

**GOKUL GLOBAL UNIVERSITY**  
**Faculty of Commerce & Management**  
**E-Content**



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# **Module 1**

# Unit-1 Scarcity

## **Scarcity in Economics: -**

Scarcity is a fundamental concept in economics that refers to the basic economic problem: the gap between limited resources and theoretically limitless wants. This situation requires people to make decisions about how to allocate resources efficiently to satisfy basic needs and as many additional wants as possible.

Key Points:

1. **Finite Resources:** Resources such as time, money, labor, and raw materials are limited.
2. **Unlimited Wants:** Human desires for goods and services are virtually limitless.
3. **Trade-offs and Opportunity Costs:** Scarcity forces individuals and societies to make choices about how to use resources, leading to the concept of opportunity cost, which is the value of the next best alternative forgone.
4. **Allocation:** The process of deciding the best way to distribute resources to meet needs and wants.
5. **Efficiency:** The goal of achieving the maximum output with given resources and technology.

Examples:

- A government must decide whether to allocate more resources to healthcare or education.
- A company must choose between investing in new technology or expanding its workforce.
- An individual must decide how to spend their limited income between rent, food, and leisure activities.

## **Economic Growth: -**

Economic Growth refers to the increase in the production of goods and services in an economy over a period of time. It is measured by the rise in real gross domestic product (GDP) or real GDP per capita.

Key Points:

1. **Real GDP Growth:** The increase in the value of goods and services produced by an economy, adjusted for inflation.
2. **Factors Contributing to Growth:**

- Labor: An increase in the number of workers or improvements in worker productivity.
  - Capital: Investment in physical capital such as machinery, infrastructure, and technology.
  - Technology: Innovations and technological advancements that improve efficiency and production.
  - Human Capital: Improvements in the skills, education, and health of the workforce.
  - Institutional Factors: Effective government policies, stable institutions, and property rights that encourage investment and entrepreneurship.
3. Sustainable Growth: Growth that can be maintained over the long term without causing detrimental effects such as environmental degradation.
  4. Inclusive Growth: Growth that is broad-based, benefiting a large part of the population and reducing inequality.

#### Benefits:

- Higher standards of living as more goods and services become available.
- Increased employment opportunities.
- Greater tax revenues for governments, enabling more public spending on services and infrastructure.

#### Challenges:

- Environmental impacts such as pollution and resource depletion.
- Income inequality, where the benefits of growth are not evenly distributed.
- Structural changes in the economy that may lead to job displacement in certain sectors.

#### Interconnection Between Scarcity and Growth

- Addressing Scarcity: Economic growth can help address scarcity by increasing the availability of resources and goods. For example, technological advancements can lead to more efficient resource use and production methods.
- Resource Management: Efficiently managing and utilizing scarce resources can foster conditions conducive to sustained economic growth.
- Balancing Act: Policymakers must balance the need for growth with the responsible management of scarce resources to ensure long-term sustainability.



## **Microeconomy: -**

Microeconomics is a branch of economics that studies the behaviour of individuals and firms in making decisions regarding the allocation of limited resources. It primarily focuses on patterns of supply and demand and the determination of price and output in individual markets (e.g., goods and services, labor, and capital).

### **Definition**

Microeconomics is concerned with:

Individual Consumers and Firms: How they make decisions to allocate their limited resources in different uses.

Market Mechanisms: How prices and quantities of goods and services are determined in specific markets.

Resource Allocation: How resources are distributed among various uses and the efficiency of this distribution.

### **Scope of Microeconomics: -**

#### **Theory of Consumer Behaviour:**

Utility Analysis: How consumers maximize their satisfaction or utility given their budget constraints.

Demand Theory: How consumer preferences and income levels determine demand for goods and services.

#### **Theory of Production and Costs:**

Production Functions: The relationship between input factors (labor, capital) and output.

Cost Functions: How costs change with variations in the level of output and production methods.

#### **Theory of Firm:**

Supply Decisions: How firms decide on the quantity of goods to produce and the price to charge.

Market Structures: Analysis of different types of market structures such as perfect competition, monopoly, oligopoly, and monopolistic competition.

#### **Price Theory:**

Price Determination: How prices are set in various types of markets.

Market Equilibrium: How supply and demand interact to determine market equilibrium prices and quantities.

#### **Welfare Economics:**

Efficiency and Equity: Evaluation of economic efficiency and income distribution.

Consumer and Producer Surplus: Measures of welfare gains and losses due to market activities and government policies.

### **Importance of Microeconomics: -**

Resource Allocation:

Helps in understanding how resources can be allocated efficiently to maximize output and welfare.

Price Determination:

Provides insights into how prices are determined in the market and how they allocate resources.

Consumer Decision Making:

Assists in analysing consumer choices and how they maximize their satisfaction.

Business Decision Making:

Guides firms in making production and pricing decisions to maximize profits.

Public Policy:

Helps policymakers design policies to promote competition, control monopolies, and manage externalities.

Economic Efficiency:

Evaluates how well market's function and how policies can correct market failures to achieve optimal resource use.

Welfare Economics:

Analyses the overall well-being of the economy and the effects of different economic policies on social welfare.

### **Limitations of Microeconomics: -**

Partial Analysis:

Focuses on individual units rather than the economy as a whole, leading to partial equilibrium analysis.

Assumptions:

Relies on simplifying assumptions like perfect competition, rational behavior, and constant preferences, which may not hold true in reality.

Static Analysis:

Often provides a static analysis of the economy, ignoring the dynamic changes and growth over time.

Ignores Macro Factors:

Does not consider macroeconomic variables such as national income, overall employment, and inflation, which can influence microeconomic behavior.

Distributional Aspects:

Less focus on the distribution of income and wealth, primarily emphasizing efficiency over equity.

Externalities and Public Goods:

May inadequately address issues related to externalities and public goods, where market outcomes are not efficient.

### **Economic Goods:**

- **Definition:** Economic goods are items or services that have a cost and are scarce relative to the demand for them. They require resources to produce and hence have an opportunity cost.
- **Characteristics:**
  - **Scarcity:** Limited in supply.
  - **Opportunity Cost:** Consuming one economic good means forgoing another.
  - **Utility:** Provides satisfaction or utility to consumers.
  - **Transferability:** Can be exchanged for money or other goods.
- **Examples:** Food, clothing, housing, cars, and services like healthcare and education.

### **Free Goods:**

- **Definition:** Free goods are items that are abundant in supply and have no opportunity cost. They are available without limit and do not require resources to produce.
- **Characteristics:**
  - **Abundance:** Available in unlimited quantities.
  - **No Opportunity Cost:** Consuming a free good does not involve giving up another good.
  - **Utility:** Provides satisfaction or utility but does not need to be produced with economic resources.
  - **Non-transferability:** Generally, not exchanged in the market.

- **Examples:** Air, sunlight, and rainwater (in most cases).

## Price and Value

### Price:

- **Definition:** The amount of money required to purchase a good or service. It is determined by the interaction of supply and demand in the market.
- **Market Price:** The prevailing price at which goods or services are bought and sold.
- **Factors Influencing Price:** Cost of production, competition, demand, supply, and market conditions.

### Value:

- **Definition:** The worth of a good or service in terms of the utility or satisfaction it provides.
- **Types of Value:**
  - **Use Value:** The usefulness of a good to a consumer.
  - **Exchange Value:** The worth of a good in the context of trading it for other goods or money.
- **Subjective Nature:** Value is subjective and varies from person to person based on preferences and needs.

## Want and Demand

### Want:

- **Definition:** A desire for goods or services that are not necessary but are desired to fulfill needs or provide satisfaction.
- **Characteristics:**
  - **Unlimited:** Human wants are infinite.
  - **Changeable:** Wants change over time with preferences, trends, and income.
  - **Not All Wants Are Demands:** Wants must be backed by purchasing power to become demand.

### Demand:

- **Definition:** The quantity of a good or service that consumers are willing and able to purchase at various prices during a given period.

- **Law of Demand:** Other things being equal, there is an inverse relationship between price and quantity demanded.
- **Determinants of Demand:**
  - **Price of the Good:** Higher prices usually lead to lower demand and vice versa.
  - **Income:** Higher income increases demand for normal goods.
  - **Prices of Related Goods:** Substitutes and complements affect demand.
  - **Preferences:** Changes in consumer preferences and tastes.
  - **Expectations:** Future price expectations can affect current demand.
  - **Population:** The number of consumers in the market.

## **Production Possibility Curve (PPC)**

### **Definition:**

- A graphical representation showing the maximum combination of goods or services that can be produced with given resources and technology, assuming all resources are fully and efficiently utilized.

### **Key Concepts:**

#### **1. Efficiency:**

- Points on the PPC represent efficient production levels.
- Points inside the curve indicate inefficiency or underutilization of resources.
- Points outside the curve are unattainable with current resources and technology.

#### **2. Opportunity Cost:**

- Moving from one point to another on the PPC involves sacrificing some quantity of one good to gain more of another, representing the opportunity cost.
- The slope of the PPC shows the opportunity cost of one good in terms of the other.

#### **3. Economic Growth:**

- Outward shifts of the PPC represent economic growth, indicating an increase in an economy's capacity to produce goods and services.
- Factors causing growth include technological advancements, increased resources, and improvements in productivity.

#### 4. **Shape of the Curve:**

- Typically bowed-outward due to the law of increasing opportunity costs, which states that as production of one good increases, the opportunity cost of producing an additional unit of this good rises.

#### 5. **Scarcity and Choice:**

- The PPC illustrates the fundamental economic problems of scarcity and choice. Since resources are limited, economies must decide what to produce and in what quantities.

#### **Example:**

- An economy that can produce either cars or computers. If it allocates all resources to producing cars, it produces fewer computers, and vice versa. The PPC shows the trade-offs between these two goods.

### **Economic Systems**

An economic system refers to the structure and methods by which a society organizes and allocates its resources, goods, and services. The main types of economic systems are planned economy, free market economy, and mixed economy. Each system has distinct characteristics and approaches to addressing the basic economic problems of what to produce, how to produce, and for whom to produce.

#### **Planned Economy (Command Economy)**

**Definition:** A planned economy, also known as a command economy, is one where the government or a central authority makes all decisions regarding the production and distribution of goods and services. The government controls all major aspects of the economy and owns the means of production.

#### **Key Characteristics:**

1. **Centralized Decision-Making:** The government plans and controls economic activities, setting production targets, and prices.
2. **Public Ownership:** Resources and means of production are owned by the state.
3. **Economic Plans:** Long-term and short-term plans dictate the allocation of resources and production.
4. **Limited Consumer Choice:** The variety of goods and services available is often limited to what the government decides to produce.
5. **Price Controls:** Prices are set by the government, not by market forces.

#### **Advantages:**

- **Equal Distribution of Wealth:** Aims to reduce inequality by ensuring that wealth is distributed more evenly.

- **Stability:** Can provide economic stability and security with minimal unemployment and inflation.
- **Coordination:** Large-scale projects and national priorities can be coordinated and funded easily.

#### **Disadvantages:**

- **Inefficiency:** Lack of competition and profit motive can lead to inefficient resource use and lower productivity.
- **Lack of Innovation:** With no incentive for innovation, technological progress can be slow.
- **Consumer Discontent:** Limited choices and poor-quality goods can lead to consumer dissatisfaction.
- **Bureaucracy:** Heavy bureaucracy can lead to slow decision-making and corruption.

#### **Examples:**

- Historically, the Soviet Union and Maoist China.
- Modern examples include North Korea and Cuba (though even these have incorporated some market elements).

### **Free Market Economy (Capitalist Economy)**

**Definition:** A free market economy, also known as a capitalist economy, is one where decisions about production and consumption are made by individual consumers and firms through the mechanism of supply and demand. The government plays a minimal role, and the market is driven by the pursuit of profit.

#### **Key Characteristics:**

1. **Private Ownership:** Resources and means of production are owned by private individuals or companies.
2. **Market-Driven:** Prices and production are determined by the forces of supply and demand.
3. **Consumer Sovereignty:** Consumers have the freedom to choose what to buy, influencing what is produced.
4. **Competition:** Firms compete with each other to offer the best products at the lowest prices.
5. **Profit Motive:** Firms seek to maximize their profits, which drives efficiency and innovation.

#### **Advantages:**

- **Efficiency:** Competition leads to efficient resource allocation and high productivity.
- **Innovation:** The profit motive encourages technological advancement and innovation.
- **Consumer Choice:** A wide variety of goods and services are available to consumers.
- **Flexibility:** The economy can quickly adapt to changes in consumer preferences and technology.

#### **Disadvantages:**

- **Inequality:** Wealth and income can become highly concentrated, leading to significant inequality.
- **Market Failures:** Issues like monopolies, externalities (e.g., pollution), and public goods (e.g., national defense) can lead to inefficient outcomes.
- **Economic Instability:** The economy can be subject to cycles of boom and bust, leading to periods of high unemployment and inflation.
- **Under-provision of Public Goods:** Private firms may under-produce goods that are not profitable but are socially beneficial.

#### **Examples:**

- The United States, Hong Kong, and Singapore are often cited as examples of free market economies, though they do have some government intervention.

### **Mixed Economy**

**Definition:** A mixed economy combines elements of both planned and free market economies. Both the private sector and the government play significant roles in the economic activities of the country. The government intervenes to correct market failures, provide public goods, and ensure social welfare, while the private sector drives innovation and efficiency.

#### **Key Characteristics:**

1. **Dual Ownership:** Resources and means of production are owned by both private individuals/companies and the government.
2. **Regulation and Deregulation:** The government regulates certain industries to correct market failures and ensure fairness, while allowing other industries to operate freely.
3. **Public Services:** The government provides essential services such as education, healthcare, and infrastructure.
4. **Welfare Policies:** Social safety nets like unemployment benefits and pensions are provided to support vulnerable populations.



5. **Market Mechanism with Intervention:** Prices and production are primarily determined by market forces, but the government intervenes when necessary to stabilize the economy and promote social welfare.

**Advantages:**

- **Balance:** A mixed economy aims to balance the benefits of a market economy (efficiency, innovation) with the social objectives of a planned economy (equity, public welfare).
- **Flexibility:** Can adapt to changing economic conditions and needs.
- **Provision of Public Goods:** Ensures that essential services and public goods are provided.
- **Stability:** Government intervention can stabilize the economy and reduce the severity of economic cycles.

**Disadvantages:**

- **Government Intervention:** Can sometimes lead to inefficiencies and excessive bureaucracy.
- **Market Distortion:** Too much intervention can distort market signals and reduce the incentives for efficiency and innovation.
- **Political Influence:** Economic decisions can be influenced by political agendas, leading to suboptimal outcomes.

**Examples:**

- Most modern economies, including those of the United States, the United Kingdom, Canada, and India, are mixed economies, blending free market principles with government intervention.

## **Module 2**

## Unit-2 Theory of Demand

### **\*Law of Demand: -**

#### **What is the Law of Demand?**

The law of demand is one of the most fundamental concepts in economics. It works with the law of supply to explain how market economies allocate resources and determine the prices of goods and services that we observe in everyday transactions. The law of demand states that quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded. This occurs because of diminishing marginal utility. That is, consumers use the first units of an economic good they purchase to serve their most urgent needs first, and use each additional unit of the good to serve successively lower valued ends.

#### **Understanding the Law of Demand: -**

Economics involves the study of how people use limited means to satisfy unlimited wants. The law of demand focuses on those unlimited wants.

Naturally, people prioritize more urgent wants and needs over less urgent ones in their economic behaviour, and this carries over into how people choose among the limited means available to them. For any economic good, the first unit of that good that a consumer gets their hands on will tend to be put to use to satisfy the most urgent need the consumer has that that good can satisfy.

In our example, because each additional bottle of water is used for a successively less highly valued want or need by our castaway, we can say that the castaway values each additional bottle less than the one before. Similarly, when consumers purchase goods on the market each additional unit of any given good or service that they buy will be put to a less valued use than the one before, so we can say that they value each additional unit less and less. Because they value each additional unit of the good less, they are willing to pay less for it. So, the more units of a good consumers buy, the less they are willing to pay in terms of the price.

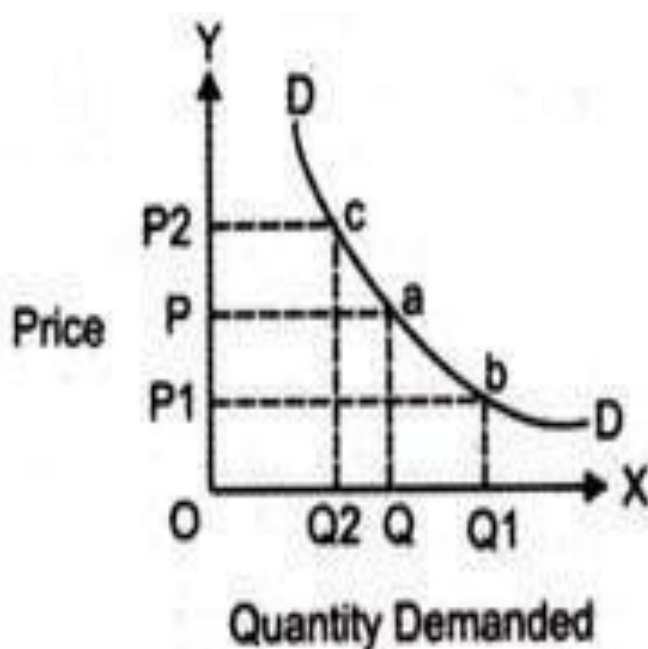
## **\*Extension and Contraction in Demand of Demand: -**

### **1. Expansion and Contraction of Demand:**

The variations in the quantities demanded of a product with change in its price, while other factors are at constant, are termed as expansion or contraction of demand. Expansion of demand refers to the period when quantity demanded is more because of the fall in prices of a product. However, contraction of demand takes place when the quantity demanded is less due to rise in the price of a product.

For example, consumers would reduce the consumption of milk in case the prices of milk increases and vice versa. Expansion and contraction are represented by the movement along the same demand curve. Movement from one point to another in a downward direction shows the expansion of demand, while an upward movement demonstrates the contraction of demand.

**Figure-11 demonstrates the expansion and contraction of demand**



**Figure-11: Expansion and Contraction of Demand**

When the price changes from OP to OP1 and demand moves from OQ to OQ1, it shows the expansion of demand. However, the movement of price from OP to OP2 and movement of demand from OQ to OQ2 show the contraction of demand.

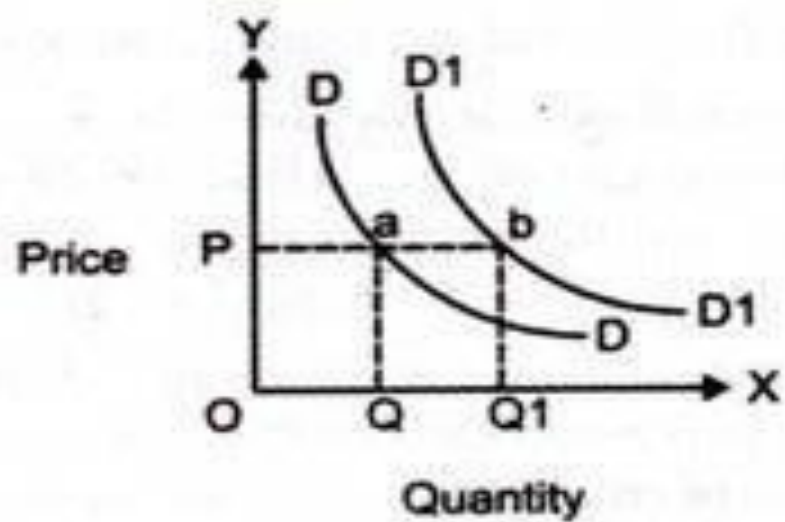
### **\* Increase and Decrease in Demand:**

Increase and decrease in demand are referred to change in demand due to changes in various other factors such as change in income, distribution of income, change in consumer's tastes and preferences, change in the price of related goods, while Price factor is kept constant. Increase in demand refers to the rise in demand of a product at a given price.

On the other hand, decrease in demand refers to the fall in demand of a product at a given price. For example, essential goods, such as salt would be consumed in equal quantity, irrespective of increase or decrease in its price. Therefore, increase in demand implies that there is an increase in demand for a product at any price. Similarly, decrease in demand can also be referred as same quantity demanded at lower price, as the quantity demanded at higher price.

Increase and decrease in demand is represented as the shift in demand curve. In the graphical representation of demand curve, the shifting of demand is demonstrated as the movement from one demand curve to another demand curve. In case of increase in demand, the demand curve shifts to right, while in case of decrease in demand, it shifts to left of the original demand curve.

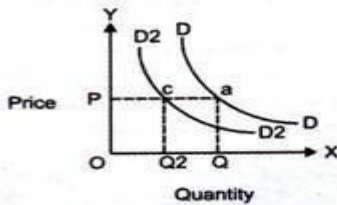
**Figure-12 shows the increase and decrease in demand:**



**Figure-12: Increase in Demand**

In Figure-12, the movement from DD to D1D1 shows the increase in demand with price at constant (OP). However, the quantity has also increased from OQ to OQ1.

**Figure-13 shows the decrease in demand:**



**Figure-13: Decrease in Demand**

In Figure-13, the movement from DD to D2D2 shows the decrease in demand with price at constant (OP). However, the quantity has also decreased from OQ to OQ2.

## **\*Usefulness of Law of Demand Law of Demand:-**

### **What is the Law of Demand?**

The law of demand is one of the most fundamental concepts in economics. It works with the law of supply to explain how market economies allocate resources and determine the prices of goods and services that we observe in everyday transactions. The law of demand states that quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded.

This occurs because of diminishing marginal utility. That is, consumers use the first units of an economic good they purchase to serve their most urgent needs first, and use each additional unit of the good to serve successively lower valued ends.

### **Law of Demand and Pricing: -**

Companies use the law of demand when setting prices and determining the level of demand for their products. Consumers use the law of demand in deciding the number of goods to buy. Below are examples of the law of demand and how consumers react to prices as their utility or satisfaction changes.

#### **Restaurants**

For example, if a consumer is hungry and buys a slice of pizza, the first slice will have the greatest benefit or utility. With each additional slice, the consumer becomes more satisfied, and utility declines. In theory, the first slice might fetch a higher price from the consumer. However, by the fourth slice, the consumer might be less willing to pay for a slice because of declining utility. In other words, if the pizza restaurant lowered the price of their slices, it would have less of an impact on demand because the utility has

decreased—their customers were full or satisfied.

### Groceries

Another example includes how grocery customers would likely prefer to consume more food but are limited by price. Promotional grocery pricing frequently offers discounted prices on the condition that a certain number of items are purchased. The existence and success of this promotional pricing model exemplify consumer willingness to purchase higher quantities at lower prices. However, consumers will demand lower prices as they receive more groceries since their needs decline as consumption increases. Once consumers have satisfied their urgent needs first, they'll likely want lower prices because their utility will have declined.

### The Holidays

The law of demand can impact companies since they can only lower their prices by only so much before it has little to no impact on consumer demand. We can see the law of demand plays out during the holiday season when consumers rush to stores on Black Friday in search of discounts. When prices are lowered, it leads to a huge jump in demand. As we get closer to the holiday, however, the markdowns must be greater to entice consumers to buy more products. Consumers' utility declines as their needs are met (shopping list is finished). In other words, prices are higher than the added utility or benefit from buying additional products as we near the holidays. The result is deep price discounts, especially after the holidays.

### Movies

If movie ticket prices declined to \$3 each, for example, demand for movies would likely rise. As long as the utility from going to the movies exceeds the \$3 price, demand will rise. As soon as consumers are satisfied that they've seen enough movies, for the time being, demand for tickets will fall.

## **\*Exceptions to the Law of Demand: -**

We all know that supply and demand factors influence the market conditions of an economy and determine the prices of goods and services. In a competitive market, the price conditions of a product or service will keep varying until the demand equals the supply thereby creating

an equilibrium. Let us look at some exceptions to this law of demand like Giffen goods, necessary goods, etc.

### **Exceptions to the Law of Demand**



Note that the law of demand holds true in most cases. The price keeps fluctuating until an equilibrium is created.

However, there are some exceptions to the law of demand. These include the Giffen goods, Veblen goods, possible price changes, and essential goods. Let us discuss these exceptions in detail.

#### The expectation of Price Change

In addition to Giffen and Veblen goods, another exception to the law of demand is the expectation of price change. There are times when the price of a product increases and market conditions are such that the product may get more expensive. In such cases, consumers may buy more of these products before the price increases any further. Consequently, when the price drops or may be expected to drop further, consumers might postpone the purchase to avail the benefits of a lower price.

For instance, in recent times, the price of onions had increased to quite an extent. Consumers started buying and storing more onions fearing further price rise, which resulted in increased demand.

There are also times when consumers may buy and store commodities due to a fear of shortage. Therefore, even if the price of a product increases, its associated demand may also increase as the product may be taken off the shelf or it might cease to exist in the market.

#### Necessary Goods and Services

Another exception to the law of demand is necessary or basic goods. People will continue to buy necessities such as medicines or basic staples such as sugar or salt even if the price increases. The prices of these products do not affect their associated demand.

#### Change in Income

Sometimes the demand for a product may change according to the change in income. If a household's income increases, they may purchase more products irrespective of the increase in their price, thereby increasing the demand for the product. Similarly, they might postpone buying a product even if its price reduces if their income has reduced. Hence, change in a consumer's income pattern may also be an exception to the law of demand.

## **\*Understanding the Concept of Utility in Microeconomics: -**

### **Meaning and Concept of Utility**

Utility Definition – It is a measure of satisfaction an individual gets from the consumption of the commodities. In other words, it is a measurement of usefulness that a consumer obtains from any

good. A utility is a measure of how much one enjoys a movie, favourite food, or other goods. It varies with the amount of desire.

### **\* Utility Definition**

Suppose you went to a restaurant and ordered your favourite food. What will you experience? Either the food satisfies your taste buds or not. Another day you went to another restaurant and ordered the same food. Is the experience the same? Maybe or may not be.

Similarly, if you eat your favourite ice-cream, you will be happy and satisfied

The satisfaction of a consumer is the basis of the utility function. It measures how much one enjoys when he or she buys something. A utility is a measure of how much one enjoys a movie, favourite food, or other goods.

### **What Is the Law of Diminishing Marginal Utility?**

The law of diminishing marginal utility states that commodities become less valuable as more of them are acquired. The British economist Alfred Marshall explained the law as such: “During the course of consumption, as more and more units of a commodity are used, every successive unit gives utility with a diminishing rate, provided other things remaining the same; although, the total utility increases.

EX - How much would you pay for a cell phone? The answer probably depends on your current phone status. If you don't presently have a phone, you'd likely pay upwards of a thousand dollars for a phone with fast internet connectivity, a great camera, and long battery life. Now let's say you bought that phone. How much would you pay to acquire a second phone to go along with it? Probably far less than you would have paid for the first one. And you'd pay less still to acquire a third phone. The fact that you'd pay less for each successive phone helps illustrate the law of diminishing marginal utility.

The phrase “

The law of diminishing marginal utility explains that as a person consumes an item or a product, the satisfaction or utility that they derive from the product wanes as they consume more and more of that product. For example, an individual might buy a certain type of chocolate for a while. Soon, they may buy less and choose another type of chocolate or buy cookies instead because the satisfaction they were initially getting from the chocolate is diminishing.

## **\*Consumer Surplus: -**

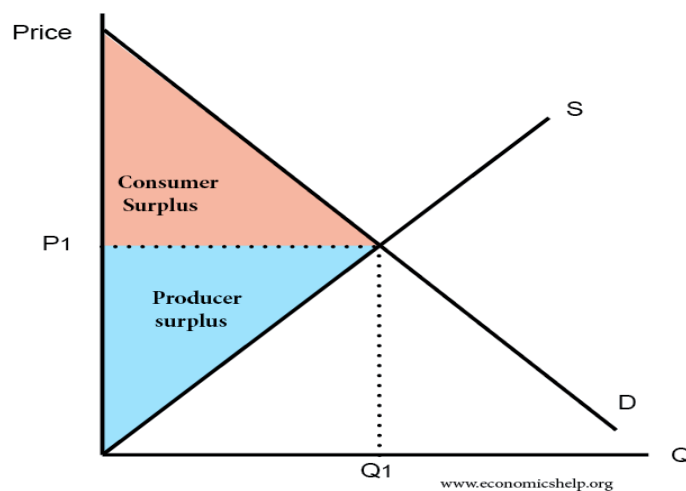
### **What Is Consumer Surplus?**

Consumer surplus is an economic measurement of consumer benefits. A consumer surplus happens when the price that consumers pay for a product or service is less than the price, they're willing to pay. It's a measure of the additional benefit that consumers receive because they're paying less for something than what they were willing to pay.

Consumer Surplus is the difference between the price that consumers pay and the price that they are willing to pay. On a supply and demand curve, it is the area between the equilibrium price and the demand curve.

For example, if you would pay 76p for a cup of tea, but can buy it for 50p – your consumer surplus is 26p.

### **Diagram of Consumer Surplus**

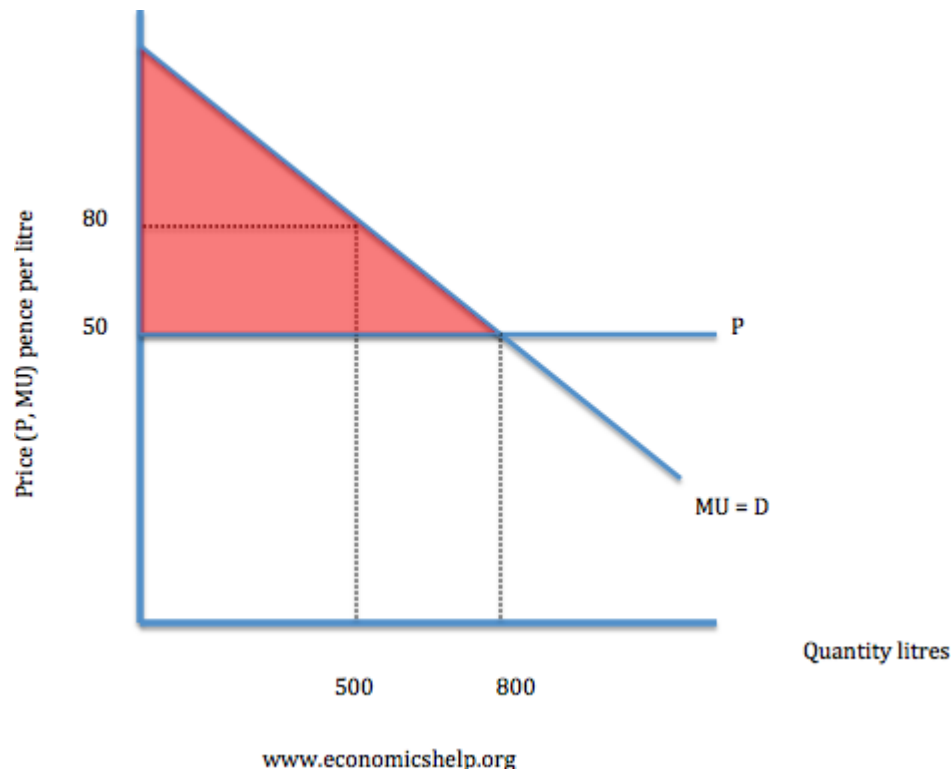


### **Producer Surplus**

- This is the difference between the price a firm receives and the price it would be willing to sell it at.
- Therefore, it is the difference between the supply curve and the market price.

### **Consumer Surplus and Marginal Utility**

The demand curve is derived from our marginal utility. If the marginal utility of a good is greater than the price, then that is our consumer surplus.



### ***Can firms reduce consumer surplus?***

- a. Firms can reduce consumer surplus if they have market power.
  - i. This enables them to raise prices above the competitive equilibrium.
- b. In a monopoly, a firm will maximize profits by reducing consumer surplus. See monopoly diagram
- c. Another way to reduce consumer surplus is to engage in price discrimination. – Charging different prices to different groups of consumers. Those with inelastic demand will see their consumer surplus reduced. More on Price discrimination. To completely eliminate consumer surplus, a firm would need to engage in first-degree price discrimination – this means charging the consumer the highest price they are willing to pay.
- d. To gain market power, a firm could advertise to create brand loyalty, this will make demand more inelastic

### ***What is the significance of consumer surplus?***

- In competitive markets, firms have to keep prices relatively low, enabling consumers to gain consumer surplus. If markets were not competitive, the consumer surplus would be less and there would be

greater inequality.

- A lower consumer surplus leads to higher producer surplus and greater inequality.
- Consumer surplus enables consumers to purchase a wider choice of goods.

## **Module 3**

## UNIT-3 THEORY OF SUPPLY

### Meaning And Determinants of Supply: -

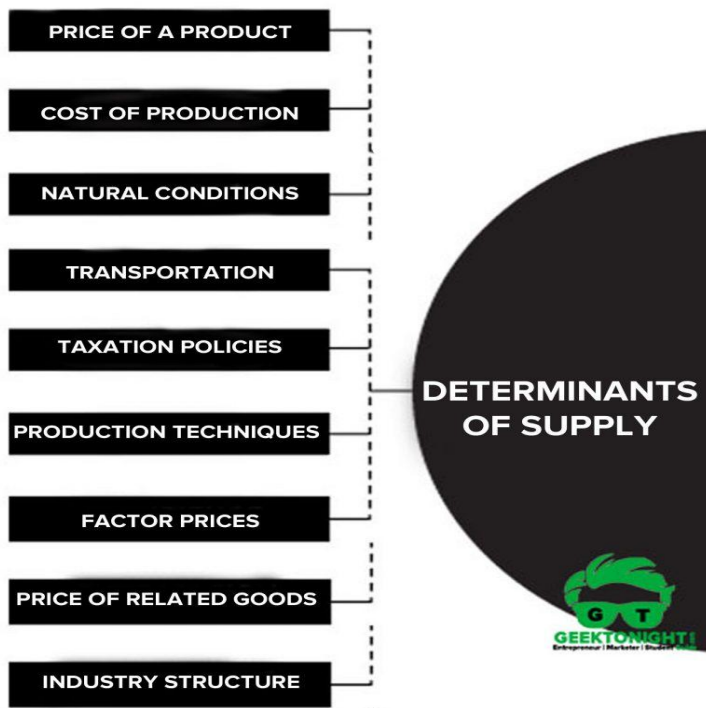
Demand and Supply are two pillars of business economics. We already know that demand is the quantity of a good or service that consumers are willing and able to purchase at different prices during a period of time. In this article, we will understand the meaning and determinants of supply.

### Determinants of Supply

What drives supply? In **economics**, there are 9 determinants of supply discussed below:

9. Determinants of supply are:

1. **Price of a product**
2. **Cost of production**
3. **Natural conditions**
4. **Transportation conditions**
5. **Taxation policies**
6. **Production techniques**
7. **Factor prices and their availability**
8. **Price of related goods**
9. **Industry structure**



## **Determinants of Supply: -**

### **Price of a product**

The major determinants of the supply of a product is its price. An increase in the price of a product increases its supply and vice versa while other factors remain the same.

Producers increase the supply of the product at higher prices due to the expectation of receiving increased profits. Thus, price and supply have a direct relationship.

### **Cost of production**

It is the cost incurred on the manufacturing of goods that are to be offered to consumers. Cost of production and supply are inversely proportional to each other.

This implies that suppliers do not supply products in the market when the cost of manufacturing is more than their market price. In this case, sellers would wait for a rise in price in the future.

The cost of production increases due to several factors, such as loss of fertility of land; high wage rates of labour; and increase in the prices of raw material, transportation cost, and tax rate.

### **Natural conditions**

The supply of certain products is directly influenced by climatic conditions. For instance, the supply of agricultural products increases when the monsoon comes well on time.

On the contrary, the supply of these products decreases at the time of drought. Some of the crops are climate specific and their growth purely depends on climatic conditions.

**For example**, Kharif crops are well grown at the time of summer, while Rabi crops are produced well in the winter season.

### **Transportation conditions**

Better transport facilities result in an increase in the supply of goods. Transport is always a constraint to the supply of goods. This is because goods are not available on time due to poor transport facilities.

Therefore, even if the price of a product increases, the supply would not increase.

### **Taxation policies**

Government's tax policies also act as a regulating force in supply. If the rates of taxes levied on goods are high, the supply will decrease. This is because high tax rates increase overall productions costs, which will make it difficult for suppliers to offer products in the market.



Similarly, reduction in taxes on goods will lead to an increase in their supply in the market.

### **Production techniques**

The supply of goods also depends on the type of techniques used for production. Obsolete techniques result in low production, which further decreases the supply of goods.

Over the years, there has been tremendous improvement in production techniques, which has led to increase in the supply of goods.

### **Factor prices and their availability**

The production of goods is dependent on the factors of production, such as raw material, machines and equipment, and labour.

An increase in the prices of the factors of production increases the cost of production. This will make difficult for firms to supply large quantities in the market.

### **Price of related goods**

The prices of substitutes and complementary goods also influence the supply of a product to a large extent.

**For example**, if the price of tea increases, farmers would tend to grow more tea than coffee. This would decrease the supply of tea in the market.

### **Industry structure**

The supply of goods is also dependent on the structure of the industry in which a firm is operating. If there is monopoly in the industry, the manufacturer may restrict the supply of his/her goods with an aim to raise the prices of goods and increase profits.

On the other hand, in case of a perfectly competitive market structure, there would be a large of number of sellers in the market. Consequently, the supply of a product would increase.

## **Supply And Demand and Their Determinants: -**

Buyers are called demanders, and Sellers and called suppliers.

DEMAND IS A SCHEDULE that shows the amounts of a product consumers are willing and/or able to buy at each price using a series of possible prices during a specific time frame.

The schedule shows how many units buyers (demanders) are willing and able to buy at the possible prices. The market price depends on the intersection of demand and supply.

The (General) Law of Demand uses the assumption of ceteris paribus (other things being equal). This implies that as price increases, the corresponding quantity demanded falls. In other words, there is an inverse relationship between price and

quantity demanded. The ceteris paribus assumption refers to constant prices of related goods, income, tastes, and all other things besides price.

We will briefly touch upon the Marginal Rate of Substitution (MRS). This concept is related to the Income Effect and the Substitution Effect.

The Income Effect is when a lower price increases the purchasing power of money income enabling one to buy more at a lower price or less at a higher price, when incomes are unchanged.

The Substitution Effect is when lower prices give incentive to substitute the lower priced good for now relatively higher priced goods.

The Marginal Rate of Substitution is the rate, at the margin, at which a consumer is prepared to substitute one good or service for another and remain equally satisfied (have the same total “Utility”); and is equal to the slope of an indifference curve (Managerial Economics).

The demand curve shows an inverse relationship between price and quantity demanded. It has a downward slope indicating a lower quantity at a higher price; or a higher quantity at a lower price. Quantity is on the horizontal axis and price is on the vertical axis.

Market demand is the horizontal sum of individual demands. The transition from an individual demand schedule to a market demand schedule is done by summing individual quantities at various price levels. The market curve is the horizontal sum of individual curves.

What other things affect demand (other than price)? Note that changes in the determinants of demand shift the location of the demand curve to the right or left. The determinants of demand are referred to as demand shifters. A change in a determinant of demand will change the demand schedule. A shift in the location of the demand curve is called a “change in demand.”

### **Determinants of Demand**

1. Tastes – favourable changes increase demand; unfavourable changes decrease demand.
2. Population – More buyers increase demand; fewer buyers decrease demand.
3. Income – more income increases demand; less income decreases demand for normal goods. (An inferior good is when demand varies inversely with income).
4. Prices of related goods –

Substitute goods (can be used in place of each other). This implies that the price of the substitute and demand for the other good

5. Expectations – consumers’ views about the future prices, product availability, and income can shift the demand curve.

A “change in the quantity demanded” denotes movement from one point to another on a fixed demand curve. That is, it denotes movement from one price-quantity relationship to another. Usually, the cause of a change in quantity demanded is a change in the price of a product under consideration.

## **SUPPLY: -**

Quantity Supplied and its relationship to price which is normally referred to as “Supply” are developed into a SCHEDULE that shows amounts of a product a supplier is willing and able to produce and sell at each specific price in a series of possible prices during a specific time frame.

The supply schedule shows those quantities that can be offered at various prices or answers the question, “At what price will be required to induce various quantities to be offered?”

The general Law of Supply means that producers will produce and sell more of their product at a high price than at a low price. There is a direct relationship between price and quantity supplied. Given product costs, a higher price implies greater profits and thus an incentive to increase the quantity supplied.

## **Determinants of Supply: -**

1. Resource Prices, i.e., the prices of the Factors of Production – a rise in resource prices (of materials, labour, or other inputs) will cause a decrease in supply a decrease in resource prices will cause an increase in supply
2. Technology – a technological improvement means more efficient production and lower costs so an increase in supply
3. Taxes & Subsidies – a business tax is treated as a cost so decreases supply; a subsidy lowers cost of production so increases supply.
4. Prices of other related goods – If the price of a substitute goods rise, producers can shift production towards the higher priced good causing a decrease in supply of the original good. If a raw material price lower increase in supply
5. Expectations – Expectations about the future price of a product can cause producers to increase or decrease current supply.

Number of Suppliers – Generally the larger the number of suppliers the greater the supply.

Weather conditions- Generally favourable conditions increase supply and unfavourable conditions decrease supply.

## **Meaning of Market:**

In common parlance, by market is meant a place where commodities are bought and sold at retail or wholesale prices.

Thus, a market place is thought to be a place consisting of a number of big and small shops, stalls and even hawkers selling various types of goods.

In Economics however, the term “Market” does not refer to a particular place as such but it refers to a market for a commodity or commodities. It refers to an arrangement whereby buyers and sellers come in close contact with each other directly or indirectly to sell and buy goods.

Further, it follows that for the existence of a market, buyers and sellers need not personally meet each other at a particular place. They may contact each other by any means such as a telephone or social media. Thus, the term “Market” is used in economics in a typical and specialised sense. It does not refer only to a fixed location.

It refers to the whole area of operation of demand and supply. Further, it refers to the conditions and commercial relationships facilitating transactions between buyers and sellers. Therefore, a market signifies any arrangement in which the sale and purchase of goods take place.

### **Definitions of Market:**

1. Cournot’s definition – the French economist Cournot defined a market thus “Economists understand by the ‘Market’ not any particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality, easily and quickly.”

**Further some more definitions are modern definitions of market are as follows:**

2. According to Jevons – “Originally a market was a public place in a town where provision and other objects were exposed for sale, but the word has been generalized so as to mean anybody or persons, who are in intimate business relation and carry-on extensive transaction in any commodity.

3. As Chapmen has said – “The term market refers not necessarily to a place but always to commodity or commodities and the buyers and sellers of the same who are in direct competition with each other.”

4. According to Prof. Behham – “We must therefore, define a market as any area over which buyers and sellers are in such close touch with one another either directly or through dealers that the prices obtainable in one part of the market affect the prices in other parts.”

### **Features of Market:**

1. One commodity:

In practical life, a market is understood as a place where commodities are bought and sold at retail or wholesale price, but in economics “Market” does not refer to a particular place as such but it refers to a market for a commodity or commodities i.e., a wheat market, a tea market or a gold market and so on.

2. Area:

In economics, market does not refer only to a fixed location. It refers to the whole area or region of operation of demand and supply

3. Buyers and Sellers:

To create a market for a commodity what we need is only a group of potential sellers and potential buyers. They must be present in the market with different price

#### 4. Perfect Competition:

In the market there must be the existence of perfect competition between buyers and sellers. But the opinion of modern economist is that in the market the situation of imperfect competition also exists, therefore, the existence of both is found.

#### 5. Business relationship between Buyers and Sellers:

For a market, there must exist perfect business relationship between buyers and sellers. They may not be physically present in the market, but the business relationship must be carried on.

#### 6. Perfect Knowledge of the Market:

Buyers and sellers must have perfect knowledge of the market regarding the demand of the customers, regarding their habits, tastes, fashions etc.

#### 7. One Price:

One and only one price be in existence in the market which is possible only through perfect competition and not otherwise.

### **Types of Market Structures: -**

A variety of market structures will characterize an economy. Such market structures essentially refer to the degree of competition in a market.

There are other determinants of market structures such as the nature of the goods and products, the number of sellers, number of consumers, the nature of the product or service, economies of scale etc. We will discuss the four basic types of market structures in any economy.

One thing to remember is that not all these types of market structures actually exist. Some of them are just theoretical concepts. But they help us understand the principles behind the classification of market structures.



## 1] Perfect Competition

In a perfect competition market structure, there are a large number of buyers and sellers. All the sellers of the market are small sellers in competition with each other. There is no one big seller with any significant influence on the market. So all the firms in such a market are price takers.

There are certain assumptions when discussing the perfect competition. This is the reason a perfect competition market is pretty much a theoretical concept. These assumptions are as follows,

- The products on the market are homogeneous, i.e. they are completely identical
- All firms only have the motive of profit maximization
- There is free entry and exit from the market, i.e. there are no barriers
- And there is no concept of consumer preference

example: - wheat market, fruit market, vegetable market

## 2] Monopolistic Competition

This is a more realistic scenario that actually occurs in the real world. In monopolistic competition, there are still a large number of buyers as well as sellers. But they all do not sell homogeneous products. The products are similar but all sellers sell slightly differentiated products.

Now the consumers have the preference of choosing one product over another. The sellers can also charge a marginally higher price since they may enjoy some market power. So, the sellers become the price setters to a certain extent.

For example, the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours. Another such example is toothpaste.

lux soap compares to beauty

santoor soap compare to age

## Examples of monopolistic competition

- Restaurants – restaurants compete on quality of food as much as price. Product differentiation is a key element of the business. There are relatively low barriers to entry in setting up a new restaurant.
- Hairdressers. A service which will give firms a reputation for the quality of their hair-cutting.
- Clothing. Designer label clothes are about the brand and product differentiation
- TV programmes – globalisation has increased the diversity of tv programmes from networks around the world. Consumers can choose between domestic channels but also imports from other countries and new services, such as Netflix.

## 3] Oligopoly

In an oligopoly, there are only a few firms in the market. While there is no clarity about the number of firms, 3-5 dominant firms are considered the norm. So in the case of an oligopoly, the buyers are far greater than the sellers.

An oligopoly is a middle ground between a monopoly and open competition. An oligopoly occurs when a small group of businesses, at least two, control the market for a certain product or service. This gives these businesses a huge influence over price and other aspects of the market. While other businesses could seek to enter an oligopoly, it is difficult to compete as a startup in an industry dominated by only a few market leaders.

The firms in this case either compete with another to collaborate together, They use their market influence to set the prices and in turn maximize their profits. So the consumers become the price takers. In an oligopoly, there are various barriers to entry in the market, and new firms find it difficult to establish themselves.

- **aluminium production** - In the U.S., the top two steel producers (Arconic and Alcoa) have annual revenue in excess of ten billion dollars each.
- **automobile manufacturers** - The worldwide automobile manufacturing industry is dominated by just 14 corporations.
- **beer industry** - Anheuser-Busch and Molson Coors dominate the U.S. beer industry as of 2020. In 2016, when Anheuser Busch purchased the parent company of all of Miller brands, the U.S. Department of Justice required them to sell MillerCoors (now Molson Coors) and a smaller producer in order to prevent a monopoly.

- **book publishing** - The book publishing industry is dominated by "the big five," which are Penguin Random House, Hachette Livre, HarperCollins, Macmillan, and Simon & Schuster.
- **breakfast cereal manufacturers** - Almost all commercially available breakfast cereal is manufactured by Kellogg, General Mills, Post and Quaker.
- **cell phone providers** - Three companies (Verizon, Sprint and AT&T) dominate virtually all of the U.S. cell phone market. Until 2020, T-Mobile would have been listed as a fourth competitor, but they merged with Sprint.
- **commercial air travel** - In the United States, four companies (Delta, United, American, and Southwest) dominate the commercial air travel industry.
- **media outlets** - The vast majority of broadcast and cable media outlets in the U.S. are owned by one of six corporations (NBC Universal, News Corporation, Time Warner, Viacom CBS, and Walt Disney).
- **music industry** - Four music companies control virtually all of the market. They are Universal Music Group, Sony Music Entertainment, Warner Music Group, and EMI Group.
- **oil and gas industry** - The oil and gas industry is dominated worldwide by a few large companies, often collectively referred to as "big oil."
- **search engines** - Only a few major companies (Google and Bing) dominate the market for search engines. These same companies dominate search-based internet advertising.
- **social media** - The major social media outlets (Facebook, Twitter and Instagram) function as an oligopoly.
- **steel production** - The steel industry is dominated by only a few major producers, all of which produce products that are identical or virtually identical.

