Constant Price
- **Nominal GDP or GDP at Current Price** = $\frac{\text{Real GDP}}{\text{Price Index}} \times 100$
- **Real GDP or GDP at Constant Price** = $\frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$
- **GDP Deflator** = $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

Money and Banking :

- $M_1 = C + DD + OD$
Where C represents the currency, including both paper currency and coins.
DD represents the demand deposits made in the banks.
OD represents the other types of deposits made in RBI, like deposits from public sector Financing, foreign banks, or international institutions such as the IMF.
- $M_2 = M_1 + \text{deposits made as savings deposits in Post office savings banks.}$
- $M_3 = M_1 + \text{Net Time-deposits included in banks.}$
- $M_4 = M_3 + \text{Deposits made with Post-office savings institute.}$
- Demand deposit = $\frac{1}{CRR} * \text{Cash Reserve}$
- Credit Multiplier = $\frac{1}{CRR}$

Determination of Income and Employment:

- $AD = \text{Consumption} + \text{Investment}$
- $AS = \text{Consumption} + \text{Saving}$
- $APC = \frac{C}{Y}$
- $APS = \frac{S}{Y}$
- $MPC = \frac{\Delta C}{\Delta Y}$
- $MPS = \frac{\Delta S}{\Delta Y}$
- $APC + APS = 1$
- $MPC + MPS = 1$
- Consumption function $\{C(f)\} = \bar{c} + bY$
- Saving Function $\{S(f)\} = -\bar{c} + (1-b)Y$

- $K = \frac{\Delta Y}{\Delta I}$
- $K = \frac{1}{1-MPC}$
- $K = \frac{1}{MPS}$

- **Government Budget and the Economy:**

- Budget Deficit = Total expenditure (Revenue Expenditure + capital Expenditure) - Total Receipt (Revenue receipt + Capital receipt)
- Revenue Deficit = Revenue Expenditure – Revenue Receipt
- Fiscal Deficit = Total expenditure (Revenue Expenditure + capital Expenditure) - Total Receipt other than borrowings (Revenue receipt + Capital receipts other than borrowings)
- Primary Deficit = Fiscal deficit - Interest payment
- Balanced Budget = Government receipt = Government Expenditure
- Surplus Budget = Estimated Government receipt > Estimated Government Expenditure
- Deficit Budget = Estimated Government Expenditure > Estimated Government receipt

Balance of Payments :

- Balance of Trade or trade balance = Export of merchandise – Import of merchandise
- Current Account Balance = Trade Balance + Invisible Balance

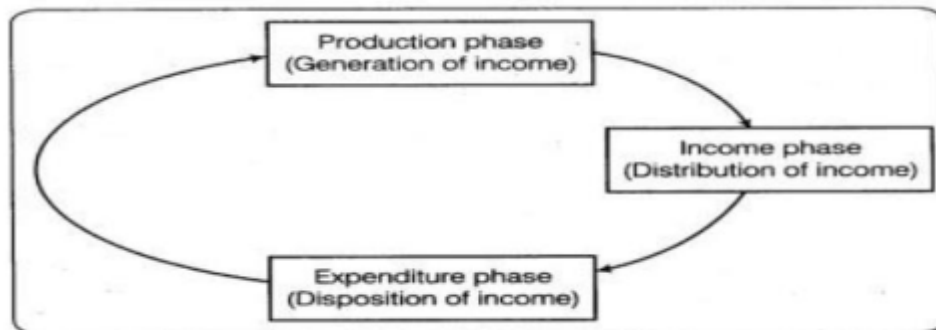
THEORY (MACRO ECONOMICS)

Unit 1 : National Income and Related Aggregates:

- **Macroeconomics:** It studies the behavior of the economy as a whole. It studies national aggregates like Aggregate Demand, Aggregate Supply, National Income etc. It also studies national economic problems like inflation, unemployment, poverty and the issues connected with economic growth and economic development..
- **ECONOMIC TERRITORY According to the United Nations System of National Accounts**
Economic (or Domestic) territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.
- **Circular Flow of Income:** It refers to cycle of generation of income in the production process, its distribution among the factors of production and finally, its circulation from households to firms in the form of consumption expenditure on goods and services by firms.
- **Types of Circular Flows:** There are two types of circular flows: (i) Real flow and (ii) Money flow.
 - a. **Real Flow (Physical/ Product flow):** It refers to flow of factor services from households firms and the corresponding flow of goods and services from firms to households.
 - b. **Money Flow (Income/ Nominal flow):** It refers to flow of money in the form of factor payments from firms to households. and the corresponding flow of consumption expenditure from households to firms for purchase of goods and services produced by the firms.



- **Phases of Circular Flow of National Income:** There are three phases (Production, Distribution and Expenditure) in the circular flow of income.



Different phases of circular flow of income

In Production (Income Generation Phase), firms produce goods and services with the help of factor services. Production of goods and services by firms causes generation of income. **In Income Distribution Phase,** factor income (wages, rent, interest and profits) flow from firms to households according to their contribution to production. **In Expenditure Phase,** the income received by factors of production is spent on the goods and services produced by firms. In this way, income generated in production units reach back to the production units and makes the circular flow complete. **Conclusion:** Value of output produced = Value of income distributed = Value of expenditure incurred in the economy. **Accordingly, there are three methods of estimating National Income: Value added method, Income method and Expenditure method.**

Problem of Double Counting: It means counting the value of a product more than once in the estimation of National Income. The problem of double counting arises when the value of intermediate goods is counted in the estimation of national income along with the value of final goods and services.

Two ways to avoid the problem of double counting – a) Consider only the value of final goods and services in the estimation of national income. b) Consider the value added instead of value of total output produced in the estimation of national income.

GDP Deflator: GDP Deflator measures the average level of prices of all goods and services that make up the GDP. It is used to eliminate the effect of price changes and determine the real change in physical output.

GDP and Welfare: GDP (Real GDP) is used as an index of **welfare of the people**. Welfare means sense of material well-being among the people. It is influenced by many factors like consumption level, the types of goods and services consumed (economic factors), environmental pollution, law and order situation (non-economic factors) etc. Higher GDP is generally taken as greater welfare of the people. However, GDP may not be taken as a satisfactory measure of economic welfare due to certain limitations. These are:

1. **Does not include the rate of growth of population:** Real GDP indicates overall performance of the country. But **Real GDP does not consider the changes in the population of a country.**
2. **Does not reflect distribution of GDP:**
3. **Does not include non-economic or non-monetary exchanges:**
4. **Does not include externalities:** Externalities refers to benefits or harms accompanying the production process for which no payment is made or received. They are excluded from the estimation of GDP. There are two types of externalities: a) **Positive externalities** - These are the benefits that accompany the production process but for which no payment is received. They are not included in GDP although they result in increase in welfare. For example, construction of flyovers or highways reduces transport cost and journey time of its users who have not contributed anything towards its cost. Expenditure on construction is included in GDP but not the positive effects flowing from it hence underestimating the welfare indicated by GDP. b) **Negative externalities-** These are the negative effects which accompany the production process and decrease the welfare of the people for which they are not penalized. For example: environmental pollution caused by industrial plants. The output produced by plants is included in GDP but decrease in welfare arising out of pollution of water and air caused by plants is not considered in the estimation of GDP. This pollution adversely affects the health of the people thus producing goods increases welfare but creating pollution decreases welfare.

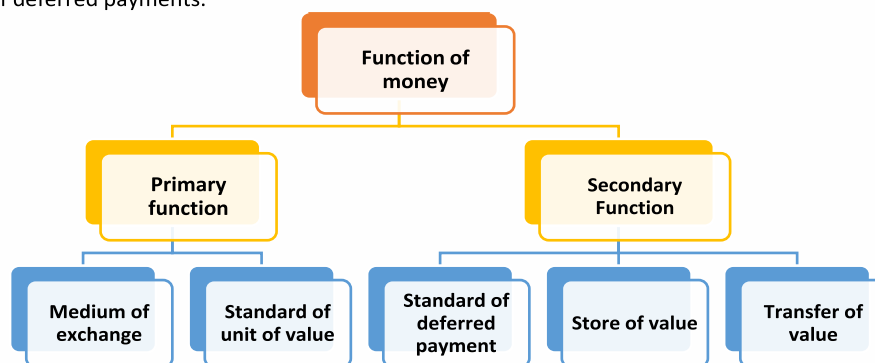
5. Does not consider change in prices.

- Difference between Nominal GDP (or GDP at Current Prices) and Real GDP (or GDP at Constant Prices):

Nominal GDP	Real GDP
It refers to the market value of all final goods and services produced within the domestic territory of a country in a year and measured at current year prices.	It refers to the market value of all final goods and services produced within the domestic territory of a country in a year and measured at constant prices or the prices of base year.
The value of Nominal GDP changes when either the physical output or prices changes or both change simultaneously.	The value of Real GDP changes when only the volume of physical output changes.
It is a not a good measure of economic growth of a country as it is affected by both change in physical output as well as price.	It is a better measure of economic growth of a country as it is affected by change in physical output only. It reflects the change in physical quantity of goods and services over the years.

Unit 2 : Money and Banking:

Money is anything that is generally acceptable as a medium of exchange, measure of value, store of value and as a standard of deferred payments.



Money Supply : It refers to the total stock of money held by public at a particular point of time in an economy. It is a **stock concept** because it is measured at a particular point of time.

Components of Money Supply:

a) Currency (paper notes and coins) held by the public (outside the banks) and b) (Net) Demand deposits of the public with the commercial banks.

- **Currency and coins with public:** It consists of paper notes and coins held by the public that can be legally used to make payments of debts or other obligations.
- **Demand deposits of commercial banks :** Demand deposits are the deposits of commercial banks from which money can be withdrawn on demand by the depositor using cheque. Other than demand deposits there are time deposits which have a fixed term or maturity period after which they can be withdrawn. E.g: Fixed deposit. The currency issued by the central bank can be held by the public or by the commercial banks and is called the **high powered money** or **'reserve money'** or **'monetary base'**. Demand deposits are created by the commercial banks and are called **Bank money**.

BANKING:

Central Bank:

It is an apex body that controls, operates, regulates and directs the entire banking and monetary structure of the country.

Commercial Bank:

Commercial bank is an institution which performs the functions of accepting chequeable deposits and providing loans and making investments, with the aim of earning profits and has the power to create money using demand deposits. E.g. Punjab National Bank, Canara Bank etc.

Functions of Central Bank:

1. **Currency Authority (Bank of Issue).**
2. **Banker to the government:**
3. **Banker's bank and supervisor:** a. **Custodian of cash reserves** b. **Central bank is the lender of the last resort.** c. **Clearing house function**
4. **Custodian of foreign exchange reserves**
5. **Controller of money supply and credit:** Central bank controls money supply by using various quantitative and qualitative instruments.

Quantitative instruments aim at controlling the volume of credit and money supply in the economy.

- a) **Bank rate:** The rate at which the central bank lends money to commercial banks for its long-term needs is known as bank rate.
- b) **Legal reserve requirement:** Commercial banks are legally required to maintain reserves on two accounts
 - i. **Cash Reserve Ratio (CRR):** It refers to the percentage of the net demand and time deposits that commercial banks are legally required to keep as cash reserves with RBI.
 - ii. **Statutory Liquidity Ratio (SLR):** It is the percentage of net demand and time deposits which commercial banks are legally required to keep in the form of designated liquid assets (such as govt. securities with themselves.)
- c) **Open market operations:** It refers to buying and selling of government securities or bonds by the central banks from or to the commercial banks or public.
- d) **Repo (Repurchase) rate:** It is the interest rate at which the commercial banks can borrow from the central bank to meet their short-term needs.
- e) **Reverse repo rate:** It is the interest rate which the commercial banks get for depositing their surplus funds with the central bank. .

Qualitative instruments: a) **Margin requirement:** It is the difference between the amount of loan and the market value of the security offered by the borrower against the loan. By changing the margin requirement reserve bank can alter the amount of loans made against securities by the bank.

Money Multiplier / Credit creation by commercial banks :

Credit creation refers to the process of creation of credit by the commercial banks with the help of an initial deposit and given LRR.

Principle: a) All transactions are routed through the banks.

b) All banking system is treated as a single 'Bank' Working:

Demonetization: Demonetization was a new initiative taken by the Government of India in November 2016 to tackle the problem of corruption, black money, terrorism and circulation of fake currency in the economy. Old currency notes of Rs 500 and Rs 1000 were no longer legal tender. New currency notes in the denomination of Rs 500 and Rs 2000 were launched. The public were advised to deposit old currency notes in their bank account till 31 December 2016 without any declaration and upto 31 March 2017 with the RBI with declaration. Legal tender is money declared legal by a government or backed by law of the land. (can be legally used to make payments)

Difference between Central Bank and Commercial Bank:

Central Bank	Commercial Bank
It is an apex body that controls, operates, regulates and directs the entire banking and monetary structure of the country.	Commercial bank is an institution which performs the functions of accepting deposits and providing loans and making investments, with the aim of earning profits.
It is owned and governed by the government.	It can be owned and governed by the government or the private sector.
It operates for public welfare without profit motive.	It aims to maximize profits.
It does not do ordinary banking business with general public but only with the government.	It does ordinary banking business with general public.

Unit : 3 Determination of Income and Employment:

- **Aggregated Demand :** It is the sum total of expenditure that the people plan to incur on the purchase of goods and services produced in the economy (during the period of an accounting year) corresponding to their different levels of income.
- **Elements of Aggregate Demand in an Open Economy:** Consumption expenditure by households (C). Investment expenditure (I). Government consumption expenditure (G). Net exports (X – M). Therefore, $AD = C + I + G + (X - M)$.

Components of Aggregate Demand in Closed Economy: In a three-sector economy, Aggregate demand = Consumption expenditure by households or C + Investment expenditure or I + Government consumption expenditure or G. The three-sector economy, $AD = C + I + G$. A Two-sector economy, Aggregate demand = Consumption expenditure by households or C + Investment expenditure or I. A Two-sector economy; $AD = C + I$

- **Ex-ante aggregate demand:** The term ex-ante refers to what has at present been calculated. Hence, it is planned aggregate demand. **Ex-post aggregate demand:** Ex-post aggregate demand consists of actual consumer spending and business capital investment. Specifically, the ex-post describes what actually happened.
- **Aggregate Supply (AS):** The aggregate supply model is a model that reveals what shapes the total supply of demand for the economy and how total supply interacts at the macroeconomic level. It is the monetary price of all final goods and services bought by an economy during a period.
- **Aggregate supply = Consumption expenditure by households + Supply , $AS = C + S$**

$$C = C^- + cY$$

C = Consumption , C^- = Autonomous consumption
 c = Induced consumption
 Y = Income

Consumption function represents the relationship between consumption and income. The most fundamental consumption function assumes that consumption changes at the same rate as income. Consumption function in economics is determined by the relationship between consumer spending and the various factors fixing it.

Autonomous Consumption: Autonomous consumption is the minimum consumption expense that an individual invites irrespective of income. It is the consumption of basic goods that are essential for living. For example, food, clothes, and medicines.

Induced Consumption: Induced consumption refers to that consumption that happens on the basis of a change in income. It changes when there is some change in the level of income in the economy.

The induced component of consumption, or cY , denotes consumption based on earnings or income. It is dependent on income.

Propensity to consume is of two types:

Average Propensity to Consume or APC:

It applies to consumption per unit of income. It is referred to as CY. Key Points:

APC > 1: before the break-even point, if consumption exceeds national income, APC is greater than one. $APC > 1$.

APC = 1: At the break-even point when consumption equals national income, APC is equal to 1. $APC = 1$.

APC < 1: APC is less than one when consumption exceeds national income after the break-even point

Inverse Relation with Income:

Income and APC are inversely related because APC decreases as income increases.

APC can never be zero: autonomous consumption exists even at a zero level of national income, so APC can never be zero.

