Shikshan Prasarak Mandali, Pune-30

PRIN. K.P. MANGALVEDHEKAR INSTITUTE OF MANAGEMENT CAREER DEVELOPMENT AND RESEARCH

Approved by AICTE, Govt. Of India, Govt. of Maharashtra
"Affiliated to Punyashlok Ahilyadevi Holkar Solapur University, Solapur"

BBA PPT

S P Mandali ,Pune -30
Prin.K P Mangalvedhekar Institute of Management Career Development and Research,Solapur
Affiliated to Punyashlok Ahilyadevi Holkar Solapur University

BBA I SEM I
2022-23

Subject-Principles of Management I

Compiled by -Faculty Mrs Anjali Pawar

MANAGEMENT

Introduction & Definition-

Management is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose.

According to Harold Koontz, ―Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals.

According to F.W.Taylor, ―Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way.

Management is a purposive activity. It is something that directs group efforts towards the attainment of certain pre –determined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Of course, these goals may vary from one enterprise to another,
e.g.:For one enterprise it may be launching of new products by conducting market surveys and for other it may be profit maximization by minimizing cost.
Management as a discipline refers to that branch of knowledge which is connected to study of principles & practices of basic administration. It specifies certain code of conduct to be followed by the manager & also various methods for managing resources efficiently.It is the process of getting things done through others with the aim of achieving goals effectively and efficiently.It is organization and coordination of different activities of the business in order toachieve organizational goals and objectives.It is a distinct intellectual activity consisting of several functions like Planning, Organising, Directing, Controlling and staffing.The person who performs all these functions is known as Manager.

Nature of Management:

- **Universal Process**: Wherever there exists human pursuit, there exists management. Without effective management, the intentions of the organisation cannot be accomplished.
- **The factor of Production**: Equipped and experienced managers are necessary for the utilisation of funds and labour.
- **Goal-Oriented**: The most significant aim of all management pursuit is to achieve the purposes of a firm. The aims must be practical and reachable.
- **Supreme in Thought and Action**: Managers set achievable goals and then direct execution on all aspects to achieve them. For this, they need complete assistance from middle and lower degrees of management.
- **The system of authority**: Well-defined principles of regulation, the regulation of proper power and efficiency at all degrees of decision-making. This is important sothat each self must perform what is required from him or her and to whom he mustreport.
- **Profession**: Managers require to control managerial expertise and education, andhave to adhere to a verified law of demeanour and stay informed of their human and social responsibilities.

- **Process:** The management method incorporates a range of activities or servicesdirected towards an object.

FUNCTIONS OF MANAGEMENT

- **Planning:**

Planning means deciding in advance what to do, why to do it, and when to do it. It is one of the foremost managerial functions. Before initiating a task, the manager must formulatean idea of how to perform a particular task. Hence, this function of management is closelyrelated to creativity and innovation. It is the intellectual process of deciding in advance whatis to be done, when, where, how and for whom it is to be done.It bridges the gap from where we are to where we want to go.It is the primary function of management without which no other function can be performed.

- **Organizing:**

  Planning is just to put some idea in writing, but to convert that idea into reality organizing is required. Organizing is the establishment of an effective authority relationship that is created among the selected group of persons who are assigned in doing a specified work.Organizing is the process of dividing the group into sections and departments. Organizingis a process of structuring the essential relationships among the people, tasks, and otheractivities. This is done in a way that the organization's resources are integrated and are coordinated to accomplish the objectives efficiently and effectively.It is the management function of assigning duties, grouping tasks, establishing reporting relationships and allocating resources required to carry out a specific plan.

- **Staffing:**

Staffing is a very important part of running a business or an organisation. It is referred to as the process of obtaining and hiring of manpower for the various business requirements. Staffing is regarded as an essential managerial function.An enterprise is unable to run its operations without the help of human resources. Therefore, human resources play an important role in the functioning of an organisation.It means finding the right man for the right job.It includes activities like,Recruitment,Selection ,Placement ,Training and Development of personnel

- **Directing:**

Directing is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. **Directing** is said to be the heart of management process. Planning, organizing, staffing have got no importance if direction function does not take place. **Directing** initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, directionis said to be all those activities which are designed to encourage the subordinates to workeffectively and efficiently. It is said to be the process in which managers instruct, guide and overseeing the performance of the workers to achieve predetermined goals.Elements of Directing Motivation,Leadership,Communication ,Supervision

- **Controlling:**

Controlling consists of verifying whether everything occurs in confirmities with the plans adopted, instructions issued and principles established.

Controlling ensures that there is effective and efficient utilization of organizational resourcesso as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

"Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs."

According to **Donnell**, "Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course."

It is a function of monitoring organization performance towards the achievement oforganization goals It involves -Establishing standards of performance,- Measuring actual performance,- Comparing actual performance with standards,-Taking corrective action for the deviation.

Levels of Management

1. **Top level management**:-

It includes board of directors, chief executive or general managers , senior strategist, decision-making, directors. Corporate level goals, missions and objectives are determined. The major functions of this level are:-

A. To formulate and determine the objectives and define the goals of the business

B. To establish policies and prepare plans to attain the goals

C. To set up an organizational structure to conduct the operations as per the plans

D. To provide the overall direction in the organization

E. To assemble the resources necessary for the attainment of the policy and executionof the plan

F. To control effectively the business operations

G. To judge and evaluate the results

2. **Middle level management**:- It includes departmental managers, divisional heads and section officers. It acts as a bridge between top-level management and lower level management. the major functions of this level are:-

A. To implement the task set up by top management

B. To implement the policies framed by the top management

C. To run the organizations effectively and efficiently

D. To cooperate for the smooth functioning of the organizations

E. To coordinate between different departments

F. To recruit , select and train the employees for the better functioning of thedepartments

G. To issue the instructions to the lower level management

H. To motivate the workers and staffs for higher productivity and to reward them.

I. To lead the departments and build up an organizational spirit

J. To report and make suitable recommendations to the top-level management for thebetter execution of the plans and policies

3. **Lower level management**:- It includes supervisors, foremen and workers. it is alsoknown as supervisory level of management in which the supervisors or foreman like sales officers, account officers etc take responsibilities of the implementation and control of the operational plans developed by the middle level managers. The function of this level are:
—

A. To issue the orders and instruction to the workers to supervise and control the performance

B. To plan the activities of the sections.

C. To direct and guide the workers about the work procedures

D. To provide job training to the workers

E. To arrange the necessary tools, equipment, materials for the workers and look aftertheir proper maintenance

F. To solve the problem of workers

G. To develop sense of cooperation and high group spirit among the workers

H. To advise the middle level about the work environment

I. To inform the unsolved problems of the workers to the middle level management.

14 Principles of Management-

Henry Fayol, also known as the 'father of modern management theory' gave a new perception of the concept of management. He introduced a general theory that can be applied to all levels of management and every department. The Fayol theory is practised by the managers to organize and regulate the internal activities of an organization. He concentrated on accomplishing managerial efficiency.
The fourteen principles of management created by Henry Fayol are explained below---

1. **Division of Work-**

Henri believed that segregating work in the workforce amongst the worker will enhance the quality of the product. Similarly, he also concluded that the division of work improves the productivity, efficiency, accuracy and speed of the workers. This principle is appropriate for both the managerial as well as a technical work level.

2. **Authority and Responsibility-**

These are the two key aspects of management. Authority facilitates the management to work efficiently, and responsibility makes them responsible for the work done under theirguidance or leadership.

3. **Discipline-**

Without discipline, nothing can be accomplished. It is the core value for any project or any management. Good performance and sensible interrelation make the management job easy and comprehensive. Employees good behaviour also helps them smoothly build and progress in their professional careers.

4. **Unity of Command-**

This means an employee should have only one boss and follow his command. If an employee has to follow more than one boss, there begins a conflict of interest and can create confusion.

5. **Unity of Direction-**

Whoever is engaged in the same activity should have a unified goal. This means all the person working in a company should have one goal and motive which will make the work easier and achieve the set goal easily.

6. **Subordination of Individual Interest-**

This indicates a company should work unitedly towards the interest of a company rather than personal interest. Be subordinate to the purposes of an organization. This refers to the whole chain of command in a company.

7. **Remuneration-**

This plays an important role in motivating the workers of a company. Remuneration can be monetary or non-monetary. However, it should be according to an individual's efforts they have made.

8. **Centralization-**

In any company, the management or any authority responsible for the decision-making process should be neutral. However, this depends on the size of an organization. Henri Fayol stressed on the point that there should be a balance between the hierarchy and division of power.

9. **Scalar Chain-**

Fayol on this principle highlights that the hierarchy steps should be from the top to the lowest. This is necessary so that every employee knows their immediate senior also theyshould be able to contact any, if needed.

10. **Order-**

A company should maintain a well-defined work order to have a favourable work culture. The positive atmosphere in the workplace will boost more positive productivity.

11. **Equity-**

All employees should be treated equally and respectfully. It's the responsibility of amanager that no employees face discrimination.

12. **Stability-**

An employee delivers the best if they feel secure in their job. It is the duty of the management to offer job security to their employees.

13. **Initiative-**

The management should support and encourage the employees to take initiatives in an organization. It will help them to increase their interest and make then worth.

14. Esprit de Corps-

It is the responsibility of the management to motivate their employees and be supportive of each other regularly. Developing trust and mutual understanding will lead to a positive outcome and work environment.

This 14 principles of management are used to manage an organization and are beneficial for prediction, planning, decision-making, organization and process management, control and coordination.

The principles of management allows managers to understand how to run an organisation. It also helps them to accomplish tasks and manage situations as and whenthey arise in the organisation.

S.P. Mandali Pune,30

Prin. K.P. Mangalvedhekar Institute of Management Career Development & Research

Affiliated to Punyashlok Ahilyadevi Holkar Solapur University , Solapur

Academic Year 2022-23

Class: - BBA I SEM II

Course Name: - Accounting for Business II

Compiled By

Mrs. Snehal A. Pathak

M.Com. , CA Intermediate

Chapter 1

Introduction of Cost Accounting

Cost Accounting : Cost Accounting may be defined as "*Accounting for costs classification and analysis of expenditure as will enable the total cost of any particular unit of production to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted"*. Thus Cost Accounting is classifying, recording an appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for the purpose of control and guidance of management.

Cost Accounting can explained as follows :-

Cost Accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data. .

Cost Accounting provides analysis and classification of expenditure as will enable the total cost of any particular unit of product / service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted. For example it is not sufficient to know that the cost of one pen is ` 25/- but the management is also interested to know the cost of *material* used, the amount of *labour*and*other expenses* incurred so as to control and reduce its cost.

It establishes budgets and standard costs and actual cost of operations, processes, departments or products and the analysis of variances, profitability and social use of funds.

Cost Accountancy: Cost Accountancy is defined as '***the application of Costing and Cost Accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability'***. It includes the presentation of information derived there from for the purposes of managerial decision making. Thus, Cost Accountancy is the science, art and practice of a Cost Accountant.

a) It is **science** because it is a systematic body of knowledge having certain principles which a cost accountant should possess for proper discharge of his responsibilities.

(b) It is an **art** as it requires the ability and skill with which a Cost Accountant is able to apply the principles of Cost Accountancy to various managerial problems.

(c) **Practice** includes the continuous efforts of a Cost Accountant in the field of Cost Accountancy. Such efforts of a Cost Accountant also include the presentation of information for the purpose of managerial decision making and keeping statistical records.

Objectives of Cost Accounting

The following are the main objectives of Cost Accounting :-

(a) To ascertain the Costs under different situations using different techniques and systems of costing

(b) To determine the selling prices under different circumstances

(c) To determine and control efficiency by setting standards for Materials, Labour and Overheads

(d) To determine the value of closing inventory for preparing financial statements of the concern

(e) To provide a basis for operating policies which may be determination of Cost Volume relationship, whether to close or operate at a loss, whether to manufacture or buy from market, whether to continue the existing method of production or to replace it by a more improved method of production....etc

Scope of Cost Accountancy

The scope of Cost Accountancy is very wide and includes the following:-

(a) Cost Ascertainment: The main objective of Cost Accounting is to find out the Cost of product / services rendered with reasonable degree of accuracy.

(b) Cost Accounting: It is the process of Accounting for Cost which begins with recording of expenditure and ends with preparation of statistical data.

(c) Cost Control: It is the process of regulating the action so as to keep the element of cost within the set parameters.

(d) Cost Reports: This is the ultimate function of Cost Accounting. These reports are primarily prepared for use by the management at different levels. Cost reports helps in planning and control, performance appraisal and managerial decision making.

(e) Cost Audit: Cost Audit is the verification of correctness of Cost Accounts and check on the adherence to the Cost Accounting plan. Its purpose is not only to ensure the arithmetic accuracy of cost records but also to see the principles and rules have been applied correctly.

To appreciate fully the objectives and scope of Cost Accounting, it would be useful to examine the position of Cost Accounting in the broader field of general accounting and other sciences. i.e Financial Accounting , Management Accounting, Engineering and Service Industry.

Cost Accounting and Financial Accounting: Financial Accounting is primarily concerned with the preparation of financial statements, which summarise the results of operations for selected period of time and show the financial position of the company at particular dates. In other words Financial Accounting reports on the resources available (Balance Sheet) and what has been accomplished with these resources (Profit and Loss Account). Financial Accounting is mainly concerned with requirements of creditors, shareholders, government, prospective investors and persons outside the management. Financial Accounting is mostly concerned with external reporting.

Cost Accounting, as the name implies, is primarily concerned with determination of cost of something, which may be a product, service, a process or an operation according to costing objective of management. A Cost Accountant is primarily charged with the responsibility of providing cost data for whatever purposes they may be required for.

The main differences between Financial and Cost Accounting are as follows:

Financial Accounting	**Cost Accounting**
a) It provides the information about the business in a general way. i.e Profit and Loss Account , Balance Sheet of the business to owners and other outside partners.	a) It provides information to the management for proper planning, operation, control and decision making.
b) It classifies, records and analyses the transactions in a subjective manner, i.e according to the nature of expense.	b) It records the expenditure in an objective manner, i.e according to the purpose for which the costs are incurred.
c) It lays emphasis on recording aspect without attaching any importance to control.	c) it provides a detailed system of control for materials, labour and overhead costs with the help of standard costing and budgetary control.
d) It reports operating results and financial position usually at the end of the year.	d) It gives information through cost reports to management as and when desired.
e) Financial Accounts are accounts of the whole business. They are independent in nature.	e) Cost Accounting is only a part of the financial accounts and discloses profit or loss of each product, job or service.
f) Financial Accounts records all the commercial transactions of the business and include all expenses i.e Manufacturing, Office, Selling etc.	f) Cost Accounting relates to transactions connected with Manufacturing of goods and services, means expenses which enter into production.
g) Financial Accounts are concerned with external transactions i.e transactions between business concern and third party.	g) Cost Accounts are concerned with internal transactions, which do not involve any cash payment or receipt.
h) Only transactions which can be measured in monetary terms are recorded.	h) Non-Monetary information like No of Units / Hours etc are used.
i) Financial Accounting deals with actual figures and facts only.	i) Cost Accounting deals with partly facts and figures and partly estimates / standards.
j) Financial Accounting do not provide information on efficiencies of various workers / Plant & Machinery.	j) Cost Accounts provide valuable information on the efficiencies of employees and Plant & Machinery.
k) Stocks are valued at Cost or Market price whichever is lower.	k) Stocks are valued at Cost only.
l) Financial Accounting is a positive science as it is subject to legal rigidity with regarding to preparation of financial statements.	l) Cost Accounting is not only positive science but also normative because it includes techniques of budgetary control and standard costing.
m) These accounts are kept in such away to meet the requirements of Companies Act as per Sec 209 (1) (a) to (c)& Income Tax Act Sec 44AA.	m) Generally Cost Accounts are kept voluntarily to meet the requirements of the management, only in some industries Cost Accounting records are kept as per the Companies Act.

Advantages of Cost Accounting

Cost Accounting has manifold advantages, a summary of which is given below. It is not suggested that having installed a system of Cost Accounting, a concern will expect to derive all the benefits stated here. The nature and the extent of the advantages obtained will depend upon the type, adequacy and efficiency of the cost system installed and the extent to which the various levels of management are prepared to accept and act upon the advice rendered by the cost system.

The Cost Accounting System has the following advantages :-

(i) A cost system reveals unprofitable activities, losses or inefficiencies occurring in any form such as

(a) Wastage of man power, idle time and lost time.

(b) Wastage of material in the form of spoilage, excessive scrap etc., and

(c) Wastage of resources, e.g. inadequate utilization of plant, machinery and other facilities.

(ii) Cost Accounting locates the exact causes for decrease or increase in the profit or loss of the business. It identifies the unprofitable products or product lines so that these may be eliminated or alternative measures may be taken.

(iii) Cost Accounts furnish suitable data and information to the management to serve as guides in making decisions involving financial considerations.

(iv) Cost Accounting is useful for price fixation purposes. Although sale price is generally related more to economic conditions prevailing in the market than to cost, the latter serves as a guide to test the adequacy of selling prices.

(v) With the application of Standard Costing and Budgetary Control methods,the optimum level of efficiency is set.

(vi) Cost comparison helps in cost control. Comparison may be period to period, of the figures in respect of the same unit or factory or of several units in an industry by employing Uniform Costs and Inter- Firm Comparison methods. Comparison may be made in respect of cost of jobs, process or cost centres.

Limitations of Cost Accounting system

Like any other system of accounting, Cost Accountancy is not an exact science but an art which has developed through theories and accounting practices based on reasoning and commonsense. Many of the theories cannot be proved nor can they be disproved. They grownup in course of time to become conventions and accepted principles of Cost Accounting. These principles are by no means static, they are changing from day to day and what is correct today may not hold true in the circumstances tomorrow.

Large number of Conventions, Estimates and Flexible factors: No cost can be said to be exact as they incorporate a large number of conventions, estimations and flexible factors such as :-

(i) Classification of costs into its elements.

(ii) Materials issue pricing based on average or standard costs.

(iii) Apportionment of overhead expenses and their allocation to cost units/centres.

(iv) Arbitrary allocation of joint costs.

(v) Division of overheads into fixed and variable.

Cost Accounting lacks the uniform procedures and formats in preparing the cost information of a product/ service. Keeping in view this limitation, all Cost Accounting results can be taken as mere estimates.

Unit 1 Business Environment

- **Meaning:-**

Business environment is an environment in which business is carried out. Business environment encompasses all those factors that affect a company's operations, including customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities, the economy, demographics, social & cultural factors innovation & technological developments.

- **Definition:-**

According to William F Gluck, "Business environment is as the process by which strategists monitor the economic, governmental market, supplier, technological geographic & social settings to determine opportunities & threats to their firms".

According to Misra & Puri the Business Environment of any organisation is the aggregate of all conditions events & influences that surrounding & affect business".

- **FEATURES OF BUSINESS ENVIORNMENT**

1. **Environment is Complex:-**

A business environment has a plethora of factors events, conditions, & influences arising from a variety of sources. Therefore, it is very difficult to understand all the factors affecting a given environment at any time. Although we can understand it in parts, it is impossible to grasp it in totality.

2. **Environment is Dynamic:-**

Business also keeps a changing constantly. This is due to a wide range of influencing factors. These factors create dynamism in the environment causing it to continuously change its shape & character.

3. **Environment is Multi faceted:-**

Due to complexity & dynamism of a business environment, it continuously changes its shape & character. However, different observes view the changes differently. Therefore a particular observer might see a specific change in the environment as an opportunity while someone else might perceive it a threat.

4. **Environment has long term impact on business:-**

Environment has long lasting impact on functioning of business organisations. Their growth & profitability depends upon the environment under which they have to operate. Environment influences business enterprises. Such influences may be positive or negative & may affect the profitability, efficiency & development of business.

5. **Environment influences business organization :-**

Businesses organisational have limited capacity to influence business environment as it is the result of government policies & social & technological changes which are basically external variables.

6. **Environment and business planning go together:-**

Business environment & business planning are closely related concepts. In fact, planning is necessary in order to derive maximum benefit from favourable environment. Similarly, planning is useful for dealing with the problems created by unfavourable environment.

Components/ Factors of Business Environment:

A. INTERNAL ENVIRONMENT

Internal environment refers to environment within the organization. It includes internal factors of the business which can be controlled by business. It includes objective of business, managerial policies, management & employee of the organization, labour management relationship, brand image & corporate image working conditions in the organisation, technological & research & development capabilities. Internal environment includes 5 M's I.e, Men, Material, Machinery, money & Management available with business organisation. These components usually are within the control of business.

Some of the Internal Components are as follows

1. Value system:-

The value system of the founders, Board of Directors, managers, workers of the organisation has important bearing on the strategies of the organisation.

2. Mission & objectives of the business:-

Firm's philosophies, priorities, development, policies are guided by the mission & objectives of the organisation, mission & objective are the first steps in the development of the organisation.

3. Organisation Structure:-

Organisational hierarchy is the authority which flow of from top to bottom. Some management structure & styles delay decision making & while other facilities quick decision making.

4. Financial capability:-

Financial factors like financial policies, financial positions & capital structure etc. affect corporate strategies & decisions.

5. Human Resource Management:-

The characteristics of the Human resources like skill, quality, morale, commitment, attitude, knowledge etc. could contribute to the strength & weakness of an organisation. Some organisations find it difficult to carry out restructuring or modernization because of resistance from employees.

6. Marketing capability

7. Operational capability

8. Managerial policies

9. Brand Image & corporate Image

10. Research & development capability

11.General management capability

B. EXTERNAL ENVIRONMENT:-

External environment refer to external aspects of the surroundings of business enterprise which have influence on the functioning of business. These factors are beyond the control of business. External environment includes factors outside the firm can provide opportunities or pose threats to the firm. External environment is classified as:

i. Micro environment
ii. Macro environment

i. Micro Environment:-

The micro environment of a company consists of elements that directly affect the company. It includes suppliers, customers, market intermediaries, competitors & customers etc. Micro environment includes

1. **Customers:-**

Customers are the people money to acquire an organisation's products. A consumer occupies the central position in the marketing environment. The marketer has to closely monitor & analyze changes in consumer tastes & preferences & their buying habits.

2. **Competitors**

Competitors are the other business entities that compete for resources. A study of the competitive scenario is essential for the marketer, particularly threats from competition. In modern age an absolute monopoly is very rare thing. Most of the firms have to work in some type of competition such as monopolistic competition or oligopoly.

3. **Suppliers:-**

Suppliers provide raw materials, equipment, services & so on. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry. The quality of the commodity & the cost of production are considerably influence by the supplies of the inputs.

4. Market Intermediaries:-

It includes agents & brokers who help the company to find customers. It is a link between the company & the consumer. They refer to the different levels in the chain from the production unit to the final customer. The chain incorporates the stockiest, the wholesalers, the distributors, the retailers etc.

5. Public:-

Public is any group that has actual or potential interest in the business. The prospects of firm depend upon the society in which it has to work & sell its products. In a homogenous society, the job of the firm is easy. The people have almost the same habits like & dislikes values & ethical norms. In a heterogeneous society the job of the firm is difficult. A particular product may be acceptable to particular of the society but not acceptable to some other sections.

ii. Macro Environment:-

Macro environment forces are the external elements that create opportunities & pose threats to the business units. The macro environment consists of

1. Economic Environment:-

It refers to those economic factors which have impact on the working of business. It consists of economic factors that influence the business in a country. These factors include gross national product, corporate profit, inflation rate, employment, balance of payments, interest rates consumer income etc.

a. <u>Economic conditions :-</u>

Economic conditions include income level, distribution of income, demand & supply trends etc. if the company is in boom condition, it positively affects demand & market share. On the other hand if the economy is in depression it will have negative effects on the business.

<u>b. Economic Polices:-</u>

Economic policies are framed by the government. These policies establish relationship between business & government. The effect of these policies may be favourable or unfavourable. Some of the policies are:

i. Industrial policies

ii. Fiscal policies

iii. Monetary policies

iv. Foreign investment policies

v. Export – import (EXIM) policies.

c. Economic system:-

Different economic systems prevail in different countries. These systems affect the business. The economic system includes capitalism, socialism & mixed economies. The world economy is primarily governed by three types of economic systems i.e.,

i. Capitalist economy

ii. Socialist Economy

iii. Mixed economy

d. Economic Growth :-

The stage of economic growth of the economy has direct impact on the business strategies. Increased economic growth rate result in increase in consumption expenditure, lower the general pressure within an industry & offers more opportunities then threats.

e. The rate of interest:-

The rate of interest affects the demand for the products in the economy, particularly when general goods are to be purchased through borrowed finance. Low interest rated provides opportunities to the industries to expand whereas rising interest pose a threat to these institution.

f. Currency Exchange:-

current exchange rates have direct impact on the business environment. When the rupee was devalued in 1991, it was to make Indian products cheaper in the world market & consequently boost India's exports.

2. **Political Environment:-**

Political environment affects the different business units. A stable & dynamic political environment is necessary for business growth. Political environment includes political stability in the country, relation of the government with other countries, welfare activities of government, centre-state relationship & views of opposition parties towards business. If the political system is stable & efficient then the business grows.

3. **Socio-cultural Environment:-**

Socio-Cultural environment refers to social & cultural factors which are beyond the control of business units. Such factors include attitude of people to work, family system, caste system, education system, habits, language, religion has considerable components of business environment. Religion has considerable effect on business. Some religious restrict their followers they do not allow its followers to engage in leather industry, wine making etc. similarly, the social environment of business also includes social factors like customer, traditions, values, beliefs, poverty literacy, life expectancy rate etc.

4. **Technology Environment:-**

It is the most important factor which affects the business enterprise. The faster changes in technology create problems for business enterprises. Products have shorter life span than the past because of rapid technological developments. Technology provides various advantages. Success in many industries depends on innovation & research. To promote innovation & research some companies establish research & development departments in their enterprises.

5. **Legal Environment:-**

It refers to the set f laws & regulations which influence the business organisation & their operations. every business organisation has to obey & work within the framework of law. The legal environment is derived partly from the political climate in a country & has three distinct dimensions to it: a. The law of the home country b. The law of the foreign markets c. International law in general

6. **Natural Environment:-**

It refers to geographical & ecological factors which are beyond the control of the enterprise. It includes natural resources, weather & climatic conditions, landforms, rainfall, environmental pollution etc. Climate & weather conditions affect the location of certain industries like textile industries. Similarly environmental pollution in the form of air pollution, have caused disturbances in ecological balance.

7. **Demographic Environment:-**

Demographic factor include size, growth rate, age composition, sex composition etc of population, family size, economic stratification of population, educational level, caste, religion etc. all these demographic factors are relevant to business. These factors affect the demand for goods & services. High population growth rate indicates an enormous increase in labour supply. Population with varied tastes, preferences, beliefs, temperaments etc. gives rise to differing demand pattern & calls for different marketing strategies.

8. **International Environment:-**

A final component of the general environment is actions of other countries or groups of countries that affect the organisation. Governments may act to reserve a portion of their industries for domestic firms or may subsidize particular types of businesses to make them more competitive in the international market. International Environment factors are

i. Due to liberalization, Indian companies are forced to view business issues from the global perspective.
ii. Safe & protected markets are no longer there. World is becoming small in size due to advanced means of transport & communication facilities.
iii. Learning of foreign language is must for every business manager.
iv. Acquiring familiarity with foreign currencies is also must.
v. Facing political & legal uncertainties is inevitable.

S.P. Mandali Pune,30

Prin. K.P. Mangalvedhekar Institute of Management Career Development & Research

Affiliated to Punyashlok Ahilyadevi Holkar Solapur University , Solapur

Academic Year 2022-23

Class: - BBA I SEM I

Course Name: -Accounting for Business I

Compiled By

Mrs. Snehal A. Pathak

M.Com. , CA Intermediate

Chapter No.1 Introduction

Introduction of Accounting

Accounting is a system meant for measuring business activities, processing of information into reports and making the findings available to decision-makers. The documents, which communicate these findings about the performance of an organisation in monetary terms, are called financial statements.
The Committee on Terminology of the American Institute of Accountants in its Accounting Terminology Bulletin No.1 has defined ―Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are in part at least of a financial character and interpreting the results thereof.

Accounting is a service activity .Its function is to provide information primarily financial in nature about economic entities that is intended to be useful in making economic decisions.

Meaning of Accounting

Accounting is a broader concept than the concept of Book Keeping. It refers to the process of summarizing & analyzing the business transactions & interpreting the effects of those transactions on the business.

American Accounting Association is stated as follows ," Accounting refers to the process of identifying,measuring& communicating economic information to permit informed judgements & decision by the user of accounts."

Objectives of Accounting

1) Ascertainment of Profit or loss –
   The prime objective of the accountancy is to ascertain profit or loss made in the business. It is ascertained by preparing trading account & profit &loss account. The direct expenses & indirect expenses of the business are debited to Trading account & profit & loss account respectively. The direct incomes & indirect incomes are recorded on the credit side of the trading account & profit & loss account respectively. If business incomes exceed its expenses , there is profit. In case expenses exceed incomes ,there is loss.

2) Ascertainment of financial position –
   To provide detailed minformation about the assets & liabilities of the business to its proprietor is another important objectives of the acoounting. Businessman prepares Balance sheet to understand the financial position of the business.

3) Ascertaining owner's equity (Interest)-
   The businessman invets his property in the business as capital. He earns profit every year in the business.part of the profit he withdraws from the business for his personal use & remaining profit is retained in the business. Such retained profit is called accumulated profit. It is added back to capital. The owners equity is calculated any time by using the following formulaes _
   Owner's equity = Capital employed + Accumulated profit + Reserve & Provisions – Drawing + Additional capital introduced – losses

4) Decision Making –
   Supplying various information relating to financial status & profitability in respect to past years & current year to the proprietor or management for comparison & drawing conclusions & for decision making is another important objective of accountancy. The proprietor or management can take easy & correct decision on the basis of accounting information received.

5) Control over errors & frauds –
   Accountancy facilitates to detect errors, frauds,irregularities & discrepancies committed in the process of recording business transactions .Businessman can adopt suitable system to detect frauds ,errors ,irregularities etc.

6) Control on cash flow –
   Good accounting system enables the businessman to impose regular control over the inflow & outflow of cash . In the business there should be neither excess cash balance nor shortage of cash than required. Excess cash as well as shortage of cash poses financial problems.

Functions of Accounting

A man who is involved in the process of book keeping and accounting is called an accountant. With the coming up accounting as a specialised field of knowledge, an accountant has a special place in the structure of an organisation, because he performs certain vital functions. An accountant is a person who does the basic job of maintaining accounts as he is the man who is engaged in book keeping. Since the managers would always want to know the financial performance of the business. An accountant prepares profit and loss account which reports the profits/losses of the business during the accounting period, Balance Sheet, which is a statement of assets and liabilities of the business at a point of time, is also proposed by all accountants. Since both statements are called financial statements, the person who prepares them is called a financial accountant.

Accounting information serves many purposes. A part from revealing the level of performance, it throws light on the causes of weakness and deviation from plans (in any). In this way an accountant becomes an important functionary who plays a vital role in the process of management control, which is a process of diagnosing and solving a problem. Seen from this point of view, an accountant can be referred to as a management accountant.

Tax planning is an important area as far as the fiscal management of a company is concerned. An accountant has a suggestive but very specific job to do in this regard by indicating ways to minimise the tax liability through his knowledge of concessions and incentives available under the existing taxation framework of the country. An accountant can influence a company even by not being an employee. He can act as a man who verifies and certifies the authenticity of accounts of a company by auditing the accounts. It is a strictly professional job and is done by persons who are formally trained and qualified for the purpose. They have an educational status and a prescribed code of conduct like the Chartered Accountants in India and Certified Public Accountants in USA.

Information management is another area which keeps an accountant busy. He is the one who classifies the financial information into information for internal use (management accounting function); and information or external use (financial accounting function). Irrespective of the size and degree of automation of a business, information management is a key area and many organisations are known to have perished because they failed to recognise this as an important function of an accountant because information system is imperative for effective cost control, to forecast cash needs and to plan for future growth of the organisation.

Sub field of Accounting –

The financial literature classifies accounting into two broad categories, viz, Financial Accounting and Management Accounting. Financial accounting is primarily concerned with the preparation of financial statements whereas management accounting covers areas suchas interpretation of financial statements, cost accounting, etc. Both these types of accounting are examined in the following paragraphs.

1) Financial accounting

As mentioned earlier, financial accounting deals with the preparation of financial statements for the basic purpose of providing information to various interested groups like creditors, banks, shareholders, financial institutions, government, consumers, etc.

Financial statements, i.e. the income statement and the balance sheet indicate the way in which the activities of the business have been conducted during a given period of time.

Financial accounting is charged with the primary responsibility of external reporting. The users of information generated by financial accounting, like bankers, financial institutions, regulatory authorities, government, investors, etc. want the accounting information to be consistent so as to facilitate comparison. Therefore, financial accounting is based on certain concepts and conventions which include separate business entity, going concern concept, money measurement concept, cost concept, dual aspect concept, accounting period concept, matching concept, realization concept and conventions of conservatism, disclosure, consistency, etc. All such concepts and conventions would be dealt with detail in subsequent lessons. The significance of financial accounting lies in the fact that it aids the management in directing and controlling the activities of the firm and to frame relevant managerial policies related to areas like production, sales, financing, etc. However, it suffers from certain drawbacks which are discussed in the following paragraphs. The information provided by financial accounting is consolidated in nature. It does not indicate a break-up for different departments, processes, products and jobs. As such, it becomes difficult to evaluate the performance of different sub-units of the organisation. Financial accounting does not help in knowing the cost behaviour as it does not distinguish between fixed and variable costs.

The information provided by financial accounting is historical in nature and as such the predictability of such information is limited.The management of a company has to solve certain ticklish questions like expansion of business, making or buying a component, adding or deleting a product line, deciding on alternative methods of production, etc. The financial accounting information is of little help in answering these questions. The limitations of financial accounting, however, should not lead one to believe that it is of no use. It is the basic foundation on which other branches and tools of accounting analysis are based. It is the
source of information, which can be further analysed and interpreted according to the tailor-made requirements of decision-makers.

2) Management accounting

Management accounting is 'tailor-made' accounting. It facilitates the management by providing accounting information in such a way so that it is conducive for policy making and running the day-to-day operations of the business. Its basic purpose is to communicate the facts according to the specific needs of decision-makers by presenting the information in a systematic and meaningful manner. Management accounting, therefore, specifically helps in planning and control. It helps in setting standards and in case of variances between planned and actual performances, it helps in deciding the corrective action.

An important characteristic of management accounting is that it is forward looking. Its basic focus is one future activity to be performed and not what has already happened in the past. Since management accounting caters to the specific decision needs, it does not rest upon any well-defined and set principles. The reports generated by a management accountant can be of any duration– short or long, depending on purpose. Further, the reports can be prepared for the organisation as a whole as well as its segments.

