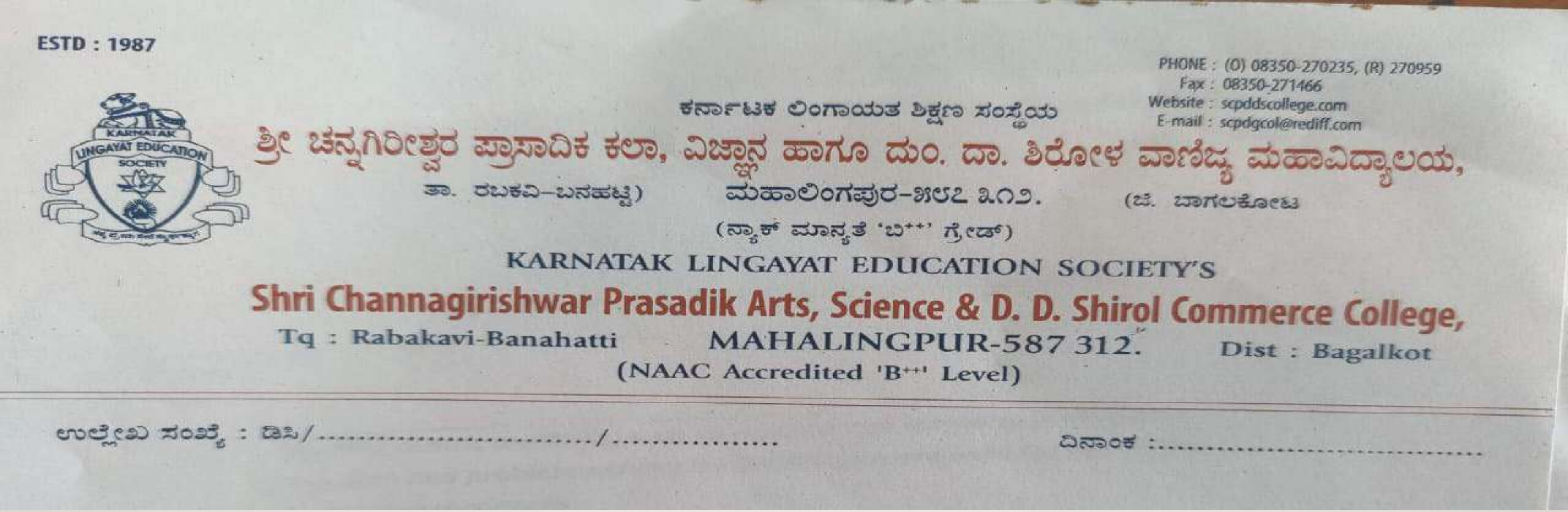
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PHONE : (O) 08350-270235, (R) 270959
Fax : 08350-271466
Website : scpddscollege.com
E-mail : scpdgcol@rediff.com

ಕರ್ನಾಟಕ ಲಿಂಗಾಯತ ಶಿಕ್ಷಣ ಸಂಸ್ಥೆಯ
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(ನ್ಯಾಕ್ ಮಾನ್ಯತೆ 'ಬ++' ಗ್ರೇಡ್)

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PPTs and PDF Prepared by Teachers

SCP Arts and DDS Commerce College Mahalingpur.

DEMAND ANALYSIS AND FORECASTING

Prepared by:

Mr. MUSTAQ MULLA, *M.Com, NET, K-SET*

Co-Ordinator, Teaching Assistant,

P.G. Department of Studies in Commerce,

KLE's S C P Arts, Science and DDS Commerce College,

Mahalingpur- 587312

DEMAND ANALYSIS

WHAT IS DEMAND?

"Demand means effective desire or want for a commodity which is backed up by the ability (purchasing power) and willingness to pay for it".

- Demand = Desire + Ability to pay + Willingness to spend

- Demand is a relative concept – not absolute

  It is related to price , time and place.

"The demand for a commodity refers to the amount of it which will be bought per unit of time at a particular price (in a particular market)".

INDIVIDUAL AND MARKET DEMAND

- ***<u>Individual Demand</u>*** : Individual demand for a product is the quantity of it a consumer would buy at a given price, during a given period of time.
- ***<u>Market demand</u>*** : Market demand for a product is the total demand of all the buyers in the market taken together at a given price during a given period of time.

<u>Demand Schedule:</u> ‘ A tabular statement of price – quantity (demanded) relationship at a given period of time’

→ Individual demand schedule

→ Market demand schedule.

TYPES OF DEMAND

1) Demand for consumer goods
2) Demand for producers' goods
3) Autonomous demand
4) Derived demand
5) Individual demand
6) Market demand
7) Company demand
8) Industry demand

9) Short run demand
10) Long run demand
11) Demand for durable goods
12) Demand for perishable goods
13) Joint demand
14) Composite demand

1. DEMAND FOR CONSUMER GOODS

Consumer goods are those goods that are purchased for final consumption

Eg:food products, soap, Colgate etc

2.DEMAND FOR PRODUCERS' GOODS

Producers' goods are those goods that are used for further production. These are also known as capital goods

eg:

- working capital goods[raw materials]
- Fixed capital goods [plant, machinery etc]

3. AUTONOMOUS DEMAND

Autonomous demand are independent demand. These demands are in no way linked with the demand for other commodities

Eg: food items, cloths etc

4.DERIVED DEMAND

When commodity is demanded as a result of the demand for another commodity, it is called derived demand

Eg: capital goods, complementary goods

5.INDIVIDUAL DEMAND

The quantity of a commodity demanded by an individual at a particular price during a given period is known as individual demand

Eg: quantity of apple demanded by Mr.X for the last month when the price was 60 rs per kg

6.MARKET DEMAND

Market demand is the estimates of quantity demanded of the commodity per time period at various alternate price by all the individual households in the market

Eg: quantity demanded for apple for the month of December at various price by all the individuals

7. COMPANY DEMAND

The term company demand denotes the demand for a particular product of a particular firm

Eg: the demand for motor bikes of bajaj Ltd in the market

8.INDUSTRY DEMAND

When we add demand for a particular faced by all the companies producing that product, we get what is called an industry demand

Industry demand refers to the total demand for the product of a particular industry

Eg: demand for bikes in vehicle industry

9.SHORT RUN DEMAND

Short run demand refers to existing demand with its immediate reaction to price changes, income fluctuation etc

10.LONG RUN DEMAND

Long run demand is such type of demand which will ultimately exist as a result of the changes in pricing, promotion or product improvement, after enough time is allowed to let the market adjust itself to the new situation...

11.DEMAND FOR DURABLE GOODS

Durable goods are those goods that are having a longer life span or that are purchased for longer use

Eg: television, machinery, equipments etc

12.DEMAND FOR PERISHABLE GOODS

Perishable goods are those goods which disappear on consumption. These are also termed as single use goods

Eg: food products, cosmetic items, soap etc

13.JOINT DEMAND

When two or more goods are demanded to satisfy the same want, it is called joint demand

Eg: demand for car and petrol

14. COMPOSITE DEMAND

When a particular product is demanded to be put to multiple uses, it is called composite demand

Eg: demand for milk as it is used to make tea, ice-cream, butter etc

THE LAW OF DEMAND

In simple words, the law of demand states that, other things remaining constant, as the price of a particular commodity increases, the quantity demanded for it decreases and vice-versa.

"Other things being equal, the demand is higher with the fall in price and diminishes with the rise in price."

-Alfred Marshall


Law of Demand
When the price goes up...
...the quantity demanded goes down.
NOTE: The relationship between price and quantity is inverse.
When the price goes down...
...the quantity demanded goes up.

ASSUMPTIONS:

- No Change In Consumer Income
- No Change In Consumer Preference
- No Change In Fashion
- No Change In Price of Related Goods
- No Expectation of Future Price Change

EXCEPTIONS/LIMITATIONS:

According to the law of demand, there exists an inverse relationship between price of a commodity and its quantity demanded. However, there are certain exceptions to this rule which are enumerated as:

EXCEPTIONS WITH EXAMPLE:

1. Giffen Goods : potatoes and other staple foods
2. Prestigious Goods: diamond
3. Fear of Shortage: onion and gold
4. Expectations of Change in the price of the commodity

CONCLUSION:

Thus, it can be concluded that the law of demand does not apply in every case and situation and there are certain circumstances where the law of demand becomes ineffective.

DETERMAINENTS OF DEMAND

Factors affecting increase & decrease in demand

- Change in fashion
- Change in taste
- Change in population
- Income of people
- Availability of substitutes
- Availability if complimentary goods
- Advertisement
- Technical Progress
- Change in Real Income

Change in Fashion

- Demand for a goods or a commodity is highly dependent upon the existing fashion. When certain goods go out of fashion people don't like to purchase them, demand for such goods decreases.

Bell bottom To Pencil cut

Change in Taste

- An important factor which determines demand for a goods in taste & preferences of consumers a goods for which consumer taste & preferences are greater. Its demand could be large.

Change in Population

- Increase in the size of population naturally leads to increase in demand for goods & services, Decrease in size of population leads to decrease in demand.

Income of Peoples

- The demand for goods depend upon the income level of the people creates the income greater will be the demand lesser the income less will be the demand

Availability of Substitutes

- If the substitutes are available in large number than the demand for the commodity falls when its substitutes become cheap. If there are more substitutes for a commodity then the demand for it does not fall even if its price increase.

Availability of Complimentary Goods

- Complimentary goods are the goods which are demanded together.

Availability of Complimentary Goods

- Complimentary goods are the goods which are demanded together.

- **Technical Progress**

The introduction of new product in the market as a result of invention & discovering also effects the demand. Demand for old goods will be go down & demand for new product will increase.

Change in Real Income

- An increase in real income leads to a greater demand for the commodities. It means people purchase more commodities with large real income similarly a decrease in real income leads to decrease in demand.

Elasticity of Demand

Prepared by:

Mr. MUSTAQ MULLA, *M.Com, NET, KSET*

Co-Ordinator, Teaching Assistant,

P.G. Department of Studies in Commerce,

KLE's S C P Arts, Science and DDS Commerce College,

Mahalingpur- 587312

Types Of elasticity of demand :

- There are 4 types of elasticity of demand :

  1. Price Elasticity of Demand

  2. Cross Elasticity of Demand

  3. Income Elasticity of Demand

  4. Advertising Elasticity of Demand

PRICE ELASTICITY OF DEMAND

Definition

It is the degree of responsiveness of quantity demanded of a commodity due to change in price, other things remaining the same.

In other words

The price elasticity of demand is the percentage change in quantity demanded due to certain percentage change in price

Mathematical Expression

Mathematically, it can be expressed as:

$$\text{Price elasticity of demand} = \frac{\%\text{change in quantity demanded}}{\%\text{change in price}}$$

Symbolically, it can be expressed as:

$$E_P = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

Where,

E_p = Price elasticity of demand

q = Original quantity demanded

Δq = Change in quantity demanded

p = Original price

Δp = Change in price

Practical Example

Suppose that price of a commodity falls down from Rs.10 to Rs.9 per unit.

Due to this, quantity demanded of the commodity increased from 100 units to 120 units.

What is the price elasticity of demand?

Solution

Give that,

p= initial price= Rs.10

q= initial quantity demanded= 100 units

Δp=change in price=Rs. (10-9) = Rs.1

Δq=change in quantity demanded= (120-100) units = 20 units

$$\therefore E_p = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

$$= \frac{20}{1} \times \frac{10}{100}$$

$$= \frac{2}{1}$$

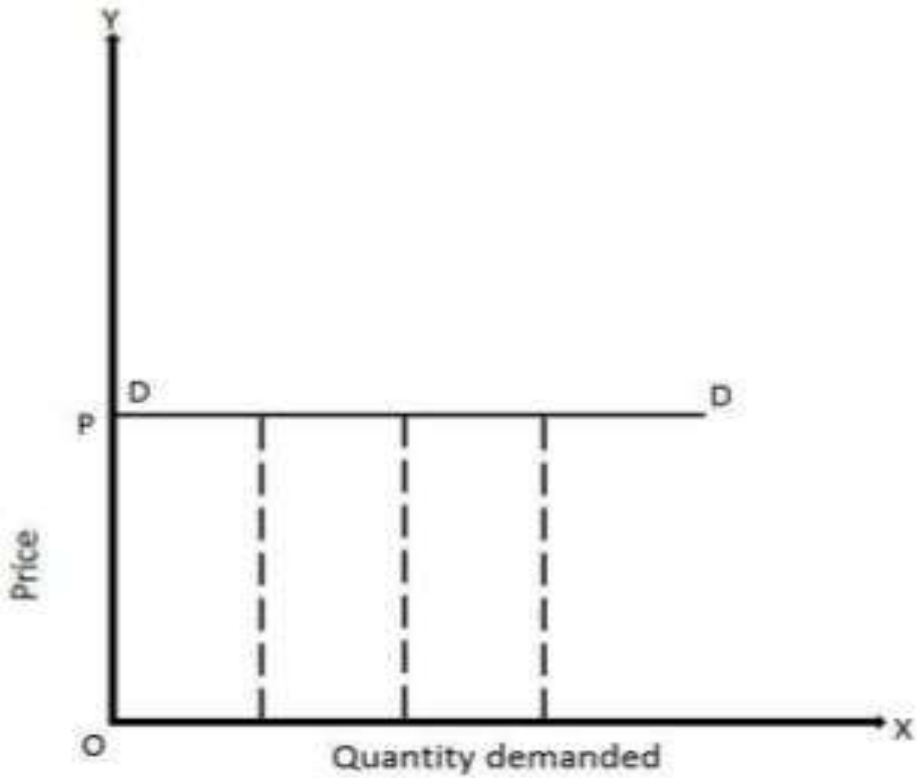
$$= 2\%$$

The quantity demanded increases by 2% due to fall in price by Rs.1.

Types or degrees of price elasticity of demand

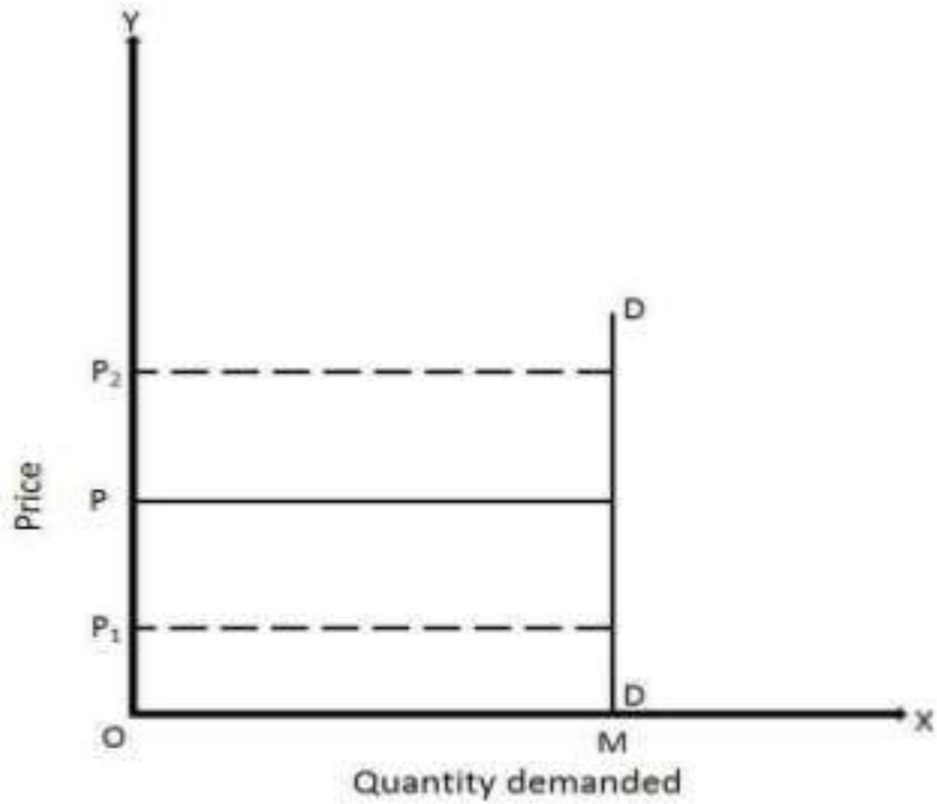
1. Perfectly Elastic Demand ($E_P = \infty$)
2. Perfectly Inelastic Demand ($E_P = 0$)
3. Relatively Elastic Demand ($E_P > 1$)
4. Relatively Inelastic Demand ($E_p < 1$)
5. Unitary Elastic Demand ($E_p = 1$)

1. Perfectly Elastic Demand ($E_P = \infty$)



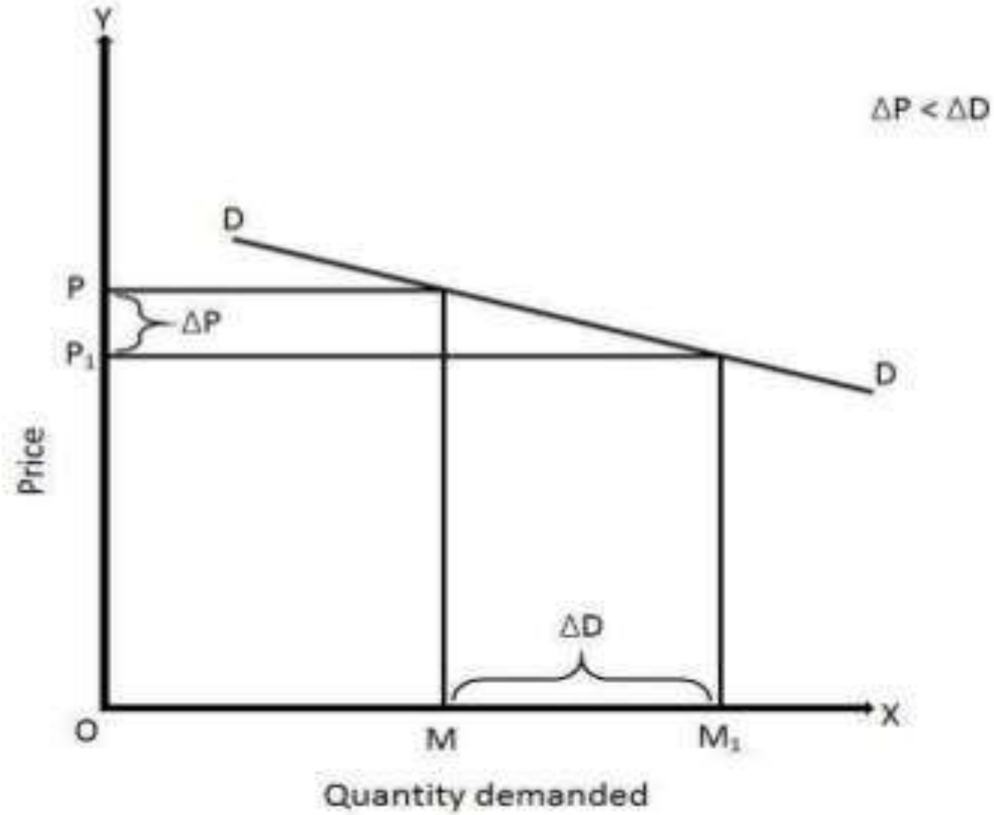
The quantity demanded increases infinitely (or by unlimited quantity) with a small fall in price
or
quantity demanded falls to zero with a small rise in price.

2. Perfectly Inelastic Demand ($E_P = 0$)



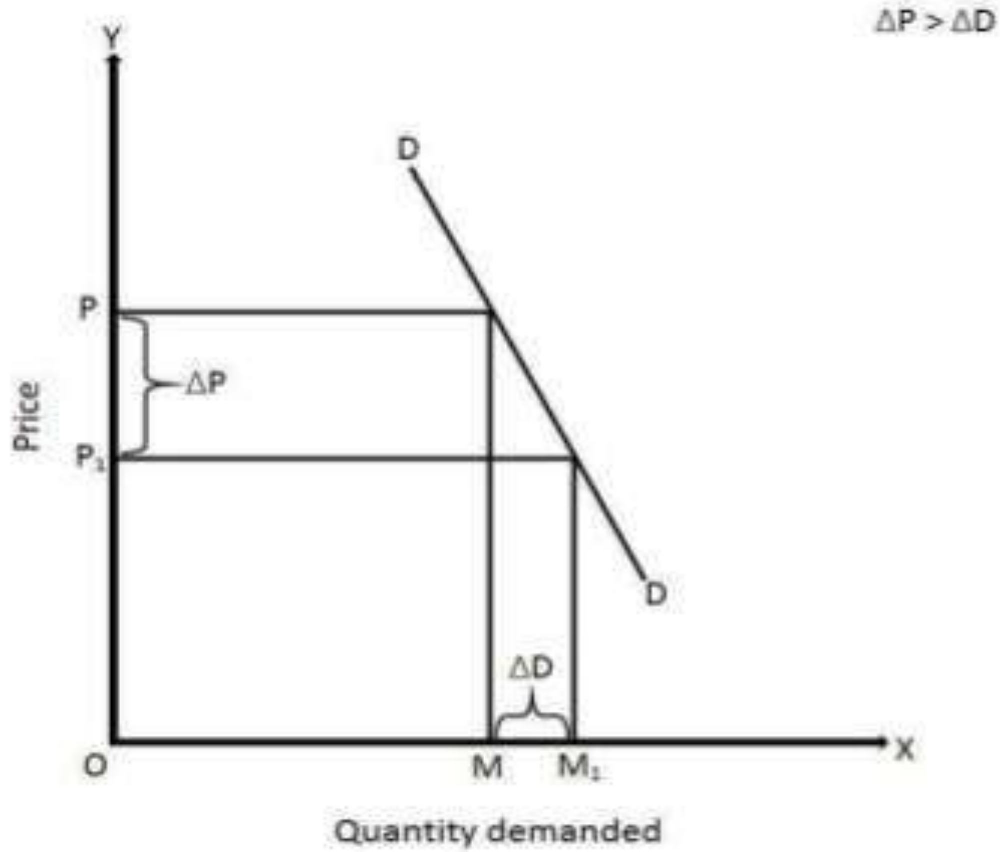
The demand remains constant whatever may be the price (i.e. price may rise or fall)

3. Relatively Elastic Demand (E_P> 1)



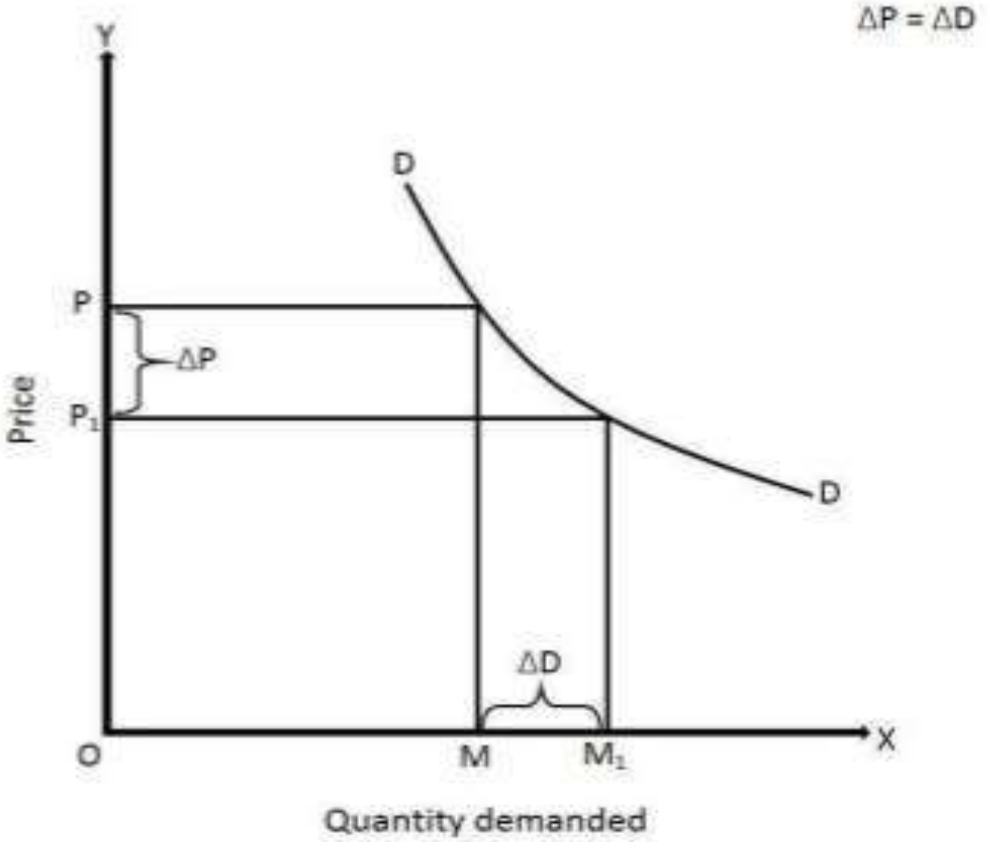
Percentage change in demand is greater than the percentage change in price

4. Relatively Inelastic Demand ($E_p < 1$)



Percentage change in quantity demanded is less than the percentage change in price

5. Unitary Elastic Demand ($E_p = 1$)



Percentage change in quantity demanded is equal to the percentage change in price

Value of Elasticity co-efficients and their Description

	Value of Elasticity Co-efficient	Degrees of Elasticity	Description
1	$E_d = 0$	Perfectly Inelastic demand	Change in price causes no change in quantity demanded.
2	$E_d < 1$	Less than unitary elastic demand	Percentage change in demand is less than percentage change in price.
3	$E_d = 1$	Unitary elastic demand	Percentage change in demand is equal to percentage change in price.
4	$E_d > 1$	Greater than unitary elastic demand	Percentage change in demand is more than percentage change in price.
5	$E_d = \infty$	Perfectly elastic demand	Little change in price causes an infinite change in demand.

DETERMINANTS OF ELASTICITY OF DEMAND

1. Availability of substitutes
2. Proportion of income spent on a commodity
3. Different uses of commodity
4. Habit of consumer
5. Nature of commodity
6. Postponement of the use

IMPORTANCE OF PRICE ELASTICITY OF DEMAND

1. *To a monopolist*
2. *To a finance minister*
3. *Useful in factor pricing*
4. *Useful in international trade*
5. *Explanation of paradox of poverty of farmer*

INCOME ELASTICITY OF DEMAND

Definition

Other things remaining the same, it is degree of responsiveness of quantity demanded of a commodity due to change in consumer's income

In other words

Income Elasticity of Demand measures by how much the quantity demanded changes with respect to the change in income.

Mathematical Expression

Mathematically, it is expressed as:

$$\text{Income elasticity of demand} = \frac{\%\text{change in quantity demanded}}{\%\text{change in income}}$$

Symbolically, it is expressed as:

$$E_Y = \frac{\Delta q}{\Delta y} \times \frac{y}{q}$$

Where,

E_Y = Elasticity of demand

q = Original quantity demanded

Δq = Change in quantity demanded

y = Original consumer's income

Δy = Change in consumer's income

Practical Example

Suppose that the initial income of a person is Rs.2000 and quantity demanded for the commodity by him is 20 units.

When his income increases to Rs.3000, quantity demanded by him also increases to 40 units.

Find out the income elasticity of demand.

Solution

Here, q = 100 units

Δq = (40-20) units = 20 units

y = Rs.2000

Δy = Rs. (3000-2000) =Rs.1000

$$\therefore E_Y = \frac{\Delta q}{\Delta y} \times \frac{y}{q}$$

$$= \frac{20}{20} \times \frac{2000}{1000}$$

$$= 2\%$$

Hence, an increase of Rs.1000 in income i.e. 1% in income leads to a rise of 2% in quantity demanded.

Types of Income Elasticity of demand

1. Positive income elasticity of demand (E_Y>0)
   - Income elasticity greater then unity (E_Y > 1)
   - Income elasticity equal to unity (E_Y = 1)
   - Income elasticity less then unity (E_Y < 1)
2. Negative income elasticity of demand (E_Y<0)
3. Zero income elasticity of demand (E_Y=0)

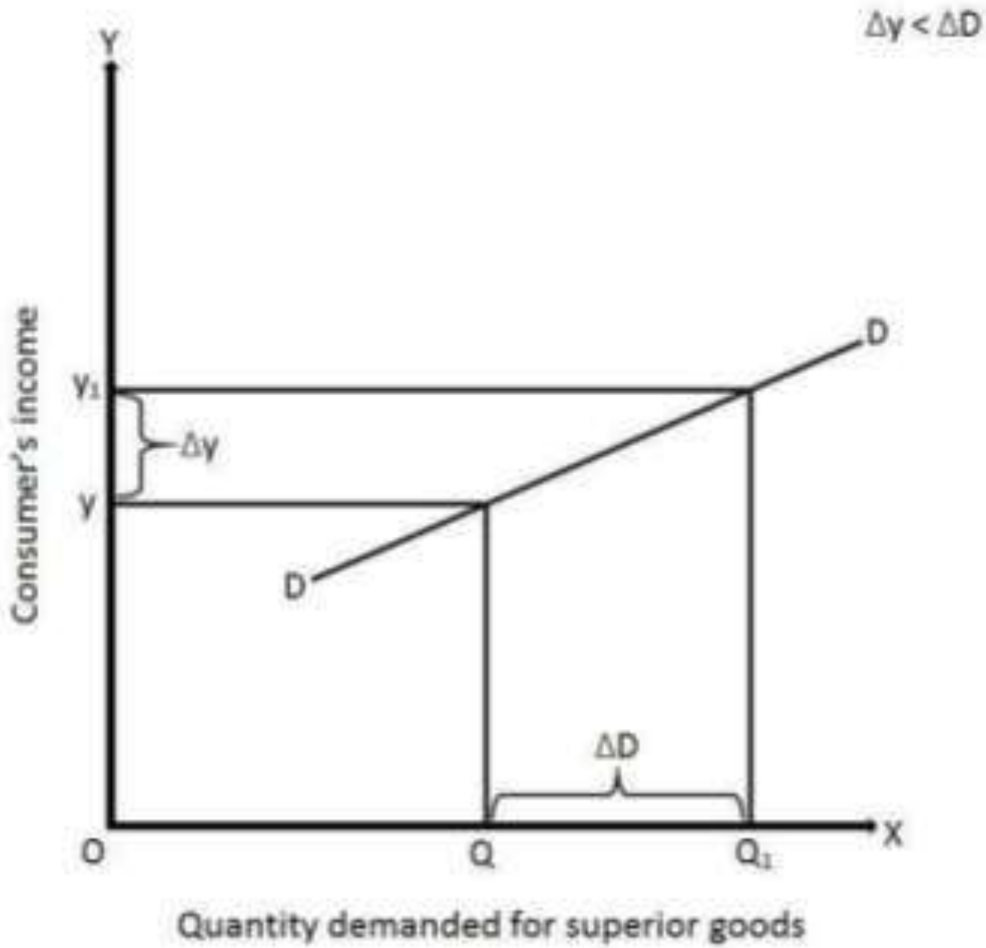
1. Positive income elasticity of demand ($E_Y>0$)

If the quantity demanded for a commodity increases with the rise in income of the consumer and vice versa, it is said to be positive income elasticity of demand.

For example:

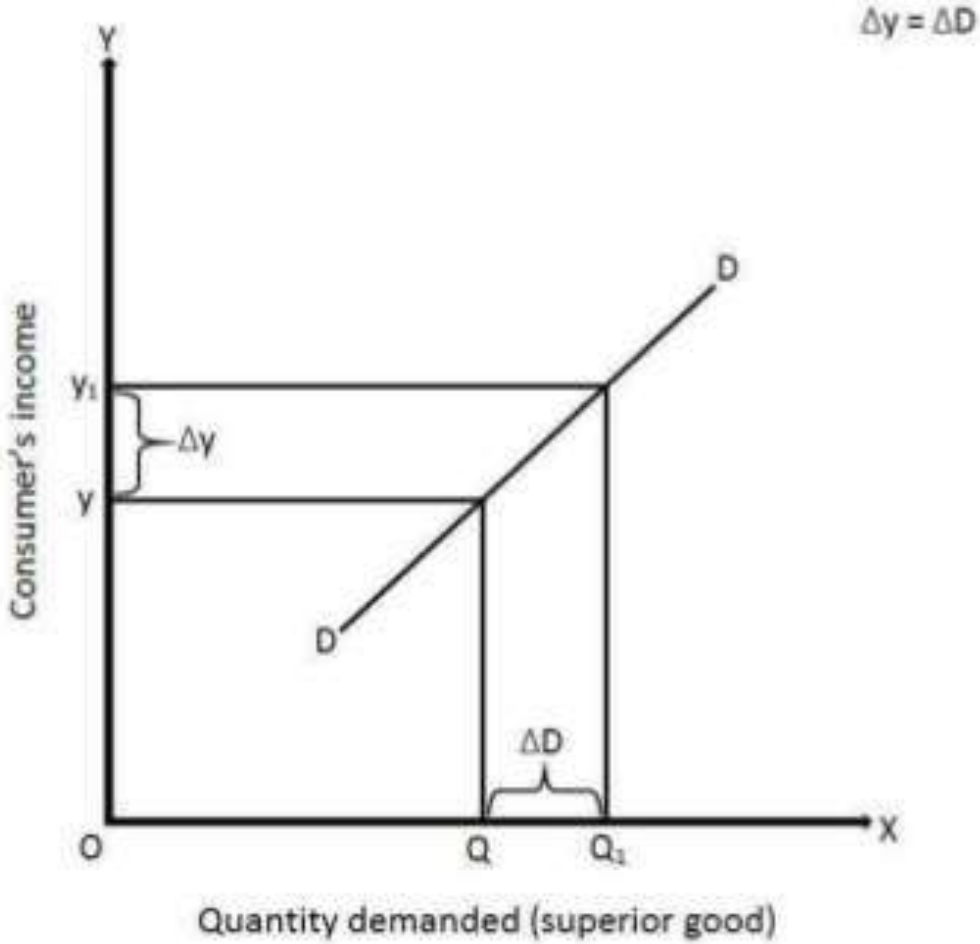
As the income of consumer increases, they consume more of superior (luxurious) goods.