Marginal Propensity to Consume or MPC:

It is the switch in income per unit change in consumption.

It is **defined** by c and equals C and Y, where C is the change in consumption and Y is the change in income.

Marginal Propensity to Consume or MPC = change in consumption or C and change in income or Y.

Key Points: MPC = 1:

If all the additional income is consumed, then C or the change in consumption = Y or the change in income, resulting in $MPC = 1$.

MPC = 0: If the entire additional income is saved, the change in consumption or $C = 0$, and $MPC = 0$.

Constant MPC: MPC remains constant in the short run as it is the slope of the consumption curve.

APC value > MPC.

Saving Function: The saving function is the functional relationship between saving and national income.

The savings function applies to the standard equation of savings which defines the correlation between savings and income, where savings value can be derived at each level with the use of income value..

Equation of saving function $S = f(y)$ Where, S = Saving Y = National Income f = Functional relationship

Relation between Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) :

We know $MPC + MPS = 1$ (since an increase in one unit of income will be either consumed or saved).

Also, $C + S = Y$ Hence, Change in income(Y) = Change in consumption(C) + Change in savings(S). $Y = C + S$

Relation between Average Propensity to Consume (APC) and Average Propensity to Save (APS):

The product of APS and APC equals one. It can be demonstrated as follows:

$$APS + APC = 1.$$

$$C + S = Y$$

Dividing both sides by Y, we get

$$CY + SY = YY$$

That is,

$$1 = APC + APS$$

$$\text{As, } APC = CY, APS = SY$$

Therefore,

$$APC + APS = 1$$

Propensity to save is of two types:

Average Propensity to Save or APS:

It indicates the savings per unit of income.

It is denoted as S/Y . **Key Points:**

APS, not in the least, can be one or more than one as savings can never be equal to or greater than income.

At the break-even, when $C = Y$, APS can be zero, as here $S = 0$. This is because there are no savings when an individual consumes equal to what they earn.

APS can be negative when consumption beats income at income levels lower than the break-even point.

APS and income are directly related. With an increase in income, APS increases. .

Marginal Propensity to Save or MPS:

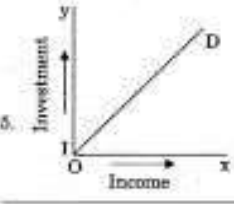
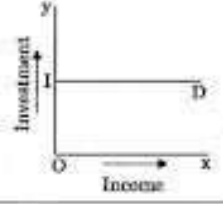
It is the swap in savings per unit of income change.

It is denoted by s and **equals $1 - c$** . This is because 1 is complete, and if we consume less, we can have savings.

It follows that the total savings and consumption are equal to one. **$S + C = 1$** That is MPS or Marginal Propensity to Save = Saving or S and Y or National Income. **Key Points:**

MPS have a range from 0 to 1. MPS is the slope of the saving curve. In the short run, MPS remains constant.

Investment: An investment is an asset or resource acquired with the intention of earning income or increasing in value. An increment in the value of an asset over time is known as appreciation. The topic determination of income and employment mentions that investment is a requisite component of the two-sector model. Investment is seen as an inclusion to the stock of physical capital and changes in the inventory of a manufacturer.

Induced Investment	Autonomous Investment
1. It depends upon income. 2. It is income elastic. 3. It is generally done by private sector 4. Induced investment curve moves upwards from left to the right.	1. It has no concern with income. It is independent. 2. It is not income elastic. 3. It is generally made by government. 4. Autonomous Investment curve remains parallel to x-axis.
	

Equilibrium Level of Income:

- The equilibrium level of income is only decided when **$AD = AS$ or $S = I$** . when the movement of goods and services in the economy equals the demand for goods and services.
- **Short Run Equilibrium Output:** The quantity of actual GDP that will exist when AD intersects short-run aggregate supply in a short-run macroeconomic equilibrium is the amount of aggregate output produced.
- **Assumptions: Closed Economy:** In the structure of a two-sector model that is households and firms, the determination of equilibrium output will be investigated. It suggests that there is no government or international sector.
- **Self-contained Investment:** It is assumed that investments are unaffected by income levels. To be specific, investment expenditure is self-contained.

- **Short-period analysis:** This analysis is associated with a short period only.

AD-AS APPROACH: The production level where aggregate demand equals aggregate supply in an economy. That is $AD = AS$. It refers to whatever the producers intended to produce during the year is exactly equal to what the buyers intended to buy in that year. Here, $AD = I + C$ (for a two-sector economy), and $AS = C + S$

That is, AD = Aggregate Demand, AS = Aggregate Supply, C = Consumption, I = Investment, S = Saving

- **Two different Situations: Aggregate demand > Aggregate supply**
- **or $AD > AS$: Additional demand < Additional supply or $AD < AS$.**

Savings-Investment Approach: The level of national income is decided by the equality of planned savings and planned investment that can be derived from the equilibrium condition. The level of income is equal to effective demand.

Two situation : 1. Savings > Investment or $S > I$ 2. $S < I$

Equilibrium: Economic equilibrium is a condition in which monetary forces are balanced. As a result, economic variables remain unchanged from their equilibrium values in the absence of external influences. Equilibrium is important to create both a balanced market and a successful market. If a market is at its equilibrium price and quantity, then it has no objection to moving away from that point because it's balancing the quantity supplied and the quantity demanded. There are three types of equilibrium in economics, namely stable, neutral and unstable equilibrium. So, equilibrium is reached when: Additional demand = Additional Supply:

or additional demand is the sum of Consumption (C) and Investment (I):

$$AD = C + I, \text{ Additional Supply}(AS) \text{ is the sum of consumption } (C) \text{ and saving } (S): AS = C + S$$

Types of Employment:

- **Full employment:** Full employment embodies the highest amount of skilled and unskilled labour that can be employed within an economy at any given time. This happens when all those who are able and willing to work at the prevailing wage rate are given a chance.
- **Voluntary unemployment:** This appears when a person can work but is reluctant to work at the prevailing wage rate.
- **Involuntary unemployment:** This takes place when a worker is able and willing to work at the prevailing wage rate but cannot find work.
- **Underemployment:** It arises when all those who can work at current wage rates cannot find work. It indicates the economic situation in which $AS = AD$ or $S = I$, but there is inadequate labor force usage.
 - **Multiplier Mechanism:** The multiplier demonstrates how the eventual change in income will result from a change in investment. The changes in investment steer to changes in income. The aggregate demand rises when autonomous measures (A) rise. Respectively, output and income will rise in the next round, initiating consumption and the additional demand to increase. This is called the multiplier mechanism.
 - **Investment Multiplier:** As rooted in the economic theories of John Maynard Keynes. The term investment multiplier indicates that any rise in public or private investment spending has a more than proportionate constructive impact on aggregate income and the general economy.

Comparative View of APC, MPC, APS and MPS											
Basis of Difference	APC			MPC			APS			MPS	
1. Meaning	It refers to the ratio between total consumption and total income.			It refers to the ratio between change in consumption (additional consumption) and change in income (additional income).			It refers to the ratio between total saving and total income.			It refers to the ratio between change in saving (additional saving) and change in income (additional income).	
2. Formula	$APC = \frac{C}{Y}$			$MPC = \frac{\Delta C}{\Delta Y}$			$APS = \frac{S}{Y}$			$MPS = \frac{\Delta S}{\Delta Y}$	
3. Numerical Example (via schedule)	Case	Y (₹)	C (₹)	S (₹)	ΔY (₹)	ΔC (₹)	ΔS (₹)	APC	MPC	APS	MPS
	I	0	50	-50	—	—	—	—	—	—	—
	II	50	75	-25	50	25	25	1.5	0.5	-0.5	0.5
	III	100	100	0	50	25	25	1	0.5	0	0.5
	IV	200	150	50	100	50	50	0.75	0.5	0.25	0.5
	V	300	200	100	100	50	50	0.67	0.5	0.33	0.5
	Case V: $APC = \frac{200}{300} = 0.67$			Case V: $MPC = \frac{(200 - 150)}{(300 - 200)} = \frac{50}{100} = 0.5$			Case V: $APS = \frac{100}{300} = 0.33$			Case V: $MPS = \frac{(100 - 50)}{(300 - 200)} = \frac{50}{100} = 0.5$	
4. Diagram											
5. Range of Value	No.			No.			Yes.			No.	
-ve	Reason: There is always some minimum level of C even when Y = 0			Reason: ΔC is always a +ve component of ΔY			Reason: When C > Y			Reason: ΔS is always a +ve component of ΔY	
0	No, Y is never equal to 0			Yes, when ΔS = ΔY			Yes, when C = Y			Yes, when ΔC = ΔY	
1	Yes, when C = Y			Yes, when ΔC = ΔY			No. Because total S is never = total Y			Yes, when ΔS = ΔY	
>1	Yes, when C > Y			No, as ΔC can never be greater than ΔY			No, as S can never be greater than Y			No, as ΔS can never be greater than ΔY	

Excess Demand:

- **Excess demand** is the situation when aggregate demand (AD) is more than the aggregate supply (AS) corresponding to full employment level of output in the economy. It is the excess of anticipated expenditure over the value of full employment output. Excess demand gives rise to an **inflationary gap**.
- **Inflationary gap** refers to the gap by which actual aggregate demand exceeds the aggregate demand required to establish full employment equilibrium.
- **Impact of Excess Demand:**
- **Effect on Output:** Excess demand does not affect the level of output because economy is already at full employment level and there is no idle capacity in the economy.
- **Effect on Employment:** There will be no change in the level of employment as the economy is already operating at full employment equilibrium and there is no involuntary unemployment.
- **Effect on General Price Level:** Excess demand leads to rise in the general price level (known as inflation) as aggregate demand is more than aggregate supply.
- **Reasons for Excess Demand:** Excess demand may arise due to
 1. Rise in the Propensity to consume
 2. Reduction in taxes
 3. Increase in Government Expenditure
 4. Increase in Investment
 5. Fall in Imports
 6. Rise in Exports
 7. Deficit Financing

Measures to Rectify the Situation of Excess Demand :

1. **Fiscal Policy:** The main tools of fiscal policy are: (i) Expenditure policy (Reduce expenditure). (ii) Revenue policy (increase taxes)
2. **Monetary Policy :** Control Policy Measures of monetary policy maybe : (a). **quantitative** (which influence the total volume of credit) and (b) **qualitative** (which regulates flow of credit for specific uses).

a. Quantitative Measures: (i) Bank rate (Increase bank rate) (ii) Open Market Operation (Sell securities) (iii) Varying reserve ratios (a) Cash-Reserve Ratio (Raise CRR) (b) Statutory Liquidity Ratio (Raise SLR) (iv) Reverse Repo Rate (Raise it)

b. Qualitative Measures: Margin Requirements (Increase it) Deficient Demand: When AD or additional demand falls short of AS or additional supply at full employment, it comes about. To express differently, $AD < AS$ is at full employment. It's attributed to low demand.

Reasons for Deficient demand: Reduced public (government) expenditure. Drop-in household consumption demand due to decreased propensity to consume. Decrease in investment demand because of lesser provision and availability of credit facilities. Fall in disposable income, supply of money, and demand for exports.

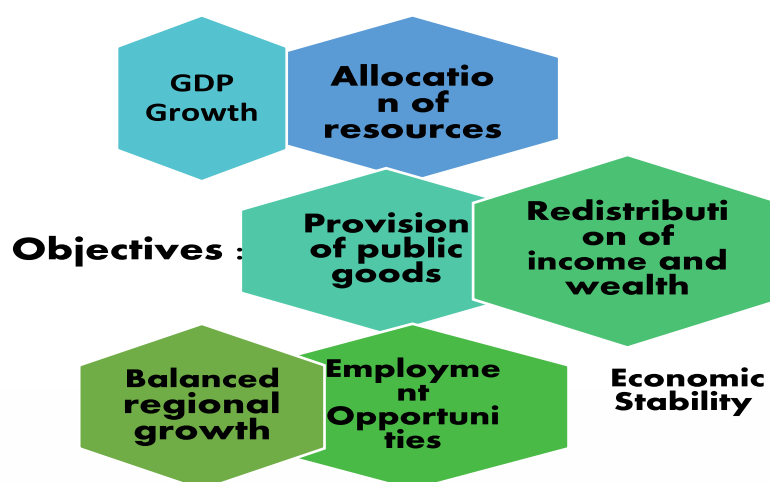
Impact of Deficient demand :

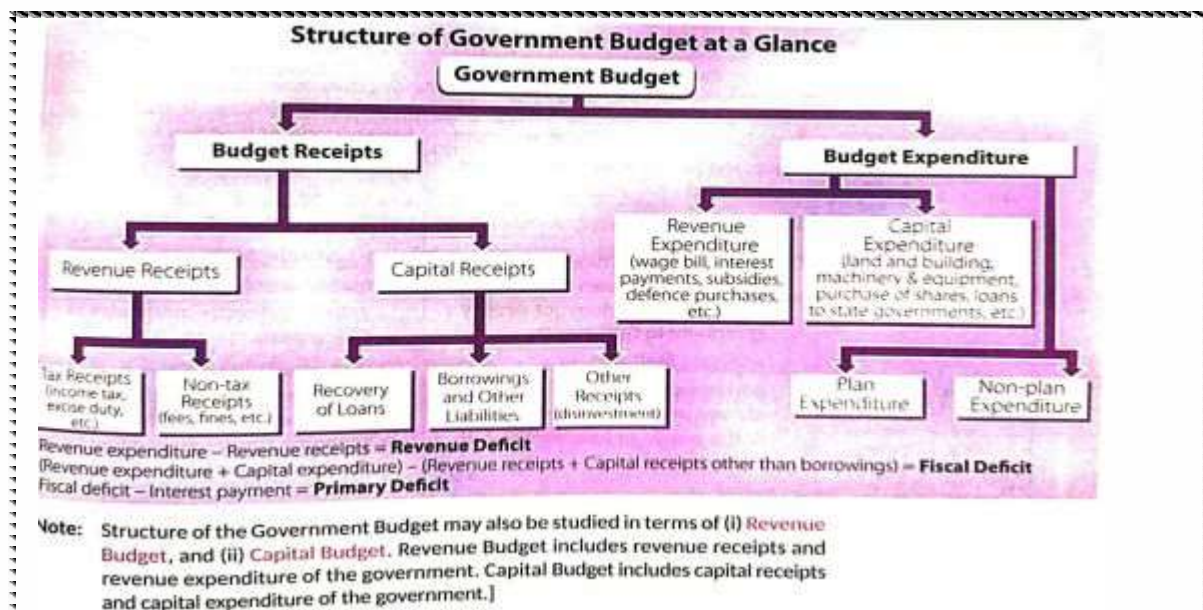
General Price Level: There is a plight of deflation in the economy. The general price level drops when aggregate demand is less than aggregate supply at a full-employment level. **Output:** Low output levels owing to unemployment and reduced investment. **Employment:** As there will be an instance of involuntary unemployment, which leads to low employment levels.

Excess Demand	Deficient Demand
It refers to the situation when AD is more than AS corresponding to full employment level in the economy.	It refers to the situation when AD is less than AS corresponding to full employment level in the economy.
It leads to Inflationary Gap	It leads to Deflationary Gap
It indicates over full employment equilibrium.	It indicates under employment equilibrium.
It occurs due to excess of anticipated expenditure, i.e. due to rise in consumption expenditure, investment expenditure, etc.	It occurs due to shortage of anticipated expenditure, i.e. due to fall in consumption expenditure, investment expenditure, etc.
It does not affect the output and employment as economy is already operating at full employment level.	It leads to fall in output and employment due to shortage of aggregate demand.

Government Budget and the Economy :

Budget is a statement of expected receipts and expenditure of the government over the period of a financial year. April 1-March 31.





A Budget Receipts are the estimated money receipt of the government from all sources during a fiscal year.