3) Cost accounting

One important variant of management accounting is the cost analysis. Cost accounting makes elaborate cost records regarding various products, operations and functions. It is the process of determining and accumulating the cost of a particular product or activity. Any product, function, job or process for which costs are determined and accumulated,
are called cost centres. The basic purpose of cost accounting is to provide a detailed breakup of cost of different departments, processes, jobs, products, sales territories, etc., so that effective cost control can be exercised. Cost accounting also helps in making revenue decisions such as those related to pricing, product-mix, profit-volume decisions, expansion of business, replacement decisions, etc. The objectives of cost accounting, therefore, can be summarized in the form of three important statements, viz, to determine costs, to facilitate planning and control of business activities and to supply information for short- and long-term decision. Cost accounting has certain distinct advantages over financial accounting. Some of them have been discussed succeedingly. The cost accounting system provides data about profitable and non-profitable products and activities, thus prompting corrective measures. It is easier to segregate and analyse individual cost items and to minimize losses and wastages arising from the manufacturing process. Production methods can be varied so as to minimize costs and increase profits. Cost accounting helps in making realistic pricing decisions in times of low demand,

competitive conditions, technology changes, etc.Various alternative courses of action can be properly evaluated with the help of data generated by cost accounting. It would not be an exaggeration if it is said that a cost accounting system ensures maximum utilization of physical and human resources. It checks frauds and manipulations and directs the employer and employees towards achieving the organisational goal.

USERS OF ACCOUNTING INFORMATION

The basic objective of accounting is to provide information which is useful for persons inside the organisation and for persons or groups outside the organisation. Accounting is the discipline that provides information on which external and internal users of the information may base decisions that result in the allocation of economic resources in society.

I External Users of Accounting Information :

External users are those groups or persons who are outside the organisation for whom accounting function is performed.
Following can be the various external users of accounting information:
1. Investors, Those who are interested in investing money in an organisation are interested in knowing the financial health of the organisation of know how safe the investment already made is and how safe their proposed investment will be. To know the financial health, they need accounting information which will help them in evaluating the past performance and future prospects of the organisation. Thus, investors for their investment decisions are dependent upon accounting information included in the financial statements. They can know the profitability and the financial position of the organisation in which they are 12 interested to make that investment by making a study of the accounting information given in the financial statements of the organisation.

2. Creditors.
Creditors (i.e. supplier of goods and services on credit, bankers and other lenders of money) want to know the financial position of a concern before giving loans or granting credit. They want to be sure that the concern will not experience difficulty in making their payment in time i.e. liquid position of the concern is satisfactory. To know the liquid position, they need accounting information relating to current assets, quick assets and current liabilities which is available in the financial statements.

3. Members of Non-profit Organisations. Members of non-profit organisations such as schools, colleges, hospitals, clubs, charitable institutions etc. need accounting information to know how their contributed funds are being utilised and to ascertain if the organisation deserves continued support or support should be withdrawn keeping

in view the bad performance depicted by the accounting information and diverted to another organisation. In knowing the performance of such organisations, criterion will not be the profit made but the main criterion will be the service provided to the society.

4. Government. Central and State Governments are interested in the accounting information because they want to know earnings or sales for a particular period for purposes of taxation. Income tax returns are examples of financial reports which are prepared with information taken directly from accounting records. Governments also needs accounting information for compiling statistics concerning business which, in turn helps in compiling national accounts.

5. Consumers. Consumers need accounting information for establishing good accounting control so that cost of production may be reduced with the resultant 13 reduction of the prices of goods they buy. Sometimes, prices for some goods are fixed by the Government, so it needs accounting information to fix reasonable prices so that consumers and manufacturers are not exploited. Prices are fixed keeping in view fair return to manufacturers on their investments shown in the accounting records.

6. Research Scholars. Accounting information, being a mirror of the financial performance of a business organisation, is of immense value to the research scholars who wants to make a study to the financial operations of a particular firm. To make a study into the financial operations of a particular firm, the research scholar needs detailed accounting information relating to purchases, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long term liabilities and shareholders' funds which is available in the accounting records maintained by the firm.

II Internal Users of Accounting Information.-
Internal users of accounting information are those persons or groups which are within the organisation.
Following are such internal users :

1. Owners

The owners provide funds for the operations of a business and they want to know whether their funds are being properly used or not. They need accounting information to know the profitability and the financial position of the concern in which they have invested their funds. The financial statements prepared from time to time from accounting records depicts them the profitability and the financial position.

2. Management.

Management is the art of getting work done through others, the management should ensure that the subordinates are doing work properly. Accounting information is an aid in this respect because it helps a manager in appraising the performance of the subordinates. Actual performance of the 14 employees can be compared with the budgeted performance they were expected to achieve and remedial action can be taken if the actual performance is not up to the mark. Thus, accounting information provides "the eyes and ears to management". The most important functions of management are planning and controlling. Preparation of various budgets, such as sales budget, production budget, cash budget, capital expenditure budget etc., is an important part of planning function and the starting point for the preparation of the budgets is the accounting information for the previous year. Controlling is the function of seeing that programmes laid down in various budgets are being actually achieved i.e. actual performance ascertained from accounting is compared with the budgeted performance, enabling the manager to exercise controlling case of weak performance. Accounting information is also helpful to the management in fixing reasonable selling prices. In a competitive economy, a price should be based on cost plus a reasonable rate of return. If a firm quotes a price which exceeds cost plus a reasonable rate of return, it probably will not get the order. On the other hand, if the firm quotes a price which is less than its cost, it will be given the order but will incur a loss on account of price being lower than the cost. So, selling prices should always be fixed on the basis of accounting data to get the reasonable margin of profit on sales.

3. Employees

Employees are interested in the financial position of a concern they serve particularly when payment of bonus depends upon the size of the profits earned. They seek accounting information to know that the bonus being paid to them is correct.

Importance of Financial accounting

Financial accounting is primarily concerned with the first question answered by accounting information, the scorecard function. Taking a car-driving analogy, financial accounting makes greater use of the rear-view mirror than the windscreen; financial accounting is primarily concerned with historical information.

Financial accounting is the function responsible in general for the reporting of financial information to the owners of a business, and specifically for preparation of the periodic external reporting of financial information, statutorily required, for shareholders. It also provides similar information as required for Government and other interested third parties, such as potential investors, employees, lenders, suppliers, customers and financial analysts.

Financial accounting is concerned with the three key financial statements: the balance sheet ; income statement ; statement of cash flows . It assists in ensuring that financial statements are included in published reports and accounts in a way that provides ease of analysis and interpretation of company performance.

The role of financial accounting is therefore concerned with maintaining the scorecard for the entity. Financial accounting is concerned with the classification and recording of the monetary transactions of an entity in accordance with established concepts, principles, accounting standards and legal requirements and their presentation, by means of income statements, balance sheets and statements of cash flows, during and at the end of an accounting period .

Within most companies, the financial accounting role usually involves much more than the preparation of the three main financial statements. A great deal of analysis is required to support such statements and to prepare information both for internal management and in preparation for the annual audit by the company's external auditors . This includes sales analyses, bank reconciliations, and analyses of various types of expenditure.

Basic Accounting Terminology

Entity

Entity means a reality that has a definite individual existence. Business entity means a specifically identifiable business enterprise like Super Bazaar, Hire Jewellers, ITC Limited, etc. An accounting system is always devised for a specific business entity (also called accounting entity).

Transaction An event involving some value between two or more entities. It can be a purchase of goods, receipt of money, payment to a creditor, incurring expenses, etc. It can be a cash transaction or a credit transaction.

Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. Assets are items of value used by the business in its operations. For example, Super Bazar owns a fleet of trucks, which is used by it for delivering foodstuffs; the trucks, thus, provide economic benefit to the enterprise.

Liabilities are obligations or debts that an enterprise has to pay at some time in the future. They represent creditors' claims on the firm's assets. Both small and big businesses find it necessary to borrow money at one time or the other, and to purchase goods on credit. Super Bazar, for example, purchases goods for ` 10,000 on credit for a month from Fast Food Products on March 25, 2005. If the balance sheet of Super Bazaar is prepared as at March 31, 2005, Fast Food Products will be shown as creditors on the liabilities side of the balance sheet. If Super Bazaar takes a loan for a period of three years from Delhi State Co-operative Bank, this will also be shown as a liability in the balance sheet of Super Bazaar. Liabilities are classified as current and non-current.

Capital Amount invested by the owner in the firm is known as capital. It may be brought in the form of cash or assets by the owner for the business entity capital is an obligation and a claim on the assets of business. It is, therefore, shown as capital on the liabilities side of the balance sheet.

Sales are total revenues from goods or services sold or provided to customers. Sales may be cash sales or credit sales.

Revenues

These are the amounts of the business earned by selling its products or providing services to customers, called sales revenue. Other items of revenue common to many businesses are: commission, interest, dividends, royalities, rent received, etc. Revenue is also called income.

Expenses

Costs incurred by a business in the process of earning revenue are known as expenses. Generally, expenses are measured by the cost of assets consumed or services used during an accounting period. The usual items of expenses are: depreciation, rent, wages, salaries, interest, cost of heater, light and water, telephone, etc.

Expenditure Spending money or incurring a liability for some benefit, service or property received is called expenditure. Purchase of goods, purchase of machinery, purchase of furniture, etc. are examples of expenditure. If the benefit of expenditure is exhausted within a year, it is treated as an expense (also called revenue expenditure). On the other hand, the benefit of an expenditure lasts for more than a year, it is treated as an asset (also called capital expenditure) such as purchase of machinery, furniture, etc.

Profit The excess of revenues of a period over its related expenses during an accounting year is profit. Profit increases the investment of the owners.

Gain A profit that arises from events or transactions which are incidental to business such as sale of fixed assets, winning a court case, appreciation in the value of an asset.

Loss The excess of expenses of a period over its related revenues its termed as loss. It decreases in owner's equity. It also refers to money or money's worth lost (or cost incurred) without receiving any benefit in return, e.g., cash or goods lost by theft or a fire accident, etc. It also includes loss on sale of fixed assets.

Discount is the deduction in the price of the goods sold. It is offered in two ways. Offering deduction of agreed percentage of list price at the time selling goods is one way of giving discount. Such discount is called 'trade discount'. It is generally offered by manufactures to wholesellers and by wholesellers to retailers. After selling the goods on credit basis the debtors may be given certain deduction in amount due in case if they pay the amount within the stipulated period or earlier. This deduction is given at the time of payment on the amount payable. Hence, it is called as cash discount. Cash discount acts as an incentive that encourages prompt payment by the debtors.

Voucher

The documentary evidence in support of a transaction is known as voucher. For example, if we buy goods for cash, we get cash memo, if we buy on credit, we get an invoice; when we make a payment we get a receipt and so on.

Goods It refers to the products in which the business unit is dealing, i.e. in terms of which it is buying and selling or producting and selling. The items that are purchased for use in the business are not called goods. For example, for a furniture dealer purchase of chairs and tables is termed as goods, while for other it is furniture and is treated as an asset. Similarly, for a stationery merchant, stationery is goods, whereas for others it is an item of expense (not purchases)

Drawings Withdrawal of money and/or goods by the owner from the business for personal use is known as drawings. Drawings reduces the investment of the owners.

Purchases are total amount of goods procured by a business on credit and on cash, for use or sale. In a trading concern, purchases are made of merchandise for resale with or without processing. In a manufacturing concern, raw materials are purchased, processed further into finished goods and then sold. Purchases may be cash purchases or credit purchases.

Stock (inventory) is a measure of something on hand-goods, spares and other items in a business. It is called Stock in hand. In a trading concern, the stock on hand is the amount of goods which are lying unsold as at the end of an accounting period is called closing stock (ending inventory). In a manufacturing company, closing stock comprises raw materials, semi-finished goods and finished goods on hand on the closing date. Similarly, opening stock (beginning inventory) is the amount of stock at the beginning of the accounting period.

Debtors are persons and/or other entities who owe to an enterprise an amount for buying goods and services on credit. The total amount standing against such persons and/or entities on the closing date, is shown in the balance sheet as sundry debtors on the asset side.

Creditors Creditors are persons and/or other entities who have to be paid by an enterprise an amount for providing the enterprise goods and services on credit. The total amount standing to the favour of such persons and/or entities on the closing date, is shown in the Balance Sheet as sundry creditors on the liabilities side.

ROLE OF ACCOUNTING

Accounting plays an important and useful role by developing the information for providing answers to many questions faced by the users of accounting information :

(1) How good or bad is the financial condition of the business?

(2) Has the business activity resulted in a profit or loss ?

(3) How well the different departments of the business have performed in the past?

(4) Which activities or products have been profitable?

(5) Out of the existing products which should be discontinued and the production of which commodities should be increased?

(6) Whether to buy a component from the market or to manufacture the same?

(7) Whether the cost of production is reasonable or excessive?

(8) What has been the impact of existing policies on the profitability of the business?

(9) What are the likely results of new policy decisions on future earning capacity of the business?

(10) In the light of past performance of the business how should it plan for future to ensure desired results?

Above mentioned are few examples of the types of questions faced by the users of accounting information. These can be satisfactorily answered with the help of suitable and necessary information provided by accounting.

Besides, accounting is also useful in the following respects :

(a) Increased volume of business results in large number of transactions and no businessman can remember everything. Accounting records obviate the necessity of remembering various transactions.

(b) Accounting records, prepared on the basis of uniform practices, will enable a business to compare results of one period with another period.

(c) Taxation authorities (both income tax and sales tax) are likely to believe the facts contained in the set of accounting books if maintained according to generally accepted accounting principles..

(d) Accounting records, backed up by proper and authenticated vouchers, are good evidence in a court of law.

(e) If a business is to be sold as a going concern, then the values of different assets as shown by the balance sheet helps in bargaining proper price for the business.

Accounting Concepts and Conventions

Accounting is the language through which the performance and financial status of an enterprise is communicated to the outside world. In order that the messages communicated through the accounting language is understood by the users, there should be certain common principles. Accountants all over the world agree on certain basic points on which financial accounting theory and practice are based which are commonly referred to as accounting principles‘, postulates of accounting‘, accounting concepts‘, accounting conventions‘ and accounting standards‘.

Accounting principles in other words are those rules of action or conduct which are adopted by the accountants universally while recording accounting transactions. They are a body of doctrines commonly associated with the theory and procedure of accounting, serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist. Accounting principles are also known as accounting postulates or accounting assumptions.

M W E Glautier and B Underdown would like to use accounting conventions‘ for those principles on which accounting are based.

According to them the term accounting conventions‘ serve in another sense to understand the freedom which accountants have enjoyed in determining their own rules.

We may classify accounting conventions into two broad groups-those which may be said to go to the very roots of financial accounting, which may callfundamental conventions‘ and those which bear directly on the quality of financial accounting information , which we shall describe as procedural conventions‘.

In our view, there are only two fundamental conventions which may be said to characterize financial accounting.

(a) The entity convention which states that financial accounting information relates to the activities of a business entity only, and not to the activities of the owners.

(b) The money measurement convention which limits the recognition of activities to those which can be expressed in monetary terms. The following conventions are generally regarded as the most important conventions in this group.

(a) The going concern convention
(b) The cost convention
(c) The realization convention
(d) The accrual convention
(e) The matching convention
(f) The convention of periodicity
(g) The convention of consistency
(h) The convention of conservatism.

Accounting Principles

1. Cost Principle
2. Revenue Principle
3. Matching Principle
4. Objectivity Principle
5. Consistency Principle
6. Full Disclosure Principle
7. Conservatism Principle
8. Materiality Principle
9. Uniformity and Comparability Principle.

Robert N. Anthony and James S. Reoce, have described the basic accounting principles as Accounting Concepts‘ and has the following concepts.

Accounting Concepts

1 Money Measurement
2 Entity
3 Going Concern
4 Cost
5. Dual Aspect
6 Accounting Period
7 Conservatism
8 Realization
9 Matching
10 Consistency
11 Materiality

Concepts

Accounting concepts are also basic assumptions or truths which are accepted by people without further proof. They are conceptual guidelines for application in the financial accounting process. According to Glenn A. Wisch and Daniel G. Short (Fundamentals of Financial Accounting, Irwin 1987, p 144) the concepts are important because they

i) Help to explain the why‘ of the accounting
ii) Provide guidance to deal with new accounting problems
iii) There is no need to memorize accounting procedures.

Principles

According to AICPA (USA) principles means ―a general law or rule adopted or professed as a guide to action, a settled ground or basis of conduct or practice.

Thus principles are general guidelines for action or conduct.

According to Robert N.Anthony and James S.Reece ―Accounting principles are man made. Unlike the principles of physics, chemistry and other natural sciences, accounting principles were not deducted from basic axioms, nor can they be verified by observation and experiment. Instead, they have evolved. Thus evolutionary process is going on constantly; accounting principles are not eternal truths.
According to Harry I Wolk, Michael G.Tearney, James L.Dodd 1accounting principles can be classified into
i) Input oriented principles which guide the recording of business transactions They are classified into underlying rules of operation and constructing principles.
ii) Output oriented principles are concerned with the preparation and presentation of financial statements.

Conventions
The term convention‘ includes those customs and traditions which guide the accountant while preparing the accounting statements. Conventions have their origin in the various accounting practices followed by the accountant. It is very difficult to trace the origin of the conventions and establish their authenticity as accounting principles. But by usage they have attained the status of accounting principles.
In this study the basic principles on which accounting is based are proposed to be classified into Accounting Concepts and‘ Accounting Conventions‘. All those basic assumptions or conditions upon which the science of accounting is based are grouped under accounting concepts .Those customs or traditions which guide the accountant while preparing the accounting statements are included under the head accounting conventions.

Accounting Concepts
1. Separate Entity Concept
2. Going Concern Concept
3. Money Measurement Concept
4. Cost Concept
5. Dual Aspect Concept
6. Periodic Matching of Cost and Revenue Concept
7. Realization Concept

Accounting Conventions
1. Convention of Conservatism
2. Convention of Full Disclosure

3. Convention of Consistency
4. Convention of Materiality.

a) Separate Entity Concept

In separate entity concept the business is treated as a separate entity from the owner even though statutes recognise no such distinct entity. In accounting the concept of separate entity is applicable in the case of all organisations. This concept is very much relevant in the case of sole proprietorship entities and partnerships. In the case of a company it is recognised as a separate entity by statutes as well as from the accounting point of view. The separate entity concept helps to keep the affairs of the business separate from that of the private affairs of the proprietor.

(b) Going Concern Concept

This concept assumes that the business will continue for a fairly long period of time in future. There is no need of forced sale of the assets of the entity. Otherwise every time the annual financial statements are prepared the probable losses on account of the possible sale of assets should be accounted. This would distort the operating result as revealed by the profit and loss account and the financial position depicted in the balance sheet. On the basis of this principle depreciation is charged on fixed assets on the basis of expected life rather than its market value and intangible assets are amortized over a period of time .The annual financial statements are considered to be interrelated series of statements.

(c) Money Measurement Concept

Money is the unit in which economic events affecting a business entity are measured. The money measurement concept implies that accounting could measure and report only those transactions and events which could be measured in terms of money. It cannot account for qualitative aspects like employee relations, competitive market, advantages of the entity over others etc. This concept imposes a restriction on the ability of the financial statements to present a correct picture of the entity as those events which are unable to be quantified in money terms are left out. Further the money as a unit of measurement is not stable. The variation in the value of money fails to present a correct picture of the operating results and financial position of the entity. Over a period of time the value of money fluctuates and even when we are employing the same unit of money the values represented by them are not equal. Thus money as a unit of measurement fails.

(d) Cost Concept

The basis on which assets are recorded in the books of accounts is the cost- that is the price paid to acquire them. Cost will form the basis of which further accounting will be done as regards the asset. No adjustment is made in the cost to reflect the market value of the asset. The cost concept does not imply that asset will always appear at cost in the balance sheet. It only means that cost will be the basis for further accounting treatment. The cost of the asset may be reduced gradually by the process of charging depreciation.
Further the cost concept means that if nothing is paid for the acquisition of an asset it cannot be shown as an asset in the books of account. Cost concept brings objectivity in the preparation and

presentation of financial statements. The assets appearing in the books should be based on objective evidence and not on the subjective view of the person who makes such statements or of some other person.
Paul Grady has observed the cost concept in the following words.
―Value as used in accounts signifies the amount at which an item is stated in accordance with the accounting principles related to that item. Using the word value in this sense, it may be said that balance sheet values generally represent cost to the accounting unit or some modifications thereof; but sometimes they are determined in other ways, as for instance on the basis of market values or cost of replacement, in which cases the basis should be indicated in financial statements. The word value should seldom if ever , be used in accounting statement without a qualifying objective.

(e) Dual Aspect Concept

The basic equation of accounting is
Assets = Equities
Or
Assets = Outsiders' Equity + Owners' Equity
Or
Assets = Liabilities + Capital
Every transaction affecting an entity has dual aspect on the accounting records. Both aspects are recorded in the books of accounts. Hence accounting is called double entry system'. The two aspects are expressed as debit' and credit .
In other words for every debit there is an equivalent credit'.
The term assets' denotes the resources owned by a business while equities denote the claims of various parties against the assets. Equities are two types -
i) Owners' Equity and
ii) Outsiders' Equity
Owners' equity otherwise called capital' denotes the claims of the owners against the assets of the entity where as outsiders' equity denotes the claims of creditors, debenture holders, lenders etc against the assets of the entity.
The dual aspect of transaction may result in

i) Increase of an asset and decrease of another asset.

ii) Increase of an asset and increase of a liability
iii) Decrease of an asset and decrease of a liability
iv) Decrease of an asset and decrease of a liability
v) Increase of a liability and decrease of another liability.
vi) Increase in a liability and increase of an asset.
vii) Decrease in liability and increase in another liability
viii) Decrease in liability and decrease of an asset.

(f) Accounting Period Concept

As per the going concern concept, the life of a business is indefinite. The actual working result of the entity and its real financial position could be ascertained only after a very long period of time. This will be of not much help to various interested parties who have to take decisions considering the operating results and financial position of the entity. In order to overcome these practical difficulties the life of an entity is divided into segments known as accounting period. Usually accounting period is a period of one year.

The accounting period concepts facilitate the preparation of income statement and statement of financial position at the end of each accounting year and ascertain the operating results (profit/loss) and the financial position of the entity. Only the income and expenses pertaining to the accounting period alone is considered for preparing the income statement distinguishing between capital‘ and revenue‘. Since the statement of financial position reflects all the transactions till the date of its preparation, all items not considered in the preparation of income statement should be considered in its preparation. The concept of annual financial reporting has arisen out of the accounting period concept.

(g) Periodic Matching of Cost and Revenue Concepts

The concept is based on the accounting period concept. The objective of maintaining accounts is to prepare the income statement to ascertain the profit/loss of the entity. In order to fulfill this objective the revenues‘of the period for which income statement is prepared should be matched with costs. ‘Matching‘ means the appropriate association of related revenues‘ and costs‘. Profit/loss could be ascertained only when the revenue earned during the period is compared with the expenditure incurred during the same period. Receipts and payments of cash is irrelevant. The right to receive revenue and liability to pay the expenses are the criteria. Actual receipt or payment may take place later on. On account of the periodic matching of costs and revenue concept , adjustment is made for all outstanding expenses ,income accrued, prepaid expenses and unearned income at the time of preparing the financial accounts at the end of the accounting period.

(h) Realization Concept

According to the realization concept revenue‘ should be recognised only when the entity is legally entitled to receive payment. The AICPA has defined revenue as Revenues results from the sale of goods and the rendering of services and is measured by the charge made to customers, clients or tenants of goods and services furnished to them. It also includes gains from the sale or exchange of assets other than stock in trade, interest and dividend earned on investments and other increase in owner‘s equity except those arising from capital contribution and capital adjustment .Revenue is sometimes described as operating revenue.

Thus revenue is an inflow of assets resulting from the sale of goods and rendering of services to the customers in the ordinary course of business. For the purpose of preparing the annual financial statements business entities have to recognise revenue. What is revenue recognition? It is the process of identifying the items of revenue receipts, which are to be considered for the matching of costs and revenues. When is revenue recognized? Under accrual system of accounting, revenue is recognized at the time of sale or rendering of services whether cash is received or not, provided that at the time of performance it is not unreasonable to expect ultimate collection.

The accounting conventions followed in the preparation of accounting statements are

(i) Conservatism

The rule of the accountant is _anticipate no profit but provide for all possible losses‘ at the time of recording the business transactions and preparation of annual financial statements. The accountant wants to be on the safer side by not taking some profits which may be received but which is not yet received and providing for losses which he thinks may happen but which has not yet happened. This is because he thinks the chances of non-receipt of anticipated profit and the incurring of losses anticipated are higher. If he is very optimistic regarding receipt of profits and non –incurring of losses, the financial statements may present a very rosy picture of the state of affairs of the entity which may not subsequently materialize. So he acts conservatively by not taking anticipated profits and but taking anticipated losses in the preparation of the financial statements.

Because of the convention of conservatism inventory is valued at lower of cost or market price and provision is made for bad and doubtful debts out of current year‗s profits. But reckless application of this convention may lead to creation of secret reserves‗ and the financial statements may fail to disclose a true and fair view of the state of affairs of the business.

(j) Materiality

The convention of materiality advocates that the accountant should give importance to transactions and events which are material in the preparation of accounts and presentation of financial statements. He should ignore those items in the recording of transactions and preparation of financial statements, items which are immaterial or not having much bearing in giving a true and fair view of the state of affairs of the entity. It is very difficult to fix a threshold limit in deciding materiality or non-materiality of events. It is left to the discretion and best judgments of the accountant to decide upon the materiality and non-materiality of events.

Materiality is dependent on the purpose for which reporting is being done. For example at the time of preparing the annual financial statements the accountant may ignore paise altogether and may even round of the figures to the nearest 10 rupees without affecting the true and fair view of the statement.

According to Kohler ―Materiality is the characteristic attaching to a statement, fact or item whereby its disclosure or method of giving it expression would be likely to influence the judgment of a reasonable person.

Accounting is designed by man with a set of objectives. AICPA (Inventory of Generally Accepted Principles for Business Enterprises) has observed ―The accounting principles cannot therefore be derived from or proven by the laws of nature. They are rather in the category of conventions or rules developed by man from experience to fulfill the essential and useful needs and purposes, in establishing reliable financial and operating information system to control business activities. In this respect they are similar to principles of commercial and other social disciplines.

(k) Consistency

According to the convention of consistency the accounting practices employed should be consistent, that is, applied without change in the coming periods also. In other words the practices should not be changed without sufficient reason. For example if stock is valued on the basis of ‗cost or market price whichever is lower‗ the same method should be employed year after year. If depreciation is charged on straight line method, the same method of computing depreciation should be used thereafter. Consistency of the methods employed should be maintained due to various reasons. First of all it will help the users to make comparative study of financial statements by employing methods of intra-firm and inter-firm comparison.

Again consistency increases the acceptability of the financial statements since the users are averse to frequent changes. Consistency should not be maintained at the cost of accounting development. There should be flexibility in the methods and practices employed. Otherwise it will stifle the growth of accounting thought. But full disclosure of the changes effected and its effect on the working results and financial statements of the business should be disclosed. This will help the users to ascertain the impact of the changes on the performance of the business.

(l) Full disclosures

The very purpose of accounting is to facilitate the preparation of the income statement and the statement of financial position so that the operating results of the entity and the financial position could be ascertained. This is done at periodic intervals usually on an annual basis. The business enterprise should provide through the financial statements all the relevant information required, so as to enable the external parties to make sound economic and investment decisions. Any information which is relevant and likely to influence the decision making process of the user should not be left out. This is more important in the case of joint stock companies since the members and outsiders have no access to the accounting records of the company and have to depend on the published annual financial statements to dig out information relating to the company. If full disclosure is not made the financial statements may present a distorted picture of the entity. In India the Companies Act 1956 prescribes the form in which the balance sheet should be presented, the items to be disclosed in the profit and loss account and the accounting policies followed by the entity etc with a view that the principle of full disclosure is followed.

Prin. K. P. Mangalvedhekar Institute of Management Career Development and Research.
156-B Railway Lines Solapur.

BBA I Sem I

Business Communication I

Compiled By : Miss. Neetta Kulkarni
(B.Com , MBA, PGDBA & G.D.C& A)

INTRODUCTION TO COMMUNICATION

Contents

- Meaning
- Objectives
- Importance of Communication and Process of Communication
- Essentials of Good communication
- Barriers to Communication
- Overcoming Communication Barriers

Meaning of Communication

The origin of the word “Communication” is “Communicare” or “Communis” which means “to impart”, “to participate”, “to share” or “to make common” . The sense of sharing is inherent in the very origin and meaning of “Communication”.

Definitions

According to Keith Davis:-

Communication is a process of passing information and understanding from one person to another.

According to John Adair:-

Communication is essentially the ability of one person to make contact with another and make himself or herself understood.

According to William Newman & Charles Summer :-

Communication is an exchange of ideas, facts, opinions or emotions of two or more persons.

According to Louis Allen:-

Communication is a bridge of meaning, It involves a systematic and continuous process of telling, listening and understanding.

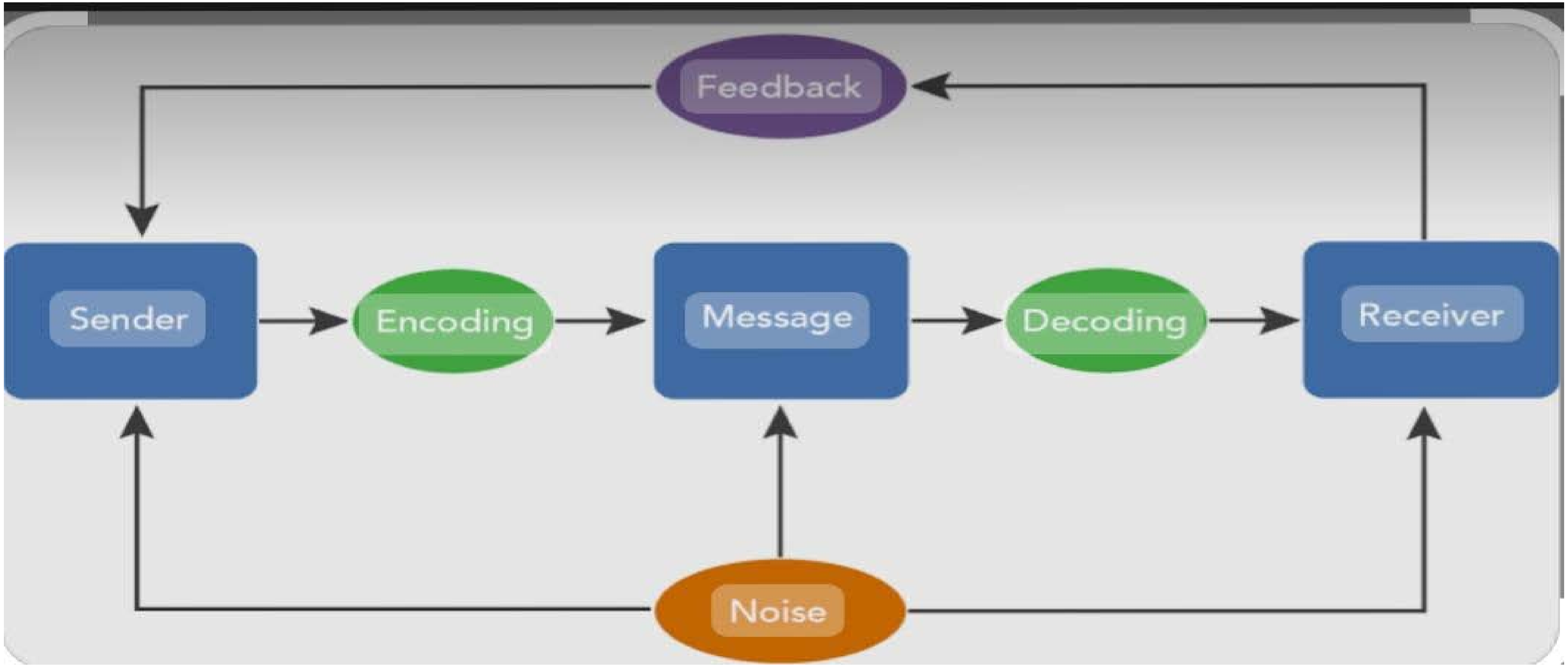
According to Peter Little :-

Communication is a process by which information transmitted between individuals and/or organizations so that an understanding response results.

According to Murphy, Hildebrandt, Thomas:-

Communication is a process of transmitting and receiving verbal and non-verbal message. It is considered effective when it achieves the desired response or reaction from the receiver.

Process of Communication



Process of Communication-

“The transmission of the sender’s ideas to the receiver and the receiver’s feedback or reaction to the sender constitute the communication process”. The main steps of this cycle are as follows:-

Input : The information or ideas the sender wants to give the receiver.

Channel : Letter, fax, phone call, electronic mail, etc.

Message : The actual message that is sent.

Output : The information the receiver gets.

Feedback : The receiver‘s response (or non-response) to the message.

Brain drain : The possibility of misunderstanding at any step (or breakdown).

Objectives of communication

1. Information
2. Education
3. Advice
4. Warning
5. Order
6. Raising morale
7. Suggestion
8. Motivation
9. Persuasion

Importance of Communication

1. Healthy organizational environment
2. Management – employee relations
3. The external and internal communication network
4. Functionalization
5. The complexity of business activities
6. Trade unions labour problems
7. Globalization & the language problem
8. Competition
9. Participation & delegation

Barriers of communication

- Physical Barriers –

1. Noise
2. Time & distance
3. Poor Timing

- Semantic Barriers –

1. Interpretation of words
2. Bypassed Instructions
3. Denotations & Connotations

- Socio –psychological Barriers Including cultural Barriers:-

1. Attitudes and opinions
2. Emotions
3. Cultural Diversity
4. Closed mind
5. Frame of Reference
6. Status – Consciousness
7. The source of communication
8. Inattentiveness
9. Conflicting Goals
10. Faculty transmission
11. Poor Relation
12. Unsolicited communication

Overcoming Barriers

- Plan your communication carefully
- Know the receiver
- Listen more; speak less
- Put yourself in other‘s shoes
- Take care of your tone
- Seek feedback and offer clarification

Thank You !!!