Income elasticity greater then unity ($E_Y > 1$)



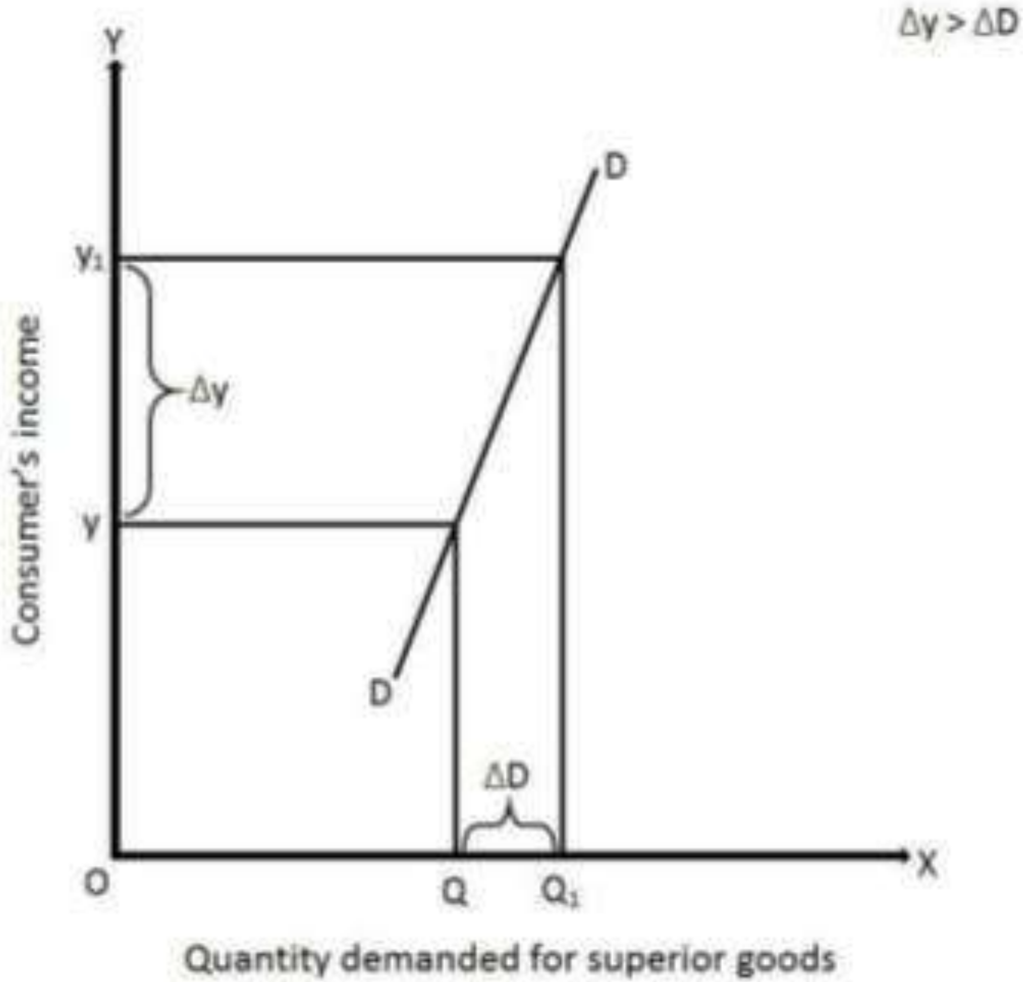
Percentage change in quantity demanded for a commodity is greater than percentage change in income of the consumer, it is said to be income greater than unity

Income elasticity equal to unity ($E_Y = 1$)



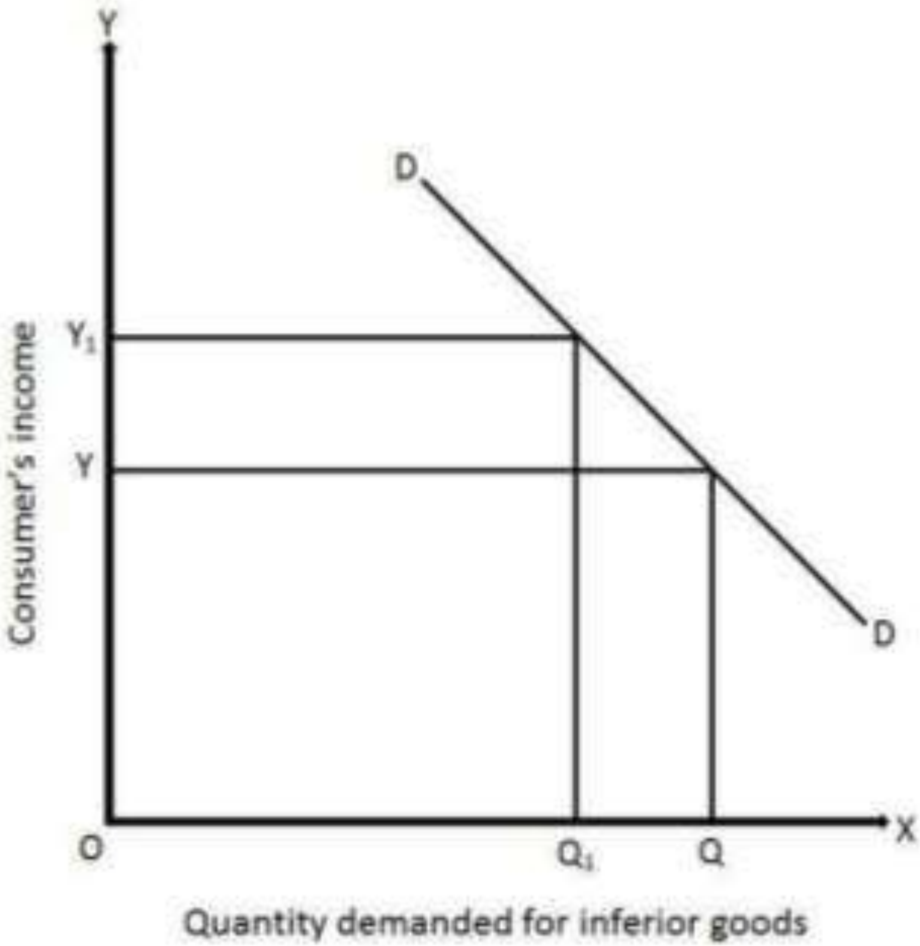
Percentage change in quantity demanded for a commodity is equal to percentage change in income of the consumer

Income elasticity less then unity ($E_Y < 1$)



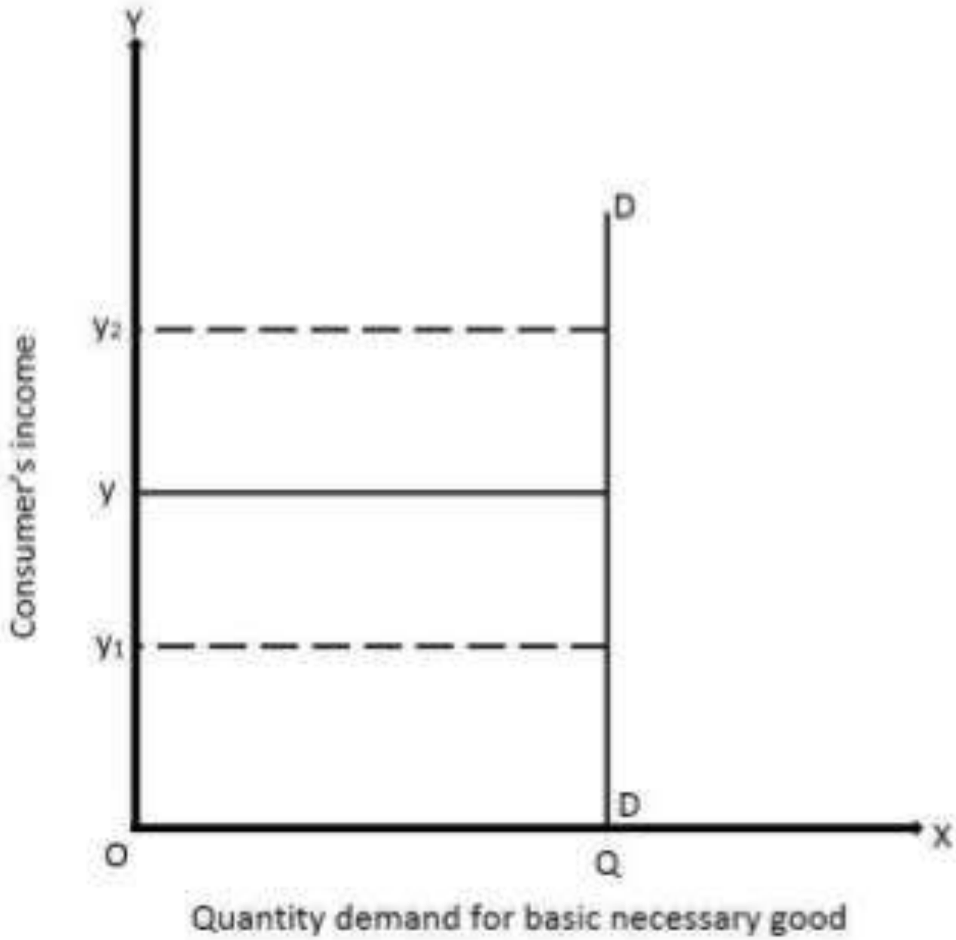
Percentage change in quantity demanded for a commodity is less than percentage change in income of the consumer

2. Negative income elasticity of demand ($E_Y<0$)



Quantity demanded for a commodity decreases with the rise in income of the consumer and vice versa

3. Zero income elasticity of demand (E_Y=0)



Quantity demanded for a commodity remains constant with any rise or fall in income of the consumer

Effect	Income elasticity coefficient	Classification of good
A proportionately larger change in the quantity demanded	>1	Luxury good
A proportionately smaller change in the quantity demanded	<1	Normal
A negative change in the quantity demanded	<0	Inferior good

CROSS PRICE ELASTICITY OF DEMAND

Definition

The cross-price elasticity of demand is the degree of responsiveness of quantity demanded of a commodity due to the change in price of another commodity.

Mathematical Expression

Mathematically, it is expressed as:

$$Cross\ elasticity\ of\ demand = \frac{\%\ change\ in\ quantity\ demanded\ for\ good\ x}{\%\ change\ in\ price\ of\ good\ y}$$

Symbolically, it is expressed as:

$$E_C = \frac{\Delta q_x}{\Delta p_y} \times \frac{p_y}{q_x}$$

Where, E_C= Cross elasticity of demand

q_x= initial quantity demanded for good x

Δq_x= change in quantity demanded of good x

p_y= initial price of good y

Δp_y= change in price of good y

Practical Example

Tea and coffee are substitutes to each other. If the price of coffee rises from Rs.10 per 100 grams to Rs.15 per 100 grams.

As a reserve, consumer demand for tea increases from 30/100 grams to 40/100 grams.

Find out the cross elasticity of demand between tea and coffee.

Solution

Here, If we suppose tea as good x and coffee as good y.

q_x= initial quantity demanded of tea =30 grams

Δq_x= change in quantity demanded of tea= (40-30) grams = 10 grams

p_y= initial price of coffee= Rs.10

Δp_y= change in price of coffee= Rs. (15-10) = Rs. 5

Now,

$$\therefore E_C = \frac{\Delta q_x}{\Delta p_y} \times \frac{p_y}{q_x}$$

$$= \frac{10}{5} \times \frac{10}{30}$$

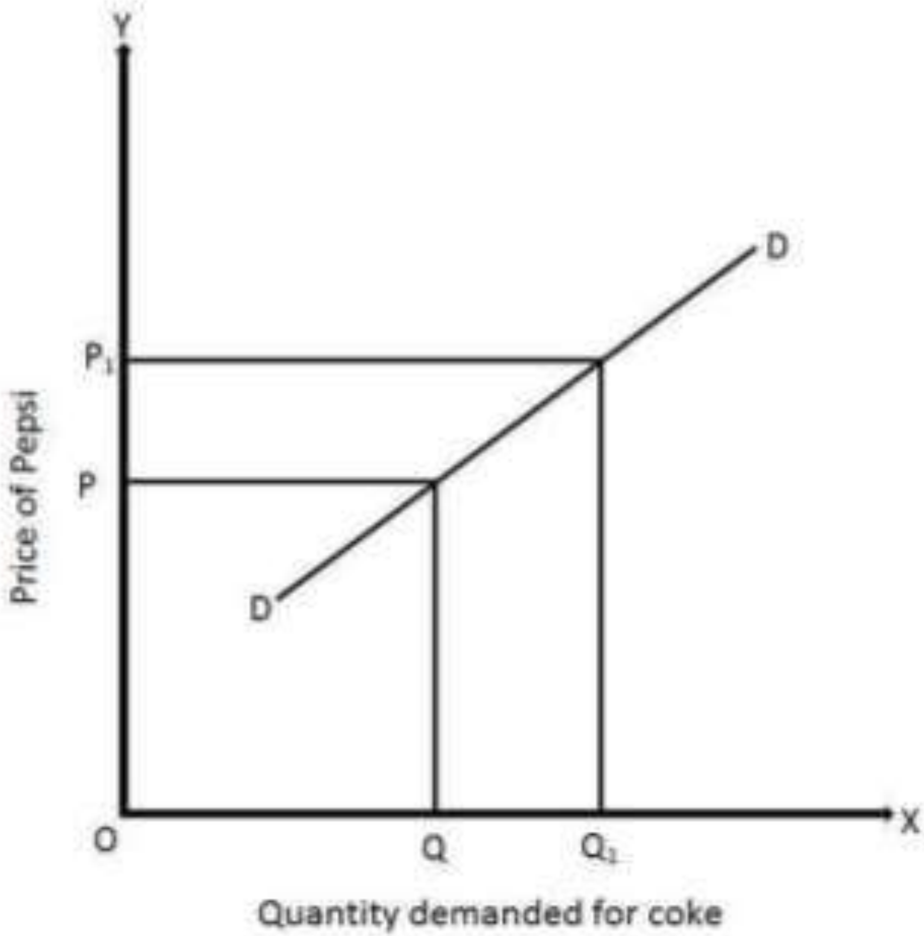
$$= \frac{2}{3}$$

The coefficient of cross elasticity is 2/3 which shows that the quantity demanded for tea increases 2% when the price of coffee rises by 3%.

Types of Cross Elasticity of Demand

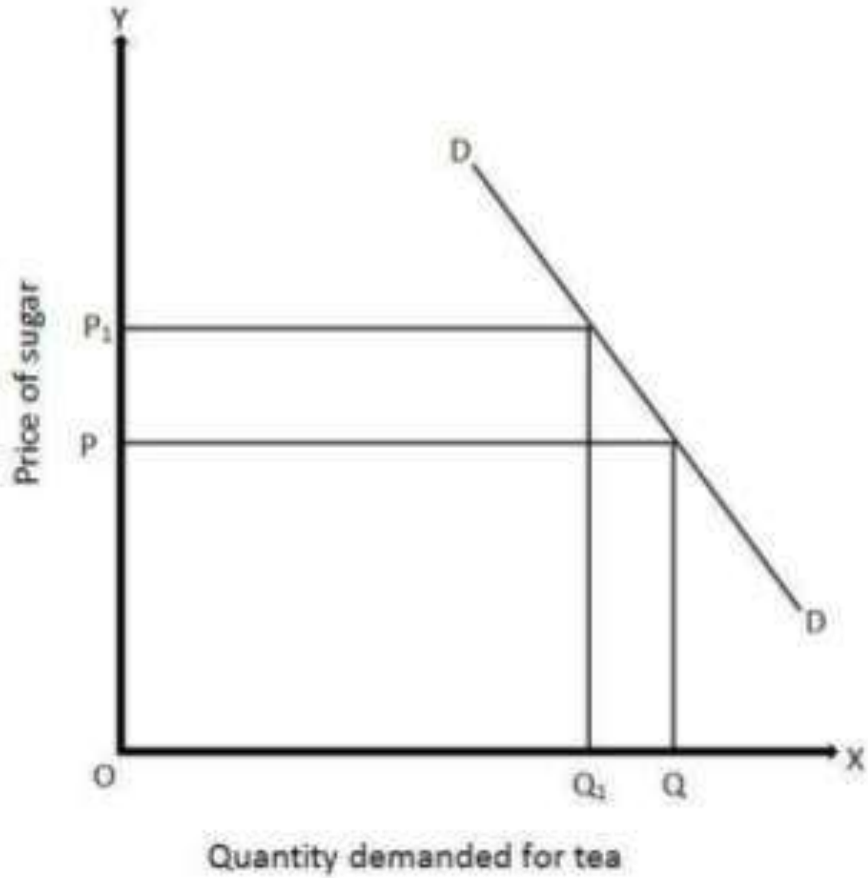
1. Positive cross elasticity of demand ($E_C>0$)
2. Negative cross elasticity of demand ($E_C<0$)

Positive cross elasticity of demand (E_C>0)



Rise in price of one good leads to rise in quantity demanded of other good of a similar nature and vice versa

Negative cross elasticity of demand (E_C<0)



Rise in price of one good leads to fall in quantity demanded of its complementary good and vice versa

Advertising Elasticity of Demand (AED) :

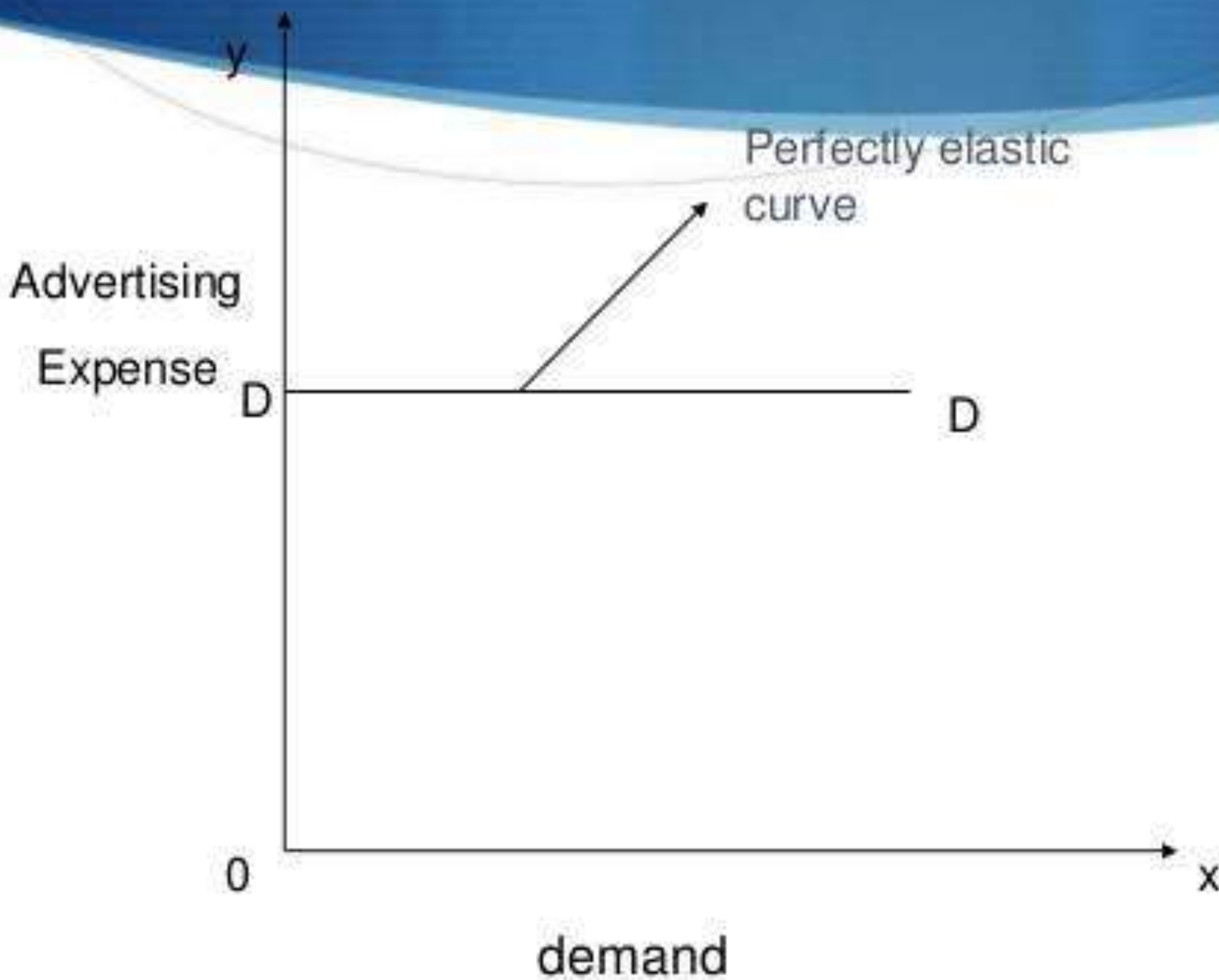
- Advertising Elasticity of demand refers to the proportionate change in demand of a commodity due to proportionate change in advertising expense.
- Advertising elasticity is a measure of an advertising campaigns effectiveness in generating sales.
- Formula :

$$AED = \frac{\text{Proportionate change in Demand for product}}{\text{Proportionate change in Advertising expense}}$$

Types Of AED:

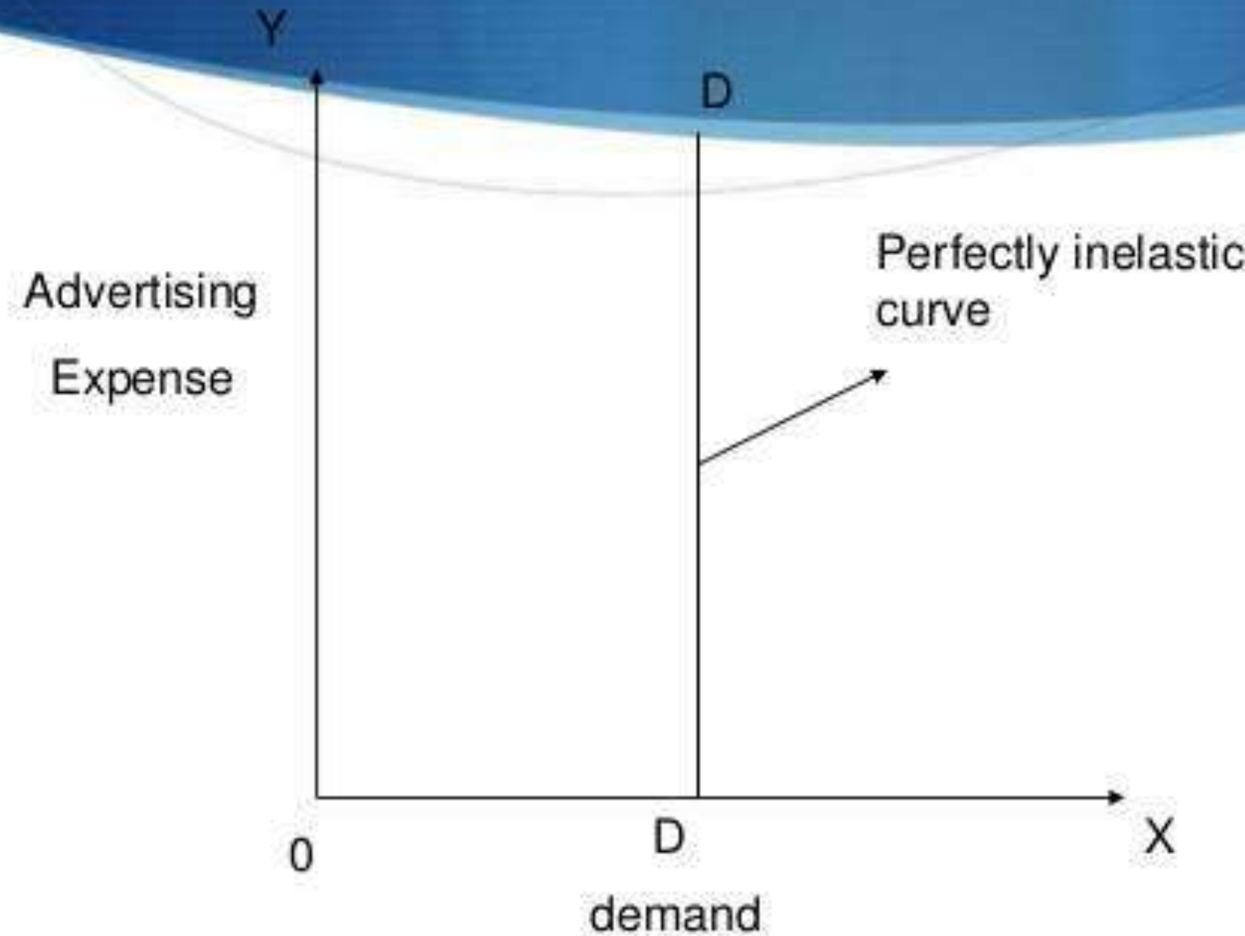
- Perfectly Elastic Advertising elasticity
- Perfectly Inelastic Advertising Elasticity
- Highly Elastic Advertising Elasticity
- Unitary Elastic Advertising Elasticity
- Highly Inelastic Advertising Elastcity

Perfectly elastic AED



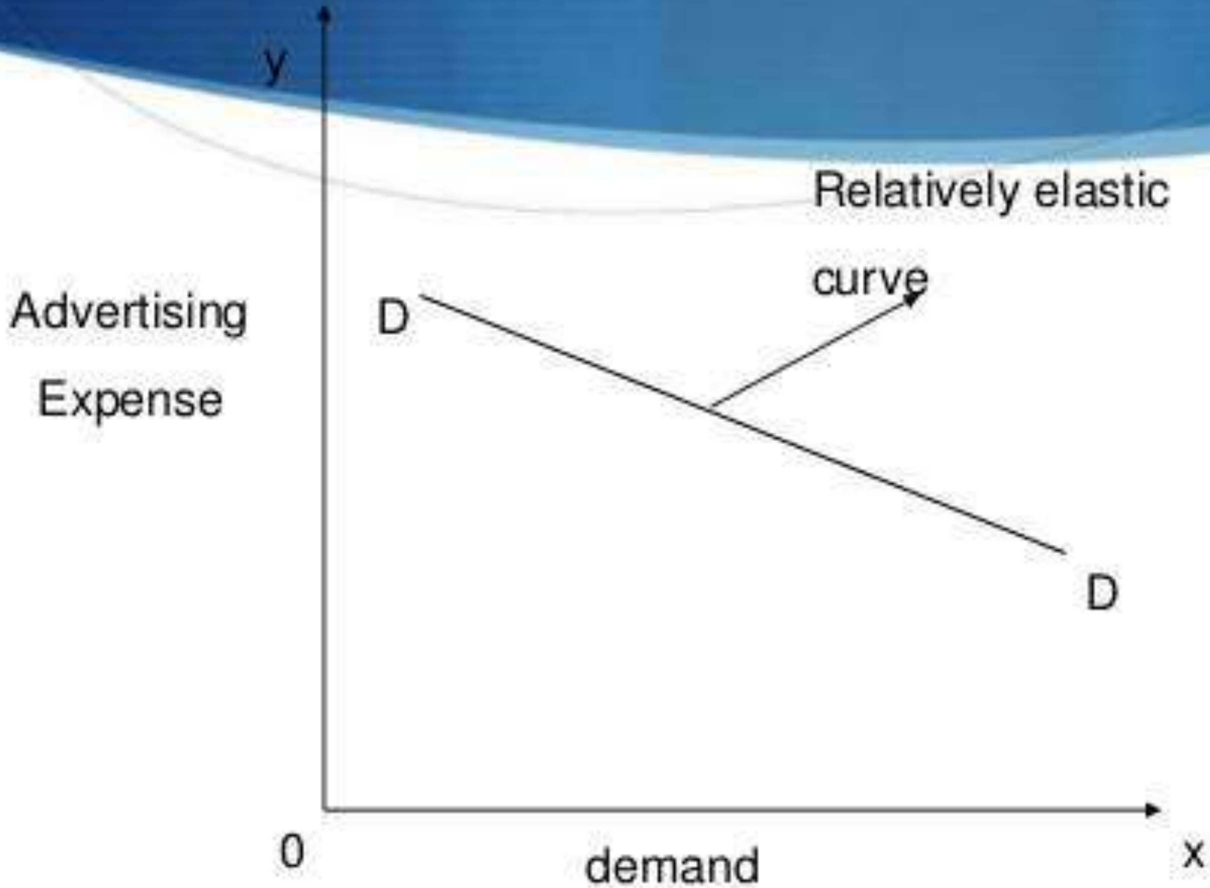
When the demand for a product changes – increases or decreases even when there is no change in advertising expense.

Perfectly inelastic AED:



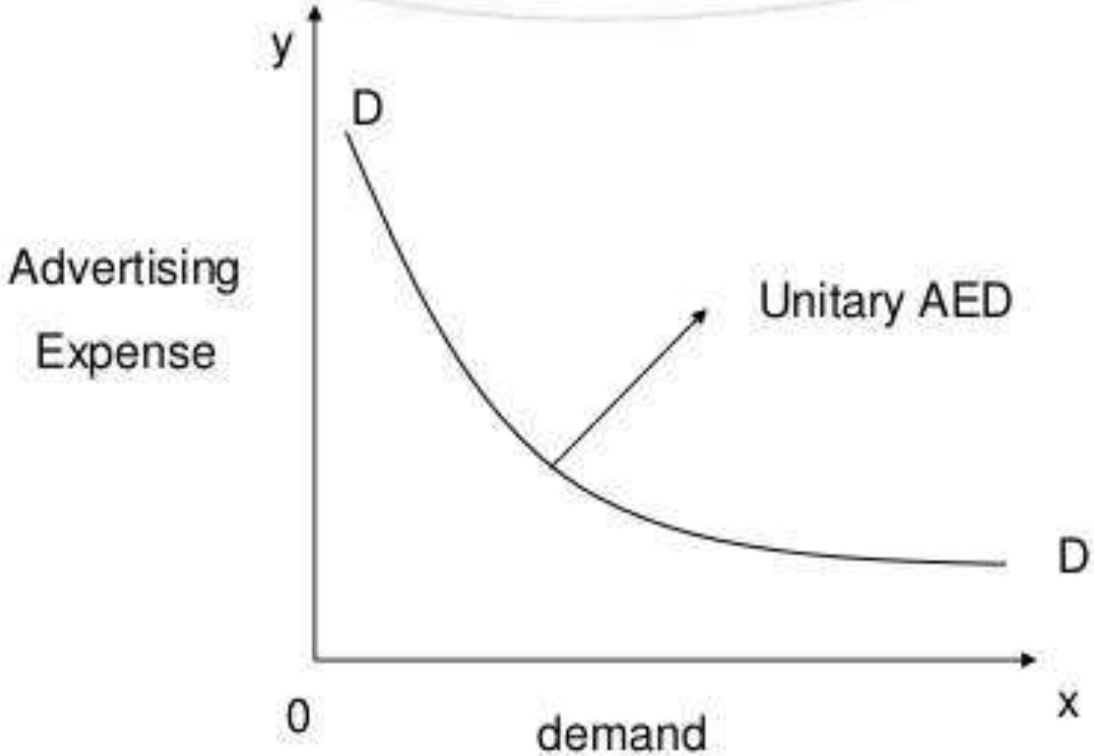
When a change in advertising expense , doesn't lead to any change in quantity demanded , it is known as perfectly inelastic demand.

Relatively elastic AED:



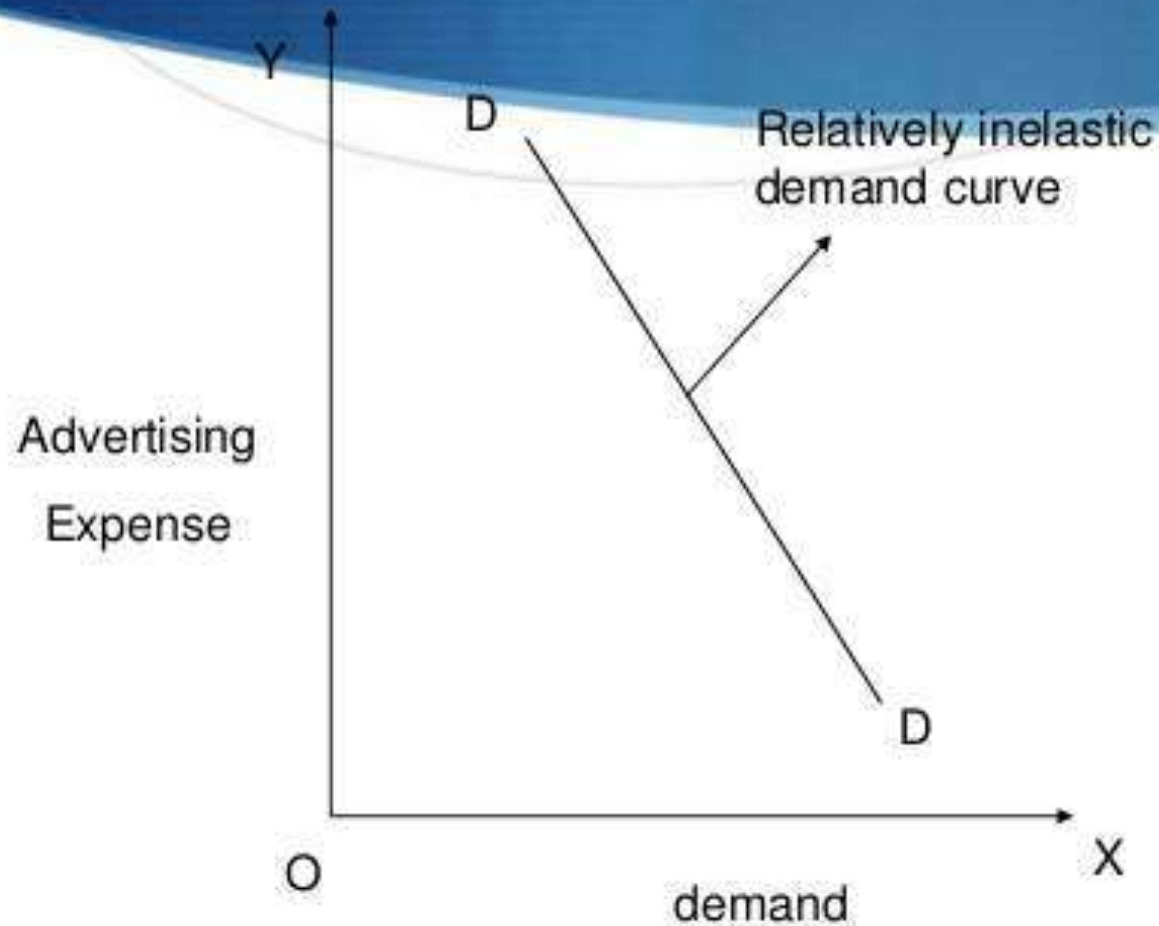
When the proportionate change in demand is more than the proportionate changes in advertising expense , it is known as relatively elastic

Unitary elastic AED:



When the proportionate change in demand is equal to proportionate changes in advertising expense price, it is known as unitary elastic demand

Relatively inelastic AED:



When the proportionate change in demand is less than the proportionate changes in advertising expense , it is known as relatively inelastic demand

Factors affecting AED :

1. Nature of the products and time factor
2. Timing of the promotional activities
3. Product stage
4. Promotional activities of the competitors
5. Volume of advertising expense incurred
6. Non Advertising factors

Importance of AED:

- Its helps the management in deciding whether the outlay on advertisement should be increased , decreased or maintained at the present level.

- Its helps the management in studying the effect of advertisements on sales revenue.

- Advertising elasticity also helps in evaluating the effectiveness of various media of advertisement.

Factors Affecting Elasticity Of Demand

Generally, The Elasticity of necessities is low while that of comfort and luxuries is high. But Elasticity is not dependent on only this factor. There are many factors which affect elasticity. These are-

1. **Nature of Commodity-** Commodity can be divided into three parts according to its purpose. These are-

   a) Necessities b) Comforts c) Luxuries

   Necessities are those which are essential for the life of human beings. Without this, capabilities and efficiencies of persons are adversely affected like food and water.

   Comforts are the goods without which work capability is somewhat decreased but not as much as that of necessities. Goods like clothing, stationary are comforts

   Goods which do provide satisfaction but have nothing to do with efficiency, are known as *Luxuries*. Expensive cars, Perfumes are some examples of Luxuries.

2. **Money spent on commodity-** Elasticity or a demand for a commodity also depends upon the part of the consumer's income which he is spending on that Particular good. If small part is spent then the income will be Inelastic.

3. **Availability of Substitutes**- If the Given good can be easily substituted by any substitutory good then its elasticity will be high. Hence the demand for a commodity is highly sensitive to the price changes if substitute goods are available.
4. **Multiple uses of commodity**- If a commodity has multiple uses then this particular commodity surely has higher elasticity as compared to others which have single use like plastic has many uses like decoration, carry bags etc. therefore it has more elastic demand.
5. **Possibility of postponement of consumption**- If the use of particular good is postponable then at the time of price rise, consumer postpones its demand or purchase and demand becomes relatively elastic.
6. **Price Level and extent of price change**- If the price of commodity is less then price rise does not affect much to the elasticity but if price of the commodity is already high then price rise shows a reduction in the demand of that commodity. This is psychological tendency of a consumer.
7. **Time Element**- For short term elasticity is low but for long term it is high because in short term consumption adjustment is little hard than that of long term

Summary

Elasticity directly affects the humans in everyday life. It is also useful for the Firms to recognize how would the consumers respond to any given change of price and hence the revenue is being decided. If Product is elastic then reduction in price will be beneficial as it will increase the total revenue and if it is inelastic, the price decrease will be harmful by decreasing total revenue vice-versa for increase in price.

It also helps in setting price discrimination between markets for the same product as if elasticities are different or not. Trade unions also decide the pay rise keeping the inelastic demand of the product in mind.

The tax imposed to highly elastic product is not beneficial so government imposes tax to relatively inelastic product for better results. The two countries establish exchange rate through elasticity

Income elasticity indicates the impact of income on demand and cross elasticity helps in understanding the relationship between two industries. If cross elasticity is high, changes in one industry effect to another

So, Elasticity is not only useful for management also for marketing, but also for finance, trade and government policies

Introduction of Economics for Managerial Decisions.