Revenue Receipt: Revenue receipts do not result in vulnerability or a decline in assets. The revenue is then split into two groups. Receipt from tax which includes

1. **Direct tax**
2. **Indirect**

Capital receipts: Capital receipts are government receipts that generate liability or diminish financial assets. The loans from the public also referred to market borrowings, borrowings from the Reserve Bank, other financial institutions through the sale of treasury bills, small savings, provident funds, and net receipts from the sale of shares in public sector undertakings, commercial banks, loan recoveries and borrowings from foreign governments and international organizations are the main sources of capital receipts.

B Budget Expenditure : It is estimated expenditure of the government relating to its development and non – development programmed during a fiscal year.

1. Revenue expenditure: The classification of revenue expenditure is generally present or short-term. They are costs that the government must acquire to carry out its everyday operations. These costs are completely charged in the period they are obtained and do not deteriorate over time. They can be recurring or non-recurring.

2. Capital Expenditure : The one-time investments of money or capital made by a government with the aim of developing multi sectors and businesses to earn profits. These funds are generally used to acquire fixed assets or assets with a lengthy continuance..

Balanced Budget: Total expenditure = Total receipts.

Surplus Budget: Total expenditure < Total receipts.

Deficit Budget: Total expenditure > Total receipts.

- **Budget Deficit** is the excess of total expenditure over total receipts of the government.
-

Types: (i) Revenue deficit, (ii) Fiscal deficit, (iii) Primary deficit.

Revenue Deficit : Implication: Since revenue receipts and revenue expenditures are related largely to recurring expenses of the government (as on administration and maintenance), high revenue deficit gives a warning to the government either to cut its expenditure or increase its tax/non-tax receipts.

- **Fiscal Deficit : Implications:** (1) Inflationary spiral (ii) National debt, (i) Vicious circle of high fiscal deficit and low GDP growth, (iv) Crowding-out, (v) Erosion of government credibility.
- **Primary Deficit : Implication:** Primary deficit indicates the extent to which the government needs to borrow to implement its budgetary programs and policies for the year ahead.

Balanced Budget: It raises the level of AD in the economy, though moderately. It is recommended when the economy is close to achieving full employment.

Surplus Budget : It is recommended when there is an inflationary gap and AD needs to be reduced.

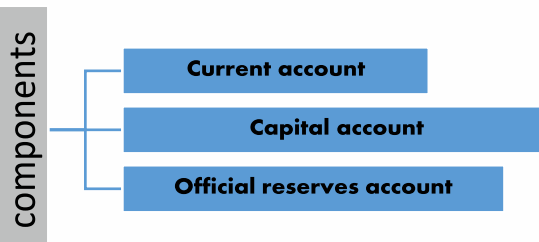
Deficit Budget : It is recommended when there is a state of depression and AD needs to be raised.

S. No.	Basis of Difference	Revenue Receipts	Capital Receipts
1.	Meaning	They neither create any liability nor reduce any asset of the government.	They either create any liability or reduce any asset of the government.
2.	Nature	They are regular and recurring in nature.	They are irregular and non-recurring in nature.
3.	Future obligation	There is no future obligation to return the amount.	In case of certain capital receipts, there is future obligations to return the amount along with interest.
4.	Examples	Tax revenue like Income tax, Sales tax. Non-tax revenue like interest fees etc.	Borrowings, Disinvestments etc.

Basis	Capital Expenditure	Revenue Expenditure
1. Definition	The expenditure incurred for creation of government assets or reduction in government liabilities is called capital expenditure.	Revenue expenditures are incurred for normal running of government departments. They neither create assets nor reduce the liability of the government.
2. Nature	Capital expenditures are non-recurring in nature.	Revenue expenditures are recurring in nature and are incurred regularly.
3. Focus	Capital expenditure is called development expenditure.	Revenue expenditures are called non development expenditures.
4. Examples	Examples of capital expenditures are: Loan granted to state government, foreign government, public enterprises etc. Repayment of loan is also a capital expenditure since it reduces liability of the government.	Examples of revenue expenditure are: Salaries, pension, interest payments, subsidies & grants etc.

Balance of Payments:

- **Balance of Payments** is a Summary statement of all monetary (or economic) transactions between a country and rest of the world.



- Economic Transactions in BOP are broadly classified as: (i) merchandise, (ii) invisibles, (iii) transactions leading to in the ownership of assets vis-a-vis rest of the world.
- **Current Account records** receipts and payments of foreign exchange of a country on account of such transactions which do not impact asset-liability status of a country in relation to rest of the world.

Components: (i) Export and import of goods, (ii) Export and import of services (a) factor services+ (b) non-factor services), (iii) Current transfers. **Export and import of goods** is called merchandise or 'visible trade'.

Invisibles include: (i) Non-factor services, (i) Factor income, (i) Current transfers. **Balance of Trade (or Trade Balance) = Export of merchandise - Import of merchandise.** **Current Account Balance = Trade balance + Invisibles balance.**

- **Capital Account records** receipts and payments of foreign exchange of a country on account of such transactions which impact asset-liability status of a country in relation to rest of the world.

Components: (i) Borrowing, (ii) Foreign investment, (iii) NRI deposits, (iv) Banking capital, (v) Short-term debt.

Borrowing includes (i) external commercial borrowing, and (i) external assistance. **Investment includes** (i) FII (Foreign Institutional Investment), and (ii) FDI (Foreign Direct Investment). **Capital Account Balance** shows net capital flows. **Positive Balance** shows that inward flow of capital is greater than the outward flow. **Negative Balance** shows that inward flow of capital is less than the outward flow.

- **BOP Equilibrium** is a situation when current account balance and capital account balance add up to zero, and there no movement (increase or decrease) in official reserves. Or, it is a situation when receipts and payments of a country on account of economic transactions with rest of the world are exactly equal to each other, and there is no movement of official reserves. **BOP Deficit occurs when** payments of a country on account of economic transactions with rest of the world exceed its receipts and consequently, there is a decrease in official reserves. **BOP Surplus** occurs when receipts of a country on account of economic transactions with rest of the world exceed its payments and consequently, there is increase in official reserves
- **Autonomous and Accommodating Items are the BOP transactions affecting its equilibrium:**
Autonomous Items refer to such BOP transactions which are determined by considerations of profit. It is due to these transactions that the BOP deficit/surplus arises. These are called 'above the line items'
Accommodating Items refer to such BOP transactions which are not determined by considerations of profit. It is due to these transactions that the BOP deficit/surplus is corrected. These are called 'below the line items'

Basis	Balance of Trade (BOT)	Balance of Payments (BOP)
1. Nature of transactions	Transactions concerning trade of goods only are recorded.	All transactions concerning goods, services and capital transfers are recorded.
2. Capital transactions	Transactions of capital nature are not included in Balance of Trade.	Transactions of capital nature are also recorded in Balance of Payment.
3. Mutual relation	Balance of Trade is a part of current account of Balance of Payment.	BOP is much larger as it has current and capital accounts which include BOT too.
4. Favourable BOT/BOP	When exports of goods are higher than the imports of goods, BOT is considered as favourable.	When net balance of current account and capital account is in plus, BOP is considered as favourable.

Current Account	Capital Account
Current account of BOP records all those transactions between the residents of a country and the rest of the world, which do not cause a change in the assets or liabilities of the residents of the country or its government.	Capital account of BOP records all those transactions between the residents of a country and the rest of the world which cause a change in the assets or liabilities of the residents of a country or its government.
It is a flow concept.	It is a stock concept.
Current account = visible trade + invisible trade + unilateral transfers + incomes from investment and work	Capital account = borrowing and lending + foreign direct investment and portfolio investment + changes in foreign exchange reserves

Foreign Exchange Rate: Foreign Exchange Rate refers to the price of one currency in relation to other currencies in the international money market market). [Example: If Rs. 50 are to be paid to buy one US dollar, exchange rate between the two currencies = 50: 1. Systems: (i) Flexible exchange rate system, (ii) Fixed exchange rate system.

A. Flexible Exchange Rate System : Rate is a float rate of exchange, determined by the supply of and demand for different currencies. When owing to the free play of the forces of supply and demand, exchange rate happens to rise, it is called depreciation of the (domestic) currency. On the other hand, when exchange rate happens to fall, it is called appreciation of the (domestic) currency. **Merits:** (i) Large reserves of forex not required, (ii) Efficient allocation of resources, (iii) Large size of the forex, (iv) Promote international mobility of liquidity, (v) Promotes venture capital. **Demerits:** (i) Marginalization of weak currencies, (1) Uncertainty of the market, (i) A stable monetary policy not possible, (iv) Bilateral trade agreement becomes difficult, (v) External shocks.

Equilibrium Exchange Rate occurs when: Supply of foreign currency/foreign exchange = Demand for foreign currency/foreign exchange.

Demand for Foreign Currency/Foreign Exchange depends upon: Repayment of international loans, (ii) Investment in rest of the world, (iii) Imports, (iv) Direct purchases abroad, (v) Grants and donations, (vi) Payment of incomes, (vi) Speculative trading.

Supply of Foreign Currency/ Foreign Exchange depends upon: (i) Exports, (ii) Investments from rest of the world, (iii) Direct purchases by rest of the world, (iv) Loans from rest of the world, (v) Grants and donations from rest of the world, (vi) Income receipts, (vii) Remittances by the non-residents.

B. Fixed Exchange Rate System: Exchange rate is set and maintained by the government at a particular level. Market forces of supply and demand have no role to play. When the exchange rate is raised by the government, it is called 'devaluation' of the (domestic) currency. When it is lowered, it is called 'revaluation' of the (domestic) currency

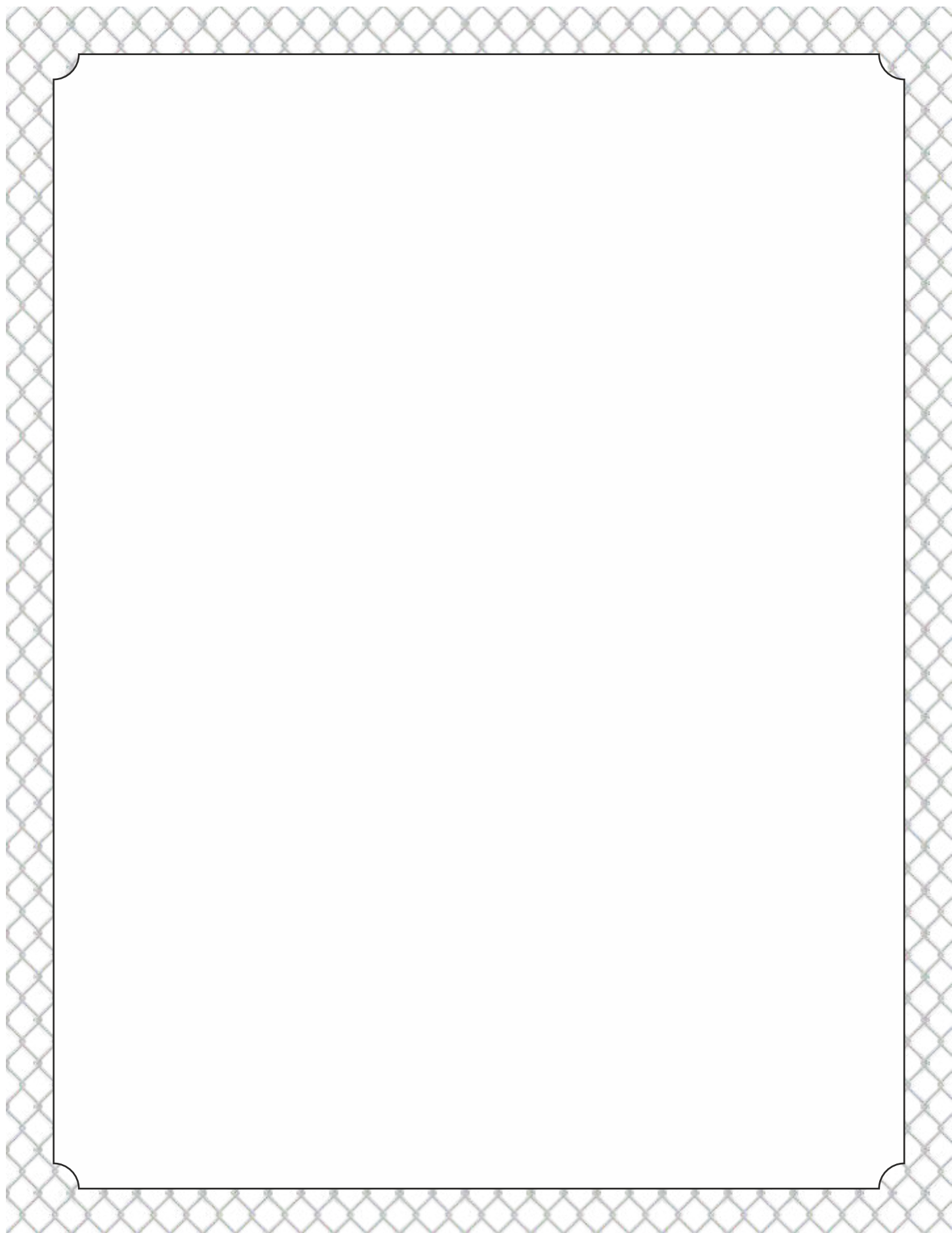
Merits: (i) Market stability and mobility of capital, (ii) Growth of international trade, (iii) Stable macroeconomic policies, (iv) Devaluation: A key tool to expand foreign market for the domestic producers, (v) A check on inflation.

Demerits: (i) Required large reserves of forex, (i) Inefficient allocation of resources, (ii) Small size of forex market Discourages venture capital, (v) Fixed exchange rate may not be the equilibrium rate.

C. Managed Floating, also called Dirty Floating, is a system of floating exchange rate (where exchange rate is determined by the forces of demand and supply) but occasionally, the float is managed by the central bank of the country by way Or sale and purchase of foreign exchange in the international money market. Managed floating is an attempt to keep the exchange rate within the desired limits.

BASIS	DEPRECIATION	APPRECIATION
Meaning	It refers to decrease in the value of domestic currency in relation to foreign currency.	It refers to increase in the value of domestic currency in relation to foreign currency.
Causes	(1) Increase in demand (2) Decrease in supply	(1) Decrease in demand (2) Increase in supply
Effect on Exports	It leads to increase in exports because more goods can be purchased with the same amount of currency.	It leads to decrease in exports because less goods can be purchased with the same amount of currency.
Effect on Imports	It leads to decrease in imports because the domestic country needs to pay more to get the same amount of goods and services.	It leads to increase in imports because the domestic country will have to pay less to get the same amount of goods and services.

S.NO.	BASIS	FIXED EXCHANGE RATE SYSTEM	FLEXIBLE EXCHANGE RATE SYSTEM
1	Determination of exchange rate	In this system, exchange rate is fixed by measuring the value in terms of gold or any other currency by the government.	In this system, exchange rate is determined by the market forces of demand and supply in the foreign exchange market.
2	Government control	There is complete government intervention in fixing the exchange rate.	There is no government intervention in fixing the exchange rate.
3	Stability in exchange rate	There is stability in the foreign exchange rate. The exchange rate is stable or there is only a small variation in the exchange rate.	There is no stability in foreign exchange rate. The exchange rate keeps on changing.



BUSINESS STUDIES

MEANING OF BUSINESS ENVIRONMENT:

The term business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

- The economic, social, political, technological and other forces, which operate outside a business enterprise, also form part of the business environment.
- The organization must be aware of the external forces and institutions and must be dynamic to adapt itself to the changing external environment.
- The organization must set goals and formulate plans and procedures based on the changing external business environment.

IMPORTANCE OF BUSINESS ENVIRONMENT



Enables the firm to Identify opportunities to get the first mover advantage: Environment provide various opportunities for business success. Understanding it helps an organization in identifying advantageous opportunities and exploiting benefits prior to competitors.