#### 4] Monopoly

In a monopoly type of market structure, there is only one seller, so a single firm will control the entire market. It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller.

Monopolies are extremely undesirable. Here the consumer loses all their power and market forces become irrelevant. However, a pure monopoly is very rare in reality.

Example - Google, Microsoft, Railways, Facebook



## **Module 4**

## **UNIT-4 THEORY OF DISTRIBUTION**

### **Meaning of Rent:**

The word rent can refer to any periodic payment made regularly for the hire of a good e.g. a house, a flat, a shop etc. Rent is the share of the national income that goes to the owners of land. Mineral royalties are a form of rent.

The amount of economic rent is determined by the richness of the land or mine, since the greater the value that a given amount of labour can produce, the greater the surplus from which rent can be paid.

Economic rent is in fact the difference between the yield of land and the cost of producing the yield. In common use rent means the hire price of land or building. When a person hires a house, he is said to rent it and the periodic payment is termed rent.

In ordinary sense rent is simply a price for the use of the services of a factor of production, land or land together with buildings, paid by the tenant to the owner. Rent, as the hire price of land, however also includes interest on capital.

Rent is the surplus received by any factor of production above its opportunity cost—that is, any surplus over and above what was necessary to keep that factor in its present employment. Rents can therefore be received by labour, capital or the entrepreneur, as well as by land.

### **1. Scarcity Rent:**

Scarcity rent results from the scarcity of homogeneous land. The essential feature of pure scarcity rent is this. Whilst a rise in the prices of other factors of production will often cause an increase in their supply, a rise in rent cannot increase the supply of land. scarcity rent is only land production rent

### **2. Differential Rent:**

The model which is assumed to discuss the problem of scarcity rent considers that land is both homogeneous and scarce. This is not, however, a very realistic model. Because all land is never of the same quality. It is reasonable to assume that a particular stretch of land will not be so fertile as the rest of that.

### **3. Quasi-Rent:**

Following Marshall, the term quasi-rent was used to describe all rents received by factors other than land. Quasi rents tend to be temporary, received by the factors concerned in the short period only until supply catches up with demand.

Quasi rent used in house, flat, factory

In Marshall's words the supply of Machines and other appliances made by man is elastic in the long run but inelastic in the short run. They are not in fixed supply like land, so the earnings from their use cannot be called rent in the economic sense.

## **Wages: Definition, Types and Other Details: -**

### **Definitions:**

"A wage may be defined as the sum of money paid under contract by an employer to worker for services rendered." -Benham

"Wages is the payment to labour for its assistance to production." -A.H. Hansen

"Wage rate is the price paid for the use of labour." -Mc Connell

"A wage is price; it is the price paid by the employer to the worker on account of labour performed." -J.R. Turner

LAND-RENT

LABOR – WAGES/ SLARY

CAPITAL – INTEREST

ENTREPRENEUR-PROFIT

### **Types of Wages:**

**In real practice, wages are of many types as follows:**

#### 1. Piece Wages:

Piece wages are the wages paid according to the work done by the worker. To calculate the piece wages, the number of units produced by the worker are taken into consideration.

#### 2. Time Wages:

If the labourer is paid for his services according to time, it is called as time wages. For example, if the labour is paid Rs. 35 per day, it will be termed as time wage.

#### 3. Cash Wages:

Cash wages refer to the wages paid to the labour in terms of money. The salary paid to a worker is an instance of cash wages.

### **Determining Real Wages**

#### 1. Nature of Job:

Nature of job has its bearing on the real wages. We have to see whether the job is permanent or not. In some occupations, employment is seasonal as in agriculture.

Therefore, a person who has a regular job enjoys more real wages than the person who has the seasonal employment.

## 2. Future Prospects:

The scope for promotion and prospects of higher wages in future may induce a man to work for a low wage in the beginning.

## 3. Possibilities of Extra Earnings:

In some occupations there are possibilities of extra earnings. For instance, a hospital doctor may have private practice or a teacher may undertake some private tuitions to supplement his earnings.

## 4. Mode of Payment:

The mode of payment also influences the real wages. For example, an agricultural worker might be paid very low wages in money. But he may get other things besides money wages. These things should be taken into account while considering real wages.

## 5. Hours of Work:

In some jobs a person has to devote less time and in others comparatively more. This affects the real wages to a great extent.

## 6. Other Facilities:

The services having access to conveyance, medical, free education-to children, subsidized goods facility have more real wages, other things being the same. These facilities affect the real wages to a considerable level.

## 7. Price Level:

Another factor that does affect the real wages is in the shape of price level or the purchasing power of money. The rise in price level leads to a decrease in the real wages. For instance, with the ten percent increase in prices, the workers real wages go down. It is so because with the same amount of money now the workers can purchase less goods and services than before. Thus, price level affects the real wages.

## 8. Working Conditions:

Working conditions also prove to be a helping hand in affecting the real wage rates. For instance, the two persons get the same money wage, but their working conditions are different. The person who works in clean and healthy atmosphere will enjoy the high wages than the person working in dirty and unhealthy atmosphere. The reason is that healthy and conducive working conditions keep the expenditure on medicines at the low ebb.

## 9. Social Status:

The higher social status of a job leads to high real wages. For example, a clerk of govt. service and of a private company gets almost equal salary. But the social status of the clerk in government service is more than his counter partner. Therefore, he enjoys more real wages.

## 10. Travel Expenses:

If a worker has to incur some travel expenses from his home to work place then his real wages will be low and vice-versa.

#### 11. Timely Payment:

Real wages also depend on the timely payment of wages. If a worker gets his wages regularly and on fixed dates his real wages will be considered more. For instance, the real wages of government employees are considered to be high as compared to the employees of private companies.

### **Gross Interest: -**

#### **What is Gross Interest?**

**Gross interest** is the amount of interest an account or investment earns before deducting taxes, fees or other charges. It is expressed as a percentage.

#### **How Does Gross Interest Work?**

Let's assume you open a "Super Saver Savings Account" at Bank XYZ. The account advertises a 2% annual interest rate. You deposit \$10,000 into the account, and after a month the bank pays you 1/12 of 2% on that \$10,000, for a gross interest payment of \$16.67. However, the monthly fee for maintaining the account is \$5 and you have to pay a 28% federal income tax and a 5% state income tax on the interest income (which costs another \$5.50), so the net interest is actually \$6.17.

#### **The following are the components of gross interest:**

##### **i. Pure interest:**

Refers to the amount paid by a debtor for availing the services of capital only.

##### **ii. Insurance:**

Refers to the amount paid by the debtor for covering the risk associated with the lending of money. The risk can be of two types, personal risks associated with the borrower and trade risks are associated with the changing conditions of a business. Therefore, the debtor has a risk that the borrower may not pay the money back or the money is lost in case of failure of business.

##### **iii. Wages of management:**

Implies that a creditor has to maintain the records of transactions related to the payment of loans and receipts of interest. For this purpose, the lender may hire a clerk and needs to pay wages to the clerk. In such a case, there wages are included in gross interest.

##### **iv. Inconvenience return:**

Refers to the amount paid by the debtor because of the inconvenience faced by the creditor as the amount of compensation. When the creditor lends the money, his/her control over money is stopped. He/she can lose the various opportunities to invest for the best alternatives. Inconvenience can be of two types.

## **Net Interest Income: -**

### **What Is Net Interest Income?**

Net interest income is a financial performance measure that reflects the difference between the revenue generated from a bank's interest-bearing assets and expenses associated with paying on its interest-bearing liabilities. A typical bank's assets consist of all forms of personal and commercial loans, mortgages, and securities. The liabilities are interest-bearing customer deposits. The excess revenue that is generated from the interest earned on assets over the interest paid out on deposits is the net interest income.

### **Understanding Net Interest Income:**

The net interest income of some banks is more sensitive to changes in interest rates than others. This can vary according to several factors, such as the type of assets and liabilities that are held as well as if those assets and liabilities have fixed rates or variable rates. Banks with variable rate assets and liabilities will be more sensitive to changes in interest rates than those with fixed rate assets and liabilities.

The type of assets earning interest for the bank can vary greatly from mortgages to auto loans, personal loans, and commercial real estate loans. This will ultimately affect the interest rate a bank earns on its assets and the resulting net interest income after subtracting interest paid out to depositors. Moreover, loans of the same type can carry fixed rates or variable rates. This is most often seen with mortgages as banks offer fixed rate and adjustable-rate mortgages.

Quality of the loan portfolio is also a factor affecting net interest income as circumstances like a deteriorating economy and job losses can cause borrowers to default on their loans and lower the bank's net interest income as a result.

### **Example of Net Interest Income**

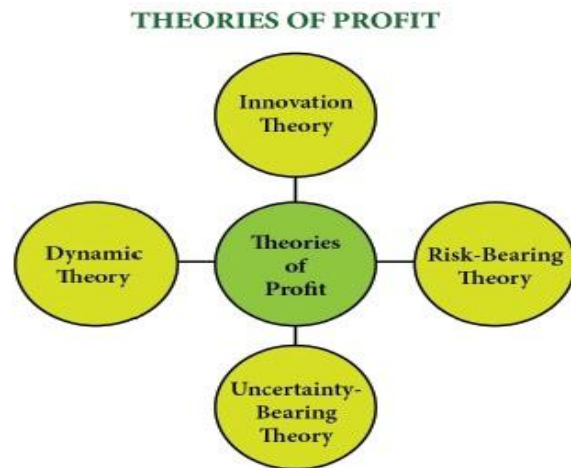
If a bank has a loan portfolio of \$1 billion earning an average of 5% interest, the bank's interest revenue will be \$50 million. On the liability side, if the bank has outstanding customer deposits of \$1.2 billion earning 2% interest, then its interest expense will be \$24 million. The bank will be generating \$26 million in net interest income (\$50 million in interest revenue minus \$24 million in interest expense).

## **Theories of Profit: -**

**Definition: Profit** is the financial benefit realized from the business activity when the revenues generated exceeds the costs and expenses incurred in the operation of such activities. Simply, the total cost deducted from total revenue yields profit. The profits of the organization depend on the successful management of business operations, i.e. how well an entrepreneur manages the risks and uncertainties of the firm. Although the profits are directly linked to the entrepreneur and his functions, several economists have given their varied views on origin, nature and role of profit. Till date, there is no complete consensus among

the economists with respect to the true nature and origin of profit. Due to this, several theories of profit came into existence.

### Theories of Profit



#### 1. Dynamic Theory of Profit

This theory was propounded by the American economist J.B.Clark in 1900. To him, profit is the difference between price and cost of production of the commodity. Hence, profit is the reward for dynamic changes in society. Further he points out that, profit cannot arise in a static society. Static society is one where everything is stationary or stagnant and there is no change at all. Therefore, there is no role for an entrepreneur in a static society. The price of the commodities in a static society would be equal to their cost of production. So, there would be no profit for the entrepreneur. The entrepreneur only gets wages for management and interest on his capital.

At present several changes are taking place in a dynamic society. Changes are permanent. According to Clark, the following five main changes are taking place in a dynamic society.

1. Population is increasing
2. Volume of Capital is increasing.
3. Methods of production are improving.
4. Forms of industrial organization are changing.

5. The wants of consumer are multiplying.

## **2. Innovation Theory of Profit**

Innovation theory of profit was propounded by Joesph. A.Schumpeter. To Schumpeter, an entrepreneur is not only an undertaker of a business, but also an innovator in the process of production. To him, profit is the reward for “innovation”. Innovation means invention put into commercial practice.

According to Schumpeter, an innovation may consist of the following:

1. Introduction of a new product.
2. Introduction of a new method of production.
3. Opening up of a new market.
4. Discovery of new raw materials
5. Reorganization of an industry / firm.

When any one of these innovations is introduced by an entrepreneur, it leads to reduction in the cost of production and thereby brings profit to an entrepreneur. To obtain profit continuously, the innovator needs to innovate continuously. The real innovators do so. Imitative entrepreneurs cannot innovate.

## **3. Risk Bearing Theory of Profit**

Risk bearing theory of profit was propounded by the American economist F.B.Hawley in 1907. According to him, profit is the reward for “risk taking” in business. Risk taking is an essential function of the entrepreneur and is the basis of profit. It is a well-known fact that every business involves some risks.

Since the entrepreneur undertakes the risks, he receives profits. If the entrepreneur does not receive the reward, he will not be prepared to undertake the risks. Thus, higher the risks, the greater are the profit.



Every entrepreneur produces goods in anticipation of demand. If his anticipation of demand is correct, then there will be profit and if it is incorrect, there will be loss. It is the profit that induces the entrepreneurs to undertake such risks.

#### **4. Uncertainty Bearing Theory of Profit**

Uncertainty theory was propounded by the American economist Frank H. Knight. To him, profit is the reward for “uncertainty bearing”. He distinguishes between “insurable” and “non-insurable” risks.

##### **Insurable Risks**

Certain risks are measurable or calculable. Some of the examples of these risks are the risk of fire, theft and natural disasters. Hence, they are insurable. Such risks are compensated by the Insurance Companies.

##### **Non-Insurable Risks**

There are some risks which are immeasurable or incalculable. The probability of their occurrence cannot be anticipated because of the presence of uncertainty in them. Some of the examples of these risks are competition, market condition, technology change and public policy. No Insurance Company can undertake these risks. Hence, they are non-insurable. The term “risks” covers the first type of events (measurables - insurable) and the term “uncertainty” covers the second type of events (unforeseeable or incalculable or not measurable or non-insurable).

According to Knight, profit does not arise on account of risk taking, because the entrepreneur can guard himself against a risk by taking a suitable insurance policy. But uncertain events cannot be guarded against in that way. When an entrepreneur takes himself the burden of facing an uncertain event, he secures remuneration. That remuneration is “profit”.

# **GOKUL GLOBAL UNIVERSITY**

Faculty of Commerce & Management

E-Content



<b>Course:</b>	BBA & BCom
<b>Semester:</b>	1 <sup>st</sup>
<b>Subject:</b>	Principle of Management
<b>Subject Code:</b>	FMB210102 & FCB210102

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# **Module 1**

# Management

## Meaning of Management

Management is the process of coordinating and overseeing the work activities of others so that organizational goals can be accomplished efficiently and effectively. It involves planning, organizing, leading, and controlling an organization's resources to achieve specific objectives. These resources include human resources, financial resources, technological resources, and natural resources.

Management is crucial in all types of organizations, whether for-profit, non-profit, governmental, or other forms. The primary goal of management is to ensure that an organization's goals are met in a manner that is both efficient (using resources wisely and cost-effectively) and effective (achieving the desired outcomes).

## Process of Management

The management process consists of several interrelated functions, typically divided into five main stages: planning, organizing, staffing, leading, and controlling. Below is a detailed explanation of each stage, including the steps involved:

### 1. Planning

Description: Planning is the process of setting objectives and determining the best course of action to achieve them. It involves anticipating future conditions, analyzing potential courses of action, and making decisions about the best way to achieve organizational goals. Effective planning requires a clear understanding of the desired objectives and the external and internal factors that can affect these objectives. It is a forward-looking function that sets the foundation for all other management activities.

#### Steps:

- Define objectives: Clearly state what the organization aims to achieve.
- Identify resources: Determine what resources are required to achieve the objectives.
- Analyze the environment: Assess internal and external factors that could impact the plan.
- Develop strategies: Formulate strategies and action plans to achieve the objectives.
- Establish priorities: Prioritize tasks and allocate resources accordingly.
- Create timelines: Set deadlines and milestones for achieving objectives.

### 2. Organizing

Description: Organizing involves arranging resources and tasks in a structured way to achieve the organization's objectives. This includes creating an organizational structure that defines roles and responsibilities and allocating resources to ensure efficient task completion. Organizing establishes the formal framework within which work activities

are divided, grouped, and coordinated. It ensures that there is a systematic approach to executing tasks and that resources are optimally utilized.

Steps:

- Develop a structure: Design an organizational framework that outlines how tasks are divided and coordinated.
- Assign tasks: Distribute tasks among individuals or teams based on their skills and abilities.
- Coordinate activities: Ensure that different parts of the organization work together effectively.
- Allocate resources: Distribute resources such as personnel, equipment, and finances to various tasks and departments.
- Establish procedures: Develop standard operating procedures to ensure consistency and efficiency.

### **3. Staffing**

Description: Staffing involves recruiting, selecting, training, and developing employees to fill the roles defined in the organization. It ensures that the organization has the right people with the right skills in the right positions. Effective staffing involves not only hiring the best candidates but also providing continuous training and development opportunities to enhance their skills. It is a dynamic function that responds to changes in the organization and the external environment.

Steps:

- Recruitment: Attract qualified candidates to apply for job openings.
- Selection: Evaluate and choose the best candidates for the positions.
- Training: Provide new employees with the necessary skills and knowledge to perform their roles.
- Development: Offer opportunities for employees to grow and advance within the organization.
- Retention: Implement strategies to keep valuable employees engaged and committed to the organization.

### **4. Leading**

Description: Leading involves directing and motivating employees to achieve organizational goals. It includes influencing and guiding individuals and teams, communicating effectively, and resolving conflicts. Leading is about inspiring employees, fostering a positive organizational culture, and creating a productive work environment. It requires strong interpersonal skills and the ability to motivate and influence others to work towards common goals.

Steps:

- Set direction: Communicate the organization's vision, mission, and goals to employees.

- Motivate employees: Inspire and encourage employees to perform their best through recognition, rewards, and support.
- Communicate: Ensure clear and open communication channels within the organization.
- Build teams: Foster teamwork and collaboration among employees.
- Resolve conflicts: Address and manage conflicts that arise in the workplace.

## **5. Controlling**

Description: Controlling involves monitoring and evaluating the progress toward achieving organizational goals. It ensures that activities are aligned with the plans and standards set during the planning stage and involves taking corrective actions when necessary. Controlling includes setting performance standards, measuring actual performance, comparing it with the standards, and taking corrective action to address any deviations. It is a continuous process that ensures the organization stays on track to achieve its objectives.

### Steps:

- Set performance standards: Establish benchmarks and standards for measuring performance.
- Monitor performance: Regularly track and assess the performance of individuals, teams, and the organization as a whole.
- Compare actual performance with standards: Identify any deviations from the set standards.
- Take corrective action: Implement measures to correct any deviations and improve performance.
- Review and revise: Continuously review and update standards and procedures to reflect changes in the organization and its environment.

# Planning

Planning is a fundamental function of management that involves the formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources. It is a process of setting objectives, determining the best course of action to achieve those objectives, and developing a series of steps to ensure the success of the chosen path.

## Key Elements of Planning

1. **Objective Setting:** Planning starts with setting objectives. These objectives act as a guide for all subsequent actions and decisions. Objectives should be clear, specific, and measurable to provide a concrete goal for the organization to aim for. They give direction to all other functions of management and form the basis for assessing the success of the planning process.
2. **Forecasting:** Forecasting involves predicting future conditions and events that will influence the achievement of objectives. It includes analyzing current trends, data, and patterns to anticipate future occurrences. Forecasting helps in identifying potential opportunities and threats, enabling the organization to prepare and plan accordingly.
3. **Decision Making:** At the heart of planning is decision making, which involves selecting the best course of action from a set of alternatives. Decision making requires evaluating the pros and cons of each alternative and choosing the one that is most likely to achieve the objectives effectively and efficiently.
4. **Resource Allocation:** Effective planning involves determining the resources required to achieve the objectives. Resources include human resources, financial resources, physical resources, and technological resources. Planning ensures that these resources are allocated optimally to avoid wastage and ensure that they are available when needed.
5. **Formulating Action Plans:** Action plans are detailed strategies that outline the steps necessary to achieve the objectives. These plans include specific actions, timelines, and responsibilities. Action plans serve as a roadmap for implementing the chosen course of action and achieving the set objectives.
6. **Setting Priorities:** Not all tasks and activities are equally important. Planning involves setting priorities to ensure that critical tasks receive the necessary attention and resources. Prioritizing helps in managing time and resources effectively and ensures that the most important activities are completed first.
7. **Establishing Standards:** Planning includes establishing standards and benchmarks that will be used to measure progress and performance. These standards act as criteria for evaluating the effectiveness of the plan and the degree to which the objectives are being achieved.
8. **Coordination:** Effective planning requires coordination among various departments and levels of the organization. This ensures that all parts of the organization are working towards common objectives and that there is consistency in actions and decisions.
9. **Flexibility:** Planning should be flexible enough to accommodate changes in the environment and unforeseen circumstances. A good plan includes contingency measures to handle unexpected events and ensures that the organization can adapt to changing conditions without losing sight of its objectives.

## **Planning Process**

The planning process involves several steps that help managers systematically approach the task of creating plans to guide organizational activities. Here is a detailed explanation of each step in the planning process:

### **1. Define Objectives**

The first step in the planning process is to clearly define the objectives that the organization aims to achieve. These objectives should be specific, measurable, achievable, relevant, and time-bound (SMART). Defining clear objectives provides a direction for all subsequent planning activities and helps ensure that efforts are focused on achieving desired outcomes.

### **2. Analyze the Environment**

The next step involves analyzing both the internal and external environments to identify factors that can impact the achievement of the objectives. This includes assessing the organization's strengths, weaknesses, opportunities, and threats (SWOT analysis). Understanding the environment helps managers make informed decisions and develop realistic plans.

### **3. Identify Resources**

Once the objectives are defined and the environment is analyzed, the next step is to identify the resources needed to achieve the objectives. Resources include human resources, financial resources, technological resources, and physical resources. Identifying the required resources ensures that the organization is prepared to implement the plans effectively.

### **4. Develop Strategies**

In this step, managers develop strategies and action plans to achieve the defined objectives. This involves formulating multiple courses of action and selecting the best one based on the analysis of the environment and available resources. The chosen strategies should align with the organization's overall goals and leverage its strengths while addressing its weaknesses.

### **5. Establish Priorities**

After developing strategies, it is essential to establish priorities among the various tasks and activities. This involves determining which tasks are most critical to achieving the objectives and allocating resources accordingly. Establishing priorities helps ensure that the most important activities receive the necessary attention and resources.

### **6. Create Timelines**



The next step is to create timelines for implementing the plans. This involves setting deadlines and milestones for each task and activity. Timelines provide a schedule for completing tasks and help managers monitor progress. They also ensure that activities are carried out in a timely manner, which is crucial for achieving objectives within the desired timeframe.

## **7. Implement the Plan**

Once the plans are developed, prioritized, and scheduled, the next step is to implement them. Implementation involves putting the plans into action and carrying out the tasks and activities as outlined. This requires coordination and communication among team members and departments to ensure that everyone is working towards the common objectives.

## **8. Monitor and Evaluate**

The final step in the planning process is to monitor and evaluate the progress of the implemented plans. This involves tracking performance against the set objectives and timelines, identifying any deviations or issues, and making necessary adjustments. Monitoring and evaluation ensure that the plans are on track and that corrective actions can be taken if needed to achieve the desired outcomes.

## **Planning Premises**

Planning premises are the assumptions and forecasts that provide the framework within which plans are formulated. They are the expected environmental conditions and resources that will impact the execution of plans. Establishing accurate planning premises is crucial because they influence the feasibility and success of the plans. These premises can include internal and external factors such as economic conditions, market trends, competition, technological advancements, organizational capabilities, and more.

### **Types of Planning Premises**

- 1. Internal Premises:** Internal premises are factors within the organization that affect planning. These include the organization's strengths and weaknesses, resources, capabilities, policies, and internal processes.
  - **Organizational Structure:** The hierarchy, roles, and responsibilities within the organization.
  - **Financial Resources:** Budget constraints, financial health, and funding availability.
  - **Human Resources:** Availability, skills, and expertise of employees.
  - **Technological Capabilities:** Existing technologies and their potential for innovation and improvement.
  - **Company Policies:** Internal rules, procedures, and guidelines that govern operations.

**2. External Premises:** External premises are factors outside the organization that impact planning. These include economic, social, political, and technological conditions that can affect the organization's operations.

- **Economic Conditions:** Inflation rates, economic growth, exchange rates, and overall economic stability.
- **Market Trends:** Consumer behavior, demand patterns, and market dynamics.
- **Competition:** Competitors' strategies, market share, and industry rivalry.
- **Technological Advancements:** Innovations, new technologies, and technological shifts.
- **Political and Legal Environment:** Government regulations, policies, and legal requirements.
- **Social and Cultural Trends:** Changes in societal values, cultural shifts, and demographic trends.

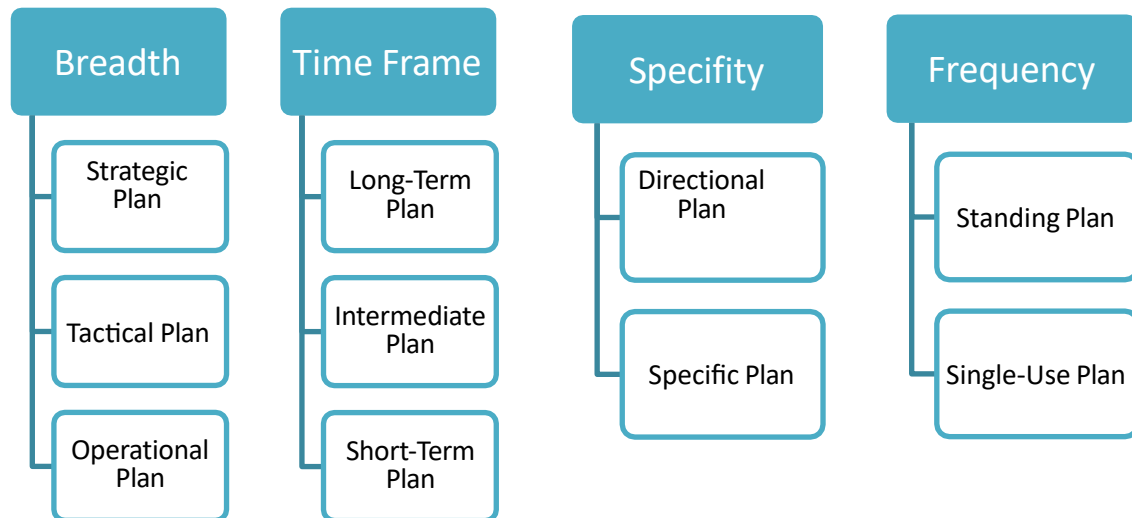
**3. Controllable Premises:** Controllable premises are factors that the organization can influence or control to some extent. These include internal resources and policies that the management can adjust or modify.

- **Resource Allocation:** Decisions regarding the distribution of resources such as budget, personnel, and materials.
- **Operational Policies:** Internal rules and guidelines that can be revised as needed.
- **Production Capacity:** The ability to scale up or down production based on demand.

**4. Uncontrollable Premises:** Uncontrollable premises are factors beyond the organization's control. These include external elements such as natural disasters, economic recessions, and political upheavals.

- **Natural Disasters:** Events such as earthquakes, floods, and pandemics that can disrupt operations.
- **Economic Crises:** Recessions, financial market crashes, and other economic downturns.
- **Political Instability:** Changes in government, political conflicts, and regulatory changes.

## Types of Plans (based on Breadth)



### **Strategic Plan:**

Strategic Plans are formulated to provide direction for mission, objectives, and strategies for the organization. It defines the course of action by which a company intends to attain strategic goals.

Strategic plans are created by Top management such as the CEO, Board of Directors, Chairmen of the company. These plans become the framework and set dimensions for the lower-level planning in the organization.

For Example – Strategic Plans consist of the Vision, Mission, Values, and overall-Objectives of the Organisation. These are the key elements that clearly define the state of the business in terms of what to achieve in the future.

### **Tactical Plan:**

Tactical Plans are formulated to create the blueprint for the strategic plan. These plans clearly define how the strategic plan will be implemented.

Tactical plans are often short-term and are carried out by middle-level managers such as the Head of the Department, Sales Manager, HR Manager, Production Manager

For Example – Managers of the company create plans to allocate required resources to support the strategic plan. HR Manager make plans to manage Human Resources of the company. Production managers make plans to smooth the production process of the business.

### **Operational Plan:**

Operational plans are very similar to Tactical Plan but they cover the day-to-day operations of the organization also. The specific results expected from departments, workgroups, and individuals are the operational goals.

An operational plan is one that a manager uses to accomplish his or her job responsibilities. Operational plans are also short-term in nature and created by Supervisors, team leaders, and facilitators to support tactical plans.

### **Types of Plan (based on Frequency)**

- Standing Plan
- Single-use Plan

### **Standing Plan/On-going plan:**

Standing plans are ongoing plans because they focus on organizational situations that occur repeatedly. Standing plans include policies, standard procedures, rules, and regulations of the organization.

For Example – Rules and policy of any organization are good examples of the standing plan because it provides a guideline for the course of actions taken in the company to achieve organizational goals. All members need to strictly follow these guidelines all the time.

### **Single-use Plan:**

Single-use plans apply to activities that do not recur or repeat at the same time in the future. A one-time plan that is relevant for a specified time and after the lapse of that time, these plans are formulated again according to the situation for the next period.

For Example – Single-use plans typically include organizational programs, projects, budgets. A budget is also a single-use plan because it predicts sources and amounts of income and how much they are used for a specific project.

## **Module 2**

## **Forecasting & Decision Making:**

### **Forecasting**

Forecasting refers to the practice of predicting what will happen in the future by taking into consideration events in the past and present. Basically, it is a decision-making tool that helps businesses cope with the impact of the future's uncertainty by examining historical data and trends. It is a planning tool that enables businesses to chart their next moves and create budgets that will hopefully cover whatever uncertainties may occur.

Forecasting is a technique that uses historical data as inputs to make informed estimates that are predictive in determining the direction of future trends. Businesses utilize forecasting to determine how to allocate their budgets or plan for anticipated expenses for an upcoming period of time. This is typically based on the projected demand for the goods and services offered.

Investors utilize forecasting to determine if events affecting a company, such as sales expectations, will increase or decrease the price of shares in that company. Forecasting also provides an important benchmark for firms, which need a long-term perspective of operations.

Forecasting addresses a problem or set of data. Economists make assumptions regarding the situation being analyzed that must be established before the variables of the forecasting are determined. Based on the items determined, an appropriate data set is selected and used in the manipulation of information. The data is analyzed, and the forecast is determined. Finally, a verification period occurs where the forecast is compared to the actual results to establish a more accurate model for forecasting in the future.

### **Techniques of Forecasting**

Forecasting is the process of making predictions about future events based on historical and current data. Various techniques are employed to enhance the accuracy of these predictions. Below are some commonly used forecasting techniques:

#### **1. Historical Analogy Method**

The Historical Analogy Method involves drawing parallels between the current situation and past events with similar characteristics. This method relies on the

assumption that historical events provide valuable insights into potential future outcomes. By identifying patterns and outcomes in analogous historical situations, forecasters can make informed predictions about future trends.

The process begins by selecting a past event or series of events that closely resemble the current scenario. Forecasters then analyze the outcomes of these historical events, taking into account any contextual similarities and differences. The insights gained from this analysis are applied to predict the future trajectory of the current situation. This method is particularly useful when there is a lack of quantitative data and when qualitative insights are valuable.

## **2. Survey Method**

The Survey Method involves gathering information directly from individuals or groups through surveys or questionnaires. This method is particularly effective in capturing subjective data such as opinions, expectations, and intentions. Surveys can be administered through various channels, including online forms, face-to-face interviews, phone calls, or mail.

The process begins with designing a survey that includes relevant and well-structured questions aimed at eliciting the required information. The survey is then distributed to a target population, which can be a sample that represents a larger group. Once the responses are collected, they are analyzed to identify trends, patterns, and insights. The collected data is then used to make forecasts about future events or behaviors. This method is widely used in market research, consumer behavior studies, and social science research.

## **3. Business Barometers**

Business Barometers use various economic indicators to forecast future business activities. These indicators, often referred to as barometers, include metrics such as stock market prices, interest rates, employment figures, and other financial data. The premise is that changes in these indicators reflect broader economic trends that can impact business performance.

The process involves selecting relevant economic indicators that are known to have a significant impact on the business environment. These indicators are monitored over time to identify changes and trends. By analyzing the relationship between these indicators and historical business activities, forecasters can predict future business conditions. This method requires a deep understanding of economic relationships and the ability to interpret complex data.

## **4. Time Series Analysis**

Time Series Analysis involves examining a series of data points collected over time to identify patterns, trends, and seasonal variations. This method is particularly useful for forecasting future values based on historical data trends. It relies on the assumption that past patterns will continue into the future.

The process begins by collecting historical data in a chronological order. This data is then plotted on a time series graph to visually identify trends and patterns. Statistical techniques such as moving averages, exponential smoothing, and autoregressive integrated moving average (ARIMA) models are applied to analyze the data. The identified patterns are used to extrapolate future values, making this method highly effective for financial forecasting, sales projections, and inventory management.

## **5. Regression Analysis**

Regression Analysis is a statistical technique used to examine the relationship between one dependent variable and one or more independent variables. This method is used to predict the value of the dependent variable based on the values of the independent variables. It is widely used in economics, finance, and social sciences.

The process involves identifying the dependent variable, which is the outcome being predicted, and the independent variables, which are the predictors. Data for these variables is collected and organized. Statistical software is then used to perform the regression analysis, which involves fitting a regression line (in the case of linear regression) or curve to the data points. The resulting model provides an equation that can be used to make predictions. The accuracy of the model is assessed using statistical measures such as R-squared and p-values.

## **Significance & Limitations Of Forecasting**

Accurate forecasting helps you manage your supply chain, inventory, staffing levels, finances and more. Forecasting also has some limitations due to incorrect information from employees and customers and relying on past numbers which can be inaccurate if market conditions change unexpectedly.

### **Three Significance of forecasting:**

#### **1. You'll gain valuable insight:**

Forecasting gets you into the habit of looking at past and real-time data to predict future demand. And in doing so, you'll be able to anticipate demand fluctuations more effectively. But more than that, it'll give you insight into your company's health and provide you with an opportunity to course-correct or make adjustments.

#### **2. You'll learn from past mistakes:**

You don't start from scratch after each forecast. Even if your prediction was nowhere close to what ended up coming to pass, it gives you a starting point. It's



common to review where and why things didn't happen the way you predicted. Your forecasts should eventually improve. But more than that, you'll get into the habit of reflecting upon past performance as a whole. And self-reflection can be a powerful driver of company growth.

### **3. It can decrease costs:**

When done right, anticipating demand will help you tweak your processes to increase efficiency all along the supply chain. Because you're better able to predict what customers will want and when they'll want it, you may also be able to decrease excess inventory levels, thus increasing overall profitability.

## **Decision Making**

Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management. Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager.

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.

Using a step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organizing relevant information and defining alternatives. This approach increases the chances that you will choose the most satisfying alternative possible.

Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered.

### **Decision Making Process:**

#### **Step 1: Identify the decision**

You realize that you need to make a decision. Try to clearly define the nature of the decision you must make. This first step is very important.

#### **Step 2: Gather relevant information**

Collect some pertinent information before you make your decision: what information is needed, the best sources of information, and how to get it. This step involves both internal and external "work." Some information is internal: you'll seek it through a process of self-assessment. Other information is external: you'll find it online, in books, from other people, and from other sources.

### **Step 3: Identify the alternatives**

As you collect information, you will probably identify several possible paths of action, or alternatives. You can also use your imagination and additional information to construct new alternatives. In this step, you will list all possible and desirable alternatives.

### **Step 4: Weigh the evidence**

Draw on your information and emotions to imagine what it would be like if you carried out each of the alternatives to the end. Evaluate whether the need identified in Step 1 would be met or resolved through the use of each alternative. As you go through this difficult internal process, you'll begin to favor certain alternatives: those that seem to have a higher potential for reaching your goal. Finally, place the alternatives in a priority order, based upon your own value system.

### **Step 5: Choose among alternatives**

Once you have weighed all the evidence, you are ready to select the alternative that seems to be best one for you. You may even choose a combination of alternatives. Your choice in Step 5 may very likely be the same or similar to the alternative you placed at the top of your list at the end of Step 4.

### **Step 6: Take action**

You're now ready to take some positive action by beginning to implement the alternative you chose in Step 5.

### **Step 7: Review your decision & its consequences**

In this final step, consider the results of your decision and evaluate whether or not it has resolved the need you identified in Step 1. If the decision has *not* met the identified need, you may want to repeat certain steps of the process to make a new decision. For example, you might want to gather more detailed or somewhat different information or explore additional alternatives.

## **Techniques of Decision Making:**

### **1. Take a Process-Oriented Approach**

One of your primary responsibilities as a manager is to get things done with and through others, which involves leveraging organizational processes to accomplish goals and produce results. According to Harvard Business School Professor Len Schlesinger, who's featured in the online course Management Essentials, decision-making is one of the processes that can be used to your advantage.

"The majority of people think about making decisions as an event," Schlesinger says. "It's very rare to find a single point in time where a 'decision of significance' is made and things go forward from there. What we're really talking about is a process. The role of the manager in overseeing that process is straightforward, yet, at the same time, extraordinarily complex."

When establishing your decision-making process, your first action should be to frame the issue at hand to ensure the right questions are being asked, and everyone agrees on what needs to be decided. From there, build your team and manage group dynamics to analyze the problem and craft a viable solution. By following a structured, multi-step process, you can achieve the desired outcome.

### **1. Involve Your Team in the Process:**

Decision-making doesn't have to be done in a vacuum. Involve your team members in the process to bring multiple points of view into the conversation and stimulate creative problem-solving.

Research shows team decision-making is highly effective because it pools individuals' collective knowledge and experience, leading to more innovative solutions and helping to surface and overcome hidden biases among the group.

By considering others' perspectives on how to approach and surmount a specific challenge, you can become more aware of your own implicit biases and manage your team with a greater level of emotional intelligence.

## **2. Foster a Collaborative Mindset**

It's critical to foster the right mindset early in the decision-making process to ensure your team works collaboratively, not contentiously.

When facing a decision, there are two key mindsets to consider, which are:

**Advocacy:** A mindset that views decision-making as a contest. In a group with an advocacy mindset, individuals seek to persuade others, defend their positions, and downplay their weaknesses.

**Inquiry:** A mindset that navigates decision-making with collaborative problem-solving. Unlike the persuasion and lobbying approach of advocacy, an inquiry mindset centers on individuals testing and evaluating assumptions by presenting balanced arguments, considering alternatives, and being open to constructive criticism.

"On the surface, advocacy and inquiry approaches look deceptively similar," says HBS Professor David Garvin in *Management Essentials*. "Both involve individuals engaged in debates, drawing on data, developing alternatives, and deciding on future directions. But, despite these similarities, inquiry and advocacy produce very different results."

A recent study by software company Cloverpop found that decisions made and executed by diverse teams deliver 60 percent better results. Strive to instill your team members with an inquiry mindset, so they're empowered to think critically and feel their points of view are welcomed and valued, rather than discouraged and dismissed.

## **3. Create and Uphold Psychological Safety**

In order for your team members to feel comfortable sharing their diverse perspectives and working collaboratively, it's crucial to create and maintain an environment of psychological safety.

According to research by Google, psychological safety is the most important dynamic found among high-performing teams.

"Psychological safety is essential—first and foremost—for getting the information and perspectives out," says HBS Professor Amy Edmondson in *Management Essentials*. "It's helpful to be able to talk about what we know and think in an effective and thoughtful way before coming to a final conclusion."

To help your team feel psychologically safe, be respectful and give fair consideration when listening to everyone's opinions. When voicing your own point of view, be open and transparent, and adapt your communication style to meet the needs of the group. By actively listening and being attuned to the emotions and attitudes of the team, you can forge a stronger bond of trust with your employees and make them feel more engaged.

#### **4. Reiterate the Goals and Purpose of the Decision**

Throughout the decision-making process, it's vital to avoid a common management pitfall and not lose sight of the goals and purpose of the decision on the table.

The goals you're working toward need to be clearly articulated at the outset of the decision-making process—and constantly reiterated throughout—to ensure they're ultimately achieved.

"It's easy, as you get into these conversations, to get so immersed in one substantive part of the equation, that you lose track of what the actual purpose is," Schlesinger says.

Revisiting purpose is especially important when making decisions related to complex initiatives, such as organizational change, to ensure your team feels motivated and aligned, and understands how their contributions tie into larger objectives.

## **Decision Tree, PERT and CPM**

### **Decision Tree**

Decision Tree is the most powerful and popular tool for classification and prediction. A Decision tree is a flowchart-like tree structure, where each internal node denotes a test on an attribute, each branch represents an outcome of the test, and each leaf node (terminal node) holds a class label.

Construction of Decision Tree: A tree can be "learned" by splitting the source set into subsets based on an attribute value test. This process is repeated on each derived subset in a recursive manner called recursive partitioning. The recursion is completed when the subset at a node all has the same value of the target variable, or when splitting no longer adds value to the predictions. The construction of a decision tree classifier does not require any domain knowledge or parameter setting, and therefore is appropriate for exploratory knowledge discovery. Decision trees can handle high-dimensional data. In general decision

tree classifier has good accuracy. Decision tree induction is a typical inductive approach to learn knowledge on classification.

### **Strengths and Weaknesses of the Decision Tree approach:**

The strengths of decision tree methods are:

- Decision trees are able to generate understandable rules.
- Decision trees perform classification without requiring much computation. Decision trees are able to handle both continuous and categorical variables.
- Decision trees provide a clear indication of which fields are most important for prediction or classification.

The weaknesses of decision tree methods:

- Decision trees are less appropriate for estimation tasks where the goal is to predict the value of a continuous attribute.
- Decision trees are prone to errors in classification problems with many classes and a relatively small number of training examples.
- Decision tree can be computationally expensive to train. The process of growing a decision tree is computationally expensive. At each node, each candidate splitting field must be sorted before its best split can be found. In some algorithms, combinations of fields are used and a search must be made for optimal combining weights. Pruning algorithms can also be expensive since many candidates' sub-trees must be formed and compared.

## **Program Evaluation Review Technique (PERT)**

A program evaluation review technique (PERT) chart is a graphical representation of a project timeline that displays all of the individual tasks necessary to complete the project.

As a project management tool, the PERT chart is often preferred to the Gantt chart because it identifies task dependencies. However, a PERT chart can be more difficult to interpret.

### **How Does a PERT Chart Work?**

A project manager creates a PERT chart in order to analyze all of a project tasks while estimating the amount of time required to complete each one. Using this information, the project manager can estimate the minimum amount of time required to complete the entire project.

This information also helps the manager develop a project budget and determine the resources needed to accomplish the project. A PERT chart uses circles or rectangles, called nodes, to represent project events or milestones. The nodes are linked by vectors or lines that represent various tasks.

### **Advantages**

- A PERT chart allows a manager to evaluate the time and resources necessary to complete a project. It also allows the manager to track required assets during any stage of production in the course of the project.
- PERT analysis incorporates data and information supplied by a number of departments. This combining of information encourages department responsibility and identifies all responsible parties across the organization.
- It also improves communication during the project and it allows an organization to commit to projects that are relevant to its strategic positioning.
- Finally, PERT charts are useful input for what-if analyses. Understanding the possibilities concerning the flow of project resources and milestones allows management to achieve the most efficient and useful project path.

### **Disadvantages**

- The information that goes into a PERT chart can be highly subjective. They may include unreliable data or unreasonable estimates for cost or time.
- PERT charts are deadline-focused and might not fully communicate the financial positioning of a project.
- Creating a PERT chart is labor-intensive, and maintaining and updating the information requires additional time and resources. Continual review of the information provided, as well as the prospective positioning of the project, is required for a PERT chart to be of value.

## **Critical Path**

### **What is the critical path method (CPM)?**

The critical path method (CPM) is a technique where you identify tasks that are necessary for project completion and determine scheduling flexibilities. A critical path in project management is the longest sequence of activities that must be finished on time in order for the entire project to be complete. Any delays in critical tasks will delay the rest of the project.

CPM revolves around discovering the most important tasks in the project timeline, identifying task dependencies, and calculating task durations.

CPM can provide valuable insight on how to plan projects, allocate resources, and schedule tasks.

**Here are some reasons why you should use this method:**

- Improves future planning: CPM can be used to compare expectations with actual progress. The data used from current projects can inform future project plans.
- Facilitates more effective resource management: CPM helps project managers prioritize tasks, giving them a better idea of how and where to deploy resources.
- Helps avoid bottlenecks: Bottlenecks in projects can result in lost valuable time.
- Plotting out project dependencies using a network diagram, will give you a better idea of which activities can and can't run in parallel, allowing you to schedule accordingly



## **Module 3**

## **Organizing:**

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. These were the definitions of organization in the genre of management. While the scope of the organization is present in every hemisphere of life. Starting from organizing one's life to organizing a house party, the word 'organizing' is common in every sphere.

In this section, we will expand our knowledge in this field of the organization. Our zone is restricted to talk about the organization in management only. How does the corporate structure work with organizing being the essence of it? We will discuss all these in good detail.

### **Organizing Meaning**

Organizing is a process of structuring the essential relationships among the people, tasks, and other activities. This is done in a way that the organization's resources are integrated and are coordinated to accomplish the objectives efficiently and effectively.

### **Principle Of Organizing:**

The organizing process can be done efficiently if the managers have certain guidelines so that they can take decisions and can act. To organize in an effective manner, the following principles of organization can be used by a manager.

#### **1. Principle of Specialization**

According to the principle, the whole work of a concern should be divided amongst the subordinates on the basis of qualifications, abilities and skills. It is through division of work specialization can be achieved which results in effective organization.

#### **2. Principle of Functional Definition**

According to this principle, all the functions in a concern should be completely and clearly defined to the managers and subordinates. This can be done by clearly defining the duties, responsibilities, authority and relationships of people towards each other. Clarifications in authority-responsibility relationships helps in achieving co-ordination and thereby organization can take place effectively. For example, the primary functions of production, marketing and finance and the authority responsibility relationships in these

departments should be clearly defined to every person attached to that department. Clarification in the authority-responsibility relationship helps in efficient organization.

### **3. Principles of Span of Control/Supervision**

According to this principle, span of control is a span of supervision which depicts the number of employees that can be handled and controlled effectively by a single manager. According to this principle, a manager should be able to handle what number of employees under him should be decided. This decision can be taken by choosing either from a wide or narrow span. There are two types of span of control:-

**a. Wide span of control-** It is one in which a manager can supervise and control effectively a large group of persons at one time. The features of this span are:-

- Less overhead cost of supervision
- Prompt response from the employees
- Better communication
- Better supervision
- Better co-ordination
- Suitable for repetitive jobs

According to this span, one manager can effectively and efficiently handle a large number of subordinates at one time.

**b. Narrow span of control-** According to this span, the work and authority is divided amongst many subordinates and a manager doesn't supervise and control a very big group of people under him. The manager according to a narrow span supervises a selected number of employees at one time. The features are:-

Work which requires tight control and supervision, for example, handicrafts, ivory work, etc. which requires craftsmanship, there narrow span is more helpful.

- Co-ordination is difficult to be achieved.
- Communication gaps can come.
- Messages can be distorted.
- Specialization work can be achieved.

### **4. Principle of Scalar Chain**

Scalar chain is a chain of command or authority which flows from top to bottom. With a chain of authority available, wastages of resources are minimized, communication is affected, overlapping of work is avoided and easy organization takes place. A scalar chain of command facilitates work flow in an organization which helps in achievement of effective results. As the authority flows from top to bottom, it clarifies the authority positions to managers at all level and that facilitates effective organization.

### **5. Principle of Unity of Command**

It implies one subordinate-one superior relationship. Every subordinate is answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. Unity of command also helps in effective combination of resources, that is, physical, financial resources which helps in easy co-ordination and, therefore, effective organization.

#### **Authority Flows from Top to Bottom**

Managing Director



Marketing Manager



Sales/ Media Manager



Salesmen

According to the above diagram, the Managing Director has got the highest level of authority. This authority is shared by the Marketing Manager who shares his authority with the Sales Manager. From this chain of hierarchy, the official chain of communication becomes clear which is helpful in achievement of results and which provides stability to a concern. This scalar chain of

command always flow from top to bottom and it defines the authority positions of different managers at different levels.