Prepared by:

Mr. MUSTAQ MULLA, *M.Com, NET, KSET*

Co-Ordinator, Teaching Assistant,

P.G. Department of Studies in Commerce,

KLE's S C P Arts, Science and DDS Commerce College,

Mahalingpur- 587312

COURSE 1.4: ECONOMICS FOR MANAGERIAL DECISIONS

Unit-I : Introduction:

Nature and Scope of Managerial Economics, Managerial Economist's Role and Responsibilities, Fundamental Economic Concepts-Incremental Principle, Opportunity Cost Principles, Discounting and Equip-Marginal Principle, Profit Maximization Theory (only Theory)

Managerial Economics

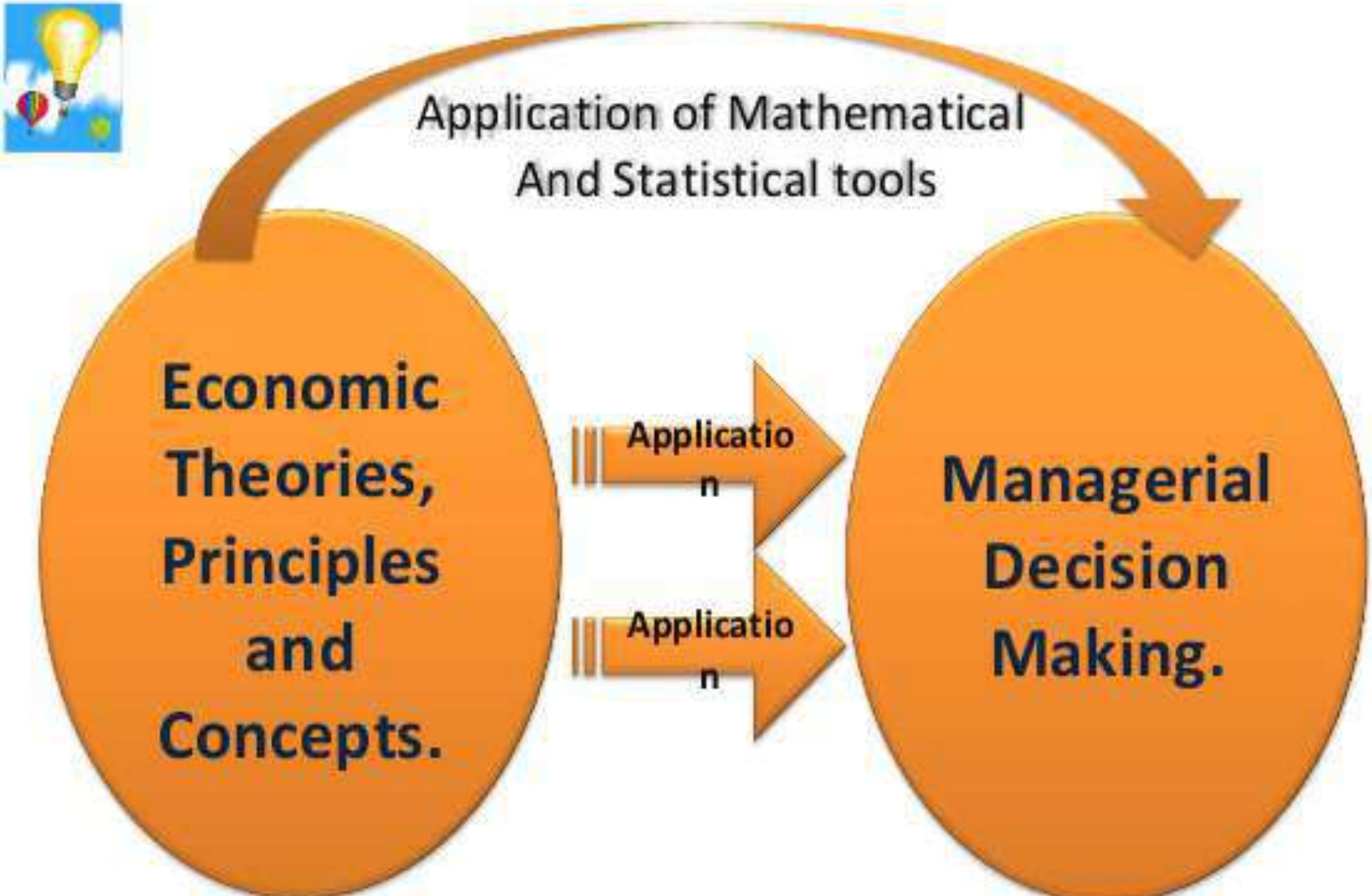
- **Branch** of **Economics**.
- 'Managerial Economics is the study of **Economic Theories, Principles and Concepts** which is used in **Managerial Decision Making.**'
- 'Managerial Economics is the **Application of various Theories, Concepts and Principles of Economics** in the **Business Decisions.**'
- It also Includes **'The Application of Mathematical and Statistical tools in Management decisions.'**

MANAGERIAL ECONOMICS

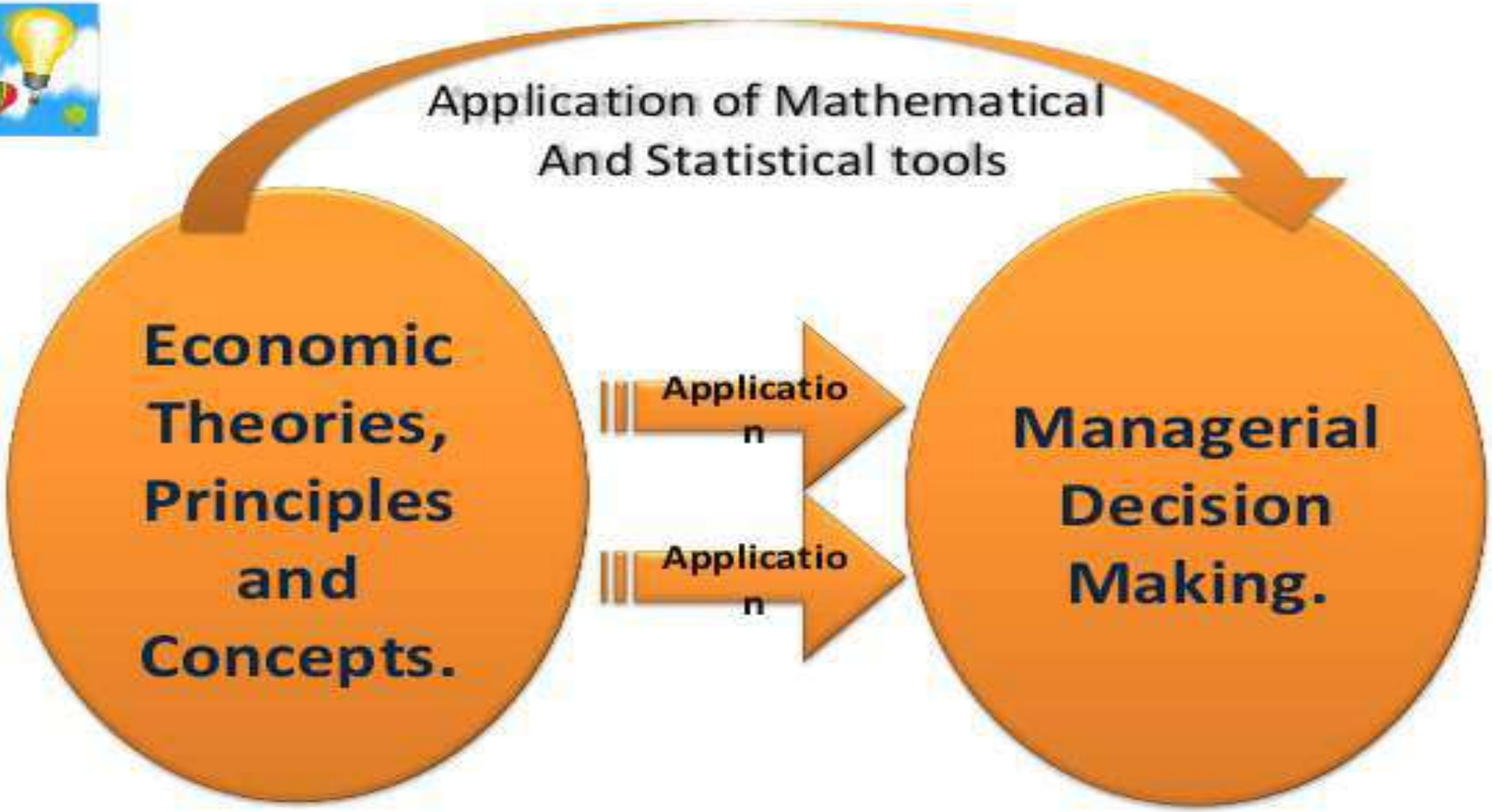
- **Douglas** - "Managerial economics is .. the application of economic principles and methodologies to the decision-making process within the firm or organization."

- **Pappas & Hirschey** - "Managerial economics applies economic theory and methods to business and administrative decision-making."

Managerial Economics



Managerial Economics



Characteristics of Managerial Economics

1. Micro economics:

- Managerial Economics is mainly microeconomics. Micro-economics is the study of the behaviour and problems of individual economic unit.
- In managerial economics unit of study is firm or business organization and an individual industry.
- It is the problems of business firms such as problem of forecasting demand, cost of production, pricing, profit, planning, capital, management etc. are studied in it.

2. Managerial economics is pragmatic:

- It is concerned with practical problems and results. It has nothing to do with abstract economic theory which has no practical application to solve the problems faced by business firms. It considers the particular environment of decision-making and not general one.

3. Managerial economic is normative:

- The nature of managerial economics is prospective and not descriptive. It deals with future planning, policy-making, decision-making and how to make full use of economic principles in all these.

- It involves value judgements. This has two aspects

  (i) what aims objective a firm should pursue; and

  (ii') how best to achieve these objectives in a given situation.

4. Uses macro-economic analysis:

- ✓ Managerial economics also uses macro-economics to analysis and understand the general business environment in which the business firm must operate.
- ✓ Business management must have the adequate knowledge of external forces that affect the business of the firm.
- ✓ The important macro-factors that affect the firm are trends in national income and expenditure, business cycles, economic policies of the government, general price trends, trends in foreign trade and anti-monopoly measures.

5. Economics of firms:

- ✓Managerial economics largely use that body of economic concepts and principles which is known as 'Theory of the Firm' or 'Economics of the Firm'. "
- ✓In addition, it also seeks to apply the profit theory which forms part of theories of distribution.
- ✓Managerial economics special branch of economics to bridge the gap between economic theory and managerial practice

The Important principles of managerial economics are:

- Incremental Principle
- Equi-marginal Principle
- Opportunity Cost Principle
- Time Perspective Principle
- Discounting Principle

Incremental Principle

This principle states that a decision is said to be rational and sound if given the firm's objective of profit maximization, it leads to increase in profit, which is in either of two scenarios-

- If total revenue increases more than total cost
- If total revenue declines less than total cost

Incremental cash-flow principle

Project financing concept that the only cash flows relevant to the valuation of a project are the incremental cash flows resulting from it

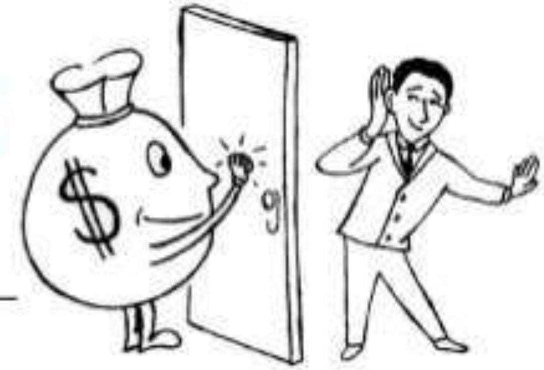
Equi-marginal Principle

The laws of equi-marginal utility states that a consumer will reach the stage of equilibrium when the marginal utilities of various commodities he consumes are equal.

The law of Equi-marginal utility

According to the modern economists, this law has been formulated in form of law of proportional marginal utility. It states that the consumer will spend his money-income on different goods in such a way that the marginal utility of each good is proportional to its price, i.e.,

Opportunity Cost Principle



Opportunity cost is one of the most important and fundamental concepts in the whole of economics. Given that we have said that economics could be described as a science of choice, we have to look at what sacrifices we make when we have to make a choice. That is what opportunity cost is all about.

Sacrifice of Alternatives

- Opportunity cost is the minimum price that would be necessary to retain a factor-service in it's given use. It is also defined as the cost of sacrificed alternatives
- By opportunity cost of a decision is meant the sacrifice of alternatives required by that decision

Time Perspective Principle

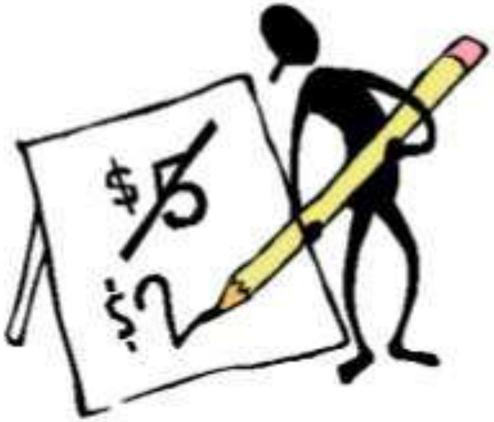
According to this principle, a manger should give due emphasis, both to short-term and long-term impact of his decisions, giving apt significance to the different time periods before reaching any decision

Time periods

- Short-run refers to a time period in which some factors are fixed while others are variable. The production can be increased by increasing the quantity of variable factors
- long-run is a time period in which all factors of production can become variable. Entry and exit of seller firms can take place easily

Discounting Principle

According to this principle, if a decision affects costs and revenues in long-run, all those costs and revenues must be discounted to present values before valid comparison of alternatives is possible



Discounting

- Discounting can be defined as a process used to transform future rupees into an equivalent number of present rupees.
- This is essential because a rupee worth of money at a future date is not worth a rupee today. Money actually has time value. For instance, Rs.100 invested today at 10% interest is equivalent to Rs.110 next year.

Economics

It talks about **'Economic Activity' and 'Economic Problem'.**

'It is the Study of Logic choice between Scarce resources and unlimited wants'

'Economics is to get the answer to the basic questions of an economy such as, What to produce?, How to produce? And for whom to produce?'

'Economics is the social science that is concerned with the production, distribution, and consumption of goods and services.'

Economics

There are **Two** Branches

- **Micro Economics:** Means **'Small'** or **'Individual'**.

  The term **'MICRO'** comes from the Greek word
  'MIKROS' Which means **'Small'** or **'Individual'**.

- **Macro Economics:** Means **'Group'** or **'Whole'**.

  The term **'MACRO'** comes from the Greek word **'MAKROS'** Which means **'Large'** or **'Whole'**.

Micro Economics



- **Micro Economics:** 'It is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular industries."
- Some of the theories which come under Micro Economics,
  - Theory of Individual/Market Demand.
  - Theory of Production and Cost.
  - Theory of Markets and price.
  - Theory of profit, Etc...

Macro Economics

- **Macro Economics**: 'It deals not with individual quantities as such but with aggregates of these quantities, not with individual incomes but with national income.'
- Some of the theories which come under Macro Economics,
  - Theory of total output and employment.
  - General price level.
  - Theory of Inflation.
  - Theory of trade cycles
  - Economic growth, Etc...

Difference between Managerial Economics and Economics

Economics	Managerial Economics
1.Comprehensive and wider scope	1.Narrow and limited scope
2.It has both Micro and Macro in nature	2.It is essentially Micro in nature and Macro in analysis
3.It is both Normative and positive science	3.It is mainly a Normative science
4.It is concerned with the formulation of theories and principles	4.It is concerned with the application of theories and principles of economics
5.It discusses general problems	5.It discusses Individual problems

Nature of Managerial Economics

- Science as well as Art of decision making.
- It is essentially Micro in nature but Macro in analysis.
- It is mainly a Normative science but positive in analysis.
- It is concerned with the application of theories and principles of economics.
- It discusses Individual problems.
- It is dynamic in nature not a Static.
- It discuss the economic behavior of a firm.
- It concentrates on optimum utilization of resources.

Scope of Managerial Economics

- Objectives of a Firm.
- Demand Analysis and Forecasting.
- Production and cost analysis.

- Pricing decisions.

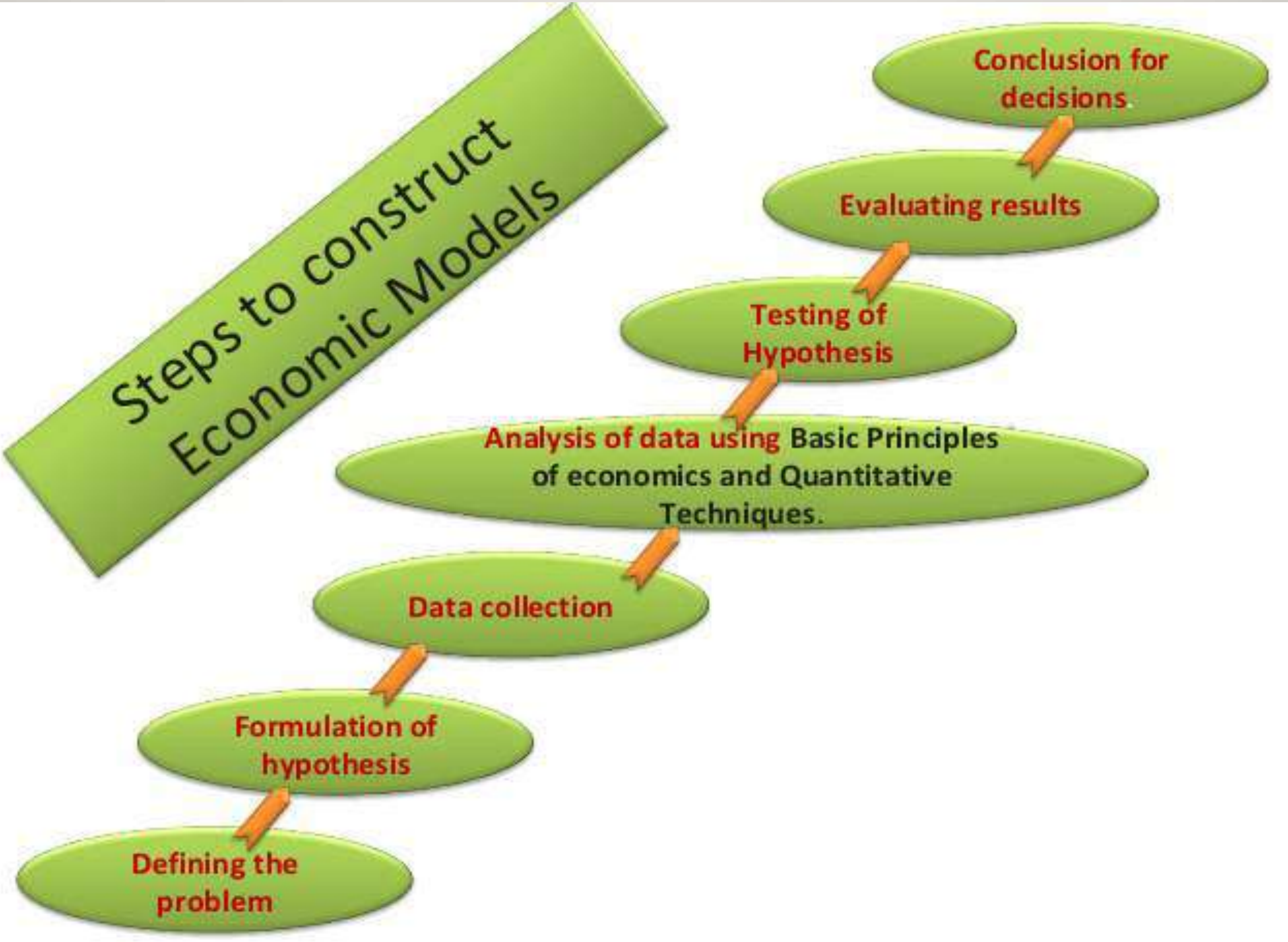
- Profit management.
- Capital management.

- Market structure.
- Inflation and economic conditions.

Economic Models

Economic model

is the structural and scientific method of constructing or developing **Solutions** by using **basic economic principles**, concepts, theories and Quantitative techniques such as **mathematical and statistical tools**.


Steps to construct Economic Models
Conclusion for decisions.
Evaluating results
Testing of Hypothesis
Analysis of data using Basic Principles of economics and Quantitative Techniques.
Data collection
Formulation of hypothesis
Defining the problem

Managerial economics relationship with other disciplines:

- Many new subjects have evolved in recent years due to the interaction among basic disciplines. managerial economics can be taken as the best example of such a phenomenon among social sciences. Hence it is necessary to trace its roots and relation ship with other disciplines.

OTHER AREAS RELATED

TO

MANAGERIAL ECONOMICS

- 1. **Relationship with economics**
- **2. Management theory and accounting**
- **3. Managerial Economics and mathematics**
- **4. Managerial Economics and Statistics**
- ***5. Managerial Economics, Operations Research***
- ***6. Managerial Economics and the theory of Decision- making***
- ***7. Managerial Economics and Computer Science:***

1. Relationship with economics:

- The relationship between managerial economics and economics theory may be viewed form the point of view of the two approaches
- **Micro Economics and Marco Economics**.
- Microeconomics is the study of the economic behavior of individuals, firms and other such micro organizations. Managerial economics is rooted in Micro Economic theory.
- Managerial Economics makes use to several Micro Economic concepts such as marginal cost, marginal revenue, elasticity of demand as well as price theory and theories of market structure to name only a few.
- It deals with the analysis of national income, the level of employment, general price level, consumption and investment in the economy and even matters related to international trade, Money, public finance, etc.

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2. Management theory and accounting:

- Managerial economics has been influenced by the developments in management theory and accounting techniques. Accounting refers to the recording of pecuniary transactions of the firm in certain books
- . A proper knowledge of accounting techniques is very essential for the success of the firm because profit maximization is the major objective of the firm.
- Managerial Economics requires a proper knowledge of cost and revenue information and their classification.
- A student of managerial economics should be familiar with the generation, interpretation and use of accounting data. The focus of accounting within the firm is fast changing from the concepts of store keeping to that if managerial decision making, this has resulted in a new specialized area of study called "Managerial Accounting".
-

Managerial Economics and mathematics:

- The use of mathematics is significant for managerial economics in view of its profit maximization goal long with optional use of resources.
- The major problem of the firm is how to minimize cost, hoe to maximize profit or how to optimize sales.
- Mathematical concepts and techniques are widely used in economic logic to solve these problems
- Mathematical symbols are more convenient to handle and understand various concepts like incremental cost, elasticity of demand etc., Geometry, Algebra and calculus are the major branches of mathematics which are of use in managerial economics.

4. Managerial Economics and Statistics:

- Managerial Economics needs the tools of statistics in more than one way.
- A successful businessman must correctly estimate the demand for his product. He should be able to analyses the impact of variations in tastes, Fashion and changes in income on demand only then he can adjust his output.
- Statistical methods provide and sure base for decision-making. Thus statistical tools are used in collecting data and analyzing them to help in the decision making process.
- Managerial Economics also make use of correlation and multiple regressions in related variables like price and demand to estimate the extent of dependence of one variable on the other. The theory of probability is very useful in problems involving uncertainty.

5. Managerial Economics and Operations Research:

- Operation research provides a scientific model of the system and it helps managerial economists in the field of product development, material management, and inventory control, quality control, marketing and demand analysis. The varied tools of operations Research are helpful to managerial economists in decision-making.
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6. Managerial Economics and the theory of Decision- making:

- The Theory of decision-making is a new field of knowledge grown in the second half of this century.
- Most of the economic theories explain a single goal for the consumer i.e., Profit maximization for the firm. But the theory of decision-making is developed to explain multiplicity of goals and lot of uncertainty.
- As such this new branch of knowledge is useful to business firms, which have to take quick decision in the case of multiple goals.
- Viewed this way the theory of decision making is more practical and application oriented than the economic theories.

7. Managerial Economics and Computer Science:

- Computers have changes the way of the world functions and economic or business activity is no exception.
- Computers are used in data and accounts maintenance, inventory and stock controls and supply and demand predictions.
- What used to take days and months is done in a few minutes or hours by the computers
- In most countries a basic knowledge of computer science, is a compulsory programme for managerial trainees.

ROLES AND RESPONSIBILITIES OF A MANAGERIAL ECONOMIST

- The managerial economist offers a lot of support to the highest management in future planning and decision making by looking at the advice in financial matters. He may prove to be unsuccessful in his advice work. When he is fully aware of his responsibility and successfully completes his loyalty.

Role and Responsibilities of a Managerial Economist

- Demand Estimation and Forecasting
- Preparation of business/sales forecast
- Analysis of the market survey
- Analyzing the issues and problems of the concerned industry.
- Assisting the business planning process of the firm
- Discovering new and possible fields of business
- Advising on pricing, investment and capital budgeting policies
- Evaluation of capital budgets
- Building micro and macro economic models
- Directing economic research activity
- Briefing the management on current domestic and global economic issues and emerging challenges.

Profit Maximization

Introduction

- **Profit** is the making of gain in business activity for the benefit of the owners of the business.
- Generally **Profits** are the primary measure of the success of any business.
- **Profit maximization** is the short run or long run process by which a firm determines the price and output level that returns the **greatest profit**.
- **Profit maximization** refers to the sales level where profits are **highest.** You might assume that the higher the sales level, the higher the profits - but that is not always true!

Definition

A process that companies undergo to determine the best output and price levels in order to maximize its return. The company will usually adjust influential factors such as production costs, sale prices, and output levels as a way of reaching its profit goal.

There are two main profit maximization methods used, and they are
Marginal Cost-Marginal Revenue Method and
Total Cost-Total Revenue Method.

Profit maximization is a good thing for a company, but can be a bad thing for consumers if the company starts to use cheaper products or decides to raise prices.

Important Terms

- **Profit** is defined as ***total revenue*** *minus* ***total cost.***

  Profit = TR – TC

- ***Profit****:* The money left over once you pay all of your bills out of funds that come in from your customers. So for example, if you sell 5 necklaces for $5 each, and the cost to purchase the necklaces is $3, you will have revenues (customer monies in) of 5 necklaces * $5 each = $25, and costs of 5 necklaces * $3 each = $15. Your profit will be $25 revenue - $15 cost = $10 remaining.
- ***TR:*** This stands for 'Total Revenue'. Total revenue simply means the total amount of money that the firm receives from sales of its product or other sources **or** the total amount of money the firm collects in sales.
- ***TC:*** This stands for 'Total Cost'. Its the cost of all factors of production.

Important Terms

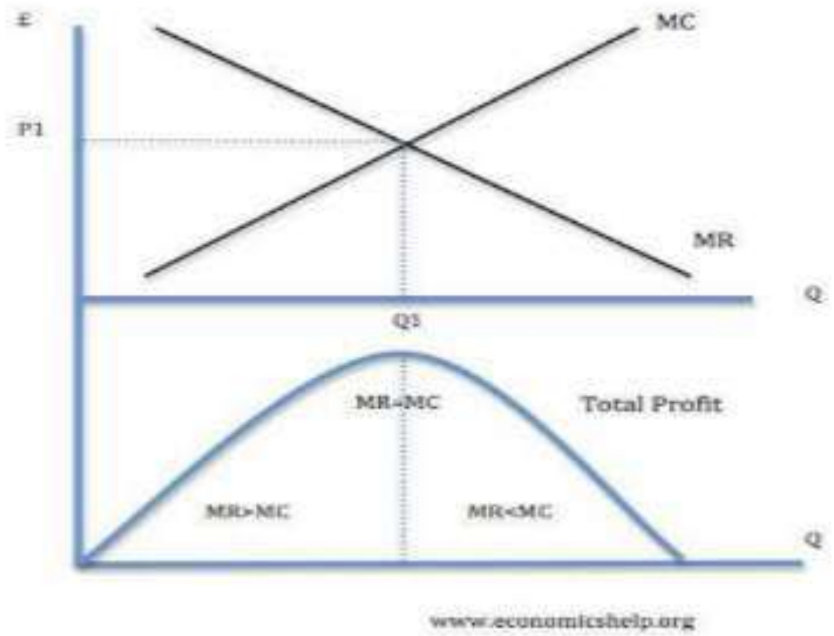
- ***MC***: This stands for '*marginal cost,*' which means the per-unit cost of your item. Marginal cost is the additional cost incurred in producing one more unit of output.
- ***MR***: This stands for '*marginal revenue,*' which means the per-unit selling price of your item. Marginal revenue is the additional revenue earned by selling one more unit of a product.

Profit Maximization

- To maximize economic profits, the firm should choose the output for which **Marginal Revenue is equal to Marginal Cost**

ie., $MR = MC$

Diagram of Profit Maximization

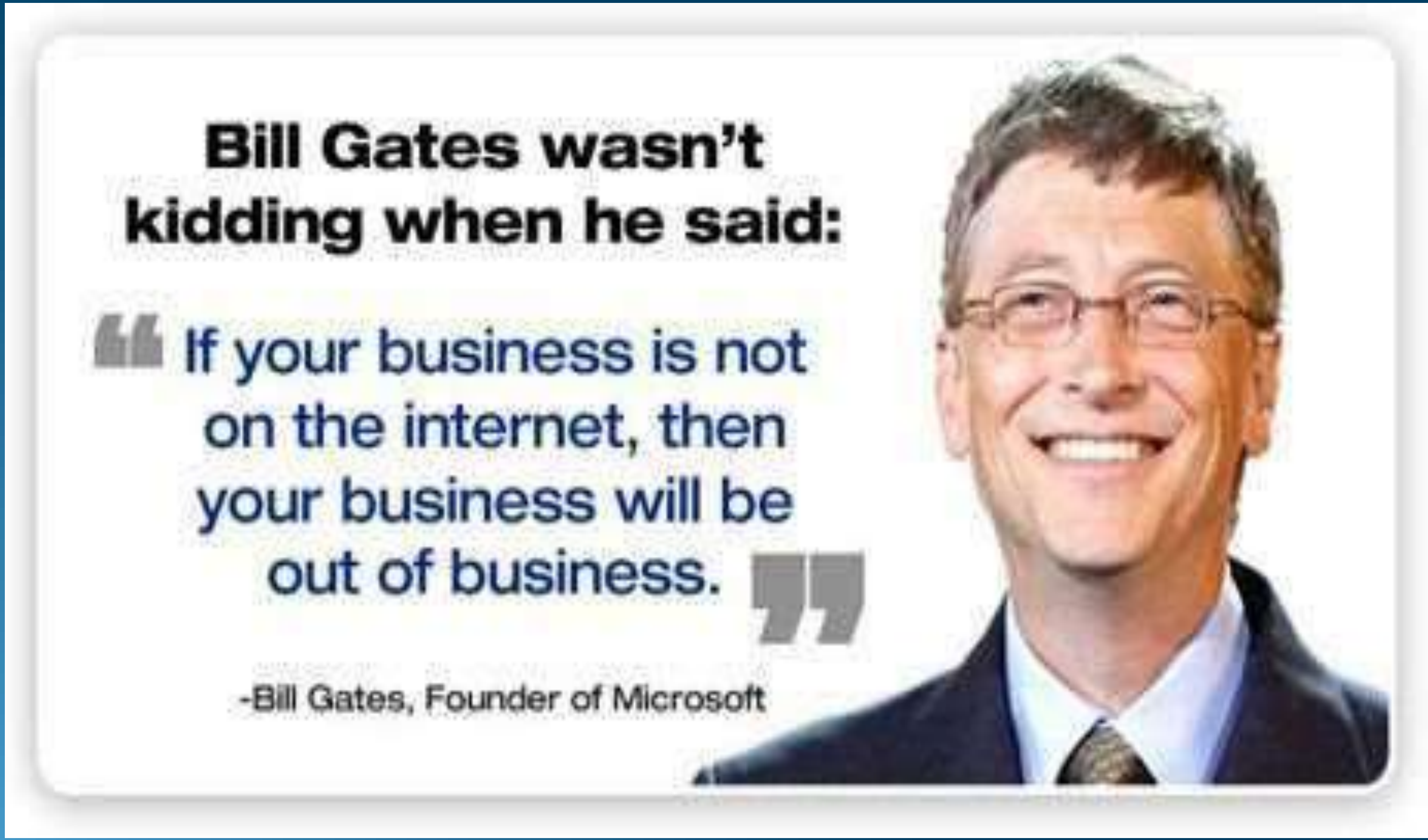


A firm can maximize profits if it produces at an output where Marginal revenue (MR) = Marginal cost (MC)

Reasons For Aiming At Reasonable Profit

- Preventing Entry Of Competitors
- Projecting A Favorable Public Image
- Restraining A Trade Union Demand
- Maintaining Customer Goodwill

E-Commerce


Bill Gates wasn't kidding when he said:
If your business is not on the internet, then your business will be out of business.
-Bill Gates, Founder of Microsoft

CONTENTS

- What is E-Commerce ?
- Features, advantages, disadvantages
- Origin
- Timeline
- Business Models
- E-Commerce Process

- Online Transactions
- Various Modes of Payment
- Legal Aspects
- Real Examples: Flipkart, Amazon, eBay, Alibaba
- Contribution in Indian Economy

WHAT IS E-COMMERCE ?

- **E-commerce** is a transaction of buying or selling online.
- It draws on technologies such as *mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems*.
- Modern electronic commerce typically uses the *World Wide Web* for at least one part of the transaction's life cycle although it may also use other technologies such as e-mail.

- Or, in short any commercial activity performed electronically or online with some technology is a gift of E-Commerce.

- The World Trade Organization (WTO) distinguishes six main instruments of electronic commerce:
  - The Telephone,
  - The Fax,
  - The Television,
  - Electronic payment and money transfer systems,
  - Electronic Data Interchange, and
  - The Internet

Brief History of E-Commerce

- 1970s
  - E- commerce meant the facilitation of commercial transactions electronically, using technology such as Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT), allowing businesses to send commercial documents like purchase orders or invoices electronically.

Brief History of E-Commerce (cont)..

- 1980s
  - The growth and acceptance of credit cards
  - Automated teller machines (ATM)
  - Telephone banking
  - Airline reservation system

Brief History of E-Commerce (cont)..

- 1990s
  - The Internet commercialized and users flocked to participate in the form of *dot-coms*, or *Internet start-ups*
  - Innovative applications ranging from online direct sales to e-learning experiences

Brief History of E-Commerce (cont)..

- 2000s
  - Many European and American business companies offered their services through the World Wide Web.
  - Since then, People began to associate a word “e-commerce”

FEATURES

- **Non-Cash Payment** – E-Commerce enables use of credit cards, debit cards, smart cards, electronic fund transfer via bank's website and other modes of electronics payment.
- **24x7 Service availability** – E-commerce automates business of enterprises and services provided by them to customers are available anytime, anywhere. Here 24x7 refers to 24 hours of each seven days of a week.
- **Advertising / Marketing** – E-commerce increases the reach of advertising of products and services of businesses. It helps in better marketing management of products / services.

- **Improved Sales** – Using E-Commerce, orders for the products can be generated any time, any where without any human intervention. By this way, dependencies to buy a product reduce at large and sales increases.
- **Support** – E-Commerce provides various ways to provide pre sales and post sales assistance to provide better services to customers.
- **Inventory Management** – Using E-Commerce, inventory management of products becomes automated. Reports get generated instantly when required. Product inventory management becomes very efficient and easy to maintain.
- **Communication improvement** – E-Commerce provides ways for faster, efficient, reliable communication with customers and partners.

E-commerce v/s Traditional Commerce

Traditional Commerce

- Face to Face
- Printed & written documents
- Customization is rare
- Telephone or postal mail communication
- Payment by Cash, check or CC
- Ads: print med, radio, tv
- Merchandize deliver immediately

  i.e. Customer takes merchandise home.

Electronic Commerce

- No personal contact
- Documents on the web
- Web pages personalized for a particular customer
- E-mail communication
- Payment: credit card, direct withdrawal, fund transfer (paypal)
- Ads on web, radio, TV
- Merchandise deliver home 2-5 days


Competitiveness Survey
Strength Weakness
Quality
Innovation
Cost
Price
Distribution
Efficiency
Responsiveness

Element of E-Commerce:

- There are certain elements required to perform online business.
  - Promote your Web site presence.
  - Have an online catalog or store.
  - Have the capability to receive payments.
  - Be able to deliver the item.
  - Provide after-the-sale support.

The process of E-commerce

The process of E-commerce

- *A consumer uses Web browser to connect to the home page of a merchant's Web site on the Internet.*
- *The consumer browses the catalog of products featured on the site and selects items to purchase. The selected items are placed in the electronic equivalent of a shopping cart.*
- *When the consumer is ready to complete the purchase of selected items, it provides a bill-to and ship-to address for purchase and delivery.*

The process of E-commerce

- ***When the credit card number is validated and the order is completed at the Commerce Server site, the merchant's site displays a receipt confirming the customer's purchase.***

- ***The Commerce Server site then forwards the order to a Processing Network for payment processing and fulfilment.***

ADVANTAGES

- E-Commerce advantages can be broadly classified in three major categories:
  - Advantages to Organizations
  - Advantages to Consumers
  - Advantages to Society.

ADVANTAGES TO ORGANIZATIONS

- Using E-Commerce, organization can expand their market to national and international markets with minimum capital investment. An organization can easily locate more customers, best suppliers and suitable business partners across the globe.
- E-Commerce helps organization to reduce the cost to create process, distribute, retrieve and manage the paper based information by digitizing the information.
- E-commerce improves the brand image of the company.

- E-commerce helps organization to provide better customer services.
- E-Commerce helps to simplify the business processes and make them faster and efficient.
- E-Commerce reduces paper work a lot.
- E-Commerce increased the productivity of the organization. It supports "pull" type supply management. In "pull" type supply management, a business process starts when a request comes from a customer and it uses just-in-time manufacturing way.

ADVANTAGES TO CUSTOMERS

- 24x7 support. Customer can do transactions for the product or enquiry about any product/services provided by a company any time, any where from any location. Here 24x7 refers to 24 hours of each seven days of a week.
- E-Commerce application provides user more options and quicker delivery of products.
- E-Commerce application provides user more options to compare and select the cheaper and better option.

- A customer can put review comments about a product and can see what others are buying or see the review comments of other customers before making a final buy.
- E-Commerce provides option of virtual auctions.
- Readily available information. A customer can see the relevant detailed information within seconds rather than waiting for days or weeks.
- E-Commerce increases competition among the organizations and as result organizations provides substantial discounts to customers.

ADVANTAGES TO SOCIETY

- Customers need not to travel to shop a product thus less traffic on road and low air pollution.
- E-Commerce helps reducing cost of products so less affluent people can also afford the products.
- E-Commerce has enabled access to services and products to rural areas as well which are otherwise not available to them.
- E-Commerce helps government to deliver public services like health care, education, social services at reduced cost and in improved way.

DISADVANTAGES

- E-Commerce disadvantages can be broadly classified in two major categories:
  - Technical disadvantages
  - Non-Technical disadvantages

TECHNICAL DISADVANTAGES

- There can be lack of system security, reliability or standards owing to poor implementation of e-Commerce.
- Software development industry is still evolving and keeps changing rapidly. In many countries, network bandwidth might cause an issue as there is insufficient telecommunication bandwidth available.
- Special types of web server or other software might be required by the vendor setting the ecommerce environment apart from network servers.
- It becomes difficult to integrate E-Commerce software or website with the existing application or databases. There could be software/hardware compatibility issue as some E-Commerce software may be incompatible with some operating system or any other component.

NON-TECHNICAL DISADVANTAGES

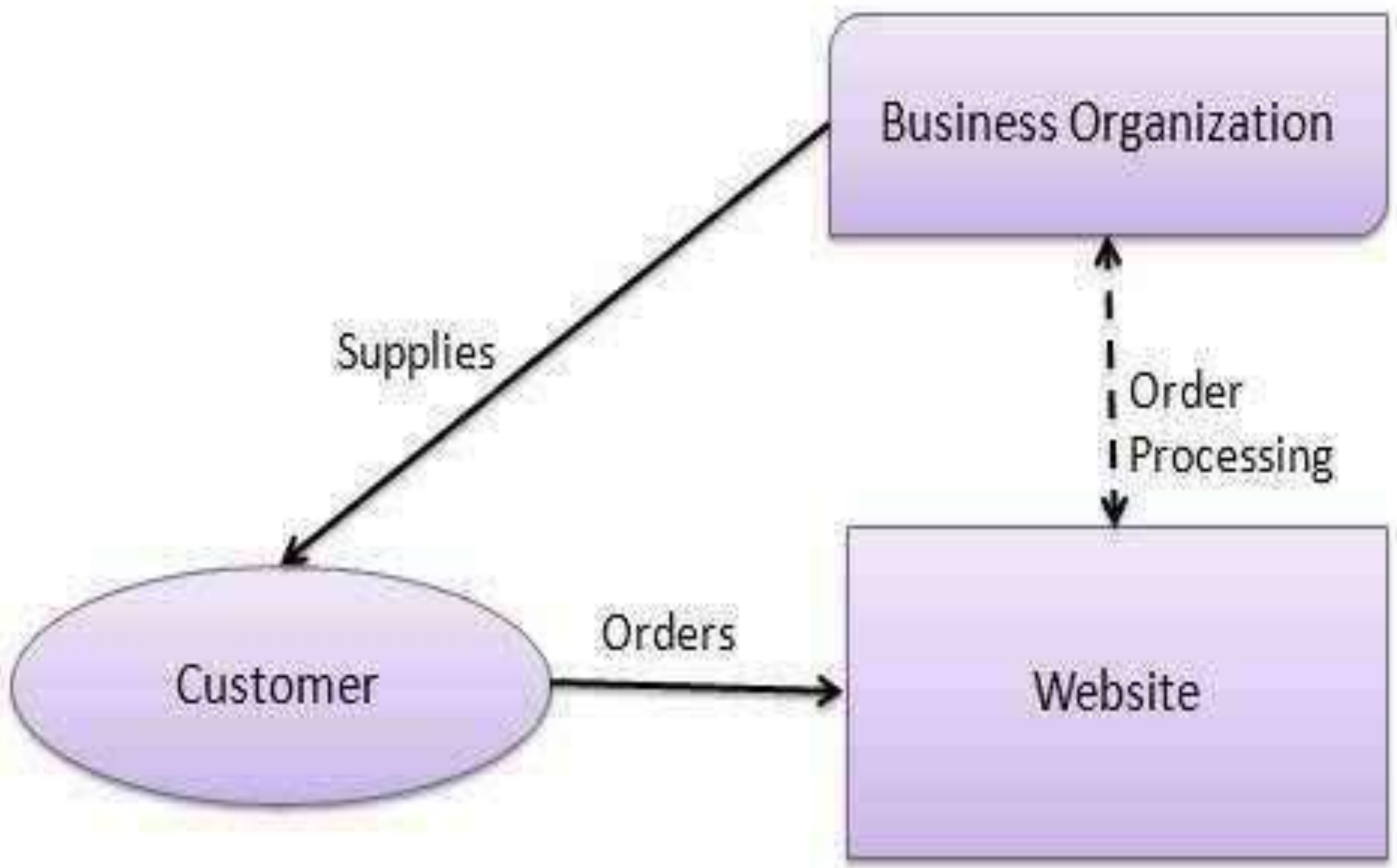
- Initial cost: The cost of creating / building E-Commerce application in-house may be very high.
- There could be delay in launching the E-Commerce application due to mistakes, lack of experience.
- User resistance: User may not trust the site being unknown faceless seller. Such mistrust makes it difficult to make user switch from physical stores to online/virtual stores.
- Security/ Privacy: Difficult to ensure security or privacy on online transactions.
- Lack of touch or feel of products during online shopping. E-Commerce applications are still evolving and changing rapidly.
- Internet access is still not cheaper and is inconvenient to use for many potential customers like one living in remote villages.