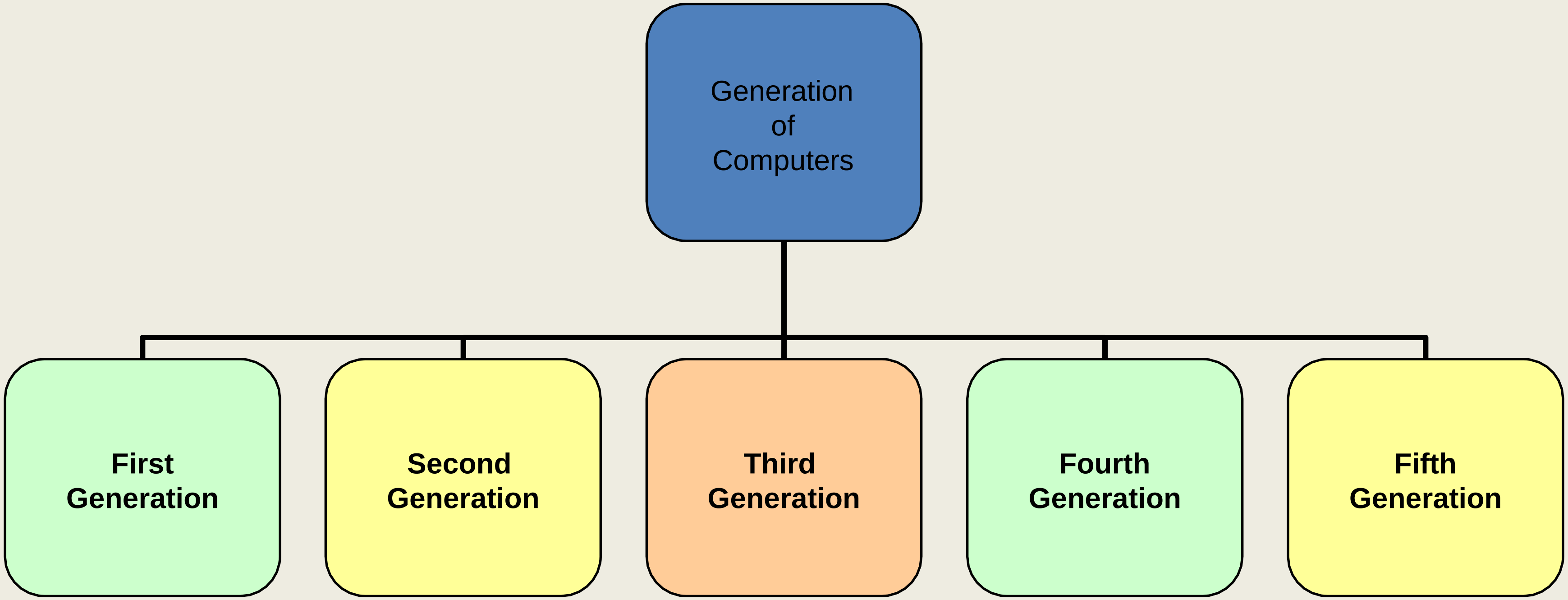
Any Queries

976609167/neettakulkarni@gmail.com

To understand the basic concept related to generations and types of Computer

Generation of Computers

Based on the characteristics of various computers developed from time to time, they are categorized as generation of computers.



First Generation Computers

Time Period : 1951 to 1959
Size : Very Large System

Technology : Vacuum Tubes
Processing : Very Slow

First Generation Computers

Characterized By:-
Magnetic Drums
•Magnetic Tapes
•Difficult to program
•Used machine language & assembly language

Second Generation Computers

Time Period : 1959 to 1964

Size : Smaller

Technology : Transistors

Processing : Faster

Second Generation Computers

Characterized By:-

- Magnetic Cores
- Magnetic Disk
- Used high level language
- Easier to program

Third Generation Computers

Time Period	: 1965 to 1971
Technology	: ICs (Integrated Circuits) Incorporated many transistors & electronic circuits on a single chip
Size	: Small as compared to 2nd generation computers
Processing	: Faster then 2nd generation computers

IC (Integrated Circuit)

Characterized by:-

•Minicomputers accessible by multiple users from remote terminals.

Fourth Generation Computers

Time Period : 1971 to Today
Technology : VLSI (Very Large Scale Integration)
Incorporated many millions of transistors & electronic circuits on a single chip
Size : Small as compared to first generation computer
Processing : Faster than first generation computer

Characterized by:
The personal computer and user friendly micro-programs, very fast processor chip high level language, OOP (Object Oriented Programming)

VLSI (Very Large Scale Integration)

Fifth Generation Computers

Time Period : Future Technology
Technology : AI (Artificial Intelligence)

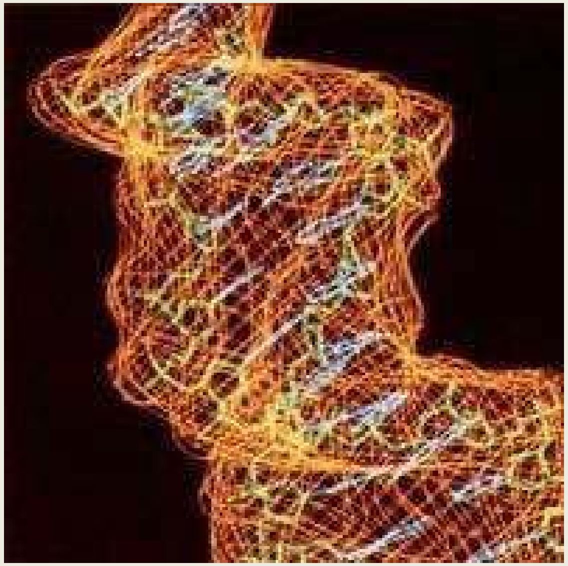
Fifth Generation Computer

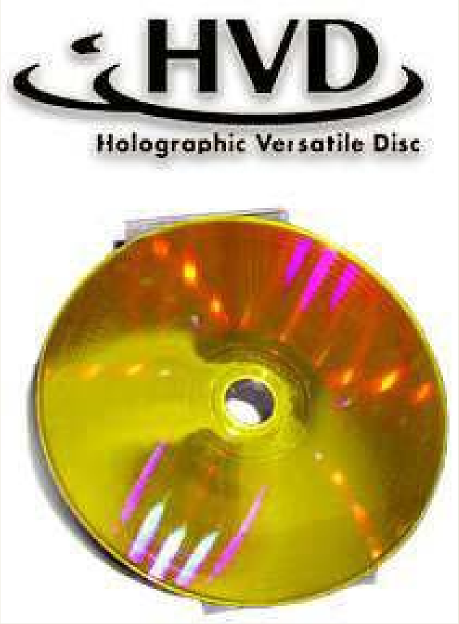
AI (Artificial Intelligence)

Next Generation Optical Disk

The following formats go beyond the current third-generation discs and have the potential to hold more than one terabyte (1TB) of data:

- Holographic Versatile Disc (3.9TB=850 DVDs)
- LS-R (Layer-Selection-Type Recordable Optical Disk)
- Protein-coated disc





Holographic Versatile Disc

- The Holographic Versatile Disc (HVD) is an optical disc technology still in the research stage which would hold up to 3.9 terabytes (TB) of which is information to around 850 DVDs.
- It was introduced in 2004.

Future of Touch Screen

The future of touch screen seems bright. A company named synaptics is developing a touch screen called 'ClearPad'. It is a thin, high resolution capacitive touch screen that can be placed on top of any display where a finger-touch is required. If this technology is mass-accepted then the need of mechanical keys will be eliminated.

Types of Computers

SUPER COMPUTERS

- Are the most powerful available. These computers are high capacity computers that run continuously and are being used by very big organizations mostly big corporations and government institutions. Users of super computers include NASA and US government, some big schools of companies.


NASA

Mainframe computers

- Are less powerful than super computers but are capable of great processing speed, multi tasking capability and high data storage. They are used by most banks to process information of depositors and millions of daily bank transactions. Insurance companies use them for their policy holders database. These computers have specialized wiring system and usually occupies a big room with temperature control.

Mid-range computers

- Are used for medium sized companies for specific purposes. They may be used for certain assembly line operations or manufacturing stages in big companies. The size of mini computers may be as a washing machine. It may be a stand alone system for specialized applications including network servers. They are also called minicomputers.

Microcomputers or desktop Computers

- Are the most common and widely used computer today. There are two types of microcomputers, they are the desktop computers and the notebook computer.
- Desktop computers are the common computer that you see in homes, schools, and in most businesses. They are small enough to be placed on a desk or table but are too big to be carried around.

- Notebook Computer – also known as laptop computers are portable, lightweight and are easy to carry around.

TABLET PERSONAL COMPUTER

- Is a fancy notebook that has a swivel design and can accept handwriting using a digital pen.

Today, laptop or notebook computers have evolved so that it comes in various sizes, shape and features.

Handheld computer

- Are the smallest computers that are designed to fit into one hand or palm that is why they are also called palm-top computers. These computers may combine pen input, personal organizer tools and communication capabilities such as telephone and internet applications.
- Personal digital assistants or PDAs are the most common palm-top or hand held computers available today. It is so because PDAs have all the features of a cell phone, organizer and some basic computers application into one. And in some cases, it even includes camera, audio and video capabilities.

References

1. Computer Fundamental- P. K. Sinha
2. www.tutorialspoint.com

Prin. K. P. Mangalvedhekar Institute of Management Career Development and Research.
156-B Railway Lines Solapur.

BBA II – Sem -III

Entrepreneurship Development & SME I

Compiled By : Miss. Neetta Kulkarni
(B.Com , MBA, PGDBA & G.D.C& A)

Chapter No. 1

Introduction to Entrepreneurship

Learning Objectives

- Students will understand the nature of entrepreneurship.
- Students will understand the function of the entrepreneur in the successful, commercial application of innovations.
- Students will confirm an entrepreneurial business idea.
- Students will identify personal attributes that enable best use of entrepreneurial opportunities.

Meaning & Definition of Entreperneur

- The Word 'Entrepreneur' has been taken from the French Language Enterprendre where it cradled literally means " between-taker" and "go-between" i.e., " to undertake' and meant to designate an organizer of musical or other entertainments.
- A person who sets up a business or businesses, taking on financial risks in the hope of profit.
- The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of **entrepreneurship** is the starting of new businesses.

Definition of Entreperneur

- 1.According to Collins Cobuild English Dictionary, 1987 ,An entrepreneur is a person who sets up business deals in order to make a profit."
- 2. Richard Cantillon says, "All persons engaged in economic activity are entrepreneurs"
- 3. J. A. Schumpter is of the view that, "A person who introduces innovative changes is an entrepreneur and he is an integral part of economic growth."
- 4. According to Webster, "Entrepreneur is one who assumes risk and management of business."

Characteristics of Entrepreneur

- Hard Work
- Business Acumen and Sincerity
- Prudence
- Achievement Motivation
- Self-reliance and Independence
- Highly Optimistic
- Keen Foresight
- Planning and Organizing Ability
- Innovativeness
- Risk Taking
- High Level of Energy
- Maintenance of Public Relation
- Communication Skill

Characteristics of Entrepreneur

- **1.Hard Work:** A successful entrepreneur is one who is willing to work hard from the very beginning of his enterprise. An entrepreneur with his tenacity and hard work and pervasive perseverance can revive his business even from the verge of collapse.
- **2. Business Acumen and Sincerity:** Business acumen stands for shrewdness and ability. Again, the success of an enterprise depends upon the sincerity of the people behind the enterprise. If a person is sincere about his venture, he will move heaven and earth to make it a success.
- **3. Prudence**: A successful entrepreneur must be prudent in all his dealings. He should have the ability to work out the details of the venture from all angles, assess the favourable factors and pitfalls and take suitable measures to overcome the pitfalls.

Conti…………

- **4. Achievement Motivation:** The achievement motivation is the most important characteristic of an entrepreneur since all other characteristics emanate from this motivation. He must have a strong desire to achieve high goals in business. In fact, this achievement motivation helps him to surmount the obstacles, suppress anxieties, repair misfortunes and devise plans for success.
- **5. Self-reliance and Independence:** A successful entrepreneur wants to follow his own routine policies and procedures and he does not like to be guided by others. He is found to be self-reliant by acting as his own master and making him responsible for all his decisions. He does not like to work for others.
- **6. Highly Optimistic:** Successful entrepreneur is always optimistic about his future and he is never disturbed by the present problems. He always expects a favorable situation for his business and hence, he is able to run his business successfully in the midst of temporary hurdles. He does not allow the past to obsess him.

Conti…………

- **7. Keen Foresight**: An entrepreneur must have keen foresight to predict the future business environment. He has the capacity to visualise the likely changes to take place in the market, customer’s attitude, technological developments, Government’s policy, etc., and take timely actions accordingly.
- **8. Planning and Organising Ability**: An entrepreneur is a firm believer in planning and systematic work. Above all, he must have the ability to bring together all scattered resources required for starting a new venture.
- **9. Innovativeness:** When all is said and done, innovation becomes a different task. One should be always innovative to satisfy the varying demands of customers. For this purpose, the entrepreneur should initiate research and innovative activities to produce new goods and services. It is a never ending process.

Conti…………

- **10. Risk Taking:** An entrepreneur is not a gambler and hence, he should not assume high risk. However, he must love a moderate risk situation, high enough to be exciting, but with a fairly reasonable chance to win.
- **11. High Level of Energy:** Entrepreneurs are more energetic than the average person. That energy may be a critical factor, given the incredible effort required to start a company. Long hours and hardwork are the rule rather than the exception.

Conti…………

- **12. Maintenance of Public Relations**: The extent of maintenance of public relations or human relations has a vital role to play on the success or failure of an entrepreneur. A successful entrepreneur must have cordial relations with his customers to gain their continued patronage and support. He must also maintain good relations with his employees with a view to motivating them to higher levels of 4 Entrepreneurship Development efficiency. Similarly, he must maintain good relations with his suppliers, creditors and the community at large so that he may succeed in his venture.
- **13. Communication Skill:** Communication skill is the secret of the success of most entrepreneurs. Good communication skill enables them to put their points across effectively and with clarity and thereby, helps them to win customers.

Difference Between Entrepreneur And Intrapreneur

Bases of Difference	Entrepreneur	Intrapreneur
1. Dependency	An Entrepreneur is independent in his operations	But, An Intrapreneur is dependent on the entrepreneur, i.e the owner.
2. Raising of Funds	An Entrepreneur himself raises funds required for the enterprise.	Funds are not raised by the intrapreneur.
3. Risk	Entrepreneur bears the risk involved in the business.	An Intrapreneur does not fully bear the risk involved in the enterprise.
4. Operation	An Entrepreneur operates from out-side.	On the contrary, an intrapreneur operates from within the organisation itself.

Distinction between An Entrepreneur and A Manager

Bases of Difference	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture by setting up an enterprise. He understands the venture for the personal gratification.	But, the main motive of a manager is to render his services in an enterprise already set up by someone else i.e., entrepreneur.
2.Status	An Entrepreneur is the owner of the enterprise.	A Manager is the servant in the enterprise owned by the entrepreneur.
3. Risk Bearing	An Entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in the running the enterprise.	A Manager gets salary as reward for the services rendered by him in the enterprise. Salary of a manager is certain and fixed.

Conti………

4. Rewards	**The reward an entrepreneur gets for bearing risks involved in the enterprise is profit which is highly uncertain.**	**A Manager gets salary as reward for the services rendered by him in the enterprise. Salary of a manager is certain and fixed.**
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing demands of the customers. Hence, he acts as an innovator also called a change agent'.	But, what a manager does is simply toe execute the plans prepared by the entrepreneur. Thus, a manager simply translates the entrepreneur's ideas into practice.
6.Qualifications	An Entrepreneur need to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk bearing ability and so on.	On the contrary, a manger needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

Meaning of Entrepreneurship

- Having Studied the term ‘entrepreneur’, it is equally important to devote our attention to the term ‘entrepreneurship’ as well. Though these two terms are two sides of the same coin, conceptually they are different. While ‘entrepreneur’ refers to a person, ‘entrepreneurship’ refers to the function. Basically entrepreneur is a business leader and the functions performed by him in relation to that business entrepreneurship.

The relationship between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship
Person	Function/Process
Organiser	Organisation
Innovator	Innovation
Motivator	Motivation
Leader	Leadership
Creator	Creation
Risk bearer	Risk bearing
Initiator	Initiative
Visualiser	Vision
Technician	Technology
Administrator	Administration

Definition of Entrepreneurship

- According to Schumpter, “Entrepreneurship is based on purposeful and systematic innovation.”

- In the words of McClelland, “Entrepreneurship involves doing things in a new and better way. It calls for decision making under uncertainty. If there is no significant uncertainty and the action involves applying known and predictable results, then entrepreneurship is not at all involved.”

Factors Affecting Entrepreneurship Growth

- 1. Economic Factors
- 2. Social Factors
- 3. Cultural Factors
- 4. Personality Factors
- 5. Psychological and Sociological Factors

- 1. Economic Factors

i) Lack of Adequate Basic Facilities
ii) Non-availability of Capital
iii) Non-availability of Raw Materials and Finished Goods
iv) Greater Risks Involved in Business
v) Non-availability of Skilled Labour

- 2. Social Factors

- i) Customs and Traditions
- ii) Rationality of the Society
- iii) Social System
- iv) Social Set-up

3. Cultural Factors

4. Personality Factors

i) Suspect Personality

ii) Emergence of Planning

- 5. Psychological and Sociological Factors

- i) According to McClelland, “need achievement” motive induces entrepreneurship. This is confirmed by Paul Wilken who says, “entrepreneurship becomes the link between need achievement and econocmic growth.’’
- ii) This need achievement is influenced not only by social and cultural factors, but also by parental incluence.

Role of Entrepreneurship in economic Development

- **1. Wealth Creation and Sharing:** By establishing the business entity, entrepreneurs invest their own resources and attract capital (in the form of debt, equity, etc.) from investors, lenders and the public.
- **2. Create Jobs:** Entrepreneurs are by nature and definition job creators, as opposed to job seekers.
- **3. Balanced Regional Development:** Entrepreneurs setting up new businesses and industrial units help with regional development by locating in less developed and backward areas.

- **4. GDP and Per Capita Income:** India’s MSME sector, comprised of 36 million units that provide employment for more than 80 million people, now accounts for over 37% of the country’s GDP.

- **5. Standard of Living:** Increase in the standard of living of people in a community is yet another key goal of economic development. Entrepreneurs again play a key role in increasing the standard of living in a community.

- **6. Exports:** Any growing business will eventually want to get started with exports to expand their business to foreign markets. This is an important ingredient of economic development since it provides access to bigger markets, and leads to currency inflows and access to the latest cutting-edge technologies and processes being used in more developed foreign markets.
- **7. Community Development:** Economic development doesn't always translate into community development. Community development requires infrastructure for education and training, healthcare, and other public services. For example, you need highly educated and skilled workers in a community to attract new businesses.

Types/Classification of Entrepreneur

1. Based on Types of Business
2. Based on Use of Technology
3. Based on Ownership
4. Based on Gender
5. Based on Size
6. Based on Clarence Danhof Classification

- **Based on Types of Business**

1. Trading Entrepreneur
2. Manufacturing Entrepreneur
3. Agricultural Entrepreneur

- **Based on Use of Technology**

1. Technical Entrepreneur
2. Non-Technical Entrepreneur

- **Based on Ownership**

1. Private Entrepreneur
2. State Entrepreneur
3. Joint Entrepreneur

- **Based on Gender**

1. Men Entrepreneur
2. Women Entrepreneur

- **Based on Size**

1. Small Scale Entrepreneur
2. Medium Scale Entrepreneur
3. Large Scale Entrepreneur

- **Based on Clarence Danhof Classification**

1. Innovating Entrepreneurs
2. Imitative Entrepreneurs
3. Fabian Entrepreneurs
4. Drone Entrepreneurs

Thank You !!!

Any Queries

976609167/neettakukarni@gmail.com

S.P. Mandali Pune
Prin. K. P. Mangalvedhekar Institute of Management Career Development and Research.

156-B Railway Lines Solapur
Affilated PAH Solapur University
.

Name of Faculty . Mr Santosh Kulkarni

Subject IT in MGT

Programme:- BBAII Sem III

Operating Systems & Software

- An operating system acts as an intermediary between the user of a computer and computer hardware. The purpose of an operating system is to provide an environment in which a user can execute programs in a convenient and efficient manner.

- An operating system is a software that manages the computer hardware. The hardware must provide appropriate mechanisms to ensure the correct operation of the computer system and to prevent user programs from interfering with the proper operation of the system.

- **Operating System –** Definition:

- An operating system is a program that controls the execution of application programs and acts as an interface between the user of a computer and the computer hardware.

- A more common definition is that the operating system is the one program running at all times on the computer (usually called the kernel), with all else being application programs.

- An operating system is concerned with the allocation of resources and services, such as memory, processors, devices, and information. The operating system correspondingly includes programs to manage these resources, such as a traffic controller, a scheduler, memory management module, I/O programs, and a file system.

- Examples of Operating System are –

- Windows (GUI based, PC)

- GNU/Linux (Personal, Workstations, ISP, File and print server, Three-tier client/Server)

- macOS (Macintosh), used for Apple's personal computers and work stations (MacBook, iMac).

- Android (Google's Operating System for smartphones/tablets/smartwatches)

- iOS (Apple's OS for iPhone, iPad and iPod Touch)

Functions Of Operating System

- An Operating System (OS) is an interface between a computer user and computer hardware. An operating system is a software which performs all the basic tasks like file management, memory management, process management, handling input and output, and controlling peripheral devices such as disk drives and printers.

- Some popular Operating Systems include Linux Operating System, Windows Operating System, VMS, OS/400, AIX, z/OS, etc.
- Following are some of important functions of an operating System.
- Memory Management
- Processor Management
- Device Management
- File Management
- Security Memory

Management

- Memory management refers to management of Primary Memory or Main Memory. Main memory is a large array of words or bytes where each word or byte has its own address.
- Main memory provides a fast storage that can be accessed directly by the CPU. For a program to be executed, it must in the main memory. An Operating System does the following activities for memory management –
- Keeps tracks of primary memory, i.e., what part of it are in use by whom, what part are not in use.
- Processor Management
- In multiprogramming, the OS decides which process will get memory when and how much.
- Allocates the memory when a process requests it to do so.
- De-allocates the memory when a process no longer needs it or has been terminated.
- In multiprogramming environment, the OS decides which process gets the processor when and for how much time. This function is called **process scheduling**. An Operating System does the following activities for processor management –
- Keeps tracks of processor and status of process. The program responsible for this task is known as **traffic controller**.
- Allocates the processor (CPU) to a process.
- De-allocates processor when a process is no longer required.

Device Management

- An Operating System manages device communication via their respective drivers. It does the following activities for device management −
- Keeps tracks of all devices. Program responsible for this task is known as the **I/O controller**.
- Decides which process gets the device when and for how much time.
- Allocates the device in the efficient way.
- De-allocates devices.

Other Important Activities

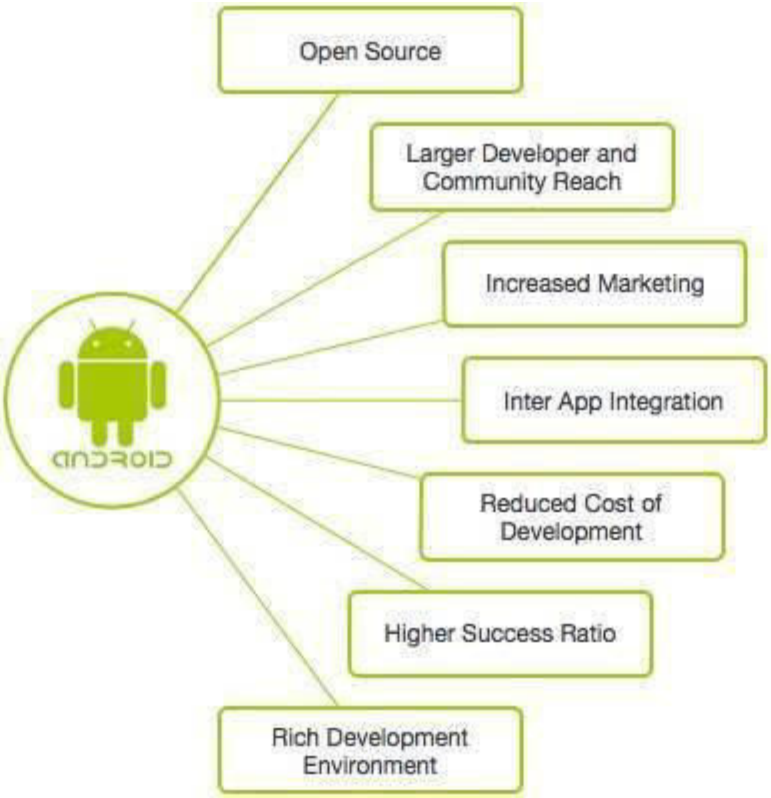
- Following are some of the important activities that an Operating System performs −
- **Security** − By means of password and similar other techniques, it prevents unauthorized access to programs and data.
- **Control over system performance** − Recording delays between request for a service and response from the system.
- **Job accounting** − Keeping track of time and resources used by various jobs and users.
- **Error detecting aids** − Production of dumps, traces, error messages, and other debugging and error detecting aids.
- **Coordination between other softwares and users** − Coordination and assignment of compilers, interpreters, assemblers and other software to the various users of the computer systems.

Introduction to Android Operating System

- What is Android?
-

  Android is an open source and Linux-based **Operating System** for mobile devices such as smartphones and tablet computers. Android was developed by the *Open Handset Alliance*, led by Google, and other companies.
- Android offers a unified approach to application development for mobile devices which means developers need only develop for Android, and their applications should be able to run on different devices powered by Android.
- The first beta version of the Android Software Development Kit (SDK) was released by Google in 2007 where as the first commercial version, Android 1.0, was released in September 2008.
- On June 27, 2012, at the Google I/O conference, Google announced the next Android version, 4.1 **Jelly Bean**. Jelly Bean is an incremental update, with the primary aim of improving the user interface, both in terms of functionality and performance.

- The source code for Android is available under free and open source software licenses. Google publishes most of the code under the Apache License version 2.0 and the rest, Linux kernel changes, under the GNU General Public License version 2.



- Features of Android
- Android is a powerful operating system competing with Apple 4GS and supports great features. Few of them are listed below –
- Sr.No.Feature & Description1**Beautiful UI**
- Android OS basic screen provides a beautiful and intuitive user interface.
- 2**Connectivity**
- GSM/EDGE, IDEN, CDMA, EV-DO, UMTS, Bluetooth, Wi-Fi, LTE, NFC and WiMAX.
- 3**Storage**
- SQLite, a lightweight relational database, is used for data storage purposes.
- 4**Media support**

- H.263, H.264, MPEG-4 SP, AMR, AMR-WB, AAC, HE-AAC, AAC 5.1, MP3, MIDI, Ogg Vorbis, WAV, JPEG, PNG, GIF, and BMP.
- 5**Messaging**
- SMS and MMS
- 6**Web browser**
- Based on the open-source WebKit layout engine, coupled with Chrome's V8 JavaScript engine supporting HTML5 and CSS3.
- 7**Multi-touch**
- Android has native support for multi-touch which was initially made available in handsets such as the HTC Hero.
- 8**Multi-tasking**
- User can jump from one task to another and same time various application can run simultaneously.
- 9**Resizable widgets**
- Widgets are resizable, so users can expand them to show more content or shrink them to save space.
- 10**Multi-Language**
- Supports single direction and bi-directional text.
- 11**GCM**
- Google Cloud Messaging (GCM) is a service that lets developers send short message data to their users on Android devices, without needing a proprietary sync solution.
- 12**Wi-Fi Direct**
- A technology that lets apps discover and pair directly, over a high-bandwidth peer-to-peer connection.
- 13**Android Beam**
- A popular NFC-based technology that lets users instantly share, just by touching two NFC-enabled phones together.

- Android Applications

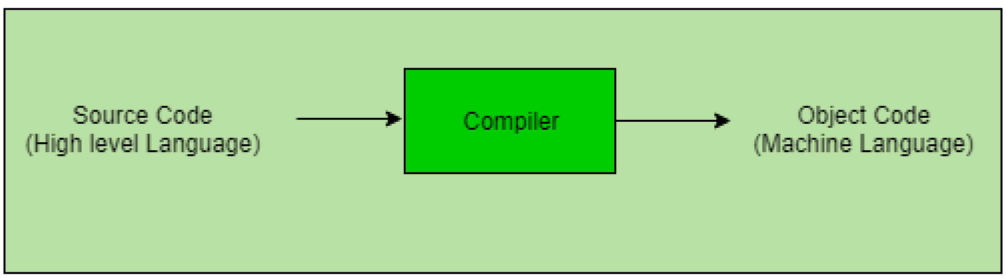
- Android applications are usually developed in the Java language using the Android Software Development Kit.
- Once developed, Android applications can be packaged easily and sold out either through a store such as **Google Play**, **SlideME**, **Opera Mobile Store**, **Mobango**, **F-droid** and the **Amazon Appstore**.
- Android powers hundreds of millions of mobile devices in more than 190 countries around the world. It's the largest installed base of any mobile platform and growing fast. Every day more than 1 million new Android devices are activated worldwide.
- This tutorial has been written with an aim to teach you how to develop and package Android application. We will start from environment setup for Android application programming and then drill down to look into various aspects of Android applications.

Translator: Compiler and Interpreter

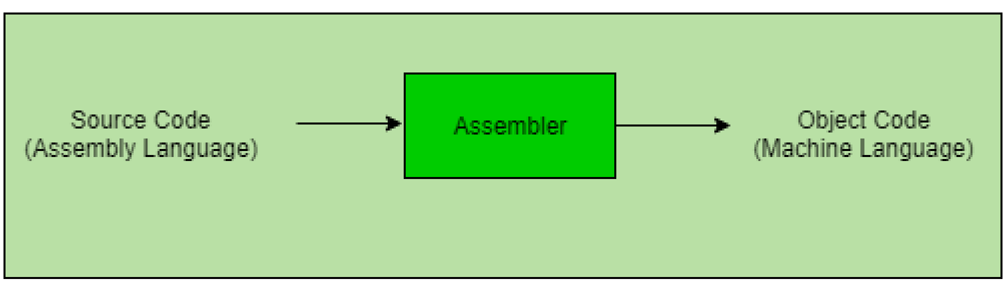
- **Language Processors –**
  Assembly language is machine dependent yet mnemonics that are being used to represent instructions in it are not directly understandable by machine and high Level language is machine independent. A computer understands instructions in machine code, i.e. in the form of 0s and 1s. It is a tedious task to write a computer program directly in machine code. The programs are written mostly in high level languages like Java, C++, Python etc. and are called **source code**. These source code cannot be executed directly by the computer and must be converted into

machine language to be executed. Hence, a special translator system software is used to translate the program written in high-level language into machine code is called **Language Processor** and the program after translated into machine code (object program / object code).

- The language processors can be any of the following three types:
- **Compiler –**
  The language processor that reads the complete source program written in high level language as a whole in one go and translates it into an equivalent program in machine language is called as a Compiler.
  Example: C, C++, C#, JavaIn a compiler, the source code is translated to object code successfully if it is free of errors. The compiler specifies the errors at the end of compilation with line numbers when there are any errors in the source code. The errors must be removed before the compiler can successfully recompile the source code again.>

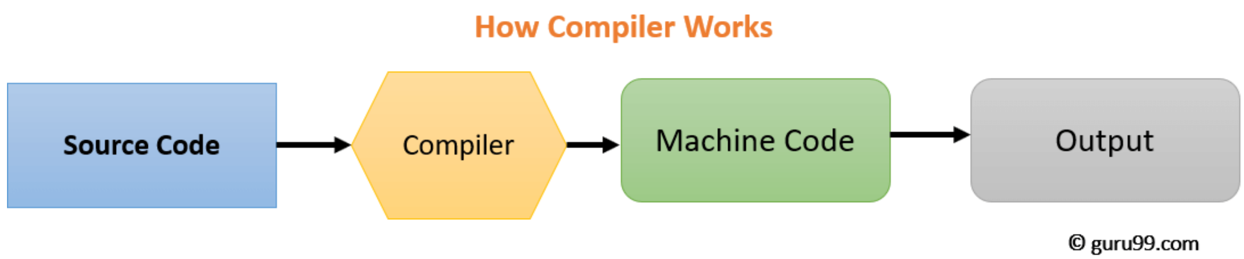


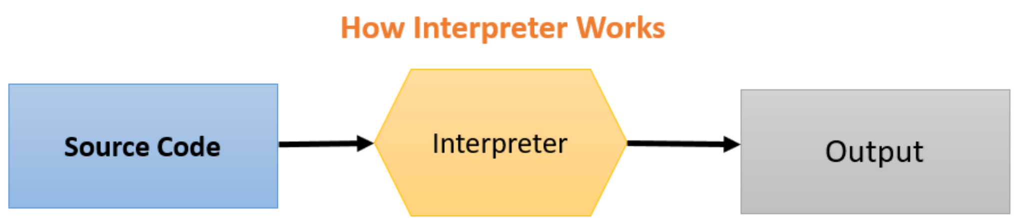
- **Assembler –**
  The Assembler is used to translate the program written in Assembly language into machine code. The source program is a input of assembler that contains assembly language instructions. The output generated by assembler is the object code or machine code understandable by the computer.



Interpreter

- The translation of single statement of source program into machine code is done by language processor and executes it immediately before moving on to the next line is called an interpreter. If there is an error in the statement, the interpreter terminates its translating process at that statement and displays an error message. The interpreter moves on to the next line for execution only after removal of the error. An Interpreter directly executes instructions written in a programming or scripting language without previously converting them to an object code or machine code.





Thank You !!!

Any Queries

9420779969/kulkarnisantosh5273@gmail.com

S P Mandali ,Pune -30
Prin.K P Mangalvedhekar Institute of Management Career Development and Research,Solapur
Affiliated to Punyashlok Ahilyadevi Holkar Solapur University

BBA II SEM III
2022-23

Subject-Foundation of Human skill I

Compiled by -Faculty Mrs Anjali Pawar

FHS I

BASICS SOFT SKILLS

Introduction

Today, organizations are placing greater importance on soft skills in the workplace and people competence. More organizations are reprioritizing and focusing more training and resources on soft skills. Many senior leaders tell us that today effective soft skills take priority over hard skills. Soft skills are about exercising influence and building trust with others. Organizations have doubled down on soft skills development and training. This effort has a significant impact on retention and turnover. There is no doubt soft skills have become just as important as technical knowledge in the workplace.

Importance of Soft Skills

Most interactions with other people require some level of soft skills. At a company you might be negotiating to win a new contract, presenting your new idea to colleagues, networking for a new job, and so on. We use soft skills everyday at work and developing these soft skills will help you win more business and accelerate your career progression.

On the other hand, a lack of soft skills can limit your potential, or even be the downfall of your business. By developing strong leadership, delegation, teamwork, and communication abilities, you can run projects more smoothly, deliver results that please everyone, and even positively influence your personal life by improving how you interact with others.