## Departmentation:

**Departmentation** is the organizational process of dividing a company into separate units or departments based on various criteria such as tasks, functions, processes, products, or customers. This division allows for better organization, coordination, and specialization within the organization. Each department typically focuses on specific activities related to its assigned area, ensuring that tasks are efficiently managed and aligned with the overall goals of the organization.

In essence, departmentation involves the following aspects:

1. **Division of Activities:** It involves dividing the diverse activities of an organization into manageable units or departments. This division helps in organizing and controlling different functions and tasks effectively.
2. **Specialization:** Departmentation promotes specialization within the organization. Each department can concentrate on its specific area of expertise, which leads to greater efficiency and effectiveness in performing tasks.
3. **Clarity in Roles:** By delineating responsibilities and functions into distinct departments, departmentation clarifies roles and responsibilities within the organization. This clarity helps in reducing ambiguity and improving accountability.
4. **Coordination:** Departments work together to achieve common organizational objectives. Coordination between departments ensures that activities are synchronized and integrated to avoid duplication of efforts and achieve synergy.
5. **Facilitation of Management:** Departmentation facilitates management by providing a structured framework for overseeing different aspects of the organization. It allows managers to focus on specific departments and ensure that resources are allocated efficiently to achieve desired outcomes.
6. **Hierarchical Structure:** Departments are often organized hierarchically within the organizational structure, with each department having its own reporting structure and hierarchy of authority. This hierarchical arrangement helps in maintaining order and discipline within the organization.

Overall, departmentation is a fundamental organizational process that enhances efficiency, specialization, coordination, and management within a company. It provides a structured approach to managing diverse activities and functions,

thereby contributing to the overall success and effectiveness of the organization.

## **Types of Departmentation:**

### **1. Functional Departmentation:**

Functional departmentation is a widely used organizational structure that groups employees based on their specialized knowledge and skills. Each major or basic function, such as production, sales, finance, and personnel, is organized as a separate department, which allows for efficient and effective collaboration among employees with similar expertise. This approach promotes specialization, simplifies decision-making, and provides employees with clear career paths and development opportunities. However, it may also create silos, where departments focus solely on their function, leading to slower decision-making when addressing complex issues spanning multiple functional areas. Despite these potential drawbacks, functional departmentation remains a popular organizational approach, allowing organizations to capitalize on economies of scale and promoting efficiency, coordination, and specialization within each department.

#### **Advantages:**

- Grouping employees with similar skills and expertise together allows for increased efficiency and effectiveness, as they can share knowledge and experience to complete their tasks.
- Functional departmentation allows for better communication and a more streamlined workflow within each department.
- Functional departmentation promotes specialization, leading to increased productivity and better quality output.
- Managers can consult with functional experts when needed, simplifying the decision-making process.
- Functional departmentation provides clear career paths and development opportunities for employees within each department.

#### **Disadvantages:**

- Departments may become silos, focusing solely on their functions, leading to a lack of collaboration and coordination between departments.
- Functional departmentation can lead to slower decision-making as decisions often require input from multiple functional areas.
- It can be challenging to address complex issues that span multiple functional areas using a functional departmentation structure.
- Functional departmentation can create inter-departmental conflict as departments may prioritize their interests over the organization's goals.
- There may be duplication of effort, as each department may have its own resources, leading to a waste of resources and inefficiency.

## **2. Product Departmentation:**

Product departmentation is an effective organizational structure that groups employees based on the specific products or product lines they work on. Under this approach, each product or product line is treated as a separate department, allowing organizations to focus on specific products and tailor their activities and resources accordingly. This can lead to increased efficiency and effectiveness as employees specialize in their specific product area, enabling them to respond quickly to changes in customer demand and market trends. It is essential to be aware of the potential drawbacks of product departmentation. It can create duplication of effort and resources, as each department may have its own marketing, design, and production resources, which can lead to inefficiency. Additionally, coordinating activities and decision-making between product departments may be challenging, leading to potential conflicts and slower decision-making.

### **Advantages:**

- Product departmentation allows for a high degree of specialization, with each department focusing on a specific product or product line, leading to increased efficiency and effectiveness.
- Since each department is focused on a specific product or product line, decision-making is faster and more efficient, leading to quicker response times to changes in customer demand or market trends.
- Each product department has clear accountability for the performance of its specific product or product line, leading to a higher level of responsibility among employees.
- Since each department is focused on a specific product or product line, they can be more innovative and creative in developing new products and solutions.
- By having departments focus on specific products or product lines, organizations can improve their customer focus and provide better customer service.

### **Disadvantages:**

- Product departmentation can lead to duplication of effort and resources as each department may have its own marketing, design, and production resources.
- Coordinating activities and decision-making between product departments can be challenging, leading to potential conflicts and slower decision-making.
- Each department may become siloed and not communicate or collaborate effectively with other departments, leading to a lack of coordination and slower decision-making.
- Product departmentation can create competition and conflicts between departments, leading to a lack of cooperation and teamwork.
- It can be challenging to find managers with the necessary expertise to lead each product department effectively, leading to potential leadership and management issues.

### **3. Territorial (Geographical) Departmentation:**

Territorial departmentation is an organizational structure where employees are grouped based on their geographical location or territory. For example, a company may divide its operations into different regions, such as North America, Europe, and Asia, with each region being a separate department. This approach allows companies to tailor their operations and strategies according to the needs of each specific location. For instance, different regions may have different customer needs, preferences, or regulations, and by grouping employees based on their geographical location, companies can better address these differences. Territorial departmentation enables better coordination and communication between employees in the same geographic location leading to improved teamwork and collaboration. It also allows for better control and monitoring of operations, as managers can closely oversee and manage employees in each location.

#### **Advantages:**

- Territorial departmentation enables organizations to customize their operations and strategies according to local needs and preferences leading to improved customer satisfaction and organizational performance.
- By grouping employees based on their geographic location, territorial departmentation can enhance communication and coordination between employees in the same region, resulting in better teamwork and collaboration.
- Territorial departmentation allows managers to closely supervise and manage employees in each location, leading to better control and monitoring of operations.
- By having employees located in different regions, territorial departmentation can respond faster to changes in customer demand or market trends.
- Each territorial department has clear accountability for the performance of its geographic area, leading to higher levels of responsibility among employees.

#### **Disadvantages:**

- Territorial departmentation can lead to duplication of effort and resources as each department may have its own marketing, design, and production resources.
- Territorial departmentation can create competition and conflicts between departments, resulting in a lack of cooperation and teamwork.
- Coordinating activities and decision-making between territorial departments may be difficult, leading to potential conflicts and slower decision-making.
- Territorial departmentation can result in higher costs as each department may require its resources and infrastructure.
- Territorial departmentation may not be suitable for organizations that need to quickly adapt to changes in market conditions or customer needs, as changes may be slower to implement across different geographic locations.



#### **4. Customer Departmentation:**

Customer departmentation is an organizational structure that groups employees based on specific customer groups or segments. This approach enables organizations to focus on the unique needs and preferences of each customer group, which can enhance customer satisfaction and improve performance. By grouping employees based on customer segments, companies can better understand the needs of each customer group and tailor their products, services, and marketing efforts accordingly. It can also foster increased customer loyalty, as customers may feel that their needs are being addressed in a personalized manner. Moreover, it can facilitate better communication and coordination among employees in the same customer segment leading to improved teamwork and collaboration.

#### **Advantages:**

- Customer departmentation enables organizations to focus on specific customer segments, leading to a better understanding of customer needs and preferences, and enabling companies to tailor their products, services, and marketing efforts to meet those needs.
- By focusing on specific customer groups, companies can provide more personalized and tailored services leading to increased customer satisfaction and loyalty.
- By grouping employees based on customer segments, customer departmentation can lead to better communication and coordination among employees in the same customer segment, resulting in improved teamwork and collaboration.
- Customer departmentation can lead to faster and more effective decision-making, as employees are better equipped to make decisions based on the specific needs and preferences of each customer segment.
- Customer departmentation provides clear accountability for each department's performance in serving its specific customer group, leading to a higher level of responsibility and motivation among employees.

#### **Disadvantages:**

- Customer departmentation can lead to duplication of effort and resources as each department may have its own marketing, design, and production resources.
- Customer departmentation can create competition and conflicts between departments, leading to a lack of cooperation and teamwork.
- It may be challenging to coordinate activities and decision-making between customer departments, leading to potential conflicts and slower decision-making.
- Customer departmentation may not be suitable for organizations that need to quickly adapt to changes in market conditions or customer needs, as changes may be slower to implement across different customer segments.
- Customer departmentation can result in higher costs as each department may require its own resources and infrastructure.

## **5. Process or Equipment Departmentation:**

Process or equipment departmentation is a type of organizational structure that groups employees based on the equipment or technology they use or the specific processes they perform. For example, a manufacturing company may organize its operations into departments based on the types of equipment, such as milling machines, lathes, or welding machines. This structure allows organizations to capitalize on specialized equipment and technology and group employees with the expertise and skills required to operate and maintain specific equipment or perform particular processes. The approach promotes efficiency and effectiveness since employees with similar skills and knowledge work together to complete specific tasks. Process or equipment departmentation can streamline decision-making, improve coordination, and enhance communication among employees in the same department, resulting in better teamwork and collaboration. This structure can also facilitate better monitoring and control of processes and equipment, leading to higher-quality output and more efficient use of resources.

### **Advantages:**

- Process or equipment departmentation allows for a high level of specialization, resulting in better quality output and more efficient use of resources.
- By grouping employees with similar skills and expertise, process or equipment departmentation can streamline decision-making and reduce the time and effort needed for communication and coordination.
- Process or equipment departmentation can facilitate better monitoring and control of processes and equipment, leading to higher-quality output and more efficient resource utilization.
- Each department is accountable for its specific equipment or process, leading to a higher level of responsibility and motivation among employees.
- Process or equipment departmentation provides clear career paths and development opportunities for employees within each department.

### **Disadvantages:**

- Process or equipment departmentation can result in silos, with employees focusing solely on their specific equipment or processes, leading to a lack of collaboration and communication across departments.
- Process or equipment departmentation may limit cross-functional knowledge and skills among employees, reducing flexibility and adaptability.
- Process or equipment departmentation can lead to duplication of effort and resources as each department may have its own marketing, design, and production resources.
- It may be challenging to coordinate activities and decision-making between departments, leading to potential conflicts and slower decision-making.
- Process or equipment departmentation can result in higher costs as each department may require its own resources and infrastructure.

## Delegation:

**Delegation** is a fundamental management concept that involves transferring authority and responsibility from one person (usually a manager or supervisor) to another (typically a subordinate or team member) to accomplish specific tasks or make decisions on behalf of the delegator. It is a crucial aspect of organizational efficiency, leadership, and employee development. Here's a detailed explanation:

### Meaning of Delegation:

Delegation encompasses the process through which tasks, responsibilities, and authority are allocated to individuals or teams within an organization. It involves:

1. **Authority Transfer:** Delegation involves granting someone else the power and authority to act on behalf of the delegator in specific matters. This authority may include decision-making capabilities, access to resources, and the ability to represent the delegator in various situations.
2. **Responsibility Sharing:** Along with authority, responsibility for the successful completion of delegated tasks is also transferred to the delegatee. While the delegatee performs the tasks, the delegator remains ultimately accountable for the outcomes.

## Principles Of Effective Delegation

In an organization, a manager is not expected to do all the work. He has numerous functions of management on which he has to focus. So the routine day-to-day work is delegated to his subordinates. And along with the delegation of work, there is also the delegation of authority so that the subordinate can accomplish his tasks.

Now delegation is a function the manager has to excel at. Effective delegation will result in the smooth functioning and success of the organization. For this, the manager has to follow the following principles of effective delegation.

1. Defining the Function
2. Defining the Results
3. Balance of Authority with Responsibility
4. Absoluteness of Responsibility
5. Unity of Command
6. Defining the Limits of Authority

### 1. Defining the Function

Before actually delegating the authority, the manager should clearly define the scope and the extent of the tasks to the subordinate.

The subordinate should be aware of the tasks he has to perform, the activities he must oversee, their relationship with the other jobs and their importance. This will help him perform the task better.

**2. Defining the Results:**

Before delegating the authority, the manager should discuss with his subordinates the results he expects from this task.

This will allow the subordinates to understand the standard of work and the level of results expected from them. And then accordingly the authority must be delegated.

**3. Balance of Authority with Responsibility:**

There should be parity between the responsibility and the authority delegated to the subordinate for effective delegation.

If there is no authority to carry out his responsibilities he will be unable to carry out his tasks. And only the delegation of authority without any responsibility will make him irresponsible and ineffective.

**4. Absoluteness of Responsibility:**

Even after delegating the authority to his subordinates, the manager remains responsible for their work and performance to his superiors. And the subordinates are responsible for their work to their superiors as well.

**5. Unity of Command:**

In an organization, there must always be a unity of command. So at any given time, there must be only one superior for every subordinate.

If one subordinate receives instructions and orders from more than one superior it will lead to confusion and conflict. He may have to pick who to listen to and it may lead to divided loyalties.

**6. Defining the Limits of Authority:**

Another point to note is that the manager must ensure that all the subordinates have well-defined authority. So we can avoid any overlapping of authority which enables the subordinate to carry out his work efficiently.

And if there is work outside this scope of authority, the subordinate must refer this work to his superiors.

Also, managers at each level of the organization should make use of their authority. They must avoid referring to their superiors for matters that come

under their authority. Only matters outside of their scope must be referred to as upper-level management.

**7. Authority level principle:**

Managers at each and every level should try to make his own decision and avoid referring to his superior's decision all the time and try to make their decision which they are authorized to. Only if the decisions are out of their scope they should refer to their superior.

## **Centralization & Decentralization**

### **Meaning of Centralization**

Centralized organizations have all decisions coming from the same place.

Centralized management is the organizational structure where a small handful of individuals make most of the decisions in a company. For example, a small family diner owned by a married couple probably uses centralized management. The couple themselves order inventory, decide the marketing direction, and hire new employees. As a company with centralized management grows, they add new levels of mid and lower level managers, each of whom answers to a superior, with very strictly defined roles in the company.

More centralized management is usually seen in highly competitive industries, where companies specialize in similar products to their competition. A common example is Apple computers, where most of the direction of the company is orchestrated at the very top (formerly Steve Jobs himself), which the lower levels of management and employees very tightly organized to execute those goals.

### **Meaning of Decentralization**

Decentralization is referred to as a form of an organisational structure where there is the delegation of authority by the top management to the middle and lower levels of management in an organisation.

In this type of organisation structure, the duty of daily operations and minor decision-making capabilities are transferred to the middle and lower levels which allow top-level management to focus more on major decisions like business expansion, diversification etc.

Good examples of decentralised business are Hotels, supermarket, Dress showrooms and etc. Because it is not possible for one person to focus on more than 100 branches which have branches throughout the world, take an example of a hotel. When a particular person holds a chain of hotels as his business, he particularly focuses on using decentralised structures so that local hotel managers and assistants are empowered to make on-the-spot decisions to handle customers – problems, complaints and requirement.

## **Factors Affecting Degree Of Centralization & Decentralization**

### **Factors Affecting Degree Of Centralization**

#### **1. Nature Of Organization**

The nature of business organization influences the centralization concept to a great extent. It can be more efficiently implemented in sole proprietorship business or a partnership entity having a limited number of employees. The number of operations is less in these organizations which can be easily supervised by top management team. Whereas in private or public limited companies having a large number of employees and operations, implementation of centralization becomes a quite difficult task.

#### **2. Organization Size**

Centralization of organization is influenced by its size and degree of operations. The small enterprises operating on a small scale can be efficiently managed by top management thereby concentrating power in few hands. Following a centralization system becomes difficult in case of big organization doing activities at a larger level.

#### **3. Nature Of Work**

The centralization can be easily applied to manage business activities that do not require much specialization or expertise. Whereas, all such operations which require specialization needs personal attention thereby resulting in passing of authority to lower level.

#### **4. Efficiency Of Employees**

Management will prefer centralization of authority in case if employees are not efficient. When workers lack skills then they can't take up the responsibility and accountability of activities. In such scenario officials at top level holds the power of decision making and provide directions to subordinates.

#### **5. Ability Of Delegation**

The organization structure is greatly influenced by the delegation ability of managers. Capability of management to delegate responsibilities and accountability of work with their subordinates determine ability to follow centralization.

### **Factors Affecting Degree Of Decentralization**

#### **1. Costliness of Decisions:**

The costliness of decisions is the most important factor influencing the degree of decentralisation.

In general, the decisions involving heavy cost or investment will most probably be made at the higher levels of management.

This cost may be expressed in the terms of money value or it may be reckoned in such intangibles as the company's reputation, its competitive position or the effect on the employees' morale. Decisions involving risk will not be delegated but in turn will be made at the top managerial positions.

The decision for the purchase of capital goods i.e., machinery or equipment will be made at higher levels, whereas the decision to purchase items of routine nature will be made by the purchasing department.

## **2. Uniformity of Policy:**

Uniformity of the organisation's policy determines the degree of decentralisation. If a company intends to keep uniform policies in the organisation then policies should be consistent. Where there is decentralisation, the company will not be in a position to take the advantages of uniformity of policies because of different habits and talents on the part of different persons.

## **3. Economic Size:**

Larger the size of a business unit, the greater will be the number of departments and as a result, decentralisation would be preferred in large sized units. The burden on the top management will be much less and they will be in a position to concentrate on crucial matters.

In other words it can be said that principle of "management by exception" if followed, will yield better results because each departmental head will be able to take better decisions regarding the work allotted to him. In a small concern the persons will be few and the decisions can be made by the owner himself.

## **8. Availability of Managers:**

The shortage of managerial manpower necessarily restricts the extent of decentralisation. The dispersal of decision-making and leadership requires the availability of persons who can discharge their obligations as per the authority delegated.

## **9. History of the Enterprise:**

To what extent authority in an organisation will be centralised depends upon the way the business has been built up. If an organisation has appointed a set of

departments with the departmental heads being vested with the authority to achieve the objectives, it sets the example of decentralisation.

#### **10.The Philosophy of the Management:**

The character of the top leader and the philosophy possessed by him will have an important influence on the extent to which authority in an enterprise is centralised or decentralised. It is necessary that the leaders should have broad vision which will have a lasting effect on the organisational structure.

#### **11.Decentralisation of Performance:**

The nature of operations also determine the extent of decentralisation i.e., whether the operations of the organisation are concentrated at the one place or in a region or dispersed to different territories. If the enterprise activities are dispersed over to different territories it will prosper by this policy of decentralisation.

#### **12.Environmental Influences:**

Most of the factors determining the extent of decentralisation dealt so far are related to the organisation. In addition there are many other factors which are external to the business yet have an impact on the degree of decentralisation, such as, government controls, tax policies and national unionism.

For example, if prices are regulated by Government, the sales manager cannot be given real freedom in determining them. With the high rate of taxes on corporate income, the impact of taxation is often a policy-determining factor that overshadows traditional business considerations such as plant expansion, marketing policies and economic operations. Similarly, the rise of national unions in the past has had a centralising influence on business.



## **Module 4**

## Formal Organizations

Formal organizations are designed to achieve certain goals through the collective work of the individuals who are its members. They rely on a division of labor and hierarchy of power and authority to ensure that the work is done in a unified and efficient manner. Within a formal organization, each job or position has a clearly defined set of responsibilities, roles, duties, and authorities to whom it reports.

A formal organization is a social system structured by clearly laid out rules, goals, and practices and that functions based on a division of labor and a clearly defined hierarchy of power. Examples in society are wide-ranging and include business and corporations, religious institutions, the judicial system, schools, and government, among others.

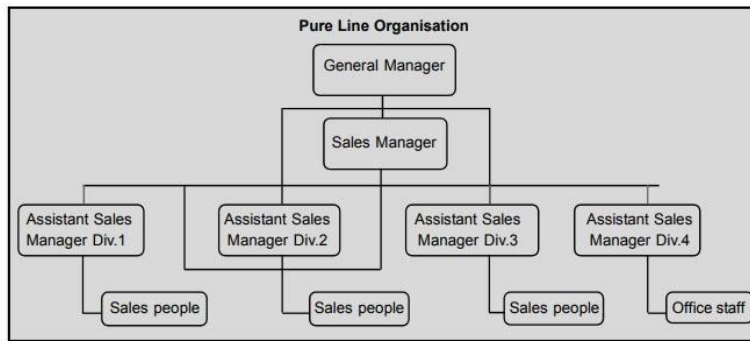
The following are the shared characteristics of formal organizations:

1. Division of labor and related hierarchy of power and authority
2. Documented and shared policies, practices, and goals
3. People act together to achieve a shared goal, not individually
4. Communication follows a specific chain of command
5. There is a defined system for replacing members within the organization
6. They endure through time and are not dependent on the existence or participation of specific individuals

### Line Organization:

Line organization is the simplest framework for the whole administrative organization. Line organization approaches the vertical flow of the relationship. In line organization, authority flows from the top to the bottom. It is also known as the chain of command or scalar principle.

Line organization structure is the oldest and simplest form of organization. In these organizations, a supervisor exercises direct supervision over a subordinate. Also, authority flows from the top-most person in the organization to the person in the lowest rung. This type of an organization is also called a military organization or a scalar-type organization.



### **Advantages of a Line Organization:**

1. Simple to work
2. Economical and effective. It also allows quick decisions and efficient coordination.
3. Conforms to the scalar principle of organization. Further, it promotes the unity of command.
4. In a line organization, the responsibility for the performance of tasks is fixed upon definite individuals. Therefore, there is accountability of delegated tasks.
5. There is excellent discipline in a line organization due to unified control and undivided loyalties.
6. The overall cost of running the organization is low due to the non-involvement of staff personnel.
7. It is a stable form of organization.

### **Limitations of a Line Organization:**

1. A line organization can suffer from a lack of specialization. This is because each department manager is concerned only with the activities of his own department. Therefore, employees are skilled in tasks pertaining to their departments alone.
2. These organizations can overburden a keyman or a few key-men to the extent of their breaking point. Also, in the absence of a staff aid, if a strong man seizes the organization, he can run it arbitrarily. Such arbitrary power can lead to a considerable damage to the organization.
3. Such organizations usually suffer from a lack of expert advice. If the line manager has trouble making a decision, there is no expert staff that he can turn to.

4. A line organization is usually rigid and inflexible. In fact, such organizations maintain discipline so rigorously that they can rarely change.
5. These organizations are based on the autocratic system of management.
6. The division of work is not based on any scientific plan but on the whims of the manager.
7. It might stop progress and prevent the unit to work effectively.
8. Such organizations might also encourage nepotism or favoritism based on relationship or friendship.

## **Functional Organization**

A functional organization structure differentiates the employees by their skill, specialty, etc. It completely depends on a ranking system that consists of several departments under the guidance of expert leadership. Most businesses operate under the functional structure because it combines workers who have similar knowledge and skills, when used in a team environment, it will be helpful for the company to achieve their desired goals.

### **Advantages of Functional Organization**

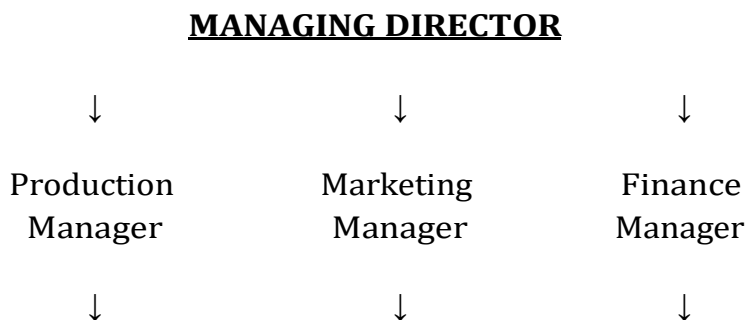
- The executive or the team leader has good knowledge and experience in that particular field. For example, the person heading the marketing department will have the knowledge and skill necessary to carry the process with full responsibility and successfully run his team.
- As the employees are experts in that particular field, the work becomes more efficient and precise. Reduces the rate of mistakes as this could motivate the employees of the company.
- Since every member comes from a similar background it allows them to share their thoughts and come up with better solutions. As sharing of knowledge is always beneficial.
- The employees also can have a clear idea of the hierarchy and need not have to report or answer to several managers.
- Also, the employees can feel the work security as their work and efforts are not going unnoticed. This can help them to perform better.

## Disadvantages of Functional Organization

- The work can become one-dimensional. After some time, the employees may start to feel repetitive or bored. The lack of new challenges will make them unenthusiastic.
- In this type of structure, the manager must keep an eye on the appraisal system. If the right approach is not made then there can be high chances of conflicts between the employees regarding their promotions or appraisals.
- Also, this type of organization needs a high specialization degree which can be difficult to establish
- If there is a change of personnel in the team, it can literally affect the whole system and its balance. Also, it is a rigid structure, where there are not a lot of scopes for adaptation.
- In a Functional Organizational Structure, the employees can never gain any knowledge or skills out of their own department. This can be a big cause for inter-departmental communication.

## Line and Staff Organization

Line and staff organization is a modification of line organization and it is more complex than line organization. According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority. The power of command always remains with the line executives and staff supervisors guide, advice and council the line executives. Personal Secretary to the Managing Director is a staff official.



Plant Supervisor    Market Supervisor    Chief Assistant



Foreman

Salesman

Accountant

### **Advantages of Line and Staff Organization:**

- 1. Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
- 2. Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.
- 3. Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
- 4. Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co-ordination in work as every official is concentrating in their own area.
- 5. Benefits of Research and Development-** Through the advice of specialized staff, the line executives, the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
- 6. Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.
- 7. Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co-ordination. This relationship automatically ends up the line official to take better and balanced decision.

- 8. Unity of action-** Unity of action is a result of unified control. Control and its effectivity take place when co-ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

**Demerits of Line and Staff Organization:**

- 1. Lack of understanding-** In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.
- 2. Lack of sound advice-** The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.
- 3. Line and staff conflicts-** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co-ordination which hampers a concern's working.
- 4. Costly-** In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.
- 5. Assumption of authority-** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
- 6. Staff steals the show-** In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results.

## **Committee Organization:**

A committee organization represents a group of people with various kinds of knowledge, which is formally constituted to solve specific problems of the organization. A committee helps to gather collective ideas and information, properly analyze them which helps to make strong managerial decisions and solve difficult problems.

During the course of operation, various problems may arise in the organization, to solve such problems, the management constitutes committees by gathering the members from the concerned fields. And, in accordance with the provided information and suggestions from the committee members, the management takes decisions and solves problems. This helps to minimize the workload of top-level management.

## **Advantages of Committee Organization:**

### **1. Quality of Decision**

Quality of decision is one of the major advantages of committee organization. Here, members having knowledge from various fields and experiences are gathered. Through gathering collective ideas and analyzing them they come to the right decision for solving the complex problems.

### **2. Setting Objectives, Plans, and Policies**

Every organization is formed with definite objectives, to achieve it, and it is necessary to formulate plans and policies. Committee provides the framework for setting organizational objectives. It also provides suggestions and information for making plans and policies to achieve defined objectives.

### **3. Participative Management**

Committee organization ensures the participation of competent members in management. Here, all the members have the right to put their ideas and views in the decision-making process. The democratic process is taken into consideration in the decision making.

### **4. Reduce Bias and Conflicts**

The committee facilitates the development of relations among members and their relation with the line management. They help in maintaining close communication and transformation of information among authorities. Thus, there is less probability of bias or decision making mistakes. In a similar way,



the development of mutual relationships helps to resolve conflicts among members.

### **5. Dealing with Complex Problems**

Committee organization facilitates in dealing with complex and difficult types of problems. In some situations, during operation, many complex or critical problems may arise in an organization. It is more difficult to solve such problems by line authority and even by the top management. In such cases, committees are formed by pooling experts from the concerned field so that it becomes easy to resolve such problems in a systematic manner.

### **6. Commitment To Implement**

A committee is formed to resolve complex and difficult problems. Members of the committee are experienced and experts in their own fields. Besides, expert representatives from top-level management also involved in committees. They come to conclusion after a detailed discussion and evaluation of the impact of alternatives decisions.

### **7. Pooling Authorities**

In the process of investigation and research, some authority of the top management is also shared among the committee members. The committee members can perform their works independently by remaining within the defined area. All the members have equal authority in the committee. Thus, executive levels come to a conclusion with the help and mutual consent of all the committee members.

### **Disadvantages of Committee Organization:**

#### **1. Creating Conflict**

Conflict is common in committee because of more heads. In some situation, committee organization creates confusions or conflicts in the decision-making process. Ideas or views of a member may be in conflict with the views of other members.

#### **2. Delay in Decision**

The committee members take more time to discuss the various factors of a problem. The valuable time of the committee members spent on the discussion. The delay in the decision may result in an extra financial burden to the management.

### **3. Probability of Diversion**

In some cases, committee discussion may be diverted to other subject matter. In such a situation, committee members can not come to conclusion within the given time frame. They have to meet many times to come to a suitable outcome.

### **4. Tendency of Shifting**

It is common to shift the tendency of decisions to committees. When the executives feel difficult to take a decision on important problems, they often shift it to the committee. This attitude of line authorities minimizes their initiative and creativity, which provides a negative impact on organizational performance.

### **5. Lack of Secrecy**

Maintaining secrecy of internal matters is difficult in committee organization. All the members of the committee discuss the problems in detail and in the process they get knowledge about internal matters of the organization. Thus, there is more probability of leakage of internal plans and strategies of the organization.

### **6. Distribution of Responsibility**

In a committee organization, most of the members are concerned about the decision-making process. In some situations, the committee may take the wrong decision and in such a case no members individually take the responsibility for the wrong decision on the behalf of all the members. Everyone wants to shift the responsibility to other members of the committee.

### **7. Splits Accountability**

In a committee organization, nobody is held accountable for a decision made by a committee. A committee's decision is known as nobody's decision just because it is everybody's decision. Problems in the organization may arise when any mistake is made in the decision-making process. Here, nobody wants to take full responsibility for the mistake on behalf of all members of the committee.

## Informal Organizations

An informal organization is a group of people who share a common identity and are committed to achieving a common purpose. Informal organizations are created by the will and shared identity of their members. The operation of an organization, in reality, is known as an informal organization as opposed to a formal organization, which is based on roles and responsibilities.

Informal organizations emerge from the interaction or communication between employees irrespective of their designations and hierarchies. It runs parallel to a formal organization.

Informal organizations have no fixed rules or hierarchies defined between people. It is fluid and dynamic in its form. Both formal and informal groups coexist in an organization and are essential for efficient functioning. We can classify informal organizations into three groups that are defined by the similarities and dissimilarities of the work performed by the members of each group.

These are listed below:

**Horizontal Group-** People who work at the same level in an organization belong to a horizontal group. Such groups promote mutual support and information sharing among the members. It is often found that people share the same problems, concerns, and interests. They solve problems without depending on their bosses or higher or lower hierarchical members. For example, people working for different departments like sales, operations, production, etc. but who are at the same level in the organizational hierarchy form a horizontal group.

**Vertical Group-** People working at different levels in an organization belong to the vertical group. Such groups are formed through skip-level relationships. For example, a top-level employee may be associated with a first-level employee, or a group of first-level employees may establish a group with their bosses.

Such groups promote better communication and quick access to the issues arising in the organization.

**Mixed Group-** People from different levels and different departments create a Mixed Group. The groups are created based on common interests like club

memberships, common interests or their backgrounds. For example, the president of the sales department may bond with the director of technology.

### **Example of Informal Organization**

Members of the sales team join every day for lunch with the human resource team. Another example of such informal groups is that sales team personnel help tech development employees to figure out the requirements of the product.

### **Benefits of Informal Organization**

1. The informal organization has several advantages. They are:
2. First, they instill a sense of unity and solidarity among members.
3. It happens because they are obsessed with each other's social interactions. Therefore, this leads to job satisfaction and stability in the organization.
4. In addition, a strong informal organization can be an effective means of rapid communication. Managers and employees can use this.
5. The informal organization can compensate for the limitations imposed by formal structure, enabling it to successfully achieve organizational goals.
6. The managers also benefit from the informal organizations by using them to understand the grievances of employees.
7. Workers benefit from the emotional security provided by the informal organization. A sense of being present and belonging in a positive atmosphere boosts job satisfaction. A positive influence from an informal organization leads to increased productivity.
8. Managers know that members of the informal organization will keep an eye on its activities, which is why they plan carefully after going through the benefits and drawbacks.

### **Problems of Informal Organization:**

#### **1. Conflicts**

Informal grouping gives rise to conflicts because multiple people tend to boss each other.

To achieve social satisfaction sometimes, the members slip away from formal organizational timelines, thereby decreasing productivity.

## **2. Rumors**

With communication between different members across departments, there are chances of rumors getting spread quickly.

Spreading of wrong information disrupts the work environment hampering the work balance.

## **3. Conformity**

People share common interests in clubs to form groups. However, when a non- conforming member joins this group they may be pressured to conform to the group which can be against the organizational interests. This can be a cause of harassment or physical abuse.

## **4. Change Resistance**

Informal groups can create resistance to the rules or strategies set by the management and cause difficulty in implementation.

An informal group may restrict modifications in the work environment

# **GOKUL GLOBAL UNIVERSITY**

Faculty of Commerce & Management

E-Content



<b>Course:</b>	<b>BBA</b>
<b>Semester:</b>	<b>1ST</b>
<b>Subject:</b>	<b>FORMS OF BUSINESS ORGANIZATION</b>
<b>Subject Code:</b>	<b>FMB210103</b>

## UNIT 1: JOINT STOCK COMPANY

**MEANING:** A joint stock company is a form of business organization where ownership is divided into shares of stock, allowing multiple individuals to invest in the company. Here are key points to understand about joint stock companies:

1. **Ownership Structure:**
  - Ownership is divided into shares, which represent a portion of the company's capital. Shareholders own these shares and thus have a stake in the company's assets and profits.
  - Shareholders' liability is typically limited to the value of their shares, shielding them from personal liability for the company's debts.
2. **Formation and Legal Status:**
  - Requires registration and compliance with legal regulations set by the government. It operates as a separate legal entity, distinct from its shareholders.
  - The company's existence is independent of changes in shareholdership, allowing for continuity in operations.
3. **Capital Generation:**
  - Enables large-scale capital accumulation by pooling investments from numerous shareholders.
  - This pooled capital facilitates funding for expansive projects and reduces the financial burden on individual investors.
4. **Management and Control:**
  - Managed by a board of directors elected by shareholders, who oversee company operations and decision-making.
  - Shareholders exercise control through voting rights attached to their shares, influencing major decisions such as mergers, acquisitions, and executive appointments.
5. **Transferability of Shares:**
  - Shares are generally freely transferable, providing liquidity to shareholders who wish to sell their holdings.
  - However, restrictions on share transfer can be imposed by the company's articles or applicable laws to maintain stability and control.
6. **Examples and Applications:**
  - Commonly used in sectors requiring significant investment, such as telecommunications, finance, and infrastructure.
  - Prominent examples include multinational corporations like Apple Inc., ExxonMobil, and Toyota Motor Corporation.

A joint stock company combines the advantages of limited liability, efficient capital formation, and operational continuity, making it a preferred choice for businesses aiming for growth and investment appeal. This structure underpins much of modern corporate activity, fostering economic development and shareholder wealth creation.

**DEFINITION UNDER THE COMPANY'S ACT 1956 & TYPES:** Under the Companies Act, 1956, a Joint Stock Company is defined as a voluntary association of individuals formed for the purpose of profit, having a separate legal entity, with perpetual succession and a common seal. Here are the types of Joint Stock Companies recognized under this act:

1. **Private Company:**

- **Definition:** A private company is one which restricts the right to transfer its shares, limits the number of its members to 50 (excluding employees and ex-employees who are also members), and prohibits any invitation to the public to subscribe for any shares or debentures of the company.
- **Key Features:** Shares are not freely transferable, and there are restrictions on the number of members.
- 2. **Public Company:**
  - **Definition:** A public company is one which is not a private company, and its shares are freely transferable. It must have at least 7 shareholders and 3 directors.
  - **Key Features:** Shares are freely transferable, and there are no restrictions on the maximum number of members.
- 3. **Government Company:**
  - **Definition:** A company in which not less than 51% of the paid-up share capital is held by the central government, or by any state government or governments, or partly by the central government and partly by one or more state governments.
  - **Key Features:** Majority ownership by government entities distinguishes it from other types of companies.
- 4. **Foreign Company:**
  - **Definition:** A company incorporated outside India, which has a place of business in India whether by itself or through an agent.
  - **Key Features:** Subject to certain provisions of the Companies Act applicable to foreign companies operating in India.

Each type of company under the Companies Act, 1956, has distinct characteristics and legal implications governing its formation, operations, management, and obligations. Understanding these distinctions is crucial for stakeholders, investors, and regulatory compliance.

**DIFFERENCE BETWEEN PUBLIC LTD. AND PVT. LTD COMPANIES:** Public Limited (PLC) and Private Limited (Pvt. Ltd.) companies differ primarily in their structure, ownership, governance, and operational scope. Here are the key distinctions between the two:

1. **Ownership and Shares:**
  - **Public Ltd.:** Shares are traded publicly on stock exchanges, allowing the general public to invest in the company. Ownership is distributed among numerous shareholders.
  - **Pvt. Ltd.:** Shares are privately held and not traded on stock exchanges. Ownership is limited to a small group of shareholders, often including founders, family members, or private investors.
2. **Legal Requirements:**
  - **Public Ltd.:** Subject to more stringent regulatory requirements and must comply with regulations set by securities commissions and stock exchanges. They often have larger capital requirements.
  - **Pvt. Ltd.:** Less regulatory scrutiny compared to public companies, with simpler reporting requirements. They can operate with smaller amounts of capital.
3. **Transparency and Disclosure:**
  - **Public Ltd.:** Required to disclose financial information and operational details to the public and regulatory authorities regularly. This ensures transparency for investors and stakeholders.
  - **Pvt. Ltd.:** Disclosures are minimal and generally limited to shareholders and regulatory bodies. They have fewer reporting obligations compared to public companies.
4. **Governance and Decision-Making:**



- **Public Ltd.:** Governed by a board of directors elected by shareholders. Decision-making can be complex due to diverse shareholder interests.
- **Pvt. Ltd.:** Typically managed by a smaller, closely-knit group of directors or owners. Decision-making is often quicker and more flexible.

#### 5. Size and Scope:

- **Public Ltd.:** Often larger in size and have the capacity for significant expansion and growth through public investment. They may operate on a national or international scale.
- **Pvt. Ltd.:** Generally smaller in size and focus, catering to niche markets or specific industries. Expansion is typically slower and funded through private means.

While both types of companies serve business objectives, their structures, ownership models, regulatory obligations, and growth strategies vary significantly. Public Limited companies offer broader access to capital markets but face more regulatory scrutiny, whereas Private Limited companies offer greater control to shareholders but operate within more limited financial and regulatory frameworks.

### **FORMATION PROCEDURE (PROMOTION, INCORPORATION, SUBSCRIPTION AND COMMENCEMENT):**

The formation of a company involves several key procedures that are crucial for its establishment and operation. These procedures typically include promotion, incorporation, subscription, and commencement, each serving a distinct role in the process.

**Promotion:** The process of promotion involves the initial stage where an idea for starting a company is conceived and developed. Promoters are individuals who identify a business opportunity and take the necessary steps to organize resources, formulate a business plan, and generate interest among potential investors or shareholders. They may also conduct market research, assess feasibility, and prepare preliminary financial projections to attract stakeholders.

**Incorporation:** Once the idea is sufficiently developed and potential stakeholders are identified, the next step is incorporation. Incorporation formalizes the company as a legal entity, distinct from its owners. This involves preparing the necessary documents such as the memorandum of association and articles of association, which outline the company's objectives, internal regulations, and structure. These documents are submitted to the relevant government authority, typically the Registrar of Companies, along with the required registration fee.

**Subscription:** Subscription refers to the process of inviting potential shareholders to subscribe to the shares of the company. Shares represent ownership interests in the company and are offered to investors in exchange for capital. The company issues a prospectus or a statement inviting the public or specific individuals to subscribe to its shares, detailing the terms of the offering, including the price per share, minimum subscription amounts, and payment deadlines. Once the shares are subscribed and the necessary capital is raised, the company can proceed to the next stage.

**Commencement:** The final stage in the formation process is commencement, where the company officially starts its operations. This involves fulfilling any remaining procedural requirements, such as obtaining necessary licenses and permits, opening bank accounts, and setting up operational infrastructure. The company can then begin its business activities as outlined in its business plan and operational strategy.

In summary, the formation procedure of a company involves promotion to generate interest, incorporation to establish its legal entity, subscription to raise capital through share issuance, and commencement to officially begin operations. Each step plays a critical role in laying the foundation for

the company's future growth and success, ensuring compliance with legal requirements and attracting stakeholders essential for its operations.

**A MEMORANDUM OF ASSOCIATION** : (MoA) is a crucial legal document that defines the constitution and scope of a company. It serves as the foundation upon which the company operates and interacts with external entities. Typically, MoA includes several key elements:

1. **Name Clause:** Specifies the name of the company, ensuring uniqueness and compliance with registration requirements.
2. **Registered Office Clause:** Defines the official address of the company where official communications are sent and where statutory records are maintained.
3. **Object Clause:** Outlines the primary and ancillary objectives for which the company is established. This clause limits the activities the company can engage in and provides clarity to stakeholders.
4. **Liability Clause:** States the liability of members (shareholders) in case the company is wound up. It can be limited by shares, by guarantee, or unlimited.
5. **Capital Clause:** Specifies the amount of authorized share capital the company can issue and its division into shares of fixed value.
6. **Association Clause:** This clause states the desire of the subscribers (initial shareholders) to form a company and become members.

MoA is a fundamental document required during the incorporation process of a company. It must comply with the laws and regulations of the jurisdiction where the company is registered. Any changes to the MoA require special procedures and approvals, ensuring transparency and legal compliance.

The MoA is pivotal as it not only outlines the company's purpose and structure but also establishes the contractual relationships between the company and its stakeholders. It provides clarity and legal certainty, guiding the company's activities and ensuring it operates within the defined legal framework.

**ARTICLES OF ASSOCIATION** : are the written rules governing the internal management and operations of a company, alongside its Memorandum of Association. Typically, they cover matters such as the company's purpose, rights and duties of shareholders, procedures for conducting meetings, appointment and powers of directors, and distribution of profits. These articles are crucial as they establish the framework within which the company operates, ensuring clarity and consistency in decision-making and governance. They help define the roles and responsibilities of various stakeholders, including shareholders and directors, thereby providing a structure for the company's activities and ensuring compliance with legal requirements. Amendments to the Articles require shareholder approval and must be filed with the appropriate regulatory authorities to update the company's official records.

**A PROSPECTUS AND A STATEMENT IN LIEU OF PROSPECTUS:** serve crucial roles in financial and investment contexts:

1. **Prospectus:**
  - A legal document provided by companies planning to issue securities (like stocks or bonds) to potential investors.
  - Contains detailed information about the company, its management, operations, financial health, risks associated with investing, and how the funds raised will be used.

- Helps investors make informed decisions by providing transparency and disclosing key information required by regulatory bodies.
  - Mandatory for public offerings to protect investors and ensure fair markets.
  - Issuers must update prospectuses regularly to reflect current conditions and risks.
2. **Statement in Lieu of Prospectus:**
- Used when a company issues shares or debentures to its existing shareholders instead of the general public.
  - Contains condensed information compared to a full prospectus.
  - Still discloses essential details such as the purpose of the issue, financial statements, and rights attached to the securities.
  - Filed with the registrar of companies to ensure compliance with regulations.
  - Provides shareholders with enough information to understand the investment opportunity being offered.

Both documents play critical roles in ensuring transparency and compliance in financial markets, protecting investors by providing necessary information for making informed investment decisions.

## **UNIT 2: COMPANY MANAGEMENT**

### **DIRECTOR UNDER THE COMPANIES ACT, 1956**

In the realm of corporate governance, a director plays a pivotal role in overseeing the management and strategic direction of a company. Defined under the Companies Act, 1956, a director is an individual elected by the shareholders of a company to manage its affairs. The Act prescribes various qualifications, disqualifications, powers, duties, and liabilities for directors, ensuring effective management and accountability within corporate entities.

### **POSITION AND DEFINITION**

Under Section 2(13) of the Companies Act, 1956, a director is defined as a person occupying the position of director by whatever name called. This broad definition encompasses both executive directors who are involved in day-to-day operations and non-executive directors who provide strategic guidance and oversight.

### **QUALIFICATIONS AND DISQUALIFICATIONS**

Qualifications for directors typically include a minimum age (18 years), sound mind, and legal capacity to enter into contracts. Disqualifications are specified under Section 274, which includes factors such as unsound mind, undischarged insolvent, conviction of certain offenses, and disqualification by an order of court or regulatory authority.

### **NUMBER OF DIRECTORS**

The Act mandates that every company must have a minimum number of directors based on its type and structure. For instance, a private company must have at least two directors, while a public company must have at least three directors. There is also a maximum limit on the number of directors that can serve on the board, determined by the company's Articles of Association.

## **POWERS, DUTIES, AND LIABILITIES**

Directors have the power to manage the affairs of the company collectively through board meetings and individually in certain circumstances as specified by the Articles of Association. Their primary duties include acting in good faith, exercising due diligence, and acting in the best interests of the company and its stakeholders.

Directors are also entrusted with fiduciary duties towards the company, which include duty of care, duty of loyalty, duty of good faith, and duty of obedience. They must avoid conflicts of interest and disclose any personal interests in transactions with the company.

## **LIABILITIES OF DIRECTORS**

Directors can be held personally liable for breaches of duties or statutory obligations. Liabilities may arise from negligence, fraud, or wrongful trading, where directors allow a company to continue trading while insolvent, causing loss to creditors. The Act also imposes penalties and disqualifications for non-compliance with statutory requirements.

Directors under the Companies Act, 1956, hold a critical position in corporate governance, with defined qualifications, responsibilities, and liabilities aimed at ensuring transparency, accountability, and effective management of companies. They are entrusted with significant powers to manage company affairs but must adhere to strict legal and ethical standards to protect the interests of shareholders, employees, and the broader community.

## **POSITION AND DEFINITION UNDER THE COMPANIES ACT, 1956**

In Indian corporate law, a Managing Director is a key executive appointed by the Board of Directors (BoD) to manage the day-to-day operations of a company and to implement the policies and decisions formulated by the Board. The role is crucial as it bridges the gap between the Board's strategic vision and the operational realities of the company.

Under the Companies Act, 1956 (which has since been replaced by the Companies Act, 2013), the Managing Director is defined as an individual who, by virtue of an agreement with the company or a resolution passed by its Board of Directors or by its shareholders, is entrusted with substantial powers of management. This typically includes powers to act on behalf of the company, subject to the overall supervision and control of the Board.

## **APPOINTMENT**

The appointment of a Managing Director is formalized through a resolution passed by the Board of Directors at a duly convened board meeting. The resolution must specify the terms and conditions of the appointment, including the scope of authority, tenure, and remuneration.

Certain conditions must be met for a person to be appointed as a Managing Director:

- They must not be disqualified under the provisions of the Companies Act, which typically include restrictions on age, mental competence, and legal status.
- They must not be disqualified by any regulatory authority or under any other applicable laws or regulations.

The appointment process must comply with the procedural requirements outlined in the Companies Act and other relevant regulations governing corporate governance.

## **DISQUALIFICATIONS**

Disqualifications for the position of Managing Director can arise under various circumstances:

- **Age:** If the individual does not meet the minimum age requirement specified by law.
- **Mental Competence:** If the person is declared mentally unfit by a competent authority.
- **Legal Status:** If the person is an undischarged insolvent or has been convicted of certain offenses.
- **Regulatory Disqualification:** If the individual is disqualified by a regulatory authority or under specific provisions of the Companies Act.

These disqualifications are put in place to ensure that individuals appointed to positions of substantial management authority are fit and proper to hold such responsibilities.

## **REMUNERATION TO MANAGING DIRECTOR**

The remuneration payable to a Managing Director is determined by the company's Articles of Association and is subject to the approval of the shareholders. The Companies Act prescribes certain limits and conditions regarding the remuneration payable to directors, including Managing Directors.

The remuneration package typically comprises a mix of fixed salary, perquisites, incentives, and benefits such as stock options or bonuses. The amount and structure of remuneration are influenced by various factors, including the company's financial performance, market conditions, and industry norms.