BUSINESS MODELS

- E-Commerce or Electronics Commerce business models can generally categorized in following categories:-
  - Business - to - Business (B2B)
  - Business - to - Consumer (B2C)
  - Consumer - to - Consumer (C2C)
  - Consumer - to - Business (C2B)
  - Business - to - Government (B2G)
  - Government - to - Business (G2B)
  - Government - to - Citizen (G2C)

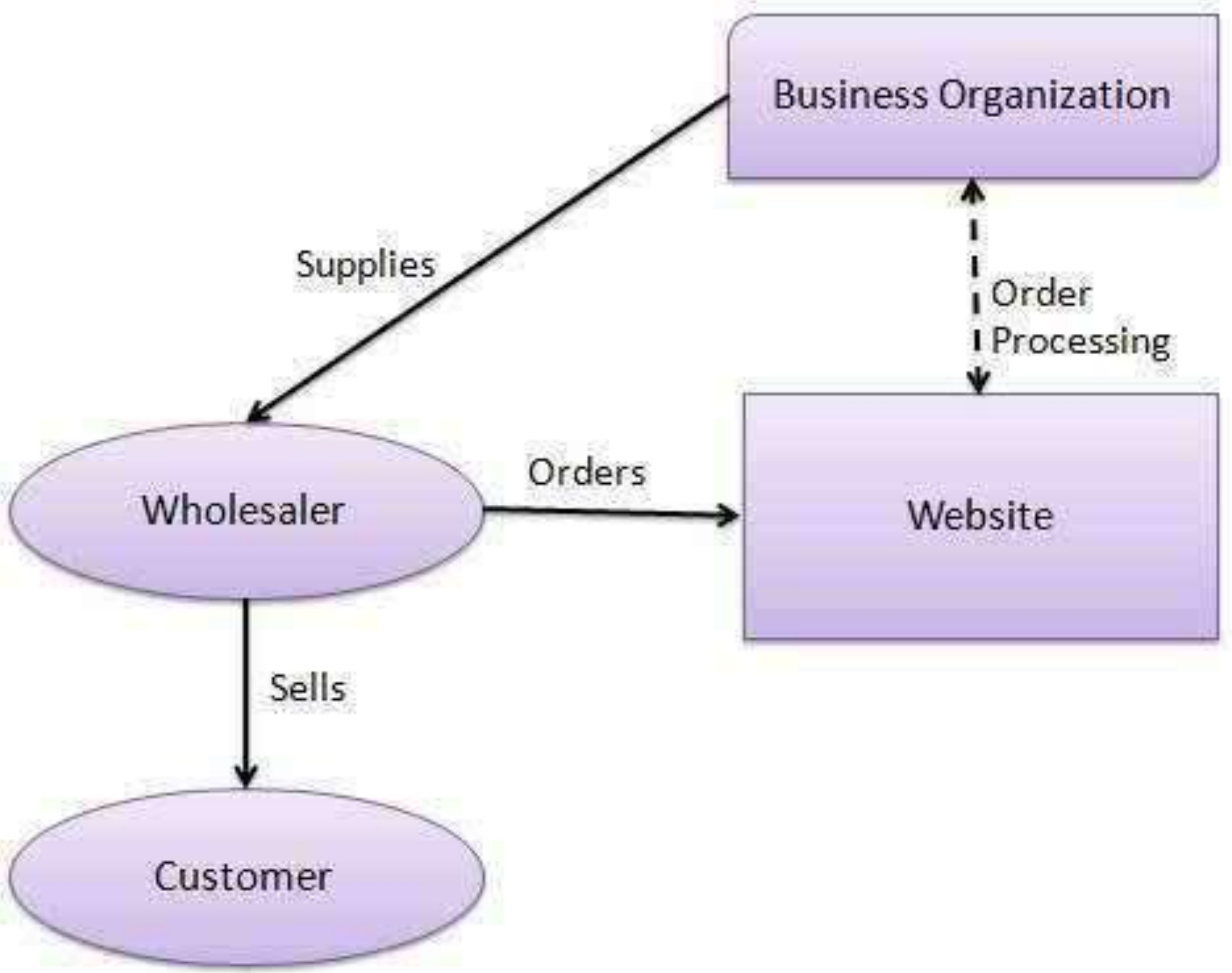
BUSINESS-TO-CONSUMER (B2C)

- Common notion about e-commerce is that it is a business selling something through an online interface to a consumer. And this is the Business-to-Consumer (B2C) model. The most widely known ecommerce businesses, such as Flipkart, Amazon, etc. are ones where a retailer sells directly to a consumer.


Business Organization
Supplies
Order
Processing
Customer
Orders
Website

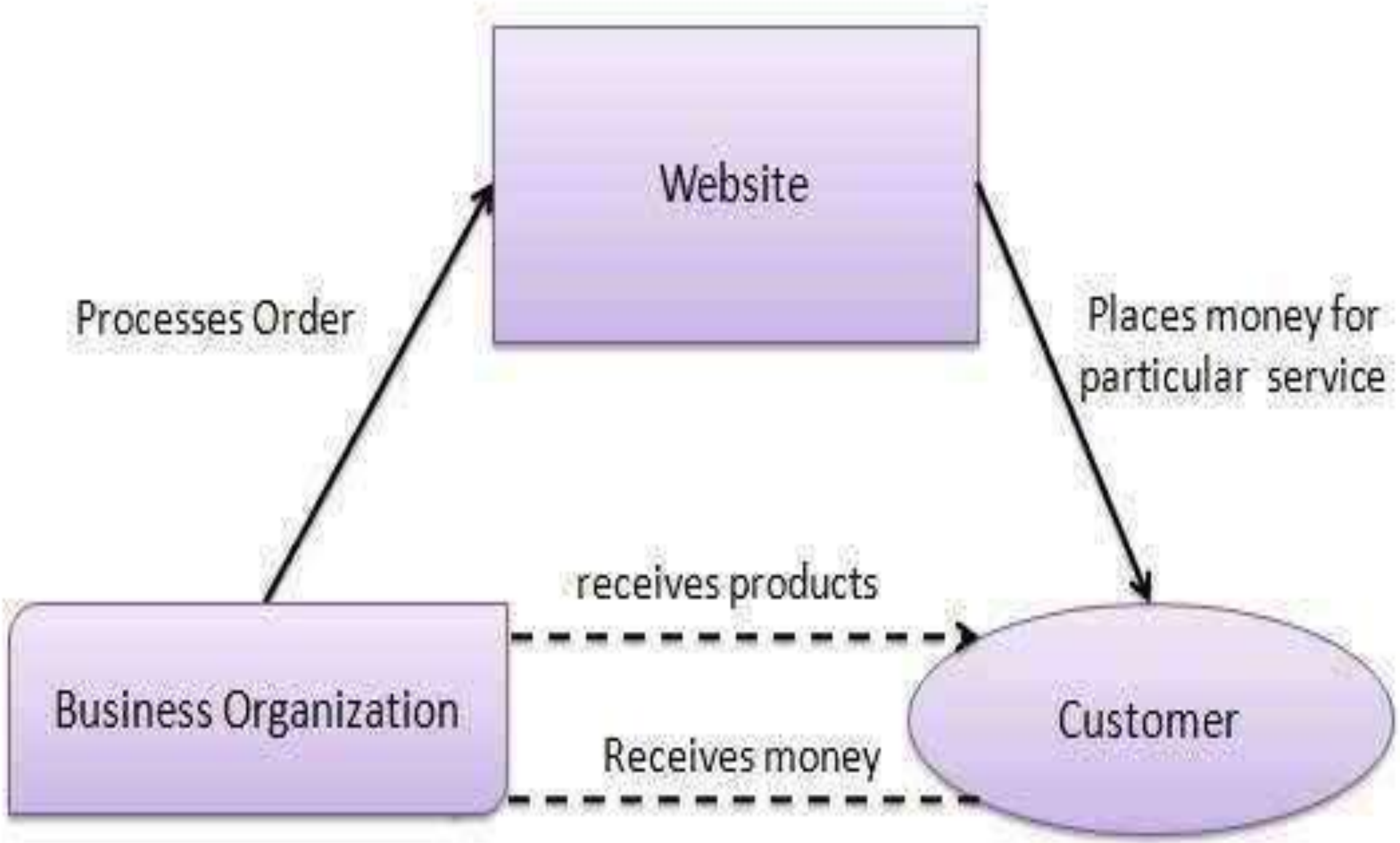
BUSINESS-TO-BUSINESS (B2B)

- Website following B2B business model sells its product to an intermediate buyer who then sells the product to the final customer.
- As an example, a wholesaler places an order from a company's website and after receiving the consignment, sells the end product to final customer who comes to buy the product at wholesaler's retail outlet.


Business Organization
Supplies
Order
Processing
Wholesaler
Orders
Website
Sells
Customer

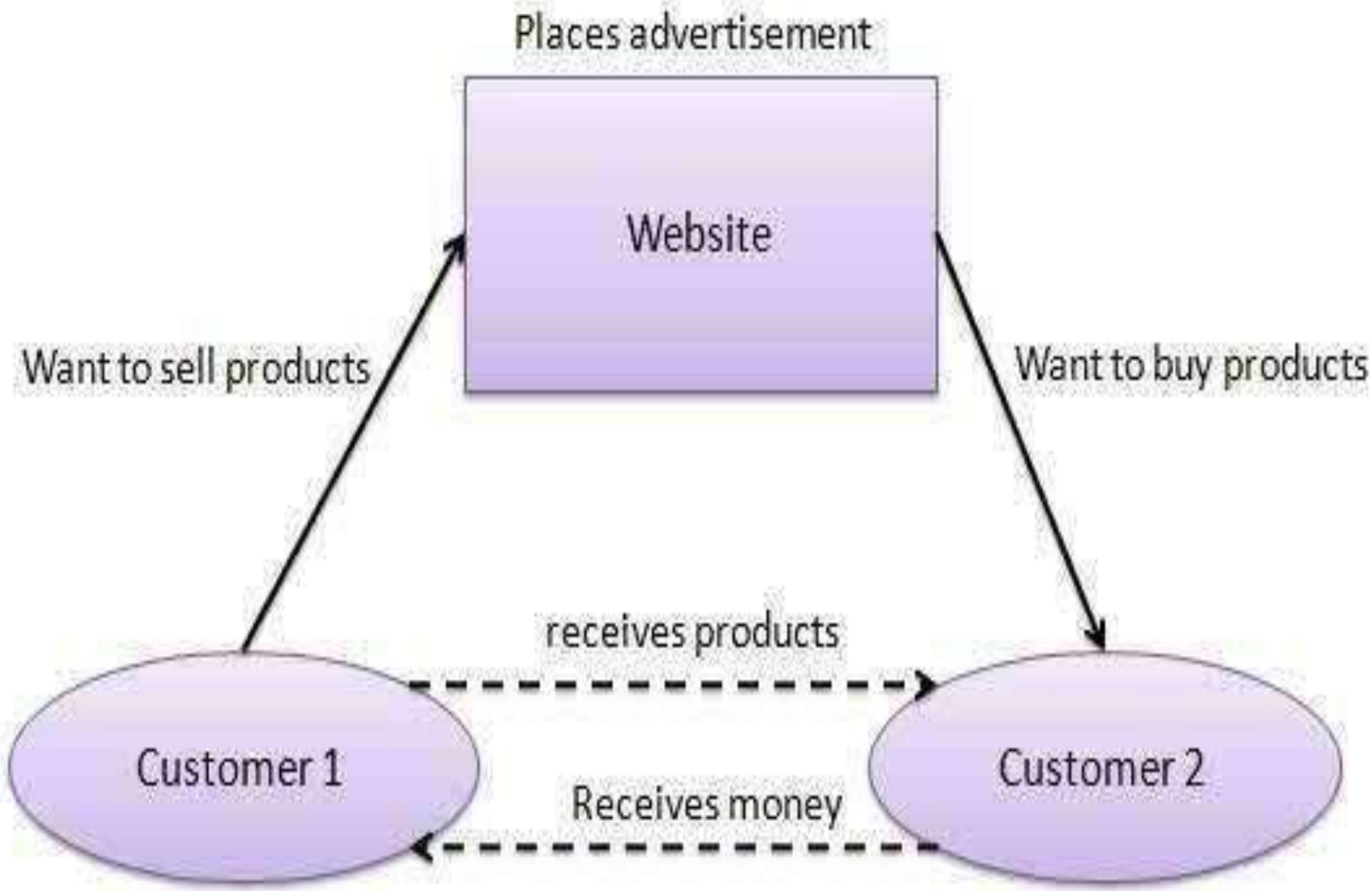
CONSUMER-TO-BUSINESS (C2B)

- In a consumer-to-business (C2B) model, consumers sell products and services to businesses, instead of it being the other way around. Example - Freelancer websites elance.com, where the end-user lists jobs that businesses (either individual or larger businesses) can buy from them. In a way, job portals are also C2B as here, the ‘end-user’ (the prospective employee) lists their ‘product’ (resume) to attract businesses to hire them.


Website
Processes Order
Places money for
particular service
receives products
Business Organization
Customer
Receives money

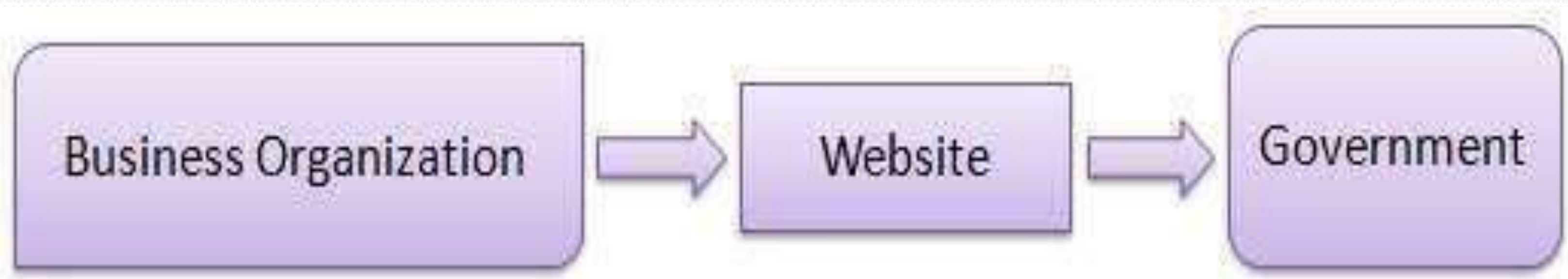
CONSUMER-TO-CONSUMER (C2C)

- In a consumer-to-consumer (C2C) model, the ecommerce website serves to facilitate the transaction between two consumers. Auction sites such as eBay (specifically when items are sold by individuals, rather than businesses listing products for auction) is a classic example of C2C e-commerce model.


Places advertisement
Website
Want to sell products
Want to buy products
receives products
Customer 1
Customer 2
Receives money

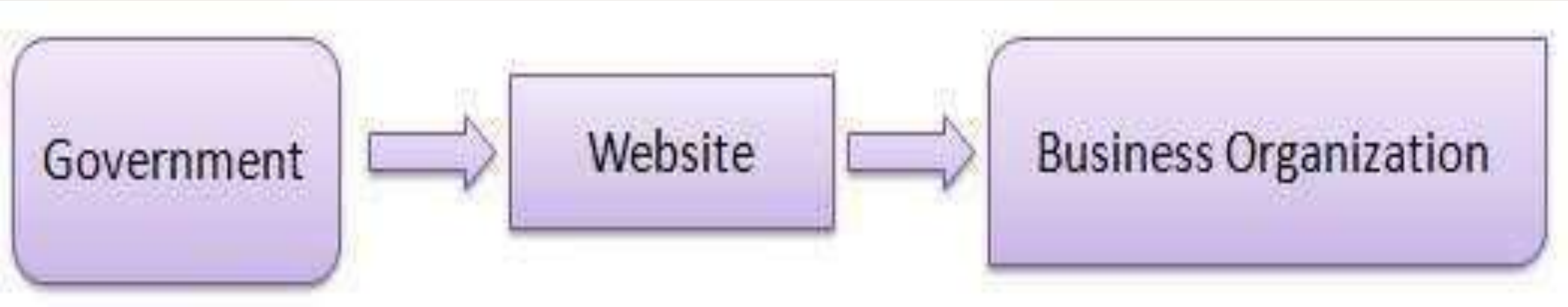
BUSINESS-TO-GOVERNMENT (B2G)

- B2G model is a variant of B2B model. Such websites are used by government to trade and exchange information with various business organizations. Such websites are accredited by the government and provide a medium to businesses to submit application forms to the government.



GOVERNMENT - TO - BUSINESS (G2B)

- Government uses G2B model to approach business organizations. These models support auctions, tenders and application submission functionalities.



GOVERNMENT-TO-CITIZEN (G2C)

- Government uses G2C model to approach citizens directly. Examples for such models can be websites providing services like registration for birth, marriage, etc. A main objective of G2C websites is to reduce average time for servicing people's requests for various government linked services.

Managerial Economics

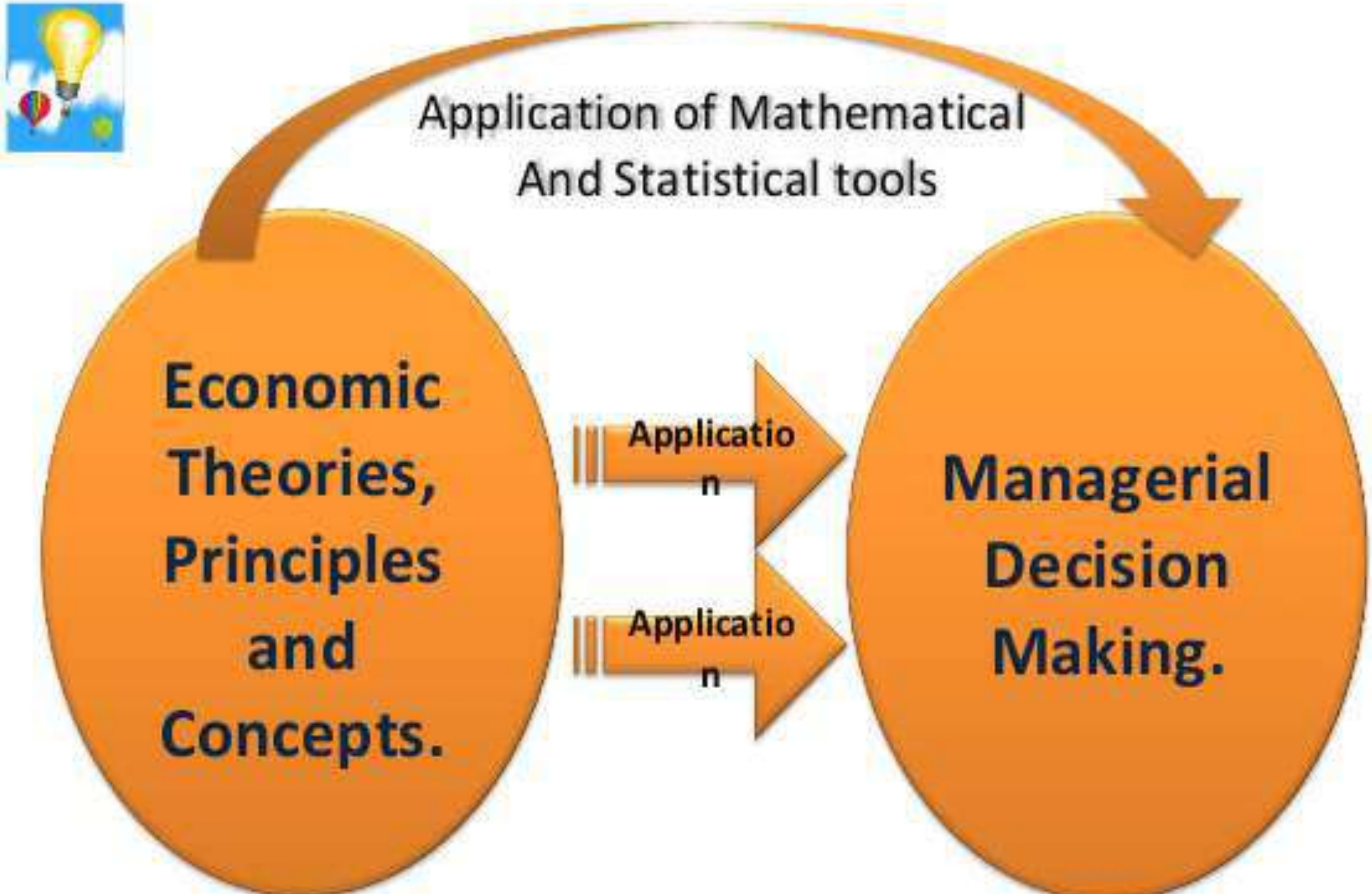
- **Branch** of **Economics**.
- 'Managerial Economics is the study of **Economic Theories, Principles and Concepts** which is used in **Managerial Decision Making.**'
- 'Managerial Economics is the **Application of various Theories, Concepts and Principles of Economics** in the **Business Decisions.**'
- It also Includes **'The Application of Mathematical and Statistical tools in Management decisions.'**

MANAGERIAL ECONOMICS

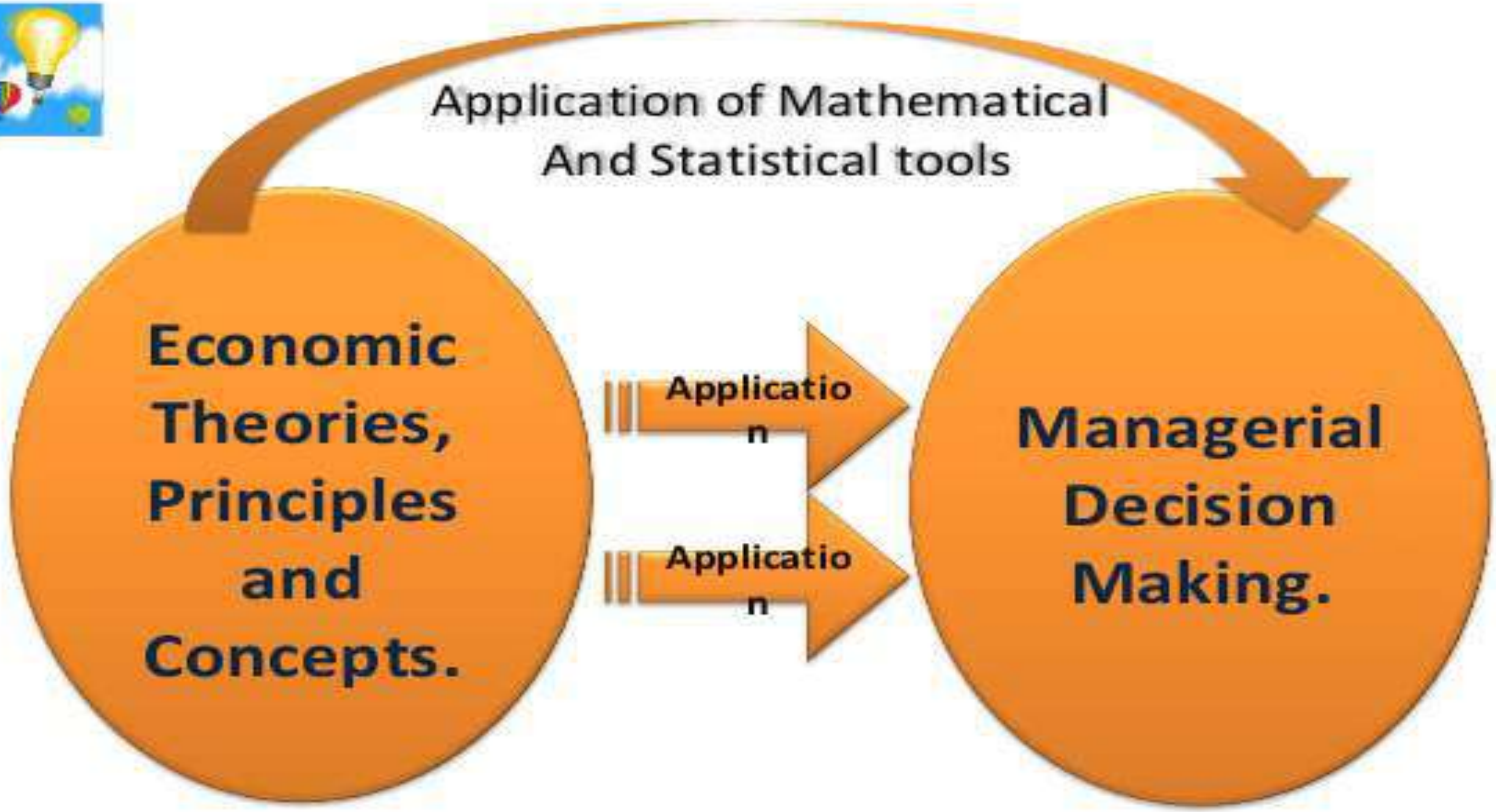
- **Douglas** - "Managerial economics is .. the application of economic principles and methodologies to the decision-making process within the firm or organization."

- **Pappas & Hirschey** - "Managerial economics applies economic theory and methods to business and administrative decision-making."

Managerial Economics



Managerial Economics



Characteristics of Managerial Economics

1. Micro economics:

- Managerial Economics is mainly microeconomics. Micro-economics is the study of the behaviour and problems of individual economic unit.
- In managerial economics unit of study is firm or business organization and an individual industry.
- It is the problems of business firms such as problem of forecasting demand, cost of production, pricing, profit, planning, capital, management etc. are studied in it.

2. Managerial economics is pragmatic:

- It is concerned with practical problems and results. It has nothing to do with abstract economic theory which has no practical application to solve the problems faced by business firms. It considers the particular environment of decision-making and not general one.

3. Managerial economic is normative:

- The nature of managerial economics is prospective and not descriptive. It deals with future planning, policy-making, decision-making and how to make full use of economic principles in all these.

- It involves value judgements. This has two aspects
  (i) what aims objective a firm should pursue; and
  (ii') how best to achieve these objectives in a given situation.

4. Uses macro-economic analysis:

- ✓ Managerial economics also uses macro-economics to analysis and understand the general business environment in which the business firm must operate.
- ✓ Business management must have the adequate knowledge of external forces that affect the business of the firm.
- ✓ The important macro-factors that affect the firm are trends in national income and expenditure, business cycles, economic policies of the government, general price trends, trends in foreign trade and anti-monopoly measures.

5. Economics of firms:

- ✓Managerial economics largely use that body of economic concepts and principles which is known as 'Theory of the Firm' or 'Economics of the Firm'. "
- ✓In addition, it also seeks to apply the profit theory which forms part of theories of distribution.
- ✓Managerial economics special branch of economics to bridge the gap between economic theory and managerial practice

The Important principles of managerial economics are:

- Incremental Principle
- Equi-marginal Principle
- Opportunity Cost Principle
- Time Perspective Principle
- Discounting Principle

Incremental Principle

This principle states that a decision is said to be rational and sound if given the firm's objective of profit maximization, it leads to increase in profit, which is in either of two scenarios-

- If total revenue increases more than total cost
- If total revenue declines less than total cost

Incremental cash-flow principle

Project financing concept that the only cash flows relevant to the valuation of a project are the incremental cash flows resulting from it

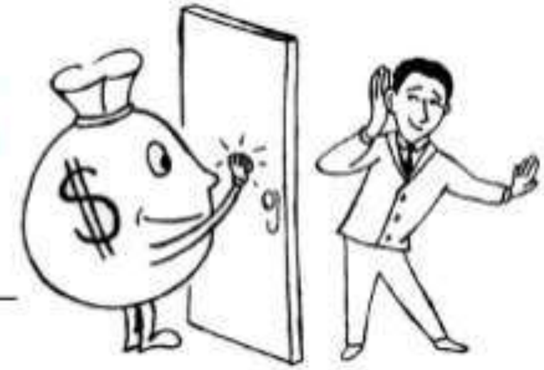
Equi-marginal Principle

The laws of equi-marginal utility states that a consumer will reach the stage of equilibrium when the marginal utilities of various commodities he consumes are equal.

The law of Equi-marginal utility

According to the modern economists, this law has been formulated in form of law of proportional marginal utility. It states that the consumer will spend his money-income on different goods in such a way that the marginal utility of each good is proportional to its price, i.e.,

Opportunity Cost Principle



Opportunity cost is one of the most important and fundamental concepts in the whole of economics. Given that we have said that economics could be described as a science of choice, we have to look at what sacrifices we make when we have to make a choice. That is what opportunity cost is all about.

Sacrifice of Alternatives

- Opportunity cost is the minimum price that would be necessary to retain a factor-service in it's given use. It is also defined as the cost of sacrificed alternatives
- By opportunity cost of a decision is meant the sacrifice of alternatives required by that decision

Time Perspective Principle

According to this principle, a manger should give due emphasis, both to short-term and long-term impact of his decisions, giving apt significance to the different time periods before reaching any decision

Time periods

- Short-run refers to a time period in which some factors are fixed while others are variable. The production can be increased by increasing the quantity of variable factors
- long-run is a time period in which all factors of production can become variable. Entry and exit of seller firms can take place easily

Discounting Principle

According to this principle, if a decision affects costs and revenues in long-run, all those costs and revenues must be discounted to present values before valid comparison of alternatives is possible

Discounting

- Discounting can be defined as a process used to transform future rupees into an equivalent number of present rupees.
- This is essential because a rupee worth of money at a future date is not worth a rupee today. Money actually has time value. For instance, Rs.100 invested today at 10% interest is equivalent to Rs.110 next year.

Economics

It talks about **'Economic Activity' and 'Economic Problem'.**

'It is the Study of Logic choice between Scarce resources and unlimited wants'

'Economics is to get the answer to the basic questions of an economy such as, What to produce?, How to produce? And for whom to produce?'

'Economics is the social science that is concerned with the production, distribution, and consumption of goods and services.'

Economics

There are **Two** Branches

- **Micro Economics:** Means **'Small'** or **'Individual'**.

  The term **'MICRO'** comes from the Greek word **'MIKROS'** Which means **'Small'** or **'Individual'.**

- **Macro Economics:** Means **'Group'** or **'Whole'.**

  The term **'MACRO'** comes from the Greek word **'MAKROS'** Which means **'Large'** or **'Whole'.**

Micro Economics



- **Micro Economics:** ‘It is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular industries.”
- Some of the theories which come under Micro Economics,
  - Theory of Individual/Market Demand.
  - Theory of Production and Cost.
  - Theory of Markets and price.
  - Theory of profit, Etc...

Macro Economics

- **Macro Economics**: 'It deals not with individual quantities as such but with aggregates of these quantities, not with individual incomes but with national income.'
- Some of the theories which come under Macro Economics,
  - Theory of total output and employment.
  - General price level.
  - Theory of Inflation.
  - Theory of trade cycles
  - Economic growth, Etc...

Difference between Managerial Economics and Economics

Economics	Managerial Economics
1.Comprehensive and wider scope	1.Narrow and limited scope
2.It has both Micro and Macro in nature	2.It is essentially Micro in nature and Macro in analysis
3.It is both Normative and positive science	3.It is mainly a Normative science
4.It is concerned with the formulation of theories and principles	4.It is concerned with the application of theories and principles of economics
5.It discusses general problems	5.It discusses Individual problems

INTERNATIONAL FINANCIAL MANAGEMENT

What is IFM?

- IFM is the process of making financial decisions pertaining to the foreign business in such a way as to maximize the value of the firm and its stock owners
- These decisions include decisions regarding
  - Acquisition of funds (financing decisions)
  - Deployment (utilization) of funds (investment decisions)
  - Dividend/retentions (dividend) decisions
- Firm has to take apt/judicious decisions to achieve the objectives of the firm (objectives?)
- All the above decisions are made by a domestic manager also

International Financial Management

- **A separate and new discipline, developed recently**
- **It is the management of international finance**

- Concerned with the management of international business related financial function, commonly, known as international financial function

International Business Mgt : Features

- Large scale operations
- Integration of economies (uses diff resources from diff countries)
- Dominated by developed countries and MNCs (as they have the best financial, human and technical resources
- Benefits to participating countries (foreign capital, technology, industrial dev, employment)
- Keen competition (weak position of developing cuntries
- Special role of science and technology
- International restrictions (on capital and technology flow; barriers, duties, trade blocks are there)
- Sensitive nature (Any changes in the economic policies technology, political environment, etc. have a huge impact)

INTERNATIONAL & DOMESTIC FINANCE

POINTS OF DIFF.	INTERNATIONAL FINANCE	DOMESTIC FINANCE
Exposure to Foreign Exchange	Currency exposure impact this transaction	No impact of currency exposure
Macro Business Environment	Exposure to different economic and political environment	Exposure to same economic and political environment
Legal and Tax Requirement	Exposure to different tax laws and regulations	Exposure to same tax laws and regulations.
Stakeholder's group	Stakeholders with different cultures, beliefs, languages etc.	Stakeholders with similar cultures, beliefs, languages etc.
Foreign exchange derivatives	Knowledge of forwards, futures, options and swaps is required.	Knowledge of forwards, futures, options and swaps is not required.
Standards of reporting	Books of accounts needs to be maintained as per GAAP and AS.	No need to maintain separate books.
Capital Management	Ample options of financing creates challenges in selection.	Limited options are available, hence no such challenge

Nature & Scope

Finance function of a multinational firm has two functions

The treasurer is responsible for :

- financial planning analysis
- fund acquisition
- investment financing
- cash management
- investment decision and
- risk management

Controller deals with the functions related to :

- external reporting
- tax planning and management
- management information system
- financial and management accounting
- budget planning and control, and
- accounts receivables etc.

OBJECTIVES OF IFM

1. Profit Maximization
2. Wealth Maximization
3. Proper Estimation of Total Financial Requirements
4. Proper Mobilisation
5. Proper Utilisation of Finance
6. Maintaining Proper Cash Flow
7. Survival of Company
8. Creating Reserves
9. Proper Coordination
10. Create Goodwill
11. Increase Efficiency
12. Financial Discipline
13. Reduce Cost of Capital
14. Reduce Operating Risks
15. Prepare Capital Structure

International Business Methods

- Licensing
- Franchising
- Subsidiaries and Acquisitions
- Strategic Alliances
- Exporting

Licensing

- **License** -means to give permission. A license may be granted by a party ("licensor") to another party ("licensee") as an element of an agreement between those parties.
- A license may be issued by authorities, to allow an activity that would otherwise be forbidden. It may require paying a fee and/or proving a capability. The requirement may also serve to keep the authorities informed on a type of activity, and to give them the opportunity to set conditions and limitations.

Franchising

- **Franchising** is the practice of selling the right to use a firm's successful business model. For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods that avoids the investments and liability of a chain. The franchisor's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

- The franchisor is a supplier who allows an operator, or a franchisee, to use the supplier's trademark and distribute the supplier's goods. In return, the operator pays the supplier a fee.

Subsidiaries and Acquisitions

- A **subsidiary** is a company that is completely or partly owned by another corporation that owns more than half of the subsidiary's stock, and which normally acts as a holding corporation which at least partly or a parent corporation, wholly controls the activities and policies of the daughter corporation.

- **Mergers and acquisitions** are both aspects of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.

Strategic Alliances

- A **strategic alliance** is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. This form of cooperation lies between Mergers & Acquisition M&A and organic growth.

- Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts.

Role of International Financial Manager

- Forecasting of financial environment
  - Prices – inflation rates – interest rates – and exchange rates of different countries
- Management of assets

  From cash management to international capital budgeting, at home and abroad, both in domestic countries and foreign countries
- Management of liabilities

  Borrowing relationship and decisions in domestic and foreign countries and markets – short term and long term

role contd.

- Exchange risk management
  - Measuring the effect of exchange rate risk on balance sheet, income, cash flows, and manage these risks
- Performance evaluation and control
- Accounting for outsiders and to the management, tax authorities etc to meet the requirements of both domestic and foreign countries
- Identifying global investment opportunities
- Assessing national and international capital and debt market conditions to increase financial resources
- Establishing ethical and healthy corporate practices and governance, adhere to the laws and regulations of different countries
- Forecast exchange rate behavior
- Devising suitable hedging strategies to cover exchange rate risk, political risk, inflations risk etc

SOURCES OF INTERNATIONAL BUSINESS

- 1. Commercial Banks
- 2. International Agency and Depository Bank
- 3. International Capital Merchant :
- a. ADR's. b. GDR's. c. FCCB's.
- 4.Personal Investment
- 5.Venture Capital
- 6.FDI
- 7. Business
- 8. Governments Grants and Subsidiaries.

Functions of International Finance

International Finance basically do the following things for a Multinational Corporation and for the government.

1. Financial Planning in international aspects
2. Identification of Sources of Financing Globally
3. Analyzing and Selecting of Global Sources of Financing
4. Raising of Funds for the organization
5. Identification of the scopes of International capital budgeting/Investment of Funds/Utilization of Fund
6. Protection of Funds
7. Dealing with the foreign Exchange/Export/Import business
8. Distributions of Profit
9. Currently, international finance is dealing with matters related to globalization, fair trade, multinational banking.
10. International finance also tries to solve the problem of human resource exploitation carried out by MNCs in the poor and developing countries by applying its own principles.