Outside of the office, soft skills such as communication are used to build friendship groups and meet potential partners. Soft skills are useful both in our professional and personal lives.

Attributes of soft skills

Employers are now looking for people who can do more than just perform a set of tasks. Employers are increasingly searching for more than a qualification and highlighting soft skills can put at a considerable advantage over similarly qualified candidates.

1 **Interpersonal skills** -
Interpersonal skills of an individual are traits that include communication, confidence in interacting with others, problem solving, decision making and personal stress management. Being the most technical person in your field is not always enough to succeed unless you have the ability to convince others that what you are doing is important.Strong interpersonal skill makes a person successful in personal and professional life.

2. Communication Skills-

Communication Skills are very important to everyone and it is the most important soft skill that needs to be taken care of. It tells about how one sends and receives information, ideas, opinion and how one conveys their own thought process. It is very important to communicate with others so that they rightly understand what we are trying to tell them and also understand what others want to say or communicate to us.Effective communication, for example, is a key soft skill many employers seek. Some others include dependability, effective teamwork and active listening.

3. **Time Management** -

Time management play a crucial factor in any work environment also in life. A proper planning helps in proper execution. Every individual should be self disciplined when it comes to time management. Basic principles of time management may include preparing a charter of the work that needs to be performed, direct the effort towards completing the work at hand in time, reduction of time wastage. Some of the menaceof ineffective time management includes poor prioritization, failing to clarify what is required, underestimating the effort (time required to complete the task etc. It is very important to manage time in one’s personal and professional life. Upon managing timeefficiently one would have enough or sufficient time to take up other tasks. Time management involves planning, organization, implementing and controlling.

4. Team Work -

A Team or group is essential to complete any task. Be it in a sports field or work place,a good team with great teamwork can create wonders. They would succeed in many of the work taken up. Like in a team sport wherein the bonding of the team and teamwork plays crucial part in winning any game, the same applies to work place and also in personal life. A good team would work in coordination towards a common goal and help each other whenever required. One member of the team would put in extra effort and help another team member when wanted. It is an important trait expected in eachone of us. One should have the ability to work in a team.

5. Negotiation Skill-

Negotiation involves two or more people finding an acceptable solution to a shared problem. Successful negotiators control the process, and come away with a result they're satisfied with – whether or not they've made compromises along the way. Negotiation is a method by which people settle differences. It is a process by which compromise or agreement is reached while avoiding argument and dispute.

In any disagreement, individuals understandably aim to achieve the best possible outcome for their position (or perhaps an organisation they represent). However, the principles of fairness, seeking mutual benefit and maintaining a relationship are the keys to a successful outcome.

Negotiation skills can be of great benefit in resolving any differences that arise between you and others,Good negotiation skills will help you at each stage and age of your life, not only within the office walls but also beyond.

Being a good negotiator allows you to build, maintain, and improve relationships, which is a very important part of being a successful team leader.

6. Stress Management -

Stress management consists of making changes to your life if you are in a constant stressful situation, preventing stress by practicing self-care and relaxation and managing your response to stressful situations when they do occur.

In the process of stress management, it is our skill to find the source from where the stress begins; in order to prevent the stress from occurring at the outset, we should follow some strategies. But the strategies of stress management varies from person to person based on individual’s stressors.

There are various stress management techniques that can implement to handle the stress effectively. Some approaches that address stress physically and psychologically and helps to develop the skill ofresilience.

<u>Practicing Soft skills-</u>

We must know to put your soft skills into use and get the most out of them.

1. Have a positive attitude-

We have all heard that it is better to see the glass half full instead of half empty.And inthe workplace,that type of positive thinking can go a long way.An overall positive outlook leads to an overall positive attitude,and that can be a valuable asset in the work environment.The key to having a positive attitude is in how you tackle obstaclesand challenges that come your way.

2. Be a team player-

Employers love an employee who displays the ability to work well in groups and teams.Being a team player means not only being cooperative,but also displaying strong leadership ability when it is appropriate.When a conflict arises within your team,take the initiative to mediate.

3. Communicate effectively-

Good communication skills are essential to someone's job performance.Communication is what allows you to build /bridges with co- workers,persuade others your ideas and express your needs.

Many small things you already do-things you probably don't even think about-have a big impact on your communication skills.

4. Exude confidence-

In almost every situation where you are trying to impress another person,confidence is the key.While it is important to accept your limitations and act humble when you receive praise,it is also important to acknowledge your strengths.If you act confidently in some of your job responsibilities make sure that it is based on genuine and positivereinforcement.

5. Develop creative skills-

Creativity and imaginative thinking are valued in any job.Even the most technical positions require the ability to think outside the box.So never underestimate the power of innovative problem solving.

6. Accept and learn from crictism-

This is one of the most challenging soft skills ,which is why its typically one of the most impressive to employers.your ability to handle to handle criticism says a lot about about your willingness to improve.

S P Mandali ,Pune -30
Prin.K P Mangalvedhekar Institute of Management Career Development and Research,Solapur
Affiliated to Punyashlok Ahilyadevi Holkar Solapur University

BBA II SEM IV
2022-23

Subject-Foundation of Human skill II

Compiled by -Faculty Mrs Anjali Pawar

FHS II

Group Behaviour and Teams

People may underestimate the importance of society and group memberships on their lives. Whilst people sometimes undertake solo journeys yet by and large much of ourexperiences of life involves being engaged with others and groups.

Within an organization we do find number of groups. Individuals joining group (s) is areality – may be formal or informal groups. People work in groups quite frequently and in many different areas of their life e.g. at work, school/college, sport, hobbies. The managers need to understand Group Dynamics that can enable managers to adopt the right approach of interacting with them.

What is Group Dynamics?

Group dynamics deals with the attitudes and behavioral patterns of a group. Group dynamics concern how groups are formed, what is their structure and which processes are followed in their functioning. Thus, it is concerned with the interactions and forces operating between groups.

What is A Group?

Every organization is a group unto itself. A group refers to two or more people who share a common meaning and evaluation of themselves and come together to achievecommon goals. In other words, a group is a collection of people who interact with oneanother; accept rights and obligations as members and who share a common identity.

Characteristics of a Group:

Regardless of the size or the purpose, every group has similar characteristics:

(a) 2 or more persons

(b) Formal social structure

(c) Common fate

(d) Common goals

(e) Face-to-face interaction

(f) Interdependence

(g) Self-definition as group members

(h) Recognition by others

Stages of Group Development

Group Development is a dynamic process. How do groups evolve? There is a process of five stages through which groups pass through. The process includes the five stages: forming, storming, forming, performing, and adjourning.

Forming:

The first stage in the life of a group is concerned with forming a group. This stage is characterized by members seeking either a work assignment (in a formal group) or other benefit, like status, affiliation, power, etc. (in an informal group). Members at this stage either engage in busy type of activity or show apathy.

Storming:

The next stage in this group is marked by the formation of dyads and triads. Members seek out familiar or similar individuals and begin a deeper sharing of self. Continued attention to the subgroup creates a differentiation in the group and tensions across the dyads / triads may appear. Pairing is a common phenomenon. There will be conflict about controlling the group.

Norming:

The third stage of group development is marked by a more serious concern about task performance. The dyads/triads begin to open up and seek out other members in the group. Efforts are made to establish various norms for task performance.

Members begin to take greater responsibility for their own group and relationship while the authority figure becomes relaxed. Once this stage is complete, a clear picture will emerge about hierarchy of leadership. The norming stage is over with the solidification of the group structure and a sense of group identity and camaraderie.

Performing:

This is a stage of a fully functional group where members see themselves as a group and get involved in the task. Each person makes a contribution and the authority figure is also seen as a part of the group. Group norms are followed and collective pressure is exerted to ensure the Process of Group effectiveness of the group.

The group may redefine its goals Development in the light of information from the outside environment and show an autonomous will to pursue those goals. The long- term viability of the group is established and nurtured.

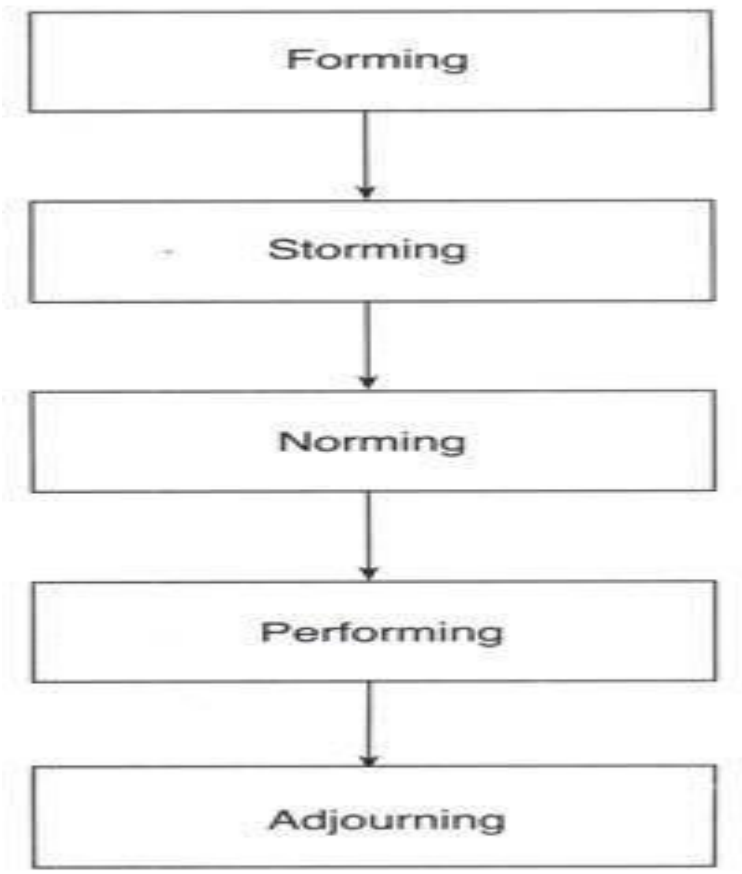


Figure 12.1 : Process of Group Deveopment

Adjourning:

In the case of temporary groups, like project team, task force, or any other such group,which have a limited task at hand, also have a fifth stage, This is known as adjourning.

The group decides to disband. Some members may feel happy over the performance,and some may be unhappy over the stoppage of meeting with group members. Adjourning may also be referred to as mourning, i.e. mourning the adjournment of thegroup.

The readers must note that the four stages of group development mentioned above for permanent groups are merely suggestive. In reality, several stages may go on simultaneously.

Types of Groups:

One way to classify the groups is by way of formality – **formal and informal**.

While formal groups are established by an organization to achieve its goals, informal groups merge spontaneously.

Formal groups may take the form of command groups, task groups, andfunctional groups.

1. Command Groups:

Command groups are specified by the organizational chart and often consist of a supervisor and the subordinates that report to that supervisor. An example of a command group is a market research firm CEO and the research associates under him.

2. Task Groups:

Task groups consist of people who work together to achieve a common task. Members are brought together to accomplish a narrow range of goals within a specified time period. Task groups are also commonly referred to as task forces. The organization appoints members and assigns the goals and tasks to be accomplished.

Examples of assigned tasks are the development of a new product, the improvement of a production process, or designing the syllabus under semester system.

Other common task groups are ad hoc committees, project groups, and standing committees. Ad hoc committees are temporary groups created to resolve a specific complaint or develop a process are normally disbanded after the group completes theassigned task.

3. Functional Groups:

A functional group is created by the organization to accomplish specific goals within an unspecified time frame. Functional groups remain in existence after achievement of current goals and objectives. Examples of functional groups would be a marketing department, a customer service department, or an accounting department.

In contrast to formal groups, informal groups are formed naturally and in response to the common interests and shared values of individuals. They are created for purposesother than the accomplishment of organizational goals and do not have a specified time frame. Informal groups are not appointed by the organization and members can invite others to join from time to time.

Informal groups can have a strong influence in organizations that can either be positive or negative. For example, employees who form an informal group can either discuss how to improve a production process or how to create shortcuts that jeopardize quality.

Informal groups can take the form of interest groups, friendship groups, or reference groups.

1. Interest Group:

Interest groups usually continue over time and may last longer than general informal groups. Members of interest groups may not be part of the same organizational department but they are bound together by some other common interest.

The goals and objectives of group interests are specific to each group and may not berelated to organizational goals and objectives. An example of an interest group wouldbe students who come together to form a study group for a specific class.

2. Friendship Groups:

Friendship groups are formed by members who enjoy similar social activities, politicalbeliefs, religious values, or other common bonds. Members enjoy each other’s company and often meet after work to participate in these activities. For example, a group of employees who form a friendship group may have a yoga group, a Rajasthani association in Delhi, or a kitty party lunch once a month.

3. Reference Groups:

A reference group is a type of group that people use to evaluate themselves. The main objectives of reference groups are to seek social validation and social comparison. Social validation allows individuals to justify their attitudes and values while social comparison helps individuals evaluate their own actions by comparing themselves to others. Reference groups have a strong influence on members' behavior. Such groups are formed voluntarily. Family, friends, and religious affiliations are strong reference groups for most individuals.

Team Building

Definition:

Team building is a management technique used for improving the efficiency and performance of the workgroups through various activities. It involves a lot of skills, analysis and observation for forming a strong and capable team. The whole sole motive here is to achieve the organization vision and objectives.

Forming a great team requires a lot of skills and presence of mind. Usually, some managers specialize in team-building skills and are hired by the companies on this parameter.

The manager responsible for team building must be able to find out the strengths and weaknesses of the team members and create the right mix of people with different skillsets. He must focus on developing strong interpersonal relations and trust among the team members.

The manager must encourage communication and interaction among the team members and also reduce stress with the help of various team-building activities.

He must clearly define the goals and objectives of the organization to the team members. He must also specify the role of each member in the team to direct them towards the achievement of the organizational goals.

Important Team Building Skills

When a group works well together, it achieves the best results. That's why employers want to hire people with team building skills. Good team builders are able to help groups work together well and meet their goals.

Being able to build and manage a successful team is a qualification for many different types of jobs. If you're being considered for a position that requires managing or being part of a team, you will need to show that you have the team building skills necessary for the job.

2nd chapter

Product design and product development

- **Product**

A product is anything that is capable of satisfying a felt need.

Product life cycle:-

PLC is a graph of sales against time. It is believed that product goes through various stages in its life just like a human being. It is usually divided into four stages introduction, Growth, Maturity and Decline.

1. Introduction stage:
   The product is launched and introduced to the market. Sales initially remain almost zero and very low because of unawareness.
2. Growth:
   At this stage due to creating awareness about the product, the sales will grow up. This may allow the competitors to enter into that product segment. Though sales grow, but profits are not at desirable level.
3. Maturity
   Sales continue to rise in the early part of the maturity stage. But they rise at decreasing rate. Company earns maximum profits at its peak. At the end of the stage sales start falling.
4. Decline stage

When sales start declining sometimes too fast, there may be several reasons for it, such as market saturation, introduction of new technology. This stage is called as Declined stage in PLC.

- **Product design**

  Product design is conceptualization of an idea about a product and transformation of Idea into reality. An organisation can gain a competitive edge through design that brings new ideas to the market quickly, can satisfy customer needs in a better way, easier to manufacture, use and repair then existing product.

  Objectives of product design:

- Survival: to ensure survival and growth of organisation for longer time
- Satisfaction: to satisfy unfulfilled needs of the customer
- Positioning gap: to fill up the gap existed in the market with reference to product positioning
- Competitive advantage: to gain competitive advantage
- Market share : to increase companies market share
- New market segment: to target New Market segments
- Product portfolio: the complete product range in company's portfolio

❖ **Factors influencing product design:**

1. Customer Requirements;

   the designed products must satisfy customer's requirements in terms of good quality product requirements like performance, quality, reliability, durability etc.
2. Production Facility:

   Simple product design requires minimum production facilities. This will make the job of production development easy and it will also help to reduce cost of production.
3. Raw materials to be used:

   The type and quality of raw materials greatly influence the product design. To remain sustained in the competition, the production manager should find out the information of materials used by competitors and accordingly bring required changes in materials and product design.

4. Cost to price ratio;

   Sometimes the product designer is informed about the maximum cost of purchase. Hence he has to design the product within this cost.

5. Quality Policy:

   The design of the product is guided by Quality Policy. Due to more demand for qualitative products preferred by customers, the production manager needs to focus more on quality.

6. Plant and Machinery:

   The product depends on availability of plant and number of machines. If plant and machines are maintained well, it will assure good quality of products and hence design also possibly made better.

7. Effects on existing products: (Market Cannibalisation):

   The production manager must consider whether the introduction of new product may badly affect the sale of existing products. Eg. Apple introduced more feature-rich phone and i-pods that ate up sales for its lower end i-pods including Nano and Classic series.

8. Reputation and Company:

   Companies which have a good name and goodwill in the market will want their new products designs to match or keep up their positive image.

- **Characteristics of Good Product Design:**

  A good product design should comply with the Functionality, Repair-ability, Reliability, Aesthetic, Durability, Produce-ability, Simplicity, and Compact.

1. Functionality:

   The product must be designed in such a way that it optimally performs the main task or function for which it is purchased by the customer.

2. Repair-ability:

   The product repairs must be done easily, quickly and that too at a low repair cost.

3. Reliability:

The product must perform quite well and give trouble free service for a long time.

4. Aesthetic:

   It refers to how product looks, feels, sounds, tastes and smells. It must be attractive, convenient and compact to use.

5. Durability:

   It refers to the life of the product. It is sign of good quality product. A durable product performs flawless for a longer period.

6. Produce-ability:

   The product must be designed in such a way that it can be produced in a large quantity with at a minimum production cost.

7. Simplicity:

   The simpler a design, the easier it is to produce and handle. Simple products are also economical. It must have minimum number of operations.

8. Compact:

   The product must be small, and must occupy less space and must have lower weight.

- **Approaches to product design:**

  The manufacturer can produce the product by keeping either of or combination of following approaches in mind to design a product.

  The product may be designed for -

1. Customer
2. For manufacturing or Assembling
3. Ease of production or Produce-ability
4. For Quality
5. Ergonomics
6. Environmental Protection
7. Recycling
8. Disassembly
9. Mass customization

1. Designing for the Customer:

Many times product is designed for the customer in order to satisfy their desired needs. The organizations who think the 'customer first' are seen following this approach.

2. **Designing for Manufacturing and Assembly:**

   Designing for manufacturing includes –

- Designing for minimum number of parts
- Developing modular design
- Designing parts for ease of lubrication

3. **Designing for ease of Production or Produce-ability:**

   Manufacturing ability or produce0-ability is a key concern for manufacturing products to be more competitive. There are three concepts associated with ease of production i.e. i. specification ii. Standardization iii. Simplification

4. **Designing for Quality:**

   Designing for Quality consists three aspects of the design- i. Designing for Robustness – refers to reducing variation in product without eliminating causes of variation. Ii. Design for production – to reduce sources of errors and improve overall quality. Iii. Designing for reality – refers to a measure of ability of the product part or a system to perform its intended function under a specified set of conditions.

5. **Designing for ergonomics:**

   It is the study of people's efficiency in their working environment. In other words, Ergonomics is the process of designing and arranging workplaces, products and systems so that they fit the people who use them. The goal of ergonomics is eliminate discomfort and risk of injury dye to work. Eg. Sharp edges of a metal sheet.

6. **Designing for environmental protection:**

   The central theme unifying the various experiences of design for environment can be identified in common objective of reducing the environmental impact of a product over its entire life cycle from design to disposal.

7. **Designing for recycling:**

For recycling to be possible design of the product must have recycling or environmental protection as an end goal in mind full stop with the increasing threat of global warming, carbon footprint, depleting ozone layer, industries must think of recycling products.

8. **Designing for disassembly:**
   This involves designing products which can be more easily taken apart or disassembled. For example satellite when it lands on other planet.
9. **Designing for mass customisation:**
   Readily available information technology and flexible work processes permit the companies to customise goods or services for individual customers in high volume and relatively low cost.

- **Production process:**

Production process is a series of manufacturing operations performed at workstations to achieve the desired specifications of the planned output.

- **Process planning:**

Process planning is concerned with planning the conversion or transformation process needed to convert the materials into finished products.

Process planning consists of two parts namely i. Process design ii. Operations Design

i. Process design: - Process design is concerned with overall sequence of operations required to achieve product specifications.
ii. Operation design:- operation design is concerned with the design of the individual manufacturing operation

Systems approach to process planning and design:

1. Inputs:- a. product/service information b. Production system information, c. operation strategy

2. Conversion process:- a. Selection of type of process b. Vertical integration studies
3. Outputs:- a. Technological processes b. Facilities c. Personnel estimates d. Equipment studies e. Facilities studies

- **Manufacturing processes:-**

Manufacturing processes can be divided into three groups

1. Forming process 2. Machining process 3. Assembly Process

1. **Forming processes:**

   These processes change the shape of the work piece without necessarily removing or adding material.

2. **Machining processes**

   It involves basically metal removal by turning, drilling, grinding etc.

3. **Assembly processes:-**

   It involves the joining of components or piece parts to produce a single component that has specific functions.

❖ **Selection of process:-**

Depending on required features in product manufacturing process is selected. All such processes are explained as below.

➢ **Forming processes**

A. Casting:

The casting process consists of pouring of molten metal into a mould and allowing sufficient time for the metal to solidify and retain the shape of moulded cavity.

B. Forging:

In this the metal is heated to a plastic state and then formed to the desired shape by pressure or impact.

C. Extrusion:

It consists of forcing the metal through dice so that it is the metal obtained a cross-section of the same shape as the die.

D. Embossing and coining:

In embossing, the metal is stretched or formed as per the configuration in the dice.

Coining is performed in an enclosed dye and the metal flow is restricted in a lateral direction.

E. Stamping:-

A force is applied on the metal to cause plastic flow and to alter the size and shape of the metal part to the desired size and shape.

F. Spinning:-

Spinning is a process of shaping a metal by pressing it against a form or mandrel while it is rotating on a high speed lathe.

- **Machining process:-**

machining process removes the metal from the work piece during the cutting operation performed by cutting tool. Some of the machining processes are-

A. Turning:-

In the turning operation, the work piece is held in the lathe and rotated wily the cutting tool or cutter removes the metal from the work piece.

B. Drilling and boring:

- In drilling operation a hole is produced on the work piece by forcing rotating cutter known as drill bit through the workplace.

- in boring operation and adjusting drilled hole is enlarged by using a cutter known as boring bit.

- reaming is the finishing a drilled hole to an accurate size using fluted tool called a Reamer.

C. Milling:-

Milling operation removes metal by feeding the work piece against a rotating multi point cutting tool called milling cutter.

D. Grinding:-

Grinding process refers to the abrading or wearing away by friction of a material.

E. Shaping and Planing:

Work piece, castings or forging of smaller sizes are machined by the shipping process, where the Planing process is used for machining work piece is, castings or or forging of larger sizes.

F. Electro discharge machining (EDM)

It is a ‘chip less' process using electrical energy for metal removal. The operation involves producing a spark between the word please and the tool across a gap between them.

G. Electrochemical machining (ECM):-

This is also a ‘chip less' process in which chemical energy combines with electrical energy to do cutting operation.

H. Chemical Milling:-

This process removes metal by chemical action. It is an etching process with carefully controlled chemical reactions.

- **Assembly process**

A. Welding process:

Hindi welding process two pieces of metal are joined into a single piece by fusion due to heat or combination of heat and pressure it includes gas welding arc welding spot welding plasma arc welding electronic beam welding laser welding

B. Brazing:

Brazing is a metal joining process used for joining non ferrous alloys.

C. Soldering:

Soldering process is similar to braising except that the soldering alloy (lead tin) is different from brazing alloy and melts at lower temperature as compared to brazing alloy.

D. Riveting:

It is a process of placing the rivet in a hole drilled through the overlapping surface of the work piece to be joined and upsetting the head of the rivet using a riveting tool.

E. **Fastening by bolts and nuts:**

When work pieces are parts of an assembly must be assembled and reassembled the best method of assembly is by fastening using screws and nut bolts.

F. **Assembling using adhesives:**

Adhesives are used to bond almost all materials such as wood rubber plastic and metals.

❖ **Manufacturing process**

Manufacturing processes may be classified as –

1. Processing:- a. Heavy processing, b. Light processing,

2. Treatment:- a. Heat treatment such as normalising Hardening, Tempering, b. Surface treatment,

3. Fabrication:- a. Heavy fabrication, b. Medium fabrication, c. Light fabrication.

- **Process design**:-

Process design is concerned with all sequences of operations required to achieve the desired product specifications. It specifies the type of workstations that are to be used, the machines and equipment necessary, and the quantities in which each is required.

▪ **Types of process design:-**

- Product focused production system
- Process focused production system
- Group technology (GT) / Cellular manufacturing system

- **New Product development (NPD):-**

Product development process has several stages included in it. These stages are listed below-

i. Idea Generation
ii. Idea Screening
iii. Concept Testing
iv. Business Analysis
v. Product Development
vi. Test Marketing

vii. Commercialization

1. **Idea generation:-**

   Idea generation is an act of the systematic search for new ideas. Ideas for new products can be obtained from various sources such as marketing research, employees, customers, agents, dealers, brainstorming, open innovation, company research and development etc.

2. **Idea screening:-**

   Once many product ideas have generated and obtained there is a need to select the best of it. Idea screening helps to select a good idea and reject bad one based on few parameters.

3. **Concept testing-**

   It is testing new product concepts with a group of target customers to find out if the concepts have strong consumer appeal. At this stage small group of consumers is selected. they are informed about new products and are asked to give feedback. If the feedback is positive the next step is considered.

4. **Business analysis:-**

   It is the review of the sales cost and profit projections for a new product. The focus is on on to find out whether these factors satisfy the company's objectives full stop if they do the product can move the product development stage.

5. **Product development:-**

   Product development is act of developing the product concept to a physical product in order to ensure that the product idea can be turned into workable product. Here R and D or engineering develops the product concept.

6. **Test marketing:-**

   At this stage of new product development where the product and marketing programs are tested in more realistic market settings full stop it lets the company test the product and its entire marketing program that is positioning strategy advertising distribution pricing branding and packaging and budget levels. eg. McDonald’s plans to roll out Redbox DVD rental kiosks in six major cities in US

7. **Commercialization:-**

   If the test market is successful then company introduces the new product on large-scale. The company makes large investment in the new product. It produces and distributes the new product on the larger scale.

- **Techniques of NPD:**

  Companies must take a holistic approach to managing the NPD process successful. NPD process requires customer centred team-based and systematic efforts.

1. **Customer centred NPD:**

   Customer centre NPD focuses on finding new ways to solve customer problems and create more customer satisfying experiences. Studies found that the most new successful products are ones that are differentiated solve major customer problems and offer a compelling customer value proposition.

2. **Team-based NPD:**

   This is an approach to developing new products in which various company departments worked closely together overlapping the step in NPD process to save time and increase effectiveness.

3. **Systematic NPD:**

   The NPD process should be holistic and systematic. To be systematic company can install an innovative management system to collect review evaluate and manage new product ideas. By appointing as a respected senior person as company's innovation manager it can encourage all stakeholders such as employees suppliers distributors etc. to become involved in finding and developing new product.

- **<u>Factors responsible for product development:</u>**

  Following factors are considered while developing a new product.

  1. Top management:

NPD is an ambiguous process with different people and departments having different perspectives about how things are to be done. Hence it seeks attention of management and its support.

2. Market orientation:

Market orientation is a company philosophy focused on discovering and meeting the needs and desires of its customers through its product mix. Market research will enable the discovery of user needs and how to meet them.

3. NPD process:

NPD process can be tailored to fit specific circumstances. The team normally have some inputs to NPD process and it will be able to negotiate modifications to process.

4. NPD speed:

To keep a competitive edge, companies need to launch new products faster and more efficiently than their competitors. NPD process should be completed well within time limits. Once Idea or concept is much promising it should get converted into product and be commercialized quickly.

5. Technology:

Technology must be chosen with the end user in mind. The technology used to create and deliver the product which must be suitable for the market.

6. Knowledge management:

Knowledge management is the process of creating sharing using and managing the knowledge and information of an organisation. Project can generate vast amount of knowledge. Company is bound to integrate knowledge in a proper way and achieve the benefits.

7. NPD teams:

NPD generally brings together teams of diverse people from all across an enterprise. It is suggested that these diverse teams tend to be highly creative and more successful then teams of a more standardized nature.

8. NPD strategies:

Design team will have some inputs in the strategies chosen and will be able to influence these strategies. responsibilities for NPD strategies is likely to be shared between design product management and development.

S.P. Mandali Pune,30

Prin. K.P. Mangalvedhekar Institute of Management Career Development & Research

Affiliated to Punyashlok Ahilyadevi Holkar Solapur University , Solapur

Academic Year 2022-23

Class: - BBA III SEM V

Course Name: - Cost & Management Accounting I

Compiled By

Mrs. Snehal A. Pathak

M.Com. , CA Intermediate

CHAPTER NO. 1 Introduction to Cost & Management Accounting

CONCEPTS OF COST

Cost is the amount of resource given up in exchange for some goods or services. The resources given up are money or money's equivalent expressed in monetary units.

The Chartered Institute of Management Accountants, London defines cost as "the amount of expenditure (actual or notional) incurred on, or attributable to a specified thing or activity".

This activity of a firm may be the manufacture of a product or the rendering of a service which involves expenditure under various heads, e.g., materials, labour, other expenses, etc. A manufacturing organisation is interested in ascertaining the cost per unit of the product manufactured while an organisation rendering service, e.g., transport undertaking, canteen, electricity company, municipality, etc., is interested in ascertaining the costs of the service it renders. In its simplest form, the cost per unit is arrived at by dividing the total expenditure incurred by the total units produced or the quantum of service rendered. But this method is applicable if the manufacturer produces only one product. If the manufacturer produces more than one product, it becomes imperative to split up the total expenditure between the various products so that the cost of each product can be ascertained separately. Even if only one product is manufactured, it may be necessary to analyse the cost per unit of each item of expenditure that goes to make up the total cost. The problem becomes more complicated where a multiplicity of products is produced and it is necessary to analyse the cost per unit of each product into various items of expenditures that make up the total cost.

For a consumer cost means price. For management cost means 'expenditure incurred' for producing a particular product or rendering a particular service. **The process of ascertaining the cost is known as costing**. It consists of principles and rules governing the procedure of finding out the costs of goods/ services. It aims at ascertaining the total cost and also per unit cost. For instance, in transport companies the total cost for the period is ascertained and used to find out the cost per passenger/mile. i.e. the cost of carrying one passenger for one mile. It provides for analysis of expenditure in such a way that the management gets complete idea about even the smallest item of cost.

It is necessary to specify the exact meaning of "cost". When the term is used specifically, it is modified with such terms as prime cost, fixed cost, sunk cost, etc. Each description implies a certain characteristic which is helpful in analysing the cost. It helps cost accounting in achieving its three basic objectives namely-cost ascertainment, cost control and cost presentation.

A cost must always be studied in relation to its purpose and conditions. Different costs may be ascertained for different purposes and under different conditions. Work-in-progress is valued at factory cost, while stock of finished goods may be valued at cost of production. Even if the purpose of the study of cost is the same, different conditions may lead to variation in cost. The cost per unit of a product is sure to vary with an increase in the volume of output since the amount of fixed expenses to be borne by each unit of output decreases.

It is also important to note here that there is no such thing as an exact cost or true cost because no figure of cost is true in all circumstances and for all purposes. Most of the costing information is based on estimates; for example, the amount of overheads is generally estimated in advance; it is distributed over cost units, again on an estimated basis using different methods. Many items of cost of production are handled in an optional manner which may give different costs for the same product without going against the accepted principles in any way. Depreciation is one such item, the amount of which will vary in accordance with the method of depreciation being used. Thus, to arrive at an absolutely correct cost may be quite difficult unless one waits for a long time by which time the costing information may lose all its value.

OBJECTIVES OF COST ACCOUNTING

Cost accounting aims at systematic recording of expenses and analysis of the same so as to ascertain the cost of each product manufactured or service rendered by an organisation. Information regarding cost of each product or service would enable the management to know where to economise on costs, how to fix prices, how to maximise profits and so on. Thus, the main objects of cost accounting are the following:

(1) To analyse and classify all expenditures with reference to the cost of products and operations.

(2) To arrive at the cost of production of every unit, job, operation, process, department or service and to develop cost standard.

(3) To indicate to the management any inefficiencies and the extent of various forms of waste, whether of materials, time, expenses or in the use of machinery, equipment and tools. Analysis of the causes of unsatisfactory results may indicate remedial measures.

(4) To provide data for periodical profit and loss accounts and balance sheets at such intervals, e.g., weekly, monthly or quarterly, as may be desired by the management during the financial year, not only for the whole business but also by departments or individual products. Also, to explain in detail the exact reasons for profit or loss revealed in total, in the profit and loss account.

(5) To reveal sources of economies in production having regard to methods, types of equipment, design, output and layout. Daily, weekly, monthly or quarterly information may be necessary to ensure prompt and constructive action.

(6) To provide actual figures of cost for comparison with estimates and to serve as a guide for future estimates or quotations and to assist the management in their price-fixing policy.

(7) To show, where standard costs are prepared, what the cost of production ought to be and

with which the actual costs which are eventually recorded may be compared.

(8) To present comparative cost data for different periods and various volumes of output.

(9) To provide a perpetual inventory of stores and other materials so that interim profit and loss account and balance sheet can be prepared without stock taking and checks on stores and adjustments are made at frequent intervals. Also to provide the basis for production planning and for avoiding unnecessary wastages or losses of materials and stores.

(10) To provide information to enable management to make short-term decisions of various types, such as quotation of price to special customers or during a slump, make or buy decision, assigning priorities to various products, etc.

IMPORTANCE OF COST ACCOUNTING

The limitations of financial accounting have made the management to realise the importance of cost accounting. Whatever may be the type of business, it involves expenditure on labour, materials and other items required for manufacturing and disposing of the product. The management has to avoid the possibility of waste at each stage. It has to ensure that no machine remains idle, efficient labour gets due incentive, by- products are properly utilised and costs are properly ascertained. Besides the management, the creditors and employees are also benefited in numerous ways by installation of a good costing system. Cost accounting increases the overall productivity of an organisation and serves as an important tool, in bringing prosperity to the nation. Thus, the importance of cost accounting can be discussed under the following headings:

(a) Costing as an Aid to Management

Cost accounting provides invaluable aid to management. It provides detailed costing information to the management to enable them to maintain effective control over stores and inventory, to increase efficiency of the organisation and to check wastage and losses. It facilitates delegation of responsibility for important tasks and rating of employees. For all these, the management should be capable of using the information provided by cost accounts in a proper way. The various advantages derived by the management from a good system of costing are as follows:

1. **Cost accounting helps in periods of trade depression and trade competition** - In periods of trade depression, the organisation cannot afford to have losses which pass unchecked. The management must know the areas where economies may be sought, waste eliminated and efficiency increased. The organisation has to wage a war not only for its survival but also continued growth. The management should know the actual cost of their products before embarking on any scheme of price reduction. Adequate system of costing facilitates this.