2. It helps the firm to Identify threats and early warning signal: Environmental awareness can help managers of an organization to identify various threats on time and serve as an early warning signal. For example, Bajaj Auto made considerable improvements in its two wheelers when other companies entered the auto industry.

3. It helps in tapping useful resources: Business Environment is a source of various resources such as man, machine, money, raw material, power etc. to a business firm. By understanding the business environment an enterprise can design policies to acquire the required resources and convert them into output that environment desires.

4. It helps in coping with rapid changes: Business environment is very dynamic were changes are taking place at a fast pace. Changes such as turbulent market conditions, less brand loyalty etc. In order to cope with significant changes managers must understand, examine, and develop a suitable course of action.

5. It helps in assisting in planning and policy formulation: Understanding and analysis of business environment can be the basis for planning & policy formulation in an organisation.

6. It helps in improving performance: The enterprise that continuously monitor the environment and adopt suitable business practices are the ones, which not only improve their performance but also continue to succeed in the market for a long period.

FEATURES OF BUSINESS ENVIRONMENT



DIMENSIONS OF BUSINESS ENVIRONMENT



Economic Environment: It has immediate and direct impact on a business. Rate of interest, inflation rate, change in disposable income of people, monetary policy, stock market indices etc. are some economic factors, which could affect business firms. Increase or decrease of the economic factors result in opportunities or constraints on a business enterprise.

2. Social Environment: Business environment includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Social trends present various opportunities and threats to business enterprise.

Example the celebration of Diwali, Eid and Christmas in India provide financial opportunities for confectionery manufacturers, garments businesses and many other related businesses.

3. Technological Environment: It includes forces relating to scientific improvements and innovations, which provide new ways of producing goods and services and new methods and techniques of operating business. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product.

Example, demand for LED smart HD tv's instead of LCD tv's, Use of artificial intelligence in various companies etc.

4. Political Environment: It includes political conditions such as general stability and peace in the country and the attitude of the elected government representatives hold towards businesses.

Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities.

Example: Bangalore is called as the silicon valley of India due to the favorable political conditions provided by the state government to the IT industries.

5. Legal Environment: It includes various laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies at every level of the government center, state or local. Businessmen have to act according to various legislations and their knowledge is very necessary.

Example: Advertisement of Alcoholic beverages is prohibited.

DEMONETISATION: The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, '500' '1,000', were 'demonetised' with immediate effect, ceasing to be legal tender except for a few specified purposes such as paying utility bills. This led to eighty six per cent of the money in circulation invalid. The people of India had to deposit the invalid currency in the banks, which came along with the restrictions placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits. The main aim was to curb corruption, black money and illegal activities.

FEATURES OF DEMONETISATION:

1. Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare unaccounted income and pay tax penalty was imposed.
2. Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
3. Demonetisation also led to tax administration channelizing savings into the formal financial system.
4. Another feature of demonetization is to create a less-cash or cash-lite economy, i.e., channeling more savings through the formal financial system and improving tax compliance.



NATURE AND SIGNIFICANCE OF MANAGEMENT

Definition of Management

"Management has been defined as a process of getting things done with the aim of achieving goals effectively and efficiently."

Meaning of Process

Process means the primary functions or activities that management performs to get things done. These functions are planning, organizing, staffing, directing and controlling.

Meaning of Effectiveness

Effectiveness in management is concerned with doing the right task, completing activities and achieving goals. In other words, it is concerned with the end result.

Meaning of Efficiency

Efficiency means doing the task correctly and with minimum cost.

Objectives of Management

Objectives can be classified into Organizational objectives, Social objectives and Personal or individual objectives.

Organizational Objectives: Management is responsible for setting and achieving objectives for the organization. The main objective of any organization should be to utilize human and material resources to the maximum possible advantage, i.e., to fulfill the economic objectives of a business. These are survival, profit and growth.

Social objectives: It involves the creation of benefit for society.

Personal Objectives: It refers to the objective of the organisation towards its employees.

Nature of Management:

What is Art?

Art is the skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience.

Why Management is an Art?

- Existence of theoretical knowledge.
- Personalised application
- Based on practice and creativity.

Management as a science:

What is Science?

Science is a systemized body of knowledge that explains general truths or the operation of general laws.

Why Management is a Science?

- Systematized body of Knowledge
- Based on experimentation and observation

However Management is an inexact Science.

Management as a Profession:

What is Profession?

Profession is a type of work that requires special training or skill with professional degree.

Why Management is a Profession?

- Well defined body of Knowledge

However Management is not a full -fledged Profession.

Levels of Management

Top level Management:

- a. Responsible for welfare and Survival of the Organization.
- b. Formulate overall organizational goals and strategies.

- c. Coordinate the activities of different departments.

Middle Level Management:

- a. Implementing and controlling plans and strategies developed by top management.
- b. Responsible for all the activities of first line managers.

Supervisory or Operational Management

- a. Interact with the actual workforce.
- b. Pass on the instructions of the middle management to the workers.
- c. Maintain quality of output and workmanship.

Coordination- The Essence of Management

Meaning:

It is the process by which manager synchronizes the activities of different departments.

Characteristics of Coordination

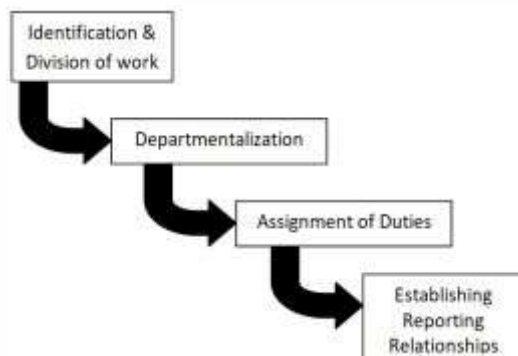
- Integrates group efforts
- Ensures unity of action
- Continuous process
- Pervasive function
- Responsibility of all managers
- Deliberate function

ORGANISING

Definition:

“A process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploying resources for attainment of identified and desired goals.”

Steps in the process of Organizing



1. Identification & Division of Work: The work is divided into manageable activities so that duplication of work can be avoided and the burden of work can be shared among the employees.

2. Departmentalization:

- Once work is divided into small activities, similar and related jobs are grouped together. This grouping is called departmentalization.
- E.g. departmentalization on the basis of territory, products etc.

3. Assignment of Duties:

- It is important to state clearly the work of different job positions and allocate work accordingly to employees.
- Once departments are formed, individual department heads are appointed for each department.
- The work must be assigned to those who are best fitted to perform it well.
- E.g. finance job should be assigned to persons having qualifications and experience in finance e.g. C.A's or MBA finance.

4. Establishing authority and responsibility relationship:

- It helps to create a hierarchal structure and also helps in coordination amongst various departments.
- Superior subordinate relations between different people and job positions is to be created, so that everybody knows from whom he/she is to taking orders and to whom he/she can issue orders.

Importance of Organising



1. Benefits of specialization:

- Organising leads to a systematic allocation of jobs amongst the work force.
- The division of work into smaller jobs reduces workload and enhances productivity and repetitive performance leads to specialization.

2. Clarity in working relationships:

- Organising helps in clarifying lines of communication and specifying who will report to whom.
- It helps in creating a hierarchical order thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an employee.

3. Optimum utilization of resources:

- Organising leads to proper usage of all natural resources, financial resources and human resources.
- It helps in avoiding duplication of work and minimizes wastage of resources and efforts.

4. Adaptation to change:

- Organising allows the business enterprise to accommodate changes taking place in the business environment.

- Organizational structure can be suitably modified and inter- relationships can be revised to accommodate changes.
5. Effective Administration:
 - It provides a clear description of jobs and related duties, which helps to avoid confusion and duplication of work.
 - Clarity in working relationships enables proper execution of work, which results in effective administration.
 6. Development of Personnel:
 - A well designed organization structure encourages initiative and relative thinking on part of the managers.
 - When managers delegate their authority, it reduces their workload and thus allows the manager to develop new methods and ways of performing tasks.
 7. Expansion and growth:
 - Organising helps in growth & diversification of an enterprise.
 - it allows a business enterprise to add more job positions, departments, products lines, new geographical territories etc. and thus will help to increase customer base, sales and profit.

ORGANISATIONAL STRUCTURE

“The organisation structure can be defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources .”

Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management largely gives shape to the organization structure. This determines the levels of management in the structure.

Types of Organisational structure

1. Functional Structure:

In functional structure activities are grouped and departments are created on the basis of specific functions to be performed. For example, all the jobs related to production are grouped under production department, sales departments etc.



Formal organisation refers to the organisation structure that is designed by the management to accomplish organizational goals. In a formal organisation the boundaries of authority & responsibility is clearly defined and there is a systematic coordination among the various activities to achieve organizational objectives.

Features	Advantages	Disadvantages
• It clearly defines the lines of authority and responsibility for every individual in an organisation. • It is a means to achieve the objectives specified in the plans. • It is impersonal and doesn't take into consideration emotional aspect of the employees. • It is designed by the top management. • It is created with the motive of achieving organizational objectives.	• Easier to fix responsibility since mutual relationships are clearly defined • It helps in avoiding duplication of work • Unity of command is maintained • Effective accomplishment of goals. • Provides stability in organisation.	• May lead to procedural delays as chain of command has to be followed. • Rigid policies reduces creativity. • More emphasis is on structure and work than on human relationships.

4. INFORMAL ORGANISATION

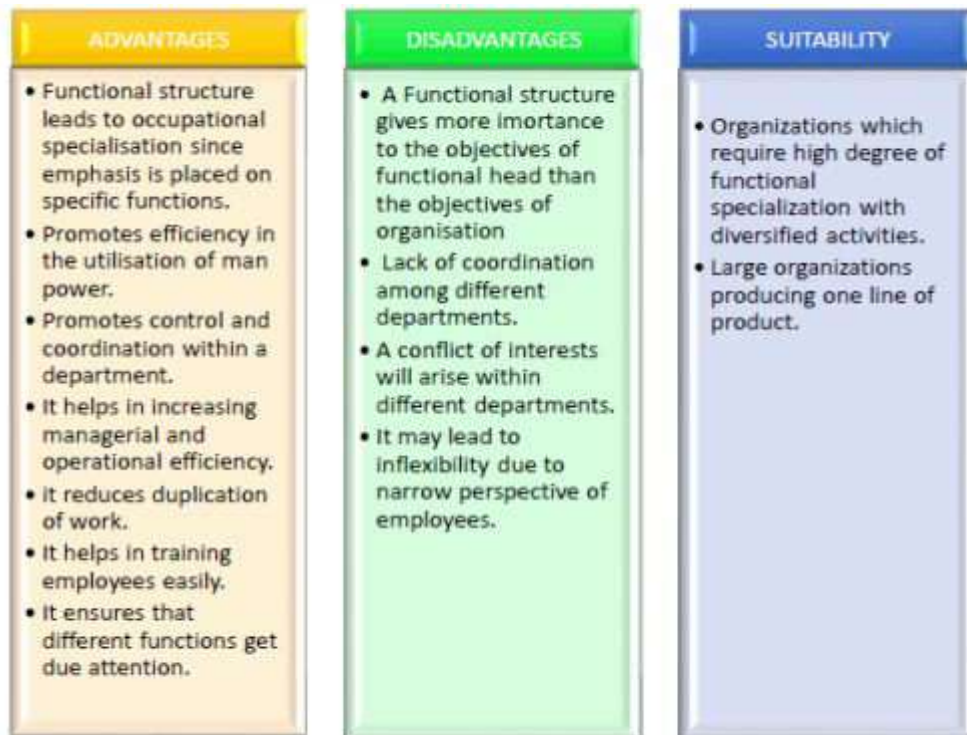
Interaction among people at work gives rise to a 'network of social relationships among employees' called the informal organisation. The main purpose of this organization structure is the psychological satisfaction of the employees with common interests. For example, employees with similar interest in books, films, religion etc. may form their own informal groups.

FEATURES	ADVANTAGES	LIMITATIONS
• It originates from the personal interaction of employees within a organisation. • The standards of behaviour evolve from group norms. • It doesnt have fixed channels of communication. • It emerges spontaneously and not created by management. • It is a complex network of social relationships among members.	• It leads to faster spread of information and feedback as formal channels of communication is not followed. • It enhances job satisfaction and a sense of belongingness in the organisation. • It provide quick solutions to the problems.	• Informal organisation spread rumours, sometimes it goes against the interests of the organisation. • It resists change and lays stress on adopting the old techniques. • members of the group may give more priority to group interests over the organisational objectives.

DELEGATION

Delegation refers to the downward transfer of authority from a superior to a subordinate employees. It is a pre-requisite to the efficient functioning of an organisation because it enables a manager to use his/ her time on high priority activities. Importance of delegation is that it helps in effective management, employee development, motivation, growth and coordination.

ELEMENTS OF DELEGATION



2. DIVISIONAL ORGANIZATION STRUCTURE

Dividing the whole enterprise according to the major products to be manufactured (like metal, plastic, cosmetics etc.) is known as divisional organization structure.



FORMAL ORGANISATION

1. Authority: Authority refers to the right to take decisions in order to guide the activities of others. Authority determines the superior subordinate relationship. Laws and the rules and regulations of the organisation restrict authority. Authority flows downward.

2. Responsibility: Responsibility is the obligation of a subordinate to perform properly the assigned duty. If the subordinate has the responsibility for a job, he/ she must be given necessary authority to carry out that task.

3. Accountability: Accountability implies being accountable for the final outcome. When a superior assigns a work to a subordinate, he/she is answerable to the superior for its outcome.

DECENTRALISATION

Decentralisation means delegation of authority throughout all the levels of the organisation. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels. In other words decision making authority is given to all the employees at all levels depending on the job each one of them are handling. An organisation is centralized when the decision making authority is retained by the top level management.

PLANNING

MEANING

- Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions.
- It involves setting objectives and developing appropriate courses of action to achieve these objectives.
- The plan that is developed has to have a given time frame but time is a limited resource. It needs to be utilized judiciously.

Importance of Planning:



1. Planning provides directions: By stating in advance, how the work is to be done planning provides direction for action. Planning ensures that objectives are clearly stated in order to develop appropriate course of action. If the plans are set, the department and individuals can work in coordination.

2. Planning reduces the risk of uncertainty: Planning is an activity, which enables a manager to look ahead and anticipate changes. Changes or events cannot be eliminated but by deciding the plans and course of action in advance managers can anticipate it and adjust the plans according to the situation.

3. Planning reduces overlapping and wasteful activities: Planning serves as the basis of coordinating the activities and efforts of different divisions departments and individuals. It reduces useless and redundant activities, avoids confusion and misunderstanding, and ensures clarity in thought and action.
4. Planning promotes innovative ideas: Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans. It guides all future action leading to growth and prosperity of the business.
5. Planning facilitates decision making: Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions from alternative courses of action.
6. Planning establishes standards for controlling: Planning provides the standards against which the actual performance is measured. Therefore planning is a prerequisite for controlling.

FEATURES OF PLANNING



1. Planning focuses on achieving objectives: Planning contributes to the achievement of predetermined organizational goals which the organisation sets out in the plans.
2. Planning is a primary function of management: Planning lays down the base for other functions of management.
3. Planning is pervasive: Planning is required at all levels of management as well as in all departments of the organization.
4. Planning is continuous: Continuity of planning is related with the planning cycle. It means that a plan is framed; it is implemented, and is followed by another plan, and so on.
5. Planning is futuristic: Planning involves looking ahead forecasting future events and conditions and drafting the plans accordingly.
6. Planning involves decision making: Planning essentially involves choosing from among the various alternatives and activities. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice.
7. Planning is a mental exercise: Planning requires application of the mind involving foresight. Planning is an intellectual activity, which requires logical and systematic thinking rather than guess work.