REASONS FOR EMERGENCY OF IFM

- Globalization of Business
- Increased in Foreign trade
- Reduction in Finance cost
- Maximization of Profit
- Minimizing of cost
- Minimizing Political risk
- Manage in Financial Affairs
- Effective utilization of resource
- Effective Tax system

- Effective Working capital mgt. & IT’s Decision
- Ensure adequate Financial source.
- Effective Control over the risk.

Purchasing Power Parity Theory

- Currencies are used for purchasing goods and services
- Value of a currency (money) depends upon the quantity of goods and services that can be purchased by the currency
- Thus, value of money is its purchasing power
- Exchange rate can also be mentioned on the basis of this purchasing power
- Exchange rate is the expression of one currency in terms of another currency

Eg INR 60 = $ 1

- Suppose by using Rs 60, we can purchase one kilogram of orange, then the purchasing power of Rupees can be expressed as –
  - Rs 60 = 1 kg orange
- Similarly for purchasing one kg orange, we have to pay one dollar, then the purchasing power of dollar can be expressed as –
  - $1 = 1 kg orange
- Now it is possible to state the exchange rates in terms of the value of orange
  - Rs 60 = 1kg orange = $ 1

Now it is possible to express the exchange rate in terms of their purchasing power as

- INR 60 = $1

This expression is on the basis of the parity of purchasing power of the two currencies

- Purchasing power of currency changes due to inflation or deflation
- When there is inflation, price level increases, quantity of goods that can be purchased by one unit of currency declines, thus, the purchasing power also decline and vice versa
- Thus, inflation / deflation affect the exchange rates
- Purchasing power parity theory explains the relationship between exchange rate and inflation
- This theory is based one "Law of one price"

- **Law of one price** states that any commodity cannot command two different prices in two different markets. If so profits can be taken by trading between these two markets. Ultimately the difference will set off the price differential and prices of the two markets become equal.
- PPP theory was proposed by David Ricardo, 19^{th} century, popularized by Gustav Cassel –in 1920s
- According to this theory, exchange rate of a commodity is determined on the basis of the purchasing power of the currency

- **In other words, the exchange rate of two currencies can be determined on the basis of products of commodities that can be purchased by the currencies**
- **According to this theory exchange rates are determined by what each unit of a currency can buy in terms of real goods and services in its own country**

- This theory considers foreign exchange as a commodity
- Under gold standard, the exchange rate can be stated in terms of the price of "Mint parity of gold"
- But in flexible or floating exchange rate system – in the era of paper currencies, currencies are not backed up by gold or gold exchange standard, currencies are not based on their intrinsic worth in terms of gold
- Thus, to determine the exchange rate, purchasing power of the two currencies can be considered
- In other words, the exchange rate of two currencies can be determined on the basis of products of commodities that can be purchased by the currencies
- According to this theory exchange rates are determined by what each unit of a currency can buy in terms of real goods and services in its own country

- The rate of exchange is the amount of currency which would buy the equivalent basket of goods and services in both the countries
- As mentioned, to purchase one Kg of orange, in India, we have to pay Rs. 50 and at the same time to purchase the same quantity of orange in US, one has to pay $1. in that case Exchange rate (E) = Price of orange in India / Price of orange in US = 50/1 or 50:1

Assumptions of law of one price and PPP theory

1. There exist perfect market conditions
2. Absence of transportation costs from one market to another (country to another)
3. Free trade across the international market
4. No barriers or controls over international trade like tariffs, taxes, incentives, promotions etc
5. No country is strong enough to influence the exchange rate

The above mentioned practices are termed as frictions in trade and are distortions in free markets

If the above assumptions hold good, law of one price will prevail

There are two versions to the PPP theory

1. The absolute PPP (Positive version) and
2. The relative PPP (Comparative version)

Absolute PPP Theory

- In the olden days (1700 -1970) gold formed the basis for determination of the exchange rate because it commanded good demand all over the world
- Today, gold is like any other commodity
- Thus, in the olden days PPP was based on gold prices
- According to the Jamaica Agreement in 1976 gold was demonetized
- The PPP and the exchange rates are not determined or governed by a single commodity like gold
- Now, it comprises of a basket of commodities in which gold is only a commodity

- Thus, for the purpose of determining the exchange rate a basket of commodities which have common utility among the natives will be considered.
- The value of commodities in different places may differ according to customs, traditions, culture, believes etc.
- For determining the inflation rates, every country forms a common basket of goods in proportion to their utility to the people
- Based on variations in prices inflationary tendencies are determined.

- Inflation influences exchange rates
- Two countries India and China. Inflation rate in India is 20% and that of China is 0%; then the INR will depreciate when compared to Chinese Yuan.
- In other words, Chinese Yuan will appreciate when compared to INR
- Formerly the currencies were in equilibrium position and were traded INR 5 = 2 Yuan on account of inflation the position can be INR 6 = 2 Yuan
- Now Chinese get more INR for their Yuan and they can purchase more goods from India by giving their Yuan
- This will increase Chinese import from India and or Indian export to China.

Demerits

1. Assumes composition of common basket of goods. Due to factors like culture, tradition, values believes etc. common goods may not be the same
2. Assumes identical utility – but utility is different
3. Quality of goods may be different in different countries
4. Styling and packing difference
5. Trade barriers
6. Transportation, insurance cost etc
7. Non-tradable goods (service, human resource)
8. Time lag : consequence of inflation may occur in different time
9. Other factors affecting demand and supply of currencies - interest, investment portfolio returns etc

Relative Purchasing Power Parity Theory

- Absolute PPP theory has certain limitations or distortions – thus, may not hold good
- Thus, Relative PPP theory
- This theory considers the impact of market imperfections like transportation cost, tariffs, quotas, incentives etc.
- Imperfections result in different prices for the same commodities in different countries, even if measured in a common currency
- However, this theory argues that "the rate of exchange in the prices of products will be some what similar when measured in common currency, as long as the transportation costs and trade barriers are unchanged
- In other words, "the change in the exchange rate over a period of time should be proportional to the relative change in the price levels in two countries over the same period"

Example, Suppose:-

$t = 0$ (base period or year)

P_od = Price of the commodity in domestic country during the base period

P_of = Price of the commodity in foreign country during the base period

Thus, exchange (spot) rate = $S_o = P_od/ P_of$

Suppose if the prices changes due to inflation, after one year the situation will be

$t = 1$ (after one year)

P_1d = Price of the commodity in domestic country after one year

P_1f = Price of the commodity in foreign country after one year

Thus, exchange (spot) rate = $S_1 = P_1d/ P_1f$

$P_1d = P_od$ + inflation in domestic country

$P_1f = P_of$ + inflation in foreign country

If, Inflation in domestic country = Id

inflation in foreign country = If

Thus, $S_1 = P_od\ (1 + Id)\ /\ P_of\ (1 + If)$ or

$$S_1 = S_o \frac{(1 + Id)}{(1 + If)}$$

$$\text{Percentage change} = \frac{S_1 - S_0}{S_0}$$

Suppose the price of 1 kg orange in India is INR 50 and that in USA is \$1. The inflation rate in India is 20% and that of USA is 10%. Determine the new exchange rate

When t=o, S_o = **$S_o = P_o d / P_o f = 50/1$**

= INR50: \$1

t=1, inflation in India (Id), 20 % 0r 0.2 and inflation in USA (If) is 10% or 0.1

Present exchange rate will be

50 x (1+0.2/1+0.1) = INR 54.45 : \$ 1

Interest Rate Parity (IRP)

Interest Rate Parity

- The Interest Rate Parity states that the interest rate difference between two countries is equal to the percentage difference between the forward exchange rate and the spot exchange rate.

- It plays essential role in foreign exchange markets.
- The difference between the interest rates in any two countries is the same as the difference between the forward and the spot rates of their respective currencies.

- Interest rate parity A currency is worth what it can earn.

- The return on a currency is the interest rate on that currency plus the expected rate of appreciation over a given period.

- When the returns on two currencies are equal, interest rate parity prevails.

Mathematically

Rate of return in local currency = Rate of return in foreign currency

$$RoR_{\$} = RoR_{£}$$

In equilibrium, returns on currencies will be the same i. e. No profit will be realized and interest rate parity exits which can be written

$$\frac{(1 + r_h)}{(1 + r_f)} = \frac{F}{S}$$

Violation of IRP

If interest rate parity is violated, then an arbitrage opportunity exists. The simplest example of this is what would happen if the forward rate was the same as the spot rate but the interest rates were different, then investors would:

- borrow in the currency with the lower rate
- convert the cash at spot rates
- enter into a forward contract to convert the cash plus the expected interest at the same rate
- invest the money at the higher rate
- convert back through the forward contract
- repay the principal and the interest, knowing the latter will be less than the interest received.

Implications of IRP

- If domestic interest rates are less than foreign interest rates, you will invest in foreign country at higher interest rates.

- Domestic investors can benefit by investing in the foreign market

Implications of IRP

- If domestic interest rates are more than foreign interest rates, you will invest in domestic market at higher interest rates

- Foreign investors can benefit by investing in the domestic market

Factors of PPP

- Technology
- Luxury goods
- Raw materials
- Energy prices

Factors for IRP

Factors that influence the level of market interest rates include:

- Expected levels of inflation
- General economic conditions
- Monetary policy
- Foreign exchange market activity
- Foreign investor
- Levels of sovereign debt outstanding
- Financial and political stability

Formulas

$$F_o = S_o \times \frac{(1 + i_c)}{(1 + i_b)}$$

IRP

F_o = forward rate
S_o = current spot rate
i_c = interest rate in country c
i_b = interest rate in country b

$$S_1 = S_o \times \frac{(1 + h_c)}{(1 + h_b)}$$

PPP

S_1 = expected spot rate
S_o = current spot rate
i_c = expected inflation rate in country c
i_b = expected inflation rate in country b

Question
IRP

A Canadian company is expected to receive Kuwaiti dinars in 1 years time. The spot rate is CAD/Dinar 5.4670. The company could borrow in dinars at 9% or in Canadian dollars at 14%. There is no forward rate for one year's time. Predict what the exchange rate is likely to be in one year

Solution

$$F_o = S_o \times \frac{(1 + i_c)}{(1 + i_b)}$$

$S_o = 5.4670$
$i_c = 14\%$ or 0.14
$i_b = 9\%$ or 0.09

$$F = 5.4670 \times \frac{(1 + 0.14)}{(1 + 0.09)}$$

$F = 5.7178$

Question
PPP

The spot exchange rate between UK sterling and Danish kroner is £1 = 8 kroners. Assuming that there is now purchasing parity an amount of commodity costing £110 in UK will cost 880 kroners in Denmark. Over the next year price inflation in denmark is expected to be 5% while in UK it is expected to be 8%. What is the expected spot exchange rate at the end of the year?

Solution

$$S_1 = S_o \times \frac{(1 + h_c)}{(1 + h_b)}$$

$S_o = 8$

$i_c = 5\%$ or 0.05

$i_b = 8\%$ or 0.08

$$S_1 = 8 \times \frac{(1 + 0.05)}{(1 + 0.08)}$$

$$S_1 = 7.78$$

UK price = £110 x 1.08= £118.80

Danish price = 880 x 1.05= 924 Kroner

$$= \frac{924}{118.80} = 7.78$$

FOREIGN EXCHANGE MARKET

Prepared by:

Mr. MUSTAQ MULLA, *M.Com, NET, KSET*

Co-Ordinator, Teaching Assistant,

P.G. Department of Studies in Commerce,

KLE's S C P Arts, Science and DDS Commerce College,

Mahalingpur- 587312

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- Suppose by using Rs 60, we can purchase one kilogram of orange, then the purchasing power of Rupees can be expressed as –
  - Rs 60 = 1 kg orange
- Similarly for purchasing one kg orange, we have to pay one dollar, then the purchasing power of dollar can be expressed as –
  - $1 = 1 kg orange
- Now it is possible to state the exchange rates in terms of the value of orange
  - Rs 60 = 1kg orange = $ 1

Now it is possible to express the exchange rate in terms of their purchasing power as

- INR 60 = $1

This expression is on the basis of the parity of purchasing power of the two currencies

- Purchasing power of currency changes due to inflation or deflation
- When there is inflation, price level increases, quantity of goods that can be purchased by one unit of currency declines, thus, the purchasing power also decline and vice versa
- Thus, inflation / deflation affect the exchange rates
- Purchasing power parity theory explains the relationship between exchange rate and inflation
- This theory is based one "Law of one price"

- **Law of one price** states that any commodity cannot command two different prices in two different markets. If so profits can be taken by trading between these two markets. Ultimately the difference will set off the price differential and prices of the two markets become equal.
- PPP theory was proposed by David Ricardo, 19th century, popularized by Gustav Cassel –in 1920s
- According to this theory, exchange rate of a commodity is determined on the basis of the purchasing power of the currency

- **In other words, the exchange rate of two currencies can be determined on the basis of products of commodities that can be purchased by the currencies**
- **According to this theory exchange rates are determined by what each unit of a currency can buy in terms of real goods and services in its own country**

- This theory considers foreign exchange as a commodity
- Under gold standard, the exchange rate can be stated in terms of the price of "Mint parity of gold"
- But in flexible or floating exchange rate system – in the era of paper currencies, currencies are not backed up by gold or gold exchange standard, currencies are not based on their intrinsic worth in terms of gold
- Thus, to determine the exchange rate, purchasing power of the two currencies can be considered
- In other words, the exchange rate of two currencies can be determined on the basis of products of commodities that can be purchased by the currencies
- According to this theory exchange rates are determined by what each unit of a currency can buy in terms of real goods and services in its own country

- The rate of exchange is the amount of currency which would buy the equivalent basket of goods and services in both the countries
- As mentioned, to purchase one Kg of orange, in India, we have to pay Rs. 50 and at the same time to purchase the same quantity of orange in US, one has to pay $1. in that case Exchange rate (E) = Price of orange in India / Price of orange in US = 50/1 or 50:1

Assumptions of law of one price and PPP theory

1. There exist perfect market conditions
2. Absence of transportation costs from one market to another (country to another)
3. Free trade across the international market
4. No barriers or controls over international trade like tariffs, taxes, incentives, promotions etc
5. No country is strong enough to influence the exchange rate

The above mentioned practices are termed as frictions in trade and are distortions in free markets

If the above assumptions hold good, law of one price will prevail

There are two versions to the PPP theory

1. The absolute PPP (Positive version) and
2. The relative PPP (Comparative version)

Absolute PPP Theory

- In the olden days (1700 -1970) gold formed the basis for determination of the exchange rate because it commanded good demand all over the world
- Today, gold is like any other commodity
- Thus, in the olden days PPP was based on gold prices
- According to the Jamaica Agreement in 1976 gold was demonetized
- The PPP and the exchange rates are not determined or governed by a single commodity like gold
- Now, it comprises of a basket of commodities in which gold is only a commodity

- Thus, for the purpose of determining the exchange rate a basket of commodities which have common utility among the natives will be considered.
- The value of commodities in different places may differ according to customs, traditions, culture, believes etc.
- For determining the inflation rates, every country forms a common basket of goods in proportion to their utility to the people
- Based on variations in prices inflationary tendencies are determined.

- Inflation influences exchange rates
- Two countries India and China. Inflation rate in India is 20% and that of China is 0%; then the INR will depreciate when compared to Chinese Yuan.
- In other words, Chinese Yuan will appreciate when compared to INR
- Formerly the currencies were in equilibrium position and were traded INR 5 = 2 Yuan on account of inflation the position can be INR 6 = 2 Yuan
- Now Chinese get more INR for their Yuan and they can purchase more goods from India by giving their Yuan
- This will increase Chinese import from India and or Indian export to China.

Demerits

1. Assumes composition of common basket of goods. Due to factors like culture, tradition, values believes etc. common goods may not be the same
2. Assumes identical utility – but utility is different
3. Quality of goods may be different in different countries
4. Styling and packing difference
5. Trade barriers
6. Transportation, insurance cost etc
7. Non-tradable goods (service, human resource)
8. Time lag : consequence of inflation may occur in different time
9. Other factors affecting demand and supply of currencies - interest, investment portfolio returns etc

Relative Purchasing Power Parity Theory

- Absolute PPP theory has certain limitations or distortions – thus, may not hold good
- Thus, Relative PPP theory
- This theory considers the impact of market imperfections like transportation cost, tariffs, quotas, incentives etc.
- Imperfections result in different prices for the same commodities in different countries, even if measured in a common currency
- However, this theory argues that "the rate of exchange in the prices of products will be some what similar when measured in common currency, as long as the transportation costs and trade barriers are unchanged
- In other words, "the change in the exchange rate over a period of time should be proportional to the relative change in the price levels in two countries over the same period"

Example, Suppose:-

$t = 0$ (base period or year)

$P_o d$ = Price of the commodity in domestic country during the base period

$P_o f$ = Price of the commodity in foreign country during the base period

Thus, exchange (spot) rate = $S_o = P_o d / P_o f$

Suppose if the prices changes due to inflation, after one year the situation will be

$t = 1$ (after one year)

$P_1 d$ = Price of the commodity in domestic country after one year

$P_1 f$ = Price of the commodity in foreign country after one year

Thus, exchange (spot) rate = $S_1 = P_1 d / P_1 f$

$P_1d = P_od$ + inflation in domestic country

$P_1f = P_of$ + inflation in foreign country

If, Inflation in domestic country = Id

inflation in foreign country = If

Thus, $S_1 = P_od\ (1 + Id) / P_of\ (1 + If)$ or

$$S_1 = S_o \frac{(1+Id)}{(1+If)}$$

$$\textit{Percentage change} = \frac{S_1 - S_0}{S_0}$$

Suppose the price of 1 kg orange in India is INR 50 and that in USA is $1. The inflation rate in India is 20% and that of USA is 10%. Determine the new exchange rate

When t=o, S_o = $S_o = P_o d / P_o f = 50/1$

= INR50: $1

t=1, inflation in India (Id), 20 % 0r 0.2 and inflation in USA (If) is 10% or 0.1

Present exchange rate will be

50 x (1+0.2/1+0.1) = INR 54.45 : $ 1

Interest Rate Parity (IRP)

Interest Rate Parity

- The Interest Rate Parity states that the interest rate difference between two countries is equal to the percentage difference between the forward exchange rate and the spot exchange rate.

- It plays essential role in foreign exchange markets.
- The difference between the interest rates in any two countries is the same as the difference between the forward and the spot rates of their respective currencies.

- Interest rate parity A currency is worth what it can earn.

- The return on a currency is the interest rate on that currency plus the expected rate of appreciation over a given period.

- When the returns on two currencies are equal, interest rate parity prevails.

Mathematically

Rate of return in local currency = Rate of return in foreign currency

$$\mathrm{RoR}_{\$} = \mathrm{RoR}_{£}$$

In equilibrium, returns on currencies will be the same i. e. No profit will be realized and interest rate parity exits which can be written

$$\frac{(1 + r_h)}{(1 + r_f)} = \frac{F}{S}$$

Violation of IRP

If interest rate parity is violated, then an arbitrage opportunity exists. The simplest example of this is what would happen if the forward rate was the same as the spot rate but the interest rates were different, then investors would:

- borrow in the currency with the lower rate
- convert the cash at spot rates
- enter into a forward contract to convert the cash plus the expected interest at the same rate
- invest the money at the higher rate
- convert back through the forward contract
- repay the principal and the interest, knowing the latter will be less than the interest received.

Implications of IRP

- If domestic interest rates are less than foreign interest rates, you will invest in foreign country at higher interest rates.

- Domestic investors can benefit by investing in the foreign market

Implications of IRP

- If domestic interest rates are more than foreign interest rates, you will invest in domestic market at higher interest rates

- Foreign investors can benefit by investing in the domestic market

Factors of PPP

- Technology
- Luxury goods
- Raw materials
- Energy prices

Factors for IRP

Factors that influence the level of market interest rates include:

- Expected levels of inflation
- General economic conditions
- Monetary policy
- Foreign exchange market activity
- Foreign investor
- Levels of sovereign debt outstanding
- Financial and political stability

Formulas

$$F_o = S_o \times \frac{(1 + i_c)}{(1 + i_b)} \quad \Bigg\} \ \textbf{IRP}$$

F_o = forward rate
S_o = current spot rate
i_c = interest rate in country c
i_b = interest rate in country b

$$S_1 = S_o \times \frac{(1 + h_c)}{(1 + h_b)} \quad \Bigg\} \ \textbf{PPP}$$

S_1 = expected spot rate
S_o = current spot rate
i_c = expected inflation rate in country c
i_b = expected inflation rate in country b

Question
IRP

A Canadian company is expected to receive Kuwaiti dinars in 1 years time. The spot rate is CAD/Dinar 5.4670. The company could borrow in dinars at 9% or in Canadian dollars at 14%. There is no forward rate for one year's time. Predict what the exchange rate is likely to be in one year

Solution

$$F_o = S_o \times \frac{(1 + i_c)}{(1 + i_b)}$$

$S_o = 5.4670$
$i_c = 14\%$ or 0.14
$i_b = 9\%$ or 0.09

$$F = 5.4670 \times \frac{(1 + 0.14)}{(1 + 0.09)}$$

$F = 5.7178$

Question
PPP

The spot exchange rate between UK sterling and Danish kroner is £1 = 8 kroners. Assuming that there is now purchasing parity an amount of commodity costing £110 in UK will cost 880 kroners in Denmark. Over the next year price inflation in denmark is expected to be 5% while in UK it is expected to be 8%. What is the expected spot exchange rate at the end of the year?

Solution

$$S_1 = S_o \times \frac{(1 + h_c)}{(1 + h_b)}$$

$S_o = 8$
$i_c = 5\%$ or 0.05
$i_b = 8\%$ or 0.08

$$S_1 = 8 \times \frac{(1 + 0.05)}{(1 + 0.08)}$$

$$S_1 = 7.78$$

UK price = £110 x 1.08= £118.80

Danish price = 880 x 1.05= 924 Kroner

$$= \frac{924}{118.80} = 7.78$$

COMPANY MEETINGS

A meeting may be defined as a gathering or assembling of a number of persons for transacting any lawful business. A co. meeting, to be valid must be convened and held as per the provisions of the companies Act, 1956 and the rules framed there under.

REQUISITES OF A VALID MEETING

A meeting is said to be properly convened when a proper notice of the meeting is issued by a proper authority to all the persons who are entitled to receive the notice.

LEGAL PROVISIONS RELATING TO COMPANY MEETINGS

Sec. 171 to 186 of the companies Act deal with the co. meetings. These provisions lay down the manner of convening and conducting the meetings. These provisions can be studies under the following heads:

LEGAL PROVISIONS RELATING TO COMPANY MEETINGS

1. Proper authority to convene the meeting.
2. Proper notice of the meeting.
3. Quorum of the meeting.
4. Proper person in the chair.
5. Agenda of the meeting.
6. Motions and resolutions.
7. Sense of the meeting.
8. Adjournment of the meeting.
9. Records of the meetings.

1. Proper authority to convene the meeting.

The first essential requisite of a valid meeting is that it should be convened by a proper authority. A general meeting of the shareholders may be convened by the following.

i. Board of directors: The proper authority to convene a general meeting of the co. is the Board of Directors, who should pass a resolution to call a general meeting of shareholders at a duly constituted Board meeting.

ii. Requisition of shareholders: When a requisition is made by the shareholders of the co. for convening the extra-ordinary general meeting, the directors should within twenty one days of the requisition. If the directors fails to do so then the requisitionists may themselves proceed to call a meeting within three months of the date of requisition.

iii. Company law Board.

2. Proper notice of the meeting(sec.171)

The second requirement of a valid meeting is that a proper notice of the meeting should be given to all those who are entitled to attend the meeting. The notice must state the kind of the meeting, date, time and place of the meeting and the business to be transacted at the meeting.

Length of the notice: A general meeting of the co. may be called by giving a notice not less than 21 days in writing. It may, however, be called by giving a shorter notice in the following circumstances:

a. In the case of AGM if all the members entitled to vote give their consent.
b. In the case of any other general meeting if the members having not less than 95% of the paid-up capital given their consent.
c. In the case of any other general meeting and in the case of a co. without share capital if the members having not less than 95% of the paid-up capital given their consent.

Contents of the notice

Ordinary business like consideration of accounts, declaration of dividend and appointment of directors and special business

Who is entitled to notice.

Mode of serving the notice.

Notice of an adjourned meeting.

Notice of Board meeting.

3. Quorum of the meeting(sec.174)

Quorum is the minimum number of members who must be present at a meeting, if it is to be properly constituted. Such a quorum should be present not only at the commencement of the meeting but also during the period of the meeting to enable the chairman to commence and conduct the proceedings.

Proper quorum for general and board meeting:

A quorum means the minimum number of members who must be present at a meeting to transact and vote on any business. The Articles of every co. generally provide the requisite quorum for a general meeting, if the articles are silent then the following rules must apply:

1. Five members personally present in the case of public Co. if the numbers of members less than 1,000, 10 in case of the number of members is more than 1,000 but less than 3,000 and 15 in case of number of members is more than 3,000 and two in the case of private co. shall be the quorum for meeting.
2. If, within half an hour from the time appointed for holding the meeting a quorum is not present the meeting stands dissolved.
3. In any other case the meeting shall be postponed to the same day in the next week. In the adjourned meeting also quorum is not present then members present shall constitute quorum.(quorum of Board Meeting)

THE CHAIRMAN OF THE MEETING(Sec.175) Appointment , qualifications, duties and powers.

Every meeting must have a chairman. A meeting is not considered to be duly constituted if a proper person is not in the chair.

Appointment of a chairman: A chairman is necessary to conduct the meeting. He is the presiding officer of the meeting.Sec.175 of the Act lays down that unless the Articles otherwise provide the members personally present at the meeting shall elect one of themselves to be the chairman. He may be elected by a show of hands.

1. The chairman of the Board meeting shall preside as chairman at every meeting of the co.
2. If there is no such chairman or if he is not present within 15 minutes or he is unwilling to act the director present one among them shall act as chairman.
3. If at any meeting no directors are present, the members present shall choose one of themselves as chairman.

Qualifications of a chairman

The Act does not prescribe any specific qualifications for a chairman. A chairman is required to conduct the meeting expeditiously, peacefully and according to the order of items on the agenda.

- He must posses certain ability, both of head and heart.
- He must be courteous, good natured, fair minded but firm.
- He must have a good knowledge of the law and practice of meetings. From legal point of view, he is responsible for keeping law and order for the conduct of the meeting.
- He is the person to put resolutions to the meeting, count the vote, declare the result and authenticate the minutes by his signature.

DUTIES OF A CHAIRMAN

1. To see that the meeting is duly convened and properly constituted.
2. To see that the minutes of the last meeting are read, confirmed.
3. To see that his appointment is in order and that required quorum is present.
4. To see follow the order on the agenda paper except where it is changed with the consent of the members.
5. To see that the motion and amendments are properly proposed and seconded.
6. To ensure that every person entitled to speak has a proper opportunity to express his views.
7. To see that the minority is properly heard.
8. To see that the sense of the meeting is properly ascertained with regard to any question.
9. To put questions to the meeting and declare the result of the voting.

continued

10. To conduct a poll, if it is demanded by the prescribed number of members.
11. To exercise his 'casting vote', if any judiciously where he is required to do so.
12. To declare the meeting closed when all the business has been transacted.
13. To see that proper minutes of the proceedings of the meeting are kept and signed by him.
14. To exercise correctly his power of adjournment and of demanding a poll.
15. In general, it is his responsibility to see that the meeting is conducted peacefully and expeditiously.

POWERS OF A CHAIRMAN

1. He has the power to decide 'point of order'.
2. He has to decide the priority of speakers.
3. He can stop discussion on a matter.
4. He can remove disorderly person from the meeting.
5. He can exercise a casting vote, if allowed by the Articles.
6. He has the power of adjourning the meeting for a short time.

OTHER POWERS OF THE CHAIRMAN

7. To stop the speaker when his allotted time is over.
8. To check irrelevant and personal references during the debate.
9. To declare the result of voting by show of hands.
10. To have a recount, if he is uncertain who had voted for and against the motion. 11. To order and take a poll. 12. To regulate the manner in which the poll shall be taken. 13. To appoint scrutinizers for checking the vote on a poll. 14. To remove a scrutinizers any time before the result of the poll is declared.

5.AGENDA OF THE MEETING

The word agenda suggests the business to be transacted at a meeting. It also means 'things to be done'. In order that the business of the meeting is conducted systematically without any confusion and waste of time, without omission of any item of importance, it is considered necessary to put all items of business to be done on a paper known as the 'Agenda paper'. The secretary in consultation with the chairman of the meeting prepare the agenda. He should keep in mind the following principles while preparing the agenda:

1. The agenda should be clear and explicit. 2. It should be in a summary form. 3. The routine business should be put first and the special business. 4. All matters of similar or allied charter should be placed near each other. 5. Each item on the agenda should be serially numbered.
6. All the items included in the agenda should be within the scope of the meeting
7. The copies of the agenda to be used by the directors and the chairman should have right side margin.

PROCEDURE OF MOTION AND RESOLUTIONS

The term motion refers to a proposition or a proposal put before a meeting for consideration and decision. Essentials of a valid motion: A motion to be valid must satisfied the following conditions:

1. A motion should be in writing and duly signed by the proposer and seconded by another.
2. It should be couched in clear and definite terms.
3. It should be in affirmative form. 4. Further, a motion must be within the scope of the notice. 5. A motion should commence with word 'That'. 6. Generally, a motion is put to the meeting for its deliberation and decision when it is proposed by anther one.
7. When a motion is put before a meeting for its consideration it become the property of the meeting.
8. Once a motion is duly proposed and seconded the chairman invites a debate on it. Every member is entitled to speak only once and the proposer is to speak twice.
9. A motion must be introduced with a prior notice.
10. All motions must be handed over to the chairman unless the articles provides.
11. Only the members can move a motion. A proxy is not permitted to move a motion since he is not allowed to speak.
12. A motion must not contain any argument, inference or defamatory language.
13. After the debate on the motion is completed, it is put to voting and if it is passed it becomes a resolution.

TYPES OF MOTIONS

1. Original motion.
2. Substantive motion.
3. Dropped motion.
4. Formal motion.

INTERRUPTION OF DEBATE

1. Amendments, 2. Formal or dilatory motion and 3. Point of order.

1. Amendments : A motion put before the meeting for its consideration is subject to revision, alteration or amendment. Therefore, an amendment is a proposed alteration or modification in the wording or terms of the original motion under discussion. An original motion may therefore be amended:

   i. By adding some words or phrases or

   ii. By omitting some words or phrases or

   iii. By substituting some new words or phrases for those in the original motion or

   iv. By changing or altering the place or position of words or phrases in the motion.

The Articles of a co. usually prescribe certain rules governing the amendments. They are given below:

1. It must be in writing and in the affirmative sense.
2. It must be seconded although the Act is silent on this point.
3. It must be within the scope of the notice of the motion.
4. It must never be a counter proposal.
5. It must bring about some material change or improvement in the motion without nullifying the main sense of the motion.

Continued---

6. It must not go against any motion or amendment already adopted by the meeting.
7. The chairman should incorporate the amendment in the original motion only after the approval of the meeting.
8. In case there are several amendments, the same will be put to the meeting for discussion in the order in which they have been moved.
9. There may be an amendment to an amendment.
10. The amendment once proposed in the meeting cannot be withdrawn without the consent of the meeting.
11. Once the amendment is moved, the debate on the original motion is diverted to the amendment.
12. If the amendment is lost , the debate on the original motion is resumed.
13. The motion, when amended is called 'substantive motion on which further discussion takes place.
14. When the substantive motion is passed, it becomes a resolution.
15. If the substantive motion is lost, the original motion cannot be revived.
16. The chairman has a right to reject any amendment which is not relevant to the original motion and which is not within the scope of the notice of the meeting.
17. No notice is necessary to propose an amendment except in the case of special resolution.

2. FORMAL OR DILATORY MOTIONS:

Formal motions may be moved in any of the following forms:

1. The closure
2. Previous question
3. Next business
4. Adjournment and
5. Postponement.

3. Point of order

During the progress of the debate on a particular motion, any member may raise a point of order to draw the attention of the chairman to some irregularity in the procedure of the meeting. Point of order may relate to:

a. Absence of quorum
b. Use of offensive and abusive language
c. Misbehavior or bad remarks of the speaker
d. Motion under discussion not within the scope of the notice of the meeting.
e. Breach of standing orders or rules.

DIFFERENCE BETWEEN MOTION AND AMENDMENTS

MOTION	AMENDMENTS
1. It is an item on the agenda indicating the business to be transacted.	1. It is a propose revision of the original motion.
2. It initiates the discussion.	2. It act as an interruption to the discussion.
3. The mover of the motion can speak twice.	3. The mover can speak once.
4. It becomes a resolution when it passed.	4. It becomes a part in the motion.
5. Any member can speak once on each motion and afterwards.	5. Only those members who have not speak can.
6. Two dilatory motion.	6. Only one dilatory motion.

RESOLUTIONS

When a motion is passed in a meeting, it becomes a resolution. Thus the resolutions are accepted motions or the recorded decisions of the meeting. All resolutions must be recorded in the minutes book verbatim.

A resolution passed at a meeting cannot be annulled or revoked at the same meeting

According to the co. Act three types of resolution can be passed by the shareholders at a general meeting. They are:

a. Ordinary resolutions
b. Special resolutions
c. Resolutions requiring a special notice.

a. Ordinary resolutions: An ordinary resolution is one which is passed by a numerical majority of the members present in person or by proxy at the properly constituted and convened general meeting of which due notice has been given. An ordinary resolution is commonly used for ordinary business to be transacted in the general meeting of the members.

SPECIAL RESOLUTIONS

According to Sec. 189 (2) of the Act, a resolution is a special resolution when----

a. The intention to propose the resolution as a special resolution has been duly specified in the notice of the meeting.

b. The notice of the meeting required under the Act has been duly given.

c. The number of vote cast in favour of the resolution is not less than three times the number cast against the resolution.

Business transacted by special resolutions are like, change in the name of the co., change the registered office from one state to another., alter the Articles, reduce the share capital, create reserve liability so on ---.

DIFFERENCE BETWEEN MOTIONS AND RESOLUTIONS

MOTION:

1. It is a proposal put before the meeting.
2. It is a proposed resolution put before meeting for approval.
3. It has to proposed and seconded.
4. It is liable to amendment.
5. It initiate the debate.
6. It can be withdrawn.
7. It is not the will of the meeting.
8. It starts with the words 'To resolve that –'.
9. There are two types.

1. It is a formal decision.
2. It is a motion agreed upon.
3. No such formalities.
4. It cannot be altered or amended.
5. It puts an end to the discussion.
6. It cannot be withdrawn.
7. It is the will of the members.
8. It starts with the word 'Resolved that –'.
9. There are three types of resolutions.

SENSE OF THE MEETING OR VOTING

“ The sense of a meeting, that is to say its view or opinion or attitude or intention or will in regard to a question before it is ascertained by taking vote”.

Different methods are followed in ascertaining the sense of a meeting. They are as under:

1. By acclamation
2. By voice
3. By division
4. By standing
5. By ballot
6. By show of hands
7. By poll.

PROXY(Sec.176)

A member may vote at a meeting either in person or by proxy. A proxy is a person who is authorized to attend and vote at meeting of the co. on behalf of the member of the company. A proxy is therefore an agent of a shareholder authorized to attend and vote at a meeting of the company.

A proxy also an instrument appointing a person as a proxy. The instrument must be signed and it must be in the hand writing of the appointer. The Articles of a company usually lay down the regulation governing the use of proxies.

Statutory provisions regarding a proxy

1.Member's right to appoint a proxy. 2. A body corporate or govt. can appoint a proxy. 3. Right to appoint more than one proxy 4. Notice convening a meeting to mention right to appoint a proxy. 5. Disabilities and right of a proxy. 6. Period of deposit of proxy. 7. Invitation to members to appoint proxies prohibited. 8. Requirement as to instrument of proxy. 9. Inspection of proxies by the members. 10. Relationship between member and his proxy. 11. Revocation of proxy.

ADJOURNMENT OF MEETING

Sometimes, it may be thought desirable to adjourn the meeting either indefinitely or for a particular period. In such a case, the entire proceedings of the meeting will come to be suspended. A meeting may adjourn sine die or for a fixed interval of time or until a particular date or another place. There are certain circumstances under which an adjournment of the

1. The members present in the meeting must pass the resolution for this effect.
2. The chairman shall if so directed by the meeting adjourn from time to time and place to place.
3. A members also adjourn a meeting when they require some information or the business of the meeting can be transacted after some time or at some other place.
4. The meeting can be adjourn if it is in the interest of members.
5. A meeting stands automatically adjourned in case the quorum not present in time.

MINUTES OF MEETINGS

Minutes indicate the written records of the business transacted , decisions and resolutions arrived at a meeting. Sec. 193(2) of the Act defines the minutes of a meeting as a fair and correct summary of the proceeding thereat. A fair summary should include material questions asked and replies given and comments made. The minutes must be free from ambiguity but at same time they should be concise.

Contents of minutes. 1. It should be prepared as soon as the meeting is over. 2. It should have the appropriate heading regarding name, place date and time and the constitution of the meeting. 3. It should contain the name of the chairman, directors and secretary present at the meeting. 4. It should have a brief heading in addition to the main headings. 5. It is not necessary to give full text of the discussion leading to passing resolution. 6.The chairman enjoys absolute discretionary powers in regard to inclusion or non inclusion of any matter in the minutes on the grounds enumerated.

STATUTORY PROVISIONS RELATING TO MINUTES

1. The co. must maintain separate minute Book for each kind of meeting.
2. The pages of the minute Book must be numbered consecutively.
3. Minutes must be prepared within 30 days of every meeting.
4. Every pages must be initialed and the last page of the record.
5. In the case of the Board of committee meeting the chairman of the same or next meeting has to sign the minutes but in other case the chairman of the same meeting has to sign the minute within 30 days of the meeting.
6. The minutes should be kept open for not less than two hours on each day.
7. Minutes of a meeting should in any case be attached to the book by pasting or otherwise.