2. **Cost accounting aids price fixation** - Although the law of supply and demand to a great extent determines the price of the article, cost to the producer does play an important role.

The producer can take necessary guidance from his costing records in case he is in a position to fix or change the price charged.

3. **Cost accounting helps in making estimates** - Adequate costing records provide a reliable basis for making estimates and quoting tenders.

1. **Cost accounting helps in channelising production on right lines** - Proper costing information makes it possible for the management to distinguish between profitable and non-profitable activities. Profits can be maximised by concentrating on profitable operations and eliminating non-profitable ones.

2. **Cost accounting eliminates wastages** - As cost accounting is concerned with detailed break-up of costs, it is possible to check various forms of wastages or losses.

3. **Cost accounting makes comparisons possible** - Proper maintenance of costing records provides various costing data for comparisons which in turn helps the management in formulation of future lines of action.

4. **Cost accounting provides data for periodical profit and loss account** - Adequate costing records provide the management with such data as may be necessary for preparation of profit and loss account and balance sheet at such intervals as may be desired by the management.

5. **Cost accounting helps in determining and enhancing efficiency** - Losses due to wastage of materials, idle time of workers, poor supervision, etc., will be disclosed if the various operations involved in the production are studied carefully. Efficiency can be measured, costs controlled and various steps can be taken to increase the efficiency.

6. **Cost accounting helps in inventory control** - Cost accounting furnishes control which management requires in respect of stock of materials, work-in-progress and finished goods.

(b) Costing as an Aid to Creditors

Investors, banks and other money lending institutions have a stake in the success of the business concern and are, therefore, benefited immensely by the installation of an efficient system of costing. They can base their judgment about the profitability and future prospects of the enterprise on the costing records.

(c) Costing as an Aid to Employees

Employees have a vital interest in their employer's enterprise in which they are employed. They are benefited by a number of ways by the installation of an efficient system of costing. They are benefited, through continuous employment and higher remuneration by way of incentives, bonus plans, etc.

(d) Costing as an Aid to National Economy

An efficient system of costing brings prosperity to the business enterprise which in turn results in stepping up of the government revenue. The overall economic development of a country takes place as a consequence increase in efficiency of production. Control of costs, elimination of wastages and inefficiencies led to the progress of the industry and, in consequence of the nation as a whole.

ROLE OF COST ACCOUNTANT IN DECISION MAKING

The outlook of modern business is such that all enterprises-whether large or small, manufacturing or non- manufacturing, public or private, profit or nonprofit-require a wide variety of cost data in making day-to-day operating decisions. Thus, for the modern cost accountant, the positive emphasis on analysis and interpretation) requires involvement in the dynamic phase of business-the current period and the future. The dynamic phase is concerned primarily with planning (i.e., selecting objectives and the means for their attainment) and controlling (i.e., achieving conformity to established plans). Cost Accountants collect, assimilate, collate and analyse all financial information related to an organization. Their main role is to ensure that managerial decisions are within cost prescriptions. They need to give a prediction about financial performance of any project. For this cost accountant considers many factors such as the cost of raw material, labour, transport and overheads, among others. He will be responsible for planning and executing effective management information and control systems, inventory control incorporating mathematical models, investment analysis, project management, internal audit, cost audit etc.

Cost Accountant plays one of the most important roles in the organization

Cost accountant analyst performs one of the most important roles in the entire organization. It is really imperative that the companies pay a great emphasis on the job of an accountant analyst. Cost accountancy deals with the preparation of the various reports for the knowledge of the internal stakeholder. All the decisions that are taken by the company management regarding the future of the company are based on the financial reports that are prepared by the cost accountants.

Cost Accountant performs action as under:

1. To analyze material, labour and the overhead expenses
2. To reconcile daily productions with accounting transactions
3. To coordinate with R&D for production of new items
4. To Assist the controller in developing cost improvement opportunities
5. To prepare the new product costing as well as do the gross profit analysis for the marketing in order to determine the feasibility and profitability before presenting the samples and pricing to the customers.

MANAGEMENT ACCOUNTING

INTRODUCTION

In every business enterprise, various transactions and events take place every day; sales are effected, purchases are made, expenses are met or incurred, payments are received and made, assets are sold and acquired. These events, arising out of the decisions and actions of management, exercise their effects and impact on the operational efficiency and position of the enterprise. Most of these transactions and events have money values or can be measured and expressed in money values. Since they affect the operation and position of the enterprise, they need to be measured, recorded, analysed and reported to the management, so that the management can evaluate their effect upon the enterprise.

As compared with financial accounting and cost accounting, management accounting is a later development. Management accounting links management with accounting. All such information that is useful to the management is the subject matter of management accounting. Any information required for decision making is the concern of management accounting. Management accounting, unlike financial accounting, provides information for internal users, though the basic data come from the same accounting system i.e., financial accounting and cost accounting systems.

Management accounting collects and provides accounting, cost accounting, economic and statistical information to the men at various managerial levels to assist them in the performance of managerial functions and their evaluations. It is the development and application of various techniques of recording, analysis, interpretation and presentation, making the financial, costing, and other data active and effective in the performance of managerial functions, viz., planning, decision-making and control. It should be noted that management accounting makes use of not only accounting techniques but also of statistical and mathematical techniques. Management accounting is forward looking and should, therefore, be able to treat economic information and data to make it suitable for use by the management.

Definition of Management Accounting

The management accounting team of Anglo-American Council on Productivity defined management accounting as:

“The presentation of accounting information in such a way as to assist management in the creation of policy and in day to day operation of an understanding”.

American Accounting Association defines management accounting as under:

"The application of appropriate techniques and concepts in processing historical and projected economic data of an entity to assist management in establishing plans for reasonable economic objectives and in the making of rational decisions with a view towards these objectives".

J Batty defines:

"Management accounting is the term used to describe accounting methods, systems and techniques which coupled with special knowledge and ability, assists management in its task of maximising profits or minimising losses."

Brown and Howard define:

"Management accounting is that aspect of accounting which is concerned with the efficient management of a business through the presentation of management of such information as will facilitate efficient and opportune planning and control."

Robert Anthony has defined management accounting thus:

"Management accounting is concerned with accounting information which is useful to management"

According to CIMA, London: "Management accounting is an integral part of management concerned with identifying, presenting and interpreting information used for: (a) formulating strategy; (b) planning and controlling activities; (c) decision taking; (d) optimising the use of resources; (e) disclosure to shareholders and others external to the entity; (f) disclosure to employees; (g) safeguarding assets.

The above involves participation in management to ensure that there is effective: (i) formulation of plans to meet objectives (strategic planning); (ii) formulation of short-term operation plans (budgeting/profit; planning);
(iii) acquisition and use of finance (financial management) and recording of transaction (financial accounting and cost accounting); (iv) communication of financial and operating information; (v) corrective action to bring plans and results into line (financial control); (vi) reviewing and reporting on systems and operations (internal audit, management audit)."

If the meaning of 'managing' and 'accounting' are understood, the definition of management accounting becomes quite clear. The main objective of the management is to manage the company following a managing pattern comprised of formulation of plan, allocation of responsibilities for implementing the plan, organising procedures to assist in the execution of the plan, and control of the performance. To assist in this process, the accounting system provides to the management the following information viz. (1) data designed to assist in the formulation of a plan covering all business functions, (2) transform the project in quantitative terms with sources available to finance the project costs; (3) devise workable standards of performance matching to the responsibilities and measure the performance and assist in the revision/modification of the plan.

An analysis of the above definitions enables us to define management accounting as the processing and presenting of accounting, cost accounting and other economic data, both historical and projected, in such a way as would assist in the performance evaluation of managerial functions, viz. planning, decision-making and control. Processing and presenting of the data involves the use of techniques of cost accounting, budgetary control, standard costing, break-even analysis, ratio-analysis, funds and cash flow analysis, etc.

OBJECTIVE OF MANAGEMENT ACCOUNTING

The fundamental objective of management accounting is to assist the management in carrying out its duties efficiently so that maximize profits or minimize losses of management. It includes computation of plans and budgets covering all aspects of the business. Example: production, selling, distribution, research and finance. Management accounting systematic allocate responsibilities for implementation of plans and budgets. It analysis of all transactions, financial and physical, to enable effective comparison to be made between the forecasts and actual performance.

The main objectives of management accounting are as follows:

1. To formulate Planning and policy

Planning involves forecasting on the basis of available information, setting goals; framing polices determining the alternative courses of action and deciding on the program of activities. It facilitate the preparation of statements in the light of past results and gives estimation for the future.

2. To interpretation of financial documents

Management accounting is to present financial information to the management. Financial information must be presented in such away that it is easily understood. It presents accounting information with the help of statistical devices like charts, diagrams, graphs, etc.

3. To assist in Decision-making process

Management accounting makes decision-making process more scientific with the help of various modern techniques. Information/figure relating to cost, price, profit and savings for each of the available alternatives are collected and analyzed accordingly which will provide a base for taking sound decisions.

4. To help in control

Management accounting is a helpful for managerial control. Management accounting tools e.g. standard costing and budgetary control are helpful in controlling performance. Cost control is affected through the use of standard costing and departmental control is made possible through the use of budgets. Performance of each and every individual is controlled with the help of management accounting

5.To provide report

Management accounting keeps the management fully informed about the latest position of the concern through reporting. It helps management to take proper and quick decisions. It informs the performance of various departments regularly to the top management.

6.To Facilitate Coordination of Operations

Management accounting provides tools for overall control and coordination of business operations. Budgets are important means of coordination.

TOOLS AND TECHNIQUES OF MANAGEMENT ACCOUNTING

A number of tool and techniques have been used under management accounting to help management in achieving the desired goals. For this the management accountant normally uses the following tool and techniques:

Financial Planning: Financial planning is the process of deciding in advance about the financial activities necessary for the organisation to achieve the desired objectives. It includes determining both long term and short term financial objectives, formulating financial policies and developing the financial procedures etc. Financial policies may relate to the determination of the capital requirement, sources of funds, determination and distribution of income, use of debt and equity capital and the determination of the optimum level of investment in various areas.

(i) **Financial Statement Analysis:** Financial statements are analysed to make data more meaningful. Comparative statement analysis, common size statement analysis, trend analysis, ratio analysis, cash flow analysis etc. are the major techniques of financial statement analysis used in management accounting.

(ii) **Decision Making:** Management accounting helps the management through the techniques of marginal costing, differential costing, capital budgeting, cash flow analysis, discounted cash flow etc. to select the best alternative which will maximise the profits of the business.

(iii) **Control Techniques:** Management should ensure that the plan formulated by it has been translated into action. Standard costing and budgetary control techniques are useful control techniques used by management.

(iv) **Statistical and Graphical Techniques:** Management accountant uses various statistical and graphical techniques in order to make the information more meaningful and presentation of the same in such a form so that it may help the management in decision making. The techniques of linear programming, statistical quality control, investment chart, sales and earning chart etc. are of vital use.

(v) **Reporting:** Management accountant prepares the necessary reports for providing information to the different levels of management by proper selection of data to be presented, organisation of data or selecting the appropriate method of reporting.

RELATIONSHIP OF COS TACCOUNTING,FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING ,FINANCIAL ACCOUNTING

Cost Accounting has been developed because of the limitations of Financial Accounting from the outlook of management control and internal reporting. Financial accounting executes the function of exposing a true and fair overall picture of the results or activities carried on by an enterprise during a period (via statement of profit and loss) and its financial position at the end of the year (via balance sheet). Also, on the basis of financial accounting, effective control can be exercised on the property and assets of the enterprise to ensure that they are not misused or misappropriated. To that extent financial accounting helps to assess the overall progress of a concern, its strength and weaknesses by providing the figures relating to several previous years.

Data provided by Cost and Financial Accounting is further used for the management of all processes associated with the efficient acquisition and deployment of short, medium and long term financial resources. Such a process of management is known as Financial Management. The objective of Financial Management is to maximize the wealth of shareholders by taking effective Investment, Financing and Dividend decisions. Investment decisions relate to the effective deployment of scarce resources in terms of funds while the Financing decisions are concerned with acquiring optimum finance for attaining financial objectives.

The last and very important 'Dividend decision' relates to the determination of the amount and frequency of cash which can be paid out of profits to shareholders. On the other hand, Management Accounting refers to managerial processes and technologies that are focused on adding value to organizations by attaining the effective use of resources, in dynamic and competitive contexts. Hence, Management Accounting is a distinctive form of resource management which facilitates management's 'decision making' by producing information for managers within an organization.

DIFFERENCE BETWEEN FINANCIAL ACCOUNTING AND COST ACCOUNTING

Both financial accounting and cost accounting are concerned with systematic recording and presentation of financial data. Financial accounting reveals profits and losses of the business as a whole during a particular period, while cost accounting shows, by analysis and localisation, the unit costs and profits and losses of different product lines. The main difference between financial accounting and cost accounting are summarised below:

(1) Financial accounting aims at safeguarding the interests of the business and its proprietors and others connected with it. This is done by providing suitable information to various parties, such as shareholders or partners, present or prospective creditors etc. Cost accounting on the other hand, renders information for the guidance of the management for proper planning, operation, control and decision making.

(2) Financial accounts are kept in such a way as to meet the requirements of the Companies

Act, Income-tax Act and other statues. On the other hand cost accounts are generally kept voluntarily to meet the requirements of management. But now the Companies Act has made it obligatory to keep cost records in some manufacturing industries.

(3) Financial accounting emphasizes the measurement of profitability, while cost accounting aims at ascertainment of costs and accumulates data for this very purpose.

(4) Financial accounts disclose the net profit and loss of the business as a whole, whereas cost accounts disclose profit or loss of each product, job or service. This enables the management to eliminate less profitable product lines and maximise the profits by concentrating on more profitable ones.

(5) Financial accounting provides operating results and financial position usually gives information through cost reports to the management as and when desired.

(6) Financial accounts deal mainly with actual facts and figures, but cost accounts deal partly with facts and figures and partly with estimates.

(7) In case of financial accounts stress is on the ascertainment and exhibition of profits earned or losses incurred in the business. In cost accounts the emphasis is more on aspects of planning and control.

(8) Financial accounting is concerned with historical records, while cost accounting is concerned with historical cost but also with pre-determined cost

(9) Financial accounts are concerned with external transactions i.e. transactions between the business concern on one side and third parties on the other. These transactions form the basis for payment or receipt of cash. While cost accounts are concerned with internal transactions which do not form the basis of payment or receipt of cash.

(10) The costs are reported in aggregate in financial accounts but costs are broken into unit basis in cost accounts.

(11) Financial accounts do not provide information on the relative efficiencies of various workers, plants and machinery while cost accounts provide valuable information on the relative efficiencies of various plants and machinery.

(12) Financial reports (profit and loss account and balance sheet) are prepared periodically – quarterly, half yearly or annual basis. But cost reporting is a continuous process and may be daily, weekly, monthly etc.

DIFFERENCE BETWEEN FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

Financial accounting and management accounting both appear to be similar in as much as both study the impact of business transactions and events of the enterprise and report and interpret the results thereof. Both provide information for internal as well as external use. But management accounting, although having its roots in financial accounting differs from the latter in the following respects.

1. Financial accounting deals with the business transactions and events for the enterprise as a whole. Management accounting, in addition to the study of events in relation to the enterprise as a whole takes organisation in its various units and segments and attempts to trace the impact and effect of the business transactions and events through its various divisions and sub-divisions. Thus, while the financial statement - profit and loss account, balance sheet and cash flow statements reveal the overall performance and position of the enterprise. Management accounting reports emphasise on the details of operational costs, inventories, products, process and jobs. It traces the effect and impact of the business transactions and events on costs, inventories, processes, jobs and products.

2. Financial accounting is attached more with reporting the results and position of the business to persons and authorities other than management - Government, creditors, investors, owners, etc. At times, financial accounting follows window-dressing tactics in order to project a better than actual image of the enterprise. Management accounting is concerned more with generating information for the use of internal management and hence the information reflects the real or really expected position.

3. Financial accounting is necessarily historical. It records and analyses business events long after they have taken place. Management accounting analyses the events as they take place and also anticipates such events for the future. Thus, it uses data which generally has relevance to the future.

4. Since financial accounting data is historical in nature, it is more precise than the management accounting data, which generally reflects the expected future, and hence could only be an estimation. This provides the necessary rapidity to management accounting information.

5. The periodicity in reporting financial accounts is much wider than in case of management accounting. In financial accounting, generally, results are reported on year to year basis. In management accounting, weekly, fortnightly and even monthly reporting is used.

6. Financial accounting has to be governed by the "generally accepted principles". This is so because, it has to cater for the informational needs of the outsiders. It has to stick to the generally accepted methods of presentation of such information. Regarding the contents and form of information, financial accounting has to abide by the legal provisions also. Management accounting has not to worry about such legal and/or conventional constraints and the "generally accepted principles". It is free to formulate its own rules, procedures and forms, because the information it generates is solely for internal consumption. In management accounting fixed assets may be stated at appraisal values, overhead costs may be omitted from inventories or revenues may be recorded before realisation. Generally accepted principles of financial accounting do not permit such accounts. What is important in management accounting is the usefulness of the information for managerial functions rather than its general acceptability. The form and content of management accounting information differs according to the needs and purpose.

7. Financial accounting is a must in case of joint stock companies to meet the statutory provisions of company law and tax laws. Even in case of sole proprietorship and partnership firms financial accounting becomes a necessity for tax purposes. Management accounting, on the other hand, is

   entirely optional and its forms and contents depend upon the outlook of the management.

8. Financial statements prepared under financial accounting consists of monetary information only. Management accounting statements in addition to monetary information also consist non-monetary information, viz., quantities of materials consumed, number of workers, quantities produced and sold and so on.

9. Financial statements are required to be published and audited by statutory auditors. Management accounting statements are for internal use and thus neither published nor audited.

DIFFERENCE BETWEEN COST ACCOUNTING AND MANAGEMENT ACCOUNTING

Cost accounting and management accounting both are internal to the organisation. Both have the same objectives of assisting management in its functions of planning, decision-making, controlling and techniques like budgetary control, standard costing and marginal costing owe their existence to cost accounting and have slipped into the kitbag of the management accountant. There is a good deal of overlapping in their functions. However, the two systems can be differentiated on the following grounds:

1. Cost accounting is concerned more with the ascertainment, allocation, distribution and accounting aspects of costs. Management accounting is concerned more with impact and effect aspect of costs.

2. Cost accounting data generally serves as a base to which the tools and techniques of management accounting can be applied to make it more purposeful and management oriented. Whereas, the management accounting data is derived both, from the cost accounts and financial accounts.

3. The management accountant places the data in a wider perspective than the cost accountant. This accounts for a greater degree of relevance and objectivity in management accounting than in cost accounting. It is the management accountant who is supposed to have a clear idea regarding the items and types of costs required to analyse and decide specific business problems and the effect of such costs on alternate solutions. A cost accountant is definitely helpful in collecting such costing data for the management accountant.

4. In the organisational set-up, management accountant generally is placed at a higher level of hierarchy than the cost accountant.

5. The approach of the cost accountant is much narrower than that of a management accountant, who may have to use certain economic and statistical data along with the

costing data to enable the management to be more accurate the precise in its functions of planning, decision-making and control.

6. Management accounting, in addition to the tools and techniques, like variable costing, break-even analysis, standard costing, etc., available to cost accounting, also makes use of other techniques like cash flow, ratio analysis, etc., which are not within the scope of cost accounting.
7. Management accounting includes both financial accounting as well as cost accounting. It also embraces tax planning and tax accounting. Cost accounting does not include financial accounting and has nothing to do with tax accounting.
8. Management accounting is concerned equally with short-range and long-range planning and uses highly sophisticated techniques like sensitivity analysis, probability structures, etc., in the planning and forecasting prices. Cost accounting is more concerned with short-term planning. Evaluation of capital investment projects is the speciality of management accountant.
9. Management accounting is concerned, both, with assisting management in its functions, as well as evaluating the performance of the management as an institution. Cost accounting is concerned merely with assisting in management functions and does not provide for the evaluation of the performance of management.
10. Cost accounting is mostly historical in its approach and it projects the past. Management accounting is futuristic in its approach. Management accounting is more predictive in nature than cost accounting.
11. Cost accounting system can be installed without management accounting. While management accounting cannot be installed without a proper cost accounting system.

ROLE OF MANAGEMENT ACCOUNTANT IN DECISION MAKING

Depending upon the company situation - size, nature and organisational set up and his own capabilities and position in the company, the management accountant may be required to perform various and varied functions. The importance and effectiveness of his function would also depend upon the confidence reposed in him by the top management and the functional managers. His functions generally embrace each and every activity of the management which can be summarized as follows:

1. Management Accountant establishes, coordinates and administers plans to facilitate the forecasting of sales, expense budgets and cost standards that will permit profit planning, capital budgeting and financing.
2. He will formulate accounting policy and procedures. Operating data and special reports must be prepared so that the performance can be compared with plans and standards, and any variance between actual operations and pre-determined standards can be analysed for

corrective actions by management. Such comparisons between actual and expected activities should help the management in proper fixation of responsibility and also in the evaluation of the various functional and divisional heads.

3. Management Accountant is responsible for the protection of the business assets to the extent possible by external controls, internal auditing and insurance coverage.
4. He will be responsible for tax policies and procedures and will supervise and coordinate the reports required by various authorities.
5. Management Accountant must continually be aware of economic and social forces as well as the effect of governmental policies and actions on business activities.

An analysis of the above list (obviously not exhaustive) of functions, reflects the status of a management accountant. He is the principal officer incharge of the accounts of the company. He shall be responsible to the Board of directors for the maintenance of adequate accounting procedures and records on the operation of the business. He shall be responsible to the president or the chairman of the board with respect to the administration of his office. He shall perform such other duties and functions as may from time to time be assigned to him by the president or chairman of the board or the Board of directors. Thus, in his broad functional activities, the management accountant is responsible to the policy making group of top management, whereas, in his administrative activities he is responsible to the top executive officer.

S.P. Mandali Pune,30

Prin. K.P. Mangalvedhekar Institute of Management Career Development & Research

Affiliated to Punyashlok Ahilyadevi Holkar Solapur University , Solapur

Academic Year 2022-23

Class: - BBA III SEM V

Course Name: - Financial Management I

Compiled By

Mrs. Snehal A. Pathak

M.Com. , CA Intermediate

Chapter No. 1 :- Introduction to Financial Management

INTRODUCTION

Finance is called "The science of money". It studies the principles and the methods of obtaining control of money from those who have saved it, and of administering it by those into whose control it passes. Finance is a branch of economics till 1890.

Economics is defined as study of the efficient use of scarce resources. The decisions made by business firm in production, marketing, finance and personnel matters form the subject matters of economics. Finance is the process of conversion of accumulated funds to productive use. It is so intermingled with other economic forces that there is difficulty in appreciating the role of it plays.

In simple terms finance is defined as the activity concerned with the planning, raising, controlling and administering of the funds used in the business. Thus, finance is the activity concerned with the raising and administering of funds used in business.

Financial Management : Meaning

Financial Management is managerial activity which is concerned with the planning and controlling of the firm's financial resources.

Definition:

Howard and Uptron define,

Financial Management "as an application of general managerial principles to the area of financial decision-making".

Weston and Brighem define,

Financial Management "as an area of financial decision making, harmonizing individual motives and enterprise goal".

Objectives of Financial Management

Financial Management as the name suggests is management of finance. It deals with planning and mobilization of funds required by the firm. There is only one thing which matters for everyone right from the owners to the promoters and that is money. Managing of finance is nothing but managing of money.
Every activity of an organization is reflected in its financial statements. Financial Management deals with activities which have financial implications. The very objective of Financial Management is to maximize the wealth of the shareholders by maximizing the value of the firm. This prime objective of Financial Management is reflected in the EPS (Earning per Share) and the market price of its shares.
The earlier objective of profit maximization is now replaced by wealth maximization. Since profit maximization is a limited one it cannot be the sole objective of a firm.
The term profit is a vague phenomenon and if given undue importance problems may arise whereas wealth maximization on the other hand overcomes the drawbacks of profit maximization.
Thus the objective of Financial Management is to tradeoff between risk and return. The objective of Financial Management is to make efficient use of economic resources mainly capital.
The functions of Financial Management involves acquiring funds for meeting short term and long term requirements of the firm, deployment of funds, control over the use of funds and to trade-off between risk and return.

Profit Maximization vs Wealth Maximization
Financial Management is basically concerned with procurement and use of funds.
The main objectives of Financial Management are: -
1. Profit Maximization.
2. Wealth Maximization

1. Profit maximization:
Profit Maximization is the main objective of business because:
(i) Profit acts as a measure of efficiency and
(ii) It serves as a protection against risk.
Agreements in favour of Profit Maximization:
(i) When profit earning is the main aim of business the ultimate objective should be profit maximization.
(ii) Future is uncertain. A firm should earn more and more profit to meet the future contingencies.
(iii) The main source of finance for growth of a business is profit. Hence, profit maximization is required.

iv) Profit maximization is justified on the grounds of rationality as profits act as a measure of efficiency and economic prosperity.
Arguments against Profit Maximization:
(i) It leads to exploitation of workers and consumers.
(ii) It Ignores the risk factors associated with profit.
(iii) Profit in itself is a vague concept and means differently to different prople.
(iv) It is narrow concept at the cost of social and moral obligations.
Thus, profit maximization as an objective of Financial Management has been considered inadequate.

2. Wealth Maximization:
Wealth Maximization is considered as the appropriate objective of an enterprise. When the firm maximizes the stock holder's wealth, the individual stockholder can use this wealth to maximize his individual utility. Wealth Maximization is the single substitute for a stock holder's utility.

Scope of Financial Management:
Financial Management covers the entire no. of activities and functions given below.
The head of finance is considered to be important all of the CEO in most organizations and performs a strategic role. His responsibilities include:
(i) Estimating the total requirements of funds for a given period;
(ii) Raising funds through various sources, both national and international, keeping in mind the cost effectiveness;
(iii) Investing the funds in both long term as well as short term capital needs;
(iv) Funding day-to-day working capital requirements of business;
(v) Collecting on time from debtors and paying to creditors on time;
(vi) Managing funds and treasury operations;
(vii) Ensuring a satisfactory return to all the stake holders;
(viii) Paying interest on borrowings;
(ix) Repaying lenders on due dates;
(x) Maximizing the wealth of the shareholders over the long term;
(xi) Interfacing with the capital markets;
(xii) Awareness to all the latest developments in the financial markets;
(xiii) Increasing the firm's competitive financial strength in the market &
(xiv) Adhering to the requirements of corporate governance.

EMERGING ROLE OF FINANCE MANAGER

The traditional role of the Finance Manager is to confine to the raising of funds in order to meet operating requirements of the business. This traditional approach has been criticized by modern scholars on the following grounds. It was prevalent till the mid-1950s.
(i) The traditional approach of raising funds alone is too narrow and thus it is outsider-looking-in approach.
(ii) It viewed finance as a staff specialty.
(iii) It has little concern how the funds are utilized.
(iv) It over-emphasized episodic events and non-recurring problems like the securities and its markets, incorporation, merger, consolidation, reorganization, recapitalization and liquidation etc.
(v) It ignored the importance of Working Capital Management.
(vi) It concentrated on corporate finance only and ignored the financial problems of sole trader and partnership firms.
(vii) Traditional approach concentrated on the problems of long-term financing and ignored the problems of short-term financing.
Finance has been viewed as an integral part of the management. The Finance Manager is, therefore, concerned with all financial activities of planning, raising, allocating and controlling the funds in an efficient manner. In addition, profit planning is another important function of the Finance Manager.

This can be done by decision making in respect of the following areas:
(i) **Investment decisions** for obtaining maximum profitability after taking the time value of the money into account.
(ii) **Financing decisions** through a balanced capital structure of Debt-Equity Ratio, sources of finance, EBIT/EPS computations and Interest Coverage Ratio etc.
(iii) **Dividend decisions**, issue of Bonus Shares and retention of profits with objective of maximization of market value of the equity share.
(iv) Best utilization of fixed assets.
(v) Efficient Working Capital Management (inventory, debtors, cash marketable securities and current liabilities).
(vi) Taking the cost of capital, risk, return and control aspects into account.
(vii) Tax administration and tax planning.
(viii) Pricing, volume of output, product-mix and cost-volume-profit analysis (CVP Analysis).
(ix) Cost control.

S.P. Mandali Pune,30

Prin. K.P. Mangalvedhekar Institute of Management Career Development & Research

Affiliated to Punyashlok Ahilyadevi Holkar Solapur University , Solapur

Academic Year 2022-23

Class: - BBA III SEM VI

Course Name: -Cost & Management Accounting II

Compiled By

Mrs. Snehal A. Pathak

M.Com. , CA Intermediate

Chapter No. 2 Standard costing & Variance Analysis

Standard costing is a technique which uses standard for costs and revenues for the purpose of control through variance analysis. Standard costing aims at eliminating waste and increasing efficiency in operation through setting up standards for production costs and production performance.

Standard Costing:

Standard costing is a perfect system of controlling the costs and measuring efficiency and its development. It is a technique of cost reduction and cost control. It helps to provide valuable guidance in several management functions such as formulating policies, determining price level,

Meaning:

The word standard means a 'norm' or a 'criterion'. Standard cost is thus a criterion cost which may be used as a yardstick to measure the efficiency with which actual cost has been incurred.

There is a constant process of development effected in business through the help of standard costing method since the standard costs set in are sensible, capable of being attained and are revised from time to time in accord with needs and requirements of the business enterprise.

1) Standard cost:

Standard cost is a figure which represents an amount that can be taken as a typical of the cost of an article or other cost factor. It is established on the basis of planed operations, planed cost efficiency levels, and expected capacity utilization.

Standard cost is a predetermined calculation of the presumed cost under the specified conditions. It is built up from an assessment of the value of cost elements. It correlates technical specification of material, labour and other cost to the price or wage rate which have occurred during the period in which the standard cost is to be determined.

Standard cost is a predetermined cost which is calculated from management standard of efficient operation and relevant necessary expenditure.

- C.I.M.A. London

The standard cost is a predetermined cost which determines what each product or service should cost under given circumstances.

- Brown and Howard

Standard Costing:

A standard costing system is a method of cost accounting in which standard costs are used in recording certain transaction and the actual costs are compared with the standard cost to learn the amount and reason for variations from the standard.

- W.B. Lawrence

Standard costing involves the preparation of cost based on pre-determined standards and continuous comparison of actual with them for the purpose of guidance and control.

- D. Joseph

Objectives of Standard Costing:

1. To institute a control mechanism on all the elements of costs that affect production and sales
2. To measure different operational efficiencies and check the wastages
3. To improve the delegation of authority and generate a sense of responsibility among the employees
4. To develop a cost consciousness in the employees
5. To presume the production costs, sales and profit
6. To avail the benefits of 'Management by exception.'
7. To bring about a vivid progressive vision and sagacious decision making at each managerial level.

Significance & Advantages of Standard Costing :-

Though the advantages will be fully comprehended when on has gone through the whole study paper and has studied the various implications of standard costing, we give below the important significance/ advantages:

1. To determine standards which are at once practicable and represent efficient performance, the management will have to be fully aware of all the facilities that are available, the best way in which work can be done (for example, time and motion study is essential if labour standards are to be fixed properly) and will have to gather continuous and up-to-date information about all the happenings; this exercise will enable the firm to locate many sources of wastages and losses and to blockthem.
2. Human beings often work hard to achieve standards which are within their reach; therefore, setting up of such standards will almost automatically mean greater efficiency in operations. Further, almost everyone will think in terms of setting the targets and of achieving them. This will be specially so if the system of rewards and punishment is also geared to theresults.
3. If standards are themselves challenged periodically on a systematic basis, it will mean a constant increase inefficiency.
4. Standard costing involves not only pre-determined quantity standards but also standards in respect of prices and rates. This may mean that all materials issued and labour applied will be evaluated on the basis of standard price and rates. This will itself reduce clerical labour. One can say that in general standard costing is more economical than the ordinary system of costing where quantities and prices vary day by day or week byweek.
5. Standard costing will enable objective judgement of the people and to that

extent the systems of promotions, etc., will be more acceptable in thefirm.

6. The management’s own time can be saved to a large extent because the attention of management will be invited only to those matters which really require their attention. This will be done through the analysis of the deviation between the standard costs and actual costs. Management need pay attention only to those factors which have meant efficiency or inefficiency. (Management by Exception).
7. For the purpose of fixing prices, standard costs play a useful role; they exclude the day-to-day fluctuations in cost resulting from inefficient use of resources and movement in prices. Standard costrepresentthelong-term estimates;costandprice,therefore,canbefixedonalong-termbasis.
8. Even for valuation of inventory, standard cost should be the proper basis. If actual costs are high only because there has been a wastage of resources, it is not proper to capitalise those losses by including them in the value of inventory. Nothing becomes more valuable simply because of wastage and, therefore, inventory values should better be determined on the basis of standard costs.
9. In short, one can day that if a firm practices standard costing on proper lines, i.e., standards are themselves determined in a way which will not impose too great a burden on the worker or other employees or the firm, it may infuse in the minds of the staff a desire to achieve the standards and thus show greater efficiency.
10. At every stage of setting the standards, simplification and standardisation of productions, methods and operations are effected and waste of time and material is eliminated. This assists in managerial planning for efficient operation and benefits all the divisions of theconcern.
11. Costing procedure is simplified. There is a reduction in paper work in accounting and less number of forms and records are required. There is considerable saving in clerical time and expenditure leading to reduction in the cost of the costingsystem.
12. This system facilitates delegation of authority and fixation of responsibility for each department or individual.
13. Where constantly reviewed, the standards provides means for achieving cost reduction. This is attained through, improved quality of products, better materials and men, effective selection and use of capital resourcesetc.
14. Standard costs assist in performance analysis by providing ready means for preparation and interpretation ofinformation.

15. This facilitates the integration of accounts so that reconciliation between cost accounts and financial accounts may beeliminated.

Application of Standard costing

Standard costing is quite useful to the management in its function say planing, controlling etc and most important in decision making and performance evaluation. Standard costing can be used for:

1. Projecting the profit level of the business at any level ofproduction.
2. To help in execution of management's function effectively i.e. planning and controlling ofcost.
3. To analyse the impact of cost if sales volume increase/decrease by certainpercentage.
4. To measure the efficiency ofproduction.
5. To measure the performance of eachsegment.
6. To identify and measurement of variances between standards andactuals.
7. To design performance measurement systems to encourage employees to participate for the betterment of theOrganisation.