The position of Managing Director under the Companies Act, 1956, embodies significant responsibilities and powers conferred upon an individual to manage a company's operations effectively. The appointment process must adhere to legal requirements, and the remuneration structure should align with regulatory guidelines and shareholder approval. Understanding these aspects is crucial for ensuring effective corporate governance and operational efficiency within Indian companies governed by the Companies Act.

**COMPANY SECRETARY:** In India, the role of a Company Secretary (CS) is defined under the Companies Act, 1956, which has been subsequently amended and updated. A Company Secretary plays a crucial role in ensuring compliance and governance within a company, acting as a key link between the board of directors, shareholders, regulatory authorities, and other stakeholders.

**POSITION AND QUALIFICATIONS:** A Company Secretary is a highly specialized professional who possesses expert knowledge of corporate laws, governance practices, and regulatory frameworks. According to the Companies Act, 1956 (and its subsequent amendments), a Company Secretary is required to be appointed by companies of certain sizes and types. The qualifications typically include a degree in commerce, law, or business administration, followed by passing the examinations conducted by the Institute of Company Secretaries of India (ICSI), which is the statutory professional body regulating the profession of Company Secretaries in India.

**APPOINTMENT:** The appointment of a Company Secretary is mandated by law for certain categories of companies. It is typically the responsibility of the board of directors to appoint a Company Secretary based on their qualifications and expertise in corporate governance and regulatory compliance.

**POWERS AND DUTIES:** The powers and duties of a Company Secretary are multifaceted and critical to the functioning of a company. Some of the key responsibilities include:

1. **Compliance:** Ensuring compliance with various statutory and regulatory requirements such as filing of annual returns, maintenance of statutory registers, convening and conducting board meetings, etc.

2. **Advisory Role:** Providing guidance to the board of directors on corporate governance practices, regulatory changes, and legal compliance issues.
3. **Corporate Governance:** Facilitating effective communication between the board of directors and shareholders, ensuring transparency and accountability in corporate operations.
4. **Record Keeping:** Maintaining and updating statutory records and registers as required under the Companies Act.
5. **Company Representation:** Acting as the official representative of the company in legal and regulatory matters, including liaising with regulatory authorities like the Registrar of Companies (RoC).
6. **Ethical Practices:** Upholding ethical standards and promoting good governance practices within the organization.

In conclusion, A Company Secretary in India holds a pivotal role in ensuring legal and regulatory compliance, promoting good governance, and enhancing corporate transparency. Their specialized knowledge and expertise contribute significantly to the smooth functioning and reputation of the company in the eyes of stakeholders and regulatory authorities alike. The position underscores the importance of adherence to laws and regulations governing corporate entities, thereby safeguarding the interests of shareholders and the public at large.

### UNIT 3: COMPANY MEETINGS, RESOLUTIONS AND MINUTES

**COMPANY MEETINGS** are formal gatherings where employees, managers, and stakeholders come together to discuss various aspects of business operations, make decisions, and align on goals. These meetings serve several important purposes within an organization:

1. **Information Sharing:** Meetings are often used to disseminate important information such as company updates, financial results, project progress, or policy changes. This ensures everyone is informed and on the same page.
2. **Decision Making:** Meetings provide a forum for making decisions that affect the organization. This could include strategic decisions, operational changes, budget approvals, or project prioritization.
3. **Problem Solving:** When issues arise, meetings allow teams to brainstorm solutions collectively. This collaborative approach can lead to more effective problem-solving and innovation.
4. **Team Building:** Regular meetings help build camaraderie among team members, fostering a sense of unity and shared purpose.

5. **Feedback and Evaluation:** Meetings are often used to provide feedback on performance, projects, or strategies. They also serve as a platform for evaluating outcomes and identifying areas for improvement.

## **TYPES OF COMPANY MEETINGS:**

1. **Board Meetings:** These are held by a company's board of directors to discuss and decide on strategic matters, financial performance, executive appointments, and major policy issues.
2. **Staff Meetings:** Regular meetings attended by all staff members or specific teams within the organization. They are used to share updates, discuss operational matters, and address any concerns.
3. **Departmental Meetings:** These involve specific departments within the company and focus on departmental goals, progress reports, and coordination between teams.
4. **Project Meetings:** Held to discuss progress, obstacles, and decisions related to specific projects or initiatives. Project meetings ensure alignment and facilitate efficient project management.
5. **Annual General Meetings (AGMs):** Typically required for publicly traded companies, AGMs involve shareholders and focus on financial results, voting on resolutions, and addressing questions from shareholders.
6. **One-on-One Meetings:** These are private meetings between a manager and an employee to discuss performance, career development, goals, and any personal concerns.
7. **Virtual Meetings:** Increasingly common with remote work trends, these are conducted via video conferencing tools and serve the same purposes as in-person meetings.

Each type of meeting has its own objectives and structure, tailored to the specific needs and dynamics of the organization. Effective meetings are characterized by clear agendas, active participation, and follow-up actions to ensure that decisions are implemented.

A **SHAREHOLDERS' MEETING**, often referred to as a statutory meeting, is a crucial event for companies as it serves as a platform for shareholders to exercise their rights and influence corporate decisions. Typically held annually, these meetings are governed by legal requirements and the company's articles of association. Key agenda items include approving financial statements, electing directors, appointing auditors, and discussing strategic direction.

The **STATUTORY MEETING** ensures transparency and accountability within the company, allowing shareholders to voice concerns, ask questions, and vote on important matters affecting the business. It also provides an opportunity for management to update shareholders on company performance, challenges, and future plans.

Attendance and participation may be physical or virtual, depending on company policies and regulatory guidelines. Shareholders' meetings play a vital role in corporate governance, fostering trust among investors, ensuring compliance with legal obligations, and facilitating decision-making that aligns with the company's long-term goals and shareholder interests.

**AGM (ANNUAL GENERAL MEETING) AND EGM (EXTRAORDINARY GENERAL MEETING)** are both crucial gatherings for organizations but differ in their purposes and requirements. An **AGM** is held annually and is mandatory for public companies and recommended for private ones. Its primary goals include approving financial statements, electing directors, and discussing major business decisions with shareholders. AGMs ensure transparency, accountability, and communication between management and shareholders.

On the other hand, an **EGM** is convened as needed, outside the regular AGM schedule, to address urgent matters that cannot wait until the next AGM. These matters might include significant corporate changes like amendments to the company's constitution, mergers, or restructuring. Unlike AGMs, EGMs require specific notice periods and agendas to inform shareholders adequately about the issues at hand. Both AGMs and EGMs provide platforms for shareholders to voice concerns, make informed decisions, and participate in the governance of the company, thus playing vital roles in corporate democracy and governance.

**MEETINGS** are essential mechanisms for decision-making and deliberation within organizations, governed by specific provisions to ensure effectiveness and fairness. Key aspects include quorum, agenda, time, place of holding meetings, and notice.

**QUORUM:** A quorum defines the minimum number of members required to be present to validate decisions. It ensures that decisions reflect the collective will and prevent minority domination. Quorum requirements are typically specified in the organization's bylaws or governing documents.

**AGENDA:** An agenda outlines the topics to be discussed during a meeting. It provides structure and ensures that meetings stay focused and productive. The agenda is usually prepared by the chairperson or secretary and distributed to participants in advance to allow for preparation.

**TIME AND PLACE OF HOLDING MEETINGS:** Meetings are held at predetermined times and locations, often in accordance with organizational policies or as decided by the board or committee. Consistent scheduling helps members plan their participation and ensures continuity.

**NOTICE:** Proper notice of meetings must be provided to all members within a specified timeframe before the meeting date. The notice includes details such as the agenda, time, place, and any supporting documents. This ensures that members have sufficient time to prepare and participate meaningfully.

These provisions collectively ensure that meetings are conducted transparently, democratically, and efficiently. They promote active participation, informed decision-making, and accountability within the organization. Adherence to these provisions is crucial for maintaining organizational integrity and fulfilling legal and regulatory requirements. Regular review and updating of these provisions help adapt to changing organizational needs and external regulations, ensuring that meetings remain effective tools for governance and collaboration.

### **PURPOSE OF HOLDING THESE MEETINGS & BUSINESS TRANSACTED AT THESE MEETINGS.**

Business meetings serve several purposes essential for organizational functioning and decision-making. Primarily, these gatherings provide a platform for stakeholders to discuss strategies, resolve issues, and align on goals. They facilitate communication among team members, ensuring everyone is informed and on the same page regarding projects, timelines, and responsibilities. Meetings also play a crucial role in brainstorming new ideas, fostering creativity, and problem-solving collaboratively.

The business transacted at these meetings encompasses a wide range of activities. This includes reviewing progress on ongoing initiatives, analyzing performance metrics, and making adjustments as necessary. Important decisions regarding resource allocation, budget approvals, and project prioritization are often finalized during these sessions. Additionally, meetings may involve presentations of reports, sharing updates from various departments, and seeking feedback to improve processes and outcomes. Ultimately, the purpose of holding such meetings is to enhance organizational efficiency,



promote teamwork, and ensure that the company stays competitive and adaptive in a dynamic business environment.

**BOARD MEETINGS** are crucial for corporate governance, ensuring effective decision-making and oversight by a company's directors. The provisions governing these meetings typically cover several key aspects:

1. **Time and Place:** Board meetings must be held at specified times and locations, often in accordance with the company's bylaws or as determined by previous resolutions.
2. **Notice:** Directors must be given adequate notice of the meeting, which allows them time to prepare and attend. The notice period and mode (e.g., email, physical mail) are usually prescribed in the company's articles of association or bylaws.
3. **Quorum:** A minimum number of directors (quorum) must be present at the meeting to conduct official business. This ensures that decisions are made with a sufficient number of directors present to represent the board's collective judgment.
4. **Agenda:** The agenda outlines the topics to be discussed and decided upon during the meeting. It helps keep discussions focused and ensures that all necessary business is addressed.

The primary purpose of holding board meetings is to enable directors to collectively:

- Make strategic decisions that steer the company's direction.
- Review and approve financial statements, budgets, and corporate policies.
- Provide oversight and guidance to management.
- Ensure compliance with legal and regulatory requirements.

## **UNIT 4: BUSINESS COMBINATIONS**

### **BUSINESS COMBINATIONS – MEANING & CAUSES/REASONS OF COMBINATIONS**

**BUSINESS COMBINATIONS** occur when two or more separate entities merge to form a single entity or when one entity acquires another. This strategic move is typically driven by several reasons. Firstly, it can lead to increased market share and competitiveness by consolidating resources, expertise, and customer bases. Economies of scale also play a significant role, as combined entities may benefit from lower costs per unit and improved efficiency in operations and distribution.

Strategic reasons such as diversification into new markets or product lines, or achieving synergies where the combined entity's value is greater than the sum of its parts, are often motivations for business combinations. Financial benefits include enhanced profitability, increased revenue, and improved access to capital markets. Additionally, combining forces can provide opportunities for innovation and accelerated growth through shared research and development efforts.

External factors such as regulatory changes or industry trends can also drive business combinations as companies seek to adapt and strengthen their positions in evolving markets. Ultimately, business

combinations are strategic maneuvers aimed at enhancing competitive advantage, achieving growth, and maximizing shareholder value in an increasingly interconnected global economy.

In **ECONOMICS**, the concept of economies and diseconomies of scale refers to the advantages and disadvantages that firms experience as they increase their scale of production. Economies of scale occur when increasing production leads to lower average costs per unit due to factors like specialization, bulk purchasing, and efficient use of resources. This results in higher profitability and competitiveness for firms, as they can offer lower prices or higher quality products.

Conversely, **DISECONOMIES** of scale occur when a firm becomes too large, leading to inefficiencies such as bureaucratic delays, coordination problems, and difficulty in maintaining quality control. These factors can increase average costs per unit and reduce profitability over time.

Understanding these concepts helps businesses and policymakers make decisions about optimal production levels and market competitiveness. Balancing economies and diseconomies of scale is crucial for sustainable growth and maintaining profitability in a competitive market environment.

In the context of business combinations, there are several types of consolidations that can occur:

1. **Horizontal Integration:** This involves the merger or acquisition of companies that operate in the same industry and at the same stage of the production process. Horizontal integration aims to increase market share, reduce competition, and achieve economies of scale.
2. **Vertical Integration - Forward:** This type occurs when a company acquires or merges with a business in the same industry but at a different stage of the production process, moving closer to the end consumer. It allows for greater control over supply chains, quality, and distribution channels.
3. **Vertical Integration - Backward:** Here, a company integrates with a business in an earlier stage of the production process, such as acquiring suppliers or raw material providers. This type of integration can help secure key inputs, reduce costs, and improve efficiency.

Each type of business combination strategy carries its own set of advantages and challenges, impacting market dynamics, operational efficiencies, and strategic positioning within the industry.

**LATERAL, CONVERGENT, AND DIVERGENT** thinking are distinct cognitive approaches to problem-solving and creativity. Lateral thinking involves exploring multiple perspectives and unconventional ideas to generate innovative solutions. It encourages breaking away from traditional patterns and thinking "outside the box" to find new insights and connections.

Convergent thinking, in contrast, focuses on narrowing down possibilities to find the single best solution. It relies on logical reasoning and systematic analysis to arrive at a conclusive answer, often following a linear path.

Divergent thinking promotes generating a diverse range of ideas by exploring numerous possible solutions. It values creativity and brainstorming, aiming to expand possibilities rather than converging on a single outcome.

Circular thinking integrates elements of both convergent and divergent approaches, emphasizing iterative refinement and continuous improvement. It involves revisiting and iterating through ideas and solutions, incorporating feedback and insights to develop more robust outcomes over time.

Each thinking style has its strengths and applications, with lateral thinking fostering creativity, convergent thinking ensuring efficiency, divergent thinking encouraging exploration, and circular thinking promoting adaptability and refinement.

## **FORMS – ASSOCIATIONS, FEDERATIONS, PARTIAL AND TOTAL CONSOLIDATIONS**

Forms of organizational consolidation vary from associations and federations to partial and total consolidations. Associations typically involve multiple entities coming together under a shared purpose while retaining their individual identities. They collaborate on common goals while maintaining autonomy in other aspects. Federations are more structured, with member entities delegating certain powers to a central body while still operating independently in other areas.

Partial consolidations occur when organizations combine specific functions or resources while retaining separate identities and operations. This can lead to efficiency gains and shared resources without full integration. Total consolidations, on the other hand, involve complete integration of organizations into a single entity. This often results in unified operations, branding, and decision-making.

Each form of consolidation offers advantages and challenges, such as increased bargaining power, resource pooling, and operational streamlining, balanced against potential loss of autonomy or cultural identity. The choice of consolidation type depends on strategic goals, organizational culture, and the specific needs of the entities involved.

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# **GOKUL GLOBAL UNIVERSITY**

Faculty of Commerce & Management

E-Content



<b>Course:</b>	<b>BBA</b>
<b>Semester:</b>	<b>1</b>
<b>Subject:</b>	<b>Business communication-1</b>
<b>Subject Code:</b>	<b>FMB 210104</b>

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# **Module 1**



## Introduction to Communication

Every day, one of your main activities is communicating with others. You communicate at home, at school, with your friends, and in the community. Some of you might also communicate in a job environment. For adults, communication at work can be the difference between success and failure. This lesson shows you the importance of good communication, and how you can communicate more effectively.

## The Need for Communication

You fulfill many different needs through communication, including enjoyment! It's usually a good feeling to engage in conversation with a friend; participate in a group discussion that leads to a solution; and receive a letter in response to one you sent confirming the recipient took you said seriously. Sometimes, however, communication does not work, and you end up feeling frustrated.

You might feel frustrated when you have a disagreement with a friend and do not know what to say to resolve the disagreement; if your parents don't talk with you about certain issues you feel are important; or if you write a letter or email to someone who completely misunderstands your intent or message.

This happens all the time! Despite communicating since birth, you may not always be effective. The reality is that effective communication isn't as easy as it may seem.

All communication depends on understanding others and having them understand you. Much of your communication is intended to influence what people think and feel. Most of the time, you

wants someone to take some action as the result of your communication. You want a friend to spend vacation time with you; you want your friends to like each other; you want your parents to give you permission to go somewhere; or you want your employer to more clearly answer a question you have...

There are many ways to communicate. The Seven Communication Skills include your ability to:

- Read • Listen • Think • Write • Remember • Speak • Study



The root of the word "communication" in Latin is *communicare*, which means to share, or to make common. Communication is a Latin word. In Latin Language means "communicare" which means 'to share'. It is the sharing of information between different individuals.

It includes the sharing of ideas, concepts, imaginations, behaviours and written content. Communication is simply defined as the transfer of information from one place to another. This transfer of information can be conducted in different ways.

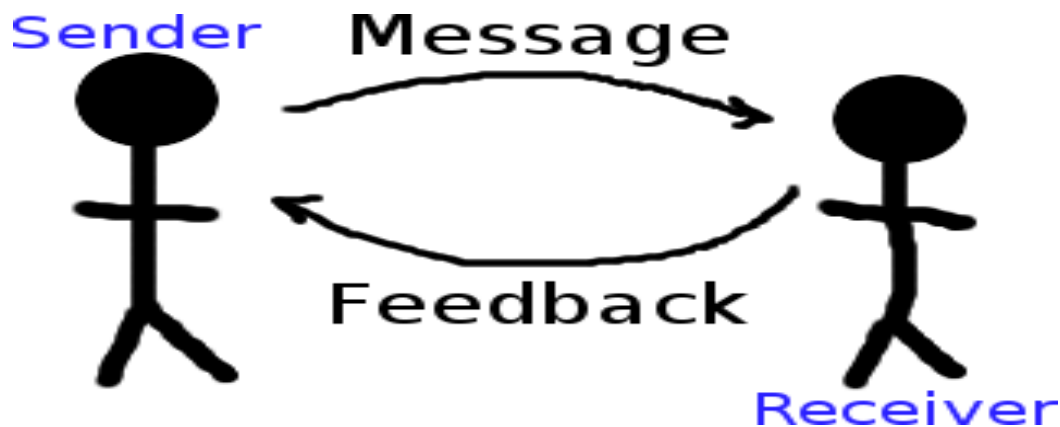
Communication is simply the act of transferring information from one place, person or group to another.

A communication therefore has three parts: the sender, the message, and the recipient.

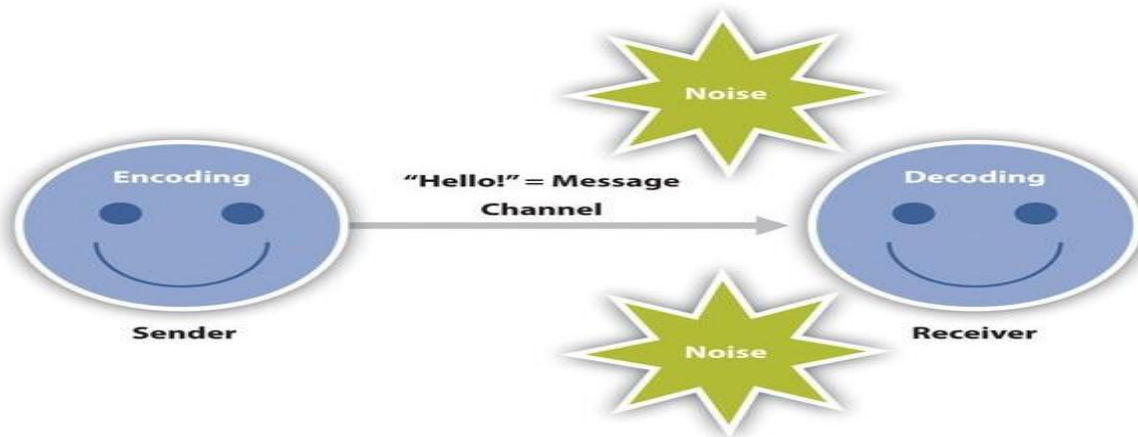
Communication is giving, receiving or exchanging ideas, information, signals or messages through appropriate media, enabling individuals or groups to persuade, to seek information, to give information or to express emotions.

Communication means sending and receiving information between two or more people.

Communication is the process of sending and receiving messages through verbal or nonverbal means, including speech, or oral communication; writing and graphical representations (such as infographics, maps, and charts); and signs, signals, and behavior. More simply, communication is said to be "the creation and exchange of meaning."



The organization carries information from within the department back up to top management. Management furnishes information about how things are going, notifies the supervisor of what the problems are, and provides requests for clarification and help. Supervisors, in turn, keep their employees informed and render assistance. Supervisors continually facilitate the process of gaining necessary clarification and problem solving; both up and down the organization. Also, supervisors communicate with sources outside the organization, such as vendors and customers.



Communication is the process by which a message or information is exchanged from a sender to a receiver.

For example, a production manager (sender) may send a message to a sales manager (receiver) asking for sales forecasts for the next 6 months so they can plan production levels. The sales manager would then reply (feedback) to the production manager with the appropriate figures.



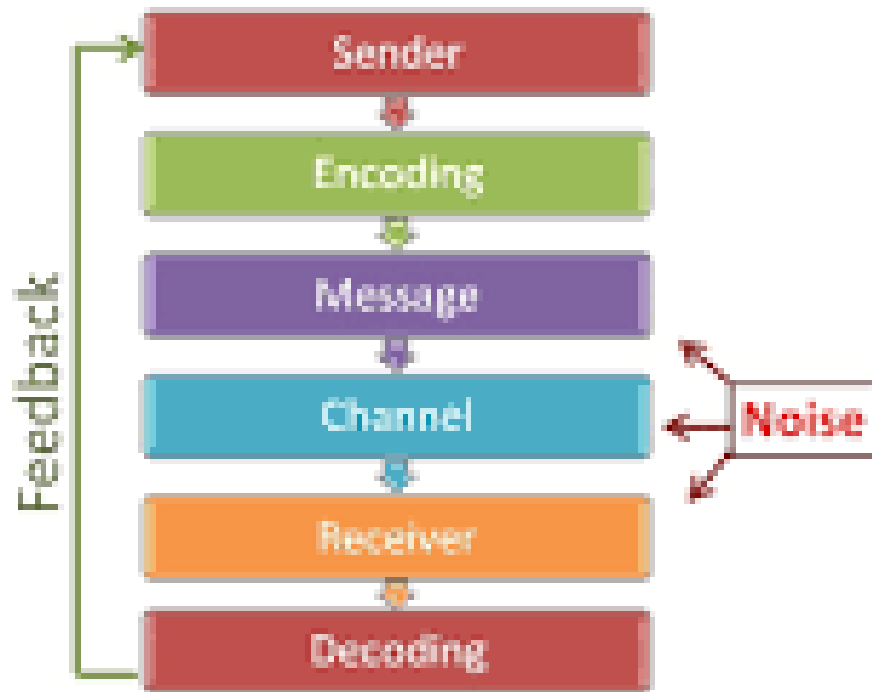


### Definition of communication

1. According to Fred G. Meyer. "Communication is the intercourse by words, letters or messages"-
2. G.G. Brown. "Communication is transfer of information from one person to another, whether or not it elicits confidence. But the information transferred must be understandable to the receiver".
3. According to **W.H. Newman and C.F. Sumer Jr.**  
"Communication is an exchange of facts, ideas, opinions or emotions by two or more persons."
4. According to **Keith Davis** "Communication is the process of passing information and understanding - from one person to another."
5. According to **Peter Little** "Communication is the process by which information is transmitted between individuals or organizations so that an understanding response results."



## Process of Communication



### Stage1. Sender:(A person who sends message)

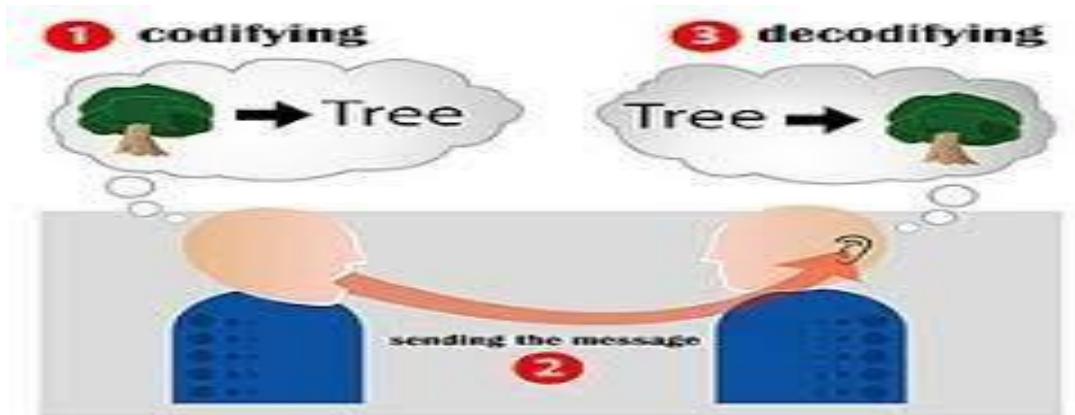
Sender is the person who initiates, generates and sends the message. He represents the source of message. The communication process begins when the sender develops an idea or message that he wants to transmit. He arranges the ideas in a manner that can be understood by the receiver. A teacher delivering a lecture in the classroom is the sender of the message.

### Stage 2. Message:(Generate ideas)

Message is the idea or information that the sender wants to convey. He may convey it verbally (by writing or speaking) or non-verbally (through gestures or body language). Whatever the form, the messages should be clearly formed so that the objective is accomplished.

### Stage3. Encoding:(Coding/ Make a secret)

Once the sender is clear of what message he wants to transmit, he decides the code through which message shall be transmitted. Encoding means giving meaning to the message or converting ideas into codes which can be understood by the receiver. Encoding means translating the message into words (written or spoken), symbols or gestures. It may even be a combination of the three.



#### **Stage 4. Transmission/channels/source: (way of media)**

Transmission involves selecting the medium or channel of communication. Once decided that the message has to be sent in writing, the sender may select the electronic channel and the medium of e-mail or fax. Short messages can be transmitted through telephone but lengthy messages can be sent through letters or circulars.

Choice of channel depends upon the message to be conveyed, personal biases of the sender and nature of information. Where drawings, charts and illustrations form part of the message, it has to be sent in writing. Personal biases include sender's preference for a particular channel.

Some senders prefer to communicate in writing, however short the message may be and, therefore, prefer the written channel of transmission. Nature of information refers to immediacy and confidentiality of information. Confidential information where immediate feedback is required is generally transmitted orally.

Communication channels is the term given to the way in which we communicate. It is therefore the method used to transmit our message to a recipient, or to receive a message from someone else.

There are multiple communication channels available to us today. These include face-to-face conversations, telephone calls, text messages, Email, the Internet (including social media such as Facebook and Twitter), radio and TV, written letters, brochures and reports.

**Choosing an appropriate communication channel is vital for effective communication. Each communication channel has different strengths and weaknesses.**

**Stage 5. Receiver: (A person who receives a message)** Receiver is the person or a group of persons to whom the message is conveyed. In case of telephonic conversation, the sender can send message to one receiver but in case of group discussions, seminars and conferences, receivers can be more than one. The message must be designed, encoded and transmitted in a manner that the receiver can understand easily. Use of technical words, jargons and

complicated symbols should be avoided. Depending on the channel selected, receiver may be a listener, viewer or a reader.

### **Stage 6. Decoding: (Understanding/ translate)**

Decoding means giving meaningful interpretation to the message. On receiving the message, the receiver translates the symbols into meaningful information to the best of his ability.

Communication is effective if receiver understands the message in the same way as intended by the sender. The receiver must, therefore, be familiar with the codes and symbols used by the sender in his message.

### **Stage 7. Noise: (sound)**

It represents the disturbing factor in the process of communication. It interferes with effective communication and reduces clarity of the message. The message may be interpreted differently than intended by the sender. Conversing near a machine making sounds, disturbance in telephone line, physical ailment or mental distress of sender or receiver are the common causes of noise that obstruct the quality of message transmitted from sender to the receiver.

### **Stage 8. Feedback: (Response given back)**

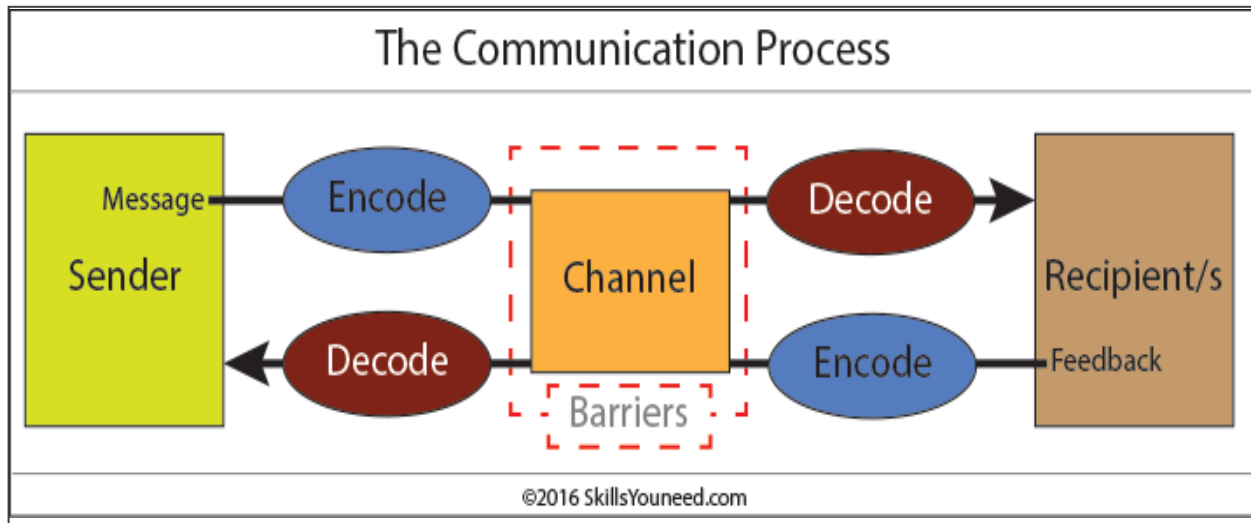
Feedback is receiver's response to the sender's message. The receiver communicates reaction to the sender through words, symbols or gestures. It is the reversal of communication process where receiver becomes the sender and sender becomes the receiver. Unless the receiver responds to the message, communication process is incomplete.

Feedback helps the sender transform his message, if needed. It also allows the receiver to clear doubts on the message, ask questions to build his confidence and enables the sender to know efficiency of the message. Feedback of information makes the communication process complete.

In face-to-face communication, sender can immediately receive the feedback.

Written communication, on the other hand, takes longer for the sender to receive feedback on the message.

Feedback plays an important role in two-way communication. In one-way communication, sender communicates with the receiver without getting any feedback but in two-way communication, the receiver provides feedback to the sender. Though one-way communication takes less time and is more orderly (it avoids noise and chaos), feedback in two-way communication makes it more accurate and precise.



## **Aims and objectives of communication**

### **1. Knowledge:**

Knowledge is very essential if without knowledge we can't do communicate so firstly collect information and increase knowledge then communicate and discuss with each other and generate knowledge

Eg: watching movie like Mission Mars, Chak De India..... etc if you don't know the story then how discuss with each other so knowledge play a vital role in communication

### **2. Information:**

Information made available to the world outside the organisation also educates the public. Advertisements, special articles, information talks etc., play an important role in this regard.

providing or passing an information, one has to receive, collectors sift information from various sources, both external and internal, and through various media, verbal or non-verbal, body language or paralanguage, sign language or audio-visual aids, books, journals, newspapers, advertisements, brochures etc.

The information is gathered which is important to individuals and groups. It helps them to make decisions by identifying, analysing and evaluating the data, and considering alternative choices.

In other words, policy decisions can be taken only when information is available.

Education, research and development depend on information. Education is an ongoing process. No organization can really grow unless the people extremely involved in it have some kind of 'continuing education'. Now a day mostly people are depending upon webinar's, seminars, online lectures and collect the information so its interrelated with each other.

### **3. TO PROVIDE COUNSELLING**

Counselor provide counselling to their employees diminish their stress and tension.

Counseling is given to solve employees mental stress and improve the employee's productivity as well as mental ability and convert into optimistic fulfillment in their effort.

Counseling is very similar to giving advice. Only, counsel is objective and impersonal. The counselor is a man of greater skill or knowledge on some specific subject and he offers his counsel without any personal interest or involvement.

Advice has a personal touch about it; counsel is almost professional. Advice is often unsought and is unwelcome; counsel is eagerly sought.

A number of large business houses now have their counselling departments, which offer the employees advice on domestic or personal problems. Even an efficient employee may become tardy and indifferent if he is facing some personal problems at home. This may adversely affect the working of the organization. It may also affect other employees and lower their morale. Such employees are encouraged to consult the counselling department, which has on its staff a panel of doctors, psychologists and social workers. These experts hold a series of sittings with the employees and thrash out their problems. The employees are restored to their mental and physical health and the conditions in the organization are brought back to the normal.

### **4. Request:-**

If every request is one type of communication. Requests also play a vital role in communication its make more effective to communication. The employers request to their employees then employees definitely achieve their goals and task because of requests of this one type of request communication

### **5. Warning:**

If the employees do not abide by the norms of the organization or violate the rules and regulations, it may become necessary to warn them. Warning is a power communication tool and it can be general and specific. Specific warning should be administered in private and after thorough investigation. The aim of the warnings should be the organization's betterment.

Like... Tardiness, negligence, tempering with the records, mishandling equipment, lack of regularity and punctuality, gossiping, pilfering office stationery and material, spreading rumors, misleading new employees are some of the actions that call for a reprimand or a warning.

Warning is a forceful means of communication, for it demands immediate action. But in order to retain its effectiveness, it should be used thriftily and discreetly. While issuing warnings, the following points should be kept in mind:

20 Some warnings are overall. 'No smoking', 'No talking', 'Beware of the dog' are general warnings. They are not aimed at any particular person, nor are they likely to hurt anybody's feelings. Such warnings are usually given in the form of notices.

## **6. PROVIDE ADVICE**

Giving advice is based on individual-oriented and work-oriented, advice should not give to the person for pinpointing his mistakes rather it should be helpful for his improvement. Effective advice promotes understanding and it can be a two-way process if the subordinate staff given freedom.

### **Giving**

advice is another important objective of communication. Information is always factual and objective. But advice, since it involves personal opinions, is likely to be subjective.

Information is neutral in itself. When it is offered to a person, he may use it as he likes.

But advice is given to him either to influence his opinion or his behaviour. It may prove helpful, but it may also lead to disaster. Commercial activities in the modern world have become extremely complex. Each individual activity needs specialized handling, which cannot be expected from people working single-handed. However competent a businessman may be, he cannot have specialized knowledge of all branches like finance, taxation, publicity, engineering, public relations, etc. If he wants to run his business successfully, he will have to seek expert advice quite frequently. Within the organization, the supervisory staff is required to advise the junior employees. Supervisors being in close contact with their superiors (usually the board of directors) are well familiar with the policies and functioning of the organizations. They are, therefore, in an excellent position to guide, counsel or advise their subordinate staff. Advice, by its very nature, flows horizontally or downwards.

Expert advice from outside flows horizontally. The board of directors advising one another on some policy matter are also engaged in a kind of horizontal communication. But advice soon starts flowing down to the management personnel, the supervisory staff and the subordinate staff for the operatives. While offering advice, the advisers should keep the following points in mind:

1. Advice should be both man-oriented and work-oriented, i.e., it should be related to a specific piece of work, and should be given in such a way that it suits the individual needs of the recipient. It means that while explaining the complexities of a job, the adviser ought to keep in mind the understanding power of the person he is advising.

2. Advice should not be given to a person to make him feel conscious of his inferior knowledge or skill. If the adviser assumes a patronizing tone, the other person is bound to resent it. So the adviser ought to be very friendly in his attitude.
3. The only justified motive of giving advice is the betterment of the worker. The advisers should genuinely feel this motive. And he should give this very feeling to the worker. He should so mould his tone and phrase his language that he makes the other person feel absolutely at ease.
4. If the subordinate staffs are given freedom to react, advice can become a two-way channel of communication. It may perhaps bring about some excellent suggestions for the improvement of the organization's functioning.

### **7. Raising Morale:-**

Morale stands for mental health and it is a sum of several qualities like courage, resolution, confidence. High morale and effective performance go hand to hand.

Morale is the sum of several qualities like courage, fortitude, resolution and confidence.

High morale and efficient performance go hand in hand. It

acts as a kind of lubricant among people, binds them with a sense of togetherness and impels them to work in cooperation with one another in the best interest of their organization. Factors conducive to the creation of a high morale

- Every worker gets work suited to his physical and intellectual caliber. He feels his work is important and it is appreciated by the authorities. He is free to do his work as he likes. He is encouraged to give suggestions.
- The atmosphere in the premises is congenial. The superiors are efficient and their attitude is constructive. They enjoy the workers' respect.
- Promotional avenues are available to the workers.
- Genuine grievances of the workers are promptly removed.

### **8. PERSUASION (influence)**

Persuasion may be defined as an effort 'to influence the attitudes, feelings, or beliefs of others, or to influence actions based on those attitudes, feelings, or beliefs. Persuasion can be done to others if you are convinced, you do not impose, you are not rigid, you are prepared to meet half-way and you can look at the situation from the other person's angle also.

### **9. Appeal:**

Without communication how employees can appeal to their high authority, so communication is important.



## **10 Reports:**

Make reports so communication is essential. If

higher authority wants the description of work so subordinate prepares report or communicates by this method.

## **7. Motivation:**

Motivation is a process

that accounts for an individual's intensity, direction, and persistence of effort towards attaining a goal

*In the words of Robbins, "communication fosters motivation by clarifying to employees what is to be done, how well they are doing, and what can be done to improve performance if it's subpar. The formation of specific goals, feedback on progress toward the goals, and reinforcement of desired behaviour all stimulate motivation and require communication."*

People in any business organization have to be motivated to pursue goals and achieve higher levels of performance. High levels of morale and motivation are a must to ensure high levels of productivity and efficiency on a sustainable basis.

Communication provides the means to keep the motivation levels high. Talks, lectures, films, meetings, workshops and non-verbal messages are among the means used to motivate employees in an organisation.

## **8. Order**

Order is an authoritative communication pattern and it is directive to somebody always as a subordinate to do something. Orders will be written and oral orders, general and specific orders, procedural and operational orders, mandatory and discretionary orders. Orders should be clear and complete; execution should be possible and given in a friendly way.

Order is an authoritative communication. It is a directive to somebody, always as a subordinate, to do something, to modify or alter the course of something he is already doing, or not to do something. Whatever be the nature and size of an organization, orders are absolutely

## **9. Suggestion**

Suggestion is supposed to be a very mild and subtle form of communication. Suggestions are welcomed for it is not obligatory to accept them, it can be voluntary and anonymous and submitted through suggestion boxes.

Suggestion enjoys one great advantage over other means of communication like advice or order. Advice comes from an expert; order comes from a higher authority.

In either case, the recipient

of the communication is slightly conscious of his inferiority and may resent it. Accepting a suggestion is at his discretion, so a suggestion is usually welcome. Suggestion is supposed to be a very mild and subtle form of communication. Still, since it flows horizontally or vertically upwards, it may hurt someone's ego to recognize its utility and readily accept it. But enlightened executives should set aside the ridiculous notions of false self-

importance and welcome positive, constructive suggestions with an open mind. Some business houses make a provision

for suggestion boxes, which are placed at some convenient place in the office or the factory.

Workers are encouraged to drop their suggestions into these boxes. Sometimes these suggestions have to be written on specially prepared cards. If an employee does not want to reveal his

name, there is a provision for it. These suggestion boxes are opened at regular intervals, the suggestions received are scrutinized and the employees offering the best suggestions are awarded prizes

- Suggestions can be voluntary and anonymous; submitted through suggestion boxes.
- Employees should be encouraged to give suggestions.

**10. Complaint:** without communication how employees complain to higher authority...

**11. Instruction:** If employers give instruction how

to do work in organisations so communication is important. Without instruction business can't service... at that place communication is very important.

**The Seven C's of effective communication:-**

**The 7C's of Communication are:**

1. Completeness
2. Concreteness
3. Courtesy
4. Correctness
5. Clarity
6. Consideration
7. Conciseness

**1. Clear:** The message should be clear and easily understandable to the recipient. The purpose of the communication should be clear to sender then only the receiver will be sure about it. The messages should emphasize on a single goal at a time and shall not cover several ideas in a single sentence.



### The 7 C's

- Completeness
- Conciseness
- Consideration
- Concreteness
- Clarity
- Courtesy
- Correctness



**2. Correct:** (Error free) The message should be correct, i.e. a correct language should be used, and the sender must ensure that there are no grammatical and spelling mistakes. Also, the message

should be exact and well-timed. The correct messages have a greater impact on the receiver and at the same time, the morale of the sender increases with the accurate message.



### **3. Complete:**(Provide All Necessary Information)

The messages should be complete, i.e. it must include all the relevant information as required by the intended audience. The complete information gives answers to all the questions of the receivers and helps in better decision-making by the recipient.

Give all detail which is necessary for complete and accurate understanding.

One way to make your message complete is by asking five W questions; Where? When? What? Who? Why? and other essentials as How? These are useful for making requests, announcements, or other informative messages.

**EXAMPLE:** To reserve a hotel banquet room, specify the accommodation needed (What), location (Where), sponsoring organization (Who), date and time (when), event (why), and other necessary detail (How).

## Completeness

- The communication must be complete
- It should convey all facts required by the audience.
- The sender must take into consideration the receiver's mind set

### Features:

- No crucial information is missing
- Gives additional information
- Leaves no questions



**4. Concrete:** (Our audience will have a clear picture of what you're telling them) The communication should be concrete, which means the messages should be clear and particularly such that no room for misinterpretation is left. All the facts and figures should be clearly mentioned in a message so as to substantiate whatever the sender is saying.



**5. Concise:** (brief, avoid repetition, and delete unnecessary adjectives and "filler words,") The message should be precise and to the point. The sender should avoid the lengthy sentences and try to convey the subject matter in the least possible words. The short and brief message is more comprehensive and helps in retaining the receiver's attention.

**Example: 1. Wordy:** In due course. **Concise:** soon

**2. Wordy:** We hereby wish to let you know that our company is pleased with the confidence you have reposed in us. **:Concise:** We appreciate your confidence.

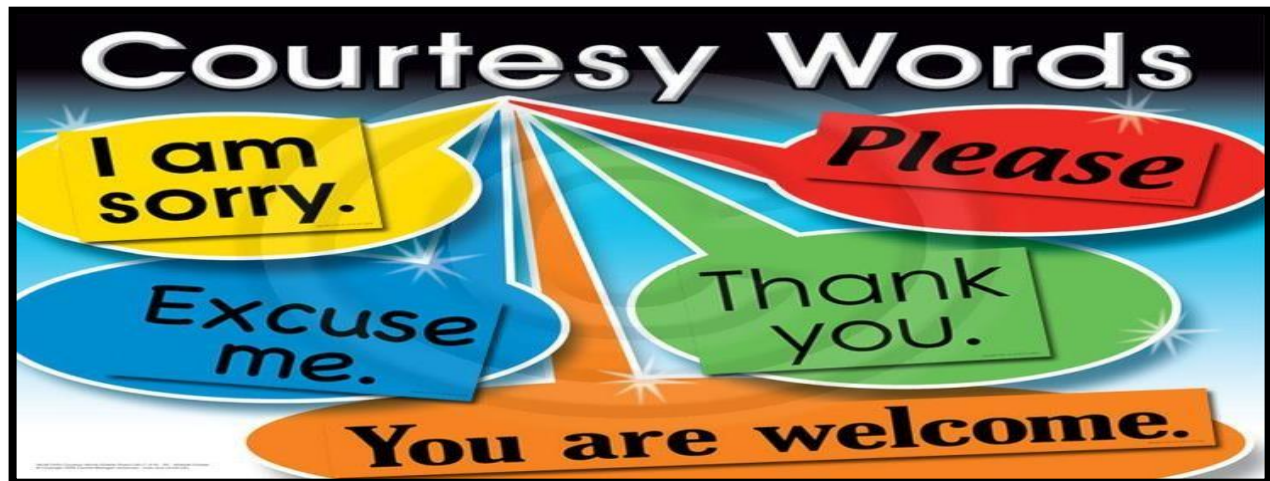


**6. Consideration:** The sender must take into consideration the receiver's opinions, knowledge, mindset, background, etc. in order to have an effective communication. In order to communicate, the sender must relate to the target recipient and be involved.



**7. Courteous:** (friendly, open, and honest tone, and avoiding hidden insults or a passive-aggressive tone.) It implies that the sender must take into consideration both the feelings and viewpoint of the other that the message is positive and focused at the audience. The message should not be biased and must include the terms that show respect for the recipient/receivers such





## Forms of Communication

**Verbal Communication:** - Verbal communication is any communication that uses words to share information with others. These words may be both spoken and written.

The **Verbal Communication** is a type of oral communication wherein the message is transmitted through the spoken words. Here the sender gives words to his feelings, thoughts, ideas and opinions and expresses them in the form of speeches, discussions, presentations, and conversations.

Verbal communication occurs when we engage in speaking with others. It can be face-to-face, over the telephone, via Skype or Zoom, etc. Some verbal engagements are informal, such as chatting with a friend over coffee or in the office kitchen, while others are more formal, such as a scheduled meeting. Regardless of the type, it is not just about the words, it is also about the caliber and complexity of those words, how we string those words together to create an overarching message, as well as the intonation (pitch, tone, cadence, etc.) used while speaking. And when occurring face-to-face, while the words are important, they cannot be separated from non-verbal communication.



**1. Oral communication:** -oral communication is expressing information or ideas through human language. Oral communication is the process of verbally transmitting information and ideas from one individual or group to another. Oral communication can be either formal or informal. Examples of informal **oral communication** include: Face-to-face conversations.

**2. Written Communication:** The Written Communication refers to the process of conveying a message through the written symbols. In other words, any message exchanged between two or more persons that make use of written words is called as written communication.

Written communication includes traditional pen and paper letters and documents, typed electronic documents, e-mails, text chats, SMS and anything else conveyed through written symbols such as language. This type of communication is indispensable for formal business communications and issuing legal instructions.

Communication forms that predominantly use written communication include handbooks, brochures, contracts, memos, press releases, formal business proposals, and the like. The effectiveness of written communication depends on the writing style, grammar, vocabulary, and clarity

**3. Communication through listening & reading:** - “The better you listen, the luckier you will get.” - Kevin Murphy

Listening has been defined as a "thoughtful attention one pays to what is heard". It explains much of what Listening should be. We hear sounds and make out a meaning out of them and curate a response, quick or delayed, but for sure we respond. If the sounds don't mean anything or we don't see them as part of the 'interaction' we ignore them, refuse to react, even though we hear the sounds. Listening is the Primary Skill that makes us sensible human. It is not wrong to say that We have turned civilised because we could give 'thoughtful attention' to what was said by the thinkers and changemakers.



**Reading :-** If Employees read instruction with awareness so they very easily achieve goal and purposes successfully in the organisation, as well as every Manager also applicable. If your focus on reading as well as understand the exact meaning of communication . so reading play a vital role in communication

For e.g. Instruction written on dangerous machinery.....

Initially, we could do the following types of reading employees perfectly identify the letter and they can read the words by connecting the letter.

1. Employees/uneducated people/Children/Beginners are able to read word-by-word from written or printed material.
2. Employees / uneducated people /Children are reading only the contents/ books/ pages/worksheets that are handed over to them by their class teachers or parents. Basically, they read the academic/curriculum books that are made for a subject and decided by organisation

Do you expect that by any of these READING processes, a reader can ever experience the JOY of READING? Of course, NOT!

Our Reading has to be fluent and we must be able to GET THE MEANING of WHAT WE READ! This is possible with practice and practice can happen only when we do it. Reading is a Literacy Skill and it is indeed a wonderful possession for those who can decode a script.

#### **4. Advantages of Verbal Communication**

Following are the advantages of Verbal Communication:

- ➡ It saves time in communication.
- ➡ It is quick in obtaining feedback once delivered.
- ➡ It provides complete understanding of communication delivered and there is a chance to make it more clearly in case of doubts in interpretation of words or ideas.
- ➡ It is a more reliable method of communication.
- ➡ It is less expensive to interact with people.
- ➡ It is flexible and effective for all.
- ➡ It is a powerful means of persuasion and control.
- ➡ It is a cheaper way of communication and hence saves money.