LIMITATIONS OF PLANNING



1. Planning leads to rigidity: In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time but managers may not be in a position to change it.
2. Planning may not work in dynamic environment: Planning is based on anticipation of future happenings and since future is uncertain and dynamic so the organisation needs to adapt itself to changes.
3. Planning reduces creativity: Top management does planning and middle management does implementation of plan but they are not allowed to deviate from plan and thus creativity of these managers get reduced.
4. Planning involves huge costs: Huge costs are involved in the formulation of the plan. Detailed plans require scientific calculations to ascertain data. Sometimes costs incurred on planning doesn't justify the benefits derived
5. Planning is a time consuming: Many aspects need to be considered while formulating a plan, hence it is a very time consuming process.
6. Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn and implemented. Managers tend to apply the previously tried and tested plans but a plan successful before may not be successful for all situations.

PLANNING PROCESS



TYPES OF PLAN

A plan is a commitment to a particular course of action for achieving specific results. Plans can be classified into several types depending on the use and the length of the planning period. These plans can be classified into single-use plans and standing plans.

1. SINGLE USE PLAN

- A single use plans are specific plans which are meant to solve a nonrecurring particular problem. It was developed for a one-time project or event that has one specific objective.
- Such plan is developed to meet the needs of a unique situation in hand.
- The duration of a single use plan differs depending upon the type of project, as a single event plan may last for one day while a single project may last for one week or months.
- For example, an outline for an advertising campaign. After the campaign runs its course, the short term plan will lose its relevance except as a guide for creating future plans.

2. STANDING PLANS

- Standing plans are used for those activities, which occur regularly over a period of time.
- It is designed once and retain their value over a period of time while undergoing revisions and updates.
- It is developed once but modified from time to time to meet business needs.
- Standing plans include policies, procedures methods and rules.

Note: Objectives and Strategy are classified neither as single use plans nor as standing plans.

PRINCIPLES OF MANAGEMENT

Principle: A principle is a fundamental truth or proposition that serves as the foundation for a system of belief or behavior or for a chain of reasoning.

Principles of Management: Principles of management are broad and general guidelines for managerial decision-making and behavior. Management principles are not as rigid as principles of science as this deals with human behavior and thus are to be applied creatively given the demands of the situation. Nature of Principles of Management

Nature of principles of management

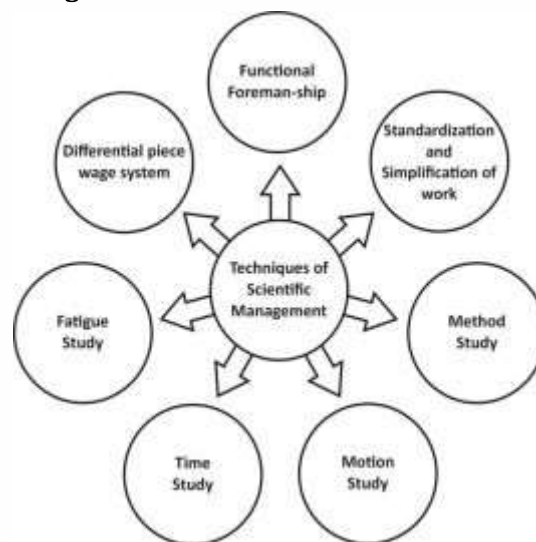
1. Universal applicability: Principles of management is applicable in all types of organizations, business as well as non-business, small as well as large enterprises depending on the nature of the organisation.
2. General Guidelines: They are general guidelines to action but do not provide straight solution to all managerial problems, as the business situations are complex and dynamic.
3. Formed by practice and experimentation: They are formed from the knowledge, experiences and experiments of the managers.
4. Flexible: These principles are not rigid and can be adapted and modified by the practicing managers depending upon the situation.
5. Mainly Behavioral: Since the principles aim at influencing complex human behavior they are behavioral in nature.
6. Cause and Effect relationship: They intend to establish relationship between cause & effect so that they can be used in various situations.

(2) Harmony, Not discord: There should be complete harmony between management and workers in achieving organizational goals. It implies that there should be mental revolution on part of managers and workers in order to respect each other's role and eliminate any class conflict to realize organizational objectives.

(3) Cooperation not individualism: It is an extension of the Principle of Harmony not discord. There should be complete cooperation between the labour and management instead of conflict. Constructive suggestions from employees must be encouraged and workers must desist from going on strike and making unreasonable demands.

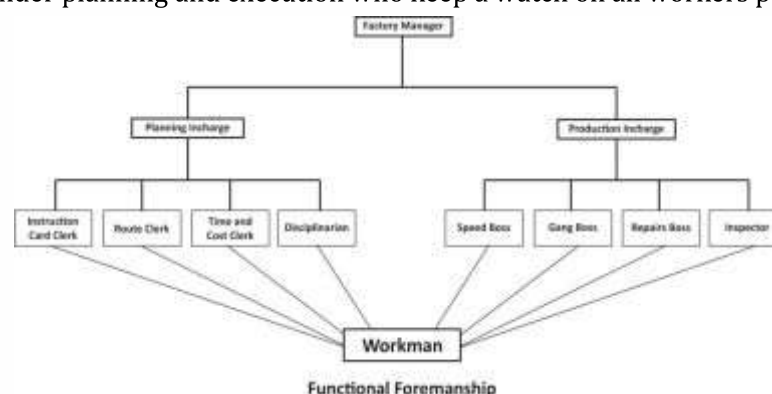
(4) Development of each and every person to his or her greatest Efficiency and Prosperity: It implies taking actions for the development of competencies of all persons of an organization after their scientific selection and assigning work suited to their temperament and abilities. This will increase the productivity by utilizing the skills of the workers fully.

Techniques of Scientific Management

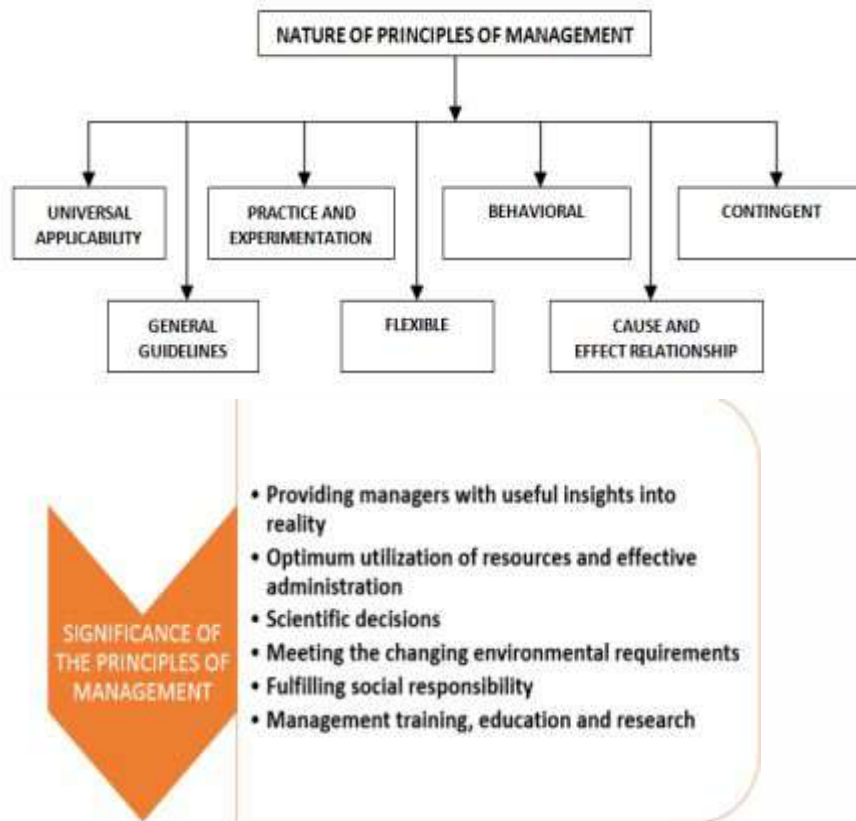


1. Functional Foremanship: Functional foremanship is a technique in which planning and execution are separate.

- Supervision is divided into several specialized functions and each functions is to be entrusted to a foreman.
- There are eight foreman in the related process or function of production.
- Four each under planning and execution who keep a watch on all workers performance.



7. Contingent: Their applicability depends upon the prevailing situation at a particular point of time. The application has to be changed as per the situation.



Taylor's Scientific Management

Meaning: It implies conducting of business activities according to standardized tools, methods and trained personnel in order to increase output, improve quality and reduce costs and wastes through effective and optimum utilization of resources. Hence, it stresses that there is always one best method to maximize efficiency. This method can be developed through study and analysis.

Principles of Scientific Management



(1) Science, not rule of Thumb: There should be scientific study and analysis of each element of a job in order to replace the old rule of thumb approach or hit and miss method.

2. Standardization and Simplification of work: Standardization refers to developing standards for every business activities to maximize output. Whereas simplification refers to eliminating unnecessary varieties, sizes and grades of products or services. It results in savings of cost of labour, machines and tools. It leads to fuller utilization of equipment and increase in turnover.

3. Method Study: The objective of method study is to find out one best way of doing the job to maximize efficiency in the use of resources and to reduce cost of production and to maximizing quality and satisfaction of customers.

4. Motion Study: Refers to the study of productive movements. It is the science of identifying and eliminating wasteful movements resulting from unnecessary, incidental and unproductive motions of the workers so that it takes less time to complete the job efficiently.

5. Time study: It determines the standard time taken to perform a well-defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes & determine labour costs.

6. Fatigue study: Fatigue study seeks to determine time and frequency of rest intervals in completing a task. The rest interval will enable workers to regain their lost stamina thereby avoiding accidents, rejections and industrial sickness.

7. Differential piece wage system: This differentiates efficient and inefficient workers and links wages and productivity. The standard output per day is established and two-piece rates are used: higher for those who achieve upto and more than standard output i.e. efficient workers and lower for inefficient and slow workers. Thus, efficient workers will be rewarded & inefficient will be motivated to improve their performance.

PRINCIPLES OF MANAGEMENT BY HENRY FAYOL



1. Division of work: Work is divided in small tasks/job and a trained specialist who is competent enough to perform that job does each work. Thus it leads to greater efficiency, specialization, increased productivity.

2. Authority and Responsibility: Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. There should be a balance between authority and responsibility. Mere responsibility without authority makes an executive less interested in discharging duties. Similarly, giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.

3. Discipline: Is the obedience to organizational rules and employment agreement, which are necessary for the working of the organisation. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.

4. **Unity of Command:** According to Fayol there should be one and only one boss for every individual employee. It implies that every worker should receive orders from one superior only, otherwise it will create confusion, conflict and duplication of work.
5. **Unity of Direction:** All the units of an organisation should move towards the same objectives through coordinated and focused efforts. Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.
6. **Subordination of Individual Interest to general interest:** The interest of an organization should take priority over the interest of any individual employee. In simple words the organisation interest to be prioritized over individual interest.
7. **Remuneration of Employees:** The overall pay and compensation should be, fair to both employees and the organization. The employees should be given fair wages so that they can have a reasonable standard of living. Wages should be within the paying capacity of the organisation.
8. **Centralization and Decentralization:** Centralization means concentration of decisions making authority with some, whereas its dispersal among more than one person is Decentralization. Both should be balanced, as no organization can be completely centralized or completely decentralized.
9. **Scalar Chain:** The formal lines of authority and communication between superiors and subordinates from the highest to the lowest ranks is known as scalar chain. This chain should not be violated but in case of emergency employees at same level can contact through Gang Plank by informing their immediate superiors.
10. **Order:** According to Fayol “ People and material should be in suitable places at appropriate time for maximum efficiency”. A place for everything and everyone and everything and everyone should be in its designated place
11. **Equity:** Good sense and experience are needed to ensure fairness to all employees who should be treated as fairly as possible. The working environment of any organization should be free from all forms of and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.
12. **Stability of Personnel:** Employee turnover should be minimized to maintain organizational efficiency. Personnel should be selected and appointed after rigorous procedure and the selected person should be kept at the post for a minimum tenure to show results.
13. **Initiative:** Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan.
14. **Espirit De Corps:** Management should promote team spirit, unity and harmony among employees.

RETAIL

1. SECTION A - OBJECTIVE TYPE QUESTIONS (30 MARKS): NOTE This section has 06 questions.(ALL 6 QUESTIONS TO BE ATTEMPTED).INTERNAL CHOICE AVAILABLE.

2. SECTION B – SUBJECTIVE TYPE QUESTIONS (30 MARKS): NOTE This section contains 18 questions.(11 QUESTIONS TO BE ATTEMPTED).

Unit 1 - Display of Products and Satisfy Customer Needs.

SESSION-1: Display of Products and Satisfy Customer Needs.

SESSION-2: Sale and Delivery of Products.

SESSION-3: Maintenance of Store Area & Communicate Effectively with Stakeholder.

SESSION-4: Duties and Responsibilities of Sales Supervisor.

SESSION-1: Display of Products and Satisfy Customer Needs

I. Organize the display of products at the retail store:

1. The products that are sold in the store and how they should be displayed.

*** Visual Display Tool Box** – Scissors, Stapler, Two-Sided Tape, Pins. Hot glue sticks and glue gun. Monofilament Fishing Line. Tape Measure. Razor Blade / Utility Knife. Hammer, Nails, Screwdriver, Screws. Notepad, Pencil, Marker. Signage, Sign Holders.

***Elements of Effective Visual Merchandising**

Balance: Asymmetrical rather than symmetrical balance with the display.

Size of Objects: Place the largest object into display first.

Color: Helps set mood and feelings.

Focal Point: Where product and props/signage and background come together.

Lighting: Should accent focal point, if possible.

Simplicity: Less is more so know when to stop and don't add too many items.

***Shelf Placement-**

The priciest products generally sit on the highest shelves, giving rise to the term "top shelf".

Lower shelves should contain "destination" products, or those that people seek out and purchase regardless of price or promotion.

Reserve the bottom shelf for the least popular or generic products.

Shelves that sit at eye level, known as "reach," should contain products which are competitive, have a high impulse-purchase rate, or are most enticing to the customers.

For smaller categories where you want to promote generics, place the store brand to the right of the national premium brands. Stock competitive products vertically and related items across from each other, so that your customers can view all of the products without having to move down the aisle.

2. Regularly check the quality and shelf life of products.

3. Prices of products.

4. Clean and maintain display areas, including refrigerators and chillers.

II. Establishing customers' needs :

1. Observe the behavior of customers in a retail environment.

2. Provide facilities to the customers.

3. Measurement and calibration of the quantity and quality of product and supplies that customer wants.

4. Provide logical, intelligent or creative suggestions.

Significance: The job description of a sales supervisor mainly includes leading and motivating the sales employees toward achieving the sales objectives. It may also entail using existing promotional tools or point-of-purchase materials to increase the stores or company's sales volume.

Identification: Include hiring new sales employees, ensuring that they fill out the proper paperwork. Monitoring an employee's progress, conducting performance reviews, creating action plans for sales representatives that are under-performing and, sometimes, firing employee.

Function: setting work schedules for sales employees, ensuring that all shifts are covered and making sure employees adhere to the dress code and company standards when dealing with customers. Up selling, especially during busy hours or at certain times of the year such as holidays.

Other Responsibilities: Include handling customer complaints, counting down registers during shift changes, organizing store displays and merchandise, handling damaged merchandise and returns, managing sales incentive plans for employees, running sales reports for store management and maintaining the highest customer service standards.