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COMPANY MEETINGS: I
BOARD MEETINGS

Wide power have been vested in the Board of directors in regard to the manag~~ement of the affairs of the company by the companies Act. These~~ powers are given to the Board and not to the individual directors. Hence, the directors have to act as Board in a meeting for exercising their powers. These meeting of the directors are known as Board meetings. The secretary of the company should see that the provisions of the companies Act and the articles of the company regarding the Board meeting are duly complied with. The Board meeting must be properly convened and constituted and must comply with the provisions of the co. Act and articles of the company, if the business transacted at the meeting are to be legally binding on the company.

Frequency of Board meetings: Sec. 285 of the companies Act lays down that a meeting of the Board must be held at least once in the every three months and four times in a calendar year.

CHAIRMAN'S DUTIES AT THE BOARD MEETING

1. To see that the meeting has been properly convened and the required quorum is present.
2. To ~~ensure that the statutory requirements as laid down by the Act and the articles~~ of the co. are duly complied with.
3. To maintain order at the meeting.
4. To see that the view of the directors are properly ascertained with regard to any question at the meeting.
5. To see that the proceedings are conducted in a proper manner.
6. To act in good faith and to be impartial in performing his duties while conducting the meeting.
7. To ensure that the minutes of the proceeding of the meeting are properly taken.
8. To adjourn the meeting, if necessary.
9. To declare the meeting closed.

VOTING BY DIRECTORS

Every director has one vote where as the chairman being the director also can exercise two vote, one as deliberate vote and another as 'casting vote' if there is tie.

Procedure at Board meeting.

Board Resolutions.

Minutes of the Board meetings.

Contents of the minutes of the Board meeting.

Secretarial duties relating to Board meeting: Duties before the meeting.

1. To fix the date, time and place of the meeting in consultation with the chairman. 2. To prepare the agenda of the meeting. 3. To dispatch notice and agenda of the meeting to each director. 4. To issue invitation letters to certain persons. 5. To intimate the stock exchange authority regarding Board meeting. 6. To keep ready periodical financial statements. 7. To keep ready necessary documents. 8. To keep ready the banker's pass book. 9. To prepare the directors' attendance book. 10. To make necessary arrangements for boarding and lodging for director.

DUTIES DURING THE MEETING

1. To obtain the signature of the directors present at the meeting in the Director's attendance. 2. To help the chairman in ascertaining the quorum. 3. To ~~report any request for leave of absence received from any director.~~ 4. To read the notice of the meeting. 5. To read the minutes of the last meeting and get confirmed. 6. To report notice of disclosure of interest. 7. To assist the chairman by providing requisite information. 8. To take down full note of the proceedings of the meeting. 9. To arrange for the payment of sitting fees and traveling allowances to the directors.

Duties after the meeting: 1. To draft the meeting is over the minutes of the meeting on the basis of the notes taken. 2. To carry out the order and instructions of the Board. 3. To make note of any item of business deferred for future discussion. 4. To circulate the minutes of the meeting to the directors, if so decided at the meeting.

BUSINESS TO BE TRANSACTED AT BOARD MEETING

1.Election of chairman.

2. Appointment of M.D., Manager etc

3.Issue of shares and debentures.

4. Allotment of share.

5. Calls on shares.

6. Forfeiture on shares.

7. Transfer and transmission of shares.

8. Surrender of shares.

9. Lien on share.

10. Issue of duplicate share certificate.

11. Convening of AGM. So on.

IN FIRST MEETING ONLY.

1. Election of the chairman of the meeting.
2. Election of the chairman of the BOD meeting.
3. Production of certificate of incorporation by the solicitor.
4. Appointment of the M.D.
5. Appointment of the secretary.
6. Appointment of the banker.
7. Appointment of the auditors.
8. Fixing a quorum of the BOD.
9. Approval of the common seal.
10. Adoption of contracts with vendors.
11. Appointment of the solicitor.
12. Application to s.exchnge for listing.

THE COMPANY

Introduction:

Literal~~ly the word company means a group of persons associat~~ed for any common object such as business, charity, sports and research etc. Almost every partnership firm having two or more partners may, therefore, style itself a 'company'

For example, *'Rameshwar Dass Jamuna Das & Company'. But this company is not a company in the legal sense of the word. The words "& Company" here simply indicate that there are other persons in their association besides Rameshwar Dass and Jamuna Das. We shall be using the word company in our text strictly in legal sense, i.e. a company incorporated or registered under the Companies Act.*

Definition:

Section 3(1)(i) of the Companies Act defines a company as "a company formed and registered under this Act or an existing company. An 'existing company' means a company formed and registered under any of the former Companies Acts."

Lord Justice Lindley, "By a company is meant an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss (as the case may be) arising there from. The common stock so contributed is denoted in money and is the capital of the company. The persons who contribute it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is his share. Shares are always transferable although the right to transfer them is often more or less restricted."

Haney has given a more comprehensive definition, "A company is an incorporated association, which is an artificial person created by law, having a separate entity, with a perpetual succession and a common seal."

A company, thus, may be defined as an incorporated association, which is an artificial legal person, having a separate legal entity, with a perpetual succession, a common seal, a common capital comprised of transferable shares and carrying limited liability.

CHARACTERSTICS.

Following are the essential characteristics of a company;

1. ***Incorporated Association***

- *A company must necessarily be incorporated or registered under prevalent Companies Act.*

- *Registration creates a joint stock company and it is compulsory for all associations or partnerships, having a membership of more than ten in banking and more than twenty in any other trading activity, formed for carrying on a business with the object of earning profit.*

2. *Artificial legal person.*

- *A company is an artificial legal person that means it has no life. It is not born of parents.*
- *It is not made of flesh or bone or blood.*
- *It cannot talk.*
- *In spite of all these facts, it can act like an individual, i.e. it can purchase and sell goods, it can hold property, it can file suits against others and can be sued by others, it can incur debts and lend money and so on.*

3. Common seal;

- *As it is an artificial person, it must have some device in the form of a Common Seal on which its name is engraved and which can act as its signature.*
- *Immediately after incorporation, in the first meeting of the directors, the form of the common seal is approved by the Board.*
- *The Common Seal is affixed on important documents like Share Certificates, Share Warrants and on important contracts.*
- *Any document bearing the common seal of the company will be legally binding on the company.*

4. Limited liability ;

The liability of every shareholder of a company is limited by shares or guarantee is limited to the extent of the nominal value of the shares or the amount of the guarantee given by him.

5. *Perpetual Succession ;*

- *As it is an independent legal entity.*
- *Its life does not depend upon the death, insolvency or retirement of any or all shareholders or directors.*
- *It lives forever until it comes under liquidation or winding up.*
- *An incorporated company never dies. It is an entity with perpetual succession.*
- *Members may come and go, directors may change, but the company can go on forever. The company comes into existence by process of law and it can windup only by process of law.*

6. *Transferability of shares;*

- *The shares of a public company are freely transferable and members can dispose of their shares whenever they like without seeking any permission from the company or the other members.*
- *In a private company, however, some restriction on the right to transfer is essential in its articles as per Section 3(1)(iii) of the Act, but absolute restriction on the right of the members to transfer shares contained in the articles shall be void.*

7. A shareholder is not the Agent of the Company ;

A shareholder is not an agent of the company, and therefore, cannot bind the company by his acts as is the case in a partnership.

Types of Companies

Companies maybe classified on the basis of different points of view as follows:

i. *Classification of companies on the basis of incorporation or registration,*

ii. *Classification of registered companies on the basis of the nature of liability of the members.*

iii. *Classification on the basis of number of members.*

iv. *Classification on the basis of ownership,*

v. *Classification on the basis of control.*

vi. *Classification on the basis of nationality,*

vii. *Other kinds of companies.*

I. CLASSIFICATION OF COMPANIES ON THE BASIS OF INCORPORATION OR REGISTRATION,

On the basis of incorporation or registration the companies are classified as:

1. *Chartered Companies,*
2. *Statutory Companies,*
3. *Registered Companies,*

I. CHARTERED COMPANIES.

- Companies incorporated by the Royal Charter are called Chartered Companies. Such companies are rare now.

- But in the past during the 17th and 18th centuries, large undertakings in England secured corporate existence through the charter from the Crown of England.
- For example, the East India Company (1600), the Bank of England (1694), etc. were incorporated by a royal charter.
- The special characteristic of a chartered company is that its members are not liable for the debts of the company. It enjoys wide powers and it functions as per the rules and procedure laid down in the charter.
- The Crown may annul the charter if the company breaks any rules laid down in the charter. As there is no monarchy in India, chartered companies do not exist.

2. ***STATUTORY COMPANIES.***

- *Companies which come into existence by a special Act of the Legislature are called Statutory Companies.*
- *Public utility undertakings such as railways, tram-ways, gas-work, water-works, electric companies etc. are usually incorporated by a special Act of the Legislature.*
- *Special Acts are essential for such companies because they require special powers and privileges which they do not get under the Companies Act.*
- *. They are governed by the rules and procedures laid down in the Act. In India, undertakings like the State Bank of India, the Reserve Bank of India, the Damodar Valley corporation, the Air India International etc. have come into existence under special Acts of the Parliament.*

- *The provisions of the Companies Act are also applicable to these statutory companies in so far as the provisions of the Act are not contradictory or inconsistent with those of the Statute under which they are formed.*

3. Registered Companies. *Companies which are formed and registered under Companies Act, 2013 or any of the earliest Acts are called Registered Companies. The registered companies may be broadly classified as follows.*

a). Companies Limited by Shares,

b). Companies Limited by Guarantee

c). Unlimited Companies,

d). Government Companies

e). Companies not for profit or Licensed Companies

f). One-man Company or Family Company

g). Other types of Companies.

*II). **Classification of Registered Companies on the basis of the nature of the liability of the members.***

a). Companies Limited by Shares,

b). Companies Limited by Guarantee, and

c). Unlimited Companies.

a). COMPANIES LIMITED BY SHARES. [Section 2(22)]

The liability of members of these companies is limited to the extent of the nominal or face value of the shares. If such a company goes into liquidation, its members ~~cannot be called upon to pay more than the nominal value of the~~ shares.

If a member holds fully paid shares, he shall have no further liability at all even if the company is declared insolvent.

But if he holds partly paid shares, then he may be required to pay the balance. A great ~~majority of the companies in India are limited liability companies. Such~~ companies are again sub-divided into two classes, Viz.

(1). Private Limited Companies and

(2). Public Limited Companies.

b). COMPANIES LIMITED BY GUARANTEE. [Section 2(21)].

In these companies the liability of members is limited to the amount each member has undertaken to contribute to the assets of the company in the event of its being wound up.

The companies limited by guarantee may be registered either with or without share capital. If they are formed without share capital, then the members have to pay some membership fees. In such companies the liability of the member cannot be enforceable during the life time of the company.

If they are registered with share capital, then the liability if any can be enforceable at any time either during the life time or at the winding up of the company.

Most of the companies limited by guarantee are formed without share capital because they are mostly the non-trading and non-profit making companies formed for the purpose of promoting art, culture, religion, education, sports etc. They collect funds for financing their activities by way of fees, subscriptions, donations, gifts, grants from the Government or local bodies etc.

C). UNLIMITED COMPANIES.

A company having no limit on the liability of its members is an unlimited company [Sec. 2(92)]. *A company having no limit on the liability of its members is an unlimited company.*

Therefore, the private property of the members of such a company is utilized for the payment of the debts of the company.

Features:

1. The liability of the members is unlimited, which may extend even to their private property of the members.
2. An unlimited company may be a company having share capital or a company having no share capital.
3. The interest of creditors is protected as the liability of members is unlimited.
4. Due to unlimited liability, these companies are not popular.

DIFFERENCES BETWEEN COMPANIES LIMITED BY SHARE AND COMPANIES LIMITED BY GUARANTEE:

1. *Companies limited by shares have share capital where as companies limited by guarantee may or may not have share capital.*
2. *The liability of the members of a company limited by shares is limited to the extent of the nominal value of the shares held by them. But the liability of the members of the company limited by guarantee is limited to the extent of amount guaranteed by them in both the companies with or without share capital.*

3. A company limited by shares can call the amount unpaid on the shares held by shareholders at any time during the life time of the company or at the time of winding up of the company.

   But a company limited by guarantee, the company can call the amount guaranteed by the members only when the company is wound up and the assets of the company are insufficient to meet the liabilities. But if the company limited by guarantee has a share capital, the company can call the amount unpaid on the shares held by the shareholders at any time during the life of the company or during the winding up of the company.

4. *Companies limited by shares are mostly trading companies but the companies limited by guarantee are mostly non-trading companies formed for promoting art, science, culture, sports, education etc.*
5. *Companies limited by shares must use the word 'Limited' as the last word in their name and 'Private Limited' if they are private companies. But companies limited by guarantee need not use the word 'Limited' or 'Private Limited' in their name with the prior permission of the Central Government.*
6. *Most of the companies formed are the companies limited by shares but companies limited by guarantee are small in number.*

DIFFERENCE BETWEEN COMPANIES LIMITED BY SHARES AND UNLIMITED COMPANIES:

1. *The liability of the members of the Company limited by shares is limited to the nominal value of the shares held by him but the liability of the members of the unlimited company is unlimited.*
2. *Companies limited by shares have a share capital but unlimited company may or may not have a share capital.*

3. *The members of a company limited by shares can be called upon to pay the unpaid amount on the shares held by them at any time during the life time of the company or at the time of winding up of the company. But the members of a~~n unlimited company can be called upon to pay the amount required~~ to pay the debts of the company in full only at he time of the winding up of the company.*

4. *The share capital of a company limited by shares is specified in the memorandum of association of the company but the share capital of an unlimited company, if it has a share capital, is specified in its articles of association and not in its memorandum of association.*

5. *The share capital of a company limited by shares is difficult to be altered but the share capital of an unlimited company can be easily altered by passing a special resolution.*

6. *Companies limited by shares are most generally formed but unlimited companies are very rarely formed in these days.*

III). CLASSIFICATION ON THE BASIS OF NUMBER OF MEMBERS.

On the basis of the number of members, registered companies with share capital can be classified into two kinds:

1. *Private Companies and*
2. *Public Companies.*

Private Companies.

According to Section 2(68), a "private company" means a company which has a paid up capital of Rs. one lakh or such higher paid up capital as may be prescribed, and by ~~its articles of association;~~

a. *restricts the right of the members to transfer shares, if any,*

b. *Except in case of One Person Company, limits the number of its members to two-hundred, excluding members who are present or past employees of the company;*

c. *prohibits any invitation to the public to subscribe for any shares in, or debentures of, the company; and*

d. *prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.*

There must be at least two persons in a private company. Where two or more persons hold one or more shares of that company jointly, they shall be treated as a single member.

A private company may be;

(i) a company limited by shares

(ii) a company limited by guarantee

(iii) an unlimited company or

(iv) even a government company must use the words 'Private Limited' at the end of its name.

A private company is in the nature of a partnership of persons with mutual confidence in each other and its articles place positive restrictions on absolute transfer of shares.

But the Act does not specify in what manner the right to transfer of shares is to be restricted. It is just sufficient if the right to transfer is so restricted that the number of members does not increase beyond two-hundred.

Further, it is true that a private company is prohibited from issuing any invitation to the public to subscribe to its shares or debentures. An offer of shares to the kith and kin of a director is not regarded as an invitation to the public. This means that the directors of a private company must collect the share amount privately from their relatives and friends.

A private company must have its own memorandum and articles which contain the conditions as laid down in the Act.

EXEMPTIONS AND PRIVILEGES OF PRIVATE COMPANIES:

a. *Only two persons (instead of seven required for a public company) may form themselves into a private company.*
b. *It can commence business immediately on incorporation as it has not to wait to obtain a certificate for the commencement of business.*

c. *There is no need to file with the Registrar (a). Directors' written consent and (b).Their undertaking to take up qualification shares.*

d. *It need not prepare and file 'prospectus' or 'statement in lieu of prospectus' with the Registrar. Provisions relating to statutory report and statutory meeting (which are applicable to public companies) are not applicable to private companies.*

e. *Quorum for general meetings of a private company may be 2 . But quorum of general meeting of a public company depends upon the number of members of the company. For companies up to 1000 – 5 members must present.*

For companies from 1000 to 50000 - 15members must present and for companies having more than 5000 members – 30 members must physically present.

f. *Provisions for retirement of directors by rotation are not applicable to private company.*

g. *Provisions regarding the restrictions in inter-company loans and investments do not apply to private company*

h. *No approval of Central Government is required in case of private company either for appointment or for amending any provisions relation to the appointment and re-appointment of managing director or whole time director.*

i. *A person may be appointed as a managing director of any number of independent private companies. But in the case of a public company or its subsidiary, a person cannot be appointed as a managing director of more than one company except in certain cases*

j. *A private company can give any loan or security to any other company and there are no restrictions in this regard.*

k. *A private company can give loans to its directors without obtaining the approval of the Central Government.*

I. *The period of 21 days notice for calling a general meeting is not applicable to such a company. Te articles of such a company may provide for a shorter period notice for calling such a meeting.*

PUBLIC COMPANIES.

As per Section 2(71) "public company" means a company which;

a. *is not a private company;*
b. *has a minimum paid up capital of Rs five lakh or such higher paid up capital, as may be prescribed;*
c. *is a private company which is a subsidiary of a company which is not a private company, i.e., which is a subsidiary of a public company.*

Thus, a public company is a company which, by its Articles,

- *does not have any restriction on the transfer of shares, if any*
- *does not limit the maximum number of members*
- *can invite public for the subscription of its shares and debentures and*
- *can invite or accept deposits from the public.*

Distinction between private company and public company;

a. **Membership.** *For a private limited company minimum number of members should be two whereas for a public company it is seven. In case of a private limited company the maximum number of members cannot be more than two-hundred whereas there is no such limit for a public limited company.*

b. **Transfer of shares.** *The shares of a private limited company are not freely transferable, its Articles must contain the restrictions on the transfer of shares whereas, the shares of a public limited company are freely transferable.*

c. ***Public issue of shares.*** *A private limited company cannot invite public to subscribe its shares therefore, cannot issue prospectus to the public whereas public limited company can invite the general public to subscribe its shares or debentures by issue of the prospectus.*

d. ***Statement in lieu of prospectus.*** *A public limited company, if does not issue a prospectus, must file a ~~statement in lieu of prospectus at least 3 days before the allotment of shares whereas~~ private limited company is exempted from this requirement.*

e. ***Minimum paid-up capital.*** *A private limited company must have minimum paid-up capital of Rs. 1lakh whereas the public limited company must have minimum paid-up capital of Rs. 5 lakh.*

f. Directors. *A private limited company should have at least 2 directors whereas a public limited company should have at least 5 directors.*

g. Commencement of business. *A private limited company can start its business immediately after its incorporation whereas a public limited company is required to obtain certificate of commencement of business before it starts its business activities.*

h. Share warrant. *A private limited company cannot issue share warrant whereas a public limited company is permitted to issue share warrant.*

i. Quorum. *In a private limited company 2 members personally present to form the quorum. But quorum for general meeting of a public company depends upon the number of members of the company. For companies up to 1000 members – 5 members must present. For companies from 1000 to 50000 members - 15members must present and for companies having more than 5000 members – 30 members must physically present.*

j. Acceptance of deposits. *A private limited company is prohibited from accepting deposits from the public except from its share holders, directors and their friends and relatives whereas a public limited company is allowed to accept the deposits from the public.*

IV). Classification of companies on the basis of the ownership

1. Government Companies and

2. Non-Government Companies.

1). Government Companies;

Section 2(45) of the Companies Act defines a Government Company as "a company in which not less than 51 percent of the paid-up capital is held by the Central Government or State Government or State Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company as thus defined."

- *Auditor of a Government Company shall be appointed and reappointed by the Comptroller and Auditor General of India.*
- *As per sec 394 of the companies Act, if the central Government holds the shares, annual report must be placed before both the houses of the parliament.*
- *As per sec. 395 if the state Government holds the shares, then the annual report must be placed before the state legislature.*

2. Non-Government Companies:

Non-Government Companies are the companies which are owned and managed by the private investors.

V. Classification of Companies on the basis of Control:

1. Holding Companies and

2. Subsidiary Company.

1. Holding Companies:

According to section 2(46) "A company shall be deemed to be the holding company of another, if that other is its subsidiary." In other words, a company is known as the holding company of another company if it has control over that other company.

Section 2(27) "control shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

2. Subsidiary Company:

Section 2(70) defines a subsidiary company thus; "A company is known as a subsidiary of another company when control is exercised by the latter (called holding company) over the former called subsidiary company". The following illustration will make it clear about holding company and subsidiary company.

1. *A is a holding company and B is a subsidiary company; So B is a subsidiary of A.*
2. *B is a holding company and C is a subsidiary company: So C is a subsidiary of B,*
3. *Therefore A is a holding company and C is a subsidiary company. i.e. C becomes a subsidiary of A.*
4. *If D is a subsidiary of C, then C is a holding company, then D will be a subsidiary of B Company and also A company.*

- *If the holding company is a public company and the subsidiary company is a private company, this private company will be subject to most of the regulations and restrictions to which public company is subject.*

VI. Classification of companies on the basis of Nationality:

1. *Domestic Companies, and*
2. *Foreign Companies.*

1. Domestic Companies: *Domestic Companies are the companies which are incorporated in India. Most of the companies in India are domestic companies.*

2. Foreign Companies: *A foreign company means a company incorporated outside India but having a place in India [Sec.2(42)]*

vii. Other kinds of companies:

a. *One Person Company*

b. *Associate Company*

c. *Banking Company*

d. *Small Company*

e. *Non-trading Company*

One Person Company (OPC):

‘One Person Company’ (OPC) is a revolutionary step forward to facilitate more business friendly corporate regulations in India. The Companies Act 2013 aims pave the way for a more modern and dynamic legislation, to enable growth and greater regulation of the corporate sector in India.

Till recently, if you want to set up a private company, you needed at least one other person, because the law mandated a minimum of two shareholders. So, for the person wanting to venture alone, the only option was proprietorship, an onerous task since it is not legally recognized as a separate entity.

OPC will give the young businessmen all the benefits of a private limited company which means they will have access to credits, bank loans, limited liability, legal protection for business, access to market etc., all in the name of separate legal entity.

As per Sec 2(62) of the Companies Act 2013 “one person company means a company which has only one member”.

Features of OPC:

- It has only one person as a member/shareholder.
- It can be registered only as a Private Company.
- It may be a company limited by shares or a company limited by a guarantee or an unlimited company.
- An OPC limited by shares shall comply with the following requirements;
  - Shall have a minimum paid-up capital of Rs. One lakhs.
  - Restricts the right to transfer its shares.
  - Prohibits any invitation to public to subscribe for the securities of the company.
- An OPC is required to give a legal identity by specifying a name under which the activities of the business could be carried on.

The words 'One Person Company' or OPC should be mentioned below the name of the company, wherever the name is affixed, used or engraved.

Eligibi~~lity Norms for Incorporation and Nominee Member:~~

As per rule 3(1) of the Companies (Incorporation) Rules 2014, only a natural person who is an Indian citizen and resident in India shall be eligible to incorporate or form an OPC. Indian resident means who has stayed in India for a period of not less than 182 days during the immediately preceding one calendar year.

- A nominee for OPC has to be a natural person who is an Indian citizen and resident in India.
- No person shall be eligible to become nominee in more than one OPC.

At the time of incorporation of OPC, the sole member is required to appoint another person as his nominee and his name shall have to be mentioned in the Memorandum of Association of the OPC.

The nominee so appointed shall become the member in the following situation:

- In the event of the sole member's death, or
- In ~~the event of the sole member become incapacitated to contract.~~

A nominee so appointed is required to give his written consent for the same which is required to be filed with ROC at the time of incorporation of the OPC along with its MOA and AOA. A nominee has the right to withdraw his consent if he so desires.

Restrictions on One Person Company:

Following are the restrictions on One Person Company:

1. No person shall be eligible to incorporate more than a OPC or become nominee in more than one such OPC.
2. No minor shall become member or nominee of the OPC.
3. Such company cannot be incorporated or converted into a company under section 8 (Non-Profit Companies) of the Act.
4. OPC cannot carry out non banking financial investment activities.
5. OPC cannot invest in the securities of a body corporate.

FORMATION OF A PUBLIC COMPANY:

For the purpose of establishing an industrial or a commercial undertaking on a corporate basis, the legal procedure as laid down in the Companies Act has to be followed. There are several stages in the formation of a company. These are;

1. *Promotion,*
2. *Incorporation or Registration,*
3. *Capital Subscription,*
4. *Commencement of Business.*

Of these stages only the first two are necessary for the formation of a private company. They may commence business immediately after they have received a certificate of incorporation. But a public company having a share capital has to pass through all the four stages mentioned above before it can commence business or exercise any borrowing powers .

Promotion:

The "promotion" is the first stage in the formation of a company.

Gerestenberg *defines promotion as "the discovery of business opportunities and the subsequent organization of funds, property and managerial ability into a business concern for the purpose of making profits there from".*

According to ***Guthmann and Dougall,*** *"Promotion starts with the conception of the idea from which the business is to evolve and continues down to the point at which the business is fully ready to begin operations in a going concern."*

From the above definitions, it is clear that promotion begins when someone:

Discovers an idea of carrying on a business which can be profitably undertaken under company form of business organization. Promotion involves the following steps.

a. *Discovery of a business opportunity or proposition or idea.*

b. *Detailed investigation of the profitability and the practicability of the business proposition.*

c. *Assembling the various requirements of the business proposition.*

d. *Financing the business proposition or preparation of a financial play.*

Any person, who assumes primary responsibility for these matters, is termed a "promoter." The promoters will have to perform the preliminary work and with the help of the secretary and the solicitors they would have the following documents ready:

a). Memorandum of Association: *Laying down the constitution of the company*

b). Articles of Association: *Prescribing the regulation for internal management.*

c). Prospectus: *For public issue of Shares (in case of public limited company only)*

d).Preliminary Contracts: *Such as contracts of purchase of property and assets etc.*

e). Underwriting contract: *To ensure minimum subscription.*

2. Incorporation Stage:

Incorporation or registration of a company is the second stage in the formation of the company. It is effected by registering the company with Registrar of the State in which the company is located.

Steps to be taken by the promoters for Incorporation of a Public Limited Company.

A). Obtaining the approval of the Registrar to the proposed name of the company.

i). Application for the approval of the Registrar to the proposed name of the company.

The promoters can choose any name they like for their proposed company but the proposed name should not be identical with or similar to the name of an existing company. Further, the proposed name should neither imply a patronage of the government, nor should it be misleading or undesirable or intended to deceive with reference to its objects.

ii). Application for an industrial license.

If the business of the company requires an industrial license under any Act, then the promoters have to make an application to the Central Government for grant of an industrial license.

iii). Approval of the Chief Controller of Imports and Exports.

This is necessary where the plant and machinery are to be imported for the company.

iv). Approval of Exchange Control Department of the Reserve Bank of India.

This is necessary if the company intends to issue shares to non-resident Indians or where it intends to open an account outside India.

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B). Preparatory Arrangements.

The promoters have to encourage underwriters, brokers, bankers, solicitors, auditors and signatories to the memorandum of association who are required in the formation and working of the company.

C). Filing an application with the Registrar of Companies along with the following documents and statements for registration of the company.

1). Memorandum of Association.

It is the Charter or the Constitution of the company and without which a company cannot be registered. It contains the name of the company, aims and objects, address of the registered office of the company, capital structure etc. It should be properly stamped and signed by at least 2 persons in case of a private company and 7 persons in the case of a public company and attested by the signature of a witness. The subscribers to the Memorandum are called the original members of the company.

2). Articles of Association.

This document contains rules and regulations regarding the internal working of the company. It should also be properly stamped and duly signed by the signatories of the memorandum of association and also attested by the signature of a witness.

A public company limited by shares may adopt ***"Table A"*** *(the model set of articles) given in the Act but all other companies must prepare their own Articles of Association and file the same with the Registrar of companies.*

3). Preliminary Agreements.

If the company proposes to enter into any agreements with any individual for the appointment as company's managing director, or whole-time director or manager, the same must be filed with the Registrar at the time of registration of the company.

4). Notice of Address of the Registered Office.

This form is usually filed along with the above documents but this may be filed within 30 days of registration also, if the same cannot be filed at the time of registration.

5). List of Directors.

A list of persons who have consented to act as directors of the company.

6). Written Consent of the Directors.

A separate written consent duly signed by each proposed director of the company.

7). Undertaking to Purchase and Pay for Qualification Shares.

An undertaking by each director to take up and pay for his qualification shares.

8). Statutory Declaration.

A statutory declaration stating that all the requirements of the Companies Act and other formalities relating to the registration have been complied with should be filed with the Registrar.

D). Payment of Stamp Duty.

Along with the application for registration and the above documents the promoters must pay the required stamp duty, filing fees and registration fees to the Registrar of companies.

E). Obtaining the Certificate of Incorporation.

If the Registrar satisfies that all the requirements have been complied with, he will register the company and enter its name in the register of companies.

F). Issue of Certificate of Incorporation.

On registration, the Registrar issues a Certificate of Incorporation whereby he certifies that the company is incorporated (i.e. registered) and in case of a limited company ~~that the company is limited. It contains the name of the company~~, the date of its issue, and the signature of the Registrar with his seal. From the date of issue of Certificate of Incorporation, the company comes into existence.

3. Capital Subscription Stage:

A private company and a public company not having share capital can commence business immediately on its incorporation. As such 'capital subscription stage' and 'commencement of business' stage are relevant only in the case of a public company having a share capital. Such a company has to undergo these additional two stages before it can commence business.

The promoters will convene the first meeting of the directors immediately after incorporation to deal with the following business;

1. *Appointment of Chairman, bankers, auditors, secretary, solicitor, brokers, etc.*
2. *Adoption of the Preliminary Contracts.*
3. *Adoption of the Underwriting Contracts,*
4. *Adoption of the Draft Prospectus.*

The company may apply to the Stock Exchange to secure listing and quotation for its shares. Only those companies, whose shares have been duly listed, are allowed to quote their shares on the trading ring of the Stock Exchange.

Before filing and issue of prospectus, if necessary, the company secretary will have to secure the formal consent of the Securities and Exchange Board of India(SEBI).

A copy of the prospectus which will be filed with the Registrar will be duly signed by all the directors, and it must also be properly dated. No prospectus can be issued to the public without filing a copy of the same with the Registrar.

The prospectus will then be issued on the advertised date and time through the company's bankers and brokers. The investors are requested to forward their application forms along with the application money to the company's bankers mentioned in the prospectus.

The board of directors after receiving the applications will have to consider the allotment of shares.

If the subscribed capital is at least equal to the minimum subscription (90 percent of the capital issue) amount as per prospectus, the board will pass a formal resolution of allotment and the Secretary will be authorized to post the allotment letters to those who are allotted the shares and letters of regret to those applicants who are not given any allotment of shares.

A return (on Form No.2) as to allotment will be filed with the Registrar within one month of allotment.

The register of members will be prepared giving the particulars of the members and then the share certificates will be prepared, duly signed by at least two directors, duly sealed and then they will be issued to the shareholders.

If the subscribed capital is less than the minimum subscription or the company could not obtain the minimum subscription (including development of underwriters) within 60 days from the date of closure of the issue, all money will be refunded and no allotment can be done.

4. Commencement of Business Stage.

The company has to file with the Registrar the following documents and statements in order to obtain the certificate to commence business.

The declaration by the company that the shares payable in cash have been allotted up to the minimum subscription amount mentioned in the prospectus has been subscribed.

The declaration by the company that the directors have purchased their qualification shares and have paid for them.

The declaration that the company is under no liability to pay money on any shares or debentures because of failure to apply or obtain permission from a Stock Exchange (listing of shares or debentures on the Stock Exchange)

The declaration that all the legal requirements precedent to the commencement of business has been complied with.

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4. *The declaration that all the legal requirements precedent to the commencement of business has been complied with.*

The company will pay the necessary fees along with these documents. The Registrar examines them and after being satisfied, issues a Certificate to Commence Business (i.e. Trading Certificate) under his hand and seal (Sec.149). The receipt of the Certificate to Commence Business entitles the company to start its business and exercise its borrowing powers. In this way, the public company is formed.

It must be noted that the company is bound to commence its business within a year of its incorporation or else, it is liable to be wound up.

Where a company commences its business or exercises borrowing powers in contravention of Sec. 149, every person who is in default is liable to a fine up to Rs. 500 for every day of default. This is in addition to any other liability. Sec. 149 does not apply to a private company even it is a subsidiary of a public company.

MEMORANDUM OF ASSOCIATION

The memorandum of association of a company is its principal document. "It is a document of great importance in relation to the proposed company." No company can be registered without a memorandum of association and that is why it is sometimes called a life giving document.

Definition:

Section 2(56) of the Companies Act, 2013 defines it thus: "Memorandum means the Memorandum of Association of a company as originally framed or as altered from time to time in pursuance of any previous company Law or of this Act."

This definition does not throw any light on the scope, use and importance of the memorandum in a company.

Lord Cairns in the leading case of Ashubury Railway Carriage Co. vs Riche, observed that "The memorandum of association of a company is its charter and defines the scope of its activities."

Thus, the Memorandum is a very important document. It is the most stable or semi-permanent document. It is compulsory for every company and therefore the memorandum is called the Charter or Life-giving document.

IMPORTANCE OF MEMORANDUM OF ASSOCIATION:

The memorandum defines its objectives, its relation with the outside world and the scope of its activities. The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company to know what its permitted range of activities is.

1. *It defines the objects of the company.*
2. *It lays down the capital structure of the company.*
3. *It shows the place, district and the state in which its registered office is located.*
4. *It states that the liability of the members of the company is limited (or unlimited).*
5. *It defines and confines the powers of the company.*
6. *It serves as the constitution or charter or life-giving document of the company.*

7. *It defines the relation of the company with outsiders and scope of the activities of the company.*

8. *Any act done beyond the powers of the memorandum is ultra vires the company.*

9. *It enables the shareholders, creditors and the outsiders to know what is the permitted range of the company's activities.*

10. *It is an unalterable document of the company.*

11. It is a public document open to inspection. Any person desirous of dealing with the company can inspect and get a copy of this document at the office of the Register of Companies on payment of some prescribed fees.

12. It governs the articles of association of a company which cannot contain anything contrary to the provisions of the memorandum.

CONTENTS OF THE MEMORANDUM OF ASSOCIATION.

The form and contents of the Memorandum vary according to the type of the company. The Act lays down that the Memorandum of every company must contain the following clauses.

1. *Name Clause*
2. *The Domicile or Situation Clause*
3. *The Object Clause*
4. *The Liability Clause*
5. *The Capital Clause and*
6. *The Association Clause or Subscription Clause*

1.THE NAME CLAUSE:

This is the first clause in the Memorandum of Association of a company. It describes the name of the company.

A company can adopt any name it likes but the proposed name should not be identical with or similar to the name of an existing company.

Further, the proposed name neither should imply a patronage of the government, nor should it be misleading or undesirable or intended to deceive with reference to its objects.

Further the name of the company must contain the word 'Limited' at its end if it is a public limited company and the words 'Private Limited' at its end if it is a private company.

Once the name is chosen and the company is registered in that name, along with the address of registered office, must appear on the outside of every office or place of business of the company in a conspicuous manner in one of the local languages and on all cheques, bills, letters, notices and other official publications, etc, of the company.

2. THE DOMICILE CLAUSE:

This is the second clause in the Memorandum. It states the name of the State in which the registered office of the company is to be situated. It is sufficient if only the name of the State is mentioned in the Memorandum.

The registered office is important for two reasons, Firstly, it ascertains the domicile and nationality of the company, secondly, it shows the place where the various registers, documents, papers, etc. relating to the company must be kept and to which all communications and notices must be sent.

A company need not carry on its business at its registered office. (Domicile is the place of its registration, residence is the place of its management and control, i.e. where the Board of Directors meets.)

3.THE OBJECTS CLAUSE:

This is the most important clause since it defines and confines the scope of the activities of the company. It not only enumerates a series of the objects and purposes for which the company is formed but also determines the extent of powers and the authority which the company can exercise to achieve its objects.

Therefore the statement of objects should be clear. It must not be too vague and too general and also too wide beca~~use in that case, it will defeat the very purpose~~ and objects which the company is formed.

The objects clause must state separately;

1. *the main objects of the company;*
2. *the objects incidental or ancillary to the attainment of the main objects;*
3. *other objects not included in (1) and (2) above.*

Purpose of the objects clause:

The objects clause is intended to serve a double purpose,

Firstly, *It gives protection to the shareholders who learn from it the purpose for which their money can be applied.*

Secondly, *it gives protection to persons dealing with the company who infer from it the extent of the company's powers.*

Thirdly, *it reveals to the directors the sphere of their activities.*

THE FOLLOWING POINTS SHOULD BE NOTED WHILE DRAFTING THE OBJECTS CLAUSE OF THE COMPANY.

1. *The objects of the company must be legal,*
2. *They must not be against the provisions of the Companies Act,*
3. *They must not be against public policy or general law,*
4. *They must be stated clearly and definitely to avoid ambiguity,*
5. *They must be sufficiently elaborate also.*

4.THE LIABILITY CLAUSE:

The liability clause states that the liability of the members is limited to the face value of the shares held by them. This means that the members are called upon to pay only the unpaid amount on their shares.

a). In the context of the liability clause, the following points should be noted. The liability of directors, managing director or manager may be made unlimited if so desired and agreed upon. In such cases, the private property of the directors is at stake and therefore, that gives additional security to the company's business and creates public confidence in the company's activity.

b). T*he Act lays down that if the number of member is reduced below two in private company and below seven in a public company and the company carries on its business for more than six months in spite of the reduction in the membership below the minimum required, every such continuing member becomes severally liable for the whole of the debts of the company contracted during that time.*

5. THE CAPITAL CLAUSE:

This clause states the total amount of share capital with which the company proposes to be registered and the division thereof into shares of fixed amount.

Where the company's capital is divided into different classes of shares, it is permissible to mention the rights and privileges attaching to each class of shares either in the Memorandum or in the Articles of the company.

The Companies Act, permits the company to issue only two classes of shares, namely, Equity or Ordinary Shares and Preference Shares.