#### **Disadvantages/Limitations of Verbal Communication**

Following are the disadvantages of Verbal Communication:

- ➡ Emotions are visible and hence lead to trouble in certain cases.

- ➡ It has no legal validity and hence will lead to problems in certain situations.
- ➡ It does not provide permanent record unless it is recorded with modern means of storage.
- ➡ It has issues when communicating with distant people.
- ➡ It is difficult for certain people to understand speech due to various speech tones used in verbal communication.
- ➡ This form of communication is not suitable for lengthy message. It can be quickly forgotten.
- ➡ There is chance of leak of secret information with the help of modern devices such as polygraph or lie detector. Often secret information can be obtained while the person is under the influence of alcohol.

**Non Verbal communication:** - The **Non-Verbal Communication** is the process of conveying meaning without the use of words either written or spoken. In other words, any communication made between two or more persons through the use of facial expressions, hand movements, body language, postures, and gestures is called as non-verbal communication.

- **Non-verbal Communication:** The communication between parties in which words are not used as a means for interchanging message, i.e. except words, other means are used like sounds, symbols, actions and expressions. Communication takes place non-verbally through:

Key components of thoughtful non-verbal communication include:

- Eye Contact: look the person in the eye during the conversation
- Physical distance: maintain a comfortable distance between you and the other person
- Posture: lean slightly forward in a relaxed and open posture
- Gestures: avoid fidgeting and distracting motions
- Volume: loud enough to be heard
- Facial expression: relaxed, showing positive regard to the other



- Tone: even, natural. Avoid sarcasm, whining.



## **Importance of Non Verbal Communication**

1. **Well Expression of the Speaker's Attitude:** - Various non-verbal cues of the speaker like physical movements, facial expression, a way of expression, etc. play an important role in expressing the inner meaning of the messages in face-to-face conversation and interview.

For example, the facial expression of the speaker indicates his attitude, determination, depth of knowledge, etc.

2. **Providing Information Regarding the Sender of the Written Message:** - The format, neatness, language and the appearance of the envelope used in a written message send an non-verbal message regarding the writer's tastes, choice, level of education, etc.

3. **Expressing the Attitude of the Listener and Receiver:** - Sometimes the appearance of the listeners and receivers conveys their attitudes, feelings, and thoughts regarding the messages they have read or heard.

4. **Gaining Knowledge about a Class of People** - Clothing, hairstyle, neatness, jewelry, cosmetics, and stature of people convey impressions regarding their occupation, age, nationality, social or economic level, job status, etc.

For example; students, policemen, nurses, etc. can easily be identified through their dresses.

5. **Gaining Knowledge about the Status of a Person:** - Non-verbal cues also help to determine the relative status of persons working in an organization. For example, room size, location, furnishings, decorations, lightings, etc. indicate the position of a person in the organization.

**6. Communicating Common Message to All People: -** In some cases, non-verbal cues can effectively express many true messages more accurately than those of any other method of communication.

For example; the use of red, yellow and green lights and the use of various signs in controlling vehicles on the roads.

**7. Communicating with the Handicapped People:-** Non-verbal cues of communication greatly help in communicating with the handicapped people.

For example; the language of communication with the deaf depends on the movements of the hands, fingers, and eyeballs.

**8. Conveying Message to the Illiterate People:-** Communication with illiterate people through written media is impossible. There may also be some situations that do not allow the use of oral media to communicate with them.

In such situations, non-verbal methods like pictures, colors, graphs, signs, and symbols are used as the media of communication.

For example; to indicate danger we use red sign and to mean dangerous we use a skull placed between two pieces of bone put in a crosswise fashion.

**9. Quick Expression of Message:-** Non-verbal cues like sign and symbol can also communicate some messages very quickly than written or oral media.

For example; when drivers of a running vehicle are to be communicated that the road ahead is narrow or there is a turn in the road ahead, we generally use signs or symbols rather than using any written or oral message.

**10. Presenting Information Precisely:-** Sometimes quantitative information on any issue may require a lengthy written message. But this quantitative information can be presented easily and precisely through tables, graphs, charts, etc.

## **Types of Non Verbal Communication**

1. Body Language
2. Para Language
3. Time & Space
4. Sign Language

The following details are as follows:-

## **1. Bodylanguage,**

E.g. Gestures, postures, body movements, etc.

## **2. Paralanguage, the ways in which people show what they mean other than by the words they use,**

**for example by their tone of voice, or by making sounds with the breath** Pitch variation, speaking speed, word stress, etc.

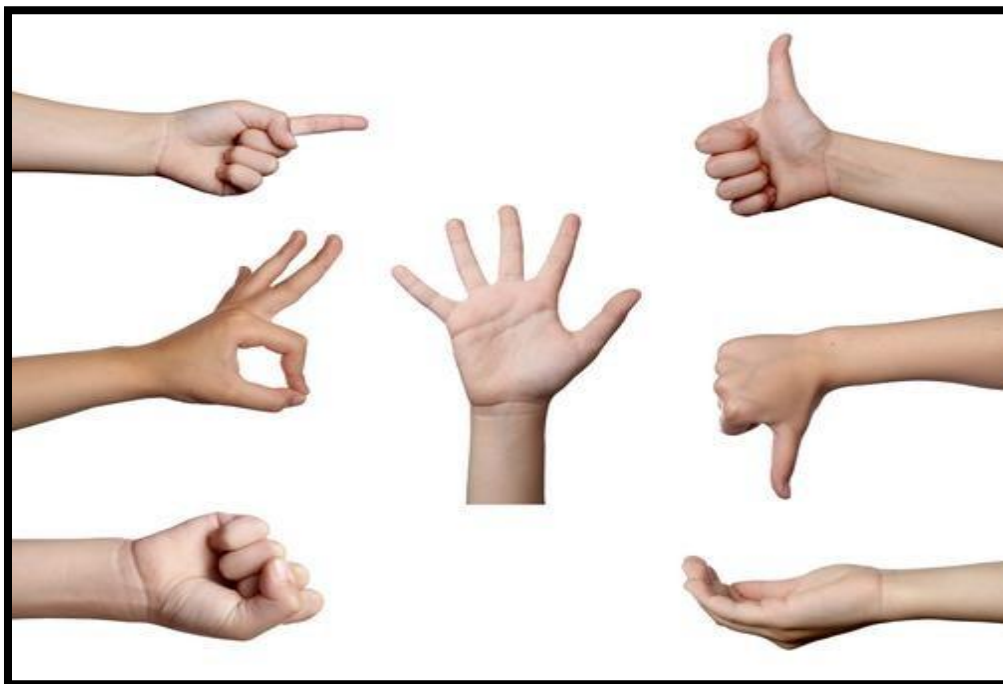
## **3. Time language and Space language, E.g. time used to communicate our message.**

E.g. Space maintained between the parties to communication, during the conversation.

Communication is the spine of the organization that without it no organisation can survive and operate effectively, towards attaining its goals. It is the primary means, by which organisational members work together. Further, it ties all the members of an organisation in a single thread and lets them respond to and influence each other.

## **4. Sign language**

E.g. Hand movement, facial expressions, etc.



Advantages & Limitations of Non Verbal Communication

### Advantages of Non Verbal Communication

1. **Complementary:** Non-verbal cues complement a verbal message by adding to its meaning. You can pat someone you offended at the back as you say sorry to him or her.
2. **Easy presentation:** Information can be easily presented in non-verbal communication through using visual, audio-visual and silent means of non-verbal communication.
3. **Substituting:** Non-verbal messages may substitute for the verbal messages especially if it is blocked by noise, interruption, long distance etc. For example; gestures-fingertolipsto indicate need for quite, facial expressions-anod instead of ayes.
4. **Accenting:** Often used to accent a verbal message. Verbal tone indicates the actual meaning of the specific words.
5. **Repeat:** Used to repeat the verbal message (e.g. point in a direction while stating directions.)
6. **Help to illiterate people:** This type of communication uses gestures, facial expressions, eye contact, proximity, touching etc. and without using any spoken or written word. So, it is very much helpful for illiterate people.
7. **Help to handicapped people:** Non-verbal cues of communication greatly help in handicapped people especially to deaf people. Deaf people exchange messages through the movements of hands, fingers, eye balls etc.
8. **Attractive presentation:** Non-verbal communication is based on visual, picture, graph, sign etc. that can be seen very much attractive.
9. **Less wastage of time-** The message from the non-verbal interaction is received by the recipient very fast. For this reason, it decreases the waste of time of the speaker.
10. **Quick expression of message:** Non-verbal cues of communication like sign and symbol can also communicate some messages very quickly than written or oral messages.

### Disadvantages of Non Verbal Communication:-

1. **Along conversation is not possible**—In non-verbal conversation, lengthy discussion, and necessary details are not possible. No one can talk about the particular problems of the information.
2. **Hard to understand**— Since in this type of communication speaker only uses gesture, facial expression, eye contact, touch etc. for communication and it might become difficult for some people to understand.



3. **Costly**— In some cases, this type of communication become costly because sometimes speaker use tools like a neon sign, powerpoint presentation, cinema etc. Which are much expensive as equivalent to another form of communication.

4. **Note everybody prefers:** Everybody does not prefer to communicate through non-verbal communication with others. Sometimes it cannot create an impression upon people or listeners. It is less influential and cannot be used everywhere. It cannot be used as a public tool for communication.

5. **Distortion of information:** Since it uses gestures, facial expressions, eye contact, touch, sign, sound, paralanguage etc. for communicating with others, there is a great possibility of distortion of information in non-verbal communication.

## Conclusion

To improve your nonverbal skills, record your speaking on videotape. Then ask a colleague in communications to suggest refinements.

Non-verbal communication can take many forms depending on the situation, the ability of communicators, etc.

## What is better: Verbal vs. Non-Verbal Communication?

The communication is the combination of verbal and non-verbal communication. Both the types have advantages and disadvantages. But an effective communication depends upon the circumstances and understanding level of parties involved in the communication.

## Conclusion

Communication is how you transfer ideas to other people. Because communication does not always work as you intend, you must ensure that your message is delivered so you get your point across without any misunderstanding. It's important to understand your audience and your purpose. You should conduct research and support your ideas. Decide on an organization for your information and outline your ideas. Follow the Six Steps to Effective Communication and people will pay attention to your ideas, be impressed by your ability to express yourself, and clearly understand your message. Part of being a good communicator is learning to listen more effectively. The following lesson deals with the topic of becoming a good listener.

## **Module 2**

## **letterwritingtechniques. Understandingthebasicsofletterwriting.**

### **(A) PHYSICAL APPEARANCE**

#### **I PAPER**

A poor dress creates a poor impression. Good appearance counts everywhere. Take an example of a salesman. If he visits his customers in a shabby way, he may give the impression that the company itself- which he is representing is a poor concern, or that the company is rather old- fashioned and far from being up-to-date. On the other hand, the salesman or the sales - girl who approaches the customers in smart dress creates a favourable impression about the company. The good dress of a salesman and elegant furniture in the offices of a firm are the essentials with which a modern businessman attracts people's attention.

**(1) Quality:** In commercial correspondence, the stationery, first of all, creates an impression. Good paper and neat typing please the eye of the reader. Poor quality of paper and careless typing can only bring a bad name to the firm. Good texture of the paper suggests that the company is well established and enjoys a high reputation.

**(2) Colour:** Pure white paper is the best, and generally used in business correspondence. Sometimes coloured paper is used on special occasions. But traditional way is to use white paper only. Actually, for better reading, a background of white paper becomes very convenient. However, light pastel shades are now being used by some organisations.

**(3) Size:** The size of the paper may vary in accordance with the size of the message. Generally, 8 ½ by 11 inches is regarded as to serve the purpose. the standard size. For short messages, 5½" by 8½" sized paper can serve the purpose.

**(4) Continuation Sheet:** A second sheet of paper will be required if the message is long and cannot fit in the first paper itself, such a sheet is known as a continuation sheet. This second paper should be of the same quality, colour and size. It should be numbered properly. In case a continuation sheet is being used, then the first page should also be numbered. Computers now-a-days automatically number the pages.

## **II. TYPING ON COMPUTER**

**Neat typing is also equally important here, as it adds to the beauty of the letter.** Now-a- days people prefer typed letters to the hand written ones. The typewriter is a good investment for all firms. It is a great time-saver. It produces copies of the letter and it helps the businessman to keep a record of the correspondence. That is why modern businessmen employ efficient typists and provide them with good typewriters with up-to-date ribbons. The letters should be

typed with equal spacing without erasures and spelling mistakes- so that they may look decent and impress the reader.

**Advantages of typing on Computer:Computerised letter:** In the age of globalisation, computer works as a magic and is a blessing to the business world. A computerised letter has its own benefits. It looks attractive and impressive. A letter typed on the manual type-writer will have to be re-typed if there is a spelling mistake or overlapping; but in a computer, such an error can be corrected immediately and easily. It can be stored in memory and can be used any time in future. It can be sent to different parties in a few minutes through e-mail, fax, in any corner of the world. It enhances the image and impression of the company.

### ■III. MARGINS

The margins of a business letter look like the frame of a picture. They add to the beauty of the letter. Generally, the margins should not be less than two and a half inches from the top, one inch on either side, and an inch and a half at the bottom. The margins facilitate the filing of the correspondence without any loss of the subject-matter. They also give the typed matter the appearance of a photo-frame

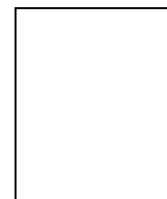
### ■IV. FOLDING

Folding of the business letter requires care. It should be folded in such a way that the envelope may not look bulky. In case of a window-envelope, the letter should be folded in such a way that the Inside Address faces the tissue paper of the envelope. Generally, two- or three-folds vertical as well as horizontal are enough. Too many folds will spoil the impression of neat typing and margins, too.

### V. ENVELOPE

The envelope should be of the same colour and quality of the letter paper. Its size may vary in accordance with the size of the letter. Generally, an envelope measures "5½" by 3½", but a larger one should be used when the letter contains more than one sheet. The envelope, also, should be of good quality and attractive, so that it can catch the attention of its recipient. The envelope-address should be the same as the inside address. The address should be typed at the centre of the envelope. Postal instruction-such as 'Air Mail' or 'Registered A. D.- should be typed in capital letters just below the space for postage. The sender's address is usually typed at the upper left-hand corner. If we want to attract the attention of a particular person, the 'attention line should be typed below the address, in the lower left-hand corner of the envelope. See the example.

Gujarat Garments Co.,  
Ellisbridge, Ahmedabad-380 006



Regd. A. D.

**Rajkamal Readymade Dresses,**  
Santram Tower Road,  
NADIAD 1,  
Dist. Kaira,  
Gujarat.

**For the Attention of Mr. Amul Desai.**

## ■VI SUPERSSCRIPTION

This means all that is written on the envelope. Generally, the recipient's name and complete address occupy the central place. The sender's name and address appear on the left hand bottom corner of the envelope. Postal instructions like 'Air-mail', 'Book-Post' or 'Registered A.D.' are written in capital letters on top of the envelope.

### **POINTS TO PONDER:**

An effective business letters should be attractive and impressive in appearance.

1. The letter paper used should be of high quality, firm texture and proper size. It should be white and water-marked.
2. The letter-head should be attractively and systematically printed, lithographed or embossed. As it reflects the prestige and prosperity of the firm, it should be elegant and impressive.
3. A typed business letter creates a favourable impression on the mind of the reader. It should have the effect or get-up of a photo-frame. It can be achieved by leaving proper margins on all sides. Correct, neat and careful typing looks decent and impresses the reader. Now a days computerised typing is preferred.
4. Folding of the business letter requires care. It should be systematic and carefully done so that the envelope does not look bulky.
5. The envelope should correspond with the colour, quality and size of the letter paper used. It should be of high quality and attractive, so that it catches the attention of the recipient.
6. The address on the envelope should be carefully and attractively typed in the centre of the envelope. Postal instructions should be typed in capital letters on the top of the envelope.

### **Characteristics**

#### **1. Simplicity:**

**A business letter should be simple. It should be written in a lucid (easy) language so that it is clear to the receiver. The language can be similar to that of social letters as long as formality is maintained. The letter should make an instant appeal to the reader.**

#### **2. Conversational style:**

**An effective letter is one that gives an impression of face to face communication. Letters are the written media by which sender of the message speaks to the receiver.**

**Hence a letter should be written in a conversational style. Conversational style is interactive in nature and is more or less informal.**

**3. Clarity of goal:**

**The writer should be clear about what he wishes to convey. He should keep all the facts and figures of the information handy. The letter should be written in such a way that it reflects the goal clearly and easily. There must not be any ambiguity.**

**4. Public relation:**

**Business letters reflect the image of the organisation. All business letters should therefore be drafted keeping in mind the objective of enhancing the organisations goodwill, image and public relations.**

**5. The 'You' attitude:**

**The business letters should be written keeping in mind the reader's point of view. It should be able to convey the sender's interest in the reader. For this the 'You' attitude should be adopted. The T's and 'We's' should be avoided and more of 'You's' should be included. This will show the sender's interest in the reader.**

**6. Courteous:**

**The business letter should be courteous. Courtesy implies that the letter seeks favour politely and expresses gratitude profusely for the favours done. Thus the language of the letter should be polite and appealing.**

**7. Persuading:**

**The basic idea behind every business correspondence is to persuade the reader be it a sales letter, letter of enquiry or letter of complaint. Thus to persuade the reader in an effective way the piece of correspondence should be well written. So as to persuade the reader in ones favour.**

**8. Sincere:**

**The business letters should be sincere. This means that the letter should be written in such a way that the readers believe what the letter says. It should not hide reality. It should also be free from hypocrisy making tall claims. The matter should be stated erectly and genuinely.**

**9. Positive language:**

**The words of the letter should be chosen with care. As far as possible the language of the piece of letter should be positive. The use of negative words should be avoided as it gives an impression of negative outlook and approach.**

**10. Due emphasis:**

Proper emphasis should be put on the content of the piece of correspondence. This requires logical thinking on the part of the writer. The writer should himself be clear in his mind what he wants to convey.

Only then he can emphasis properly. Proper emphasis is to be given according to the message Conveyed. Proper punctuation aids to this. It should also be noted that short sentences are better than long sentences.

**11. Coherence:**

The information present in the letter should be arranged in a logical way. This is done by using carefully the linking devices, pronouns, and reputing the key words. Unless arranged in a logical way the information will lose its meaning and thus the objectivity of the correspondence will be lost.

**12. Care for culture:**

All business correspondence seeks to be written keeping in mind the reader's point of view. As such no words should be used which offends the cultural background of the reader? The best way is to avoid use of culturally derived words, slangs, colloquialisms etc. Harmless and in offensive words should be used.

**13. Ethical standard:**

A business letter reflects the image of an organisation. Therefore all business correspondence should maintain certain ethical standard. Although business correspondence should be persuasive and tactful, without ethics they will be fruitless. It may pay in short run but it will not reap harvest in long run.

**14. Brief but complete:**

Brevity is the soul of correspondence. In short the receiver must know what the sender wants to transmit. But briefness does not mean incomplete. An incomplete letter does not fulfill its objectives. All necessary matter should be incorporated in the letter. Thus the quality of brevity and completeness should be there in business letter.

## **(B) STRUCTURE AND ESSENTIAL PARTS OF BUSINESS LETTERS :**

There is a conventional lay-out for the business letter which most business correspondents adhere to. The Americans, however, have developed a variety in the style of the lay-out of a business letter. In any case, the basic parts of the structure remain the same. They are:

1. Heading	9. Body of the Letter
2. The Date	10. Complimentary Close
3. Reference Number	11. Signature
4. Confidential or Personal Note	12. Post Script
5. Inside Address	13. Enclosures

6. Attention Line	14. Identification Initials
7. Salutation	15. Carbon copy note.
8. Subject Line	16. Postal Instructions (on envelope)

These parts can be divided into two groups: (A) Regular or Main Parts and (B) Occasional Parts.

**(A) Regular Parts:**

(1) Heading, (2) The Date, (3) Inside Address, (4) Salutation, (5) Body of the Letter, (6) Complimentary Close, (7) Signature,

**(B) Occasional Parts:**

(1) Reference Number, (2) Confidential or Personal Note, (3) Attention, Line, (4) Subject Line (5) Postscripts, (6) Enclosure/s, (7) Identification Initials, (8) Carbon Copy Notations, (9) Postal Instructions.

Now, let us understand each of these parts one by one.

**b. Structure/Layout (Regular/Occasional Parts) of a Business Letter**

1. Parts (Regular and Occasional): 1. Letterhead/Heading, 2. Date, 3. Reference Number 4. Confidential or Personal Note 5. Inside Address 6. Attention Line 7. Salutation 8. Subject 9. Body of the letter 10. Complimentary Close, 11. Signature 12. Postscript. 13. Enclosure 14. Identification Initials 15. Carbon Copy Notation. 16. Postal Instructions (on envelope)

**This is the formal layout of a Business Letter.**

By Regd. A.D./Under Postal Service → (16) Postal Instructions

**(1) (Letterhead)**

: CABEL	Follow Me Fashions House	: PHONE:
FOLLOWME	Readymade Garments Show-	26567850
: Email:	Room Near Telephone	: FAX:
followme@IndCom.Net	Exchange Tower C. G. Road	(079) 26567851
	AHMEDABAD-380 009	

Reference No.

Ref. No.→ (3) URGENT/~~PERSONAL~~ (4) (2) (Date)

May 5, 2011

Personal Instructions





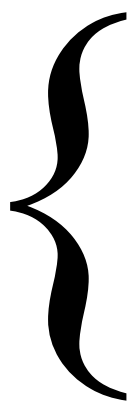
**(5) (inside Address)**

The Apollo Apparels Ltd.,  
Egmore Road,  
CHENNAI 600 007

Attention: Mr. R. K. Swamy, Accountant **(6)** Attention line  
Dear Sirs, **(7)** (Salutation)

Sub: Credit Note of Rs. 50,000/ **(8)** Subject line

**(9)** (Bo Body)




Yours faithfully, **(10)**(Complimentary Close)

S. K. Trivedi **(11)** (Signature) (Partner)

(Postsript) **(12)**

Encl: **(13)** (Enclosure)

-C. C. To) **(15)** Carbon Copy Notation

SKT/KSS **(14)** Identification Mark



P.S. (1) .....
..... SKT
(2).....
..... SKT

## 1. The letterhead

The letterhead is like the face of a person. Just as a crown adorns head adorns the letter. It is printed on the top of the letter-sheet. It should contain name, nature of business and complete address of the firm. Big firms also mention the names branches at the left-hand corner below the main letter-head. Telephone numbers, Telex code numbers, Pager/Mobile number, E-mail as well as telegraphic address/cable/gram are also mentioned which add to the convenience of the customers. When a printed letterhead is not used it is typed just above the date, at the right-hand corner. Modern businessmen, who are aware of the importance of good appearance, get their letterheads designed by a commercial artist. However, an excessively adorned letterhead looks gaudy. Now-a-days a simple letterhead with an artistic touch of a few sober colours, appeals to more modern customers. Letterheads are printed in various fashions. dresses of their

:GRAM  
BODYLINE

# Bodyline

Phone :  
26408879/80

THE COMPLETE FAMILY FASHION SHOP  
PariseemaAnnexe  
C. G Road  
AHMEDABAD 380 006

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# KIDS' CARNIVAL

## Stylized Kinds Apparels

G-4, Pariseema Complex, C. G Road, Ahmedabad-380 006 Phone: 24073825

PATEL

AMBALAL  
SOMNATH  
SARKAR

JEWELLERS Gold, Silver & Jadtar's Artistic Ornaments

## **2. THE DATE:**

Generally, a dotted line for the date is printed as a part of the letterhead at its bottom on the right hand side. The date in a business letter, is written two or three spaces below the letter-head. It is always on the right hand corner. It should mention the date, name of the month, and the year. The date is written in two styles 1. The British Method and 2. The American Method. For example, 4th July, 2011 is the British method. According to the American method, it would be July 4, 2011. Some people do not use the comma and the full stop, but these things are important because they help to avoid any confusion. The date should never be written like 7-2-'12 or 7-2-12 because the two prevailing fashions may confuse its meaning, and it would also suggest that the letter-writer is in a great hurry. In modern commercial correspondence complete spelling of the month is preferred. The year should also be mentioned in full, e.g. 2012 instead of '12. The date must be mentioned in all business letters, because it has documentary importance.

In the examples given above of the two methods of writing the date, cardinal number is used in the American method and ordinal number is used in the British style. The date can also be written with open or closed punctuations. A full stop is necessary in the closed punctuation style. In open punctuation style, punctuation marks are not used. For example:

(1) British style with closed Punctuations: 3rd January, 2012: 3rd January 2012

(ii) British style with open Punctuations

(iii) American style with closed Punctuations January 3, 2012

(iv) American style with open Punctuations: January 3 2012

## **3. REFERENCE NUMBER:**

Reference Number gives an idea to the dispatch clerk while making a note in the inward/ outward register. It is a definite number given to a letter, which becomes very helpful in remembering the matter of the letter we have received, the Reference number serves as reminder to the earlier correspondence. It is generally written two spaces below the letterhead, generally on the left side of the letter.

It generally consists of a communication of alphabetical series and number series. It includes alphabetical letters representing the firm or company, letter number and the short form of the year of the letter written. For example, 1) Ref.: A-106/2007/005 2) Ref. No.: TP-7001/205.

#### **4. THE PERSONAL AND OTHER INSTRUCTIONS:**

These Notations can be written on the right/left or in the center between the inside Address and the Salutation. They can be written between the Date and the Inside Address. Generally letters are addressed to business firms. But some are written with a view to drawing the personal attention of the person or they are of confidential nature or they are of immediate nature. As such the Notations: Personal, Confidential, Urgent, Immediate etc. are mentioned.

The Collection letters are written in a series. As such to draw the attention of the recipient to the delay, reminders are written serially. These reminders are also mentioned as Reminder 2/3/4 etc.

#### **5. THE INSIDE ADDRESS:**

The Inside Address means the name and complete address of the person (or firm) to whom the letter is to be sent. It is typed at the left-hand margin, several spaces below the date. This full address helps very much when we use a window envelope. Window envelopes are used for circular letters or notices. Window envelopes are not used for confidential letters. It saves the time of the typist.

As in the case of Inside Address, two styles are popular: The English or British style is called Indented Form, the American style is called Block Form. The Block Form is very convenient to the typist. The following are their examples:

##### **Indented Form (British Style)    Block Form (American Style)**

Dr. C. N. Patel  
Shri CharakKunj, Shri CharakKunj  
Manav Society, Manav Society  
Mehsana (N. G)

Mehsana (N. G) **(With Punctuations) (Without Punctuations)**

Both the styles can be written with open punctuations or closed punctuations. The Block form style is convenient to the typist.

Courtesy titles such as Mr., Mrs, Miss or Ms. M/s, Dr. Prof. etc. are used before the name of the recipient.

The following table shows the wrong and right usage of 'Esq.' and 'Messrs'. Study them carefully:

<b>Wrong</b>	<b>Right</b>
<ul style="list-style-type: none"><li>• Mr. R. N. Mehta, Esq.</li><li>• C. R. Patel, M.A., Esq.</li><li>• Messrs New Order Book Co.</li><li>• The B. S. Shah &amp; Co.</li></ul>	<ul style="list-style-type: none"><li>• R. N. Mehta, Esq.</li><li>• C. R. Patel, Esq. M.A.</li><li>• The New Order Book Co.</li><li>• Messrs. B. S. Shah &amp; Co.</li></ul>

- MessrsRaiBahadur: Sons.
- Messrs Sir Jamshedji Tata and Co., Ltd.

- MessrsRaiBahadur: Sons.
- RaiBahadur: Sons.
- Sir Jamshedji Tata and Co., Ltd.

## **6. THE ATTENTION LINE:**

The Attention Line is written on the right-hand side below the date and opposite to the Inside Address. It is also written between the Inside Address and the Salutation.

Sometimes business letters require the immediate attention of a particular person or department so as to receive immediate reply or action. In such circumstances, the attention line is used. It draws the attention of the person or the department from whom immediate action is required. It mentions the name of the person/department and designation.

**e.g.,** (A) M/s Shah: Company,  
Palace Road,  
VADODARA-350 003

**Attention: Mr. G. A. Shah**  
**(Chief Partner)**  
**OR**

(B) The Gujarat Trading Co.,  
Relief Road,  
AHMEDABAD-380 002  
**Attention: Accounts Department**

## **7. THE SALUTATION:**

The Salutation is a compliment or greeting used to begin the letter, just as 'Good Morning' is used to begin a conversation. It is written two or three spaces below the Inside Address. The reader of the letter may not take note of it but such a greeting is very important in business correspondence. The following table shows how salutations should vary according to the personal relation between the writer of the letter and the reader. Study them carefully:

Salutation	To be used for
1. Sir,	A very important person. Also, the head of a Government Department.
2. Dear Sir,	
3. Dear Sirs,	Very formal relationship. It is the most popular salutation largely used in almost

4. Dear Mr....	all business letters.
Dear Miss....,	It is used for a big firm or company, especially if the name starts with Messrs.
Dear Mrs....	It should be used when the writer is well acquainted with the person addressed. Business psychology also advises to be friendly with customers.
Dear Dr....	Friendly approach appeals to modern customers. It can be very useful in Letters of Adjustment,
Dear Prof....	Offers and Sales.
5. Dear Madam,	It is used for a lady.
6. Mesdames,	It is used for a firm of ladies.
7. Gentleman,	Very popular salutation in America; generally used for Board of Directors, Committees, Public Bodies, Big Firms and Companies.
Dear Shareholders,	It is used in circular letters.
8. Dear Member,	
Dear Subscriber,	
Dear Shareholders,	
Dear Student,	
Dear Doctor,	

The Salutation should be in tune with the Inside Address. For example, when a letter is addressed to Mr. A. B. Bhagwat, the Salutation should be Dear Sir or Dear Mr. Bhagwat. If the letter is addressed to Patel & Patil Company, the Salutation should be Dear Sirs or Gentlemen. In England, comma is used after the Salutation - for example, Dear Sir, but in America, colon is used for example, Dear Mr. Pandya: At present, most people in India use a comma for the purpose. The American style may be adopted for modernism, but not in examinations.

## **8. THE SUBJECT LINE:**

The Subject is written two spaces below the Salutation and in the centre of the letter-paper. It is the practice with some business organisations to mention the subject of

the letter very briefly so that the reader can at once know what the letter is about. It also helps the sender in making references in future (from carbon copies).

The subject can be mentioned by writing sub. or Re. before it.

e.g

**(a) Sub.: Our bill No. 325 dated 15th March, 2012 for Rs. 2,000/-**

**(b) Sub. : Our Order No. 123 for Wiltec Blades**

Some business firms make the references of the correspondence that has already taken place, e.g., Dear Sirs,

**Ref.: Our letter dated 5th July.**

**Your letter dated 10th July.**

### **9. THE BODY OF THE LETTER:**

This is the most important part of a business letter, because it contains the message or information for which the is being written. Some letters may end in none paragraph, but generally speaking. letter is most business letters are drafted in atleast three parts: (1) The Opener. (2) The Main Body and (3) The Closer. The Body is also called the heart of the letter to show its importance.

The Opener or the opening paragraph states the reference (and context) of the date andsubject of previous correspondence and suggests the response of the writer. The first paragraphexpresses the writer's mood or feeling of pleasure, regret, surprise, gratitude etc. A short openingsentence should be preferred to a longer one. The letter should be drafted in such a way that it holdsthereader's interest throughout. The opening paragraph should appeal to the desire and needs of thecustomer.

The letter should never begin with stereotyped openings like: (1) We beg to state....(2) Replying to your favour of the 6th instant..(3) With reference to your letter, we beg to inform youthat... Such business jargon has no place in the modern business world. (4) Do not begin the letterwith ing or ed. verb forms. Write as you talk. Use friendly, courteous and conversational tone in yoursentences. For example, the following sentences are good openings. Study them carefully,

(1) We thank you very much for your order for 500 Ladies' handbags and purses.

(2) We have received your letter of 24 August, 2012 and we are carefully attending to it.



(3) You will be glad to know that we are opening our branch of "Italian Bakery" in your town for the convenience of our valuable customers like you.

The second paragraph should be written in simple understandable and clear language. It should never be vague or ambiguous. In fact, the second paragraph is the main body or heart of the letter. If the message or information is long and detailed, separate paragraphs should be used for ideas or topics.

Shorter paragraphs attract the reader's attention. For example, in the case of a sales letter or an offer letter the first paragraph should awaken the reader's interest [See just above (No. 3) for example]; the second paragraph should appeal to the customer's desire and his sense of gaining profit; the third paragraph should convince him to buy your products; and the last paragraph should offer good service, reasonable business terms and thanks.

**The closer** or the last paragraph should not end with stereotyped phrases like:

(1) Thanking you in anticipation of your favour...; (2) We beg to remain ...;

(2) Modern businessmen would prefer the following closes, for example, to give the letter a finishing touch:

(1) Thank you. (2) We shall appreciate a prompt reply. (3) Your co-operation will oblige us. (4) Your order will receive our prompt attention. (5) You will again hear from us shortly. (6) Please allow us to serve you for many years to come.

Thus, the body of a business letter should be written systematically, clearly and courteously, so that the letter may promote business, earn goodwill and cement relations.

## **■10. THE COMPLIMENTARY CLOSE (THE SUBSCRIPTION):**

The Complimentary Close is written two or three spaces below the last line of the body of the letter, and just above the signature, near the right-hand margin. It is like a "Good-bye" or courteous leave-taking: It should agree to the salutation, as shown below:

Salutation	Complimentary close
Dear Sir, or 1. Dear Sir, or Dear Sirs, 2 Dear Mrs. Mishra, Dear Mr. Mehta, 3. Sir, 4. Dear Mr. Dutt,	Yours faithfully, Very truly yours, or Yours sincerely, Yours obediently, (Old style) or Yours respectfully, or Yours sincerely, Cordially yours, or Yours cordially,

The complimentary close always ends with a comma, for example: Yours faithfully, and a signature below it. There is no apostrophe (') in the complimentary close, for example: your's is wrong. It should be simple Yours. Only the first letter of the first word is capitalised, not the first letter of the second or the third word. For example, Yours Faithfully, is incorrect. It should be - Yours faithfully. When a letter ends with a participle phrase like 'Thanking you....'; there must be written I am or We are (or I remain or We remain) between the phrase and the complimentary close. For example:

### **Wrong**

Thanking you, Yours faithfully,

A. P. Roy

### **Right:**

Thanking you, **I am,**

Yours faithfully,  
A. P. Roy

In modern correspondence such participle phrases are not preferred. The modern style is: Thank you.

**Very truly yours,**

**(D. R. Shah)**

## **11. THE SIGNATURE:**

Any letter without a Signature is incomplete and worthless. The signature signifies that the writer of the letter is completely aware and conscious about

the content, and that he is responsible for the meaning of the letter. Without the Signature, the letter becomes legally invalid.

The Signature is written just below the complimentary close, near the right-hand margin. Sometimes, it consists of only the name of the writer. Sometimes, it includes the name of the firm which the writer represents. An illegible signature is a discourtesy.

For example, however, a businessman may adopt a complicated signature for his cheques to avoid forgery. But generally, a simple and legible signature should be preferred. Also, no titles (such as 'Prof.' 'Dr.' etc.) should ever precede the signature. For example:

Incorrect	Incorrect
1. Yours faithfully, Dr. BirjePatil 2. Very truly yours, Prof. A. B. Pant	Yours faithfully, BirjePatil Very truly yours, A. B. Pant

The Signature should not be typed or stamped, it should be written in the letter-writer's own handwriting. The signature many times will not be easily readable; it should be typed within brackets below the original Signature. For example:

**Yours faithfully,**

**(H. P. Shah)**

When a lady signs letters, she should indicate whether she is a Miss or a Mrs. Now-a-days they write only Ms. For example:

Unmarried Lady	Married Lady	The Modern Lady
Yours sincerely, (Miss Indira J. Nehru)	Yours sincerely, (Mrs. Indira F. Gandhi)	Yours sincerely, (Ms. SHARDA MUKHERJEE)

The Complimentary Close and the Signature must follow the last line of the letter. If they appear on another page, the name of the firm should be written under the Signature. For example:

Yours faithfully,

(R. K. Ramani)

(Messrs. Jeswani & Co.)

If a sole trader trades under his own name (for example J. J. Jinwala), his Signature would be : J. J. Jinwala. But, if Mr. J. J. Jinwala himself trades under the assumed name of Kapildev Cosmetics Company, his signature would be Kapildev Cosmetics Company.

The partners of a firm may sign letters in any of the three ways. For example, a partner of PATEL & PATIL Company Limited may sign as:

(1) Patel & Patil Company Limited

OR

(2) Patel & Patil Company Limited

(B. S. Patil)

OR

(3) Patel & Patil Company Limited:

(A. P. Patel)

The 'Per Pro' Signature: Whenever the Director of the Company is absent the possible delay in correspondence is avoided by the privilege of the 'Per Pro' signature. In most companies, an important person is legally authorised to sign letters. Such a signature is known as per procurationem which means as agent for. It is abbreviated as per. pro. or p. p. The company sends circular letters to its valued customers informing them of the person authorised to sign letters along with his specimen signature.. This authority is given by a power of attorney.

If Mr. Jasmin Mehta is authorised to sign on behalf of Prerna Pen Company, he should sign thus:

per pro. Prerna Pen company OR P. Prerna Pen Company

Jashmin Mehta

Some important persons like the Manager, the Secretary or the Assistant Manager have got the authority to sign letters on behalf of the company. They may use the per pro style or just omit it and mention their designation below the signature.

Example:

Simplex Textiles Limited

(Miss) SushmaSheth  
Secretary

When the company's name appears above the signature, the company is legally responsible for the letter. If the company's name appears below the signature, the individual is responsible for the letter. Unimportant letters are usually signed by the Head Clerk. In such cases, 'Per' or 'For' should be written before the name of the firm.

Example:

For Edward Garments Co. For Alembic Co. Ltd.

(B. C. Roy)(C. R. Patel)

Per Edward Garments Co. Per Shreejee Electronics

## **12. POSTSCRIPTS (if any):**

The Latin word 'postscriptum' means 'written afterwards'. When the letter-writer forgets to include an important point, he adds it below the signature, under the title 'PS' (postscript). As far as possible postscripts should be avoided, especially when they are rather lengthy. For a lengthy postscript suggests that the writer is careless about the essentials of the letter. A Postscript should be used only on those occasions when some very important point comes to mind after letter is completed and signed. Since a PS is a part of the letter, it should always be signed by the writer. Some people go on adding more than one Postscript, and numbering them as 1<sup>st</sup> PS, 2<sup>nd</sup> PS, 3<sup>rd</sup> PS. and so on. This is funny and absurd. A good writer always avoids a Postscript: he prefers to rewrite the letter

However, the American businessmen use the postscript occasionally to emphasise an important point. For example:

(1) P. S. Please note that the offer is open for you upto 30th August, 2011 only.

(2) Please remember that our T. V. sets carry 2-year guarantee and free-of charge services after the sale for six months.

(3) P. S.

The prices are likely to rise after the Annual Budget is declared by the Union Government, I think, you will agree that it is wise to secure the goods at such generous terms right now.

(4) P. S.

If you have already forwarded your renewal order and payment, please ignore this reminder,

(The above P. S. must be initialled/signed by the letter-writer to make the information authentic)

### **■13. ENCLOSURES (-if any):**

Sometimes, it becomes necessary to attach a sheet of paper, or a bill, or a cheque to the main forwarding letter, and it is covered up in the same envelope. It is known as Enclosure. The Enclosures (if any) should be carefully attached to the main letter and their numbers should also be mentioned at the left-hand corner, two or three spaces above the bottom of the letter and two or the three spaces below the signature. For example, if a cheque for Rs. 502-85 is sent along with the letter, it should be mentioned at the bottom of the letter. Thus:

Encl: (1) Cheque No. NR 007245 for Rs. 502.85 OR Encl.: A cheque.

OR JUST

Encl.: One

Encl.: as above

If we mention at the bottom of the letter that (for example) a cheque is enclosed, we ought to see that the cheque is really enclosed. Similarly any paper/s enclosed must be mentioned near the bottom of the main letter. Accuracy about the Enclosures is very important for both the letter-writer and the person (or office) receiving the letter. Correct numbering and physical verification of documents before mailing and posting is also necessary.

### **■14. IDENTIFICATION INITIALS:**

The Identification Mark is mentioned on the left-hand side touching the margin opposite the signature or one or two spaces below the signature. It consists of one or two groups of letters. If it is one group of letters, it indicates the initials of the typist who typed the letter. If it consists of two groups of letters, the first group of letters

indicates the initials of the person who drafted or dictated the letter and the second group of letters indicates the initials of the stenographer who took the dictation and typed the letter or the typist who typed the letter.

The Identification Mark groups are separated by an oblique line. The Identification Mark helps the firm in finding out the persons responsible for the letter.

**e.g.**  
**RSS/MNP**

**Yours faithfully,**  
**R. S. SHAH**  
**Manager**

This means Mr. R. S. Shah drafted the letter and Mr. M. N. Patel typed the letter. RSS are the initials of the person who drafted the letter, while MNP are the initials of the person who typed the letter. It is the practice with some firms to type the first group of letters in capitals and the second group in second key, also, e.g., RSS/mnp.

## **15. CARBON COPY NOTATION :**

The Carbon Copy Notation (Copy to/C. C.) is written after the completion of the business letter. It indicates the name of the person/departments/office/to whom the copy of the letter is to be despatched. Sometimes it is written as copy with compliments-C.W.C.

Yours faithfully, PR. Vyas Manager

(A) C. C.: Maharashtra Corporation, Laxmi Road, Pune

OR

(B) Copies to: (i) Chief Engineer, PWD, Gandhinagar

(ii) Estate Manager, Gujarat University

(C) Copies to: (i) The Registrar, South Gujarat University

(ii) The Vice-Chancellor, North Gujarat University.

## **16. POSTAL INSTRUCTIONS (ON ENVELOPE):**

On the envelope, the following details are written: (i) the complete address of the addressee, (ii) the sender's name and address, (iii) attention line if any-such as Confidential, Urgent etc. and (iv) Postal Instructions, such as By Registered Post-R. P. or R.A.D., Air Mail or Under Postal Certificate.

### **[The lay-out or structure of a business letter]**

- (1) (Heading)
- (2) (Date)
- (3) (Reference Number)
- (4) (Confidential or Personal Note)
- (5) (Inside Address)
- (6) (Attention Line)
- (7) (Salutation) (Greeting)
- (8) (Postscript) (P. S.)
- (9) (Body of the Letter) (a) Introductory Paragraph (Opening) Main Message (Middle) (c) Concluding Paragraph (Closing) (b)
- (10) (Complimentary Close) (Leave-taking) or (Subscription)
- (11) (Signature)

## **C. STYLES OR FORMATS OF LETTER**

### **■(1) THE FULLY INDENTED STYLE**

<p>INSTITUTE OF BUSINESS MANAGEMENT</p> <p>_____</p> <p>_____</p> <p>_____</p>
<p>Ref. No. IB/3475th December, 2011</p> <p>Mr. N. R. PANDYA, Amrapali Society, Nadiad (Gujarat).</p> <p>Dear Mr. Pandya,</p> <p>_____</p> <p>_____</p> <p>_____.</p>



SVP/RMP

Yours faithfully,  
S. V. Patil Director

### **THE FULLY INDENTED STYLE**

- This style is old and widely accepted.
- The inside name and address are indented five spaces. So is the first line of each paragraph.
- The date is on the right, the letterhead is in the center and the signature on the right-hand side.
- Equal margins on all the sides give a 'photo-frame' look to the letter.
- Typists find it a waste of time to use indentations.
- This style is now losing popularity as blocked style is more convenient.

## **Module 3**

#### **? Inquiry Letters:**

- **Draft a solicited inquiry letter requesting information about a product or service.**
- **Draft an unsolicited inquiry letter to a company seeking information about potential partnership opportunities.**
- **Draft a routine inquiry letter asking for the price list and product details.**
- **Draft an inquiry letter for a special purpose or favor, such as requesting a speaker for an event.**

#### **? Reply to Inquiry Letter:**

- **Draft a letter replying to an inquiry about your company's products and services.**
- **Draft a circumstantial reply to an inquiry, such as a response to a complaint about a delayed shipment.**

#### **? Order Letter:**

- **Draft an order letter by a buyer placing a bulk order for office supplies.**
- **Draft an acknowledgment letter confirming receipt of an order from a customer.**
- **Draft a reply to an order letter, confirming the details of the order placed.**
- **Draft a letter for the execution of orders, updating the customer on the status of their order.**
- **Draft a letter for the cancellation of an order, explaining the reasons for the cancellation.**

## **1. Solicited Inquiry Letter**

### **Sample 1**

[Your Name]  
[Your Address]  
[City, State, ZIP Code]  
[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]  
[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I recently came across your advertisement in [Source of Advertisement] regarding your product, [Product Name]. I am very interested in learning more about this product and its specifications.

Could you please provide detailed information about the product, including its features, price, and availability? Additionally, I would appreciate it if you could send me any brochures or catalogs that may be available.

Thank you for your time and assistance. I look forward to your prompt response.

Sincerely,  
[Your Name]

## Sample 2:

PlaintextCopy code  
[Your Name]  
[Your Address]  
[City, State, ZIP Code]  
[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]  
[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to inquire about the [Product/Service Name] that was featured in your recent advertisement in [Publication/Website]. I am interested in understanding more about its features, pricing, and availability.

Could you kindly send me more detailed information, including any brochures or catalogs available? Additionally, please inform me about any current promotions or discounts.

Thank you for your assistance. I look forward to receiving your reply soon.

Best regards,  
[Your Name]

## Sample 3:

plaintext  
Copy code  
[Your Name]  
[Your Address]  
[City, State, ZIP Code]  
[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]  
[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I saw your advertisement in [Source] about [Product/Service] and am interested in learning more about it. Could you please provide detailed information regarding its specifications, pricing, and availability?

Furthermore, if you have any brochures, catalogs, or additional materials that would help me make an informed decision, I would appreciate it if you could send them to me.

Thank you for your attention to this matter. I look forward to your response.

Yours sincerely,  
[Your Name]

## **2. Unsolicited Inquiry Letter**

### **Sample 1:**

plaintext  
Copy code  
[Your Name]  
[Your Address]  
[City, State, ZIP Code]  
[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]

[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to inquire about your company's range of [Product/Service]. Although I have not seen any specific advertisements, I have heard good things about your company and would like to know more about what you offer.

Could you please provide me with detailed information about your products/services, including prices, specifications, and availability? Any brochures or catalogs you can send would also be appreciated.

Thank you for your time. I look forward to hearing from you soon.

Sincerely,  
[Your Name]

## Sample 2:

plaintext  
Copy code  
[Your Name]  
[Your Address]  
[City, State, ZIP Code]  
[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]  
[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I recently came across your company while researching [industry/market] leaders. I am interested in learning more about your [product/service] offerings.

Could you please provide detailed information on your [products/services], including prices, specifications, and availability? If you have any brochures or catalogs, I would appreciate it if you could send them to me.

Thank you for your time and assistance. I look forward to your response.

Best regards,  
[Your Name]

## Sample 3:

plaintext  
Copy code  
[Your Name]  
[Your Address]  
[City, State, ZIP Code]



[Email Address]

[Date]

[Recipient's Name]

[Recipient's Position]

[Company's Name]

[Company's Address]

[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to inquire about your company's [Product/Service] offerings. I came across your company while researching industry leaders and am very interested in learning more about what you provide.

Could you please send me detailed information about your products/services, including pricing, specifications, and availability? If available, I would also appreciate any brochures or catalogs.

Thank you for your assistance. I look forward to your response.

Yours sincerely,

[Your Name]

### **3. Routine Inquiry Letter**

## **Sample 1:**

Plain text Copy code

[Your Name]

[Your Address]

[City, State, ZIP Code]

[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]  
[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to inquire about the current status of my order #[Order Number], placed on [Order Date]. Could you please provide an update on the expected delivery date?

Additionally, if there are any issues or delays, please let me know at your earliest convenience.

Thank you for your prompt attention to this matter.