Characteristics for a Sales Supervisor Good Recruiter

- Good Seller
- Goal-Setting
- Coaching
- Good Communicator

Duties of Sales Supervisor

1. To assist the Sales Manager in leading, directing and motivating the sales team in order to achieve the overall corporate sales objectives.
2. To assist the Sales Manager in revising and implementing the sales strategies plans.
3. To assist the Sales Manager in generating sales opportunities by identifying appropriate business targets.
4. To assist the Sales Manager in providing a professional and excellent level of customer service with existing and new customers.
5. Supervise the shift that you are scheduled.
6. Assist Sales Manager by completing all assigned duties.
7. Clean up stations and facilities throughout shift and ensure bathroom products are adequately stocked.
8. Handle customer issues, resolution and communicate escalated issues to the Sales Manager.
9. Supervise Sales Representatives.
10. Assist with sales rep questions, concerns and product/service questions.
11. Create reports showing sales %, install %, adherence, and attendance etc.
12. Make sure all employees adhere to company policies and procedures (example: dress code, eating food at station, cell phone usage, etc.).
13. Deliver positive feedback, Employee Rewards and Customer Recognitions to employee.
14. Communicate all employee relations issues, concerns, and incidents to Sales Manager.
15. Monitors calls, provide feedback to reps and assist reps on sales %, install %, and quality assurance goals.

Responsibilities of Sales Supervisor

1. Orients, trains, schedules, monitors, evaluate and provide direction to store staff and volunteers; complete time sheets and attendance records.

5. Preferences of different types of customers. 6. Provide appropriate assistance ,information or advice at appropriate stage.

SESSION-2: Sale and Delivery of Products.

II- Processing the sale of products:

1. Method(s) of processing payment
2. Functioning of point of sale billing systems or traditional methods of raising a bill.
3. The appropriate mode of cash and loose cash handling, counting and settlements with the customer.
4. Efficiently conclude the customer purchase process with quick packing / wrapping of customer orders and billing.
5. Operate suitable devices and equipment.

II- Delivery of products to customers:

1. Importance of planning an efficient delivery schedule and to follow it.
2. How to transport products and equipment safely and securely.
3. The company procedures.
4. Relevant legal restrictions on who can receive delivery.
5. How to unload goods safely and in ways which protect goods from damage.
6. The records to keep on deliveries and non-deliveries and follow company procedures for completing them.

SESSION 3 : Maintenance of Store Area & Communicate Effectively with Stakeholders.

I- Maintenance and cleaning of store area:

1. Cleaning procedure, specifications & personal hygiene levels.
2. Appropriate procedures to be followed for dismantling and re-assembling.
3. Ensuring that the correct procedures for disposing of waste and slurry are followed.

II- Communicate effectively with stakeholders:

1. The different documents / report formats that you are required to keep.
2. Organization's procedures & policies for preparing and passing on written information.
3. Communication equipments.
4. The regulations or policies that you should follow for using communication system including for private use.
5. How to talk and work with others, to work efficiently without adversely affecting your own work; the difference between hearing and listening.
6. The relevant legislation, organizational policies and procedures that apply to joint working.

SESSION 4 : Duties and Responsibilities of Sales Supervisor

I. Identify the functions of Sales Supervisor:

1. Describe the functions of sales supervisor.
 2. Importance of the functions of sales supervisor.
- #### **II. Describe the duties and responsibilities of sales supervisor.**

A job description of a sales supervisor includes:

- Various sales support functions that help the retail salespeople improve their job performance
- The job description of a sales supervisor is to assist a sales manager

Responsibilities of Sales Manager

The responsibilities of a manager can be grouped under five heads:

1. Responsibility to himself.
2. Responsibility towards organization.
3. Responsibility towards customers.
4. Responsibility towards his staff and.
5. Miscellaneous

Critical Leadership Attributes in the Retail Industry

The key leadership attributes for current and prospective leaders in the retail sector include: **Personal Effectiveness:** The ability to understand and manage self, show empathy and manage relationships.

Drive: The ability to inject high energy and enthusiasm into achieving results.

Communication: The ability to use effective communication to build relationships and enable others to deliver results.

Credibility: The ability to lead by example and be a role model for others.

People Developer: The ability to coach, mentor and build the capabilities of people. **Inspiration:** The ability to inspire and motivate others to perform at their best.

Strategy: The ability to set direction and create possibilities.

Managerial/Technical Skills: The ability to utilise management skills to run the business.

Entrepreneurship: The ability to “think outside the square” in order to create new opportunities for the business.

Customer Centric: The ability to understand and meet the needs of customers.

Unit 2 –Non-store Retailing.

Session 1- E retailing logistics

Session 2- E marketing

Session 3- Telemarketing

Session 4- Internet business

SESSION 1: E-RETAILING LOGISTICS

Meaning of E–Retailing

Online retailing also known as online shopping is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over online channels primarily the Internet using a web browser. Online retail is decidedly convenient due to its 24-hour availability, global reach and generally efficient customer service.

Payment Methods in E–Retailing

Online shoppers commonly use a credit card or a PayPal account in order to make payments. However, some systems enable users to create accounts and pay by alternative means, such as:

- Billing to mobile phones and landlines.
- Cash on delivery (C.O.D.).
- Cheque/ Check.
- Debit card.
- Direct debit in some countries.
- Electronic money of various types.
- Gift cards.
- Postal money order.

2. Promotes the store by performing duties such as placing advertisements in newspapers, on radio and television and attending trade shows.
3. Purchases products for sale and purchases supplies.
4. Receives product donations and prepares them for display in the store according to established policies by performing duties such as sorting, pricing, folding, hanging and maintaining related records.
5. Maintains or changes product displays including those required for periodic sale events.
6. Performs product inventory in accordance with established policies and maintains related records.
7. Greets and assists customers with product selection.
8. Operates cash register and processes cash, debit card, and credit card sale transactions.
9. Handles cash and receipts for the sale of merchandise by performing duties such as counting the float, balancing cash, providing change, sorting and securing cash.
10. Prepares and makes bank deposits; maintains financial records such as the daily journal.
11. Opens and closes the store by performing duties such as placing and removing signage, opening and closing tills, unlocking and securing the store.
12. Provides information about the retail store(s) and service(s) to members of the public in person and over the phone.
13. Maintains the cleanliness of the store by ensuring that maintenance duties are completed and by performing duties such as cleaning windows, sweeping floors and dusting product shelves as required.
14. Performs other related duties as required.

Functions & Responsibilities of Sales Manager

The functions of a sales manager are many and varied. They may be classified under the following three heads:

1. Managerial /executive functions
2. Administrative functions
3. Miscellaneous functions

1. Maintenance of cordial and effective relationship with the heads of other department within the company.

2. To ensure that long-term customer relationship is maintained so as to achieve the goals of the enterprise.

3. To conduct selling personally so as to increase the sales volume. For this purpose he plans, develops and implements the field sales strategy, supervisor the sales personnel and coordinates and controls the sales efforts of sales personnel.

4. To study the market conditions, problems of competition and the substitutes coming into the market. He is required to inform the top management of these facts along with his suggestions.

5. To maintain discipline in the sales organization.

6. To organize activities relating to sales promotion, such as, contests, seminars, conferences and provide incentives to the sales staff and the customers.

7. To plan and organize distribution channel in consultation with top management.

8. To analyze the market thoroughly from time to time.

9. To undertake advertising campaign keeping in view the cost and sales requirements.

10. To plan sales targets in consultation with other departments, such as production department.

11. To prepare sales budget of a given period.

12. Thus the sales manager performs a number of functions depending on the nature of products and the size of the enterprise.

- Wire transfer/delivery on payment.
- Invoice, especially popular in some markets/countries, such as Switzerland.

Product Delivery

Once a payment has been accepted, the goods or services can be delivered in the following ways:

Downloading: The method often used for digital media products such as software, music, movies, or images.

Drop shipping: The order is passed to the manufacturer or third-party distributor, who then ships the item directly to the consumer, bypassing the retailer's physical location to save time, money, and space.

In-store pick-up: The customer selects a local store using locator software and picks up the delivered product at the selected location. This is the method often used in the bricks and clicks-business model.

Printing out: A provision of a code for, or e-mailing of such items as admission tickets and scrip (e.g., gift certificates and coupons).

Shipping: The product is shipped to a customer-designated address.

Will call, ICOBO (In Care Of Box Office), or "at the door" pickup: The patron picks up pre-purchased tickets for an event, such as a play, sporting event, or concert, either just before the event or in advance. With the onset of the Internet and e-commerce sites, which allow customers to buy tickets online, the popularity of this service has increased.

Customer Needs and Expectations

A successful web-store is not just a good looking website with dynamic technical features, listed in 108 many search engines. In addition to disseminating information, it is also about building a relationship with customers and making money.

Customer needs and expectations are not the same for all customers. Age, gender, experience and culture are all important factors. For example, Japanese cultural norms may lead users there to feel privacy is especially critical on shopping sites and emotional involvement is highly important on financial pension sites. Users with more online experience focus more on the variables that directly influence the task, while novice users focus on understanding the information.

Advantages and Shortcomings of E-retailing

Advantages of e-retailing for Retailers

- Location is unimportant.
- Size does not matter.
- Saves on the wages and premises costs.
- Reach a larger audience.
- Higher disposable income profile than average.
- Accepts orders 24-hours a day.
- More opportunities for
 - CRM and micro-marketing.
 - Cross and up-selling.

Disadvantages of e-retailing for Retailers

- May lack know-how and technology.
- Substantial set-up, investment and ongoing costs.
- Complex logistics of fulfillment. 109
- E-selling less powerful than face-to-face.
- Uptake slows for goods selected by taste or smell.

- Less impulse purchases.
- Legal problems.
- Less role for traditional high street retail expertise.
- Pressure on margins and prices in-store.
- After-sales care difficulties.

Benefits of e-Retailing to the Customer

- Convenience.
- Better information.
- Competitive pricing.
- Customization.
- Shopping anywhere, anytime.

Disadvantage of e-Shopping for Consumers

- Credit card and security worries.
- Lack of personal and social interaction.
- Can't see or feel the merchandise.
- Don't know how.
- Can't be in to receive delivery.
- Premium charged for delivery.
- Difficulties with returning goods for refund.

Success Factors for E-retailing

E-retailing site can attract the visitors if it is able to cater to the requirements of the users in a convenient manner. Following are the success factors for e-retailing with special focus on managing etailing site:

1. Search Engine Optimization:- Search engines are much better at indexing static pages, and don't do a good job of following hyperlinks that contain query strings.

2.Site Management :- Administration permission roles and users.Independent Systems develops sales tax calculation by state and zip code in designated states

3. Marketing Promotions and Tools

- Flexible price management with ability to restrict by product and price-level (retail, wholesale) : Percent discount, Fixed amount discount and Free shipping.
- Entries can be sorted by Recent, Most Commented, Most Viewed.
- Multi-tier pricing for quantity discounts.
- RSS feed allow users to subscribe to your content feeds.
- Support for multiple product feeds.
- Send to a friend.

4. Shopping Cart

- Customer management.
- Product management.
- Variety of payment and shipping modules.
- Order receipt emails.
- Ability to use SSL secure layers for ordering process.

5. Checkout

- SSL security.

- Express/guest checkout.
- Address book.
- Automatically apply customer balance to order.
- Sales tax by state, country, municipality based on zip code.

6. Content Managed Pages

- Add unlimited pages to your website.
- Create unlimited web forms.
- Customizable navigation.
- Organize your pages into unlimited sections (categories).

7. Security

- PCI-DSS Compliant and CISP Certified Level 1.
- Daily backups. 112
- Multiple database version backups.
- Fail over/cluster hardware firewalls.
- Biometric access control to data center.
- Free BSD operating system.

8. Content Management (CMS) Components

- Add/edit/delete unlimited categories, products and information pages on your site.
- Dynamic categories.
- Easy-to-use product navigation.
- Product detail page.
- Related items.
- “Best Sellers” facility.
- WYSIWYG content tools.

9. Multi Store

Manage more than one store for the same product, at different price, in different language, for different locations, and from same admin panel. To deal with different products or different brands of a certain product.

10. Reporting

Sophisticated ready-to-go reporting, no need to add any code to your web pages. Track abandon rates and where customers abandon in online shop. Tracking Sales, Payment, Shipping Options and discount Codes. Report on Detailed visitors including new Vs returning.

Fraud and Security Concerns

Given the lack of ability to inspect merchandise before purchase, consumers are at higher risk of fraud than face-to-face transactions. Merchants also risk fraudulent purchases using stolen credit cards or fraudulent repudiation of the online purchase.

SESSION 2: E-MARKETING

E-marketing must be defined to include the management of the consumer’s online experience of the product, from first encounter through purchase to delivery and beyond.

Attributes of E-marketing

1. **One-to-one approach:** This approach is used in search marketing, where the advertisements are based on search engine keywords entered by the user.
2. **Appeal to specific interests:** E-marketing places an emphasis on marketing those appeals to a specific behavior or interest, rather than reaching out to a broadly defined demographic.
3. **Geo targeting:** Geo targeting (in internet marketing) and geo marketing are the methods of determining the geolocation (the physical location) of a website visitor with geolocation software, and

delivering different content to that visitor based on his or her location, such as country, region/state, city, metro code/zip code, organization, Internet Protocol (IP) address, ISP or other criteria .

4. Different content by choice: A typical example for different content by choice in geo targeting is the FedEx website at FedEx.com where users have the choice to select their country location first and are then presented with different site or article content depending on their selection.

5. Automated content: With automated different content in internet marketing the delivery of different content based on the geographical and other personal information is automated.

E-mail Marketing Types

E-mail marketing can be carried out through different types of e-mails:

Transactional e-mails: Transactional e-mails are usually triggered based on a customer's action with a company. Triggered transactional messages include dropped basket messages, purchase or order confirmation e-mails and e-mail receipts.

The primary purpose of a transactional e-mail is to convey information regarding the action that triggered it.

Direct e-mails: Direct e-mail involves sending an e-mail solely to communicate a promotional message (for example, an announcement of a special offer or a catalog of products).

Advantages and Disadvantages of E-retailing

Advantages

1. In any business organization, advertisement cost constitutes a major expense in the operations of the business organization. However, Internet marketing has promised to significantly reduce the cost of advertisement.
2. Due to the popularity of the Internet in the modern world, almost all organizations have a website. Making good use of the website can significantly reduce the cost of advertisement.
3. The ability of the organization to track the rate of return on investment.
4. The instant delivery of the message enables organizations to make their marketing campaigns faster and facilitates immediate responses or communications between the customer care department and the customers.
5. It enables an organization to personalize messages or more effectively select the targeted clientele. For example, different electronic marketing strategies can be employed for the youths, professionals and other categories of customers.
6. It can easily and effectively be integrated with the traditional marketing strategies. For example, a brief advertisement on the print media can guide a potential customer to the company's website for more detailed information on the product.

Disadvantages

1. Electronic marketing is limited by the ability of the consumer to access and use Internet services.
2. It is important to note that spam filters that have become very essential to majority of the users are a major limitation to the effectiveness of e-marketing. There are concerns over the high number of commercial messages being filtered because the spam filters consider them illegitimate.
3. It has intensified competition which is a major barrier to new entrants in the global market.

Opt in E-marketing

Opt-in e-mail advertising, or permission marketing, is a method of advertising via email whereby the recipient of the advertisement has consented to receive it. This method is one of several developed by marketers to eliminate the disadvantages of e-mail marketing.

Opt-in e-mail marketing may evolve into a technology that uses a handshake protocol between the sender and receiver. This system is intended to eventually result in a high degree of satisfaction between consumers and marketers.

The Seven C's of E-marketing

C1 - Contract: The e-marketer's first goal is to communicate a core promise for a truly distinctive value proposition appealing to the target customers.

C2 - Content: refers to whatever appears on the website itself and on hot linked websites. If chosen appropriately, it can increase both the rates at which browsers are converted into buyers and their transactions.

C3 - Construction: The promises made by e-marketers are not unique to the Internet, but the medium's interactive capabilities make it easier for them to deliver on their promises quickly, reliably, and rewardingly.

C4 - Community: Through site-to-user and user-to-user forms of interactivity (such as chat rooms), e-marketers can develop a core of dedicated customers who become avid marketers of the site too.

C5 - Concentration: Targeting through online behavioral profiling. Advertisers have known for some time that behavioral targeting (a.k.a., profiling) is vastly superior to simple demographic targeting.