6. THE ASSOCIATION CLAUSE OR SUBSCRIPTION CLAUSE:

The Association clause generally reads as;

"We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of this Memorandum of Association and we respectively agree to take the number of shares in the capital of the company set opposite our respective names."

After this clause, each subscriber signs the Memorandum in the presence of a witness who attests his signature. In the case of a public company, at least seven persons and in the case of private company, at least two persons must subscribe to the Memorandum.

In the case of company with share capital each subscriber should take at least one share and write opposite his name the number of shares he takes. If the subscriber is illiterate, he should put his thumb impression or make a mark authenticated by a witness.

ARTICLES OF ASSOCATION

This is the second document which the promoters have to prepare and file with the Registrar of Companies. It contains the articles i.e. the rules, regulations and bye-laws for the internal management of the affairs of the company. They are framed with the object of carrying out the aims and objects of the Memorandum of Association.

The articles of association of a company constitute a contract between the company and its members and define their respective and relative rights and duties. They are binding on the company and the members. Thus, the articles govern the relation between the company and its members. They have nothing to do with the outsiders.

Definition and Meaning:

Section 5 of the Companies Act, 2013, defines Articles of Association as "Articles means the Articles of Association of a company as originally framed or as altered from time to time in pursuance of any previous company law or of this Act." Articles include the regulations contained in Table A in Schedule I to the Act in so far as they apply to the company.

Meaning: *Articles means the rules or regulations that govern internal management of the company.*

Articles of Joint Stock Company is that document which explains;

a. *the rules and regulations to be followed after registration,*
b. *the nature of relationship between company and members, members and directors and directors and company,*
c. *the mode of realizing the contents of memorandum and*
d. *the guidelines to the Board of directors to carryout the day to day activities of the company.*

Thus, the articles are the rules and regulations of a company framed for the purpose of internal management of the affairs of the company. They deal with the rights of the members of the company. The articles are framed for carrying out the aims and objects of the memorandum of association.

Contents of Articles of Association.

The usual contents of articles of association are similar to those contained in Table-A. They relate to the internal management of the company. The usual contents of the articles are the rules relating to:

1. *Adoption of preliminary contracts.*
2. *Share capital, rights of members and variation of such rights.*
3. *Calls on shares.*
4. *Transfer, transmission and forfeiture of shares.*
5. *Lien on shares.*
6. *Conversion of shares into stock.*

7. *Share warrants.*
8. *Alteration of share capital.*
9. *General meetings.*
10. *Voting by members.*
11. *Directors, their qualification shares, appointment, remuneration etc.*
12. *Board meetings.*
13. *Manager, Managing Director and Secretary, their appointment, remuneration*
14. *The Company's seal.*
15. *Dividends and Reserves.*

16. *Books of accounts and audit.*
17. *Borrowing powers of the company.*
18. *Capitalisation of profits.*
19. *Company investments.*
20. *Notices.*
21. *Winding up.*
22. *Indemnity to officers or agents of the company.*
23. *Provisions for any powers which can be exercises if so authorised.*

In the case of a private company limited by shares, the articles of association must state that the company,

a. *Restricts the right to transfer its shares.*

b. *Limits the maximum number of members to two-hundred, and*

c. *Does not invite the public to subscribe to its shares or debentures.*

In the case of a company limited by guarantee and an unlimited company, the number of members with which the company is being registered should be mentioned and if the company has a share capital, the amount of share capital must also be stated therein.

Distinction between Memorandum of Association and Articles of Association:

1. **Meaning and Scope:** *Memorandum of Association is a charter of the company setting out its constitution. It defines and limits the powers of the company and objects for which the company is formed.*

   Articles of Association is a document containing rules and regulations or bye-laws relating to the internal management of the company. It defines the rights, duties and powers of the directors and shareholders, the manner of carrying on the business and the method of altering the regulations.

2. Relation with the company: *Memorandum controls the external operations of the company. It governs the relation between the company and the outsiders, e.g. creditors, debtors, buyers, sellers etc.*

Articles ~~control the internal operations of the company. It governs the~~ relation between the company and the members. It constitutes a contract between the company and the shareholders and defines their respective and relative rights and duties.

3. Position or Status: *Memorandum is the fundamental document and is the foundation on which the structure of the company is built up. It is the life giving document of the company.*

Article is a subsidiary document. It depends upon the memorandum. It is a secondary and the subordinate document of the company.

4. Preparation and Filing: *It is compulsory for all companies. Every company must prepare and file its own memorandum of association for the purpose of incorporation.*

It is compulsory for all companies. But a public company need not file if it adopts Table-A as its articles. However, all other companies must prepare and file their own articles along with their memorandum.

5. Alteration: *Memorandum is deemed to be an unalterable document of the company. It can be altered only when the members agree an the sanction of the Central Government, Company Law Board or the Court of Law is obtained.*

Article can be altered by the company at any time and any number of times. Alteration in it is subject to the provisions of the Companies Act and the conditions in the memorandum of association.

6. Ultra vires actions: *Any act of the company, which is ultra vires, the memorandum is wholly void and cannot be ratified even by the whole body of shareholders. Any act of the company, which is ultra vires to the articles, but is intra vires the memorandum, can be confirmed by the shareholders.*

Table A.

This is a model set of 99 articles given in the Schedule I of the Companies Act for the benefit of the limited companies. A public company limited by shares can adopt Table A as its articles of association. In fact, when a public company limited by shares does not prepare and file a separate set of articles of its own, Table A is regarded as its articles.

However, it may adopt all the articles given in Table A as its articles or it may adopt some of the articles in a modified form according to its own special set of articles and if these articles are silent on some points, then the regulations of Table A become applicable to it to the same extent as if they were contained in its duly registered articles.

PROSPECTUS.

Introduction:

The first step, immediately after the incorporation of a public company limited by shares, is to collect capital. The promoters and directors, therefore, proceed to collect capital by issuing to the public a document called 'Prospectus'.

It is a document which gives all material and essential information about the affairs of the company, shows the future prospects of the company and thereby induces the public to purchase shares in or debentures of the company.

Definition:

Section 2(70) of the Companies Act, 2013 defines the word prospectus as,

"A prospectus means any document, described or issued as a prospectus, and includes any notice or circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares in, or debentures of, a body corporate."

A prospectus therefore, an official invitation to the public to the shares or debentures of a company. It includes any document which invites offers from the public to subscription or purchase of any shares in, or debentures of, a company. Such invitation may be in the form of a document or a notice, circular, advertisement etc. The only requirement is that the invitation must be made to the public.

Example: *A news paper advertisement stated "some shares are still available for sale according to the terms of the company which may be obtained on application". It was held that the advertisement was a prospectus because it invited the public to purchase shares. [Pramatha Nath Sanyal vs Kali K. Dutt, Air]*

Contents of Prospectus (Section 56)

Company Law attaches great importance to the particulars contained in the prospectus. The main guiding principle of law is that there should not be any missta~~tement, concealment of any material fact or circumstance which is lik~~ely to influence the judgment of an intending applicant as to whether he should or should not take up shares or debentures.

If there is any misrepresentation or suppression of fact, the company and the author of the prospectus may find themselves in difficulties. The directors and the promoters are personally liable for any fraudulent and misleading statement.

Besides other things, every prospectus should include the following particulars:

1. *General information about the company, its address, approval of the Central Government, if any, letters for the issue of licenses, particulars of Stock Exchanges where applications have been made for listing purposes etc.*
2. *Capital structure giving details of authorised, subscribed and paid up capital.*
3. *Details of present issue including terms of issue and particulars of preferential allotment to promoters and others.*
4. *Objects of the present issue, including the project cost and means of financing the project cost.*
5. *Particulars of the management including the Directors.*

6. *Stock market data regarding high / low price during the last six months including particulars of other listed companies in the same management.*
7. *Outstanding litigations and particulars of default in respect of statutory compliances.*
8. *Management perception of risk factors with regard to the successful implementation of the proposed project.*
9. *Financial information including a report by the auditors of the company about the profit / loss, assets and liabilities, rates of dividend paid in respect of each class of shares, during the preceding five financial years. If the company has subsidiaries similar information about them should also be given.*

10. Statutory and other information: Details of minimum subscription, particulars of underwriting and brokerage including the full particulars of underwriters and the brokers etc.

STATEMENT IN LIEU OF PROSPECTUS

When a public company limited by shares does not want to approach the public for securing capital and is in a position to get the capital from amongst the promoters, directors and their friends and relatives, it does not issue the prospectus to the public.

In this connection, the Act provides that where no prospectus is issued, at least three days before the first allotment of shares or debentures, a statement called 'Statement in lieu of prospectus' must be filed with the Registrar of the Companies for registration.

THE COMPANY

Introduction:

Literal~~ly the word company means a group of persons associat~~ed for any common object such as business, charity, sports and research etc. Almost every partnership firm having two or more partners may, therefore, style itself a 'company'

For example, 'Rameshwar Dass Jamuna Das & Company'. But this company is not a company in the legal sense of the word. The words "& Company" here simply indicate that there are other persons in their association besides Rameshwar Dass and Jamuna Das. We shall be using the word company in our text strictly in legal sense, i.e. a company incorporated or registered under the Companies Act.

Definition:

Section 3(1)(i) of the Companies Act defines a company as "a company formed and registered under this Act or an existing company. An 'existing company' means a company formed and registered under any of the former Companies Acts."

Lord Justice Lindley, "By a company is meant an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss (as the case may be) arising there from. The common stock so contributed is denoted in money and is the capital of the company. The persons who contribute it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is his share. Shares are always transferable although the right to transfer them is often more or less restricted."

Haney has given a more comprehensive definition, "A company is an incorporated association, which is an artificial person created by law, having a separate entity, with a perpetual succession and a common seal."

A company, thus, may be defined as an incorporated association, which is an artificial legal person, having a separate legal entity, with a perpetual succession, a common seal, a common capital comprised of transferable shares and carrying limited liability.

CHARACTERSTICS.

Following are the essential characteristics of a company;

1. ***Incorporated Association***

- *A company must necessarily be incorporated or registered under prevalent Companies Act.*
- *Registration creates a joint stock company and it is compulsory for all associations or partnerships, having a membership of more than ten in banking and more than twenty in any other trading activity, formed for carrying on a business with the object of earning profit.*

2. Artificial legal person.

- *A company is an artificial legal person that means it has no life. It is not born of parents.*
- *It is not made of flesh or bone or blood.*
- *It cannot talk.*
- *In spite of all these facts, it can act like an individual, i.e. it can purchase and sell goods, it can hold property, it can file suits against others and can be sued by others, it can incur debts and lend money and so on.*

3. Common seal;

- *As it is an artificial person, it must have some device in the form of a Common Seal on which its name is engraved and which can act as its signature.*
- *Immediately after incorporation, in the first meeting of the directors, the form of the common seal is approved by the Board.*
- *The Common Seal is affixed on important documents like Share Certificates, Share Warrants and on important contracts.*
- *Any document bearing the common seal of the company will be legally binding on the company.*

4. Limited liability ;

The liability of every shareholder of a company is limited by shares or guarantee is limited to the extent of the nominal value of the shares or the amount of the guarantee given by him.

5. *Perpetual Succession ;*

- *As it is an independent legal entity.*
- *Its life does not depend upon the death, insolvency or retirement of any or all shareholders or directors.*
- *It lives forever until it comes under liquidation or winding up.*
- *An incorporated company never dies. It is an entity with perpetual succession.*
- *Members may come and go, directors may change, but the company can go on forever. The company comes into existence by process of law and it can windup only by process of law.*

6. Transferability of shares;

- *The shares of a public company are freely transferable and members can dispose of their shares whenever they like without seeking any permission from the company or the other members.*
- *In a private company, however, some restriction on the right to transfer is essential in its articles as per Section 3(1)(iii) of the Act, but absolute restriction on the right of the members to transfer shares contained in the articles shall be void.*

7. A shareholder is not the Agent of the Company ;

A shareholder is not an agent of the company, and therefore, cannot bind the company by his acts as is the case in a partnership.

Types of Companies

Companies maybe classified on the basis of different points of view as follows:

i. *Classification of companies on the basis of incorporation or registration,*

ii. *Classification of registered companies on the basis of the nature of liability of the members.*

iii. *Classification on the basis of number of members.*

iv. *Classification on the basis of ownership,*

v. *Classification on the basis of control.*

vi. *Classification on the basis of nationality,*

vii. *Other kinds of companies.*

I. CLASSIFICATION OF COMPANIES ON THE BASIS OF INCORPORATION OR REGISTRATION,

On the basis of incorporation or registration the companies are classified as:

1. *Chartered Companies,*
2. *Statutory Companies,*
3. *Registered Companies,*

I. CHARTERED COMPANIES.

- Companies incorporated by the Royal Charter are called Chartered Companies. Such companies are rare now.

- But in the past during the 17th and 18th centuries, large undertakings in England secured corporate existence through the charter from the Crown of England.

- For example, the East India Company (1600), the Bank of England (1694), etc. were incorporated by a royal charter.

- The special characteristic of a chartered company is that its members are not liable for the debts of the company. It enjoys wide powers and it functions as per the rules and procedure laid down in the charter.

- The Crown may annul the charter if the company breaks any rules laid down in the charter. As there is no monarchy in India, chartered companies do not exist.

2. *STATUTORY COMPANIES.*

- *Companies which come into existence by a special Act of the Legislature are called Statutory Companies.*
- *Public utility undertakings such as railways, tram-ways, gas-work, water-works, electric companies etc. are usually incorporated by a special Act of the Legislature.*
- *Special Acts are essential for such companies because they require special powers and privileges which they do not get under the Companies Act.*
- *. They are governed by the rules and procedures laid down in the Act. In India, undertakings like the State Bank of India, the Reserve Bank of India, the Damodar Valley corporation, the Air India International etc. have come into existence under special Acts of the Parliament.*

- *The provisions of the Companies Act are also applicable to these statutory companies in so far as the provisions of the Act are not contradictory or inconsistent with those of the Statute under which they are formed.*

3. Registered Companies. *Companies which are formed and registered under Companies Act, 2013 or any of the earliest Acts are called Registered Companies. The registered companies may be broadly classified as follows.*

a). Companies Limited by Shares,

b). Companies Limited by Guarantee

c). Unlimited Companies,

d). Government Companies

e). Companies not for profit or Licensed Companies

f). One-man Company or Family Company

g). Other types of Companies.

II). Classification of Registered Companies on the basis of the nature of the liability of the members.

a). Companies Limited by Shares,

b). Companies Limited by Guarantee, and

c). Unlimited Companies.

a). COMPANIES LIMITED BY SHARES. [Section 2(22)]

The liability of members of these companies is limited to the extent of the nominal or face value of the shares. If such a company goes into liquidation, its members cannot be called upon to pay more than the nominal value of the shares.

If a member holds fully paid shares, he shall have no further liability at all even if the company is declared insolvent.

But if he holds partly paid shares, then he may be required to pay the balance. A great ~~majority of the companies in India are limited liability companies. Such~~ companies are again sub-divided into two classes, Viz.

(1). Private Limited Companies and

(2). Public Limited Companies.

b). COMPANIES LIMITED BY GUARANTEE. [Section 2(21)].

In these companies the liability of members is limited to the amount each member has undertaken to contribute to the assets of the company in the event of its being wound up.

The companies limited by guarantee may be registered either with or without share capital. If they are formed without share capital, then the members have to pay some membership fees. In such companies the liability of the member cannot be enforceable during the life time of the company.

If they are registered with share capital, then the liability if any can be enforceable at any time either during the life time or at the winding up of the company.

Most of the companies limited by guarantee are formed without share capital because they are mostly the non-trading and non-profit making companies formed for the purpose of promoting art, culture, religion, education, sports etc. They collect ~~funds for financing their activities by way of fees, subscriptions, donations~~, gifts, grants from the Government or local bodies etc.

C). UNLIMITED COMPANIES.

A company having no limit on the liability of its members is an unlimited company [Sec. 2(92)].   A company having no limit on the liability of its members is an unlimited company.

Therefore, the private property of the members of such a company is utilized for the payment of the debts of the company.

Features:

1. The liability of the members is unlimited, which may extend even to their private property of the members.
2. An unlimited company may be a company having share capital or a company having no share capital.
3. The interest of creditors is protected as the liability of members is unlimited.
4. Due to unlimited liability, these companies are not popular.

DIFFERENCES BETWEEN COMPANIES LIMITED BY SHARE AND COMPANIES LIMITED BY GUARANTEE:

1. *Companies limited by shares have share capital where as companies limited by guarantee may or may not have share capital.*
2. *The liability of the members of a company limited by shares is limited to the extent of the nominal value of the shares held by them. But the liability of the members of the company limited by guarantee is limited to the extent of amount guaranteed by them in both the companies with or without share capital.*

3. A company limited by shares can call the amount unpaid on the shares held by shareholders at any time during the life time of the company or at the time of winding up of the company.

   But a company limited by guarantee, the company can call the amount guaranteed by the members only when the company is wound up and the assets of the company are insufficient to meet the liabilities. But if the company limited by guarantee has a share capital, the company can call the amount unpaid on the shares held by the shareholders at any time during the life of the company or during the winding up of the company.

4. *Companies limited by shares are mostly trading companies but the companies limited by guarantee are mostly non-trading companies formed for promoting art, science, culture, sports, education etc.*
5. *Companies limited by shares must use the word 'Limited' as the last word in their name and 'Private Limited' if they are private companies. But companies limited by guarantee need not use the word 'Limited' or 'Private Limited' in their name with the prior permission of the Central Government.*
6. *Most of the companies formed are the companies limited by shares but companies limited by guarantee are small in number.*

DIFFERENCE BETWEEN COMPANIES LIMITED BY SHARES AND UNLIMITED COMPANIES:

1. *The liability of the members of the Company limited by shares is limited to the nominal value of the shares held by him but the liability of the members of the unlimited company is unlimited.*
2. *Companies limited by shares have a share capital but unlimited company may or may not have a share capital.*

3. The members of a company limited by shares can be called upon to pay the unpaid amount on the shares held by them at any time during the life time of the company or at the time of winding up of the company. But the members of ~~an unlimited company can be called upon to pay the amount required~~ to pay the debts of the company in full only at he time of the winding up of the company.

4. The share capital of a company limited by shares is specified in the memorandum of association of the company but the share capital of an unlimited company, if it has a share capital, is specified in its articles of association and not in its memorandum of association.

5. *The share capital of a company limited by shares is difficult to be altered but the share capital of an unlimited company can be easily altered by passing a special resolution.*

6. *Companies limited by shares are most generally formed but unlimited companies are very rarely formed in these days.*

III). CLASSIFICATION ON THE BASIS OF NUMBER OF MEMBERS.

On the basis of the number of members, registered companies with share capital can be classified into two kinds:

1. *Private Companies and*
2. *Public Companies.*

Private Companies.

According to Section 2(68), a "private company" means a company which has a paid up capital of Rs. one lakh or such higher paid up capital as may be prescribed, and by ~~its articles of association;~~

a. *restricts the right of the members to transfer shares, if any,*

b. *Except in case of One Person Company, limits the number of its members to two-hundred, excluding members who are present or past employees of the company;*

c. *prohibits any invitation to the public to subscribe for any shares in, or debentures of, the company; and*

d. *prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.*

There must be at least two persons in a private company. Where two or more persons hold one or more shares of that company jointly, they shall be treated as a single member.

A private company may be;

(i) a company limited by shares

(ii) a company limited by guarantee

(iii) an unlimited company or

(iv) even a government company must use the words 'Private Limited' at the end of its name.

A private company is in the nature of a partnership of persons with mutual confidence in each other and its articles place positive restrictions on absolute transfer of shares.

But the Act does not specify in what manner the right to transfer of shares is to be restricted. It is just sufficient if the right to transfer is so restricted that the number of members does not increase beyond two-hundred.

Further, it is true that a private company is prohibited from issuing any invitation to the public to subscribe to its shares or debentures. An offer of shares to the kith and kin of a director is not regarded as an invitation to the public. This means that the directors of a private company must collect the share amount privately from their relatives and friends.

A private company must have its own memorandum and articles which contain the conditions as laid down in the Act.

EXEMPTIONS AND PRIVILEGES OF PRIVATE COMPANIES:

a. *Only two persons (instead of seven required for a public company) may form themselves into a private company.*

b. *It can commence business immediately on incorporation as it has not to wait to obtain a certificate for the commencement of business.*

c. *There is no need to file with the Registrar (a). Directors' written consent and (b). Their undertaking to take up qualification shares.*

d. *It need not prepare and file 'prospectus' or 'statement in lieu of prospectus' with the Registrar. Provisions relating to statutory report and statutory meeting (which are applicable to public companies) are not applicable to private companies.*

e. *Quorum for general meetings of a private company may be 2 . But quorum of general meeting of a public company depends upon the number of members of the company. For companies up to 1000 – 5 members must present.*

For companies from 1000 to 50000 - 15members must present and for companies having more than 5000 members – 30 members must physically present.

f. *Provisions for retirement of directors by rotation are not applicable to private company.*

g. *Provisions regarding the restrictions in inter-company loans and investments do not apply to private company*

h. *No approval of Central Government is required in case of private company either for appointment or for amending any provisions relation to the appointment and re-appointment of managing director or whole time director.*

i. *A person may be appointed as a managing director of any number of independent private companies. But in the case of a public company or its subsidiary, a person cannot be appointed as a managing director of more than one company except in certain cases*

j. *A private company can give any loan or security to any other company and there are no restrictions in this regard.*

k. *A private company can give loans to its directors without obtaining the approval of the Central Government.*

I. *The period of 21 days notice for calling a general meeting is not applicable to such a company. Te articles of such a company may provide for a shorter period notice for calling such a meeting.*

PUBLIC COMPANIES.

As per Section 2(71) "public company" means a company which;

a. *is not a private company;*
b. *has a minimum paid up capital of Rs five lakh or such higher paid up capital, as may be prescribed;*
c. *is a private company which is a subsidiary of a company which is not a private company, i.e., which is a subsidiary of a public company.*

Thus, a public company is a company which, by its Articles,

- *does not have any restriction on the transfer of shares, if any*
- *does not limit the maximum number of members*
- *can invite public for the subscription of its shares and debentures and*
- *can invite or accept deposits from the public.*

Distinction between private company and public company;

a. ***Membership.*** *For a private limited company minimum number of members should be two whereas for a public company it is seven. In case of a private limited company the maximum number of members cannot be more than two-hundred whereas there is no such limit for a public limited company.*

b. ***Transfer of shares.*** *The shares of a private limited company are not freely transferable, its Articles must contain the restrictions on the transfer of shares whereas, the shares of a public limited company are freely transferable.*

c. **Public issue of shares.** *A private limited company cannot invite public to subscribe its shares therefore, cannot issue prospectus to the public whereas public limited company can invite the general public to subscribe its shares or debentures by issue of the prospectus.*

d. **Statement in lieu of prospectus.** *A public limited company, if does not issue a prospectus, must file a ~~statement in lieu of prospectus at least 3 days before the allotment of shares whereas~~ private limited company is exempted from this requirement.*

e. **Minimum paid-up capital.** *A private limited company must have minimum paid-up capital of Rs. 1lakh whereas the public limited company must have minimum paid-up capital of Rs. 5 lakh.*

f. Directors. *A private limited company should have at least 2 directors whereas a public limited company should have at least 5 directors.*

g. Commencement of business. *A private limited company can start its business immediately after its incorporation whereas a public limited company is required to obtain certificate of commencement of business before it starts its business activities.*

h. Share warrant. *A private limited company cannot issue share warrant whereas a public limited company is permitted to issue share warrant.*

i. Quorum. *In a private limited company 2 members personally present to form the quorum. But quorum for general meeting of a public company depends upon the number of members of the company. For companies up to 1000 members – 5 members must present. For companies from 1000 to 50000 members - 15members must present and for companies having more than 5000 members – 30 members must physically present.*

j. Acceptance of deposits. *A private limited company is prohibited from accepting deposits from the public except from its share holders, directors and their friends and relatives whereas a public limited company is allowed to accept the deposits from the public.*

IV). Classification of companies on the basis of the ownership

1. Government Companies and

2. Non-Government Companies.

1). Government Companies;

Section 2(45) of the Companies Act defines a Government Company as "a company in which not less than 51 percent of the paid-up capital is held by the Central Government or State Government or State Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company as thus defined."

- *Auditor of a Government Company shall be appointed and reappointed by the Comptroller and Auditor General of India.*
- *As per sec 394 of the companies Act, if the central Government holds the shares, annual report must be placed before both the houses of the parliament.*
- *As per sec. 395 if the state Government holds the shares, then the annual report must be placed before the state legislature.*

2. Non-Government Companies:

Non-Government Companies are the companies which are owned and managed by the private investors.

V. Classification of Companies on the basis of Control:

1. Holding Companies and

2. Subsidiary Company.

1. Holding Companies:

According to section 2(46) "A company shall be deemed to be the holding company of another, if that other is its subsidiary." In other words, a company is known as the holding company of another company if it has control over that other company.

Section 2(27) "control shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

2. Subsidiary Company:

Section 2(70) defines a subsidiary company thus; "A company is known as a subsidiary of another company when control is exercised by the latter (called holding company) over the former called subsidiary company". The following illustration will make it clear about holding company and subsidiary company.

1. *A is a holding company and B is a subsidiary company; So B is a subsidiary of A.*
2. *B is a holding company and C is a subsidiary company: So C is a subsidiary of B,*
3. *Therefore A is a holding company and C is a subsidiary company. i.e. C becomes a subsidiary of A.*

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4. *If D is a subsidiary of C, then C is a holding company, then D will be a subsidiary of B Company and also A company.*

` *If the holding company is a public company and the subsidiary company is a private company, this private company will be subject to most of the regulations and restrictions to which public company is subject.*

VI. Classification of companies on the basis of Nationality:

1. *Domestic Companies, and*
2. *Foreign Companies.*

1. Domestic Companies: *Domestic Companies are the companies which are incorporated in India. Most of the companies in India are domestic companies.*

2. Foreign Companies: *A foreign company means a company incorporated outside India but having a place in India [Sec.2(42)]*

vii. Other kinds of companies:

a. *One Person Company*

b. *Associate Company*

c. *Banking Company*

d. *Small Company*

e. *Non-trading Company*

One Person Company (OPC):

'One Person Company' (OPC) is a revolutionary step forward to facilitate more business friendly corporate regulations in India. The Companies Act 2013 aims pave the way for a more modern and dynamic legislation, to enable growth and greater regulation of the corporate sector in India.

Till recently, if you want to set up a private company, you needed at least one other person, because the law mandated a minimum of two shareholders. So, for the person wanting to venture alone, the only option was proprietorship, an onerous task since it is not legally recognized as a separate entity.

OPC will give the young businessmen all the benefits of a private limited company which means they will have access to credits, bank loans, limited liability, legal protection for business, access to market etc., all in the name of separate legal entity.

As per Sec 2(62) of the Companies Act 2013 “one person company means a company which has only one member”.

Features of OPC:

- It has only one person as a member/shareholder.
- It can be registered only as a Private Company.
- It may be a company limited by shares or a company limited by a guarantee or an unlimited company.
- An OPC limited by shares shall comply with the following requirements;
  - Shall have a minimum paid-up capital of Rs. One lakhs.
  - Restricts the right to transfer its shares.
  - Prohibits any invitation to public to subscribe for the securities of the company.
- An OPC is required to give a legal identity by specifying a name under which the activities of the business could be carried on.

COMPANY MANAGEMENT

DIRECTORS

A company, though a legal entity in the eyes of law is an artificial person, It has no physical existence. It has neither soul nor body of its own. As such, it cannot act in its own person. It can do so only through some human agency.

The persons who are in charge of the management of the affairs of a company are termed as directors. They are collectively known as Board of Directors or the Board. The directors are the brain of a company.

They occupy a pivotal position in the structure of the company. Directors take the decision regarding the management of a company collectively in their meetings known as Board Meetings or at the meetings of their committees constituted for certain specific purposes.

Section 2 (10) of the Companies Act, 2013 defined that “Board of Directors” or “Board”, in relation to a company, means the collective body of the directors of the company.

Minimum/Maximum Number of Directors in a Company- Section 149(1)

Section 149(1) of the Companies Act, 2013 requires that every company shall have a minimum number of 3 directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One Person Company.

A company can appoint maximum 15 fifteen directors. A company may appoint more than fifteen directors after passing a special resolution in general meeting and approval of Central Government is not required.

Number of directorships- Section 165

Maximum number of directorships, including any alter~~nate directorship a person can hold is 20. It~~ has come with that number of directorships in public companies/ private companies that is either holding or subsidiary company of a public company shall be limited to 10. Further the members of a company may restrict abovementioned limit by passing a special resolution.

Any person holding office as director in more than 20 or 10 companies as the case may be before the commencement of this Act shall, within a period of one year from such commencement, have to choose companies where he wishes to continue/resign as director. There after he shall intimate about his choice to concerned companies as well as concerned Registrar.

If a person accepts an appointment as a director in contravention of above mentioned provisions, he shall be punishable with fine which is shall not be less than Rs. 5,000 but which may extend to Rs. 25,000 for every day after the first day during which the contravention continues.

DISQUALIFICATION OF DIRECTORS (Sec. 164):

A person shall not be appointed as a director of a company, if

I. He has been found to be of unsound mind by a competent court and the finding is in force.
II. He is an un-discharged insolvent;
III. His application for insolvency is pending;
IV. He has been sentenced to imprisonment for not less than 6 months for an offence involving moral turpitude and a period of 5 years has not elapsed from the date of expiry of the sentence;

IV. He has failed to pay the calls on his shares and the call money remains unpaid for more than six months; or

V. He is disqualified by an order of the court under section 188 for any offence in connection with the promotion, formation or management of the company or he has been found guilty of any fraud or misconduct.

Removal of disqualifications: However, the Central Government has the power to remove the ~~disqualification (iv) and (v) stated above by~~ a notification in the Official Gazette.

A director who has been removed from office by the Central Government shall not be a director of any company for a period of five years from the date of removal.

APPOINTMENT OF DIRECTORS

Directors may be appointed in any one of the following ways;

1. By Articles as regards the first directors (Sec. 152)
2. By the company in general meeting (Sec. 152, 160)
3. By the directors (Sec. 161)
4. By third parties
5. By the principle of proportional representation (Sec. 163)
6. By the Central Government (Sec. 408)

1. Appointment of First Directors (Sec. 152):

The first directors of most of the companies are named in their articles. If they are not so named in the articles of a company, then subscribers to the memorandum shall be deemed to be the first directors of the company until the directors are duly appointed.

Immediately after incorporation, the subscribers to the memorandum hold a meeting of their own and pass a resolution for the appointment of first directors. The first directors hold the office till the holding of first annual general meeting of the company.

2. Appointment of Subsequent Directors by the Company (Sec. 151, 152,160):

The first directors hold the office till the holding of the first annual general meeting of the company. The subsequent directors are appointed by the members of the company at the general meeting or nominated as per the Articles. In the case of public company and its subsidiary, only one-third of the total number of directors can act as non-retiring directors. The remaining two-thirds of the directors shall be liable to retire by rotation. At any annual general meeting, only one-third of such retiring directors shall retire from office.

The directors who retire by rotation at every annual general meeting shall be those who have been longest in the office since their last appointment. If they have become directors on the same day, those who are to retire, shall be determined by mutual agreement or in default or by lot (Sec. 152). The retiring directors may be reappointed or new directors may be appointed in their place.

3. Appointment of Directors by the Board of Directors:

a. **Additional Director (Sec. 161):** The Board of Directors can appoint additional directors, if it is authorized by the articles. The number of directors and additional directors should not exceed the maximum limit fixed by the articles. Such additional director will hold office only up to the date of the next annual general meeting.

b. **Casual Vacancies (Sec. 161):** Directors appointed by the shareholders in the general meeting falls vacant due to ~~death, resignation of the director before the~~ expiry of his usual term of office. Such casual vacancy can be fill-up by the Board of Directors, subject to the regulations of the articles. A person appointed in casual vacancy will hold office only up to the date up to which the previous director would have held office if he were to continue as a director.

c. **Alternate Director (Sec. 161):** Articles of Association also empower the Board of Directors to appoint an alternative director, during the absence of a director for more than three months, from the state in which meeting of the Board ordinarily held. Such an alternate director shall vacate office on expiry of the term of the original director or on return of the original director to the state.

4. **Appointment of Directors by third parties (Sec. 152):** The Articles empower the debenture holders, bankers and creditors to nominate directors on the Board of the Company, just to protect their interest. Such nominated directors number should not exceed one third of the total strength of the Board. Such nominated directors are not liable to retire by rotation.

5. Appointment of Directors by Principle of Proportional Representation (Sec. 163).

Section 263 intends to protect the interest of minority shareholders by giving them an opportunity to place their nominees on the board. The Articles of the company may provide that the appointment of not less than two-third of the total number of directors of a public company or a private company which is a subsidiary of a public company.

6. Appointment of Directors by the Central Government (Sec. 408):

In order to safeguard the interest of the company or the shareholders or the public and to prevent mismanagement and implement effectively the orders passed by the Company Law Board, the Central Government has the power to appoint directors on the Board of the company. Such directors hold office for a period not exceeding three years on any one occasion.

Vacation of office of director- (Section 167):

The office of a director shall become vacant in case;

a. He incurs any of the disqualifications specified in section 164;

b. He absents himself from all the meetings of the Board of Directors held during a period of twelve months with or without seeking leave of absence of the Board;

c. He acts in contravention of the provisions of section 184 relating to entering into contracts or arrangements in which he is directly or indirectly interested;

d. He fails to disclose his interest in any contract or arrangement in which he is directly or indirectly interested;

e. He becomes disqualified by an order of a court or the Tribunal;

f. He is convicted by a court of any offence, whether involving moral turpitude or otherwise and sentenced in respect thereof to imprisonment for not less than 6 months; Provided that the office shall be vacated by the director even if he has filed an appeal against the order of such court;

g. He is removed in pursuance of the provisions of this Act;

h. He~~, having been appointed a director by virtue of~~ his holding any office or other employment in the holding, subsidiary or associate company, ceases to hold such office or other employment in that company.

If a person, functions as a director even when he knows that the office of director held by him has become vacant on account of any of the disqualifications specified above, he shall be punishable with imprisonment for a term which may extend to 1 year or with fine which shall not be less than Rs. 1,00,000 but which may extend to Rs. 5, 00,000 or with both.

Retirement of Directors:

In any public company or a private company that is a subsidiary of a public company, one-third of the Directors must retire at every AGM.

However, every retiring Director is eligible for re-appointment. If the vacancy is not filled and the meeting has not expressly resolved to fill such vacancy, he or she shall be deemed to have been re-appointed until the next election meeting, unless he or she is not otherwise disqualified or is unwilling to so act as a Director or no resolution for such appointment has been put to the meeting and lost.

Removal of Directors:

A Director can be removed by an ordinary resolution of the general meeting after a special notice has been given, before the expiry of his term of office. However, this is not applicable to Directors appointed by proportional representation or the Directors appointed by the Central Government.

POWERS OF THE DIRECTOR:

Following are the powers of the directors:

a. Statutory Powers of the Directors:

b. Other powers:

c. Powers only with a resolution:

a. Statutory Powers of the Directors:

Powers must be exercised by Board of Directors in the general meeting of the company by passing the resolution:

1. The power to make call on shares in respect of unpaid money.
2. The power to issue debentures, whether in or outside India.
3. The power to invest in funds.
4. The power to borrow money otherwise than on debentures.

5. The power to make loans or give guarantee in respect of loans. But a banking company does not require any resolution by the board.
6. The power to approve the financial statements and boards report.
7. The power to diversify the business of the company.
8. The power to approve amalgamation, merger or reconstruction.
9. The power to take over a company or acquire a company or substantial stake in another company.

b. Other powers:

1. Power to fill casual vacancy.
2. Power to appoint the first auditor of the company.
3. Power to make political contribution.
4. Power to appoint alternate director.
5. Power to appoint additional director.
6. Power to declare interim dividend.
7. Power to appoint or remove Key Managerial Person.
8. Power to recommend the rate of dividend on the shares of the company subject to the approval by the shareholders in AGM.

c. Powers only with a resolution:

1. To sell or lease any asset of the company.
2. To ~~allow time to the director for the repayment of loan~~.
3. To borrow money in excess of paid up capital and pre-reserves.
4. To appoint a sole agent for more than five years.
5. To issue bonus shares and for reorganization of share capital.
6. To contribute money for charitable purposes exceeding Rs. 50,000 or 5% of the average profits of 3 years whichever is greater.

DUTIES OF DIRECTORS:

a. General Duties of Directors:

b. Specific Duties of Directors:

a. General Duties of Directors:

1. To form policy and determine the objective of the company.
2. To delegate power to any committee if the Articles permit.
3. To issue instructions to subordinates for the implementation of the policy to review company's progress.
4. To appoint their subordinate officer, Managing Director, Manager, Secretary or any other employee.

5. To act in accordance with the Articles of the company providing that Articles are subject to the provisions of the Act.
6. To act in good faith in order to promote the objects of the company. However, the promotion of the objects should for the benefit of the company.
7. To perform duties with due and reasonable care and diligence.
8. Duty to not to achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives.

b. Specific Duties of Directors:

1. Must disclose his shareholdings in the company.
2. Must disclose his interest in contracts of the company.
3. Must disclose their name, address and occupation.
4. Duty to take up qualification shares within 2 months after his appointment.
5. Decide the minimum subscription and issue the prospectus. It must not contain any false or misleading statement.
6. Duty to call statutory and annual general meeting of the company.

7. To sign the prospectus before it has been delivered to the Registrar.
8. To ~~file return of allotment of securities with the~~ registrar.
9. To declare dividend and arrange for the payment.
10. To perform all other duties as assigned by the Act.

LIABILITIES OF DIRECTORS:

I. Civil liability:

   a. Liabilities to the company, and

   b. Liability to outsider

II. Criminal Liability:

I. Civil Liability of Directors;

a. **Liability to Company:**

The directors are held liable to the company in the following circumstances.

1. **For ultra virus acts:** Where the acts of the directors are ultra virus the company i.e., beyond their powers, the directors will be liable to the company for any loss or damage suffered by the company due to such ultra virus acts.