Sincerely,  
[Your Name]

## Sample 2:

[Your Name]  
[Your Address]  
[City, State, ZIP Code]

[Email Address]

[Date]

[Recipient's Name]

[Recipient's Position]

[Company's Name]

[Company's Address]

[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to request information about the [Product/Service] that I purchased from your company. The order number is [Order Number], and it was placed on [Order Date].

Could you please provide an update on the status of my order, including the estimated delivery date?

Thank you for your assistance.

Best regards,

[Your Name]

## Sample 3:

[Your Name]  
[Your Address]  
[City, State, ZIP Code]  
[Email Address]  
[Date]

[Recipient's Name]  
[Recipient's Position]  
[Company's Name]  
[Company's Address]  
[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to follow up on my order #[Order Number], placed on [Order Date]. Could you please provide an update on the current status and estimated delivery date?

Your prompt response will be greatly appreciated.

Thank you.

Yours sincerely,  
[Your Name]

## **Inquiry for a Special Purpose or Favours**

### **Sample 1:**

plaintext

Copy code

[Your Name]

[Your Address]

[City, State, ZIP Code]

[Email Address]

[Date]

[Recipient's Name]

[Recipient's Position]

[Company's Name]

[Company's Address]

[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to request a favor regarding the availability of [Product/Service]. I am organizing an event on [Event Date] and would appreciate it if you could provide additional details and support for the event.

Could you please provide any promotional materials or samples that would be useful for the event? Your support would greatly enhance the success of our event.

Thank you for considering my request. I look forward to your positive response.

Sincerely,

[Your Name]

## Sample 2:

plaintext

Copy code

[Your Name]

[Your Address]

[City, State, ZIP Code]

[Email Address]

[Date]

[Recipient's Name]

[Recipient's Position]

[Company's Name]

[Company's Address]

[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to inquire if your company could provide sponsorship for our upcoming [Event/Project]. We believe that your involvement would greatly benefit both our event and your brand.

Could you please provide information on how we can collaborate and any support you can offer, such as promotional materials or financial assistance?

Thank you for considering our request. I look forward to your response.

Best regards,

[Your Name]

## Sample 3:

PlaintextCopy code

[Your Name]

[Your Address]

[City, State, ZIP Code]

[Email Address]

[Date]

[Recipient's Name]

[Recipient's Position]

[Company's Name]

[Company's Address]

[City, State, ZIP Code]

Dear [Recipient's Name],

I am writing to request a special favor regarding the availability of [Product/Service]. We are hosting a charity event on [Event Date] and would appreciate any support your company could provide.

Could you please send any promotional materials or consider offering a sponsorship for the event? Your support would be immensely valuable.

Thank you for considering our request. I look forward to your positive response.

Yours sincerely,

[Your Name]

**Reply to Inquiry Letter**

# Sample 1:

plaintext

Copy code

[Your Name]

[Your Address]

[City, State, ZIP Code]

[Email Address]

[Date]

[Recipient's Name]

[Recipient's Position]

[Company's Name]

[Company's Address]

[City, State, ZIP Code]

Dear [Recipient's Name],

Thank you for your inquiry about our [Product/Service]. We are pleased to provide the information you requested.

[Include details about the product/service, pricing, availability, etc.]

Please find attached our latest brochure and catalogue for more details. If you have any further questions, feel free to contact us.

Thank you for your interest in our products/services.

Sincerely,

[Your Name]



## **Module 4**

### 1) Accept/Except

accept: A verb meaning "to agree to" or "to receive"

EXAMPLE: I accept your apology.

except: A preposition meaning "excluding"

EXAMPLE: I like all vegetables except broccoli.

### 2) Advice and Advise:

Advice: is a noun that refers to guidance or recommendations.

Advise: is a verb meaning to offer suggestions about the best course of action to someone.

Example: A person who advises a student. Adverse: unfavorable; an adverse reaction to the medication.

### 3) Adverse & Averse

Adverse: unfavorable; an adverse reaction to the medication. Averse:

not fond of; seeking to avoid; averse to risk

### 4) Affect/Effect

affect: A verb meaning "to influence"

EXAMPLE: Will missing class affect my grade?

effect: A noun meaning "result" or a verb meaning "to cause"

EXAMPLES: The effect of missing class will be a lower grade. (noun) Only the supervisor could effect change to the rules. (verb)

### 5) Aisle &

isle: Aisle: a corridor

or. Isle: an island.

### 6) Allude and Elude:

Allude: means to make an indirect reference to something. Elude: means to escape from something or to fail to grasp (a concept).

Example: Although he alluded to the secret, his meaning eluded me.

### 7) Allusion/Illusion

Allusion: A noun describing an indirect reference to

something. EXAMPLE: The speaker made an allusion to a Greek myth.

Illusion: A noun indicating something that misleads or gives a false meaning or appearance

.EXAMPLE:Amagicianusesillusiontoentertaintheaudience.

8) already&allready

Already:isanadverbthatindicatesanactioniscompletedbyacertaintime:Herschelhadalreadyfinishedthatwhole pie.

Always:means“forever”:SueSt.Mariealwaysrespondedcalmlyduringemergencysituations.

9) altar&alter

Altar:apedestal,usuallyreligious.Alt

er:tomodify; tochange.

10) altogether & all

togetherAltogether:

thoroughly

Alltogether:everyone/everythinginoneplace

11) angel & angle

angel : supernatural being, good

personangle:shapemadebyjoining2straightlines

12) accent & ascent assent consent

,agreementAccent :pronunciation common to

a regionAscent:theact ofrising orclimbing

Assent:consent,agreement

13) beside &

besidesBeside:means

nextto

Examples : The bride was sitting beside the groom at the reception.Besides: meansinadditionto

Examples:Besidesherfamouscupcakes,shewilldonatecookiesandapietothebakesale.

14) boar&bore

boar: isamalepig:Wildboarsaboundinthisforest.

Bore:isaboringortiresomepersonorthing:Jasperissuchaborewhenhetalksabouthiscats!

15) board&bored

Board :means a few things. One is “a long sheet of wood”: Hiram had to cut the board to make the shelves. It also means “a committee”: The board of directors met to decide the fate of the school. Lastly, it can mean “to get onto”: She boarded the ship.

Bored: means "not interested": She is bored by the dry lecture.

#### 16) born & borne

Born: Born is newly coming into life: A child was born at 12:01 New Year's day.

Borne: Borne means "carried": All gossip is borne by a ill wind.

#### 17) break & brake

Break: (verb) to smash or split or (noun) a rest

Example: "Don't throw the ball in the house, or you'll break something!" Yelled the babysitter.

Brake: (verb) to stop a car or other vehicle or (noun) the device for stop-Ping a

vehicle Example: After final exams, a holiday break is a welcome relief

#### 18) buy & by

Buy: Buy means "purchase": Grandpa buys an ice cream cone every Sunday afternoon.

By: By is a preposition meaning "next to": Park the car by the house.

#### 19) canvas & canvass

Canvas: Canvas is cloth or fabric: a canvas bag to bring to the beach.

Canvass: means "to conduct a survey or examine thoroughly", or "to seek votes": She canvassed all the stores before she found the right dress.

#### 20) capital & Capitol

Capital: (noun) the city that is the official seat of government of a state or country or wealth and assets

Capitol: (noun) the building occupied by a state legislature or the building in Washington D.C. used by Congress (capitalized for this meaning)

#### 21) choose & chose

Choose: Choose means to select.

Example: I choose that puppy in the window. Chose: Ch

ose is the past tense of choose.

Example: I chose my puppy last week

#### 22) coarse & course

Coarse: Coarse is an adjective meaning "rough, big-grained, not fine": We need to use coarse sandpaper to remove the paint from this wood.

Course: is a noun referring to a direction (the course of a ship) or a series of lectures on one subject (a history course in college): the poetry course student Bakert took in college changed the course of his life.

### 23) compliment&complement

Compliment: Anounthat means“anexpressionofflattery,praise,oradmiration”

EXAMPLE: Hercompliment ofmynewdressmademesmile.

Complement: Anounthatmeans“tocomplete”or“toaddto”something

EXAMPLE: Butteristheperfectcomplementforbread.

### 24) corps&corpsedeadbody

Corps : (pronounced ‘core’) is an organization of people dedicated to a single goal: Lucinda joined thePeace Corpsaftercollege.

corpse: isadeadbody: ThecorpseofDanny’sdogwaslovinglylaidtorestinthebackyard.

### 25) dairy&diary

Dairy: isafarmwheremilkandmilkproductsareproduced: Madeleinegrewuponadairyandknowshowtochurnbutter.

diary: isthedailyjournalkept: RhodaBookwritesinherdiaryfortwohoureverynight

### 26) descent&dissent

Descent: meansgoingdownwards, adownwardslope, orancestry. Dissent

: meanstoargueoradifferenceofopinion.

### 27) dessert&desert

Dessert: hastwos’ becauseyoualwayswant two. (Ifyouprefertwoaridecosystems, that’sonyou.)

Desert:

isahotanddryplaceliketheSahara, butaddansandsomewhippedcreamandyouhaveadessert, asweettreattoeat.

### 28) device&devise

Device: isanounand“devise”isaverb, whiletheirmeaningsarealsocompletelydifferent. “Device” referstoapieceofequipment, whereas

Devise: definestheactionofdesigningorinventing something.

### 29) dew&due

Dew: isthecondensationthatcollectsonsurfacesfromthewatervaporintheair. Due: meansrequired orexpected at acertain time.

### 30) die&dye

Die: passfromphysicallifeandloseallbodilyattributesandfunctionsnecessarytosustainlifeExample

: Shedied fromcancer

Dye:colorwithdye

Examples:Pleasedyethesesshoes

### 31) elicit&illicit

Elicit:Thesewordsarenotsynonymous.Elicitmeansto evokeordrawout.Example:

Theteachertriedtoelicit comments

Illicit: Fromthestudents.Illicitreferstosomethingthatisillegitimateorunlawful.Example:

Mary wasarrested forpossessingIllicitdrugs.

### 32) eminent&imminent

Eminent:meansprominentorfamous.We havegatheredthiseveningtohonorthreeeminentauthors.

Imminent: meanspending orexpectedsoon.Sir,corebreachisimminent.ImmanentmeansinherentorEver-present.God'simmanence ismostapparent inthe phenomenonofcreation.

### 33) fair&fare

Fair: isanexhibitionoffarmproduceusuallywithacollectionofridesandattractions:Everyyearourfamilygoes tothestate fair.

Fare:isthefeeyoupaytoridepublictransportation:Thefaretoridethebusisaffordableinourtown.

### 34) Farther&Further:

Farther:Anadjectivethat describesanactualdistanceandthat means“agreaterextent ordegree”

EXAMPLE:Myhouseisfartherfromcampusthanyours.

Further:Anadjectivemeaning“moredistantindegree,time,space,orquantity”

EXAMPLE:Nothingcouldbefurtherfromthetruth

### 35) formally&formerly

Formally:Theadverbformallymeansinaformalwayorfollowing acceptedforms,customs,orconventions.

Formerly:Theadverbformerlymeanspreviously,inthepast,atanearlier(former)time.

### 36) hear&here

Hear:istolistenwiththeears:AmIspeakingloudenoughforyoutohearme?Here:refersto theplacewhereyouare: Youshouldcomeheremoreoften.

### 37) heard& herd

Heard: is the past tense of hear: Zelda heard the bells ringing for the glorious leader who had recently died.

Herd: is a group of animals: Nonnie saw a herd of cows in the pasture.

#### 38) hoard & horde

Hoard : means "to collect and keep for oneself": Squirrels hoard acorns during the winter. Horde: is a large group: Hordes of people go Christmas shopping the day after Thanksgiving.

#### 39) knew & new

Knew: is the past tense of know: She knew what she wanted to say but couldn't say it.

New: means "never used": I ordered a new custom car from the factory today.

#### 40) later & latter

Later: means "afterward": Come later than seven o'clock.

Latter: means "the last of two things mentioned": If I have to choose between brains or beauty, I'll take the latter.

#### 41) led, lead

Led: is the past-tense form of the verb lead (to direct or escort). Lead: Lead is the element.

#### 42) lessen & lesson

Lessen: means "to decrease or make less": She lessened the headache pain with aspirin.

Lesson: A lesson is something you learn: A teacher might say, "Today's lesson is about ancient Egypt."

#### 43) Loose/Lose

Loose: An adjective meaning "not tight"

EXAMPLE: I like to wear loose clothing.

Lose: A verb that means "to misplace" or "to be defeated"

EXAMPLE: I hate it when I lose my keys.

#### 44) meat & meet

Meat: Meat is flesh that may be eaten: Nathan is a vegetarian who doesn't eat meat at all.

Meet : means "to get together or connect with someone, to encounter": Elroy plans to meet a colleague for lunch.

#### 45) moral & morale

Moral: A moral is the lesson learnt from a story.



Example: The moral of this story is don't judge others.

Morale: Morale means mental state, emotional state, spirit, or

attitude. Example: Cancelling the event would undermine staff morale.

#### 46) patience & patients

Patience : Patience is the ability to remain calm even when dealing with someone or something difficult: The teacher showed infinite patience for the students struggling with the reading material. (See also assistance and assistants.)

Patients : Patients are people who are sick in a hospital: The nurse had several new patients to get to know that week.

#### 47) peace & piece

Peace: is a sense of calm and absence of war or hostility: We all hope for peace throughout the world.

Piece: is a part or segment of something: Helen Highwater lost a piece of her jewelry in church last Sunday.

#### 48) peak & peek

Peak: is the highest point of something: Chastity decided not to drive to the top of Pike's Peak during the peak summer vacation season.

Peek: To peek is to look quickly without someone knowing: The child peeked inside the gift

#### 49) personal & personnel

Personal: means "private" or "individual."

Personnel: means "staff" or "workforce."

#### 50) plain & plane

Plain: means "simple not showy" or "a large level region": It was plain to see that Vanessa loved Conway, or Bowser's farm was on a great plain where wheat grew well.

Plane: is a flat and level surface, a new level, or an airplane: To understand the equation of a plane surface in mathematics you have to reach a new plane of consciousness. Franklin landed the plane successfully.

#### 51) precede & proceed

Precede: The verb precede means "to come or go before, in front of": The flower girl preceded the bride in the procession down the aisle.

Proceed :means “to move forward”: Both the flower girl and the bride proceeded down the aisle at the same time.

52) presence & presents

Presence: means “the state of being near”: April’s presence was comforting in Rod’s time of sorrow.

Presents: are gifts: The greatest gift is to let someone give you a present.

53) principal (adj.); (noun) & principle

Principal: A noun meaning “the head of a school” or an adjective meaning “most important”

EXAMPLES: Mrs. Smith, the principal of the school, is a very energetic woman. (noun) The principal speaker of the program spoke first. (adjective)

Principle: A noun meaning “a basic truth”

EXAMPLE: Lying is against my principles.

54) quiet & quite & Quit

Quite: An adverb meaning “whole” or

“complete” EXAMPLE: He is quite thorough in his calculations.

Quiet: An adjective meaning “not making noise” EXAMPLE: Please be quiet; the baby is sleeping.

Quit: A verb meaning “to stop” or “give up”

EXAMPLE: I quit my job last Thursday.

55) rain & reign

Rain: is the water that falls from the sky:

Dingwell didn’t have sense enough to come in out of the rain. Reign: is the rule of a king or queen: King Wilhelm reigned with an iron fist to keep peace in the land.

56) raise & raze

Raise: Use raise when the object is being risen by another force. Raise is a transitive verb.

Ex. She raised her hand at the teacher’s request.

Raze: is to destroy: The school was razed and a new one built in its place.

57) reverend &

reverent Reverend:

Reverent :

58) right&rite

Right :means “correct”: She always knew the right thing to say.

Rite:isaceremony:Finalritesforthedeceasedwereheldinthechurch.

59) road&rode

Road:isalongpathorstreet

to travel on: Lucille tries to stay on a main road where ever she travels. Rode: is past tense of ride: Matilda rode her bicycle over a cliff by accident.

60) scene&seen

Scene: is a place or view: The scene of the crime was just outside his window. Seen: is past tense of see: I have seen that movie three times already.

61) sight&site

Sight: The ability to see. A lens that

serves as an optical instrument, often on a gun. Site: is a noun. It means a location.

62) stationary&stationery

Stationary: means “still and unmoving”: The cat was stationary until it was time to pounce on its prey.

Stationery: refers to writing materials such as paper: Craig took out his best stationery to write to his beloved Charlotte Russe.

63) then&than

Then: is used to show cause and effect: If this happens, then this will happen. Than: is used to make a comparison between two separate things.

Example: If I keep adding more and more words to this example, then it will become longer than the previous sentence.

64) there, their, they're

There: The adverb there is used to point out a location. Do you see them over there? Their is a possessive pronoun.

Their: dog is always chasing cars. And there is the contraction for “they are.” They’re quite a couple.

Example: At the writing center, we work with students to improve their writing. They’re going to the writing center. Look over there, that’s the writing center!

#### 65) through&thorough

Through: Use throw and through in the same sentence, example: 'She threw the ball through the window.'

Thorough: Use thorough in the same sentence as the word brought to remind you that these rhyming words are spelled similarly.

Example: 'The borough council conducted a thorough study.'

#### 66) waist & waste

Waist: refers to the (often) narrow area of a human body between the hips and ribs: We often wear a belt around our waist.

Waste: is garbage, or waste can be a verb meaning "to use carelessly": You shouldn't waste food and you should recycle waste paper.

#### 67) waive & wave

Waive: means "to give up, not require or ask for": Never waive your right to a lawyer.

Wave: wave is to move back and forth; a wave is a swelling in a body of water due to movement: Helen Highwater waved her hand to the boat rocking in the waves.

#### 68) weak&week

Weak: Weak is not strong: Finley gave a weak performance; maybe because he has a weak mind.

Week: Week refers to the names of these seven days, from Sunday to Saturday: I go to the ice skating rink once a week.

#### 69) weather&whether

Weather: has to do with climate: I hope we have beautiful weather for my daughter's wedding.

Whether: means "if" and is used only in side sentences: I don't know whether to bring an umbrella or not.

#### 70) which & witch

Which: means "what particular choice": Which witch put the spell on you?

Witch: Witch is a person who believes in or practices magic: Not all witches have warts on their noses (some have them on their chins).



# **GOKUL GLOBAL UNIVERSITY**

Faculty of Commerce & Management

E-Content



<b>Course:</b>	<b>B.COM/BBA</b>
<b>Semester:</b>	<b>1<sup>st</sup></b>
<b>Subject:</b>	<b>Financial Accounting-I</b>
<b>Subject Code:</b>	<b>FCB210105/FMB210105</b>

## **PIECEMEAL DISTRIBUTION OF CASH**

Piecemeal distribution of cash is concerned with systematically distribution of cash at the time of dissolution of Partnership. Dissolution of Partnership in it was assumed that the entire dissolution process is completed in a day but it is not the truth, the dissolution of a firm is a lengthy process. The assets are realized in stages or gradually. For example, if partners decide to dissolve a firm on 31st March, the stock may be sold off in April, the debtors may be collected in May and the fixed assets may be sold by July. As and when money is received from sale of assets, it is used to pay liabilities. The liabilities are also paid in stages or gradually. The money, in short, is distributed piecemeal - in stages and not in a single shot. This is known as Piecemeal Distribution.

### **LIABILITIES SETTLEMENTS**

In a piecemeal distribution, the amounts realised from assets are used to settle the liabilities

In following order:

- [1] Realisation expenses
- [2] Reserve for Unrecorded/Contingent Liabilities
- [3] Outside liabilities
- [4] Partners loans
- [5] Partners capitals. Surplus, if any, arising at the last stage, is distributed to all partners in their profit sharing ratio.

### **PRO-RATA PAYMENT**

If the cash is insufficient to pay off all dues, the payment is made to the concerned creditors

(in each category) proportionately i.e. in the ratio of the outstanding balances.

### **PARTNERS LOANS**

After all the outside liabilities are paid of the internal liabilities i.e. The partners loans are paid off in the next stage. If the cash is insufficient, payment is made against all partners loans proportionately in the ratio of outstanding balances.

### **PARTNERS & CAPITALS**

After all the outside as well as internal liabilities are paid, the partners capitals are paid off in the last stage. If the cash is sufficient, all the capitals can be paid off. But if the balance is insufficient, payment must be made against all capital accounts pro rata or proportionately. If the capital balances are in the

profit sharing ratio, there is no problem at all. The payment is made to all partners in the ratio of their capital balances. But if the capitals are not in the profit sharing ratio, payments at each stage must be done in such a manner that :

- (a) The payments are in the ratio of the balances of capitals at each stage and
- (b) The payments ensure that the ultimate profit or loss on realisation is distributed among all the partners in their profit sharing ratio.

### **PROPORTIONATE CAPITAL METHOD**

This method is also known as Surplus Capital Method, Highest Relative Capital Method, Excess Capital Method or Quotient Method. Under this method, first the capitals are compared to the profit sharing ratio. The excess capital (actual capital less capital proportionate to the profit sharing ratio) is paid first. After excess capitals are paid, all capitals are in the profits sharing ratio. Then the payments can be made in the profit sharing ratio. Thus, suppose A and B share profits and losses in the ratio of 2:1 and A capital is 25,000 and B capital is 5,000. The capitals are obviously not proportionate. If B contributes 5,000 for 1/3 share, A should contribute 10,000 for his 2/3 share. Thus A capital is excess to the extent of  $25,000 - 10,000 = 15,000$ . Under the Proportionate Capital Method, first A will be paid 15,000 to bring down his capital to 10,000. Now both the capitals are in the profit sharing ratio. The subsequent payments will then be in the profit sharing ratio.



**MODULE NO. 2: PROFIT PRIOR TO INCORPORATION****SOLUTION**

<b>1.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01.01.2021	To	01.06.2021	=	5 Months
	Post-incorporation Period	From	01.06.2021	To	31-12-2021	=	7 Months
	Therefore <b>Time Ratio</b>				<b>5:7</b>		

**2. Weighted Sales Ratio:**

Sales for the each one of the first five months of the accounting year are one-half, of each one of subsequent months of the accounting year. Weightage is 0.5.

Pre-incorporation Period			Post-incorporation Period		
01.01.2021	0.5		01.06.2021		1.0
To	×		To		×
01.06.2021	5		31-12-2021		7
	2.5				7
Therefore Sales Ratio			2.5:7	OR	5:14

2.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.05.2021	=	4 Months
	Post-incorporation Period	From	01.05.2021	To	31-12-2021	=	8 Months
	Therefore <b>Time Ratio</b>				<b>4:8</b>		<b>1:2</b>
2.	Calculation of Sales & Sales Ratio						
	Sales for the year						₹ 1,20,00,000
	Pre-incorporation Period Sales						₹ 50,00,000
	Post-incorporation Period Sales ( <b>Bal. Fig.</b> )						₹ 70,00,000
	Therefore <b>Sales Ratio</b>						<b>5:7</b>

**Statement of Profit and Loss of Soha Ltd., for the year ended 31-12-2021**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 5:7) (1,80,00,000 – 1,20,00,000)</b>		25,00,000	35,00,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	1,00,000	2,00,000
Financial costs	<b>02</b>	-----	1,25,000
Other expenses	<b>03</b>	5,81,000	10,54,000
Pre-incorporation profit (transferred to CR or GW)		<b>18,19,000</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>21,21,000</b>

**Working Notes:**

<b>Note No. 01 Employee benefit expense</b>			
Particulars		Pre ₹	Post ₹

Salaries (TR 1:2)	1,00,000	2,00,000
<b>Total</b>	<b>1,00,000</b>	<b>2,00,000</b>

Note No. 02 Financial costs		
Particulars	Pre ₹	Post ₹
Interest on Debentures (Post)	-----	1,25,000
<b>Total</b>	<b>-----</b>	<b>1,25,000</b>
Note No. 03 Other expenses		
Particulars	Pre ₹	Post ₹
Rent & Rates (TR 1:2)	1,60,000	3,20,000
Directors' fees (Post)	-----	75,000
General Expenses (TR 1:2)	32,000	64,000
Discount allowed to customers (SR 5:7)	30,000	42,000
Advertisement (SR 5:7)	1,50,000	2,10,000
Stationery & Printing (TR 1:2)	24,000	48,000
Commission on sales (SR 5:7)	1,75,000	2,45,000
Bad debts (Given)	10,000	20,000
Audit fees (Post)	-----	30,000
<b>Total</b>	<b>5,81,000</b>	<b>10,54,000</b>

3.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.04.2021	=	3 Months
	Post-incorporation Period	From	01.04.2021	To	31-12-2021	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>		<b>1:3</b>
2.	Calculation of Sales Ratio						
	Pre-incorporation Period Sales						₹ 15,00,000
	Post-incorporation Period Sales						₹ 47,50,000
	Therefore <b>Sales Ratio</b>						<b>6:19</b>

**Statement of Profit and Loss of SS Ltd., for the year ended 31-12-2021**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 6:19)</b>		3,00,000	9,50,000
<b>Less: Expenses:</b>			
Financial costs	<b>01</b>	3,000	25,500
Depreciation and amortization expenses	<b>02</b>	6,375	51,125
Other expenses	<b>03</b>	1,19,570	3,89,180
Pre-incorporation profit (transferred to CR or GW)		<b>1,71,055</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>4,84,195</b>

**Working Notes:**

Note No. 01 Financial costs		
Particulars	Pre ₹	Post ₹
Interest to Vendors (Loan repaid on 31 <sup>st</sup> October) (TR 3:7)	3,000	7,000
Interest on Debentures (Post)	-----	18,500
<b>Total</b>	<b>3,000</b>	<b>25,500</b>
Note No. 02 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Goodwill Written off (Post)	-----	16,500
Preliminary Expenses written off (Post)	-----	15,500
Depreciation (TR 1:3)	6,375	19,125
<b>Total</b>	<b>6,375</b>	<b>51,125</b>
Note No. 03 Other expenses		
Particulars	Pre ₹	Post ₹
Administrative Overheads (TR 1:3)	97,500	2,92,500
Selling & Distribution Overheads (60% variable) (SR 6:19)	6,120	19,380
Selling & Distribution Overheads (40% fixed) (TR 1:3)	4,250	12,750
Commission on Sales (SR 6:19)	11,700	37,050
Director's Fees (Post)	-----	27,500
<b>Total</b>	<b>1,19,570</b>	<b>3,89,180</b>

<b>4.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01.01.2021	To	30.06.2021	=	6 Months
	Post-incorporation Period	From	30.06.2021	To	31-12-2021	=	6 Months
	Therefore <b>Time Ratio</b>				<b>6:6</b>		<b>1:1</b>
<b>2.</b>	<b>Calculation of Sales Ratio</b>						
	Pre-incorporation Period Sales						₹ 1,20,000
	Post-incorporation Period Sales						₹ 1,80,000
	Therefore <b>Sales Ratio</b>						<b>2:3</b>

**Statement of Profit and Loss of Mohan Company Ltd., for the year ended 31-12-2021**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 2:3)</b>		42,000	63,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	7,500	7,500
Financial costs	<b>02</b>	-----	90
Depreciation and amortization expenses	<b>03</b>	750	750
Other expenses	<b>04</b>	3,450	4,800

Pre-incorporation profit (transferred to CR or GW)		<b>30,300</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>49,860</b>

#### Working Notes:

Note No. 01 Employee benefit expense		
Particulars	Pre ₹	Post ₹
Salaries (TR 1:1)	7,500	7,500
Total	7,500	7,500
Note No. 02 Financial costs		
Particulars	Pre ₹	Post ₹
Interest on Debentures (Post)	-----	90
Total	-----	90
Note No. 03 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Depreciation (TR 1:1)	750	750
Total	750	750
Note No. 04 Other expenses		
Particulars	Pre ₹	Post ₹
Selling expenses (SR 2:3)	1,200	1,800
Director's remuneration (Post)	-----	750
Administration expenses (Rent, Rates etc.) (TR 1:1)	2,250	2,250
Total	3,450	4,800

5.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.05.2021	=	4 Months
	Post-incorporation Period	From	01.05.2021	To	30-09-2021	=	5 Months
	Therefore <b>Time Ratio</b>				<b>4:5</b>		

#### 2. Weighted Sales Ratio:

Sine turnover is given as sales the monthly average of which for the first four months of **2013** was half that of the remaining period, Weightage is 0.5.

Pre-incorporation Period			Post-incorporation Period	
01.01.2021	0.5		01.05.2021	1.0
To	×		To	×
01.05.2021	4		30.09.2021	5
	2.0			5.0
Therefore Sales Ratio			2:5	
3.	Calculation of rent:			₹
	Pre-incorporation Period: 01.01.2021 To 01.05.2021 (6,000 × <sup>6</sup> / <sub>12</sub> × <sup>4</sup> / <sub>6</sub> )			2,000

Post-incorporation Period: 01.05.2021 To 30.06.2021 ( $6,000 \times \frac{6}{12} \times \frac{2}{6}$ )	1,000	
[ $6,000 \times 140\%$ ] = 8,400      30.06.2021 To 30-09-2021 ( $8,400 \times \frac{6}{12} \times \frac{3}{6}$ )	2,100	<b>3,100</b>
<b>Or</b>		
Pre-incorporation Period:	$6,000 \div 12 = 500 \times 4$	<b>2,000</b>
Post-incorporation Period:	$6,000 \div 12 = 500 \times 2$	1,000
	[ $6,000 \times 140\%$ ] = $8400 \div 12 = 700 \times 3$	<b>3,100</b>

**Statement of Profit and Loss of X. Ltd., for the year ended 30-09-2021**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 2:5)</b>		12,000	30,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	1,700	-----
Depreciation and amortization expenses	<b>02</b>	-----	2,000
Other expenses	<b>03</b>	5,200	19,100
Pre-incorporation profit (transferred to CR or GW)		<b>5,100</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>8,900</b>

**Working Notes:**

<b>Note No. 01 Employee benefit expense</b>			
Particulars	Pre ₹	Post ₹	
Salary to manager [ $5,100 \times 4/12$ ]	1,700	-----	
<b>Total</b>	<b>1,700</b>	-----	
<b>Note No. 02 Depreciation and amortization expenses</b>			
Particulars	Pre ₹	Post ₹	
Preliminary Expenses Written off (Post)	-----	2,000	
<b>Total</b>	-----	<b>2,000</b>	
<b>Note No. 03 Other expenses</b>			
Particulars	Pre ₹	Post ₹	
General expenses (TR 4:5)	3,200	4,000	
Director's remuneration (Post)	-----	12,000	
Rent (Note)	2,000	3,100	
<b>Total</b>	<b>5,200</b>	<b>19,100</b>	

6.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.04.2021	=	3 Months
	Post-incorporation Period	From	01.04.2021	To	31-12-2021	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>		<b>1:3</b>
2.	Sales Ratio 1:3						

**Statement of Profit and Loss of Tiger Ltd., for the year ended 30-09-2021**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 1:3)</b>		5,000	15,000
<b>Less: Expenses:</b>			
Financial costs	<b>01</b>	750	500
Depreciation and amortization expenses	<b>02</b>	250	1,250
Other expenses	<b>03</b>	863	3,387
Pre-incorporation profit (transferred to CR or GW)		<b>3,137</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>9,863</b>

**Working Notes:**

<b>Note No. 01 Financial costs</b>			
Particulars		Pre ₹	Post ₹
Interest to Vendors (TR 3:2)		750	500
<b>Total</b>		<b>750</b>	<b>500</b>
<b>Note No. 02 Depreciation and amortization expenses</b>			
Particulars		Pre ₹	Post ₹
Depreciation (TR 1:3)		250	750
Preliminary Expenses Written off (Post)		-----	500
<b>Total</b>		<b>250</b>	<b>1,250</b>
<b>Note No. 03 Other expenses</b>			
Particulars		Pre ₹	Post ₹
Expenses of Management (TR 1:3)		763	2,287
Bad Debts (Given)		100	100
Directors Fees (Post)		-----	1,000
<b>Total</b>		<b>863</b>	<b>3,387</b>

7.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.11.2020	To	01.03.2021	=	4 Months
	Post-incorporation Period	From	01.03.2021	To	31-10-2021	=	8 Months
	Therefore <b>Time Ratio</b>				<b>4:8</b>		<b>1:2</b>
2.	Calculation of Sales Ratio						
	Pre-incorporation Period Sales [From 01.11.2020 To 01.03.2021]						₹ 2,50,000
	Post-incorporation Period Sales [From 01.03.2021 To 31.10.2021]						₹ 3,50,000
	Therefore <b>Sales Ratio</b>						<b>5:7</b>

**Statement of Profit and Loss of Hippo Ltd., for the year ended 31-10-2021**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 5:7)</b>		75,000	1,05,000
<b>Less: Expenses:</b>			

Employee benefit expense	<b>01</b>	5,000	10,000
Financial costs	<b>02</b>	2,000	6,000
Depreciation and amortization expenses	<b>03</b>	8,000	16,000
Other expenses	<b>04</b>	17,800	35,000
Pre-incorporation profit (transferred to CR or GW)		<b>42,200</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>38,000</b>

**Working Notes:**

<b>Note No. 01 Employee benefit expense</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Salaries (TR 1:2)		5,000	10,000
<b>Total</b>		<b>5,000</b>	<b>10,000</b>
<b>Note No. 02 Financial costs</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Interest on debentures (Post)		-----	5,000
Interest to vendor on purchase consideration up to May 1, 2021 (TR 4:2)		2,000	1,000
<b>Total</b>		<b>2,000</b>	<b>6,000</b>
<b>Note No. 03 Depreciation and amortization expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Depreciation (TR 1:2)		8,000	16,000
<b>Total</b>		<b>8,000</b>	<b>16,000</b>
<b>Note No. 04 Other expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Rent (TR 1:2)		3,000	6,000
Directors' fees (Post)		-----	4,800
Audit fees (Post)		-----	1,500
Discount on sales (SR 5:7)		1,500	2,100
General expenses (TR 1:2)		1,600	3,200
Advertising (SR 5:7)		7,500	10,500
Stationery and printing (TR 1:2)		1,200	2,400
Commission on sales (SR 5:7)		2,500	3,500
Bad debts (₹ 500 relate to debts created prior to incorporation) (Given)		500	1,000
<b>Total</b>		<b>17,800</b>	<b>35,000</b>

<b>8.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01.01.2021	To	01.04.2021	=	3 Months
	Post-incorporation Period	From	01.04.2021	To	31-12-2021	=	9 Months
	Therefore <b>Time Ratio</b>				<b>1:3</b>		

## 2. Weighted Sales Ratio:

The average monthly sales for the first three months of **2021** was ₹ 32,000 and for the rest of the year was ₹ 64,000. Weightage is 0.5.

Pre-incorporation Period		Post-incorporation Period	
01.01.2021	0.5	01.04.2021	1.0
To	×	To	×
01.04.2021	3	31.12.2021	9
	1.5		9.0
Therefore Sales Ratio		1:6	

### Statement of Profit and Loss of R & Company Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 1:6)</b>		20,000	1,20,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	8,000	24,000
Financial costs	<b>02</b>	1,000	4,600
Depreciation and amortization expenses	<b>03</b>	3,200	9,600
Other expenses	<b>04</b>	5,700	30,500
Pre-incorporation profit (transferred to CR or GW)		<b>2,100</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>51,300</b>

### Working Notes:

Note No. 01 Employee benefit expense		
Particulars	Pre ₹	Post ₹
Salaries and allowances (TR 1:3)	8,000	24,000
<b>Total</b>	<b>8,000</b>	<b>24,000</b>
Note No. 02 Financial costs		
Particulars	Pre ₹	Post ₹
Debenture interest (Post)	-----	3,600
Interest to vendors (up to 30.06.2021) (TR1:1)	1,000	1,000
<b>Total</b>	<b>1,000</b>	<b>4,600</b>
Note No. 03 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Depreciation (TR 1:3)	3,200	9,600
<b>Total</b>	<b>3,200</b>	<b>9,600</b>
Note No. 04 Other expenses		
Particulars	Pre ₹	Post ₹
Rent (Given)	1,200	5,400
Rates [7,000 – 6,600] (TR 1:3)	100	300



Directors' fees (Post)	-----	3,600
Commission to agents (SR 1:6)	1,600	9,600
General expenses (TR 1:3)	2,400	7,200
Advertising (SR 1:6)	400	2,400
Audit fees (Post)	-----	2,000
<b>Total</b>	<b>5,700</b>	<b>30,500</b>

<b>9.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01.04.2021	To	01.08.2021	=	4 Months
	Post-incorporation Period	From	01.08.2021	To	31-03-2022	=	8 Months
	Therefore <b>Time Ratio</b>				<b>1:2</b>		

## 2. Weighted Sales Ratio:

The total sales for the year amounted to ₹ 9,60,000 which arose evenly up to the date of the certificate of commencement, there after sales spurted to record an increase of two-thirds during the rest of the year. Weightage is 3.0.

Pre-incorporation Period		Post-incorporation Period		
01.04.2021	3.0	01.08.2021	3.0	
To	×	To	×	
01.08.2021	4	30.09.2021	2	6.0
		01.10.2021	5.0	
		To	×	
		31.03.2022	6	30.0
	<b>12.0</b>		<b>36.0</b>	
Therefore <b>Sales Ratio</b>		<b>12:36</b>		<b>1:3</b>

<b>3.</b>	<b>Calculation of rent:</b>		₹
	Pre-incorporation Period: 01.04.2021 To 01.08.2021 (1,000 × 4)		<b>4,000</b>
	Post-incorporation Period: 01.08.2021 To 30.09.2021 (1,000 × 2)		2,000
	[1,000 + 200] = 1,200	30.09.2021 To 31.03.2022 (1,200 × 6)	7,200
			<b>9,200</b>

## Statement of Profit and Loss of A Public Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 1:3)</b>		40,000	1,20,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	8,000	16,000
Financial costs	<b>02</b>	1,400	2,200
Depreciation and amortization expenses	<b>03</b>	1,500	3,300
Other expenses	<b>04</b>	21,950	61,850

Pre-incorporation profit (transferred to CR or GW)		<b>7,150</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>36,650</b>

**Working Notes:**

<b>Note No. 01 Employee benefit expense</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Salaries <b>TR 1:2</b>		8,000	16,000
<b>Total</b>		<b>8,000</b>	<b>16,000</b>
<b>Note No. 02 Financial costs</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Debenture Interest <b>Post</b>		-----	1,500
Interest to Vendors <b>TR 4:2</b>		1,400	700
<b>Total</b>		<b>1,400</b>	<b>2,200</b>
<b>Note No. 03 Depreciation and amortization expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Depreciation on Fixed Assets		-----	300
Depreciation on Others [4,800 – 300] <b>TR 1:2</b>		1,500	3,000
<b>Total</b>		<b>1,500</b>	<b>3,300</b>
<b>Note No. 04 Other expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Printing & Stationery <b>TR 1:2</b>		800	1,600
Travelling Expenses: Sales promotion <b>SR 1:3</b>		600	1,800
Travelling Expenses: Others [8,400 – 2,400] <b>TR 1:2</b>		2,000	4,000
Advertisement <b>SR 1:3</b>		2,000	6,000
Trade Expenses <b>TR 1:2</b>		6,300	12,600
Rent (Office) <b>(Given)</b>		4,000	9,200
Electricity Charges <b>TR 1:2</b>		700	1,400
Director's Fees <b>Post</b>		-----	5,600
Bad Debts <b>SR 1:3</b>		400	1,200
Commission on Sales <b>SR 1:3</b>		2,000	6,000
Audit Fees <b>Post</b>		-----	3,000
Selling Expenses <b>SR 1:3</b>		3,150	9,450
<b>Total</b>		<b>21,950</b>	<b>61,850</b>

<b>10.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01.04.2021	To	01.07.2021	=	3 Months
	Post-incorporation Period	From	01.07.2021	To	31.03.2022	=	9 Months
	Therefore <b>Time Ratio</b>				<b>1:3</b>		

<b>2.</b>	<b>Calculation of Sales Ratio</b>	
	Pre-incorporation Period Sales [From 01.04.2021 To 01.07.2021]	₹ 1,60,000
	Post-incorporation Period Sales [From 01.07.2021 To 31.03.2022]	₹ 2,40,000
	Therefore <b>Sales Ratio</b>	<b>2:3</b>

**Statement of Profit and Loss of A Co. Ltd., for the year ended 31-03-2022**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 2:3)</b>		56,000	84,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	18,000	54,000
Financial costs	<b>02</b>	-----	6,000
Depreciation and amortization expenses	<b>03</b>	2,000	8,000
Other expenses	<b>04</b>	16,500	41,500
Pre-incorporation profit (transferred to CR or GW)		<b>19,500</b>	-----
Post-incorporation <b>Loss</b> (transferred to P/L A/C & deducted)		-----	<b>25,500</b>

**Working Notes:**

<b>Note No. 01 Employee benefit expense</b>		
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>
Salaries and wages <b>TR 1:3</b>	18,000	54,000
<b>Total</b>	<b>18,000</b>	<b>54,000</b>
<b>Note No. 02 Financial costs</b>		
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>
Interest on debentures <b>Post</b>	-----	6,000
<b>Total</b>	-----	<b>6,000</b>
<b>Note No. 03 Depreciation and amortization expenses</b>		
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>
Depreciation <b>TR 1:3</b>	2,000	6,000
Formation expenses written off <b>Post</b>	-----	2,000
<b>Total</b>	<b>2,000</b>	<b>8,000</b>
<b>Note No. 04 Other expenses</b>		
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>
Rent ( <b>Given</b> )	900	2,700
Office expenses <b>TR 1:3</b>	6,000	18,000
Commission on sale <b>SR 2:3</b>	6,400	9,600
Free samples <b>SR 2:3</b>	1,600	2,400
Audit fees <b>Post</b>	-----	2,000
Directors' fees <b>Post</b>	-----	2,000
Printing and stationery <b>TR 1:3</b>	1,000	3,000

Sundry expenses <b>TR 1:3</b>	200	600
Bad debts <b>(Given)</b>	400	1,200
<b>Total</b>	<b>16,500</b>	<b>41,500</b>

11.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.10.2020	To	01.02.2021	=	4 Months
	Post-incorporation Period	From	01.02.2021	To	30-09-2021	=	8 Months
	Therefore <b>Time Ratio</b>				<b>1:2</b>		
2.	Calculation of Sales Ratio						
	Pre-incorporation Period Sales [From 01.10.2020 To 01.02.2021]						₹ 40,000
	Post-incorporation Period Sales [From 01.02.2021 To 30-09-2021]						₹ 2,00,000
	Therefore <b>Sales Ratio</b>						<b>1:5</b>

**Statement of Profit and Loss of A Co. Ltd., for the year ended 31-03-2022**

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 1:5)</b>		16,000	80,000
<b>Less: Expenses:</b>			
Employee benefit expense	<b>01</b>	4,000	8,000
Financial costs	<b>02</b>	2,000	8,000
Depreciation and amortization expenses	<b>03</b>	1,200	4,800
Other expenses	<b>04</b>	6,400	23,050
Pre-incorporation profit (transferred to CR or GW)		<b>2,400</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>36,150</b>

**Working Notes:**

<b>Note No. 01 Employee benefit expense</b>			
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>	
Staff Salaries <b>TR 1:2</b>	4,000	8,000	
<b>Total</b>	<b>4,000</b>	<b>8,000</b>	
<b>Note No. 02 Financial costs</b>			
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>	
Debenture Interest <b>Post</b>	-----	6,000	
Interest to vendors <b>TR 4:4</b>	2,000	2,000	
<b>Total</b>	<b>2,000</b>	<b>8,000</b>	
<b>Note No. 03 Depreciation and amortization expenses</b>			
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>	
Depreciation on P/M <b>TR 1:2</b>	1,200	2,400	
Preliminary Expenses <b>Post</b>	-----	2,400	
<b>Total</b>	<b>1,200</b>	<b>4,800</b>	

Note No. 04 Other expenses		
Particulars	Pre ₹	Post ₹
Directors' Fees <b>Post</b>	-----	1,500
Auditors' Fees <b>Post</b>	-----	750
Rents, Rates, etc. <b>TR 1:2</b>	1,600	3,200
General Expenses <b>TR 1:2</b>	600	1,200
Commission sales <b>SR 1:5</b>	600	3,000
Printing and Stationery <b>TR 1:2</b>	800	1,600
Advertising <b>SR 1:5</b>	700	3,500
Traveler's expenses and Salaries <b>SR 1:5</b>	1,400	7,000
Bad Debts <b>(Given)</b>	700	1,300
<b>Total</b>	<b>6,400</b>	<b>23,050</b>

12.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01-04- <b>2021</b>	To	01-07- <b>2021</b>	=	3 Months
	Post-incorporation Period	From	01-07- <b>2021</b>	To	31-03- <b>2022</b>	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>	<b>OR</b>	<b>1:3</b>

## 2. Weighted Sales Ratio:

Sine turnover is given as double in 3 specific months; it is assumed that in all other months, turnover is uniform. So weightage for each of those months is 1 & for the 3 specific months, Weightage is 2.