Reporting of Variance to Management

The primary purpose of reporting to management is to enable them to take corrective action and arrest unfavourable variances to the extent possible. Therefore, timely and prompt reporting of the variance is of utmost importance. The individual or department responsible for adverse controllable variance should be located. For instance, a variation in the price paid for raw materials would be the responsibility of the purchase manager and a variation in production efficiency is the responsibility of the production manager. The board and the managing director would be concerned with the overall efficiency, with which their plans have been operated by the lower levels of management. The profit and loss account should be prepared in a special manner - staring with the standard or budgeted profit, the various variances would be put in two columns, favourable and unfavorable, and the net results added to or deducted from the standard profit, thus arriving at the actual profit. Management can easily see the factors that have contributed to the change in the profit picture. While reporting the analysis of variances to management, graphs and charts might be used or analysis may be reported in the form of statement and reports giving main details.

In order that variance reporting should be effective, it is essential that the following conditions are fulfilled:

(i) The variances arising out of each factor should be correctly segregated. If part of a variance due to one factor is wrongly attributed to or merged with that of another, the analysis report submitted to the management would be misleading and wrong inferences may be drawn fromit;

(ii) Variances, particularly the controllable variances should be reported with promptness as soon as they occur. This would enable corrective action being taken intime;

(iii) Analysis of uncontrollable variances should be made with the same care as for controllable variances since the analysis of the off standard situation may reveal far reaching effects on the economy of the concern;and

(iv) The forms of reports for the different types of variances should be designed keeping in view the needs of the management and the size of the concern, and no standard forms can, therefore, be suggested.

It is better to present the profit figures by way of reconciliation of budgeted (or standard) and actual profits on the basis of variances.

Preliminaries of Establishment of Standard Cost System:

The following four points are usually considered for setting up a standard cost system in a business:

1) Setting up cost center

2) Classification of Accounts

3) Types of Standards

4) Settings the Standards.

Setting the Standard: The process of setting standard is a valuable activity in itself. The success of standard costing system depends on the reliability, accuracy and acceptance of the standards. If standards have been properly set and maintained, they are a sound basis for determining cost for various purposes. While setting the standards, the following points should be taken into consideration: duration of use of standard, reasonable standard of performance, level of activity. For the given units standard sets for the following items are (i) direct material cost, (ii) direct wage cost,(iii) direct expense,(iv) factory variable overhead cost,(v) selling and distribution variable cost,(vi) selling price and sales margin.

• **Standards for Material:** It includes (1) Determination of standard quantity of material required, and (2) Determination of standard price per unit of material.

• **Material Quantities:** After establishing the standard quality of material, it is more important and necessary to establish the standard regarding quantity of each material. Generally, quantities are expressed in terms of kilograms, feet, units and so forth.

• **Standards for Labour:** This standard is determined with regard to the current rate of pay and any anticipated variations. It should be fixed for each grade of labour and for each operation involved. The standard hours are fixed for all categories of labour i.e., for skilled and unskilled labour. In these standards, number of hours and workers are established.

• **Material Prices:** This is a forecast of the average prices of material during the future period. This standard is quite difficult to establish because prices are regulated more by the external factors than by the company management. While setting standard prices, the past experiences, existing prices and anticipations should closely examine. Price of material in the past, current prices and fluctuating trends are the base for determining standard of price.

Setting for Overheads: Setting standard for overheads is more complex than the development of material and labour standards. It is estimated for variable overheads and fixed overheads.
Variable Overheads: It may be recalled that variable overhead has been defined as a cost which tends to vary directly with the volume of output. It is assumed that the overhead rate per unit is invariable, irrespective of the quantity produced, so it is necessary to calculate only a standard cost per unit or per hour.

Fixed Overheads: Fixed overhead tends to be unaffected by variations in the volume of output. Therefore it is required to determine total fixed overhead for the period and budgeted production in units.

Standard Hour: Production is usually articulated in physical units such as tons, pounds, gallons, numbers, kilograms, liters, etc. When a company is manufacturing different types of products, it is almost impossible to increase the production, which cannot be expressed in the same unit. Standard hour means a hypothetical hour, which represents the amount of work that should be performed in one hour under standard conditions.

Meaning of Analysis of Variance:

Variance means the deviation of the actual cost or actual sales from the standard cost or profit or sales. Calculation of variances is the main object of standard costing. This calculation shows that whether costs are under controlled or not. A variance may be favourable or adverse.

The process of computing the amount of variance and isolate the causes of variances between actual and standard.

- C.I.M.A. London

A controllable variance is when a variance is treated as the responsibility of a person with the result that his or her degree of efficiency can be reflected in size. When a variance arises due to some unforeseen factors, it is known as uncontrollable variance. The management should look more carefully at controllable variance, for it is these variances that require examination and possible corrective measures. The uncontrollable variances may be ignored.

Importance of Variance

There is a lot importance of analysis of variance. There are many objects fulfilled with their analysis. Without analysis of variance, there is no use of standard costing. The important points of variances are as under:

1) Check and control of wastage is possible.

2) It improves the efficiency of the organization by the use of standard costing.

3) It exercises control over all cost centers including department, individuals and so on.

4) Responsibility of a particular person or department can be fixed.

5) In the prediction of production cost, sales and profit, variance analysis is very useful.

6) On the basis of variance analysis, delegation of authority could be made effective.

7) Variance analysis is easy to introduce, apply and orient result.

8) Various operational efficiencies can be measured.

Types of Variances

Initially, standards for all elements of costs should be set and then the actual cost should be compared with the standard costs to obtain the variances. Some deviations are found when actual performances are recorded and compared with the standard set. These deviations are known as variances.

“A variance is the difference between a standard cost and the comparable actual cost incurred during a period"

- C.I.M.A. London

Variances are classified on the basis of:

1) On the basis of control

2) On the basis of profitability

3) On the basis of elements of cost

(1) On the basis of control: On the basis of control, variance may be classified as controllable variance and uncontrollable variance.

(2) On the basis of profitability: With regard to the profitability or effect, variance may be classified into two: (i) favourable variance and (ii) unfavourable variance.

These are also known as credit and debit variance or negative and positive variances.

(3) On the basis of elements of cost: Though different types of variances can be calculated, their use may not be much useful. Variance calculated on the basis of different elements of cost. They are as follows:

Total Cost Variance is a difference between the standard cost value of the output achieved in a period and the total cost incurred.

Total Cost Variances

Material Cost VariancesLabour Cost VariancesOverhead Cost Variances

↓ ↓ ↓ ↓ ↓ ↓

MPV MUV LRV LEV VOCV FOCV

↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓

MMV MYV LMV LTVLYV BV EV BV

VV

↓↓ ↓

EVCVCV

Formulaes :-

Material Variance

Material Cost Variance = (Standard Quantity X Standard Price) – (Actual Qty X Act Price)

Material Price Variance = Actual Quantity (Standard Price - Actual Price)

Material Usage Variance = Standard Price (Standard Quantity - Actual Quantity)

Labour Variance

Labour Cost Variance= (Standard Hrs X Standard Rate Per Hour) –(Actual Hrs X Actual Rate Per Hour)

LabourRate Variance= Actual Hrs (Standard Rate - Actual Rate)

Labour efficiency Variance= Standard Rate (StdHrs - Actual Hrs worked)

Idle Time Variance= Idle Hours X Std Rate

Variable Overheads (OH) Variance

Vaiable OH Cost Variance= (Standard Hrs X Standard Variable OH Rate) – Actual OH Cost

Variable OH Expenditure Variance= (Actual Hrs X Standard Variable OH Rate) – Actual OH Cost

Variable OH Efficiency Variance= (Standard Hrs - Actual Hrs) X Standard Variable OH Rate

Fixed Overheads (OH) Variance

Fixed OH Cost Variance = Absorbed OH – Actual OH

Absorbed OH = Actual Units * Standard OH Rate per unit

Fixed OH Expenditure Variance = Budgeted OH – Actual OH

Fixed OH Volume Variance = Absorbed OH – Budgeted OH

Sales Variances

Sales Value Variance= Budgeted Sales – Actual Sales

Sales Price Variance= Actual Quantity (Actual Price - Budgeted Price)

Sales Volume Variance= Budgeted Price (Actual Quantity - Budgeted Quantity)

S P Mandali ,Pune -30
Prin.K P Mangalvedhekar Institute of Management Career Development and Research,Solapur
Affiliated to Punyashlok Ahilyadevi Holkar Solapur University

BBA III SEM V
2022-23

Subject-Human Resource Management I

Compiled by -Faculty Mrs Anjali Pawar

Introduction to HRM

An organisation is made up of four resources, namely, men, material, money and machinery. Of these, the first one is living one, *i.e,* human and the other three are non-living *i.e,* non-human. It is the human/people that make use of non-human resources. Hence, people are the most significant resources

in an organisation. It is man who makes all the difference in organisations. L.F. Urwick had remarked that " business houses are made or broken in the long-run not by markets or capital, patents, or equipments, but by men". According to Peter F. Drucker, " man, of all the resources available to man, can grow and develop."

Besides being living being, human resources differ from non-human resources in other respects also. Human resources are heterogeneous in the sense that they differ in personality, perception, emotions, values, attitudes, motives and modes of thoughts. Their behaviour to stimuli is often inconsistent and unpredictable. While other resources depreciate, human resources appreciate with the passage of time. Better educated, more skilled, better aware of their interest and rights are also some distinguishing features of modern human resources. These make it difficult for managers to use human resources always in an effective and efficient manner. Given the highly competitive and complex business environment, attracting and retaining qualified and competent employees have become a real challenge of the day for the managers. The 'rule of thumb' has become obsolete and redundant. The need of the new perspective is to have right people for right jobs. This mantra offers organisations an edge, which management experts term as 'competitive advantage' or 'core competencey' to survive and thrive in the competitive business environment.

1.MEANING AND DEFINITION

Before we define HRM, it seems pertinent to first define the term 'human resources'.

In common parlance, human resources means the people. However, different management experts have defined human resources differently.

For example, Michael J. Jucius has defined human resources as "a whole consisting of inter-related, inter-dependent and interacting physiological, psychological, sociological and ethical components".

According to Leon C. Megginson "From the national pointof view, human resources are knowledge, skills, creative abilities talents, and attitudes obtained in the population; whereas from the view-point of the individual enterprise, they represent the total of the inherent abilities, acquired knowledge and skills as exemplified in the talents and aptitude of its employees".

Sumantra Ghosal considers human resources as human capital. He classifies human capital into three categories-intellectual capital, social capital and emotional capital. Intellectual capital consists of specialized knowledge, tacit knowledge and skills, cognitive complexity, and learning capacity.

Social capital is made up of network of relationships, sociability, and trustworthiness. Emotional capital consists of self-confidence, ambition and courage, risk-bearing ability, and resilience." Now it is clear from above definitions that human resources refer to the qualitative and quantitative aspects of employees working in an organisation. Let us now define human resource management.

In simple words, HRM is a process of making the efficient and effective use of human resources so that the set goals are achieved. Let us consider some important definitions of HRM.

According to Flippo, "Personnel management,or say, human resource management is the planning, organising, directing and controlling of the procurement, development, compensation, integration, maintenance, and separation of human resources to the end that individual, organizational and social objectives are accomplished".

The National Institute of Personnel Management (NIPM) of India has defined human resource/personnel management as " that part of management which is concerned with people at work and with their relationship within an enterprise. Its aim is to bring together and develop into an effective organisation of the men and women who make up an enterprise and having regard for the well-being of the individuals and of working groups, to enable them to make their best contribution to its success".

According to Decenzo and Robbins, "HRM is concerned with the people dimension in management. Since every organisation is made up of people, acquiring their services, developing their skills, motivating them to higher levels of performance and ensuring that they continue to maintain their commitment to the organisation are essential to achieving organisational objectives.This is true, regardless of the type of organisation—government, business, education, health,recreation, or social action".

Thus, HRM can be defined as a process of procuring, developing and maintaining competent human resources in the organisation so that the goals of an organisation are achieved in an effective and efficient manner. In short, HRM is an art of managing people at work in such a manner that they give their best to the organisation.

2. OBJECTIVES

The primary objective of HRM is to ensure the availability of right people for right jobs so as the organisational goals are achieved effectively. This primary objective can further be divided into the following sub-objectives:

1. To help the organisation to attain its goals effectively and efficiently by providing competent and motivated employees.

2. To utilize the available human resources effectively.

3. To increase to the fullest the employee's job satisfaction and self–actualisation.

4. To develop and maintain the quality of work life (QWL) which makes employment in the organisation a desirable personal and social situation.

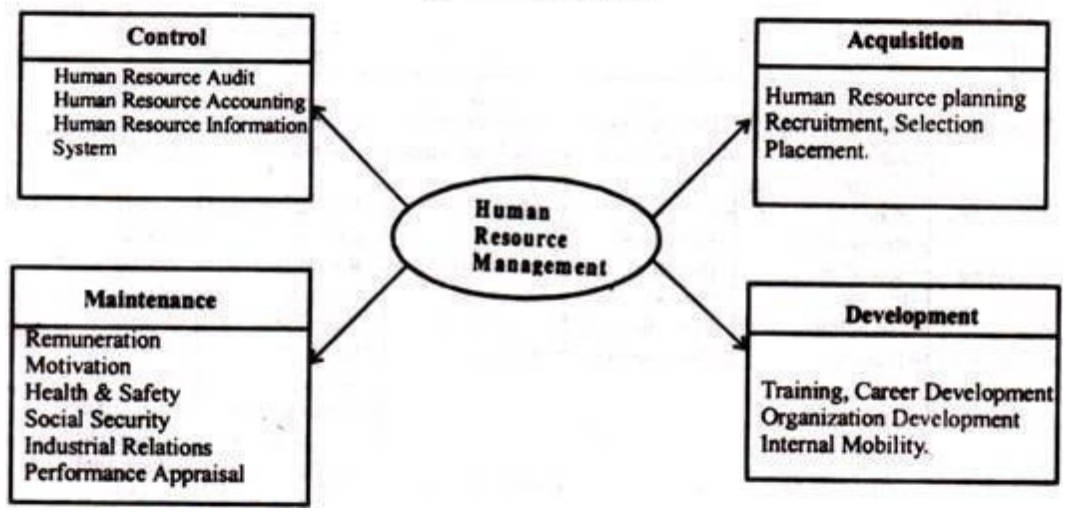
5. To help maintain ethical policies and behaviour inside and outside the organisation.

6. To establish and maintain cordial relations between employees and management.

7. To reconcile individual/group goals with organisational goals.

3. SCOPE

Fig. 1.1: Scope of HRM



The scope of HRM is, indeed, very vast and wide. It includes all activities starting from manpower planning till employee leaves the organisation. Accordingly, the scope of HRM consists of acquisition, development, maintenance/retention, and control of human resources in the organization

The National Institute of personnel Management, Calcutta has specified the scope of HRM as follows:

1. The Labour or Personnel Aspect. This is concerned with manpower planning, recruitment, selection, placement, transfer, promotion, training and development, lay-off and retrenchment, remuneration, incentives, productivity, etc.

2. Welfare Aspect. It deals with working conditions, and amenities such as canteen, crèches, rest and lunch rooms, housing, transport, medical assistance, education, health and safety, recreation facilities, etc.

3. Industrial Relations Aspects. This covers union-management relations, joint consultation, collective bargaining, grievance and disciplinary actions, settlement of disputes, etc.

4. FUNCTIONS

We have already defined HRM. The definition of HRM is based on what managers do. The functions performed by managers are common to all organizations. For the convenience of study, the functions performed by the human resource management can broadly be classified into two categories, viz. (1) managerial functions, and (2) operative functions (see fig. 1.2) .

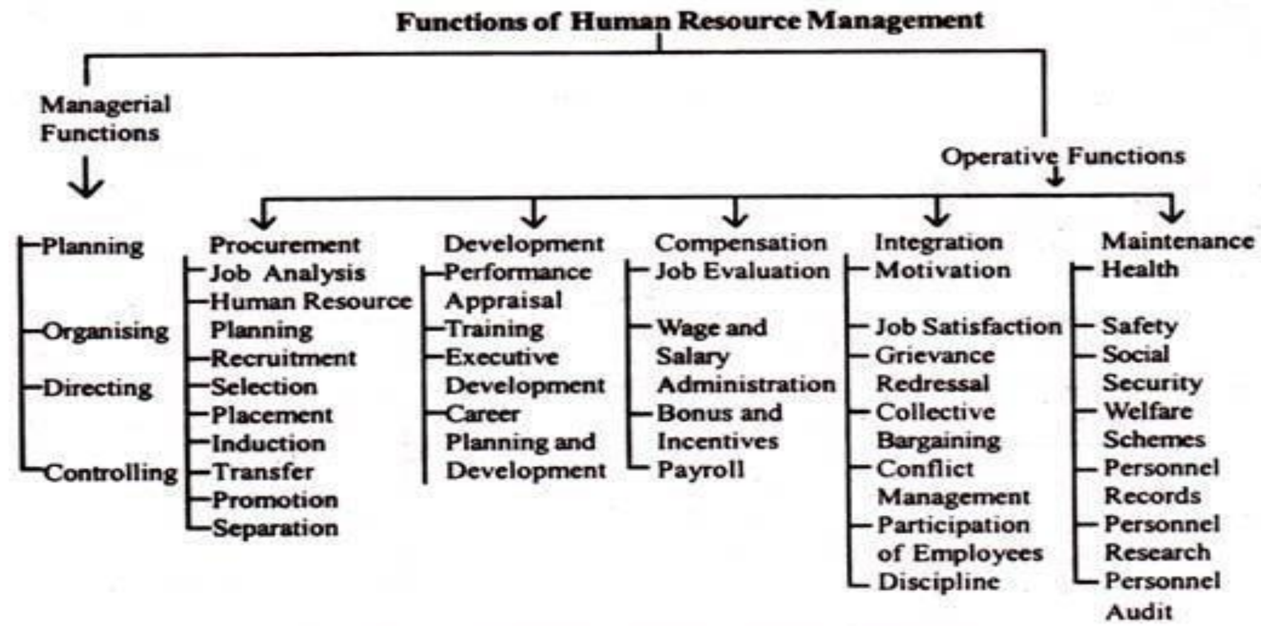


Fig. 1.2 : Functions of Human Resource Management

Managerial Functions

Planning. Planning is a predetermined course of actions. It is a process of determinig the organisational goals and formulation of policies and programmes for achieving them.Thus, planning is future oriented concerned with clearly charting out the desired direction of business activities in future. Forecasting is one of the important elements in the planning process. Other functions of managers depend on planning function.

Organising. Organising is a process by which the structure and allocation of jobs are determined. Thus, organising involves giving each subordinate a specific task, establishing departments, delegating authority to subordinates, establishing channels of authority and communication, coordinating the work of subordinates, and so on.

Staffing: This is a process by which managers select, train, promote and retire their subordinates. This involves deciding what type of people should be hired, recruiting prospective employees, selecting employees, setting performance standard, compensating employees, evaluating performance, counseling employees, training and developing employees.

Directing/Leading: Directing is the process of activating group efforts to achieve the desired goals. It includes activities like getting subordinates to get the job done, maintaining morale, motivating subordinates etc. for achieving the goals of the organisation.

Controlling: It is the process of setting standards for performance, checking to see how actual performance compares with these set standards, and taking corrective actions as needed.

Operative Functions

The operative, also called, service functions are those which are relevant to specific department. These function vary from department to department depending on the nature of the department. Viewed from this standpoint, the operative functions of HRM relate to ensuring right people for right jobs at right times.

These functions include procurement, development, compensation, and maintenance functions of HRM,

Procurement. It involves procuring the right kind of people in appropriate number to be placed in the organisation. It consists of activities such as manpower planning, recruitment, selection, placement and induction or orientation of new employees.

Development. This function involves activities meant to improve the knowledge, skills, aptitudes and values of employees so as to enable them to perform their jobs in a better manner in future. These functions may comprise training to employees, executive training to develop managers, organization development to strike a better fit between organisational climate/culture and employees.

Compensation. Compensation function involves determination of wages and salaries matching with contribution made by employees to organisational goals. In other words, this function ensures equitable and fair remuneration for employees in the organisation. It consists of activities such as job evaluation, wage and salary administration, bonus, incentives, etc.

Maintenance. It is concerned with protecting and promoting employees while at work. For this purpose, various benefits such as housing, medical, educational transport facilities, etc. are provided to the employees. Several social security measures such as providend fund, pension, gratuity, group insurance, etc. are also arranged. It is important to note that the managerial and operative functions of HRM are performed in conjunction with each other in an organisation, be large or small organisation. Having discussed the scope and functions of HRM, now it seems pertinent to delineate the HRM scenario in India. Accordingly, the next chapter is devoted to discuss evolution and environment of HRM in India.

5. SUMMARY

1. HRM is a process of procuring, developing, maintaining, and controlling competent human resources in the organisation so that the organisational goals are achieved in an effective and efficient manner.

2. While personnel management is reactive, human resource management is proactive. HRM also differs from personnel management in the sense that the former emphasises on higher order needs, individualisation of employee relations, and strategic management.

3. The main objective of HRM is to ensure the availability of right people for right jobs at right times so that the organisational goals are achieved effectively.

4. The scope of HRM consists of acquisition, development, maintenance, and control of human resources in the organisation.

5. The functions performed by human resource management are classified as managerial functions and operative functions.

S P Mandali ,Pune -30
Prin.K P Mangalvedhekar Institute of Management Career Development and Research,Solapur
Affiliated to Punyashlok Ahilyadevi Holkar Solapur University

BBA III SEM VI
2022-23

Subject-Human Resource Management II

Compiled by -Faculty Mrs Anjali Pawar

EMPLOYEE HEALTH AND SAFETY

1 MEANING OF HEALTH

The term ‘health’ is a positive and dynamic concept. In common parlance, health implies absence of disease. However, that industrial health implies much more than mere absence of disease is clear from the following definitions of health:

The World Health Organisation (WHO) has defined health as: “a state of complete physical, mental and social well-being and not merely the absence of disease or illness or infirmity”.
As regards the industrial health, it refers to a system of public health and preventive medicine which is applicable to industrial concerns.

Here, the definition of health given by the joint I.L.O./W.H.O. Committee on Organisational Health is worth quoting:
(*i*) the prevention and maintenance of physical, mental and social well-being of workers in all organisations;
(*ii*) prevention among workers of ill-health caused by the working conditions;
(*iii*) protection of workers in their employment from risk resulting from factors adverse to health; and
(*iv*) placing and maintenance of the worker in an occupational environment adapted to his physicial and psychological equipment. Thus, the modern concept of health emphasises on the “whole man concept.”

In other words, health refers to the outcome of the interaction between the individual and his environment. So to say, he/she is healthy who is well adjusted with environment. The modern concept of health thus, anticipates and recognizes potentially harmful situations and applies engineering control measures to prevent disease or illness or infirmity. In this way, industrial health depends not only on the individual worker but also on the environment in which he/she lives and works.

There are two types of employee health: physical health and mental health. A brief mention of these follows:

Physical Health: The physical health refers to infirmity in the employee’s health. Employee’s physical health and his work are intimately related. While an unhealthy employee works less both quantitatively and qualitatively, commits accidents, and remains absent from work, a healthy employee produces results opposite to these. The same underlines the need for and importance of healthy employees in an organisation.

Mental Health: This refers to the mental soundness of the employees. As is physical health important for good performance, so is mental health also. Experience suggests that three factors, namely, mental breakdowns, mental disturbances, and mental illness impair the mental health of employees.

2 IMPORTANCE OF HEALTH

The trite saying ‘*Health is Wealth’* explains the importance of health. Illhealth results in high rate of absenteeism and turnover, industrial discontent and indiscipline, poor performance and low productivity and more accidents. On the contrary, the natural consequences of good health are reduction in the rate of absenteeism and turnover, accidents and occupational diseases. Besides, employee health also provides other benefits such as reduced spoilage, improved morale of employee, increased productivity of employee and also longer working period of an employee which, of course, cannot be easily measured.

In long and short, employee health is important because it helps:

- Maintain and improve the employee performance both quantitatively and qualitatively.
- Reduce employee absenteeism and turnover.
- Minimize industrial unrest and indiscipline.
- Improve employee morale and motivation.

It is this importance of health, increasing emphasis is given to the employee health through various laws and provisions in this regard. For example, in India, the Royal Commission on Labour (1931), the Labour Investigation Committee (1946), the Health Safety and Development Committee (1943), the Labour Welfare Committee (1969) and the National Commission on Labour (1969), all have expressed concern for employee health. These emphasised upon the creation and maintenance of as healthy an environment as possible, in the homes of the employees as well as in all places where they congregate for work, amusement or recreation

The I.L.O. in its Recommendation No.112 envisaged the importance of employee health in these words:
"Occupational health services should be established in or near a place of employment for the purpose of : (*i*) protecting the workers against any health hazard arising out of work or conditions in which it is carried on; (*ii*) contributing towards worker's physical and mental adjustment; and (*iii*) contributing to establishment and maintenance of the highest possible degree of physical and mental well-being of the workers".

3 OCCUPATIONAL HAZARDS AND DISEASES

Employees in certain industries are exposed to certain occupational hazards and diseases. Ronald Blake2 has classified occupational hazards into the following four categories:

1. Chemical Hazards
2. Biological Hazards
3. Environmental Hazards
4. Psychological Hazards.

These are discussed one by one.

Chemical Hazards: The common chemical substances, such as carbon monoxide, carbon dioxide, nitrogen dioxide, sulphur dioxide, hydrocarbons, sulphuric acid, tannic acid, acetic acid, fumeric acid, ozone, limes and alkalies cause injury to the employee when they are absorbed through skin and inhaling or ingesting. Workers may suffer from respiratory diseases, skin diseases, allergy, heart disease, cancer and neurological disorders. These diseseas may be temporary or chronic in nature. Often a disease may be difficult to diagnose because either its symptoms may appear after a long dormant period or may not be apparent at all. These diseases often shorten employee's life expectancy.

Biological Hazards: These hazards are manifested by diseases caused by bacteria, fungi, viruses,insects, dietary deficiencies,exessive drinking, allergies, brain fever, imbalances, tetanus, stresses and strains. All these tell upon employee's health.

Environmental Hazards: Environmental hazards may include noise pollution, vibration and shocks, illumination, radiation, heat, ventilation, air and water pollution. These hazards cause redness of eyes, genetic disorders, cancer, sterility, hearing loss, nerve injury etc., to workers.

Psychological Hazards: Industrial/job stress caused by various stressors3, such as task and role demands, organisational leadership,lack of group cohesion, intergroup and interpersonal conflicts,life and career changes, etc., lead to emotional disturbances which, in turn, lead to fatigue and exhaustion. All these affect health of employees.

Appart from occupational hazards, there are some occupational diseases also that impair health of employees in industries.

A brief mention of these follows:

Occupational Diseases:
Occupational diseases are caused by working conditions prevalent in industries.
Let these be exemplified with a few examples.
Workers working on lead (e.g., cable-makers, lead pipe makers, compositors, painters and plumbers) fall prey to 'painter's colic' or 'wrist drop' disease. This disease causes vomitting, stomach pains, joint pains and loss of appetite4. . It may even lead the workers to collapse.
Workers working in handling wool, hoofs, hides, hair bristles, animal caracasses etc., become victim of *anthrax*5.Like occupational hazards, occupational diseases also develop with worker's frequent exposure to unhealthy working conditions. They develop slowly with accumulated effects over an extended period of time

The Factories Act, 1948 vide sections 89 and 90 have identified the following 22 occcupational diseases6 . As per this Act, such diseases when noticed are to be notified to the government authorities.

1. Lead poisoning
2. Lead tetraethyl poisoning
3. Phosphorous poisoning
4. Manganese poisoning
5. Mercury poisoning
6. Arsenic poisoning
7. Poisoning from nitrous fumes
8. Carbon bisulphide poisoning
9. Benzene poisoning
10. Chrome ulceration
11. Anthrax
12. Silicosis
13. Halogen poisoning
14. Radiation
15. Primary skin cancer
16. Toxic jaundice
17. Mineral oil poisoning

18. Byssionsis
(Dermatitis)

19. Asbestosis

20. Toxic Anaemia

21. Chemicals and pair poisoning
22. Loss of hearing due to noise pollution and pressures
In addition to above ones,the Workmen's Compensation Act, 1923 has identified the following three occupational diseases:
1. Occupational cataract caused by infra red-radiation;
2. Telegraphist's cramp; and
3. Begassoise
Occupational hazards and diseases benefit none. Hence, there is a need to cure, prevent and protect against them.

4 PROTECTION AGAINST HAZARDS

Industrial establishments can take two types of measures to protect worker's health against occupational hazards:
1. Preventive Measures
2. Curative Measures
Let us discuss these one by one.

Preventive Measures
These are based on the philosophy that *prevention is better than cure.* The preventive measures to protect employee against occupational health hazards may include:
 Pre-employment medical examination.
 Periodic post-employment medical examination.
 Removal of hazardous conditions to the extent possible.
 Surveillance of special classes of workers such as women workers and child labourers exposed to health hazards.
 Emergency treatment in case of accidents.
 Education of workers in health and hygiene.
 Training in first-aid to workers.
 Proper factory layout and illumination.
 Proper effluent Disposal Treatment Plants.
 Proper redesign of job to remove monotony and fatigue.
 Proper scheduling of the work with adequate rest.

Curative Measures
The curative measures begin once a worker actually suffers from ill-health or sickness or disease. The curative measures include the following:
 Adequate and timely medical treatment.
 Allowing the employee adequate period of canvalescing and recuperating.
 Adequate compensation.

 Allowing the needed best medical treatment from outside hospitals.

5 STATUTORY PROVISIONS CONCERNING HEALTH

The Factories Act, 1948 insists that the following provisions must be made in industrial establishment for safeguarding employee health:

1. Cleanliness: Every factory should be kept clean and free from effuvia arising from drain and privy refuse, dirt and such other nuisance. For this, the factory walls, partitions, ceilings, doors, windows, etc. should be whitewashed at least once in 14 months and painted and whitewashed once in 5 years. The floor should be swept and cleaned, at least once every week by washing using disinfactant fluid or by similar other methods.

2. Disposal of Wastes and Effluents: Effective measures should be taken in every factory for disposal of wastes and effluents arising out of manufacturing process. These effluents should be rendered innocuous.

3. Ventilation and Temperature: Proper provisions should be made in every factory for ensuring circulation of fresh air. Temperature should be maintained by using such materials in building walls and roofs as would keep it as low as required and reasonable.

4. Dust and Fumes: Effective and suitable measures should be taken to prevent or at any rate reduce the inhalation and accumulation of dust and fumes. Added to this is use of exhaust appliances near the point of origin of dust, fumes and other impurity. Such points should be enclosed as far as possible.

5. Lighting: Sufficient lighting, natural or artificial or both, should be made available in every place of factory where workers are working. Efforts should be made to keep all glazed windows and sky lights, clean and free from obstruction.

6. Overcrowding: Effective arrangements should be made to avoid overcrowding of workers at a room. Every worker should be provided at least 500 cu. ft. of space for his/her work.

7. Drinking Water: Effective and adequate arrangements should be made to provide drinking water throughout the year at suitable points conveniently situated for all workers. But, no such points shall be situated within six metres of any washing place, urinal, latrine, spittoon or any other sources of contamination.

8. Privy: In every factory, adequate latrines and urinal should be separately provided for men and women employees. These should be adequately lighted and ventilated.

9. Spittoons: Sufficient number of spittoons should be provided in the factory premises at the appropriate places. Spitting at open places in the premises should be strictly prohibited. Spittoons should be kept and maintained in clean and hyginic conditions.

10. First-Aid Appliances: Arrangement should be made for adequate number of first-aid boxes. There should also be adequate number of personnel to administer first-aid. There should be an ambulance readily available in the factory as and when required.

6 ACCIDENTS: THEIR TYPES AND CAUSES

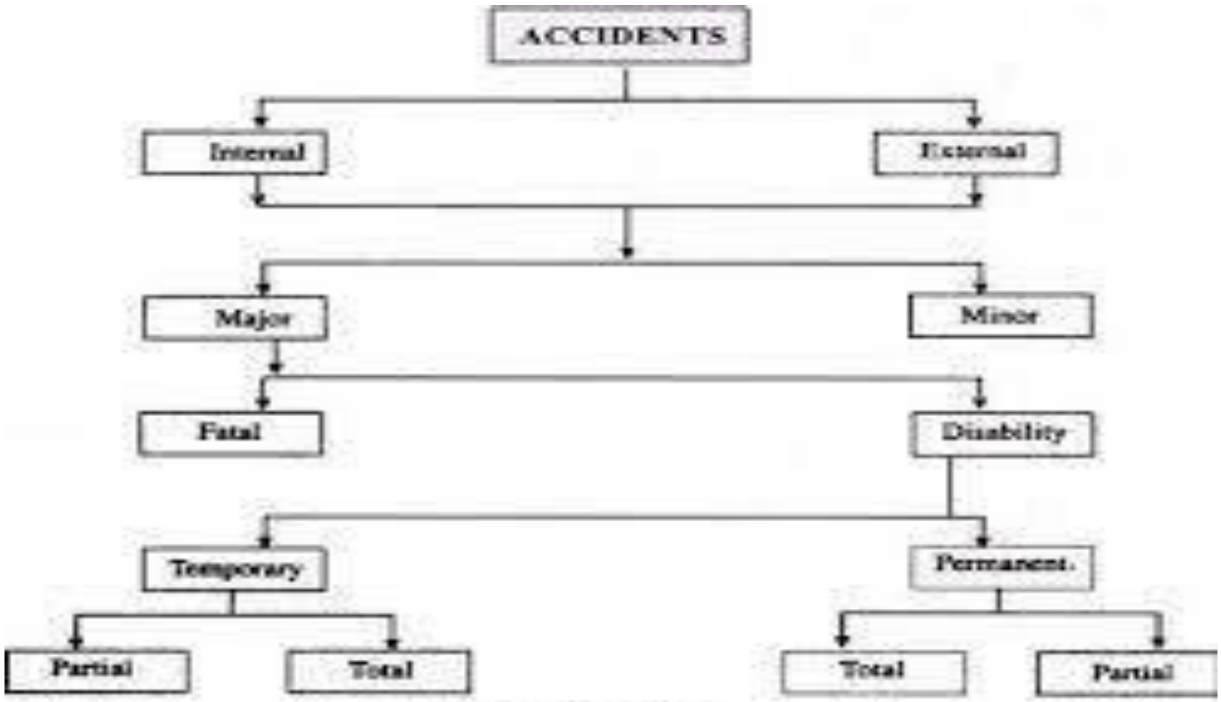
The ever increasing mechanisation, electrification, chemicalisation and sophistication have made industrial jobs more and more complex and intricate. This has led to increased dangers to human life in industries through accidents and injuries. In fact, the same underlines the need for and importance of industrial safety. Let us first understand what industrial accident actually means.