C6 - Convergence: The Internet will become more ubiquitous and wireless; televisions will become more interactive; video/data/voice appliances will converge; brand advertising and direct marketing practices will integrate; domestic brands, commerce and marketing will become even more global; and big marketing spenders will spend more money online.

C7 - Commerce: The last emerging fundamental of e-marketing is commerce, whether it includes offering goods and services directly, or marketing those of another company for a fee, thus helping to cover the fixed costs of site operations and to offset customer acquisition costs.

Traditional Marketing Vs E-marketing

Technology affects traditional ways of marketing in three ways. IT increases efficiency in marketing, it transforms marketing strategies and it changes the consumer behavior due to the power shift from firms to those who use technology.

Benefits of e-marketing over traditional marketing are:

E-mail marketing (on the Internet) is popular with companies for several reason

An exact return on investment can be tracked ("track to basket") and has proven to be high when done properly. E-mail marketing is often reported as second only to search marketing as the most effective online marketing tactic.

E-mail Marketing is significantly cheaper and faster than traditional mail, mainly because of high cost and time required in a traditional mail campaign for producing the artwork, printing, addressing and mailing.

SESSION 3: TELEMARKETING

What is Telemarketing?

While telemarketing tends to be most strongly associated with thick skinned individual hammering their way through a list in search of sales leads, it is actually a very broad term that applies to a multiplicity of both inbound and outbound telephone marketing.

Importance of Telemarketing

Very few companies can survive without sales and for many companies telemarketing is, or should be, the first stage of the sales process.

- It can be used for database building, lead generation, customer retention, cross selling and market research.
- Telemarketing delivers reliable information quickly, allowing your sales team to make the most effective use of their time.
- Telemarketing gathers the specifics that your field sales team need in a non-threatening, non-sales environment.

- Telemarketing identifies the needs and exact requirements of your customers and prospects..
- Telemarketing is a completely interactive medium. It is an excellent way to speak to the right people and let them know exactly who you are and what you do.

Call Centers – The Telemarketing Imperative

A call centre or call center is a centralised office used for the purpose of receiving or transmitting a large volume of requests by telephone. An inbound call centre is operated by a company to administer incoming product support or information inquiries from consumers. Outbound call centers are operated for telemarketing, solicitation of charitable or political donations, debt collection and market research

Call Center Technology

Call centre technology is subject to improvements and innovations. Some of these technologies include speech recognition software to allow computers to handle first level of customer support, text mining and natural language processing to allow better customer handling, agent training by automatic mining of best practices from past interactions, support automation and many other technologies to improve agent productivity and customer satisfaction.

Premise-based Call Centre Technology: Historically, call centres have been built on PBX equipment that is owned and hosted by the call centre operator.

Virtual Call Centre Technology: With the advent of the Software as a service technology delivery model, the virtual call centre has emerged. In a virtual call centre model, the call centres operator does not own, operate or host the equipment that the call centre runs on.

Cloud Computing for Call Centres: Cloud computing for call centres extends cloud computing to Software as a service, or hosted, on-demand call centres by providing application programming interfaces (APIs) on the call centre cloud computing platform that allow call centre functionality to be integrated with cloud based Customer relationship management, such as Salesforce.com or Oracle CRM and leads management and other applications.

Advantages and Disadvantages of Telemarketing

It allows you to do the following:

- Provide a more interactive and personal sale service.
- Create an immediate rapport with your customers.
- Explain technical issues more clearly.
- Generate leads and appointments.
- Sell from a distance to increase your sales territory.
- Reach more customers than with in-person sales calls.
- Sell to both existing and new customers.
- Achieve results that are measurable.

Disadvantages of Telemarketing: There can be as many negatives using telemarketing as there are positives.

- OE Telemarketing can be resented-particularly when dealing with business-to-consumer customers, and when calls are made in the evenings.
- Customer lists may not always be clean and opted-out this leaves you with a potential risk of breaking the law.
- Customer lists can be very costly.
- Telemarketing has a negative image that could damage your business" reputation - if carried out poorly.
- Telemarketing has the potential to replace a sales team and this could lead to negative feelings among employees.

- Training staff can be time-consuming and costly.
- You may need to prepare a script.
- An outside service provider can result in your losing control over your sales processes because the people doing the work aren't your employees.

Business to Business Telemarketing

The most common functions of business to business outbound telemarketing include:

Improving marketing data: At a basic level this may include gathering the contact details of decision makers and their usage of products and services relevant to your market.

Tele-cleaning your existing data: It's your data, but is it a valuable asset? Only if it's clean and accurate. A professional team of telemarketers can ensure that your data doesn't embarrass you or let you down.

Lead generation: Using a team of dedicated telemarketers to do this tough, up-front work can make more cost-effective use of your often highly paid field sales or telesales executives by allowing them to focus on closing sales rather than chasing prospects.

Event planning: If you're investing money in marketing events - perhaps a seminar to introduce your company to likely sales prospects in your target market, or presenting a new product or service to potential customers

Direct mail follow-up: Telephone follow up to mailings is proven to increase returns, by between three and seven times as much in some cases.

Point-of-sale promotion: For those distributing products through multiple channels, regular contact with distributors or resellers has numerous benefits

Company profiling: This offers the opportunity to go beyond the type of superficial prospect data held by most businesses and gain a full understanding of how potential customers operate

Customer contact: While all of the above functions are relevant to existing and potential customers, there is scope for more creative uses of telemarketing that have particular relevance to previous/existing customers.

B2C Strategies

Some Useful B2C Marketing Strategies

- Marketing campaigns: publicity always helps to reach the target market in terms of awareness of the characteristics and the USP of the products.
- Online advertising strategies: strategies of advertising online such as PPC and Podcast are some of the sources more effective and efficient advertising online in various search engines.
- Other strategies like social marketing, channel marketing etc. are also useful to generate awareness amongst buyers about the respective brands.

Getting a good return from your telemarketing investment will require:

Planning: Company needs to consider its budget, its objectives for the volume/quality of data they want and their in-house resources, in terms of manpower, skills and equipment compared to the cost of using an outside agency.

Telemarketing rarely stands on its own: Organization needs to establish how it integrates with its other sales and marketing activities.

Accurate data: As with all direct marketing methods, accurate data is the essential foundation for success.

A good script: An effective telemarketing script is actually not a script at all but a guide for the discussion that steers the listener in the direction you want him/her to go

Skilled telemarketers: No matter how well targeted the call is nor how well thought out the script, a wooden and inflexible caller will not deliver the goods.

SESSION 4: INTERNET BUSINESS

Electronic business, or e-business, may be defined as the application of Information and Communication Technologies (ICT) in support of all the activities of business.

Internet Business Subsets

Applications can be divided into three categories:

1. Internal Business Systems:

- Customer Relationship Management (CRM)
- Enterprise Resource Planning (ERP)
- Document Management System (DMS)
- Human Resources Management (HRM) 141

2. Enterprise Communication and Collaboration:

- VoIP
- Content Management System
- E-mail
- Voicemail
- Web Conferencing
- Digital work flows (or business process management)

3. Electronic Commerce: Business-to-business electronic commerce (B2B) or business-to- consumer electronic commerce (B2C):

- Internet shop
- Supply chain management
- Online marketing
- Offline marketing

Internet Business Models

A business model is defined as the organization of product, service and information flows, and the source of revenues and benefits for suppliers and customers. The concept of e-business model is the same but used in the online presence. The following is a list of the currently most adopted e-business models such as:

- E-shops
- E-commerce OE E-procurement OE E-malls
- E-auctions
- Virtual Communities

Classification by provider and consumer

Roughly dividing the world into providers/producers and consumers/clients one can classify e-businesses into the following categories:

- Business-to-Business (B2B)
- Business-to-Consumer (B2C) 142
- Business-to-Employee (B2E) OE Business-to-Government (B2G) OE Government-to-Business (G2B)
- Government-to-Government (G2G)

- Government-to-Citizen (G2C) OE Consumer-to-Consumer (C2C) OE Consumer-to-Business (C2B)

Security

E-business systems naturally have greater security risks than traditional business systems, therefore it is important for e-business systems to be fully protected against these risks. Some of the methods of protecting e-business security and keeping information secure include physical security measures as well as data storage, data transmission, anti-virus software, firewalls, and encryption to list a few.

Privacy and Confidentiality: Confidentiality is the extent to which businesses makes personal information available to other businesses and individuals.

Authenticity: E-business transactions pose greater challenges for establishing authenticity due to the ease with which electronic information may be altered and copied.

Data integrity: Data integrity answers the question "Can the information be changed or corrupted in any way?" This leads to the assurance that the message received is identical to the message sent.

Non-repudiation: This concern deals with the existence of proof in a transaction. A business must have assurance that the receiving party or purchaser cannot deny that a transaction has occurred, and this means having sufficient evidence to prove the transaction.

Access control: When certain electronic resources and information is limited to only a few authorized individuals, a business and its customers must have the assurance that no one else can access the systems or information.

Availability: This concern is specifically pertinent to a business' customers as certain information must be available when customers need it.

Common security measures

Many different forms of security exist for e-businesses.

Physical security: Despite e-business being business done online, there are still physical security measures that can be taken to protect the business as a whole.

Data storage: Storing data in a secure manner is very important to all businesses, but especially to e-businesses where most of the data is stored in an electronic manner. Data that is confidential should not be stored on the e-business' server, but instead moved to another physical machine to be stored.

Data transmission and application development: All sensitive information being transmitted should be encrypted. Businesses can opt to refuse clients who can't accept this level of encryption. Confidential and sensitive information should also never be sent through e-mail.

System administration: System administrators should keep watch for suspicious activity within the business by inspecting log files and researching repeated logon failures.

Security Solutions

When it comes to security solutions, there are some main goals that are to be met. These goals are data integrity, strong authentication, and privacy.

Access and data integrity: There are several different ways to prevent access to the data that is kept online. One way is to use anti-virus software. This is something that most people use to protect their networks regardless of the data they have.

Encryption: Encryption, which is actually a part of cryptography, involves transforming texts or messages into a code which is unreadable. These messages have to be decrypted in order to be understandable or usable for someone.

Digital certificates: The point of a digital certificate is to identify the owner of a document. This way the receiver knows that it is an authentic document. Companies can use these certificates in several different ways.

Merchants running POS systems usually attach a cash drawer to the system to hold the credit receipts.

Point Of Sale Marketing

Point of sale marketing, commonly known as point-of-purchase advertising, attracts retail shoppers at the point-of-a-purchase. In other words, point-of-sale (POS) marketing attracts shoppers into buying additional products or services at checkout.

Types of Point-of-Sale Marketing

Point-of-sale displays come in many shapes and forms; regardless of type, they often are eye-catching and engaging. Traditional displays and signage are the most widely and commonly used in retail stores today. These types of POS displays include specific shelf signage, kiosks, coupon dispenser and banners.

Importance of POS Marketing

Point-of-sale marketing generates new product awareness, trial and ultimately purchase. While most shoppers purchase an item they found on the shelf, offers, discounts and samples near-the point-of-purchase often lead to shoppers switching brands.

Unit 4– Billing and Accounting Procedures in Retailing.

Session-1 Billing procedures

Session-2 Fundamentals of accounting

Session-3 Journal, ledger and subsidiary books

Session-4 Trading, profit and loss account and balance sheet

Session 1: Billing Procedures

Telecom Retail Billing

When we talk about telecom billing then by default it is about retail billing. As defined earlier telecom retail billing is defined as follows:

Telecom Billing is a process of collecting usage, aggregating it, applying required usage and rental charges and finally generating invoices for the customers.

Telecom billing process also includes receiving and recording payments from the customers.

Retail billing deals directly with the end customer and comes with lot of challenges to meet end customer expectations and regulatory obligations. A billing is assumed to be successful as long as it is fulfilling following criteria:

Timely Billing: End customer's invoice is being generated on time i.e. nominal date. There may be some circumstances when end customer does not get their invoices on time because of some logistic issues.

But it is IT's responsibility to generate all the due bills on due date.

Billing Accuracy: This is most important factor for the customer satisfaction and from regulatory obligation point of view. If billing system is not generating accurate bills then it can lead to serious business issue from legality point of view as well as leaving a customer in unhappy state.

Retail Vs Wholesale Billing

Retail billing deals with end customer and billing an individual customer whereas wholesale billing deals with billing to the following entities depending on situation and nature of business:

Billing resellers associated with a telecom operator. **10**

Billing interconnects partners for providing interconnection to make calls to other operators' customers
Billing roaming partners for providing services to their customers when they roamed in an operator's coverage area. Wholesale billing is easy in comparison of retail billing and allows a big level of threshold of tolerance whereas retail billing always needs to be 100% accurate. Wholesale billing

Digital signatures: A final way to secure information online would be to use a digital signature. If a document has a digital signature on it, no one else is able to edit the information without being detected.

Web browser discrimination: Vendors of e-commerce are able to determine the type of browser that is used by the customer. Some vendors offer different pricing which they determine based on the browser that the customer is using.

Unit 3 - Retail Point-of-Sale: An Overview. OF-SALE: AN OVERVIEW

Components of a Point-of-Sale (POS) in detail-

a) Back Office Server

The back office server is the brain. The back office server is essentially the main computer where pertinent company information, such as prices and sales reports, are programed and stored. This component also acts as the main information source for the network if multiple units are in use throughout the establishment.

b) Monitors

Monitors are essential POS components. The monitor is the screen where sales staff views sales information as a transaction is in progress

c) Bar-Code Scanner

Bar code scanners retrieve coded pricing information using a laser beam for various items.

d) Cash Drawer

Most retail POS systems have electronic cash drawers. POS systems at retail stores will most often have an electronic cash drawer. It is used to hold money collected for goods or services.

e) Keyboards

Keyboards is used with the back office server. The keyboard is used to enter items, pricing information, updates and all other information essential to running the business.

f) Printer

One small printer is usually added to the POS system. This component can be programmed from the back office server to produce customized receipts or invoices for customer use. The printer may also be used for printing sales reports or employee time cards.

g) Magnetic stripe readers

Credit card payments are a must. Magnetic stripe readers (MSR) are used to capture credit or debit card information to process sales. An MSR component can be attached to the work station terminal to enable a customer to swipe a credit card at the time of payment.

The Process of Point of sale:-

Step 1: Scanning the Products

When you go to the last destination in a retail store, the final action is making payments to what you have purchased.

Step 2: Receiving Payments

Merchants use point-of-sale (POS) systems to take customer payments by credit card1/debit card or cash. Payments are collected immediately in a store that uses a POS system to run the payment.

Step 3: Printing the Bill

POS equipment can print copies of the sale for the customer and the merchant. Exchanges and refunds also can be run through the system, and the bill can be printed when a merchant has a printer attached to the system.

Step 4: Cash Drawer

never if 100% accurate because of various reasons like difference in prices configured in two operators systems or difference in number of calls rated because some of the calls may got missed at any network element.

Session 2 – Fundamentals of accounting

R. N. Anthony, “Accounting is a system of collecting, summarizing, analyzing and reporting the information of the business in monetary terms”.

Objectives of Accounting

- 1. To maintain the records of a business:** The main objective of accounting is to maintain the records of an organization in a systematic manner. This is known as **Book-keeping**.
- 2. To ascertain Profit or Loss:** The profit earned or Loss incurred during a specific period (usually for a period of one year) can be calculated from the accounting books.
- 3. To ascertain Financial Position:** By preparing financial statements like Profit and Loss account and Balance sheet the financial position can be ascertained easily
- 4. To communicate financial information:** Accounting is called the language of business. It communicates the financial information to various interested parties

Characteristics of Accounting

Understandability: Accounting information is to be presented in such a way that it is understandable to the users.

Relevance: Accounting information helps the user in decision making. The information so provided is relevant to that particular situation.

Consistency: There should be consistency in the application of accounting policies adopted by a firm.

Comparability: The accounting information provided by a firm must be comparable to that of similar firms over a period of time.