Pre-incorporation Period				Post-incorporation Period		
2021 April	2	2021 July to October		4 × 1	4	
2021 May	1	2021 November to December		2 × 2	4	
2021 June	1	2022 January to March		3 × 1	3	
	4				11	
Therefore Sales Ratio				4:11		
3.	Goodwill	=	Purchase consideration	–	Capital	
		=	2,50,000	–	2,00,000	
		=	₹ 50,000			

4. Pre-incorporation profit, being a capital profit, is adjusted against goodwill.

## Statement of Profit and Loss of Heera Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	<b>01</b>	74,480	2,04,820
<b>Less: Expenses:</b>			
Purchases of stock in trade	<b>02</b>	52,475	1,44,305
Changes in Inventories (42,940 – 35,420) <b>SR 4:11</b>	<b>03</b>	2,005	5,515
Employee benefit expense	<b>04</b>	4,160	12,480

Depreciation and amortization expenses	05	-----	1,560
Other expenses	06	3,090	23,750
Pre-incorporation profit (transferred to CR or GW)		12,750	-----
Post-incorporation profit (transferred to P/L A/C)		-----	17,210

**Working Notes:**

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 4:11		74,480	2,04,820
Total		74,480	2,04,820
Note No. 02 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 4:11		52,475	1,44,305
Total		52,475	1,44,305
Note No. 03 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	42,940		
Less: Closing Stock	35,420		
Changes in Inventories SR 4:11		2,005	5,515
Total		2,005	5,515
Note No. 04 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Office Salaries TR 1:3		4,160	12,480
Total		4,160	12,480
Note No. 05 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Preliminary Expenses to written off Post		-----	1,560
Total		-----	1,560
Note No. 06 Other expenses			
Particulars		Pre ₹	Post ₹
Carriage outward SR 4:11		440	1,210
Travelers' Commission SR 4:11		1,640	4,510
Rent and Taxes TR 1:3		410	1,230
Office expenses TR 1:3		600	1,800
Director's Salary Post		-----	15,000
Total		3,090	23,750

**Balance Sheet as at 31.03.2022**

Sources of funds (Liabilities)	Note No.	₹	₹
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<b>Equity and Liabilities:</b>			
<b>1. Shareholders fund:</b>			
Share capital	<b>07</b>		2,50,000
Reserves and surplus	<b>08</b>		17,210
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
<b>4. Current Liabilities:</b>			
Other Current Liabilities	<b>09</b>		31,660
<b>TOTAL</b>			<b>2,98,870</b>
<b>Assets:</b>	<b>Note No.</b>	<b>₹</b>	<b>₹</b>
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>10</b>		1,62,250
<b>2. Current Assets:</b>			
Inventories	<b>11</b>		35,420
Other Current Assets	<b>12</b>		1,01,200
<b>TOTAL</b>			<b>2,98,870</b>

**Working Notes:**

<b>Note No. 07 Share capital</b>		
<b>Particulars</b>		<b>₹</b>
25,000 equity shares of ₹ 10 each fully paid (all the shares are issued of consideration other than for cash)		25,000
<b>Total</b>		<b>2,50,000</b>
<b>Note No. 08 Reserves and surplus</b>		
<b>Particulars</b>		<b>₹</b>
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		17,210
<b>Total</b>		<b>17,210</b>
<b>Note No. 09 Other Current Liabilities</b>		
<b>Particulars</b>		<b>₹</b>
Current Liabilities		31,660
<b>Total</b>		<b>31,660</b>
<b>Note No. 10 Fixed Assets</b>		
<b>Particulars</b>		<b>₹</b>
Goodwill	50,000	
<b>Less: Pre-incorporation profit</b>	12,750	37,250
Other Fixed Assets		1,25,000
<b>Total</b>		<b>1,62,250</b>
<b>Note No. 11 Inventories</b>		

Particulars		₹
Closing Stock		35,420
<b>Total</b>		<b>35,420</b>
<b>Note No. 12 Other Current Assets</b>		
Particulars		₹
Current Assets (other than stock)		1,01,200
<b>Total</b>		<b>1,01,200</b>

<b>13.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01-01-2021	To	01-04-2021	=	3 Months
	Post-incorporation Period	From	01-04-2021	To	31-12-2021	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>	<b>OR</b>	<b>1:3</b>

## 2. Sales Ratio:

Pre-incorporation Period Sales	=	₹ 7,500
Post-incorporation Period Sales	₹ (45,000 – 7,500)	₹ 37,500
Therefore <b>Sales Ratio</b>	7,500 : 37,500	<b>1:5</b>

## Statement of Profit and Loss of Swetha Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	<b>01</b>	7,500	37,500
Other Incomes	<b>02</b>	150	450
<b>Total Revenue</b>		<b>7,650</b>	<b>37,950</b>
<b>Less: Expenses:</b>			
Purchases of stock in trade	<b>03</b>	8,083	40,417
Changes in Inventories	<b>04</b>	(2,333)	(11,667)
Employee benefit expense	<b>05</b>	300	900
Financial Cost	<b>06</b>	500	500
Depreciation and amortization expenses	<b>07</b>	150	450
Other expenses	<b>08</b>	192	1,548
Pre-incorporation profit (transferred to CR or GW)		<b>758</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>5,802</b>

## Working Notes:

<b>Note No. 01 Revenue from Operation</b>		
Particulars	Pre ₹	Post ₹
Sales <b>SR 1:5</b>	7,500	37,500
<b>Total</b>	<b>7,500</b>	<b>37,500</b>
<b>Note No. 02 Other Incomes</b>		
Particulars	Pre ₹	Post ₹



Rent received <b>TR 1:3</b>	150	450	
<b>Total</b>	<b>150</b>	<b>450</b>	
<b>Note No. 03 Purchases of stock in trade</b>			
<b>Particulars</b>	<b>Pre ₹</b>	<b>Post ₹</b>	
Purchases <b>SR 1:5</b>	8,083	40,417	
<b>Total</b>	<b>8,083</b>	<b>40,417</b>	
<b>Note No. 04 Changes in Inventories</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Opening Stock	NIL		
<b>Less:</b> Closing Stock	14,000		
Changes in Inventories <b>SR 1:5</b>	(- 14,000)	(2,333)	(11,667)
<b>Total</b>		<b>(2,333)</b>	<b>(11,667)</b>
<b>Note No. 05 Employee benefit expense</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Salaries <b>TR 1:3</b>		300	900
<b>Total</b>		<b>300</b>	<b>900</b>
<b>Note No. 06 Financial Cost</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Interest to vendors paid up to 01-07-2021 <b>TR 3:3</b>		500	500
<b>Total</b>		<b>500</b>	<b>500</b>

<b>Note No. 07 Depreciation and amortization expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Depreciation on: Buildings <b>TR 1:3</b>		100	300
Depreciation on: Plant <b>TR 1:3</b>		50	150
<b>Total</b>		<b>150</b>	<b>450</b>
<b>Note No. 08 Other expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Rent Paid <b>TR 1:3</b>		112	338
Director's fees <b>Post</b>		-----	720
Sundry charges <b>TR 1:3</b>		30	90
Bad debts <b>Actual</b>		50	150
Bad debts Reserve <b>Post</b>		-----	250
<b>Total</b>		<b>192</b>	<b>1,548</b>

**Balance Sheet as at 31.03.2022**

<b>Sources of funds (Liabilities)</b>	<b>Note No.</b>	<b>₹</b>	<b>₹</b>
<b>Equity and Liabilities:</b>			

<b>1. Shareholders fund:</b>			
Share capital	<b>09</b>		22,500
Reserves and surplus	<b>10</b>		6,560
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
<b>4. Current Liabilities:</b>			
Trade Payables	<b>11</b>		3,000
<b>TOTAL</b>			<b>32,060</b>
<b>Assets:</b>	<b>Note No.</b>	<b>₹</b>	<b>₹</b>
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>12</b>		9,150
<b>2. Current Assets:</b>			
Inventories	<b>13</b>		14,000
Trade Receivables	<b>14</b>		4,050
Cash and Cash equivalents	<b>15</b>		4,860
<b>TOTAL</b>			<b>32,060</b>

**Working Notes:**

<b>Note No. 09 Share capital</b>		
<b>Particulars</b>		<b>₹</b>
Share Capital		22,500
<b>Total</b>		<b>22,500</b>
<b>Note No. 10 Reserves and surplus</b>		
<b>Particulars</b>		<b>₹</b>
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		5,802
Capital Reserve Account (Pre-incorporation profit)		758
<b>Total</b>		<b>6,560</b>
<b>Note No. 11 Trade Payables</b>		
<b>Particulars</b>		<b>₹</b>
Sundry creditors		3,000
<b>Total</b>		<b>3,000</b>
<b>Note No. 12 Fixed Assets</b>		
<b>Particulars</b>		<b>₹</b>
Building	8,000	
<b>Less: Depreciation</b>	400	7,600
Furniture		750
Plant	1,000	
<b>Less: Depreciation</b>	200	800

<b>Total</b>		<b>9,150</b>
<b>Note No. 13 Inventories</b>		
<b>Particulars</b>		<b>₹</b>
Closing Stock		14,000
<b>Total</b>		<b>14,000</b>
<b>Note No. 14 Trade Receivables</b>		
<b>Particulars</b>		<b>₹</b>
Sundry debtors	4,500	
<b>Less:</b> Bad debts	200	
<b>Less:</b> New RBD	250	4,050
<b>Total</b>		<b>4,050</b>
<b>Note No. 15 Cash and Cash equivalents</b>		
<b>Particulars</b>		<b>₹</b>
Current Assets (other than stock)		4,860
<b>Total</b>		<b>4,860</b>

<b>14.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01-04-2021	To	01-07-2021	=	3 Months
	Post-incorporation Period	From	01-07-2021	To	31-03-2022	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>	<b>OR</b>	<b>1:3</b>

## 2. Sales Ratio:

Pre-incorporation Period Sales	=	₹ 75,000
Post-incorporation Period Sales	₹ (4,50,000 – 75,000)	₹ 3,75,000
Therefore <b>Sales Ratio</b>	75,000 : 3,75,000	<b>1:5</b>

## Statement of Profit and Loss of Leopard Ltd., for the year ended 31-03-2022

<b>Particulars</b>	<b>Note No.</b>	<b>Pre ₹</b>	<b>Post ₹</b>
Revenue from Operation	<b>01</b>	75,000	3,75,000
Other Incomes	<b>02</b>	1,500	4,500
<b>Total Revenue</b>		<b>76,500</b>	<b>3,79,500</b>
<b>Less: Expenses:</b>			
Purchases of stock in trade	<b>03</b>	80,833	4,04,167
Changes in Inventories	<b>04</b>	(23,333)	(1,16,667)
Employee benefit expense	<b>05</b>	3,000	9,000
Financial Cost	<b>06</b>	4,375	4,375
Depreciation and amortization expenses	<b>07</b>	1,000	3,000
Other expenses	<b>08</b>	3,125	12,775
Pre-incorporation profit (transferred to CR or GW)		<b>7,500</b>	-----

Post-incorporation profit (transferred to P/L A/C)		-----	62,850
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**Working Notes:**

Note No. 01 Revenue from Operation				
Particulars		Pre ₹	Post ₹	
Sales <b>SR 1:5</b>		75,000	3,75,000	
Total		75,000	3,75,000	
Note No. 02 Other Incomes				
Particulars		Pre ₹	Post ₹	
Rent received <b>TR 1:3</b>		1,500	4,500	
Total		1,500	4,500	
Note No. 03 Purchases of stock in trade				
Particulars		Pre ₹	Post ₹	
Purchases <b>SR 1:5</b>		80,833	4,04,167	
Total		80,833	4,04,167	
Note No. 04 Changes in Inventories				
Particulars			Pre ₹	Post ₹
Opening Stock		NIL		
<b>Less:</b> Closing Stock		1,40,000		
Changes in Inventories <b>SR 1:5</b>		(- 1,40,000)	(23,333)	(1,16,667)
Total			(23,333)	(1,16,667)
Note No. 05 Employee benefit expense				
Particulars			Pre ₹	Post ₹
Salaries <b>TR 1:3</b>			3,000	9,000
Total			3,000	9,000

Note No. 06 Financial Cost		
Particulars	Pre ₹	Post ₹
Interest to vendors paid up to 01-10-2021 TR 3:3	4,375	4,375
Total	4,375	4,375
Note No. 07 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Depreciation on: Buildings TR 1:3 (3,250)	813	2,437
Depreciation on: Furniture TR 1:3 (750)	187	563
Total	1,000	3,000
Note No. 08 Other expenses		
Particulars	Pre ₹	Post ₹
Rates & Taxes TR 1:3	750	2,250

Repairs <b>TR 1:3</b>	375	1,125
Director's fees <b>Post</b>	-----	1,200
Miscellaneous Expenses <b>TR 1:3</b>	1,800	5,400
Bad debts <b>Actual</b>	200	300
Bad debts Reserve <b>Post</b>	-----	2,500
<b>Total</b>	<b>3,125</b>	<b>12,775</b>

**Balance Sheet as at 31.03.2022**

Sources of funds (Liabilities)	Note No.	₹	₹
<b>Equity and Liabilities:</b>			
<b>1. Shareholders fund:</b>			
Share capital	<b>09</b>		2,25,000
Reserves and surplus	<b>10</b>		70,350
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
<b>4. Current Liabilities:</b>			
Trade Payables	<b>11</b>		30,000
<b>TOTAL</b>			<b>3,25,350</b>
<b>Assets:</b>	<b>Note No.</b>	<b>₹</b>	<b>₹</b>
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>12</b>		93,500
<b>2. Current Assets:</b>			
Inventories	<b>13</b>		1,40,000
Trade Receivables	<b>14</b>		42,000
Cash and Cash equivalents	<b>15</b>		49,850
<b>TOTAL</b>			<b>3,25,350</b>

**Working Notes:**

<b>Note No. 09 Share capital</b>		
Particulars		₹
Share Capital: Authorised Capital		<b><u>5,00,000</u></b>
Issued, Subscribed, Called and Paid up Capital:		
22,500 Equity Shares of ₹ 10 each fully paid (17,500 of the shares are issued of consideration other than For cash)		2,25,000
<b>Total</b>		<b>2,25,000</b>
<b>Note No. 10 Reserves and surplus</b>		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		62,850
Capital Reserve Account (Pre-incorporation profit)		7,500

<b>Total</b>		<b>70,350</b>
<b>Note No. 11 Trade Payables</b>		
<b>Particulars</b>		<b>₹</b>
Sundry creditors		30,000
<b>Total</b>		<b>30,000</b>
<b>Note No. 12 Fixed Assets</b>		
<b>Particulars</b>		<b>₹</b>
Freehold land-at cost		25,000
Building	65,000	
<b>Less: Depreciation</b>	3,250	61,750
Furniture	7,500	
<b>Less: Depreciation</b>	750	6,750
<b>Total</b>		<b>93,500</b>
<b>Note No. 13 Inventories</b>		
<b>Particulars</b>		<b>₹</b>
Closing Stock		1,40,000
<b>Total</b>		<b>1,40,000</b>
<b>Note No. 14 Trade Receivables</b>		
<b>Particulars</b>		<b>₹</b>
Sundry debtors	45,000	
<b>Less: Bad debts</b>	500	
<b>Less: New RBD</b>	2,500	42,000
<b>Total</b>		<b>42,000</b>
<b>Note No. 15 Cash and Cash equivalents</b>		
<b>Particulars</b>		<b>₹</b>
Cash at bank		48,050
Cash in hand		1,800
<b>Total</b>		<b>49,850</b>

<b>15.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01-06-2021	To	01-10-2021	=	4 Months
	Post-incorporation Period	From	01-10-2021	To	31-05-2022	=	8 Months
	Therefore <b>Time Ratio</b>				<b>4:8</b>	<b>OR</b>	<b>1:2</b>

## 2. Weighted Sales Ratio:

Sine turnover is given as double in 3 specific months; it is assumed that in all other months, turnover is uniform. So weightage for each of those months is 1 & for the 3 specific months, Weightage is 0.5.

<b>Pre-incorporation Period</b>		<b>Post-incorporation Period</b>
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2021 June		0.5		2021 October to May 2022		8 × 1	8
2021 July		0.5					
2021 August		0.5					
2021 September		1					
		2.5					8
Therefore Sales Ratio					2.5:8	OR	5:16
3.	Goodwill	=	Purchase consideration		–	Capital	
		=	35,000		–	28,950	
		=	₹ 6,050				

**Statement of Profit and Loss of Rowlock Ltd., for the year ended 31-03-2022**

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	12,425	39,760
<b>Total Revenue</b>		<b>12,425</b>	<b>39,760</b>
<b>Less: Expenses:</b>			
Purchases of stock in trade	02	9,245	29,584
Changes in Inventories	03	75	240
Financial Cost	04	-----	525
Depreciation and amortization expenses	05	-----	218
Other expenses	06	1,271	4,448
Pre-incorporation profit (transferred to CR or GW)		<b>1,834</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>4,745</b>

**Working Notes:**

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 5:16		12,425	39,760
<b>Total</b>		<b>12,425</b>	<b>39,760</b>
Note No. 02 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 5:16		9,245	29,584
<b>Total</b>		<b>9,245</b>	<b>29,584</b>

Note No. 03 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	5,261		
<b>Less: Closing Stock</b>	<b>4,946</b>		
Changes in Inventories SR 5:16		75	240
<b>Total</b>		<b>75</b>	<b>240</b>

Note No. 04 Financial Cost		
Particulars	Pre ₹	Post ₹
Debenture Interest (Gross) <b>Post</b>	-----	525
<b>Total</b>	-----	<b>525</b>
Note No. 05 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Formation Expenses written off <b>Post</b>	-----	218
<b>Total</b>	-----	<b>218</b>
Note No. 06 Other expenses		
Particulars	Pre ₹	Post ₹
Wrapping <b>SR 5:16</b>	200	640
Postage <b>SR 5:16</b>	105	336
Warehouse Rent & Rates <b>TR 1:2</b>	307	614
Packing Expenses <b>SR 5:16</b>	450	1,440
Office Expenses <b>TR 1:2</b>	209	418
Director's Salary <b>Post</b>	-----	1,000
<b>Total</b>	<b>1,271</b>	<b>4,448</b>

**Balance Sheet as at 31.03.2022**

Sources of funds (Liabilities)	Note No.	₹	₹
<b>Equity and Liabilities:</b>			
<b>1. Shareholders fund:</b>			
Share capital	<b>07</b>		20,000
Reserves and surplus	<b>08</b>		4,745
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
Long Term Borrowings	<b>09</b>		15,000
<b>4. Current Liabilities:</b>			
Other Current Liabilities	<b>10</b>		4,162
<b>TOTAL</b>			<b>43,907</b>
Assets:	Note No.	₹	₹
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>11</b>		29,216
<b>2. Current Assets:</b>			
Inventories	<b>12</b>		4,946
Other Current Assets	<b>13</b>		9,745
<b>TOTAL</b>			<b>43,907</b>

**Working Notes:**



Note No. 07 Share capital		
Particulars		₹
Share Capital: 20,000 equity shares of ₹ 1 each (20,000 of the shares are issued for consideration other than for cash)		20,000
<b>Total</b>		<b>20,000</b>
Note No. 08 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		4,745
<b>Total</b>		<b>4,745</b>
Note No. 09 Long Term Borrowings		
Particulars		₹
7% Debentures (are issued for consideration other than for cash)		15,000
<b>Total</b>		<b>15,000</b>
Note No. 10 Other Current Liabilities		
Particulars		₹
Current Liabilities		4,162
<b>Total</b>		<b>4,162</b>
Note No. 11 Fixed Assets		
Particulars		₹
Goodwill	6,050	
<b>Less:</b> Pre-incorporation Profit	1,834	4,216
Other Fixed Assets		25,000
<b>Total</b>		<b>29,216</b>
Note No. 12 Inventories		
Particulars		₹
Closing Stock		4,946
<b>Total</b>		<b>4,946</b>
Note No. 13 Other Current Assets		
Particulars		₹
Current Assets (Other than stock)		9,745
<b>Total</b>		<b>9,745</b>

16.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	January	To	1 <sup>st</sup> April	=	3 Months
	Post-incorporation Period	From	1 <sup>st</sup> April	To	31 <sup>st</sup> December	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>	<b>OR</b>	<b>1:3</b>
2.	<b>Sales Ratio</b>				<b>1:3</b>		

**Statement of Profit and Loss of Rowlock Ltd., for the year ended 31-12-2021**

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	<b>01</b>	2,27,500	6,82,500
Other Income	<b>02</b>	3,250	9,750
<b>Total Revenue</b>		<b>2,30,750</b>	<b>6,92,250</b>
<b>Less: Expenses:</b>			
Purchases of stock in trade	<b>03</b>	1,92,500	5,77,500
Changes in Inventories	<b>04</b>	(15,000)	(45,000)
Employees Benefit Expenses	<b>05</b>	12,000	36,000
Financial Cost	<b>06</b>	8,750	8,750
Depreciation and amortization expenses	<b>07</b>	3,750	19,250
Other expenses	<b>08</b>	8,500	31,900
Pre-incorporation profit (transferred to CR or GW)		<b>20,250</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>63,850</b>

**Working Notes:**

<b>Note No. 01 Revenue from Operation</b>			
Particulars		Pre ₹	Post ₹
Sales <b>SR 1:3</b>		2,27,500	6,82,500
<b>Total</b>		<b>2,27,500</b>	<b>6,82,500</b>
<b>Note No. 02 Other Income</b>			
Particulars		Pre ₹	Post ₹
Rent Received <b>TR 1:3</b>		3,250	9,750
<b>Total</b>		<b>3,250</b>	<b>9,750</b>
<b>Note No. 03 Purchases of stock in trade</b>			
Particulars		Pre ₹	Post ₹
Purchases <b>SR 1:3</b>		1,92,500	5,77,500
<b>Total</b>		<b>1,92,500</b>	<b>5,77,500</b>
<b>Note No. 04 Changes in Inventories</b>			
Particulars		Pre ₹	Post ₹
Opening Stock	4,20,000		
<b>Less: Closing Stock</b>	4,80,000		
Changes in Inventories <b>SR 1:3</b>	(60,000)	(15,000)	(45,000)
<b>Total</b>		<b>(15,000)</b>	<b>(45,000)</b>
<b>Note No. 05 Employees Benefit Expenses</b>			
Particulars		Pre ₹	Post ₹
Salaries <b>TR 1:3</b>		12,000	36,000
<b>Total</b>		<b>12,000</b>	<b>36,000</b>

Note No. 06 Financial Cost		
Particulars	Pre ₹	Post ₹
Interest to vendors 6 : 6	8,750	8,750
<b>Total</b>	<b>8,750</b>	<b>8,750</b>
Note No. 07 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Depreciation on Building (6,500) TR 1:3	1,625	4,875
Depreciation on Furniture (1,500) TR 1:3	375	1,125
Depreciation on Vehicles (7,000) TR 1:3	1,750	5,250
Preliminary Expenses written off Post	-----	8,000
<b>Total</b>	<b>3,750</b>	<b>19,250</b>
Note No. 08 Other expenses		
Particulars	Pre ₹	Post ₹
Rates and taxes TR 1:3	1,750	5,250
Repairs to building TR 1:3	750	2,250
Miscellaneous expenses TR 1:3	5,500	16,500
Directors' fees Post	-----	2,400
Bad debts	500	500
Bad debts Reserve Post	-----	5,000
<b>Total</b>	<b>8,500</b>	<b>31,900</b>

**Balance Sheet as at 31.12-2021**

Sources of funds (Liabilities)	Note No.	₹	₹
<b>Equity and Liabilities:</b>			
<b>1. Shareholders fund:</b>			
Share capital	<b>09</b>		4,50,000
Reserves and surplus	<b>10</b>		81,000
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
Other Long Term Borrowings	<b>11</b>		35,000
<b>4. Current Liabilities:</b>			
Short Term Borrowings	<b>12</b>		1,65,000
Trade Payables	<b>13</b>		65,000
<b>TOTAL</b>			<b>7,96,000</b>
<b>Assets:</b>	<b>Note No.</b>	<b>₹</b>	<b>₹</b>
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>14</b>		2,15,000
<b>2. Current Assets:</b>			

Inventories	15		4,80,000
Trade Receivables	16		89,000
Cash and Cash equivalents	17		12,000
<b>TOTAL</b>			<b>7,96,000</b>

**Working Notes:**

<b>Note No. 09 Share capital</b>		
<b>Particulars</b>		<b>₹</b>
Share Capital		4,50,000
<b>Total</b>		<b>4,50,000</b>
<b>Note No. 10 Reserves and surplus</b>		
<b>Particulars</b>		<b>₹</b>
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		63,850
Capital Reserve: Pre-incorporation Profit	20,250	
Less: Goodwill Written off	3,100	17,150
<b>Total</b>		<b>81,000</b>
<b>Note No.11 Other Long Term Liabilities</b>		
<b>Particulars</b>		<b>₹</b>
Fixed deposits		35,000
<b>Total</b>		<b>35,000</b>
<b>Note No. 12 Short Term Borrowings</b>		
<b>Particulars</b>		<b>₹</b>
Bank overdraft		1,65,000
<b>Total</b>		<b>1,65,000</b>
<b>Note No. 13 Trade Payables</b>		
<b>Particulars</b>		<b>₹</b>
Sundry creditors		65,000
<b>Total</b>		<b>65,000</b>
<b>Note No. 14 Fixed Assets</b>		
<b>Particulars</b>		<b>₹</b>
Freehold land		50,000
Building	1,30,000	
<b>Less:</b> Depreciation	6,500	1,23,500
Transport vehicles	35,000	
<b>Less:</b> Depreciation	7,000	28,000
Furniture	15,000	
<b>Less:</b> Depreciation	1,500	13,500
<b>Total</b>		<b>2,15,000</b>

Note No. 15 Inventories		
Particulars		₹
Closing Stock		4,80,000
<b>Total</b>		<b>4,80,000</b>
Note No. 16 Trade Receivables		
Particulars		₹
Sundry debtors	95,000	
<b>Less:</b> Bad debts	1,000	
<b>Less:</b> New RBD	5,000	89,000
<b>Total</b>		<b>89,000</b>
Note No. 17 Cash and Cash equivalents		
Particulars		₹
Cash at bank		12,000
<b>Total</b>		<b>12,000</b>

17.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01-04-2021	To	01-07-2021	=	3 Months
	Post-incorporation Period	From	01-07-2021	To	31-03-2022	=	9 Months
	Therefore <b>Time Ratio</b>				<b>3:9</b>	<b>OR</b>	<b>1:3</b>

## 2. Weighted Sales Ratio:

Sine turnover is given as double in 3 specific months; it is assumed that in all other months, turnover is uniform. So weightage for each of those months is 1 & for the 3 specific months, Weightage is 2.

Pre-incorporation Period				Post-incorporation Period		
2021 April	2	2021 July to December		6 × 1	6	
2021 May	1	2022 January		1 × 1	1	
2021 June	1	2022 February & March		2 × 2	4	
	4				11	
Therefore Sales Ratio				4:11		
3.	Goodwill	=	Purchase consideration	–	Capital	
		=	30,000	–	23,000	
		=	₹ 7,000			

## 4. Pre-incorporation profit, being a capital profit, is adjusted against goodwill.

### Statement of Profit and Loss of KK Limited for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	<b>01</b>	7,413	20,387
<b>Total Revenue</b>		<b>7,413</b>	<b>20,387</b>
<b>Less: Expenses:</b>			

Purchases of stock in trade	<b>02</b>	5,040	13,860
Changes in Inventories	<b>03</b>	(27)	(73)
Employees Benefit Expenses	<b>04</b>	525	1,575
Depreciation and amortization expenses	<b>05</b>	-----	520
Other expenses	<b>06</b>	588	3,492
Pre-incorporation profit (transferred to CR or GW)		<b>1,287</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>1,013</b>

**Working Notes:**

<b>Note No. 01 Revenue from Operation</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Sales <b>SR 4:11</b>		7,413	20,387
<b>Total</b>		<b>7,413</b>	<b>20,387</b>
<b>Note No. 02 Purchases of stock in trade</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Purchases <b>SR 4:11</b>		5,040	13,860
<b>Total</b>		<b>5,040</b>	<b>13,860</b>
<b>Note No. 03 Changes in Inventories</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Opening Stock		4,300	
<b>Less: Closing Stock</b>		4,400	
Changes in Inventories <b>SR 4:11</b>		(- 100)	(73)
<b>Total</b>		<b>(27)</b>	<b>(73)</b>
<b>Note No. 04 Employees Benefit Expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Office Salaries <b>TR 1:3</b>		525	1,575
<b>Total</b>		<b>525</b>	<b>1,575</b>
<b>Note No. 05 Depreciation and amortization expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Preliminary Expenses to written off <b>Post</b>		-----	520
<b>Total</b>		-----	<b>520</b>
<b>Note No. 06 Other expenses</b>			
<b>Particulars</b>		<b>Pre ₹</b>	<b>Post ₹</b>
Carriage outward <b>SR 4:11</b>		88	242
Travelers' Commission <b>SR 4:11</b>		200	550
Rent and Taxes <b>TR 1:3</b>		300	900
Director's Fee <b>Post</b>		-----	1,800
<b>Total</b>		<b>588</b>	<b>3,492</b>

**Balance Sheet as at 31-03-2022**

Sources of funds (Liabilities)	Note No.	₹	₹
<b>Equity and Liabilities:</b>			
<b>1. Shareholders fund:</b>			
Share capital	<b>07</b>		30,000
Reserves and surplus	<b>08</b>		1,013
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
<b>4. Current Liabilities:</b>			
Other Current Liabilities	<b>09</b>		3,700
<b>TOTAL</b>			<b>34,713</b>
<b>Assets:</b>	<b>Note No.</b>	<b>₹</b>	<b>₹</b>
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>10</b>		19,113
<b>2. Current Assets:</b>			
Inventories	<b>11</b>		4,400
Other Current Assets	<b>12</b>		11,200
<b>TOTAL</b>			<b>34,713</b>

**Working Notes:**

<b>Note No. 07 Share capital</b>		
<b>Particulars</b>		<b>₹</b>
3,000 Equity Shares of ₹ 10 each fully paid (all the shares are issued of consideration other than for cash)		30,000
<b>Total</b>		<b>30,000</b>
<b>Note No. 08 Reserves and surplus</b>		
<b>Particulars</b>		<b>₹</b>
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		1,013
<b>Total</b>		<b>1,013</b>
<b>Note No.09 Other Current Liabilities</b>		
<b>Particulars</b>		<b>₹</b>
Current Liabilities		3,700
<b>Total</b>		<b>3,700</b>
<b>Note No. 10 Fixed Assets</b>		
<b>Particulars</b>		<b>₹</b>
Goodwill	7,000	
<b>Less: Pre-incorporation Profit</b>	1,287	5,713
Fixed Assets		13,400

<b>Total</b>		<b>19,113</b>
<b>Note No. 11 Inventories</b>		
<b>Particulars</b>		<b>₹</b>
Closing Stock		4,400
<b>Total</b>		<b>4,400</b>
<b>Note No. 12 Other Current Assets</b>		
<b>Particulars</b>		<b>₹</b>
Current Assets (other than stock)		11,200
<b>Total</b>		<b>11,200</b>

<b>18.</b>	<b>Calculation of Time Ratio &amp; Sales Ratio</b>						
<b>1.</b>	Pre-incorporation Period	From	01.01.2021	To	01.05.2021	=	4 Months
	Post-incorporation Period	From	01.05.2021	To	31-12-2021	=	8 Months
	Therefore <b>Time Ratio</b>				<b>4:8</b>	<b>OR</b>	<b>1:2</b>

## 2. Weighted Sales Ratio:

Sine turnover is given as sales per month in the first half-year being one-half of what they were in the latter half-year, Weightage is 0.5.

Pre-incorporation Period				Post-incorporation Period		
01.01.2021	0.5	01.05.2021		0.5		
To	×	To		×		
01.05.2021	4	30.06.2021		2	1.0	
		30.06.2021		1		
	2.0		To	×	6.0	
			31-12-2021	6		
					7.0	
Therefore Sales Ratio				2:7		
3.	Goodwill	=	Purchase consideration	–	Assets acquired from the vendors	
		=	50,00,000	–	Machinery + Buildings + Patents	
					30,00,000 + 6,00,000 + 4,00,000 = 40,00,000	
		=	₹ 10,00,000			

4. Interest to vendors assumed discharged on 31.05.2021. So the amount allocated in the TR of 4:1.

## Statement of Profit and Loss of Adarsh Udyog Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
<b>Gross Profits (SR 2:7)</b>		4,72,000	16,52,000
<b>Less: Expenses:</b>			
Financial costs		40,000	10,000
Depreciation and amortization expenses		1,80,000	3,70,000



Other expenses		1,24,000	4,00,000
Pre-incorporation profit (transferred to CR or GW)		<b>1,28,000</b>	-----
Post-incorporation profit (transferred to P/L A/C)		-----	<b>8,72,000</b>

**Working Notes:**

Note No. 01 Financial costs		
Particulars	Pre ₹	Post ₹
Interest to vendors <b>TR 4:1</b>	40,000	10,000
<b>Total</b>	<b>40,000</b>	<b>10,000</b>
Note No. 02 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Depreciation <b>TR 1:2</b>	1,80,000	3,60,000
Preliminary expenses written off <b>Post</b>	-----	10,000
<b>Total</b>	<b>1,80,000</b>	<b>3,70,000</b>
Note No. 03 Other expenses		
Particulars	Pre ₹	Post ₹
Audit fees <b>Post</b>	-----	26,000
Directors' fees <b>Post</b>	-----	60,000
Office expenses <b>TR 1:2</b>	80,000	1,60,000
Selling expenses <b>SR 2:7</b>	44,000	1,54,000
<b>Total</b>	<b>1,24,000</b>	<b>4,00,000</b>

**Balance Sheet as at 31-12-2021**

Sources of funds (Liabilities)	Note No.	₹	₹
<b>Equity and Liabilities:</b>			
<b>1. Shareholders fund:</b>			
Share capital	<b>04</b>		80,00,000
Reserves and surplus	<b>05</b>		8,72,000
<b>2. Share Application money pending allotment</b>			NIL
<b>3. Non-current Liabilities:</b>			
<b>4. Current Liabilities:</b>			
<b>TOTAL</b>			<b>88,72,000</b>
Assets:	Note No.	₹	₹
<b>1. Non-Current Assets:</b>			
Fixed Assets	<b>06</b>		73,72,000
<b>2. Current Assets:</b>			
Inventories	<b>07</b>		10,00,000
Cash and Cash equivalents	<b>08</b>		5,00,000
<b>TOTAL</b>			<b>88,72,000</b>

**Working Notes:**

<b>Note No. 04 Share capital</b>		
<b>Particulars</b>		<b>₹</b>
<b>Share Capital:</b>		
Shares issued for the settlement of consideration other than for cash		40,00,000
Shares issued for cash to the public		40,00,000
<b>Total</b>		<b>80,00,000</b>
<b>Note No. 05 Reserves and surplus</b>		
<b>Particulars</b>		<b>₹</b>
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		8,72,000
<b>Total</b>		<b>8,72,000</b>
<b>Note No. 06 Fixed Assets</b>		
<b>Particulars</b>		<b>₹</b>
Goodwill	10,00,000	
<b>Less:</b> Pre-incorporation Profit	1,28,000	8,72,000
Machinery: From business purchase	30,00,000	
Machinery: From acquisition (Cash)	25,00,000	55,00,000
Buildings		6,00,000
Patents		4,00,000
<b>Total</b>		<b>73,72,000</b>
<b>Note No. 07 Inventories</b>		
<b>Particulars</b>		<b>₹</b>
Closing Stock		10,00,000
<b>Total</b>		<b>10,00,000</b>
<b>Note No. 08 Cash and Cash equivalents</b>		
<b>Particulars</b>		<b>₹</b>
Cash at bank		5,00,000
<b>Total</b>		<b>5,00,000</b>

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## **COMPANY ACCOUNTS: ISSUE, FORFEITURE AND RE-ISSUE OF SHARES**

### **MEANING OF COMPANY**

The never-ending human desire to grow and grow further has given rise to the expansion of business activities, which in turn has necessitated the need to increase the scale of operations so as to provide goods and services to the ever-increasing needs of the growing population of consumers. Large amount of money, modern technology, large human contribution etc. is required for it, which is not possible to arrange under partnership or proprietorship. To overcome this difficulty, the concept of 'Company' or 'Corporation' came into existence.

Company begs its origin in law. It is an organisation consisting of individuals, called shareholders by virtue of holding the shares of a company, who are authorised by law to elect a board of directors and, through it, to act as a separate legal entity as regards its activities.

According to Justice Marshal, "A corporation is an artificial being, invisible, intangible and existing only in the contemplation of law".

*Distinction between Ownership and Management:* Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the operational management of the company on a day-to-day basis. This gives rise to the need of separation of the management and ownership.

### **SALIENT FEATURES OF A COMPANY**

Following are the salient features of a company:

1. *Incorporated Association:* A company comes into existence through the operation of law. Therefore, incorporation of company under the Companies Act is must. Without such registration, no company can come into existence. Being created by law, it is regarded as an artificial legal person.
2. *Separate Legal Entity:* A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.
3. *Perpetual Existence:* Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
4. *Common Seal:* Company is not a natural person; therefore, it cannot sign the documents in the manner as a natural person would do. In order to enable the company to sign its documents, it is provided with a legal tool called 'Common Seal'. The common seal is affixed on all documents by the person authorised to do so who in turn puts his signature

for and on behalf of the company. Companies Act, 2013 required common seal to be affixed on certain documents (such as bill of exchange, share certificates, etc.). Now, the use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company.

5. *Limited Liability*: The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
6. *Not a citizen*: A company is not a citizen in the same sense as a natural person is, though it is created by the process of law. It has a legal existence but does not enjoy the citizenship rights and duties as are enjoyed by the natural citizens.
7. *Transferability of Shares*: The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
8. *Maintenance of Books*: A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
9. *Periodic Audit*: A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors.
10. *Right of Access to Information*: The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.

## SHARE CAPITAL

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a **share**. The fixed value of a share, printed on the share certificate, is called nominal/ par/face value of a share. However, a company can issue shares at a price different from the face value of a share. The liability of holder of shares (called shareholders) is limited to the **issue price of shares** acquired by them. However, the issue price need not be equal to market price of the share.

These days the shares are generally priced on the basis of **book building process**. Book building is a process through which company determines its share prices. Under this method company determines a price band of its shares and on the basis of bids received from potential investors at various prices within the price band finally fixes its issue price.

Share capital of a company is divided into following categories:



- i. *Authorised Share Capital or Nominal Capital:* A company estimates its maximum capital requirements. This amount of capital is mentioned in 'Capital Clause' of the 'Memorandum of Association' registered with the Registrar of Companies. It puts a limit on the amount of capital, which a company is authorised to raise during its lifetime and is called 'Authorised Capital'. It is shown in the balance sheet at face value.
- ii. *Issued Share Capital:* A company need not issue total authorised capital. Whatever portion of the share capital is issued by the company, it is called 'Issued Capital'. Issued capital means and includes the nominal value of shares issued by the company for cash, and consideration other than cash. It is also shown in the balance sheet at nominal value. The remaining portion of the authorised capital which is not issued either in cash or consideration may be termed as 'Un-issued Capital'. It is not shown in the balance sheet.
- iii. *Subscribed Share Capital:* It is that part of the issued share capital, which is subscribed by the public i.e., applied by the public and allotted by the company. It also includes the face value of shares issued by the company for consideration other than cash.
- iv. *Called-up Share Capital:* Companies may receive the issue price of shares in installments. The portion of the issue price of shares which a company has demanded or called from shareholders is known as 'Called-up Capital' and the balance, which the company has decided to demand in future may be referred to as Uncalled Capital.
- v. *Paid-up Share Capital:* It is the portion of called up capital which is paid by the shareholders. Whenever a particular amount is called by the company and the shareholder(s) fails to pay the amount fully or partially, it is known as '*unpaid calls*' or '*instalments (or Calls) in Arrears*'. Call-in-advance is that portion of capital which is yet to be called by the company but has already been paid by shareholder.
- vi. *Reserve Share Capital:* As per Section 65 of the Companies Act, 2013, a Company may decide by passing a resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital. Reserve Capital is different from Capital reserve. Capital reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend.

## TYPES OF SHARES

Share issued by a company can be divided into following categories:

1. **Preference Shares:** According to Section 43 of the Companies Act, 2013 persons holding preference shares, called preference shareholders, are assured of a preferential dividend at a fixed rate during the life of the company. They also carry a preferential right over other shareholders to be paid first in case of winding up of the company. Thus, they enjoy preferential rights in the matter of:

- Payment of dividend, and
- Repayment of capital

Generally, holders of these shares do not get voting rights. Companies use this mode of financing as it is cheaper than raising debt. Dividend is generally cumulative in nature and need not be paid every year in case of deficiency of profits.

### **Types of Preference Shares**

Preference shares can be of various types, which are as follows:

- a) **Cumulative Preference Shares:** A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate. Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose. This means that dividend on these shares accumulates unless it is paid in full and, therefore, the shares are called Cumulative Preference Shares. The arrears of dividend are then shown in the balance sheet as a contingent liability.
- b) **Non-cumulative Preference Shares:** A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires. It implies that holder of such a share is not entitled to arrears of dividend in future.
- c) **Participating Preference Shares:** Notwithstanding the right to a fixed dividend, this category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate. Similarly, in the event of winding up of the company, this type of share carries the right to receive a pre-determined proportion of surplus as well once the equity shareholders have been paid out.
- d) **Non-participating Preference Shares:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares.' Unless otherwise specified, the preference shares are generally non-participating.
- e) **Redeemable Preference Shares:** These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier at company's discretion. The repayment on these shares is called redemption and is governed by Section 55 of the Companies Act, 2013.
- f) **Non-redeemable Preference Shares:** The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-Redeemable Preference Shares. According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue. However, a company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the Companies Act, 2013.
- g) **Convertible Preference Shares:** These shares give the right to the holder to get them



converted into equity shares at their option according to the terms and conditions of their issue.

- h) **Non-convertible Preference Shares:** When the holder of a preference share has not been conferred the right to get his holding converted into equity share, it is called Non-convertible Preference Shares. Preference shares are non-convertible unless otherwise stated.

2. **Equity Shares:** Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital. The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholders. These shares carry voting rights. Companies Act, 2013 permits issue of equity share capital with differential rights as to dividend, voting or otherwise in accordance with prescribed rules.

The shares can be issued by a company either

1. for cash or
2. for consideration other than cash.

### **ISSUE OF SHARES FOR CASH**

To issue shares, private companies depend upon 'Private Placement' of shares. Public companies issue a 'Prospectus' and invite general public to subscribe for shares.

To discuss accounting treatment, we shall concentrate on public companies who invite general public to subscribe for equity shares. Similar accounting treatment is applicable in other cases. However, for journal entries in case of issue of preference shares, the word 'Equity' is replaced with the word 'Preference'.

**Minimum Subscription:** A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company.

As per guidelines of the Securities Exchange Board of India (SEBI), the minimum subscription to be received in an issue shall not be less than ninety per cent of the offer through offer document. If the Company does not receive the minimum subscription of 90% of the issue, all application moneys received shall be refunded to the applicants forthwith. In order to avoid that risk, the public companies enter into underwriting arrangements. Underwriting means guaranteeing to subscribe to an agreed number of shares which are not taken up by the public for a certain consideration. As such, the person or institution who underwrites the issue is called 'underwriters' and the commission so paid is

known as 'Underwriting Commission'. In our country, underwriting is done by the Industrial Development Bank of India, Industrial Finance Corporation of India, Life Insurance Corporation of India, The Industrial Credit and Investment Corporation of India, Commercial Banks, Investment Trust, etc.

The company reserves the right to reject or accept an application fully or partially. Successful applicants become shareholders of the company and are required to pay the second instalment which is known as 'Allotment Money' and unsuccessful applicants get back their money. However, in case of delay in refunding the money, the Company becomes liable to pay interest on the amount of refund. Subsequent instalments, if any, to be called by the company are known as 'Calls'.

### **Journal Entries for Issue of Shares for Cash**

Upon the issue of share capital by a company, the undermentioned entries are made in the financial books:

1 *On receipt of the application money*

Bank Account	Dr (With the actual amount received.)
To Share Application Account	(Being application money received)

2 *On allotment of share*

Share Allotment Account	Dr (With the amount due on allotment.)
Share Application Account	Dr (With the application amount received on allotted shares.)
To Share Capital Account	(With the amount due on allotment and application.)

(Being the sum due on allotment and application money transferred to capital account)

3 *On receipt of allotment money*

Bank Account	Dr (With the amount actually received on allotment.)
To Share Allotment Account	(Being money received on allotment)

***Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed through a combined Application and Allotment Account.***



1 *On receipt of Application Money:*

Bank A/c	Dr
To Share Application and Allotment A/c	

2 *On allotment of shares:*

Share Application & Allotment A/c	Dr (With total application and allotment amount)
To Share Capital A/c	

3 *On Allotment money being received*

Bank A/c	Dr
To Share Application & Allotment A/c	

4 *On a call being made*

Share Call Account	Dr (With the amount due on the call.)
To Share Capital Account	

5 *On receipt of call money*

Bank Account	Dr (With the due amount actually received on call)
To Share Call Account	

## **SUBSCRIPTION OF SHARES**

Accounting for issue of shares depends upon the type of subscription. Whenever a company decides to issue shares to public, it invites applications for subscription by issuing a prospectus. It is not necessary that company receives applications for the number of shares to be issued by it. There are three possibilities:

### **1) Full Subscription**

Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same. To start discussion on accounting treatment for issue of shares, let us assume that the issue is fully subscribed.

## 2) Under Subscription

It means the number of shares offered for subscription is more than the number of shares subscribed by the public. In this case, the journal entries as discussed above are passed but with one change i.e., calculation of application, allotment and for that matter, the call money is based on number of shares actually applied and allotted. It must be remembered that shares can be allotted, in this case, only when the minimum subscription is received.

### 3) Over Subscription

In actual practice, issue of shares is either under or over-subscribed. If an issue is over-subscribed, some applications may be rejected and application money refunded and in respect of others, only a part of the shares applied for may be allotted and the excess amount received can be utilised towards allotment or call money which has fallen due or will soon fall due for payment.

The entries are:

- 1 *On refund of application money to applicants to whom shares have not been allotted*

Share Application A/c Dr.

To Bank Account

(Being application money refunded)

- 2 *When only a part of shares applied for are allotted*

Share Application A/c Dr.

To Share Allotment\* A/c

(With the application money accepted for allotment)

To Share Calls-in-Advance\* A/c

(With the amount received in advance)

To Bank A/c

(With any excess amount to be refunded)

(Being application money adjusted)

\*Credited to Share Capital A/c subsequently.

### SHARES ISSUED AT DISCOUNT

Shares are regarded to be issued at a discount, if issue is at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example, when a share of the nominal value of 100 is issued at 98, it is said to have been issued at a discount of 2 per cent.

According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus, any issue of shares at discount shall be void.

## **SHARES ISSUED AT PREMIUM**

When a company issues its securities at a price more than the face value, it is said to be an issue at a premium. Premium is the excess of issue price over face value of the security. Thus, where a share of the nominal value of 100 is issued at 105, it is said to have been issued at a premium of 5 per cent.

When the issue is at a premium, the amount of premium may technically be called at any stage of share capital transactions. However, premium is generally called with the amount due on allotment, sometimes with the application of money and rarely with the call money.

### **Accounting Treatment**

When shares are issued at a premium, the premium amount is credited to a separate account called "*Securities Premium Account*" because it is not a part of share capital. Rather, it represents a gain of a capital nature to the company.

Being a credit balance, Securities Premium Account is shown under the heading, "Reserves and Surplus". However, 'Reserves and Surplus' is shown as 'shareholders' funds in the Balance Sheet as per Schedule III. According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:

- a) Towards issue of unissued shares of the company to be issued to members of the company as fully paid bonus securities.
- b) To write off preliminary expenses of the company.
- c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.
- d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.
- e) For the purchase of own shares or other securities.

**Note :** It may be noted that certain class of Companies as prescribed under Section 133 of the Companies Act, 2013, whose financial statements comply with the accounting standards prescribed for them, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

When shares are issued at a premium, the journal entries are as follows:

- a) Premium amount called with Application money**



- |   |   |  |
|---|---|--|
| 1 | Bank A/c  | Dr. (Total Application money + Premium Amount) |
|   | To Share Application A/c  | (Amount received)                              |
|   | (Money received on applications for Shares @ per share including premium) |  |
- 
- |   |                           |  |
|---|---------------------------|--|
| 2 | Share Application A/c     | Dr. (No. of Shares Applied for x Application Amount per share) |
|   | To Securities Premium A/c | (No. of Shares allotted x Premium Amount per share)            |
|   | To Share Capital A/c      | (No. of Shares allotted x Nominal value per share for capital) |

**(b) Premium Amount called with Allotment Money**

- |   |   |  |
|---|---|--|
| 1 | Share Allotment A/c   | Dr. (No. of Shares Allotted x Allotment and Premium Money per share) |
|   | To Share Capital A/c  | (No. of Shares Allotted x Allotment Amount per share)                |
|   | To Securities Premium A/c   | (No. of Share Allotted x Premium Amount per share)                   |
|   | (Amount due on allotment of shares @ ` per share including premium) |  |
- 
- |   |   |     |
|---|---|-----|
| 2 | Bank A/c  | Dr. |
|   | To Share Allotment A/c  |     |
|   | (Money received including premium consequent upon allotment). |     |

**OVER SUBSCRIPTION AND PRO-RATA ALLOTMENT**

Over subscription is the application money received for more than the number of shares offered to the public by a company. When the shares are oversubscribed, a decision is to be made on how the shares are going to be allotted. Shares can be allotted to the applicants by a company in any manner it thinks proper. The company may reject some applicants in full, i.e., no shares are allotted to some applicants and application money is refunded. Usually, multiple applications by the same persons are not considered. Allotment may be given to the rest of the applicants in full, i.e., for the number of shares they have applied for. A third alternative is that a company may allot shares to the applicants on **pro-rata** basis. 'Pro-rata allotment' means allotment in proportion of shares applied for.

Under pro-rata allotment, the excess application money received is adjusted against the amount due on allotment or calls. Surplus money after making adjustment against future calls is returned to the applicants. The applicants are informed about the allotment procedure through an advertisement in leading newspapers.

(a) *For rejected applications:*

To Bank Account

(b) *For pro-rata allotment:*

### To Share Allotment Account

(Being call money/ allotment money received on .... shares at Rs per share.)

### **Calls-in-Advance**

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. According to Table F, interest at a rate not exceeding 12 per cent p.a. is to be paid on such advance call money. This amount is credited in Calls-in-Advance Account. The following entry is recorded:

Bank A/c      Dr.      (Call amount received in advance)

                    To Call-in-Advance A/c

When calls become actually due, calls-in-advance account is adjusted at the time of the call. For this the following journal entry is recorded:

Calls-in-Advance A/c                      Dr.                      (Call amount received in advance)

Bank A/c                                      Dr.                      (Remaining call money received, if any)

                    To Particular Call A/c                                      (Call money due)

(Being call in advance adjusted and call money due received)

### **ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH**

Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. These shares should be shown separately under the heading 'Share Capital'.

Within specified time of allotment, the company must produce before the Registrar a written contract of sale of service in respect of which shares have been allotted.

#### **Accounting Entries**

When assets are purchased in exchange of shares

Assets Account                      Dr.