Industrial Accident

An accident (industrial) is a sudden and unexpected occurance in the industry which interrupts the orderly progress of the work. According to the Factories Act, 1948: “It is an occurance in an industrial establishment causing bodily injury to a person which makes him unfit to resume his duties in the next 48 hours”. In other words, accident is an unexpected event in the course of employment which is neither anticipated nor designed to occur. Thus, an accident is an unplanned and uncontrolled event in which an action or reaction of an object, a substance, a person, or a radiation results in personal injury8 . It is important to note that self-inflicted injuries cannot be regarded as accidents.

An *industrial injury* is defined as “a personal injury to an employee which has been caused by an accident or an occupational disease and which arises out of or in the course of employment and which could entitle such employee to compensation under Workers Compensation Act, 1923”9.

Types of Accidents



Types of Accidents

Accidents may be of different types depending upon the severity, durability and degree of the injury. An accident causing death or permanent or prolonged disability to the injured employee is called ‘major’ accident. A cut that does not render the employee disabled is termed as ‘minor’ accident.

When an employee gets injury with external signs of it, it is external injury. Injury without showing external signs such as a fractured bone is called an internal one. When an injury renders an injured employee disabled for a short period, say, a day or a week, it is a temporary accident. On the contrary, making injured employee disabled for ever is called permanent accident. Disability caused by accident may be partial or total, fatal or non-fatal.

No accident occurs automatically. Instead, certain factors cause accidents. It has been noticed

that an accident does not have a single cause but a multipticity of causes, which are often closely related. The same is discussed subsequently.

Causes of Accidents

The industrial safety experts have classified the causes of accidents into three broad categories:

1. Unsafe conditions
2. Unsafe Acts
3. Other Causes

These are disscussed, in brief.

1. Unsafe Conditions (work-related): Unsafe working conditions are the biggest cause of accidents.

These are associated with defective plants, tools, equipments, machines and materials. Such causes are known as ‘technical causes’. They arise when there are improper guarded equipments, defective equipments, faulty layout and location of plant, inadequate lighting arrangements and ventilation, unsafe storage, inadequate safety devices, etc. Besides, the psychological reasons such as working over time, monotony, fatigue, tiredness, frustration and anxiety are also some other causes that cause accidents. Safety experts identify that there are some high danger zones in an industry. These are, for example, handlift trucks, wheel-barrows, gears and pulleys, saws and hand rails, chisels and screw drivers, electric drop lights, etc., where about one-third of industrial accidents occur.

2. Unsafe Acts: Industrial accidents occur due to certain acts on the part of workers. These acts may be the result of lack of knowledge or skill on the part of the worker, certain bodily defects and wrong attitude.

Examples of these acts are:
(a) Operating without authority.
(b) Failure to use safe attire or personal protective equipments.
(c) Careless throwing of material at the work palce.
(d) Working at unsafe speed, i.e., too fast or too low.
(e) Using unsafe equipment, or using equipments unsafely.
(f) Removing safety devices.
(g) Taking unsafe position under suspended loads.
(h) Distracting, teasing, abusing, quarreling, day-dreaming, horseplay
(i) One’s own accident prone personality and behaviour.

3. Other Causes: These causes arise out of unsafe situational and climatic conditions and variations. These may include excessive noise, very high temperature, humid conditions, bad working conditions, unhealthy environment, slippery floors, excessive glare, dust and fume, arrogant behavior of domineering suspervisors, etc. Of late, industrial accidents have become common happening in our country.

A brief catalogue of major accidents in the recent past in India is produced here:

It is reported that in every twenty seconds of every working minute of every hour throughout the world, someone dies as a result of an industrial accident. Industrial accidents cause losses to the employees and organisations as well.
Accidents causing losses to the industrial establishments need to be avoided. Adequate safety measures can avoid accidents. The subsequent discussion focuses on certain questions: What?, why?, and How safety?

Safety
In simple words, safety means freedom from the occurance or risk of injury or loss. As regards, industrial safety, it means the protection of employees/workers from the danger or risk of industrial accidents. In other words, industrial safety refers to protection against accidents occuring in the industrial establishments.

20.7 SIGNIFICANCE OF INDUSTRIAL SAFETY

Safety i.e., accident-free industry enjoys certain benefits. The following are the major ones:

1. It saves costs: Occurance of an accident involves two types of costs: direct costs and indirect costs. The direct cost is in the form of compensation payable to the dependents of the victim employee, and medical expenses incurred in treating the patient employee if the accident is not fatal. However, the management has not to bear the direct cost if the victim is insured under the ESI Scheme.
The indirect costs, also called the 'hidden costs', include loss on account of down-time of operators,slowed-up production rate of other workers, materials spoiled, and damages to equipment. Added to these is the injured employee's work performance less than his normal efficiency. Research evidences indicate that the indirect costs are three to four times higher than the direct costs.
But, the safety by avoiding accidents eliminates these direct and indirect costs.

2. It improves productivity: As safe conditions at the work place keep employees free from worrying about their safety, they devote more time to improving the quantity and quality of their output. Thus, safety in the industry promotes productivity.
3. It develops moral: An industrial employee is a worker in the factory and at the same time, breadearner for his/her family. Hence, the happiness of his/her family is tagged to the well-being of the worker. Safety is, therefore, important on human grounds as well.

4. Safety is a legal requirement: The maintenance of safety in the factory premises is a legal requirement for the industry. There are laws and acts for ensuring safety measures in the factory, and imposing penalties on non-compliance of the same has become quite severe.

Given the benefits safety offers to an industrial establishment, as seen above, there is, therefore, a need for avoiding accidents. Adequate safety measures and precautions can avoid accident. The next section deals with the same.

20.8 SAFETY MEASURES/PROGRAMMES

There are several measures to maintain safety and avoid accidents in the industrial establishments.

The important safety measures or programes are discussed here:

1. Reduction in Unsafe Condition: One measure to prevent accidents may be maintaining a check on unsafe work conditions. These may include keeping the floors clean, maintaining adequate light and ventilation, proper maintenance of machines, equipments, and tools and sufficient space for workers for their movement without obstructions.

2. Safety Committee: Taking precautions and providing safety equipments will not ensure safety at work place. This should be backed up motivating workers to take care of themselves and their partners while at work. For this, a safety committee consisting of the representatives of both the employer and the employees should be constituted. The formulation and implementation of the safety programmes be effected through the safety committee.

3. Safety Education and Training: Employees should be given safety education and training to make them safety conscious. It can be done through posters, bulletins, cartoons, slogans, films,signs and house organs and supplemented by holding seminars, safety weeks and safety contests. Provisions should be made for disciplinary actions/punishments for breach of safety regulations.

4. Inspection: Strict vigilance should be kept in plant and machinery to ensure safety in the factory. Machines, equipments and electric cables should be inspected on regular basis to prevent untoward incidence in factory premises.

5. Role of Government: Realising the significance of safety at work places, the Government of India has established the Factory Advice Service and Labour Institute, Mumbai with an objective to render advice on safety meausures and enforce safety laws. Also, the National Safety Council was set up in 1966 to promote safety consciousness among the workers, avoid accidents and conduct safety
programmes in the industries. Celebrating the National Safety Day and awarding the National Safety Awards every year also aim at promoting safety awareness to prevent accidents in the industrial
establishments.
Besides these, the Government of India has made legal provisions for ensuring safety in industries.
These are discussed in the next section.

9. STATUTORY PROVISIONS FOR INDUSTRIAL SAFETY IN INDIA

The International Labour Organisation (ILO) organised a Tripartite Technical Conference in 1948 to formulate a 'Model Code' of Safety Regulations for Industrial Establishments for the guidance of governments and industry. The code covers various areas of unsafe conditions and unsafe acts.
In India, The Factories Act, 1948 lays down safety provisions contained in Sections 21 to 41. These provisions are obligatory on the part of industrial establishments. A brief resume of these is presented as follows:

1. Fencing of Machinery (Section 21): It is obligatory on the part of the management to fence machinery with guards of a substantial construction. The same shall be constantly maintained and kept in its proper position when any part of the machine is in motion or movement.

2. Work on or Near Machinery in Motion (Section 22): A trained adult male worker wearing tight fitting clothing should examine and operate the machine in motion. He should not handle a belt on a moving pulley more than fifteen centimetres in width. No young children or women should handle a machine which is in motion.

3. Employment of Adolescents on Dangerous Machines (Section 23): Young persons should not be allowed to work on dangerous machines unless he has been fully instructed as to the dangers involved and he has received sufficient training to work on the machine under the supervision of a person having thorough knowledge and experience of working on that machine.

4. Striking Gear or Device for Cutting off Power (Section 24): Every factory must provide suitable striking gear to move driving belt to and from fast and loose pulleys which form part of transmission machinery. There should also be a locking device to prevent accidental starting of transmission machinery to which the device is fitted.

5. Self-Acting Machines (Section 25): No traversing part of a self-acting machine and no material carried thereon shall be allowed to run within a distance of 45 centimetres from any fixed structure which is not a part of the machine.

6. Casting of New Machinery (Section 26): All machinery driven by power and installed in any factory after April 1, 1949, every set crew,bolt or key, spindle shall be sunk or securely guarded to prevent any danger. Further, all spur, worm and toothed or friction gearing while in operation shall be completely uneased unless it is safely situated.

7. Prohibition of Employment of Woman and Children near Cotton Openers (Section 27): Women and children shall not be employed in any part of a factory for pressing cottons when cotton opener is in operation. However, women and children may be employed in a room which is separated from opener.

8. Hoists and Lifts (Section 28): In every factory, hoists and lifts should be in good condition and should be examined once in every six months.

9. Lifting Machines, Tackles, Chains and Ropes (Section 29): Similarly, in every factory, lifting machines chains, ropes and lifting tackles must be in good construction and should be examined once in a year.

10. Revolving Machinery (Section 30): In every room where grinding work is going on, a notice indicating the maximum safe working peripherials speed of the machine shall be affixed near it. Effective measures will also be taken in every factory to ensure that the safe working peripherial speed of every revolving vessel, cage, basket, flywheel, pulley, or similar other appliances driven by power is not exceeded.

11. Pressure Plants (Section 31): If in any factory, any plant or its part is operated at a pressure above atmospheric pressure, the pressure should not be allowed to exceed by taking effective measures in this regard.

12. Floors, Stairs and Other Means of Access (Section 32): In every factory, all floors, steps, stairs, passage and gangway shall be of sound construction and be properly maintained.

13. Pits and Openings in Floors (Section 33): Since every fixed vessel, sumps, tank, pit, or opening in a floor may be a source of danger, therefore, shall be securely covered or fenced.

14. Excessive Weights (Section 34): No person shall be employed in the factory to lift or carry excess load/weight so as to cause him/her physical injury.

15. Protection of Eyes (Section 35): In every factory, adequate provisions of goggles or screen to protect persons working on machine which might cause damage to their eyesight, shall be made.

16. Precaution against Dangerous Fumes (Section 36): No employee in any factory shall be allowed to enter any chamber, tank, pit, vat, pipe, flue or such other confined place in which any gas or fume is present.

17. Explosive or Inflammable Gas or Dust (Section 37): In any factory which produces through its manufacturing process dust, gas, fume or vapour of such nature exploding on ignition, effective measures such as enclosure of the plant or machinery used in the process, removal of accumulated dust or fume and effective enclosure of all possible source of ignition, should be taken to prevent explosion likely to be caused by gas or fume.

18. Precaution in Case of Fire (Section 38): In every factory, effective messures be taken to prevent outbreak of fire and its spread. These may include exit door to escape in case of fire, necessary equipments and facilities for extinguishing fire and adequate arrangement to raise alarm in case of fire, preferably a siren.

19. Power to Require Specification of Defective Parts or Tests of Stability (Section 39): If it appears to the factory inspector that any building or part of it is in such a condition that it is dangerous to human life, he/she may ask for details about them or insist on suitable tests to determine their safety.

20. Safety of Building and Machinery (Section 40): Where unsafe condition of building and machinery is reported, the inspector having being satisfied, may ask the occupier or manager to repair it suitably.

21. Power to Make Rules (Secton 41): The state Government is empowered to make rules requiring the provision in any factory of such further devices and measures for securing safety of persons employed therein.

The other acts covering statutory provisions of safety are:
Mines Act, 1952
Plantation Labour Act, 1961
Bidi and Cigar Workers (Conditions of Employment) Act, 1966.
Contract Labour (Regulation and Abolition) Act, 1970
Motor Transport Workers Act, 1961

10 SUMMARY

1. Health refers to a complete mental, physical and social well - being of the industrial workers. The importance of health lies in improved productivity, reduced absenteeism and turnover minimized industrial unrest and indiscipline and imporved employee morale and motivation.

2. The main occupational hazards are chemical, biological, environmental and psychological hazards. Wrist drop, anthrax, poisoning, skin cancer, radiation, toxic jaundice, toxic anaemia,etc. are the serious occupational diseases.

3. Both preventive and curative measures help protect health of industrial workers.

4. That the poor health of employees leads to increased accidents and injuries appreciates the need for industrial safety.

5. Unsafe working conditions, unsafe acts and other environmental factors cause industrial accidents. Internal/external and major/minor are the main types of industrial accidents.

6. The Factories Act, 1948 has laid down detailed provisions for maintaining safety at the work place.

S.P. Mandali Pune,30

Prin. K.P. Mangalvedhekar Institute of Management Career Development & Research

Affiliated to Punyashlok Ahilyadevi Holkar Solapur University , Solapur

Academic Year 2022-23

Class: - BBA III SEM VI

Course Name: - Financial Management II

Compiled By

Mrs. Snehal A. Pathak

M.Com. , CA Intermediate

Chapter No. 1Capital Budgeting

Meaning of Capital Budgeting

Capital budgeting decision may be defined as "Firms decisions to invest its current funds most efficiently in long term activities in anticipation of an expected flow of future benefits over a series of year. The firm's capital budgeting decisions will include addition, disposition, modification and replacement of fixed assets".

Definitions:

1.Charles. T.Horngreen defined capital budgeting as "Long term planning for making and financing proposed capital out lay".
2. According to Keller and Ferrara, "Capital Budgeting represents the plans for the appropriation and expenditure for fixed asset during the budget period".
3. Robert N. Anthony defined as "Capital Budget is essentially a list of what management believes to be worthwhile projects for the acquisition of new capital assets together with the estimated cost of each product".

Importance & Need of capital Budgeting Decisions :-
The selection of the most profitable project of capital investment is the key function of Financial Manager. The decisions taken by the management in this area affect the operations of the firm for many years. Capital budgeting decisions may be generally needed for the following purposes:
a) Expansion;b) Replacement;c) Diversification;
d) Buy or lease e) Research and Development.

a) Expansion: The firm requires additional funds to invest in fixed assets when it intends to expand the production facilities in view of the increase in demand for their product in near future. Accordingly the current assets will increase. In case of expansion the existing infrastructure – like plant, machinery and other fixed assets is inadequate, to carry out the increased production volume. Thus the firm needs funds for such project. This will include not only expenditure on fixed assets (infrastructure) but also an increase in working capital (current assets).

b) Replacement: The machines and equipment used in production may either wear out or may be rendered obsolet due to new technology. The productive capacity and competitive ability of the firm may be adversely affected. The firm needs funds or modernisation of a certain machines or for renovation of the entire plant etc., to make them more efficient and productive. Modernization and renovation will be a substitute for total replacement, where renovation or modernization is not desirable or feasible, funds will be needed for replacement.

c) Diversification: If the management of the firm decided to diversify its production into other lines by adding a new line to its original line, the process of diversification would require large funds for long-term investment. For example ITC and Philips company for their diversification.

d) Buy or Lease: This is a most important decision area in Financial Management whether the firm acquire the desired equipment and building on lease or buy it". If the asset is acquired on lease, there have to be made a series of annual or monthly rental payments. If the asset is purchased, there will be a large initial commitment of funds, but not further payments. The decision – making area is which course of action will be better to follow? The costs and benefits of the two alternative methods should be matched and compared to arrive at a conclusion.

e) Research and Development: The existing production and operations can be improved by the application of new and more sophisticated production and operations management techniques. New technology can be borrowed or developed in the laboratories. There is a greater need of funds for continuous research and development of new technology for future benefits or returns from
such investments.

Importance of Capital Budgeting Decisions

Capital Budgeting decisions are considered important for a variety of reasons. Some of them are the following:

1) Crucial decisions: Capital budgeting decisions are crucial, affecting all the departments of the firm. So the capital budgeting decisions should be taken very carefully.

2) Long-run decisions: The implications of capital budgeting decisions extend to a longer period in the future. The consequences of a wrong decision will be disastrous for the survival of the firm.

3) Large amount of funds: Capital budgeting decisions involve spending large amount of funds. As such proper care should be exercised to see that these funds are invested in productive purchases.

4)Rigid: Capital budgeting decision can not be altered easily to suit the purpose. Because of this reason, when once funds are committed in a project, they are to be coutinued till the end, loss or profit no matter.

Capital Budgeting Techniques :-

These methods are based on the principles to determine the desirability of an investment project on the basis of its useful life and expected returns. These methods depend upon the accounting information available from the books of accounts of the company. These will not take into account the concept of 'time value of money' which is a signification factors to desirability of a project in terms of present value.

1. Pay-back Period

It is the most popular and widely recognized traditional methods of evaluating the investment proposals. It can be defined as "the number of years to recover the original capital invested in a project". According to Weston and Brigham, "the pay back period is the number of years it takes for the firm to recover its original investment by net returns before depreciation, but after taxes:

a) When cash flows are uniform: If the proposed project's cash inflows are uniform the following formula can be used to calculate the payback period.

Payback period = AnnualCash inflows Initial Investment

b) When cash flows are not uniform

When the project's cash inflows are not uniform, but vary from year to year pay back period is calculated by the process of cumulating cash inflows till the time when cumulative cash flows become equal to the original investment outlay.

The payback period can be used as an accept or reject criterion as well as a method of ranking projects. The payback period is the number of years to recover the investment made in a project. If the payback period calculated for a project is less than the maximum payback period set-up by the company, it can be accepted. As a ranking method it gives the highest rank to a project which has the lowest payback period, and the lowest rank to a project with the highest payback period. Whenever a company faces the problem of choosing among two or more mutually exclusive projects, it can select a project on the basis of payback period, which has shorter period than the other projects.

Merits: The following are the merits of the pay back period method:

(i) Easy to calculate: It is one of the easiest methods of evaluating the investment projects. It is simple to understand and easy to compute.

(ii) Knowledge: The knowledge of payback period is useful in decision-making, the shorter the period better the project.

(iii) Protection from loss due to obsolescence: This method is very suitable to such industries where mechanical and technical changes are routine practice and hence, shorter payback period practice avoids such losses.

(iv) Easily availability of information: It can be computed on the basis of accounting information, what is available from the books.

Demerits: However, the payback period method has certain demerits:

(i) Failure in taking cash flows after payback period: This methods is not taking into account the cash flows received by the company after the payback period.

(i) Not considering the time value of money: It does not take into account the time value of money.

(iii) Non-considering of interest factor: It does not take into account the interest factor involved in the capital outlay.

(v) Failure in taking magnitude and timing of cash inflows: It fails to consider the pattern of cash inflows i.e. the magnitude and timing of cash inflows.

2. Accounting or Average Rate of Return (ARR)

This technique uses the accounting information revealed by the financial statements to measure the profitability of an investment proposal. It can be determined by dividing the average income after taxes by the average investment. According to Soloman, Accounting Rate of Return can be calculated as the ratio, of average net income to the initial investment.

On the basis of this method, the company can select all those projects whose ARR is higher than the minimum rate established by the company. It can reject the projects with an ARR lower than the expected rate of return. This method also helps the management to rank the proposal on the basis of ARR.

Accounting Rate of Return (ARR) = *Original Investment AverageNet Income*

OR

Accounting Rate of Return (ARR) = *Average Investment AverageNet Income*

Acceptance Rule:

The project which gives the highest rate of return over the minimum required rate of return is acceptable

Merits: The following are the merits of ARR method:

(i) It is very simple to understand and calculate;

(ii) It can be readily computed with the help of the available accounting data;

(iii) It uses the entire stream of earnings to calculate the ARR.

Demerits: This method has the following demerits:

(i) It is not based on cash flows generated by a project;

(ii) This method does not consider the objective of wealth maximization;

(iii) It ignore the length of the projects useful life;

(iv) If does not take into account the fact that the profile can be re-invested; and

(v) It ignores the time value of money.

3. Net Present Value (NPV):

The net present value method is a classic method of evaluating the investment proposals. It is one of the methods of discounted cash flow techniques, which recognizes the importance of time value of money. It correctly postulates that cash flows arising at time periods differ in value and are comparable only with their equivalents i.e. present values.

It is a method of calculating the present value of cash flows (inflows and outflows) of an investment proposal using the cost of capital as an appropriate discounting rate. The net present value will be arrived at by subtracting the present value of cash outflows from the present value of cash inflows. According to Ezra Soloman, “it is a present value of the cast of the investment.”

Steps to compute net present value:

(i) Estimation of future cash inflows
(ii) An appropriate rate of interest should be selected to discount the cash flows. Generally, this will be the “cost of capital” of the company, or required rate of return.
(iii) The present value of inflows and outflows of an investment proposal has to be computed by discounting them with an appropriate cost of capital.
(iv) The net value is the difference between the present value of cash inflows and the present value of cash outflows.
The formula for the net present value can be written as:
NPV = C1 + C2 + Cn
(1+K)1 (1+K)2 (1+k)n
Where
C = Annual Cash inflows,
Cn= Cash inflow in the year n
K = Cost of Capital
I = Initial Investment

Acceptance Rule:
If the NPV is positive or atleast equal to zero, the project can be accepted. If it is negative, the proposal can be rejected. Among the various alternatives, the project which gives the highest positive NPV should be selected.
NPV is positive = Cash inflows are generated at a rate higher than the minimum required by the firm.
NPV is zero = Cash inflows are generated at a rate equal to the minimum required.
NPV is negative = Cash inflows are generated at a rate lower than the minimum required by the firm.
The market value per share will increase if the project with positive NPV is selected.
The accept/reject criterion under the NPV method can also be put as:
NPV>Zero Accept
NPV<Zero Reject
NPV=0 May accept or reject
Merits: The following are the merits of the net present value (NPV) methods:

(i) Consideration to total Cash Inflows: The NPV methods considers the total cash inflows of investment opportunities over the entire life-time of the projects unlike the payback period methods.

(ii) Recognition to the Time Value of Money: This methods explicitly recognizes the time value of money, which is investable for making meaningful financial decisions.
(iii) Changing Discount Rate: Due to change in the risk pattern of the investor different discount rates can be used.
(iv) Best decision criteria for Mutually Exclusive Projects: This Method is particularly useful for the selection of mutually exclusive projects. It serves as the best decision criteria for mutually exclusive choice proposals.
(v) Maximisation of the Shareholders Wealth: Finally, the NPV method is instrumental in achieving the objective of the maximization of the shareholders' wealth. This method is logically consistent with the company's objective of maximizing shareholders' wealth in terms of maximizing market value of shares, and theoretically correct for the selections of investment proposals.
Demerits: The following are the demerits of the net present value method:
(i) It is difficult to understand and use.
(ii) The NPV is calculated by using the cost of capital as a discount rate. But the concept of cost of capital itself is difficult to understand and determine.
(iii) It does not give solutions when the comparable projects are involved in different amounts of investment.
(iv) It does not give correct answer to a question when alternative projects of limited funds are available, with unequal lives.

Unit II
Forms of Business Organisation

INTRODUCTION

If one is planning to start a business or is interested in expanding an existing one, an important decision relates to the choice of the form of organisation. The most appropriate form is determined by weighing the advantages and disadvantages of each type of organisation against one's own requirements.

Various forms of business organisations from which one can choose the right one include:

(a) Sole proprietorship,

(b) Partnership,

(c) Cooperative societies, and

(d) Joint stock company.

SOLE PROPRIETORSHIP

Do you often go in the evenings to buy registers, pens, chart papers, etc., from a small neighbourhood stationery store? Well, in all probability in the course of your transactions, you have interacted with a sole proprietor.

Sole proprietorship is a popular form of business organisation and is the most suitable form for small businesses, especially in their initial years of operation. Sole proprietorship refers to a form of business organisation which is owned, managed and

controlled by an individual who is the recipient of all profits and bearer of all risks. This is evident from the term itself. The word "sole" implies "only", and "proprietor" refers to "owner". Hence, a sole proprietor is the one whois the *only owner* of a business.

This form of business is particularly common in areas of personalised services such as beauty parlours, hair saloons and small scale activities likerunning a retail shop in a locality.

the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts. As such the owner's personal possessions such as his/her personal car and other assets could be sold for repaying the debt.

Definition:

J.L. Hansen

Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business.

Features

Salient characteristics of the sole proprietorship form of organisation are as follows:

(i) **Formation and closure:** There is no separate law that governs sole proprietorship. Hardly any legal formalities are required to start a sole proprietary business, though in some cases one may require a license. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.

(ii) **Liability:** Sole proprietors have unlimited liability. This implies that have to bring in Rs. 20,000 from her personal sources even if she has to sell her personal property to repay the firm's debts.

(iii) **Sole risk bearer and profit recipient:** The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.

(iv) **Control:** The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.

(v) **No separate entity:** In the eyes of the law, no distinction is made between the sole trader and his business, as business does not have an identity separate from the owner. The owner is, therefore, held responsible for all the activities of the business.

(vi) **Lack of business continuity:** The sale proprietorship business is owned and controlled by one person, therefore death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business and may even cause closure of the business.

Merits

Sole proprietorship offers many advantages. Some of the important ones are as follows:

(i) **Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to consult others. This may lead to timely capitalisation of market opportunities as and when they arise.

(ii) Confidentiality of information: Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.

(iii) Direct incentive: A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard.

(iv) Sense of accomplishment: There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instils in the individual a sense of accomplishment and confidence in one's abilities.

(v) Ease of formation and closure: An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship. As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.

Limitations

Not with standing various advantages, the sole proprietorship form of organisation is not free from limitations. Some of the major limitations of sole proprietorship are as follows:

(i) Limited resources: Resources of a sole proprietor are limited to his/her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long term loan to a sole proprietor. Lack of resources is one of the major reasons why the size of the business rarely grows much and generally remains small.

(ii) Limited life of a business concern: The sole proprietorship business is owned and controlled by one person, so death, insanity, imprisonment, physical ailment or bankruptcy of a proprietor affects the business and can lead to its closure.

(iii) Unlimited liability: A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision or an unfavourable circumstance can create serious financial burden on the owner. That is why a sole proprietor is less inclined to take risks in the form of innovation or expansion.

(iv) **Limited managerial ability:** The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas. Thus decision making may not be balanced in all the cases. Also, due to limited resources, sole proprietor may not be able to employ and retain talented and ambitious employees.

Though sole proprietorship suffers from various shortcomings, many entrepreneurs opt for this form of organisation because of its inherent advantages. It requires less amount of capital. It is best suited for businesses which are carried out on a small scale and where customers demand personalised services.

(i) **Effective control:** The *karta* has absolute decision making power. This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.

(ii) **Continued business existence:** The death of the *karta* will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated and continuity of business is not threatened.

(iii) **Limited liability of members:** The liability of all the co-parceners except the *karta* is limited to their share in the business, and consequently their risk is well-defined and precise.

(iv) Increased loyalty and cooperation: Since the business is run by the members of a family, there is a greater sense of loyalty towards one other. Pride in the growth of business is linked to the achievements of the family. This helps in securing better cooperation from all the members.

Limitation

The following are some of the limitations of a joint Hindu family business.

(i) **Limited resources:** The joint Hindu family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion of business.

(ii) **Unlimited liability of *karta*:** The *karta* is burdened not only with the responsibility of decision making and management of business, but also suffers from the disadvantage of having unlimited liability. His personal property can be used to repay business debts.

(iii) Dominance of *karta*: The *karta* individually manages the business which may at times not be acceptable to other members. This may cause conflict amongst them and may even lead to break down of the family unit.

(iv) Limited managerial skills: Since the *karta* cannot be an expert in all areas of management, the business may suffer as a result of his unwise decisions. His inability to decide effectively may result into poor profits or even losses for the organisation.

The joint Hindu family business is on the decline because of the diminishing number of joint Hindu families in the country.

2.2 PARTNERSHIP

The inherent disadvantage of the sole proprietorship in financing and managing an expanding business paved the way for partnership as a viable option. Partnership serves as an answer to the needs of greater capital investment, varied skills and sharing of risks.

The Indian Partnership Act, 1932 defines partnership as "the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all."

Features

Definitions given above point to the following major characteristics of the partnership form of business organisation.

(i) Formation: The partnership form of business organisation is governed by the Indian Partnership Act, 1932.
Liable to that extent. Individually too, each partner can be held responsible repaying the debts of the business. However, such a partner can later recover from other partners an amount of money equivalent to the shares in liability defined as per the partnership agreement.

L H Haney:-

Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain.

It comes into existence through a legal agreement wherein the terms and conditions governing the relationship among the partners, sharing of profits and losses and the manner of conducting the business are specified. It may be pointed out that the business must be lawful and run with the motive of profit. Thus, two people coming together for charitable purposes will not constitute a partnership.

(ii) **Liability:** The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case the business assets are insufficient. Further, the partners are jointly and individually liable for payment of debts. Jointly, all the partners are responsible for the debts and they contribute in proportion totheir share in business and as such are

(iii) **Risk bearing:** The partners bear the risks involved in running a business as a team. The reward comes in the form of profits which are shared by the partners in an agreed ratio. However, they also share losses in the same ratio in the event of the firm incurring losses.

(iv) **Decision making and control:** The partners share amongst themselves the responsibility of decision making and control of day to day activities. Decisions are generally taken with mutual consent. Thus, the activities of a partnership firm are managed through the joint efforts of all the partners.

(v) **Continuity:** Partnership is characterised by lack of continuity of business since the death, retirement, insolvency or insanity of any partner can bring an end to the business. However, the remaining partners may if they so desire continue the business on the basis of a new agreement.

(vi) **Number of Partners:** The minimum number of partners needed to start a partnership firm is two. According to section 464 of the Companies Act 2013, maximum number of partners in a partnership firm can be 100, subject to the number prescribed by the government. As per Rule 10 of The Companies (miscelleneous) Rules 2014, at present the maximum number of members can be 50.

(vii) **Mutual agency:** The definition of partnership highlights the fact that it is a business carried on by all or any one of the partners acting for all. In other words, every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.

Merits

The following points describe the advantages of a partnership firm.

(i) **Ease of formation and closure:** A partnership firm can be formed easily by putting an agreement between the prospective partners into place whereby they agree to carryout the business of the firm and share risks. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task.

(ii) **Balanced decision making:** The partners can oversee different functions according to their areas of expertise. Because an individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgements. As a consequence, decisions are likely to be more balanced.

(iii) **More funds:** In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.

(iv) **Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.

(v) **Secrecy:** A partnership firm is not legally required to publish its accounts and submit its reports. Hence it is able to maintain confidentiality of information relating to its operations.

Limitations

A partnership firm of business organisation suffers from the following limitations:

(i) **Unlimited liability:** Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several which may prove to be a drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.

(ii) **Limited resources:** There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.

(iii) **Possibility of conflicts:** Partnership is run by a group of persons wherein decision making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners. Thus an unwise decision by some one may result in financial ruin for all others. In case a partner desires to leave the firm, this can result in termination of partnership as there is a restriction on transfer of ownership.

(iv) **Lack of continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity. However, the remaining partners can enter into a fresh agreement and continue to run the business.

(v) **Lack of public confidence:** A partnership firm is not legally required to publish its financial reports or make other related information public. It is, therefore, difficult for any member of the public to ascertain the true financial status of a partnership firm. As a result, the confidence of the public in partnership firms is generally low.

2.4.1 Types of Partners

A partnership firm can have different types of partners with different roles and liabilities. An understanding of these types is important for a clear understanding of their rights and responsibilities. These are described as follows:

(i) **Active partner:** An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm. These partners take actual part in carrying out business of the firm on behalf of other partners.

(ii) **Sleeping or dormant partner:** Partners who do not take part in the day to day activities of the business are called sleeping partners. A sleeping partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.

(iii) **Secret partner:** A secret partner is one whose association with the firm is unknown to the general public. Other than this distinct feature, in all other aspects he is like the rest of the partners. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.

(iv) **Nominal partner:** A nominal partner is one who allows the use of his/her name by a firm, but does not contribute to its capital. He/she does not take active part in managing the firm, does not share its profit or losses but is liable, like other partners, to the third parties, for the repayments of the firm's debts.

(v) Partner by estoppel: A person is considered a partner by estoppel if, through his/her own initiative, conduct or behaviour, he/she gives an impression to others that he/ she is a partner of the firm. Such partners are held liable for the debts of the firm because in the eyes of the third party they are considered partners, even though they do not contribute capital or take part in its management. Suppose Rani is a friend of Seema who is a partner in a software firm —Simplex Solutions. On Seema's request, Rani accompanies her to a business meeting with Mohan Softwares and actively participates in the negotiation process for a business deal and gives the impression that she is also a partner in Simplex Solutions. If credit is extended to Simplex Solutions on the basis of these negotiations, Rani would also be liable for repayment of such debt, as if she is a partner of the firm.

(vi) Partner by holding out: A partner by 'holding out' is a person who though is not a partner in a firm but knowingly allows himself/herself to be represented as a partner in a firm. Such a person becomes liable to outside creditors for repayment of any debts which have been extended to the firm on the basis of such representation. In case he is not really a partner and wants to save himself from such a liability, he should immediately issue a denial, clarifying his position that he is not a partner in the firm. If he does not do so, he will be responsible to the third party for any such debts. This form of partnership was not permitted in India earlier. The permission to form partnership firms with limited liability has been granted after introduction of New Small Enterprise Policy in 1991. The idea behind such a move has been to enable the partnership firms to attract equity capital from friends and relatives of small scale entrepreneurs who were earlier reluctant to help, due to the existence of unlimited liability clause in the partnership form of business.

2.4.2 Partnership Deed

A partnership is a voluntary association of people who come together for achieving common objectives. In order to enter into partnership, a clear agreement with respect to the terms, conditions and all aspects concerning the partners is essential so that there is no misunderstanding later among the partners. Such an agreement can be oral or written. Even though it is not essential to have a written agreement, it is advisable to have a written agreement as it constitutes an evidence of the conditions agreed upon. The written agreement which specifies the terms and conditions that govern the partnership is called the partnership deed.