Reliability: The accounting should provide the true and fair picture of the operations of a firm.

Objectivity: An important feature of accounting is that it is not biased. And the accounting reports are neutral.

Functions of Accounting

- 1. Recording of information:** Accounting is an art of recording financial facts of an organization. As it is not possible to remember each and every transaction of the business it is necessary to supplement human memory.
- 2. Classification of data:** The classification data means that the data of one nature is placed at one place. This is done in a book which is called „Ledger“ For example Salaries, Rents, interest, Assets, Liabilities etc .
- 3. Making summaries:** Another function of financial accounting is to summarize the recorded data. The classified data is used to prepare final accounts i.e. profit and loss account and balance sheet. The
- 4. Dealing with financial transactions:** Only those transactions which can be measured in terms of money are recorded. Anything which can not be measured in terms of money does not form a part of financial accounting.
- 5. Interpreting Financial Information:** Accounting information is modified in such a way that it is interpreted by the users for drawing conclusions
- 6. Communicating Results:** Financial accounting is not only concerned with the recording data but also concerned with communication of results.
- 7. Providing Reliable Information:** Another important function of financial accounting is to make the information more reliable and useful.. This is done by adopting internationally accepted accounting standards for the preparation of accounts.

Functions of an Accountant

- 1. Designing work:** It includes the designing of the accounting system, basis of identification and classification of financial transactions and events, forms, methods and procedures etc.
- 2. Recording work:** The financial transactions are identified, classified and recorded in appropriate books of accounts. This is known as book-keeping.
- 3. Summarizing work:** The recorded transactions are summarized into various statements viz. profit and loss account, balance sheet, funds flow statement and cash flow statement.
- 4. Analysis and interpretation work:** The financial statements are analyzed by using the tools of analysis such as Ratios analysis, Break-even-analysis, comparative statements, common size statements etc.
- 5. Reporting work:** The summarized statements along with analysis are communicated to various users“ creditors, shareholders, investors, government etc.
- 6. Preparation of budget:** Another important function of an accountant is to prepare various budgets like cash budget, capital budget, purchase budget, sales budget.
- 7. Taxation work:** The accountant has to prepare various statements and returns pertaining to income-tax, sales tax, excise and customs duties etc., and file the returns with the concerned tax authorities.
- 8. Auditing:** The accountant has to verify the books of accounts, statements and reports in order to ensure the accuracy.

Bookkeeping and Accounting

The terms book-keeping and accounting are used interchangeably, but they differ from each other.

Book-keeping involves the chronological recording of financial transactions of an organization in a set of books in a systemic manner. The main function of a book keeper is to maintain the books of original entry i.e., Journal, Ledger, etc.

Accounting is on the other hand is much wider term which includes recording, classifying and summarizing of financial transactions and also making interpretations of the results of the business and report to the users.

Double Entry Book Keeping System

It is a scientific system of recording transactions in the books of accounts. Under double entry book keeping system both the aspects of a transaction are recorded. “Double entry” means, recording of the two fold aspects of a transaction. A transaction affects two accounts in opposite direction. If one account is debited another account will be credited with the same amount. So, every debit will have corresponding credit and a vice-versa.

1. Two parties are necessary.
2. Transaction should have the effect of receiving the benefit and giving of such benefit which is measurable in terms of money.
3. Every account will have two sides debit side credit side. Benefit received is recorded on debit side and benefit given is recorded on the credit side.
4. Both the effect of transaction are recorded simultaneously.

Classification of accounts

- 1. Personal Accounts:** These accounts are relating to the names of individuals, firms, companies, bank, co-operative societies, etc.
- 2. Real Accounts:** These are accounts of business assets like Plant and machinery, furniture, land and building, cash and goods, etc.
- 3. Nominal Accounts (fictitious account):** These are the accounts of expenses, incomes, losses and gains.

Rules of Double Entry

1. Personal Account – Debit the receiver of benefit Credit the giver of benefit
2. Real Account – Debit what comes in Credit what goes out
3. Nominal Account – Debit the expenses and losses Credit the incomes and gains

Types of Accounting

The important branches of accounting are Financial Accounting, Cost Accounting and Management Accounting.

1. Financial Accounting: The purpose of financial accounting is to ascertain the financial results of a firm i.e. the profit made or loss incurred in the operations during a specific period. It is also aimed to know the financial position i.e. the assets and liabilities position as on a particular date.

2. Cost Accounting: The purpose of cost accounting is to analyze the expenditure so as to ascertain the cost of various products manufactured by the firm and fix the prices.

3. Management Accounting: The purpose of management accounting is to assist the management in taking rational decisions. For example, pricing decisions make or buy decisions, capital expenditure decisions etc

The following are the three main systems of accounting:

1. Cash System of Accounting: In this system, accounting entries are made only when cash is received or paid, No entry is made when a payment or receipt is merely due. Government system of accounting is maintained on this system.

2. Mercantile System of Accounting: This is also known as accrual system of accounting. Under this system entries are made on this basis of amounts having become due for payment or receipt.

3. Fixed System: This system is the combination of cash system and mercantile system. Under this system Income are recorded on cash basis and expenses are recorded on accrual basis. The net income is ascertained by matching expenses on accrual basis with incomes on cash basis.

Users of Accounting Information

1. Internal Users

a) Managers: These are the persons who manage the business at various levels i.e., top level, middle level and lower level.

b) Employees: The employees are interested to know about the financial position of the company to demand for higher salaries and other benefits.

2. External Users

a) Investors: Those who are interested in buying shares of a company are interested in the financial statements to know about the safety of their investments already made and how safe are the proposed investments.

b) Creditors: Lenders are interested to know whether their loan, principal amount and interest will be paid as and when due.

c) Government: Governments all over the world are the financial statements for preparing Nations Income accounts.

d) Public: The public at large is interested in the functioning if the enterprise because it may make a substantial contribution to the local economy in many ways.

e) Researchers: The financial statements are very much useful to the researchers to undertake research in various aspects.

f) NGO's: NGO's may also be interested in various aspects like corporate social responsibility etc.

Accounting Principles

The Accounting principles are broadly classified into two categories.

1. Accounting Concepts

Business entity concept, Going concern concept, The cost concept, Dual aspect concept, Money measurement concept, Accounting period concept, Realization concept, Matching of costs and revenues concept, Historical record concept

2. Accounting Conventions- Disclosure, Materiality, Consistency, Conservatism

Accounting Concepts

The following concepts are usually observed at the time of recording stage.

1. Business Entity Concept: According to this concept the business is distinct from the persons who own it.

2. Going Concern Concept: This principle of accounting assumes that the business will continue for ever. With this assumption the fixed assets are recorded in the books of account at their original cost.

3. The Cost Concept: Usually all the transactions will be recorded at cost of in the books. However, at the end of every year the Accountant shows the reduced value of the asset, after providing for depreciation.

4. Dual Aspect Concept: This concept throws light on the point that each transaction as two folds affect such as receiving and giving of the benefit. The receiving aspect is termed as „debit“ and the giving aspect is termed as „credit“.

5. Money Measurement Concept: While recording the business transactions we do not record them in terms of kilograms, quintals, meters liters etc.

6. Accounting Period concept: Accounting period is the period followed by a business concern for maintaining accounts to know profit or loss.

7. Realization Concept: This concept is related to the realization of revenues. The revenue is realized either from the sale of goods or rendering of services.

8. Matching of Costs and Revenues Concept: According to this principle, the expenses incurred in an accounting period should be matched with the revenues recognized in that period.

9. Historical Record Concept: The Accountant shows only those transactions which have actually taken place and not those which may take place in future.

Accounting Conventions

Conventions are the customs or traditions guiding the preparation of accounting statements. They are adapted to make financial statements clear and meaningful.

1. Disclosure: This deals with the convention that all information which is of material importance should be disclosed in the accounting statements. The companies Act, 1956 makes it compulsory to provide all the information in the prescribed form.

2. Materiality: Under this the trader records important facts about the commercial activities in the form of financial statements. If any unimportant informations to be given for the sake of clarity, it will be given as footnotes.

3. Consistency: The methods or principles followed in the preparation of various accounts should be followed in the years to come. It means that there should be consistency in the methods or principles followed.

4. Conservatism: This convention warns the trader not to take unrealized income into account. That is why the practice of valuing stock at cost or market price, whichever is lower is in vogue. This is the policy of “playing safe

Advantages and Limitations of Accounting

Advantages of Accounting

The following are the advantages of accounting:

- 1. Maintain records:** Since all the financial transactions are recorded in the books, one need not rely on memory. Any information required is readily available from these records.
- 2. Preparation of financial statements:** The financial statements such as Profit and loss account and balance sheet can be easily prepared with the help of the information which is available in the records
- 3. Provides control over assets.**
- 4. Provides the required information:** Interested parties such as owners, investors, creditors etc., can get necessary information at frequent intervals.
- 5. Comparative study:** It facilitates the comparison of the present performance of the organization with that of its past.
- 6. Less scope for fraud or theft:** It is difficult to conceal fraud or theft etc., because of the balancing of the books of accounts periodically
- 7. Tax Aspects:** Properly maintained book-keeping records will help in the settlement of all tax matters with the tax authorities.
- 8. Ascertaining value of business:** The accounting records will help in ascertaining the correct value of the business. This helps in the event of sale or purchase of a business.
- 9. Documentary evidence:** Accounting records can also be used as evidence in the court to substantiate the claim of the business.
- 10. Helpful to management:** Accounting is useful to the management in various ways. It enables the management to assess the achievement of its performance.

Limitations of Accounting

The following are the limitations of accounting:

- 1. Does not record all events:** Only financial transactions are recorded.
- 2. Does not reflect current values:** The data available under book-keeping is historical in nature. So they do not reflect current values.
- 3. Estimates based on Personal judgment:** The estimates used for determining the values of various items may not be correct.
- 4. Inadequate information on costs and Profits:** Book-keeping only provides information about the overall profitability of the business.

Session 3- Journal , Ledger and subsidiary books

Journal

It is a book of daily record. The transactions will be recorded for the first time in this book. Therefore, it is called as “Book of original entry or prime entry”.

Important Features of Journal

1. Transactions of every day are recorded chronologically - i.e. as per the date in this book.
2. Both the aspect of a transaction are recorded at one place.
3. Narration, which is an explanation of transaction in brief, is given at the end of each entry.
4. It facilitates cross checking of transactions.
5. Date wise entries facilitate quick reference.

UNIT 5- INVENTORY HANDLING

Three basic reasons for keeping an inventory-

1. Time saving
2. Uncertainty
3. Cost effectiveness

Inventory control methods-

1. Point of sale method- Top retailers may use the point of sale method (POS) to control inventory items if the retail store has frequent sales or daily traffic in the inventory.

2. Perpetual method- This method involves creating inventory records at the end of each business day to ensure that the amount of product sales match the available items in the inventory.

3. Periodic method- This method is less aggressive as it does not require daily monitoring of inventory traffic and figures.

4. Food inventory control- You can control your food inventory by installing a system of checks and monitoring procedures.

Special terms used in dealing with inventory-

1. SKU (Stock keeping unit)- It is a unique identifier of each distinct product and service that can be purchased.

2. Stockout means the running out of the inventory of an SKU.

3. New Old stock- (Sometimes abbreviated as NOS) is a term used in business to refer to merchandise being offered for sale that was manufactured long ago but that has never been used.

4. FIFO and LIFO - are methods used in the cost of goods sold calculation. FIFO ("First-In, First-Out") assumes that the oldest products in a company's inventory have been sold first and goes by those production costs. The LIFO ("Last-In, First-Out") method assumes that the most recent products in a company's inventory have been sold first and uses those costs instead.

Process of inventory handling-

Step 1. Preparing for a physical inventory- a) schedule the count date b) Human resource considerations.

Step 2. Selecting counting methods-

- | | |
|------------------------------------|------------------------|
| a) Computer generated count sheets | b) Manual count sheets |
| c) Portable inventory devices | d) Inventory services |

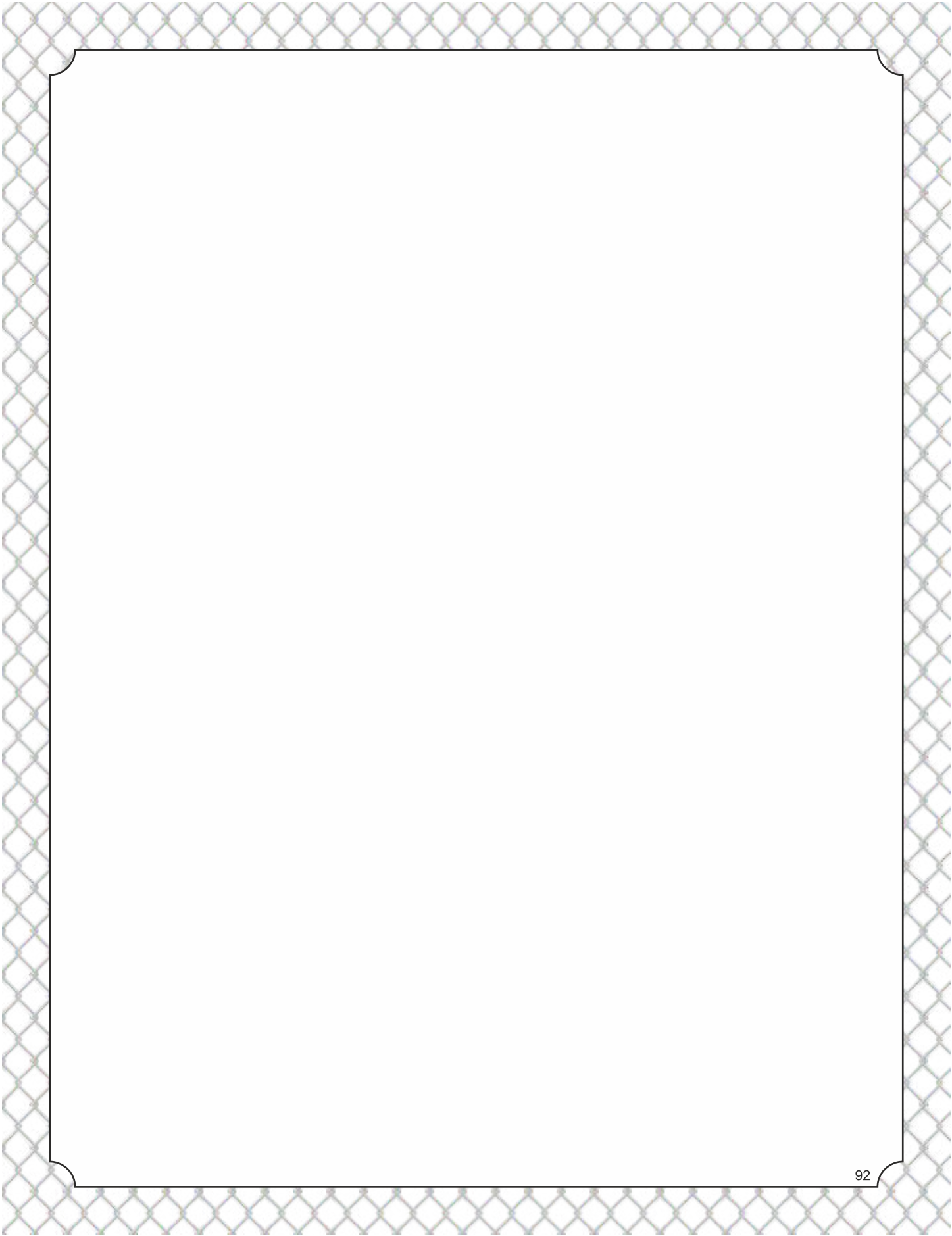
Step 3. Creating a fixture map.

Step 4. Prepare/order supplies test procedures

Step 5. Visiting the inventory

Step 6. Taking the counts.

Step 7. Verification counts and audit.



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