                    To Share Capital Account



## **ACCOUNTING FOR RIGHT ISSUE**

The accounting treatment of rights share is the same as that of issue of ordinary shares and the following journal entry will be made:

Bank A/c	Dr.
To Equity shares capital A/c	

In case rights shares are being offered at a premium, the premium amount is credited to the securities premium account. The accounting entry is usual and is

Bank A/c	Dr.
To Equity Share Capital A/c	
To Securities Premium A/c	

## **ADVANTAGES AND DISADVANTAGES OF RIGHT ISSUE**

### **Advantages of right Issue**

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

### **Disadvantages of right issue**

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

## **BUY BACK OF EQUITY SHARES**

Buy back of shares means purchase of its own shares by a company. When shares are bought back by a company, they have to be cancelled by the company. Thus, shares buy back results in decrease in share capital of the company. A company cannot buy its own shares for the purpose of investment. A company having sufficient cash may decide to buy back its own shares. The following may be the Objectives/Advantages of Buy-Back of shares:

1. to increase earnings per share if there is no dilution in company's earnings as the buy-back of shares reduces the outstanding number of shares.
2. to increase promoters holding as the shares which are bought back are cancelled.
3. to discourage others to make hostile bid to take over the company as the buyback will increase the promoters holding.
4. to support the share price on the stock exchanges when the share price, in the opinion of company management, is less than its worth, especially in the depressed market.
5. to pay surplus cash to shareholders when the company does not need it for business.

The Companies Act, 2013 under Section 68 (1) permits companies to buy back their own shares and other specified securities out of:

- its free reserves; or
- the securities premium account; or
- the proceeds of the issue of any shares or other specified securities.

Note: No buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. For example, if equity shares are to be bought-back, then, preference shares may be used for the purpose.

The other important provisions relating to the buyback are:

- (1) Section 68 (2) further states that no company shall purchase its own shares or other specified securities unless—
  - (a) the buy-back is authorised by its articles;
  - (b) a special resolution has been passed in general meeting of the company authorising the buy-back;

However, the above provisions do not apply where the buy back is ten percent or less of the paid up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors. Hence, in case the buy back is upto 10% of paid up equity + free reserves, the same may be done with the authorization of the Board Resolution without the necessity of its being authorized by the articles of association of the company and by a special resolution of its members passed at a general meeting of



the company.

- (c) the buy-back must be equal or less than twenty five per cent of the total paid-up capital and free reserves of the company: (Resource Test)
- (d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)
- (e) the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid up capital and its free reserves: (Debt-Equity Ratio Test)

Note: Central Government may prescribe a higher ratio of the debt than that specified under this clause for a class or classes of companies. Debt here should include both long term debt as well as short term debt.

- (f) all the shares or other specified securities for buy-back are fully paid-up;
- (g) the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;
- (h) the buy-back in respect of shares or other specified securities other than those specified in clause (f) is in accordance with the guidelines as may be prescribed.

Provided that no offer of buy back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy back if any. This means that there cannot be more than one buy back in one year.

- (2) The notice of meeting at which special resolution is supposed to be passed must be accompanied by an explanatory statement stating-
  - (a) a full and complete disclosure of all material facts;
  - (b) the necessity of the buy-back;
  - (c) the class of security intended to be purchased under the buy-back;
  - (d) the amount to be invested under the buy-back;
  - (e) the time limit for completion of the buy-back
- (3) Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.
- (4) The buy-back may be—
  - (a) from the existing security holders on a proportionate basis; or
  - (b) from the open market; or
  - (c) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.
- (5) Where a company has passed a special resolution under clause (b) of Sub- section (2) to buy-back its own shares or other securities under this section, it shall, before making such buy-back, file with the Registrar and the Securities and Exchange Board of India a declaration of solvency in the form as may be prescribed and verified by an affidavit

to the effect that the Board of Directors has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year of the date of declaration adopted by the Board of Directors. It must be signed by at least two directors of the company, one of whom shall be the managing director, if any :

Note: No declaration of solvency shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.

- (6) Where a company buys-back its own securities, it shall extinguish and physically destroy the securities so bought-back within seven days of the last date of completion of buy-back.
- (7) Where a company completes a buy-back of its shares or other specified securities under this section, it shall not make further issue of same kind of shares (including allotment of further shares under clause (a) of Sub-section (1) of Section (62)) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option scheme, sweat equity or conversion of preference shares or debentures into equity shares.
- (8) Where a company buy-back its securities under this section, it shall maintain a register of the securities so bought, the consideration paid for the securities bought-back, the date of cancellation of securities, the date of extinguishing and physically destroying of securities and such other particulars as may be prescribed.
- (9) A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board of India, a return containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed, provided that no return shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.
- (10) If a company makes default in complying with the provisions of this section or any regulations made by SEBI in this regard, the company may be punishable with a fine which shall not be less than Rs One Lakh but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for upto 3 years or with a fine of not less than one lakh rupees but which may extend to three lakh rupees or with both.
- (11) Section 69 (1) states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.
- (12) The shares or other specified securities which are proposed to be bought-back must be fully paid-up.
- (13) The Capital Redemption Reserve Account may be applied by the company in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.

- (14) Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account. Revaluation reserve represents unrealized profit and hence it cannot be used for buy-back of securities.

**Some Important Terms**

- (a) “specified securities” includes employees’ stock option or other securities as may be notified by the Central Government from time to time;
- (b) “free reserves” means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:

Provided that-

- (i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
- (ii) any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves.

For the purposes of Section 68, "free reserves" includes securities premium account.



## **Chapter 01:- Redemption of Preference Shares**

### **Introduction:**

Redemption is the process of repaying an obligation, at prearranged amounts and timings. It is a contract giving the right to redeem preference shares within or at the end of a given time period at an agreed price. These shares are issued on the terms that shareholders will at a future date be repaid the amount which they invested in the company (along with frequent payment of a specified amount as return on investment during the tenure of the preference shares). The redemption date is the maturity date, which specifies when repayment takes place and is usually printed on the preference share certificate.

### **Meaning of Preference Shares**

According to section 85 of the Companies Act, 1956, persons holding preference shares, called preference shareholders. They are assured of a preferential dividend at a fixed rate during the life of the company. This type of shareholders carry preferential right over other shareholders to be paid first in case of liquidation of the company. Companies use this mode of financing as it is cheaper than rising debt.

### **Purpose of Issuing Redeemable Preference Shares**

A company may issue redeemable preference shares because of the following:

- 1 It is a proper way of raising finance in a dull primary market.
2. A company may face difficulty in raising share capital, as its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.
- 3 The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

In India, the issue and redemption of preference shares is governed by Section 55 of the Companies Act, 2013.

### **Provisions of the Companies Act**

A company limited by shares if so authorized by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue. It should be noted that:

- (a) no shares can be redeemed except out of profit of the company which would otherwise be available for dividend or out of proceeds of fresh issue of shares made for the purpose of redemption;
- (b) no such shares can be redeemed unless they are fully paid;
- (c) where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of profits which would otherwise have been available for dividends, be transferred to a reserve account to be called Capital Redemption Reserve Account, a sum

equal to the nominal amount of the shares redeemed; and the provisions of the Act relating to the reduction of the share capital of a company shall, except as provided in the Section, apply as if the Capital Redemption Reserve (CRR) Account were the paid-up share capital of the company.

### **Methods of Redemption**

Redemption of preference shares means repayment by the company of the obligation on account of shares issued. According to the Companies Act, 2013, preference shares issued by a company must be redeemed within the maximum period (normally 20 years) allowed under the Act.

- (a) the proceeds of a fresh issue of shares;
- (b) the capitalization of undistributed profits; or
- (c) a combination of (a) and (b).

#### **Redemption of Preference Shares by Fresh Issue of Shares**

One of the methods for redemption of preference shares is to use the proceeds of a fresh issue of shares. A company can issue new shares (equity share or preference share) and the proceeds from such new shares can be used for redemption of preference shares.

### **Reasons for issue of New Equity Shares**

A company may prefer issue of new equity shares for the following reasons:

- (a) When the company has come to realise that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.
- (b) When the balance of profit, which would otherwise be available for dividend, is insufficient.
- (c) When the liquidity position of the company is not good enough.

### **Advantages of redemption of preference shares by issue of fresh equity shares**

Following are the advantages of redemption of preference shares by the issue of fresh equity shares:

- (1) No cash outflow of money – now or later.
- (2) New equity shares may be valued at a premium.
- (3) Shareholders retain their equity interest.

### **Disadvantages of redemption of preference shares by issue of fresh equity shares**

The disadvantages are:

- (1) There will be dilution of future earnings;
- (2) Share-holding in the company is changed.

### **Redemption of Preference Shares by Capitalisation of Undistributed Profits**

Another method for redemption of preference shares, as per the Companies Act, is to use the distributable profits in place of issuing new shares. When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve Account by debiting the distributable profit. In other words, some of the distributable profits are kept aside to ensure that it can never be distributed to shareholders as dividend.

In this connection, the provisions of the Companies Act state that 'When any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend, be transferred to a reserve fund to be called the Capital Redemption Reserve Account sum equal to the nominal amount of the shares redeemed'.

### **Advantages of redemption of preference shares by capitalization of undistributed profits**

The advantages of redemption of preference shares by capitalization of undistributed profits are:

- (1) No change in the percentage of equity share-holding of the company;
- (2) Surplus funds can be used.

### **Disadvantages of redemption of preference shares by capitalization of undistributed profits**

The disadvantage of redemption of preference shares by capitalization of undistributed profits is that there may be a reduction in liquidity.

### **Redemption of Preference Shares by Combination of Fresh Issue and Capitalisation of Undistributed Profits**

A company can redeem the preference shares partly from the proceeds from new issue and partly out of profits. In order to fill in the 'gap' between the face value of shares redeemed and the proceeds of new issue, a transfer should be made from distributable profits (Profit & Loss Account, General Reserve and other Free Reserves) to Capital Redemption Reserve Account.

### **Capital Redemption Reserve Account**

As per Companies Act, section 80, it will be clear that, if the preference shares are redeemed out of the accumulated profit, it will be necessary to transfer an amount equal to the amount repaid on the redemption to capital redemption reserve account.

**Problems:**

1) XY Co, ltd had part of its share capital in 2000 preference shares of Rs 10 each fully paid up and these have become due for redemption. The preference share capital was to be redeemed out of a fresh issue of equity shares at par made particularly for this purpose and the general reserve of the company stood at Rs 25,000. Show the journal entries for the above transactions.

**Solution :****Journal Entries in the books of XY Co, Ltd**

Date	Particulars	Dr	Cr
1	Preference share capital a/c Dr To Preference shareholders a/c (Being amount payable on redemption of 2,000 preference shares)	20,000	20,000
2	Bank a/c Dr To Equity Shares Capital a/c (Being the amount received on issue of 2,000 equity shares of Rs 10 each made for the purpose of redemption of Preference shares)	20,000	20,000
3	Preference shareholders a/c Dr To bank a/c ( Being the amount due to preference shareholders paid)	20,000	20,000

2) Kitkat Co, Ltd issued 50,000 Equity shares of Rs 10 each and 3000, 10% preference shares of Rs 100 each, all shares being fully paid. On 31/03/2008, P&L account showed an undistributed profit of Rs 50,000 and General Reserve Account stood at 1,20,000. On 2,04,08, the directors decided to issue 1,500, 6% preference shares of Rs 100 each for cash and to redeem the existing preference shares at Rs 105 utilizing as much as would be required for the purpose. Show the journal entries to record the transactions.

**Solution :****In the books of Kitkat Co, Ltd as on 31/03/2008**

Date	Particulars	Dr	Cr
02/04/2008	10% Preference share capital a/c Dr Premium on Redemption of Preference shares (3,000*5) Dr To Preference Shareholders a/c (Being amount payable on redemption of 3,000 Preference shares , with premium of Rs 5)	3,00,000 15,000	3,15,000
02/04/2008	Bank a/c (1,500*100) Dr To 6% Preference Share Capital a/c (Being the amount received on issue of 1,500, 6% preference shares of Rs 100 each)	1,50,000	1,50,000
02/04/2008	General Reserve a/c Dr To premium on Redemption of Preference shares a/c (Being the amount written off against general reserve)	15,000	15,000
02/04/2008	General Reserve a/c Dr Profit & loss a/c Dr	1,05,000 45,000	

	To Capital Redemption Reserve a/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue)		1,50,000
02/04/2008	Preference shareholders a/c Dr To Bank a/c (Being the amount due to preference shareholders paid)	3,15,000	3,15,000

3) A company had 5,000, 6% preference shares of Rs 100 each fully paid. These shares were due for redemption on 31<sup>st</sup> March, 2009 at a premium of 10%. To carry out the redemption, the company issued 1,250 equity shares of Rs 100 each at a premium of 7.5%. The company had a balance of 25,000 in the securities premium a/c and Rs 4,87,500 in the p&l alc. Pass journal Entries.

Solution :-

Journal Entries in the books of

Date	Particulars	Dr	Cr
1	Bank a/c (1,250 * 107.5) Dr To Equity share capital a/c(1,250 *100) To securities premium a/c (1,250 * 7.5) (Being 1,250 equity shares of Rs 100 each issued at 7.5% premium for the purpose of redemption)	1,34,375	1,25,000 9,375
2	Preference share capital a/c (5,000 *100) Dr Premium on redemption a/c (5,000 *10) Dr To Preference shareholders a/c (Being amount payable on redemption @ 10% premium)	5,00,000 50,000	5,50,000
3	Securities premium a/c (25,000 + 9,375) Dr P&l a/c (50,000 – 34,375) Dr To premium on redemption a/c (Being premium payable on redemption adjusted)	34,375 15,625	50,000
4	P&L a/c Dr To capital Redemption Reserve a/c ( Being balance of capital payable transferred )	3,75,000	3,75,000
5	Preference Shareholders a/c Dr To bank a/c (Being payment made on redemption)	5,50,000	5,50,000



4) Aashwanth Ltd. has 2,000, 11% Redeemable Preference shares of Rs 100 each fully paid, Capital Reserve Rs 20,000, Securities Premium Rs 6,000, General reserve Rs 34,000 & P&La/c Rs 54,000. The preference shares were due to be redeemed at 10% premium. As the divisible profits are inadequate, the company issued Equity shares of Rs 10 each at a discount of 10% for redemption. Pass journal entries.

**Solution :- Journal Entries in the books of Aashwanth Ltd**

Date	Particulars	Dr	Cr
1	Preference Share capital a/c (2,000 *100) Dr Premium on redemption a/c (2,000 *10) Dr To preference shareholders a/c (Being Amount payable to redeemable preference shareholders)	2,00,000 20,000	2,20,000
2	Security premium a/c Dr P&L a/c Dr To premium on redemption a/c (Being provision for premium provided)	6,000 14,000	20,000
3	General Reserve a/c Dr P&L a/c Dr To capital Redemption Reserve a/c (Being amount transferred to Capital redemption reserves )	34,000 40,000	74,000
4	Bank a/c (14,000 *9) Dr Discount on issue of shares (14,000*1) Dr To Equity Share Capital a/c (Being issue of 14,000 equity shares of Rs 10 each at a discount of 10%)	1,26,000 14,000	1,40,000
5	Preference Shareholders a/c Dr To bank a/c (Being Payment made)	2,20,000	2,20,000

Working Note: **Calculation of No of Equity shares to be issued.**

Preference Share capital (2,000 \*100) = 2,00,000

Less:- P&L a/c + General Reserve (40,000 + 34,000) = 74,000

Equity Capital 1,26,000

No. of Equity Shares to be issued = 1,26,000 = 14,000 Shares.

5) The Blank Ltd.'s Balance sheet shows the following balances on 31-03-18. 30,000 equity shares of Rs 10 each fully paid; 18,000 10% Redeemable Preference shares of Rs 10 each fully paid; 4,000, 15% Redeemable preference shares of Rs 10 each, Rs8 paid up. General Reserve Rs 1,20,000; Securities Premium Rs 15,000; Profit loss account Rs 80,000 and Capital Reserve Rs 20,000. Preference shares are redeemed on 1-04-18 at a premium of Rs2 per share. For redemption, 4,000 equity shares of Rs 10 each are issued at 10% premium. A bonus issue of equity share was made at par, two shares being issued for every five held on that date. Show the journal entries to record the above transactions.

**Solution :- Journal Entries in the books of Blank Ltd.**

Date	Particulars	Dr	Cr
1/4/2018	10% Preference share capital a/c Dr Premium on redemption of Preference shares a/c Dr To Preference Shareholders a/c (Being amount payable on redemption of 18,000 preference shares with 2% premium)	1,80,000 36,000	2,16,000
1/04/2018	Bank a/c (4,000 *11) Dr To Equity Share Capital a/c To Securities premium a/c (Being the amount received on issue of 4,000, Equity shares of Rs 10 each at 10% premium)	44,000	40,000 4,000
1/04/2018	Securities Premium a/c (15,000 +4,000) Dr P&L a/c Dr To premium on redemption of preference Shares a/c (being the amount written off against general reserves)	19,000 17,000	36,000
1/04/2018	General Reserve a/c Dr P&L a/c Dr To Capital redemption reserve a/c (Being amount transferred to CRR a/c )	1,20,000 20,000	1,40,000
1/04/2018	Preference Shareholders a/c Dr To bank a/c (Being payment made to preference shareholders)	2,16,000	2,16,000
1/04/2018	Capital redemption reserve a/c Dr To Bonus to shareholders a/c (Being the amount utilised for issue of bonus shares in 5:2 ratio as per shareholders resolution)	1,20,000	1,20,000
1/04/2018	Bonus to shareholders a/c Dr To Equity Share Capital a/c (Being the amount capitalised by issue of Bonus shares)	1,20,000	1,20,000

30,000 \*2/5 = 12,000 shares @ 10 each.

6) The preference shares were redeemed on April 1, 2008 at a premium of Rs 5.00 per share, the whereabouts of the holders of 1,500 such shares not being known. At the same time, a bonus issue of equity share was made at par, one share being issued for every four equity shares held. Show the journal entries to record the above transactions and the balance sheet as it would appear after the redemption. The following is the balance sheet of Black Diamond Co. ltd as at 31<sup>st</sup> March, 2008.

Liabilities	Amount	Assets	Amount
<b>Issued &amp; Subscribed Capital:</b>			
40,000 Equity shares of Rs 10 each	4,00,000	Fixed Assets	7,00,000
18,000, 8% Preference shares of Rs 10	1,80,000	Current Assets	4,00,000

<b>Reserves and Surplus:</b> Profit & Loss Account	4,80,000		
<b>Current Liabilities:</b> Sundry Creditors	40,000		
	11,00,000		11,00,000

**Solution:- Journal Entries in the nooks of Black Diamond Co.Ltd:-**

Date	Particulars	Dr	Cr
1/04/2008	8% Preference Share Capital a/c Dr Premium on redemption of Preference Shares a/c Dr To Preference Shareholders a/c (Being amount payable on redemption of preference shares with premium of 5 per share)	1,80,000 90,000	2,70,000
1/04/2008	Profit and Loss a/c Dr To premium of redemption of preference shares a/c (Being the amount written off against Profit and loss a/c)	90,000	90,000
1/04/2008	Profit and loss a/c Dr To capital redemption reserve a/c (Being Amount transferred equal to the nominal value of Shares redeemed and proceeds of new issue)	1,80,000	1,80,000
1/04/2008	Capital Redemption reserve a/c Dr To Bonus to Shareholders a/c (40,000 *1/4*10) (Being Issue of 1 bonus share to every 4 equity shares held)	1,00,000	1,00,000
1/04/2008	Bonus to shareholders a/c Dr To Equity share capital a/c (Being the amount capitalised by issue of bonus shares)	1,00,000	1,00,000
1/04/2008	Preference shareholders a/c (18,000-1,500*10) Dr To Bank a/c (Being the amount due to preference shareholders paid except 1500 shareholders)	2,47,500	2,47,500

**Balance Sheet of Black Diamond Co, Ltd as on 1<sup>st</sup> April 2008**

Particulars	Amount	Amount
<b>A. Equity and Liability:</b>		
Shareholders Fund:		
1. Issued and Subscribed Share capital (40,000 +10,000 *10)	5,00,000	
2. Reserves and Surplus	80,000	
Capital redemption reserve a/c (1,80,000-1,00,000)		
3. Profit and loss a/c (4,80,000 -90,000 -1,80,000)	2,10,000	
<b>B. Non-Current liabilities</b>		
<b>C. Current Liabilities</b>		
Sundry Creditors	40,000	
Outstanding Claim (2,70,000 – 2,47,500)	22,500	8,52,500

<b>Assets:</b>		
Fixed Assets	7,00,000	
Current assets (4,00,000- 2,47,500)	1,52,500	8,52,500

7) Suprajith Ltd had 8,000, 8% redeemable preference shares of Rs 25 each, Rs 20 Called up. The company decided to redeem the preference shares at 5% premium by the issue of sufficient number of equity shares of Rs 10 each fully paid up at a premium of 10%. Pass journal entries relating to redemption.

**Solution: Journal entries in the books of Suprajith Ltd**

Date	Particulars	Dr	Cr
1	8% Preference share capital a/c (8,000*20) Dr Premium on Redemption of Preference shares a/c (8,000*1) Dr To preference shareholders a/c (Being amount payable to preference shareholders at 5% premium)	1,60,000 8,000	1,68,000
2	Bank a/c Dr To Equity share capital a/c (16,000*10) To Securities premium a/c ( 8,000*1) (Being equity shares issued to the extent of 1,60,000 and premium of 8,000 has been received)	1,68,000	1,60,000 8,000
3	Preference shareholders a/c Dr To Bank a/c (Being payment made for preference shareholders)	1,68,000	1,68,000

8) Strange Ltd had 10,000, 8% redeemable preference shares of Rs 25 each, Rs 20 Called up. The company decided to redeem the preference shares at 5% premium by the issue of sufficient number of equity shares of Rs 10 each fully paid up at a premium of 10%. Pass journal entries relating to redemption.

9) The following are taken from the balance sheet of Raja Ltd. as on 31 December 2018.

10,000 Equity shares of Rs 10 each	Rs 1,00,000
10,000, 8% preference shares of Rs 10 each	Rs 1,00,000
Capital Reserve	Rs 50,000
General Reserve	Rs 30,000
P&L a/c	Rs 85,000

The company redeems the preference shares on 1<sup>st</sup> January 2018. Give journal entries.

**Solution: Journal Entries in the books of Raja Ltd as on 31 December 2018**

Date	Particulars	Dr	Cr
1/01/2018	Preference Share capital a/c Dr To Preference Shareholders a/c (Being amount payable on redemption of preference shares)	1,00,000	1,00,000
1/01/2018	General Reserve a/c Dr P&L a/c Dr	30,000 70,000	

	To capital redemption reserve a/c (Being transfer of an amount equal to nominal value of shares redeemed to CRR a/c)		1,00,000
1/01/2018	Preference shareholders a/c Dr To bank a/c (Being payment made to preference shareholders)	1,00,000	1,00,000

10) Pap & Dev Ltd. Issued 1,00,000 equity shares of Rs 10 each and 7,500 redeemable preference shares of Rs 100 each, all shares being fully called and paid up on 31<sup>st</sup> march 2011. Profit and loss account showed undistributed profits of Rs 5,00,000 and general reserve stood at Rs 4,00,000. On 1<sup>st</sup> April 2011, the directors decided to redeem the existing preference shares at Rs 110 utilizing as much profits as would be required for the purpose.

You are required to pass the necessary journal entries in the books of the company.

Solution:- Journal entries in the books of Pap and Dev Ltd as on 31March 2011.

Date	Particulars	Dr	Cr
1/04/2011	Redeemable preference share capital a/c Dr Premium on redemption a/c Dr To redeemable preference shareholders a/c (Being amount due to redeemable preference shareholders including premium)	7,50,000 75,000	8,25,000
1/04/2011	General Reserve a/c Dr Profit and loss a/c Dr To capital redemption reserve a/c (Being transfer made out of general reserve and profit and loss a/c for redemption)	4,00,000 3,50,000	7,50,000
1/04/2011	Profit and loss a/c Dr To premium on redemption of preference shares a/c (Being Premium payable adjusted from p & l a/c )	75,000	75,000
1/04/2011	Redeemable preference shareholders a/c Dr To bank a/c (Being payment made for preference shareholders )	8,25,000	8,25,000

11) M/s Leela Agro Ltd, has part of its share capital in 5,000 12% redeemable preference shares of Rs 100 each. The general reserve of the company shows a credit balance of Rs 6,00,000. The directors decided to utilize 70% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of the fresh issue of sufficient number of equity shares of Rs 10 each.

Give the journal entries to record these transactions.

Solution:- Journal entries in the books of M/s Leela Agro Ltd

Date	Particulars	Dr	Cr
1	Redeemable preference share capital a/c Dr To Redeemable preference shareholders a/c (Being amount due to redeemable preference shareholders)	5,00,000	5,00,000
2	General Reserve a/c Dr To capital redemption reserve a/c (Being CRR created out of general reserve upto 70%)	4,20,000	4,20,000
3	Bank a/c (8,000 *10) Dr To Equity share capital a/c (Being 8,000 Equity shares issued @10 each for redemption of preference shares)	80,000	80,000
4	Redeemable preference shareholders a/c Dr To bank a/c (Being payment made to Redeemable preference shareholders)	5,00,000	5,00,000

Calculation of number of shares

Amount to be collected from issue of Equity shares = 80,000 (5,00,000 – 4,20,000)

Face value of Equity shares = Rs 10 each.

Number of shares = 80,000/10 = 8,000 shares

12) On 31<sup>st</sup> March 2018, the balance sheet of Radha Ltd, Stood as follows:

Liabilities	Amount	Assets	Amount
Equity share Capital	15,00,000	Sundry Assets	19,00,000
Redeemable Preference Share	6,00,000	Bank	8,50,000
Capital			
Profit and Loss account	4,00,000		
Sundry Creditors	2,50,000		
	27,50,000		27,50,000

On the above date, the preference shares have to be redeemed. 30,000 equity shares of Rs 10 each are issued at Rs 11. The Company also issued 10% debentures totaling Rs 4,00,000. The shares and debentures are fully subscribed and paid for. The preference shares are duly redeemed.

You are required to give journal entries and the balance sheet after redemption.

Solution:- Journal Entries in the books of Radha Ltd

Date	Particulars	Dr	Cr
1	Redeemable preference share capital a/c Dr To preference shareholders a/c (Being payment due for redeemable preference shareholders)	6,00,000	6,00,000
2	Bank a/c Dr (30,000 *11= 3,30,000 +4,00,000) Dr To Equity share Capital a/c (30,000 *10) To Securities premium a/c (30,000 *1) To Debentures a/c (Being 30,000 equity shares of Rs 10 each issued at Rs 11 including premium and 10% Debentures of Rs 4,00,000collected)	7,30,000	3,00,000 30,000 4,00,000

3	Profit and loss a/c To Capital Redemption reserve a/c (Being balance required transferred to CRR)	Dr 3,00,000	3,00,000
4	Redeemable preference shareholders a/c To Bank a/c (Being payment made to redeemable preference shareholders)	Dr 6,00,000	6,00,000

**Balance Sheet of Radha Ltd. as on 31 march 2011 (After redemption)**

Particulars	Amount
<b>A. Equity and Liability</b>	
1. Shareholders Funds	
Equity Share capital (15,00,000 + 3,00,000)	18,00,000
<u>Reserves and surplus</u>	
Securities Premium	30,000
Capital Redemption Reserve A/c	3,00,000
P&L a/c (4,00,000 – 3,00,000)	1,00,000
2. Non- Current liabilities	
10% Debentures	4,00,000
3. Current Liabilities	
Sundry Creditors	2,50,000
	<b>28,80,000</b>
<b>B. Assets</b>	
1. Non-Current Assets	
Sundry Assets	19,00,000
2. Current assets	
Bank (8,50,000 + 7,30,000 – 6,00,000)	<u>9,80,000</u>
	<b>28,80,000</b>

13) Srinivas ltd, have part of their share capital in 4,000 10% redeemable preference shares of Rs 100 each. The company decided to redeem the preference shares at premium of Rs 10%. The general reserve of the company stood at 5,00,000. The directors decided to utilize 50% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of fresh issue of sufficient number of equity shares of Rs 10 each. The premium on redemption is to be met from the year's profit and loss appropriation account.

Give journal entries to record the above transactions.

**Solution :- Journal Entries in the books of Srinivas Ltd**

Date	Particulars	Dr	Cr
1	Redeemable preference share capital a/c Premium on redemption of Preference shares a/c To redeemable preference shareholders a/c (Being amount payable to redeemable preference shareholders at a premium of 10%)	Dr 4,00,000 40,000	4,40,000
2	General reserve a/c To Capital redemption reserve a/c (Being 50% of the reserves transferred to CRR a/c )	Dr 2,50,000	2,50,000

3	Bank a/c Dr To Equity share capital a/c (15,000 *10) (being Remaining 1,50,000 has been collected by issuing 15,000 shares at Rs10 each)	1,50,000	1,50,000
4	Profit and loss appropriation a/c Dr To premium on redemption of preference shares a/c (Being Premium on redemption provided out of P&L Appropriation a/c )	40,000	40,000
5	Redeemable preference shareholders a/c Dr To bank a/c (Being payment made to redeemable preference shareholders)	4,40,000	4,40,000

14) Following is the balance sheet of M/s Thomas Co Ltd, As on 31<sup>st</sup> March 2011 in a summarized form:

Liabilities	Amount	Assets	Amount
Share Capital:	4,00,000	Bank	1,20,000
Paid-up share capital 4,000 equity shares of Rs 100 each Fully paid		Other Assets	8,25,000
2,000 8% redeemable preference shares of Rs 100 each: 2,00,000			
Less:- Calls in arrears of 100 shares	1,95,000		
Reserves and Surplus:			
General Reserves	2,50,000		
Development Rebate Reserve	40,000		
Other Liabilities	60,000		
	9,45,000		9,45,000

The redeemable preference shares were redeemed on the following basis:

- 1) Further 1,500 equity shares were issued at a premium of 10%.
- 2) Expenses of fresh issue of shares Rs 4,000
- 3) Out of 100 preference shares, holders of 80 shares paid the call money Rs 50 before the date of redemption. The balance of 20 shares were forfeited and they were re-issued as fully paid shares on receipt of Rs 1,500 before redemption.
- 4) Preference shares were redeemed at a premium of 10% and share premium was utilized in full for this purpose.

You are required to pass journal entries and prepare summarized balance sheet after redemption.

Solution: Journal entries in the books of M/S Thomas ltd as on 31 March 2011

Date	Particulars	Dr	Cr
31/03/2011	8% Redeemable Preference share capital a/c Dr	2,00,000	
	Premium on redemption a/c Dr	20,000	
	To Redeemable preference shareholders a/c (Being Amount due to redeemable preference shareholders)		2,20,000



31/03/20 11	Bank a/c (1,50,000+ 15,000) Dr To Equity share capital a/c (1,500 *100) To securities premium a/c (1,500 *10) (Being issue of 1,500 equity shares at a premium of 10%)	1,65,000	1,50,000 15,000
31/03/20 11	Share issue Expenses a/c Dr To Bank a/c (Being payment made towards expenses of fresh issue)	4,000	4,000
31/03/20 11	Bank a/c (80*50) Dr To calls in arrears a/c (Being amount due on final call for 80 shares @ Rs 50 per share)	4,000	4,000
31/03/20 11	Redeemable preference share capital a/c Dr To Calls in arrears a/c To Forfeited shares a/c (Being Forfeiture of 20 preference shares of Rs 100 each for non-payment of final call of Rs 50)	2,000	1,000 1,000
31/03/20 11	Bank a/c Dr Forfeited shares a/c Dr To redeemable preference share capital a/c (Being 20 shares forfeited and were re-issued for Rs 1,500)	1,500 500	2,000
31/03/20 11	Forfeited Shares a/c Dr To Capital Reserve a/c (Being Forfeited shares transferred to capital reserve a/c )	500	500
31/03/20 11	General Reserve a/c Dr To Capital redemption reserve a/c (Being amount transferred out of reserves to CRR)	50,000	50,000
31/03/20 11	General Reserves a/c Dr To premium of redemption a/c (Being Premium payable on redemption )	5,000	5,000
31/03/20 11	Redeemable preference shareholders a/c Dr To Bank a/c (Being Payment made to redeemable preference shareholders)	2,20,000	2,20,000

Dr		Bank a/c		Cr	
Particulars	Amount	Particulars	Amount		
To Balance b/d	1,20,000	By Share issue expense	4,000		
To Equity shares a/c	1,50,000	By Redeemable preference shareholders a/c	2,20,000		
To Premium a/c	15,000				
To calls in arrears a/c	4,000	By Balance c/d	66,500		
To redeemable preference shares	1,500				
	2,90,500		2,90,500		

**Balance sheet of M/s Thomas Co.Ltd as on 31<sup>st</sup> march 2011**

<b>Particulars</b>	<b>Amount</b>
<b>A. Equity and Liability:</b>	
1. Shareholders Fund:	
Equity share Capital (4,00,000+1,50,000)	<b>5,50,000</b>
Reserves and Surplus:	
General Reserve (2,50,000 – 55,000)	<b>1,95,000</b>
Capital redemption reserve a/c	<b>50,000</b>
Capital Reserve	<b>500</b>
Development Rebate reserve	<b>40,000</b>
2. Non – Current Liabilities	<b>-</b>
3. Current Liabilities	
Sundry creditors	<b>60,000</b>
	<b>8,95,500</b>
<b>B. Assets:</b>	
1. Non – Current assets	
Sundry Assets	<b>8,25,000</b>
2. Current Assets	
Bank	<b>66,500</b>
<b>Misc Expenses (Share issue Expenses)</b>	
	<b>8,95,500</b>

15) The balance sheet of M/s Laxmi Ltd. as on 31 March 2010 was as follows:

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
2,000 8% Redeemable preference shares of Rs 100 each fully paid	2,00,000	Sundry Assets	9,00,000
4,000 6% Redeemable preference shares of Rs 50 each, Rs 25 per share paid up.	1,00,000	Bank	2,00,000
40,000 equity shares of Rs 10 each	4,00,000		
Reserves & Surplus:			
Capital Reserve	1,20,000		
Securities Premium	20,000		
Dividend Equalization Reserve	1,10,000		
Current Liabilities	1,50,000		
	<b>11,00,000</b>		<b>11,00,000</b>

The company decided to redeem the preference shares at a premium of 5%. To enable

the redemption to be carried out, the company decided to issue after carrying out, the necessary formalities required under law, sufficient number of new equity shares at a discount of 10%.

You are required to give the necessary journal entries and prepare the balance sheet soon after the redemption.

**Solution :- Journal Entries in the books of M/s Laxmi Ltd as on 31 /March/2010**

Date	Particulars	Dr	Cr
31/03/2010	8% redeemable preference share capital a/c Dr Premium on redemption A/c Dr To redeemable preference shares a/c (Being amount due to 8% redeemable preference shareholders including 5% premium)	2,00,000 10,000	2,10,000
31/03/2010	Dividend Equalization reserve a/c Dr To capital redemption reserve a/c (Being amount transferred to CRR from Dividend Equalization Reserves)	1,10,000	1,10,000
31/03/2010	Bank a/c (10,000*9) Dr Discount on issue of shares a/c (10,000 *1) Dr To Equity share capital a/c (Being issue of 10,000 equity shares at Rs 9 each at a discount of Rs1)	90,000 10,000	1,00,000
31/03/2010	Redeemable preference shareholders a/c Dr To bank a/c (Being amount paid to 8% redeemable preference shareholders)	2,10,000	2,10,000

**Balance Sheet in the books of M/S laxmi Ltd as on 31/March/2010**

Particulars	Amount
<b>A. Equity and Liability</b>	
1. Shareholders Fund	
Equity Share Capital (4,00,000 +1,00,000)	5,00,000
4,000 6% Preference share capital	1,00,000
2. Reserves and Surplus	
Capital redemption reserve a/c	1,10,000
Capital Reserves	1,20,000

Non- Current Liabilities	Nil
Current Liabilities	1,50,000
	<b>9,80,000</b>
<b>B. Assets</b>	
1. Non-Current assets	
Sundry Assets	9,00,000
2. Current assets	
Bank	80,000
(2,00,000 +90,000- 2,10,000)	
	<b>9,80,000</b>

# GOKUL GLOBAL UNIVERSITY

Faculty of Commerce & Management

E-Content



Course:	Bachelor's of Business Administration / Bachelor's of Commerce
Semester:	1 <sup>ST</sup>
Subject:	Computer Application – I
Subject Code:	FMB210106 / FCB210106

Address: - Gokul Global University, Surjapuri Patia, Opp. I.O.C. Depot. State  
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# **MODULE 1**

# INTRODUCTION TO COMPUTERS

## 1. Computer System Components:

- Hardware: Physical parts of a computer such as:
- CPU (Central Processing Unit): The brain of the computer responsible for executing instructions.
- RAM (Random Access Memory): Volatile memory used for temporary data storage while the computer is on.
- Motherboard: The main circuit board that connects all components of the computer.
- Storage Devices: HDDs, SSDs, and optical drives used for long-term data storage.
- Software: Programs and applications that run on the computer, divided into:
- System Software: Operating systems (like Windows, macOS, Linux) and utility programs that manage hardware and software resources.
- Application Software: Programs that perform specific tasks for users (like Microsoft Office, Adobe Photoshop).

## 2. Input Devices:

- Devices used to enter data into a computer:
- Keyboard: Used for typing text and commands.
- Mouse: Pointing device used to interact with the graphical interface.
- Scanner: Converts physical documents into digital format.
- Microphone: Captures audio input.

## 3. Output Devices:

- Devices that convey information from the computer to the user:
- Monitor: Displays visual output from the computer.
- Printer: Produces physical copies of digital documents.
- Speakers: Output audio from the computer.
- Projector: Projects visual output onto a larger screen.

## 4. Storage Devices:

- Hard Disk Drive (HDD): Magnetic storage device for long-term data storage.
- Solid State Drive (SSD): Faster storage device using flash memory.
- USB Flash Drives: Portable storage devices using flash memory.
- Optical Discs (CD/DVD): Media used for storing data in a digital format.

## 5. Computer Storage Elements:

- Primary Storage: RAM (volatile memory) used for temporary data storage.
- Secondary Storage: Non-volatile memory like HDDs and SSDs used for long-term data storage.

6. Types of Computers:

- Supercomputers: Extremely powerful computers used for complex computations.
- Mainframe Computers: Large, powerful systems used in enterprises for bulk data processing.
- Minicomputers: Mid-sized computers used in manufacturing and research.
- Microcomputers (Personal Computers): Commonly used by individuals for personal and business purposes.

7. Applications of Computers:

- Business: Accounting, inventory management, customer relationship management.
- Education: E-learning, research, and administrative tasks.
- Healthcare: Patient records, diagnostic tools, telemedicine.
- Entertainment: Gaming, streaming, digital art.

8. Advantages of Using Computers:

- Speed: Rapid data processing and calculations.
- Accuracy: High precision in tasks and computations.
- Storage Capacity: Ability to store large amounts of data.
- Automation: Performing repetitive tasks without human intervention.

## **OPERATING SYSTEM**

1. Computer Software Categories:

- System Software: Includes operating systems and utility programs.
- Application Software: Programs for specific tasks like word processing, spreadsheets, and games.

2. Introduction to Operating System:

- An OS is system software that manages computer hardware and software resources and provides common services for computer programs.

3. Types of User Interfaces:

- Command-Line Interface (CLI): Text-based interface where users type commands.
- Graphical User Interface (GUI): Visual interface with icons, windows, and menus.

4. Functions of Operating Systems:

- Process Management: Managing the execution of multiple processes.
- Memory Management: Allocating and managing memory usage.



- File System Management: Organizing and managing files on storage devices.
  - Device Management: Controlling and managing hardware devices.
  - Security and Access Control: Protecting data and managing user permissions.
5. Types of Operating Systems:
- Batch Operating System: Processes batches of jobs without user interaction.
  - Time-Sharing Operating System: Allows multiple users to share system resources simultaneously.
  - Distributed Operating System: Manages a group of distinct computers to appear as a single system.
  - Network Operating System: Provides services to computers connected over a network.
  - Real-Time Operating System: Ensures timely processing of tasks for real-time applications.
6. Examples of Operating Systems:
- Windows: Popular OS by Microsoft with a GUI.
  - macOS: OS for Apple computers with a GUI.
  - Linux: Open-source OS used in various devices.
  - UNIX: Powerful, multiuser OS used in servers and workstations.
7. Booting Process:
- Cold Booting: Starting a computer from a powered-down state.
  - Warm Booting: Restarting a computer that is already on.

## **WINDOWS & ITS UTILITIES**

1. Introduction to Windows:
- Windows is a series of operating systems developed by Microsoft, known for its user-friendly GUI, multitasking capabilities, virtual memory, and built-in applications.
2. Various Versions:
- Windows 95: Introduced the Start menu and taskbar.
  - Windows XP: Improved stability and user interface.
  - Windows 7: Enhanced performance and interface.
  - Windows 10: Unified OS across devices with regular updates.
  - Windows 11: Modern design with new features and enhanced performance.
3. Components of Windows:

- Desktop: Main screen area after logging on.
  - Icons: Small pictures representing files, folders, and programs.
  - My computer: Provides access to the file system and hardware.
  - My Documents: Default storage folder for documents.
  - Network Neighbourhood: Access to network resources.
  - Recycle Bin: Temporarily stores deleted files.
  - Start Menu: Access to programs, settings, and system utilities.
  - Taskbar: Shows running applications and system functions.
  - Windows Explorer: File management application.
4. Control Panel:
- Date & Time: Setting the system clock and calendar.
  - Display: Adjusting screen resolution, wallpaper, and screen saver.
  - Mouse: Configuring mouse settings.
  - User Accounts: Managing user accounts and passwords.
  - Add & Remove Programs: Installing and uninstalling software.

## **FILES AND FOLDERS**

1. Creating Folder:
- Steps to create a new folder using Windows Explorer: Right-click on the desired location, select "New", and choose "Folder".
2. Folder Operations:
- Copying: Right-click the folder, select "Copy", navigate to the destination, right-click and select "Paste".
  - Moving: Right-click the folder, select "Cut", navigate to the destination, right-click and select "Paste".
  - Deleting: Right-click the folder and select "Delete".
3. Creating Files & File Operations:
- Creating new files using applications, opening, saving, and closing files.
  - Basic file operations: copying, moving, and deleting files.
4. Creating Shortcuts:
- Right-click the file or program, select "Create shortcut", and place it on the desktop or other location for quick access.

## **SYSTEM TOOLS**

1. Disk Defrag:
- Rearranges fragmented data on the disk to improve efficiency, which can be accessed through the system tools or the Control Panel.

## **INTERNET AND OUTLOOK**

### **1. What is Internet:**

- A global network connecting millions of private, public, academic, business, and government networks.

### **2. Most Popular Internet Services:**

- Email: Sending and receiving messages.
- World Wide Web (WWW): Accessing and sharing information via websites.
- File Transfer Protocol (FTP): Transferring files between computers.
- Usenet: Sharing messages and files in newsgroups.
- Internet Relay Chat (IRC): Real-time text messaging.
- Instant Messaging: Real-time communication.
- Internet Telephony: Making voice calls over the Internet.

### **3. Functions of Internet:**

- Email: Sending and receiving messages.
- WWW: Accessing and sharing information via websites.
- FTP: Transferring files between computers.
- Usenet: Sharing messages and files in newsgroups.
- IRC: Real-time text messaging.
- Instant Messaging: Real-time communication.
- Internet Telephony: Making voice calls over the Internet.

### **4. How Internet Works:**

- Data is transmitted over the internet using protocols like TCP/IP. Data packets travel through routers and switches to reach their destination.

### **5. Connecting to Internet:**

- Methods of connecting to the internet: Dial-up, broadband, Wi-Fi, mobile data.

### **6. Managing Emails:**

- Organizing, reading, and sending emails using email clients or webmail services. Using folders, labels, and filters for organization.

### **7. Using Address Book:**

- Managing contacts, adding new contacts, and organizing contact groups.

# **MODULE 2**

## **INTRODUCTION TO MS WORD**

1. What is Word Processing:
  - The creation, editing, and formatting of documents using a word processor like MS Word.
2. Examples of Word Processing Programs:
  - Microsoft Word: Widely used word processing software by Microsoft.
  - Google Docs: Cloud-based word processing software by Google.
  - LibreOffice Writer: Open-source word processing software.
3. Basic Features of MS Word:
  - Text Formatting: Changing font, size, colour, and style.
  - Paragraph Formatting: Aligning text, line spacing, and indentation.
  - Page Layout: Setting margins, orientation, and size.
  - Tables: Inserting and formatting tables.
  - Graphics: Adding and formatting images and shapes.
  - Proofing Tools: Spell check, grammar check, and thesaurus.
  - Collaboration: Track changes, comments, and sharing documents.

## **INTRODUCTION TO MS EXCEL**

1. What is a Spreadsheet:
  - A digital sheet consisting of rows and columns used for organizing, analysing, and storing data.
2. Examples of Spreadsheet Programs:
  - Microsoft Excel: Widely used spreadsheet software by Microsoft.
  - Google Sheets: Cloud-based spreadsheet software by Google.
  - LibreOffice Calc: Open-source spreadsheet software.
3. Basic Features of MS Excel:
  - Data Entry: Entering text, numbers, and dates in cells.
  - Formulas and Functions: Performing calculations using formulas and functions.
  - Data Formatting: Changing the appearance of cells, fonts, and borders.
  - Charts and Graphs: Visualizing data using different types of charts.
  - Data Analysis: Using pivot tables, filtering, and sorting data.
  - Collaboration: Sharing workbooks and working with others in real-time.

# **MODULE 3**

# **INTRODUCTION TO MS POWERPOINT**

## **1. What is a Presentation:**

- A collection of slides used to convey information visually, often used for educational, business, and personal purposes.

## **2. Examples of Presentation Programs:**

- Microsoft PowerPoint: Widely used presentation software by Microsoft.
- Google Slides: Cloud-based presentation software by Google.
- LibreOffice Impress: Open-source presentation software.

## **3. Basic Features of MS PowerPoint:**

- Slide Creation: Adding and formatting slides.
- Text and Object Formatting: Adding and formatting text, images, and shapes.
- Slide Transitions and Animations: Adding visual effects between slides and on objects.
- Multimedia: Inserting audio and video clips.
- Collaboration: Sharing presentations and working with others in real-time.

# MODULE 4



## **ADVANCED EXCEL**

1. Advanced Excel Formulas and Functions:
  - IF Statements: Logical functions for conditional calculations.
  - VLOOKUP and HLOOKUP: Functions for looking up data in tables.
  - INDEX and MATCH: Advanced lookup functions.
  - SUMIF and COUNTIF: Conditional summing and counting functions.
  - ARRAY Formulas: Performing multiple calculations on one or more items in an array.
2. Data Analysis Tools:
  - Pivot Tables: Summarizing and analysing large datasets.
  - What-If Analysis: Tools like Goal Seek and Scenario Manager.
  - Data Validation: Controlling the type of data entered into cells.
3. Data Visualization:
  - Charts and Graphs: Creating and customizing various chart types.
  - Conditional Formatting: Highlighting data based on specific conditions.
  - Sparklines: Miniature charts within a single cell.
4. Macros and Automation:
  - Recording Macros: Automating repetitive tasks.
  - VBA (Visual Basic for Applications): Writing custom scripts for advanced automation.

## **FULL FORMS:**

- CPU (Central Processing Unit)
- RAM (Random Access Memory)
- HDD (Hard Disk Drive)
- SSD (Solid State Drive)
- CLI (Command Line Interface)
- GUI (Graphical User Interface)
- OCR (Optical Character Recognition)
- LCD (Liquid Crystal Display)
- LED (Light Emitting Diode)
- CRT (Cathode Ray Tube)
- DPI (Dots Per Inch)
- HDD (Hard Disk Drive)
- SSD (Solid State Drive)
- USB (Universal Serial Bus)
- CD (Compact Disc)
- DVD (Digital Versatile Disc)
- OS (Operating System)
- RTOS (Real-Time Operating System)
- WWW (World Wide Web)
- FTP (File Transfer Protocol)
- IRC (Internet Relay Chat)
- VLOOKUP (Vertical Lookup)
- HLOOKUP (Horizontal Lookup)
- SUMIF (Summation If)
- COUNTIF (Count If)
- ARRAY Formulas
- VBA (Visual Basic for Applications)