The partnership deed generally includes the following aspects:

- Name of firm
- Nature of business and location of business
- Duration of business
- Investment made by each partner
- Distribution of profits and losses
- Duties and obligations of the partners
- Salaries and withdrawals of the partners
- Terms governing admission, retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes

Registration

Registration of a partnership firm means the entering of the firm's name, along with the relevant prescribed particulars, in the Register of firms kept with the Registrar of Firms. It provides conclusive proof of the existence of a partnership firm.

It is optional for a partnership firm to get registered. In case a firm does not get registered, it is deprived of many benefits. The consequences of non-registration of a firm are as follows:

(a) A partner of an unregistered firm cannot file a suit against the firm or other partners,

(b) The firm cannot file a suit against third parties, and

(c) The firm cannot file a case against the partners.

In view of these consequences, it is therefore advisable to get the firm registered. According to the India Partnership Act 1932, the partners may get the firm registered with the Registrar of firms of the state in which the firm is situated. The registration can be at the time of formation or at any time during its existence. The procedure for getting a firm registered is as follows:

1. Submission of application in the prescribed form to the Registrar of firms. The application should con-tain the following particulars:
   - Name of the firm
   - Location of the firm

- Names of other places where the firm carries on business
- The date when each partner joined the firm
- Names and addresses of the partners
- Duration of partnership

This application should be signed by all the partners.

2. Deposit of required fees with the Registrar of Firms.
3. The Registrar after approval will make an entry in the register of firms and will subsequently issue a certificate of registration.

COOPERATIVE SOCIETY

The word cooperative means working together and with others for a common purpose.

The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits.

The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912. The process of setting up a cooperative society is simple enough and at the most what is required is the consent of at least ten adult persons to form a society. The capital of a society is raised from its members through issue of shares. The society acquires a distinct legal identity after its registration.

Features

The characteristics of a cooperative society are listed below.

(i) **Voluntary membership:** The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. There cannot be any compulsion for him to join or quit a society. Although procedurally a member is required to serve a notice before leaving the society, there is no compulsion to remain a member. Membership is open to all, irrespective of their religion, caste, and gender.

(ii) **Legal status:** Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.

(iii) Limited liability: The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.

(iv) Control: In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character.

(v) Service motive: The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. Hence, the motive of service dominates its working. If any surplus is generated as a result of its operations, it is distributed amongst the members as dividend in conformity with the bye-laws of the society.

Merits

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organisation are as follows.

(i) Equality in voting status: The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.

(ii) Limited liability: The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.

(iii) Stable existence: Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.

(iv) Economy in operations: The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.

(v) Support from government: The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.

(vi) Ease of formation: The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

Limitations

The cooperative form of organisation suffers from the following limitations:

(i) **Limited resources:** Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.

(ii) **Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.

(iii) **Lack of secrecy:** As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.

(iv) **Government control:** In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organisation through the control exercised by the state cooperative departments also negatively affects its freedom of operation.

(v) **Differences of opinion:** Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may start to dominate the welfare motive and the benefit of other members may take a backseat if personal gain is given preference by certain members.

Types of Cooperative Societies

Various types of cooperative societies based on the nature of their operations are described below:

(i) **Consumer's cooperative societies:** The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen. Profits, if any, are distributed on the basis of either their capital contributions to the society or purchases made by individual members.

Amul's amazing Cooperative ventures!

Every day Amul collects 4,47,000 litres of milk from 2.12 million farmers (many illiterate), converts the milk into branded, packaged products, and delivers goods worth Rs. 6 crore (Rs. 60 million) to over 5,00,000 retail outlets across the country.

It all started in December 1946 with a group of farmers keen to free themselves from intermediaries, gain access to markets and thereby ensure maximum returns for their efforts. Based in the village of Anand, the Khera District Milk Cooperative Union (better known as Amul) expanded exponentially. It joined hands with other milk cooperatives, and the Gujarat network now covers 2.12 million farmers, 10,411 village level milk collection centres and fourteen district level plants (unions). Amul is the common brand for most product categories produced by various unions: liquid milk, milk powder, butter, *ghee*, cheese, cocoa products, sweets, ice-cream and condensed milk. Amul's sub-brands include variants such as Amulspray, Amulspree, Amulya and Nutramul.

Source: *Adapted from Pankaj Chandra, "Rediff.com", Business Special, September 2005.*

(ii) Producer's cooperative societies: These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale. Profits among the members are generally distributed on the basis of their contributions to the total pool of goods produced or sold by the society.

(iii) Marketing cooperative societies: Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products. It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price. Profits are distributed according to each member's contribution to the pool of output.

(iv) Farmer's cooperative societies: These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. This helps notonly in improving the yield and returns to the farmers, but also solves the problems associated with the farming on fragmented land holdings.

(v) Credit cooperative societies: Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans. Such societies provide loans to members out of the amounts collected as capital and deposits from the members and charge low ratesof interest.

(vi) Cooperative housing societies: Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs. The aim is to solve the housing problems of the members by constructing houses and giving the option of paying in instalments. These societies construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

JOINT STOCK COMPANY

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The company form of organisation is governed by The Companies Act, 2013. As per section 2(20) of Act 2013, a company means company incorporated under this Act or any other previous company law.

The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

Features

The definition of a joint stock company highlights the following features of a company.

(i) **Artificial person:** A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued but unlike them it cannot breathe, eat, run, talk and so on. It is, therefore, called an artificial person.

(ii) **Separate legal entity:** From the day of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those of its owners. The law does not recognise the business and owners to be one and the same.

(iii) **Formation:** The formation of a company is a time consuming, expensive and complicated process. It involves the preparation of several documents and compliance with directors hold a position of immense significance as they are directly accountable to the shareholders for the working of the company. The shareholders, however, do not have the right to be involved in the day-to-day running of the business. several legal requirements before it can start functioning. Incorporation of companies is compulsory under The Companies Act 2013 or any of the previous company law, as state earlier. Such companies which are incorporated under companies Act 1956 or any company law shall be included in the list of companies.

(iv) Perpetual succession: A company being a creation of the law, can be brought to an end only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed. Members may come and members may go, but the company continues to exist.

(v) Control: The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business. The

(vi) Liability: The liability of the members is limited to the extent of the capital contributed by them in a company. The creditors can use only the assets of the company to settle their claims since it is the company and not the members that owes the debt. The members can be asked to contribute to the loss only to the extent of the unpaid amount of share held by them.

(vii) Common seal: The company being an articial person cannot sign its name by itself. Therefore, every company is required to have its own seal which acts as official signature of the company. Any document which does not carry the common seal of the company is not a binding on the company.

(viii) Risk bearing: The risk of losses in a company is borne by all the share holders. This is unlike the case of sole proprietorship or partnership firm where one or few persons respectively bear the losses. In the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital. The risk of loss thus gets spread over a large number of shareholders.

Merits

The company form of organisation offers a multitude of advantages, some of which are discussed below.

(i) **Limited liability:** The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts, leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor.

(ii) **Transfer of interest:** The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids blockage of investment and presents the company as a favourable avenue for investment purposes.

(iii) **Perpetual existence:** Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act, 2013.

(iv) **Scope for expansion:** As compared to the sole proprietorship and partnership forms of organisation, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions. Thus there is greater scope for expansion. The investors are inclined to invest in shares because of the limited liability, transferable ownership and possibility of high returns in a company.

(v) **Professional management:** A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specialisations. The scale of operations in a company leads to division of work. Each department deals with a particular activity and is headed by an expert. This leads to balanced decision making as well as greater efficiency in the company's operations.

Limitations

The major limitations of a company form of organisation are as follows:

(i) **Complexity in formation:** The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved. As compared to sole proprietorship and partnership form of organisations, formation of a company is more complex.

(ii) **Lack of secrecy:** The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy about the operations of company.

(iii) **Impersonal work environment:** Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company. The large size of a company further makes it difficult for the owners and top management to maintain personal contact with the employees, customers and creditors.

(iv) **Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies, viz., registrar, SEBI, etc. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

(v) **Delay in decision making:** Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

(vi) **Oligarchic management:** In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners. In practice, however, in most large sized organisations having a multitude of shareholders; the owners have minimal influence in terms of controlling or running the business. It is so because the shareholders are spread all over the country and a very small percentage attend the general meetings. The Board of Directors as such enjoy considerable freedom in exercising their power which they sometimes use even contrary to the interests of the shareholders. Dissatisfied shareholders in such a situation have no option but to sell their shares and exit the company. As the directors virtually enjoy the rights to take all major decisions, it leads to rule by a few.

(vii) **Conflict in interests:** There may be conflict of interest amongst various stakeholders of a company. The employees, for example, may be interested in higher salaries, consumers desire higher quality products at lower prices, and the shareholders want higher returns in the form of dividends and increase in the intrinsic value of their shares. These demands pose problems in managing the company as it often becomes difficult to satisfy such diverse interests.

2.6.1 Types of Companies

A company can be either a private or a public company. These two types of companies are discussed in detail in the following paragraphs.

Private Company

A private company means a company which:

(a) restricts the right of members to transfer its shares;

(b) has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;

(c) does not invite public to subscribe to its securities and

It is necessary for a private company to use the word *private limited* after its name. If a private company contravenes any of the aforesaid provisions, it ceases to be a private company and loses all the exemptions and privileges to which it is entitled.

The following are some of the *privileges* of a private limited company as against a public limited company:

1. A private company can be formed by only two members whereas seven people are needed to form a public company.
2. There is no need to issue a pro- spectus as public is not invited to subscribe to the shares of a pri- vate company.
3. Allotment of shares can be done without receiving the minimum subscription. A private limited company can start business as soon as it receives the certificate of incorporation.
4. A private company needs to have only two directors as against the minimum of three directors in the case of a public company. However the maximum number of direc- tors for both types of companies is fifteen.
5. A private company is not required to keep an index of members while the same is necessary in the case of a public company.

Public Company

A public company means a company which is not a private company. As per The Companies Act, a public company is one which:

(a) has a minimum of 7 members and no limit on maximum members;

(b) has no restriction on transfer securities; and

(c) is not prohibited from inviting the public to subscribe to its securities.

However, a private company which is a subsidiary of a public company is also treated as a public company.

CHOICE OF FORM OF BUSINESS ORGANISATION

After studying various forms of business organisations, it is evident that each form has certain advantages as well as disadvantages. It, therefore, becomes vital that certain basic considerations are kept in mind while choosing an appropriate form of organisation. The important factors determining the choice of organisation are listed in Table 2.4 and are discussed as follows:

(i) Cost and ease in setting up the organisation: As far as initial business setting-up costs are concerned, sole proprietorship is the most inexpensive way of starting a business. However, the legal requirements are minimum and the scale of operations is small. In case of partnership also, the advantage of less legal formalities and lower cost is there because of limited scale of operations. Cooperative societies and companies have to be compulsorily registered. Formation of a company involves a lengthy and expensive legal procedure. From the point of view of initial cost, therefore, sole proprietorship is the preferred form as it involves least expenditure. Company form of organisation, on the other hand, is more complex and involves greater costs.

(ii) Liability: In case of sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. This may call for paying the debt from personal assets of the owners. In joint Hindu family business, only the *karta* has unlimited liability. In cooperative societies and companies, however, liability is limited and creditors can force payment of their claims only to the extent of the company's assets. Hence, from the point of view of investors, the company form of organisation is more suitable as the risk involved is limited.

(iii) **Continuity:** The continuity of sole proprietorship and partnership firms

is affected by such events as death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of organisations like joint Hindu family business, cooperative societies and companies. In case the business needs a permanent structure, company form is more suitable. For short term ventures, proprietorship or partnership may be preferred.

(iv) **Management ability:** A sole proprietor may find it difficult to have expertise in all functional areas of management. In other forms of organisations like partnership and company, there is no such problem. Division of work among the members in such organisations allows the managers to specialise in specific areas, leading to better decision making. But this may lead to situations of conflicts because of differences of opinion amongst people. Further, if the organisation's operations are complex in nature and require professionalised management, company form of organisation is a better alternative. Proprietorship or partnership may be suitable, where simplicity of operations allow even people with limited skills to run the business. Thus, the nature of operations and the need for professionalised management affect the choice of the form of organisation.

(v) **Capital considerations:** Companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors.

Comparative Evaluation of Forms of Organisation

Basis of comparison	**Sole proprietorship**	**Partnership**	**Cooperative society**	**Company**
Formation	Minimal legal formalities, easiest formation	Registration is optional, easy formation	Registration compulsory, greater legal formalit	Registration compulsory, lengthy and expensive formation process

			ies	
Members	Only owner	Minimum -2 Maximum: 50	At least 10 adults, no maximum limit	Minimum Private-2 Public Company-7 Maximum Private Company-200 Public Company-unlimited
Capital contribution	Limited finance	Limited but more than that can be raised in case of sole proprietorship	Limited	Large financial resources
Liability	Unlimited	Unlimited and joint	Limited	Limited
Control and management	Owner takes all decisions, quick decision making	Partners take decisions, consent of all partners is needed	Elected representative, i.e., managing committee takes decisions	Separation between ownership and management
Continuity	Unstable, business and owner regarded as one	More stable but affected by status of partners	Stable because of separate legal status	Stable because of separate legal status

Partnership firms also have the advantage of combined resources of all partners. But the resources of a sole proprietor are limited. Thus, if the scale of operations is large, company form may be suitable whereas for medium and small sized business one can opt for partnership or sole proprietorship. Further, from the point of view of expansion, a company is more suitable because of its capability to raise more funds and invest in expansion plans. It is precisely for this purpose that in our opening case Neha's father suggested she should consider switching over to the company form of organisation.

(vi) **Degree of control:** If direct control over operations and absolute decision making power is required, proprietorship may be preferred. But if the owners do not mind sharing control and decision making, partnership or company form of organisation can be adopted. The added advantage in the case of company form of organisation is that there is complete separation of ownership and management and it is professionals who are appointed to independently manage the affairs of a company.

(vii) **Nature of business:** If direct personal contact is needed with the customers such as in the case of a grocery store, proprietorship may be more suitable. For large manufacturing units, however, when direct personal contact with the customer is not required, the company form of organisation may be adopted. Similarly, in cases where services of a professional nature are required, partnership form is much more suitable.

It would not be out of place to mention here that the factors stated above are inter-related. Factors like capital contribution and risk vary with the size and nature of business, and hence a form of business organisation that is suitable from the point of view of the risks for a given business when run on a small scale might not be appropriate when the same business is carried on a large scale. It is, therefore, suggested that all the relevant factors must be taken into consideration while making a decision with respect to the form of organisation that should be adopted.

Conclusion

Forms of business organisation refers to the types of organisations which differ in terms of ownership and management. The major forms of organisation include proprietorship, partnership, joint Hindu family business, cooperative society and company.

Sole proprietorship refers to a form of organisation where business is owned, managed and controlled by a single individual who bears all the risks and is the only recipient of all the profits. Merits of this form of organisation include quick decision making, direct incentive, personal satisfaction, and ease of formation and closure. But this form of organisation suffers from limitations of limited resources, unstable life span of business, unlimited liability of sole proprietor and his/her limited managerial ability.

Partnership is defined as an association of two or more persons who agree to carry on a business together and share the profits as well as bear risks collectively. Major advantages of partnership are: ease of formation and closure, benefits of specialisation, greater funds, and reduction of risk. Major limitations of partnership are unlimited liability, possibility of conflicts, lack of continuity and lack of public confidence. As there are different types of partners such as active, sleeping, secret and nominal partners; so is the case with types of partnerships which can vary from general partnership, limited partnership, partnership at will to particular partnership.

A cooperative society is a voluntary association of persons who get together to protect their economic interests. The major advantages of a cooperative society are equality in voting, members' limited liability, stable existence, economy in operations, support from government, and ease of formation. But this form of organisation suffers from weaknesses such as limited resources, inefficiency in management, lack of secrecy, government control, and differences among members in regard to the way society should be managed and organised. Based on their purpose and nature of members, various types of societies that can be formed include: consumers cooperative society, producers cooperative society, marketing cooperative society, farmers cooperative society, credit cooperative society, and cooperative housing society.

A company, on the other hand, may be defined as an artificial person, existing only in the eyes of the law with perpetual succession and having a separate legal identity. While major advantages of a company form of organisation are members' limited liability, transfer of interest, stable existence, scope for expansion, and professional management; its key limitations are: complexity in formation, lack of secrecy, impersonal work environment, numerous regulations, delay in decision making, oligarchic management, and conflict of interests among different shareholders.

Companies can be of two types — private and public. A private company is one which restricts transfer of shares and does not invite the public to subscribe to its securities. A public company, on the other hand, is allowed to raise its funds by inviting the public to subscribe to its securities. Furthermore, there is a free transferability of securities in the case of a public company.

Scaling Techniques

Definition:: Scaling technique is a method of placing respondents in continuation of gradual change in the pre-assigned values, symbols or numbers based on the features of a particular object as per the defined rules. All the scaling techniques are based on four pillars, i.e., order, description, distance and origin.

The marketing research is highly dependable upon the scaling techniques, without which no market analysis can be performed.

Types of Scaling Techniques

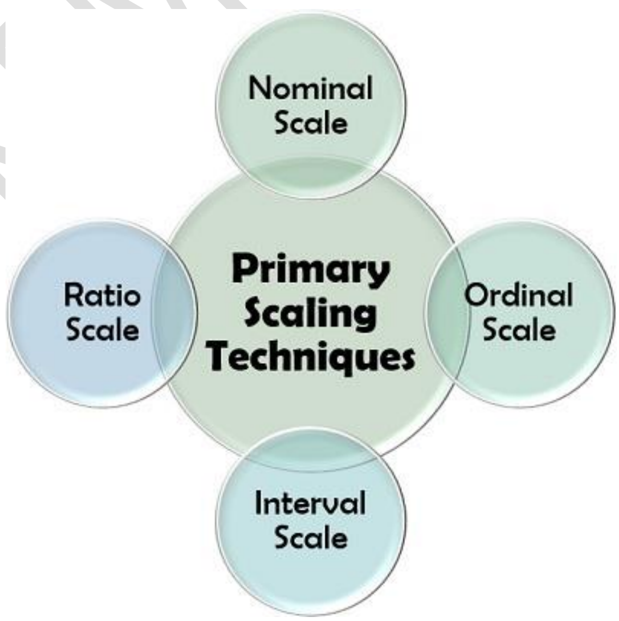
The researchers have identified many scaling techniques; today, we will discuss some of the most common scales used by business organizations, researchers, economists, experts, etc.

These techniques can be classified as primary scaling techniques and other scaling techniques.

Let us now study each of these methods in-depth below:

Measurement of Scaling

The major four scales used in statistics for market research consist of the following:



Nominal Scale

Nominal scales are adopted for non-quantitative (containing no numerical implication) labelling variables which are unique and different from one another.

Ordinal Scale

The ordinal scale functions on the concept of the relative position of the objects or labels based on the individual's choice or preference.

For example, At Online Shopping site in India: Shop Online for Mobiles, Books, Watches, Shoes and More, every product has a customer review section where the buyers rate the listed product according to their buying experience, product features, quality, usage, etc.

The ratings so provided are as follows:

- 5 Star – Excellent
- 4 Star – Good
- 3 Star – Average
- 2 Star – Poor
- 1 Star – Worst

Interval Scale

An interval scale is also called a cardinal scale which is the numerical labelling with the same difference among the consecutive measurement units. With the help of this scaling technique, researchers can obtain a better comparison between the objects.

For example; A survey conducted by an automobile company to know the number of vehicles owned by the people living in a particular area who can be its prospective customers in future. It adopted the interval scaling technique for the purpose and provided the units as 1, 2, 3, 4, 5, 6 to select from.

In the scale mentioned above, every unit has the same difference, i.e., 1, whether it is between 2 and 3 or between 4 and 5.

Ratio Scale

One of the most superior measurement technique is the ratio scale. Similar to an interval scale, a ratio scale is an abstract number system. It allows measurement at proper intervals, order, categorization and distance, with an added property of originating from a fixed zero point. Here, the comparison can be made in terms of the acquired ratio.

For example, A health product manufacturing company surveyed to identify the level of obesity in a particular locality. It released the following survey questionnaire: Select a category to which your weight belongs to:

Less than 40 kilograms

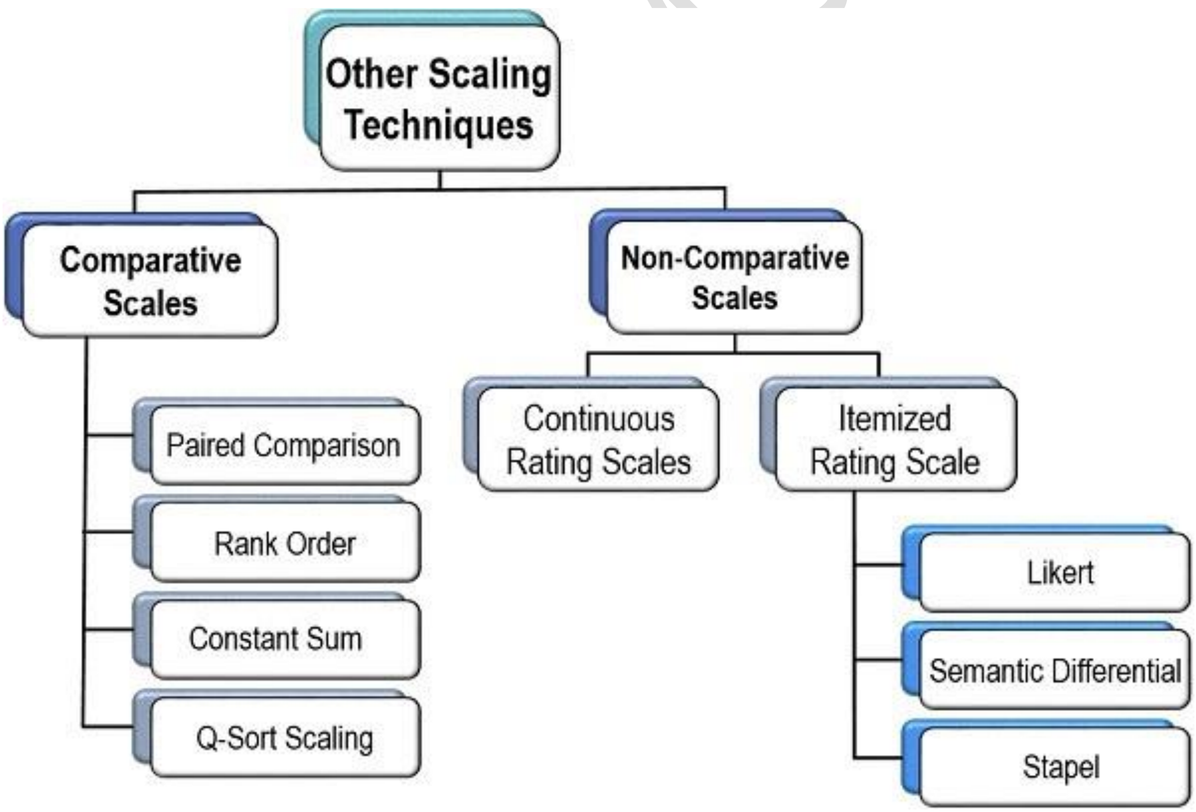
- 40-59 Kilograms
- 60-79 Kilograms
- 80-99 Kilograms
- 100-119 Kilograms
- 120 Kilograms and more

The following table will better clarify the difference between all the four primary scaling techniques:

Scaling Techniques

Scaling of objects can be used for a comparative study between more than one objects (products, services, brands, events, etc.). Or can be individually carried out to understand the consumer's behaviour and response towards a particular object.

Following are the two categories under which other scaling techniques are placed based on their comparability:



Comparative Scales

For comparing two or more variables, a comparative scale is used by the respondents. Following are the different types of comparative scaling techniques:

Paired Comparison

A paired comparison symbolizes two variables from which the respondent needs to select one. This technique is mainly used at the time of product testing, to facilitate the consumers with a comparative analysis of the two major products in the market.

To compare more than two objects say comparing P, Q and R, one can first compare P with Q and then the superior one (i.e., one with a higher percentage) with R.

For example, A market survey was conducted to find out consumer's preference for the network service provider brands, A and B. The outcome of the survey was as follows:

Brand	'A'	=	57%
Brand	'B'	=	43%

Thus, it is visible that the consumers prefer brand 'A', over brand 'B'.

Rank Order

In rank order scaling the respondent needs to rank or arrange the given objects according to his or her preference.

For example, A soap manufacturing company conducted a rank order scaling to find out the orderly preference of the consumers. It asked the respondents to rank the following brands in the sequence of their choice:

SOAP BRANDS	RANK
Brand V	4
Brand X	2
Brand Y	1
Brand Z	3

The above scaling shows that soap 'Y' is the most preferred brand, followed by soap 'X', then soap 'Z' and the least preferred one is the soap 'V'.

Constant Sum

It is a scaling technique where a continual sum of units like dollars, points, chits, chips, etc. is given to the features, attributes and importance of a particular product or service by the respondents.

For example, The respondents belonging to 3 different segments were asked to allocate 50 points to the following attributes of a cosmetic product 'P':

ATTRIBUTES	SEGMENT 1	SEGMENT 2	SEGMENT 3
Finishing	11	8	9
Skin Friendly	11	12	12
Fragrance	7	11	8
Packaging	9	8	10
Price	12	11	11

From the above constant sum scaling analysis, we can see that:

- Segment 1 considers product 'P' due to its competitive price as a major factor.
- But segment 2 and segment 3, prefers the product because it is skin-friendly.

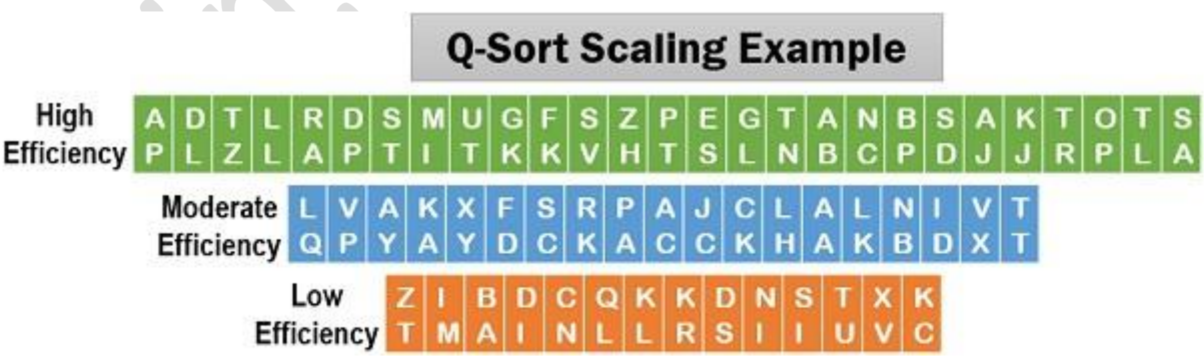
Q-Sort Scaling

Q-sort scaling is a technique used for sorting the most appropriate objects out of a large number of given variables. It emphasizes on the ranking of the given objects in a descending order to form similar piles based on specific attributes.

It is suitable in the case where the number of objects is not less than 60 and more than 140, the most appropriate of all ranging between 60 to 90.

For example, The marketing manager of a garment manufacturing company sorts the most efficient marketing executives based on their past performance, sales revenue generation, dedication and growth.

The Q-sort scaling was performed on 60 executives, and the marketing head creates three piles based on their efficiency as follows:



In the above diagram, the initials of the employees are used to denote their names.

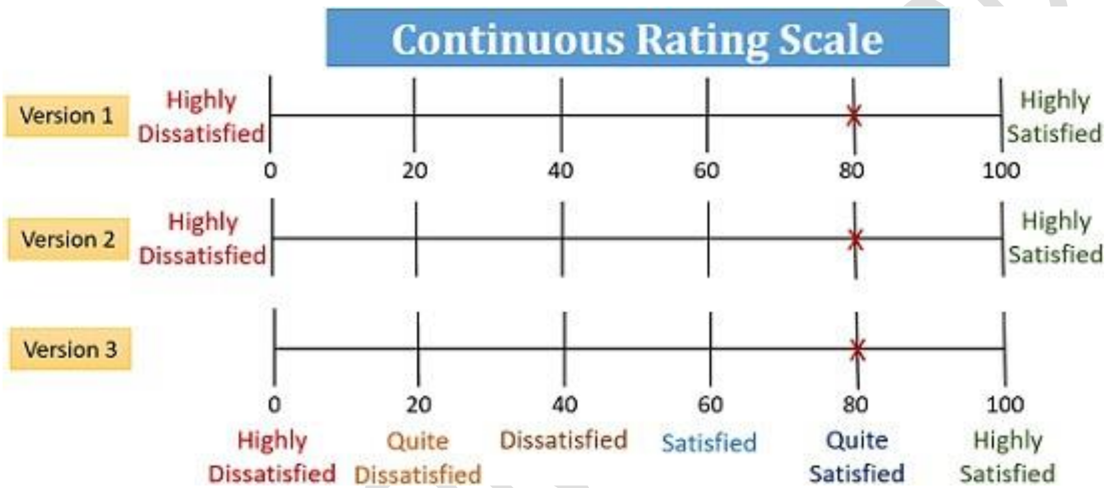
Non-Comparative Scales

A non-comparative scale is used to analyse the performance of an individual product or object on different parameters. Following are some of its most common types:

Continuous Rating Scales

It is a graphical rating scale where the respondents are free to place the object at a position of their choice. It is done by selecting and marking a point along the vertical or horizontal line which ranges between two extreme criteria.

For example, A mattress manufacturing company used a continuous rating scale to find out the level of customer satisfaction for its new comfy bedding. The response can be taken in the following different ways (stated as versions here):



The above diagram shows a non-comparative analysis of one particular product, i.e. comfy bedding. Thus, making it very clear that the customers are quite satisfied with the product and its features.

Itemized Rating Scale

Itemized scale is another essential technique under the non-comparative scales. It emphasizes on choosing a particular category among the various given categories by the respondents. Each class is briefly defined by the researchers to facilitate such selection.

The three most commonly used itemized rating scales are as follows:

- **Likert Scale**: In the Likert scale, the researcher provides some statements and ask the respondents to mark their level of agreement or disagreement over these statements by selecting any one of the options from the five given alternatives. *For example*, A shoes manufacturing company adopted the Likert scale technique for its new sports shoe range named Z sports shoes. The purpose is to know the agreement or disagreement of the respondents.

For this, the researcher asked the respondents to circle a number representing the most suitable answer according to them, in the following representation:
1 – Strongly Disagree 2 – Disagree 3 – Neither Agree Nor Disagree 4 – Agree 5 – Strongly Agree

Z sports shoes are very light weight

1 2 3 4 5

Z sports shoes are extremely comfortable

1 2 3 4 5

Z sports shoes look too trendy

1 2 3 4 5

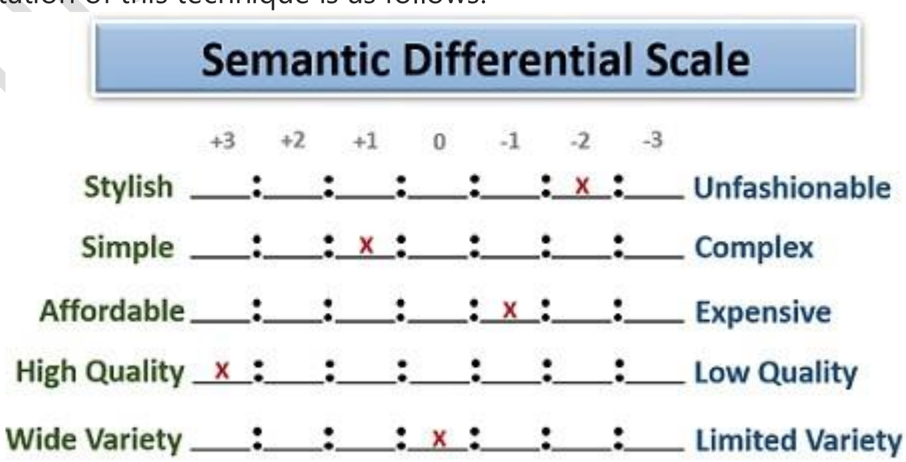
I will definitely recommend Z sports shoes to friends, family and colleagues

1 2 3 4 5

The above illustration will help the company to understand what the customers think about its products. Also, whether there is any need for improvement or not.

- **Semantic Differential Scale**: A bi-polar seven-point non-comparative rating scale is where the respondent can mark on any of the seven points for each given attribute of the object as per personal choice. Thus, depicting the respondent's attitude or perception towards the object.

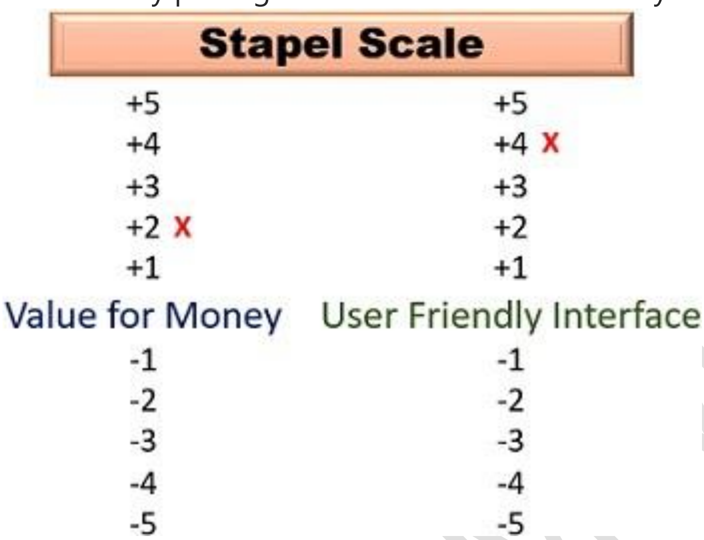
  For example, A well-known brand for watches, carried out semantic differential scaling to understand the customer's attitude towards its product. The pictorial representation of this technique is as follows:



From the above diagram, we can analyze that the customer finds the product of superior quality; however, the brand needs to focus more on the styling of its watches.

- **Stapel Scale**: A Stapel scale is that itemized rating scale which measures the response, perception or attitude of the respondents for a particular object through a unipolar rating. The range of a Stapel scale is between -5 to +5 eliminating 0, thus confining to 10 units.

  For example, A tours and travel company asked the respondent to rank their holiday package in terms of value for money and user-friendly interface as follows:



With the help of the above scale, we can say that the company needs to improve its package in terms of value for money. However, the decisive point is that the interface is quite user-friendly for the customers.

Conclusion

Scaling techniques provide a clear picture of the product life cycle and the market acceptability of the products offered. It facilitates product development and benchmarking through rigorous market research.