2. **For gross negligence:** Where the directors are negligent in performance of their duties e.g. when they delegate powers even though the articles do not permit or when they do not use reasonable care and skill in the management of the company's affairs.
3. **For breach of trust:** Where they do not act honestly and in the best interest of the company e.g. misappropriation of funds or making secret profits.
4. **For guilty of misfeasance:** Misfeasance means willful misconduct or willful negligence e.g. misappropriation of the company's assets willfully.
5. **For the acts of the co-directors:** Where a director habitually absents himself from the Board's meeting.

b. Liability to outsiders:

The directors may be held personally liable to the outsiders in the following circumstances:

1. **Mis-statements in prospectus:** Where the directors make mis-statements or untrue statements in the prospectus.

2. **Acting in personal name:** Where the directors act in their own name rather than in the name of the company in dealings or contracts with others e.g. signing a negotiable instrument without mentioning the company's name.

3. **Irregular allotment:** Where the allotment made by them are irregular.
4. **Failure to repay application money:** Where the directors fail to repay the application money within the specified time, when the amount of minimum subscription is not subscribed.
5. **Tortuous act:** Where the directors do some tortuous act i.e. civil wrong.
6. **Failure to repay application money on refusal by stock exchange:** Where the directors fail to repay the application money if the application for the shares or debentures to be dealt in on a stock exchange in not made or is refused.

7. **Fraudulent acts in course of winding-up:** Where they incur debts and liabilities on behalf of the ~~company at the time of winding up of the company~~, if the court holds them so liable because of their fraudulent trading.

II. Criminal Liabilities:

1. For mis-statement in prospectus.
2. Failure to file return on allotment with the registrar.
3. Failure to give the notice to the registrar for conversion of share into stock.
4. Failure to issue share certificates and debenture certificates.
5. Failure to maintain the register of members and the register of debenture holders.
6. Default in holding annual general meeting.
7. Failure to provide annual accounts and balance sheet.
8. For holding the post of director in more than 15 companies.

MANAGING DIRECTOR:

Meaning:

It is a common practice that the Board of Directors appoints one of its members to manage the affairs of the company as a whole time officer and calls him the Managing Director.

He acts as the chief executive. He occupies a position of dual authority and responsibility. As a director, he attends the Board meetings and, as a manager, he performs the managerial functions.

Managing Director: (Sec. 2(54) of the Companies Act 2013 defines a managing director as *"a director who by virtue of an agreement with the company or of a resolution passed by the company in general meeting or by its Board of Directors or by virtue of its Memorandum or Articles of Association is entrusted with substantial powers of management which would not otherwise be exercisable by him and includes a director occupying the position of a Managing Director, by whatever name called"*.

An analysis of the definition shows that:

I. The managing director must be an individual,

II. He must be a member of the Board of Directors,

III. He must be appointed by virtue of an agreement with the company or of a resolution passed by the company in general meeting or by its Board of Directors or by virtue of its Memorandum or Articles of Association,

IV. He is entrusted with substantial power of management,

V. He is not entrusted with powers of routine nature, and

VI. He shall exercise his powers subject to superintendence, control and direction of its Board of Directors.

Appointment of Managing Director is compulsory for certain companies: [Section 269(2)].

Every public company having a paid up share capital of rupees five crores or more shall have a Managing Director or a whole time Director or Manager.

Appointment:

a. A Managing Director may be appointed in any of the following;

b. By an agreement with the company; or

c. By a resolution of the company in general meeting; or

d. By a resolution of the Board of Directors; or

e. By a provision in the memorandum or articles of association of the company.

Term of Office: [Section 196(2)].

No company can appoint any person as its managing director for a term exceeding fire years at a time. However, the company may re-appointment them for next term before expiry of their present term but not earlier than one year before expiry of the term. This means, company may re-appoint them for next term in last one year of current term.

Number of Managing Directorship: **(**Section. 203)

No person can act as a managing director of more than one company.

Disqualifications of Managing Director:

No person can be appointed a managing director if:

I. He is an un-discharged insolvent, or has at any time been adjudged an insolvent,

II. He suspends or has at any time suspended, payment to his creditors,

III. He makes, or has at any-time made, a composition with his creditors, or

IV. He is, or has at any time, convicted by a Court of an offence involving moral turpitude.

The disqualifications applicable to directors apply to managing director.

Powers and Duties of Managing Director:

Managing Director is entrusted with substantial powers of a company management subject to the superintendence, control and direction of the Board of Directors.

But he is not entrusted to do the administrative acts of a routine nature such as the following:

I. To affix the common seal of the company to any document, or
II. To draw and endorse any cheque on account of the company in any bank, or
III. To draw and endorse any negotiable instrument, or
IV. To sign any certificate of shares, or
V. To direct registration of transfer of any share.

The substantial powers of management consist of;

I. Laying down broad policies and objectives of the company, and

II. Executing such policies and objectives.

Substantial powers of management imply the ability to take a decision to do or not to do a thing. It is not nece~~ssary that the managing director should~~ be entrusted with the management of the whole affair of the company as is the case with the manager.

He is the liaison officer between the Board of Directors and the rest of the organization. He is the director-cum-executive and as a member of the board of directors he shares the objectives and policies of the company, though he is subordinate to the Board.

Powers, duties and responsibilities of the managing director may be stated as follows:

1. ~~As a member of the Board of Directors~~ he participates in formulating the objectives and policy-making functions of the Board.
2. To execute policies lay down by the Board of Directors.
3. He is the liaison officer between the Board of Directors and the rest of the organization.

4. To interpret and communicate policies of the company to subordinate employees.
5. To review the operations of the company and present to the Board periodically accounts and statistics showing the progress and the present position of the company.
6. To formulate the employment and compensation plan in accordance with the accepted policies of the company.
7. To appoint high officials of the company.
8. To plan the development and expansion of business

9. To organize meetings with department heads.
10. To promote high morale among the employees of company by creating a sense of belonging.
11. To maintain contact with the govt., chamber of commerce, trade unions and community at large.
12. To maintain a harmonious relationship between line and staff managers.
13. To approve or disapprove development plans submitted by the senior executives and place before the Board for final approval.
14. To establish a system of budgetary control by which the actual performance of the company may be evaluated against the planned course of action.

15. To administer production and sales activities of the company.
16. To ~~give due attention to consumer satisfaction~~ which is ensured by the continued supply of goods and services to the market.

THANK YOU

LITERARY GENRES: AN INTRODUCTION

WHAT ARE LITERARY GENRES?

DEFINITION: CATEGORIES USED TO GROUP DIFFERENT TYPES OF LITERARY WORK, SUCH AS NON-FICTION, FICTION AND POETRY

OUR GENRE LIST

IT IS IMPORTANT TO REMEMBER THAT THIS LIST DOES NOT INCLUDE ALL TYPES OF GENRES FOUND IN LITERARY WORKS.

THERE ARE MANY DIFFERENT GENRE CLASSIFICATIONS. WE WILL LEARN ABOUT ONLY SOME OF THEM.

TWO MAIN CLASSIFICATIONS:

NON-FICTION
FICTION

N-FICTION

This category can also be called "<u>informational</u>" material.

These types of books provide information that is factual.

Nothing is *make-believe* in these types of materials. More specific examples of this type of genre would be . . .

<u>BIOGRAPHIES</u>: A TRUE ACCOUNT OF A PERSON'S LIFE WRITTEN, COMPOSED, OR PRODUCED BY ANOTHER PERSON.

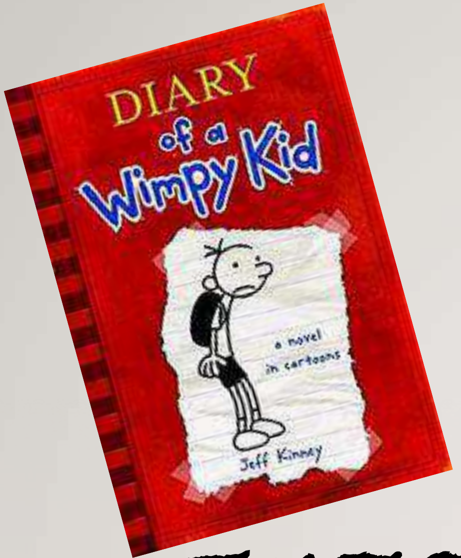
<u>Autobiographies</u>: The biography of a person written by that person

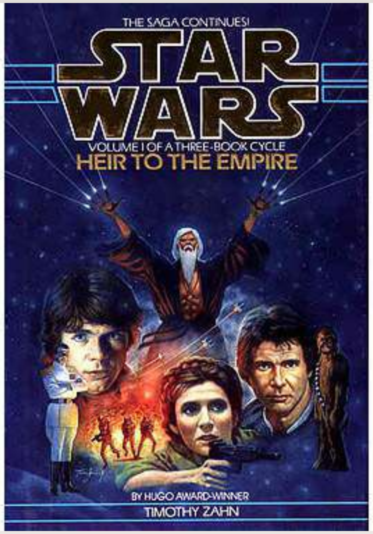
FICTION

In this type of work, the author may make up the entire story.

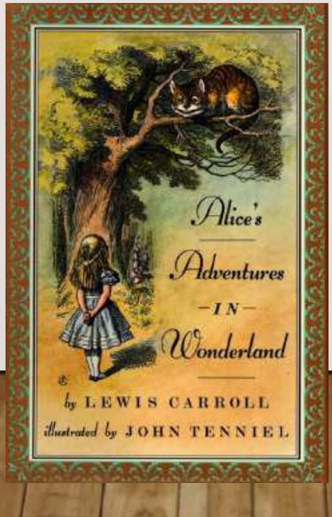
Authors can also choose to include factual information in a made-up story.

The author can have wizards creating magic spells or it can be about a teen who has a secret crush or a person lost in the wilderness. The subjects are limitless!





THERE ARE MANY DIFFERENT TYPES OF FICTION. . .



<u>HISTORICAL FICTION</u>: THE STORY TAKES THE READER BACK TO A PARTICULAR TIME PERIOD WHERE THEY LEARN ABOUT THE EVERYDAY LIFE OF A PERSON.

THE CHARACTER MAY INTERACT WITH ACTUAL HISTORICAL CHARACTERS, BUT USUALLY, THE MAIN CHARACTER IS NOT

<u>REALISTIC FICTION</u>: THE STORY USUALLY PRESENTS A PROBLEM TO BE EXAMINED THAT COULD BE FROM ANYBODY'S LIFE.

THESE STORIES MAY COVER SUCH TOPICS AS FAMILY SITUATIONS, PEER RELATIONSHIPS, AND CULTURAL DIFFERENCES.

<u>SCIENCE FICTION:</u> THIS IS A TYPE OF MODERN FANTASY. IT EXPLORES SCIENTIFIC FACT AND CAN POSE ETHICAL QUESTIONS ABOUT CURRENT SCIENTIFIC TRENDS AND PREDICTIONS.

THE AUTHOR FOCUSES ON THE ADVENTURE OF EXPLORING THE UNKNOWN AND THE WONDER OF DISCOVERING NEW WORLDS AND PEOPLE.

<u>Mystery</u>: There are different types of mystery stories, but usually a crime has been committed and the reader wants to try to figure out "whodunit".

There is usually a great deal of suspense and intrigue.

FANTASY:

In this type of story, the author has created a magical world where anything is possible.

There are many types of fantasy -- from fables to fairy tales. Stories may include magical beings, talking animals, or gods and goddesses.

FAIRY TALES: WE OFTEN KNOW WE ARE READING OR HEARING A FAIRY TALE WITH THE WORDS, "ONCE UPON A TIME . . ."

FAIRY TALES OFTEN FEATURE A FIGHT BETWEEN GOOD AND EVIL. EVIL ALWAYS LOSES TO A TRIUMPHANT HERO OR HEROINE.

WE ALSO KNOW IT'S A FAIRY TALE BECAUSE MOST END WITH "AND THEY LIVED HAPPILY EVER

FABLES: THESE STORIES USUALLY HAVE A MORAL (LESSON) THAT IS BEING TAUGHT. THE STORY OFTEN USES ANIMALS THAT SPEAK AND ACT LIKE HUMANS.

<u>MYTHS</u>: A STORY OR GROUP OF STORIES THAT FORM PART OF THE TRADITIONAL KNOWLEDGE OF A SOCIETY. MYTHS OFTEN USE IMAGINATIVE PLOTS AND CHARACTERS TO EXPLAIN HOW THE WORLD BEGAN AND WHY NATURE AND PEOPLE BEHAVE THE WAY THEY DO.

WHAT GENRE?

SCIENCE FICTION, FABLE, MYSTERY, FAIRY TALE, MYTH, FANTASY, HISTORICAL FICTION, REALISTIC FICTION

- The Tortoise and the Hare
- Hercules
- The Hunger Games
- Frindle
- Sleeping Beauty
- 39 Clues: The Maze of Bones
- Harry Potter
- The Midnight Ride of Paul Revere

Dramatic Monologue

Prezi

a monologue?

Defining elements...

- In theatre, a monologue is presented by a single character, most often to express their mental thoughts aloud, though sometimes also to directly address another character or the audience.
- Monologues are common across the range of dramatic media as well as in non-dramatic media such as poetry.
- Monologues share much in common with several other literary devices including soliloquies, apostrophes, and aside.

In case you are feeling lost...

Soliloquy: an act of speaking one's thoughts aloud when by oneself or regardless of any hearers, esp. by a character in a play.

Apostrophe: the addressing of a usually absent person or a usually personified thing rhetorically

Aside: a remark or passage by a character in a play that is intended to be heard by the audience but unheard by the other characters in the play.

Dramatic Monologue History

- The term dramatic monologue was used first in 1857 by a poet named George Thornbury, but the term did not gain recognition until the end of the century from on Tennyson.
- During the Victorian era, these poems were called 'dramatic lyrics', 'dramatic romances', 'lyrical monologues', or 'monodramas'.
- The dramatic monologue is popularly believed to "developed its recognizable features during the early Victorian period of the 1830s", in the writings of nineteenth century poets such as Alfred Tennyson, Robert Browning, and Dante Gabriel Rossetti.

History

Victorian period (1837–1901)

The Greeks developed the dramatic monologue as seen throughout Greek poetry

Alfred, Lord Tennyson wrote the first official dramatic monologue

Dramatic Monologues developed the voice of woman

What is a Dramatic Monologue?

Lord Alfred Tennyson wrote *Ulysses*, which is regarded as the first true dramatic monologue.

A poetic form in which a single character, addressing a silent auditor at a critical moment, reveals himself or herself and the dramatic situation.

A dramatic monologue is not the same as **SOLILOQUY**.

Definition

A dramatic monologue is a poem in the form of a speech, not directed at the reader, where the character reveals extreme aspects of themselves.

Dramatic Monologue

What is a dramatic monologue?

A monologue consists of a single person speaking to themselves or to an audience. A dramatic monologue is a literary form in which you have one person, speaking to an audience or "thinking aloud".

In a monologue there are clues to the type of person who is speaking – their thoughts and feelings , the situation in which it is spoken and the story that has led to this situation.

A Dramatic Monologue is a lengthy speech by a single person in a story, play or poem, but does not designate a component in a play. It is a type of lyric poem

Structure

- Can follow the form of a sonnet or can obtain a loose structure (a prose/ blank verse)

- Always written in first person

- Have a defined audience

- Obtains a position of the silent listener

Characteristics

Three major qualities exist in a Dramatic Monologue:

1. The speaker reveals in his/her own words some dramatic situation in which he/she is involved.

2. The speaker demonstrates his/her character through the poem.

3. The speaker addresses a listener who does not engage in dialouge but helps to develop the speech.

Characteristics

Dramatic monologues consist of a single speaker, who is a character in the story

The speaker is often speaking indirectly to the audience

Dramatic monologues consist of a single speaker, who is a character in the story

The speaker is often speaking indirectly to the audience

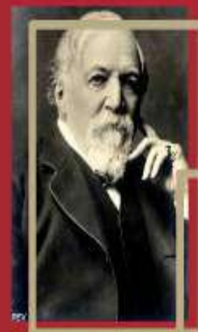
Prezi

Dramatic Monologues often reveal the deeper thoughts and emotions of a character

Examples in Literature

Prezi

Lord Alfred Tennyson wrote *Ulysses*, which is regarded as the first true dramatic monologue.



Robert Browning

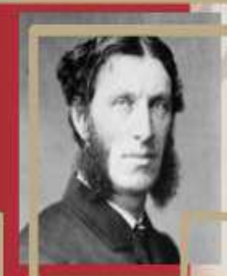
My Last Dutchess, Porphyria's Lover, Meeting at night

T S Eliot

The Love Song of J. Alfred Prufrock, The Waste Land, Ash Wednesday

Sylvia Plath

Lady Lazarus, Daddy, Metaphors, Arial, Tulips, Morning Song, Colossus, The Munich Mannequins



Matthew Arnold

Dover Beach, The Scholar Gipsy, Sohrab and Rustum, Thyrsis

Fun(?) Facts

-Another name for a dramatic monologue is a persona poem.

-Examples include Robert Browning's “My Last Duchess,” T.S. Eliot's “The Love Song of J. Alfred Prufrock,” and Ai's “Killing Floor.

-The purpose is to evoke extreme emotions from the reader, anywhere from utter repulsion to unadulterated acceptance.

-The Greeks invented the theatrical use but was perfected in the Victorian Era

Fun(?) Facts

There are different types of monologues along with the dramatic monologue.

Some examples are:
-Soliloquy: The speaker addresses the reader directly
-Interior: Exhibits thoughts and feelings

There's also a difference between Poetical and Theatrical dramatic monologues. Theatrical is performed to an audience whereas Poetical is directed at one listener at a time.

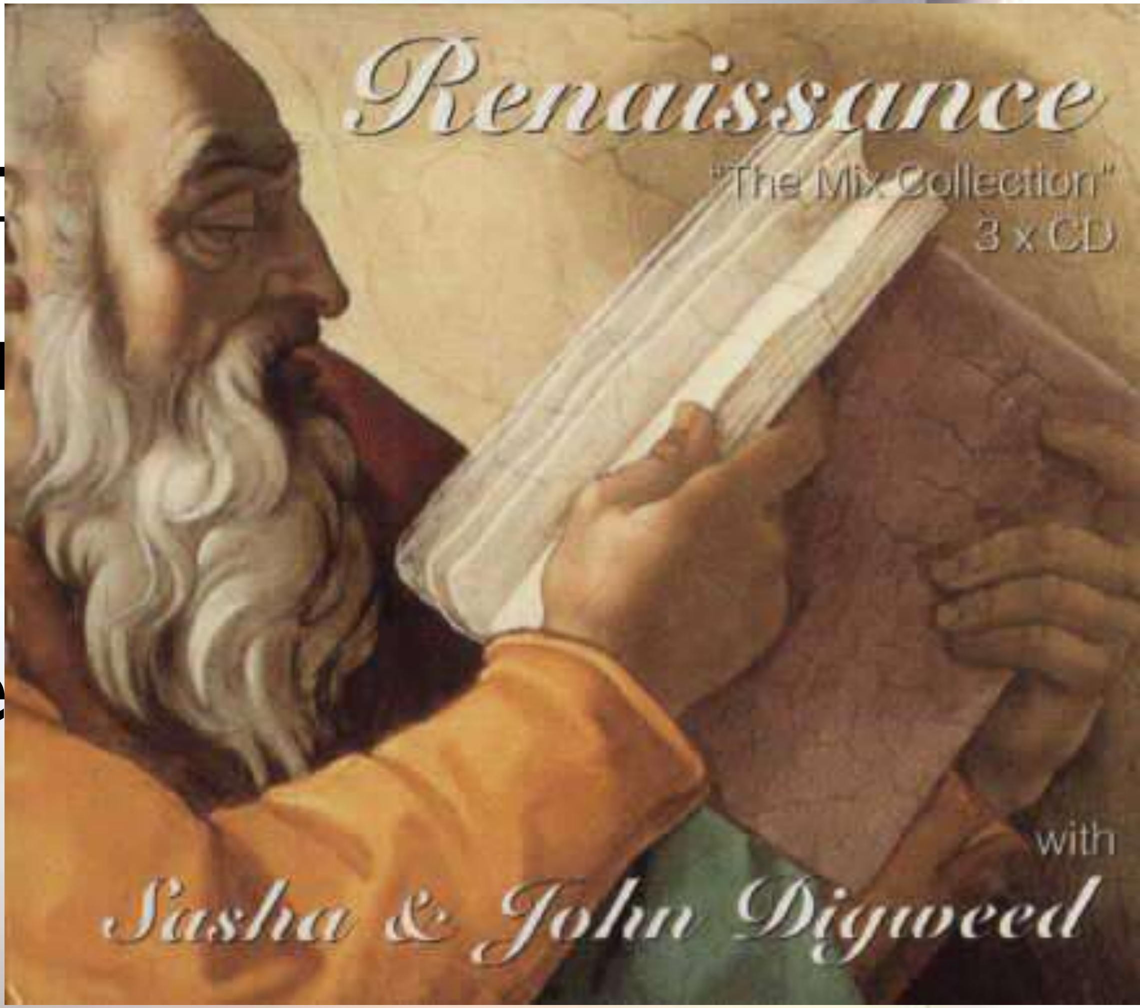
Thanks for the patience

Presented by : Prof. Chidananda M Aigali

Renaissance

RENAISSANCE

- Means <u>REBIRTH</u>
- Rebirth of <u>art ar</u> <u>learning</u>
- Began in northe <u>Italy</u>



ECONOMIC FOUNDATIONS

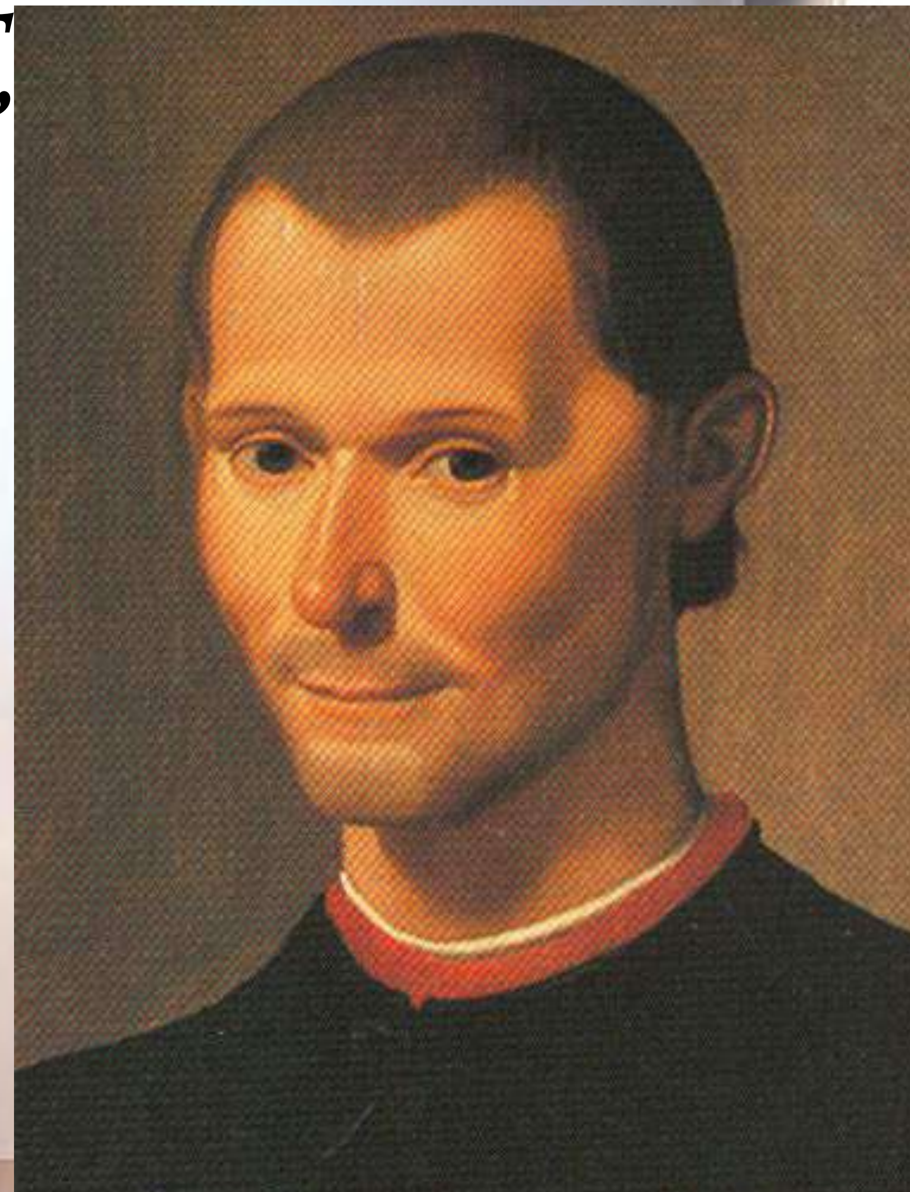
- Increased demand for Middle Eastern products
- Encouraged the use of credit and banking
- Letters of credit expanded supply of money and sped up trade.
- New accounting and bookkeeping practices used Arabic numerals

ITALY

- Italian <u>city-states</u> became rich from trade:
  - <u>Florence</u>
  - Venice
  - <u>Genoa</u>
- They were <u>trading</u> centers for the <u>distribution</u> of goods to <u>northern</u> Europe.
- Independent city-states governed as <u>republics</u> by wealthy <u>merchants</u>.

NICCOLO MACHIAVE

- Wrote The Prince
  - guidelines for the how to get power by absolute rule.
- Believed the ends justified the means
- One should do good if possible, but do evil when necessary.



ART AND LITERATURE

- Medieval art and literature focused on the Church and salvation.
- Renaissance art and literature focused on individuals and worldly matters, along with Christianity.

ARTISTS AND WRITERS

- Artists
  - Leonardo da Vinci
  - Michelangelo
- Writers
  - Petrarch

LEONARDO DA VINCI

- Painted the *Mona Lisa* and *The Last Supper*
- Handsome, athletic, singer, artist, scientist, inventor

MICHELANGELO

- Painted the ceiling of the Sistine Chapel and sculpted *David*
- Sculptor, painter, architect, poet

THE SISTINE CHAPEL CEILING

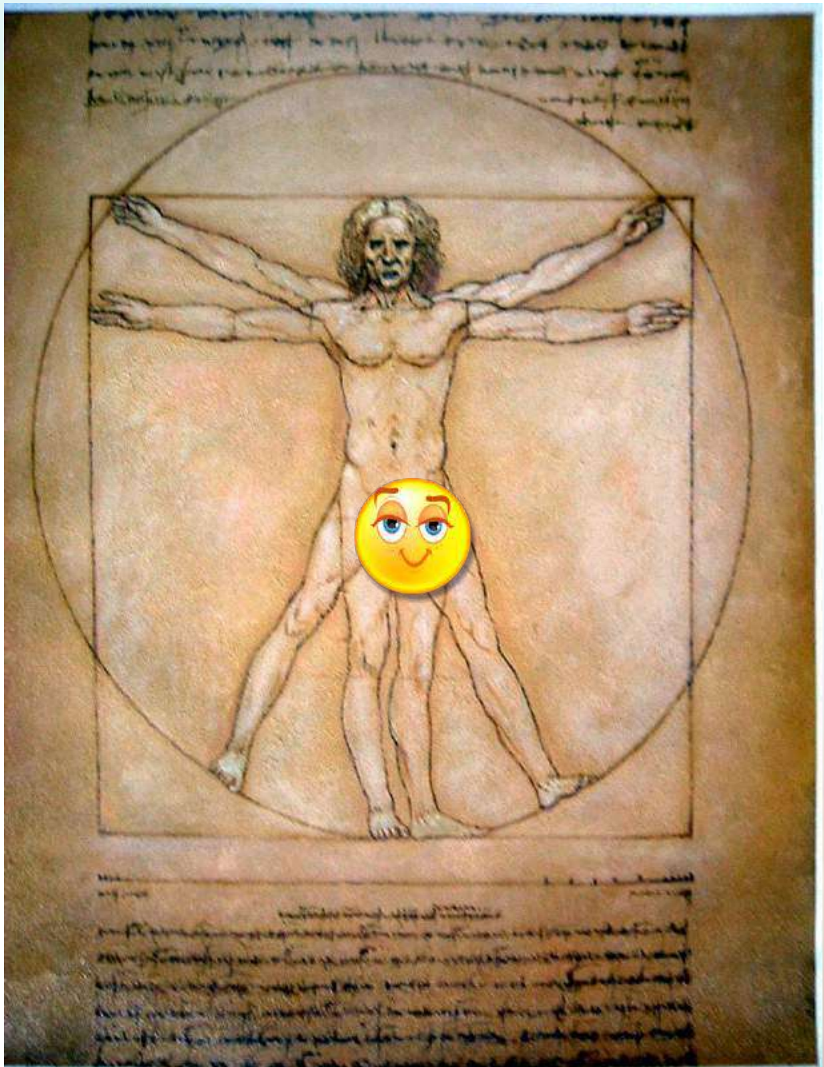

HELLO!
David

Pieta

PETRARCH

- Wrote <u>Sonnets</u>
- He wrote with a <u>Humanistic</u> approach
- Considered the "<u>Father</u> of Humanism"

HUMANISM



The Vitruvian Man

- Celebrated the individual
- Stimulated the study of Greek and Roman literature and culture
- Humanists were supported by PATRONS who were very wealthy

NORTHERN RENAISSANCE

- With the rise of trade, travel and literacy, the Italian Renaissance spread to northern Europe.
- The art and literature changed as people of different cultures adopted Renaissance ideas.

NORTHERN RENAISSANCE WRITERS

- **<u>Erasmus</u>**—*The Praise of Folly* (1511)
- Critical of <u>corrupt</u> church practices
- <u>Catalyst</u> for Protestant Reformation

NORTHERN RENAISSANCE WRITERS

- **Sir Thomas More**

—*Utopia* (1516)

- Depicts world with perfect social, legal and political system
- Leading humanist scholar

PICTURES CITED

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GOODS AND SERVICES TAX

KEY ISSUES

KLE GROUP OF INSTITUTIONS

GST replaces about **20 indirect taxes** at both the Centre and in States and aims to unify the **$2 trillion economy** and **1.3 billion people** into a single market.

ECONOMIC SURVEY 2017-18

- 50% increase in number of indirect tax payers
- Large increase in Voluntary Registrations under GST

SUBSUMING OF EXISTING TAXES

Sl. No.	Subsumed under CGST	Subsumed under SGST
1	Central Excise Duty	VAT / Sales tax
2	Additional Excise Duties	Entertainment tax (unless it is levied by the local bodies).
3	Excise Duty-Medicinal and Toiletries Preparation Act	Luxury tax, purchase tax
4	Service Tax	Taxes on lottery, betting and gambling.
5	Additional CVD	State Cesses and Surcharges (supply of goods and services)
6	Special Additional Duty of Customs - 4% (SAD)	Entry tax not in lieu of Octroi
7	Surcharges	
8	Ceses	

TAXES THAT MAY OR MAY NOT BE SUBSUMED

- Basic customs duty
- Alcohol for human consumption – State Excise
- Electricity Duty.
- Sales /purchase of Real Estate – Stamp duty + Property Taxes.
- Specified petroleum products – to be brought under GST from a later date on recommendation of GSTC.
- Tobacco Products – under GST + Central Excise.
- Other Entry taxes and Octroi by Local Authorities & Panchayats

SALIENT FEATURES OF GST ACT

- GST is Destination Based Tax
- The taxpayer will be submitting a common format for periodical returns, to both the Central and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 15 digits
- Online Compliance
- India has adopted a dual GST model, i.e., both the Centre and the States will tax supplies of goods and services, to CGST and SGST respectively
- Inter-State supply of goods and services will be subject to IGST

CGST

- CGST stands for Central GST
- This is applicable on supplies within the State
- Tax collected will be shared to Centre

SGST

- SGST stands for State GST
- This is applicable on supplies within the State
- Tax collected will be shared to State

IGST

- IGST stands for Integrated GST
- This is applicable on interstate and import transactions
- Tax collected is shared between Centre and State

WHEN TAX HAS TO BE PAID

Earliest of the date on which:

Date of issue of invoice

Supplier receives payment

COMPOSITE SUPPLY & MIXED SUPPLY

Composite supply

Composite supply means a supply is comprising two or more goods/services, which are naturally bundled and supplied in with each other in the ordinary course of business, one of which is a principal supply. The items cannot be supplied separately.

Ex: Supply of medcines in Medical Service.

Mixed supply

Mixed supply under GST means two or more individual supplies of goods or services, or any combination, made together with each other by a taxable person for a single price. Each of these items can be supplied separately and is not dependent on any other.

Ex: Students Introduction Kit having apron, stethescope etc, bundled together

EDUCATIONAL INSTITUTION

"**educational institution**" means an institution providing services by way of,-

(i) pre-school education and education up to higher secondary school or equivalent;

(ii) education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force;

(iii) education as a part of an approved vocational education course; (a Govt approved course run by an Industrial Training Institute or a Modular Employable Skill Course)

CHARITABLE ACTIVITIES

"Charitable Activities" means activities relating to –

i) **public health** by way of ,-

(A) care or counseling of terminally ill persons or persons with severe physical or mental disability; persons afflicted with HIV or AIDS; persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or

(B) public awareness of preventive health, family planning or prevention of HIV infection;

(ii) advancement of **religion ,** spirituality or yoga;

(iii) advancement of **educational** programmes or skill development relating to abandoned, orphaned or homeless children; physically or mentally abused and traumatized persons; prisoners; or persons over the age of 65 years residing in a rural area;

(iv) preservation of **environment** including watershed, forests and wildlife;

HEALTHCARE SERVICE

Health care services means any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines in India and

includes services by way of transportation of the patient to and from a clinical establishment,

but does not include hair transplant or cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma.

EXEMPTIONS

EXEMPT SUPPLY

Services provided -

(a) **by an** educational institution to its students, faculty and staff;

[(aa) **by an** educational institution by way of conduct of entrance examination against ~~consideration in the form of entrance fee;]~~

(b) **to an** educational institution, by way of, -

(i) **transportation** of students, faculty and staff;

(ii) **catering**, including any mid-day meals scheme sponsored by the Central Government, State Government or Union territory;

(iii) **security** or cleaning or housekeeping services performed in such educational institution;

(iv) services relating to **admission** to, or conduct of examination by, such institution;

(v) supply of online educational **journals** or periodicals

Provided that nothing contained in [sub-items (i), (ii) and (iii) of item (b)] hall apply to an educational institution other than an institution providing services by way of pre-school education and education up to higher secondary school or equivalent.

Provided further that nothing contained in sub-item (v) of item (b) shall apply to an institution providing services by way of,-

(i) pre-school education and education up to higher secondary school or equivalent; or

(ii) education as a part of an approved vocational education course.

EXEMPT SUPPLY

- Services by an entity registered under section 12AA of the Income tax Act, 1961 (43 of 1961) by way of charitable activities
- Health care services by a clinical establishment, an authorised medical practitioner or para-medics;
- Services provided by way of transportation of a patient in an ambulance;
- Services provided by Blood banks including cord blood banks by way of preservation of stem cells or any other service in relation to such preservation
- Services by a veterinary clinic in relation to health care of animals or birds

EXEMPT SUPPLY

- Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation less than one thousand rupees per day or equivalent
- Services by way of training activities relating to arts or culture or sports by charitable entities registered under section 12AA of Income Act, 1961
- Services by way of renting of residential dwelling for use as residence

INPUT TAX CREDIT

CONCEPT OF INPUT TAX CREDIT

“Input tax" means IGST, CGST and SGST;

- Charged on any supply of goods or services to him (except those which are on the exempted/negative list) and;
- Includes the tax payable under reverse charge basis
- Excludes the tax paid under Composition levy

- Used or intention of use in the course or furtherance of business
- Direct nexus with outward supply not essential
- Input tax credit on Inputs and Capital Goods is allowed in one installment.
- Input credit can be availed on both goods and services

CONDITIONS FOR AVAILMENT OF INPUT TAX CREDIT

A registered supplier, or other prescribed tax paying document

Goods and/or services has been received

Tax actually paid by the supplier to the credit of the appropriate Government, either in cash or by utilization of ITC

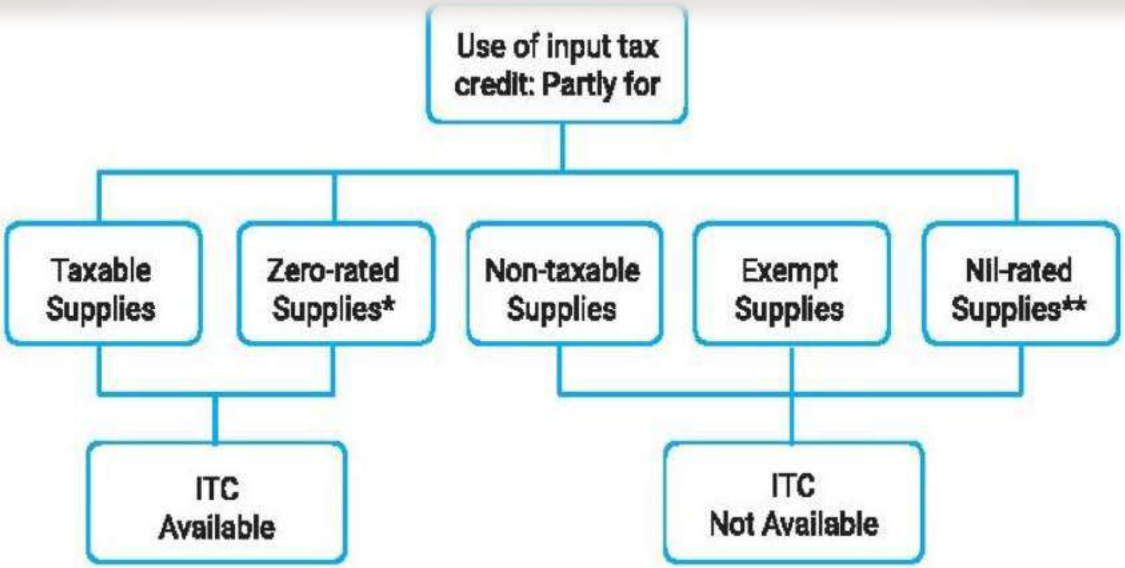
He has furnished the monthly return

INPUT TAX CREDIT RESTRICTIONS

<u>What/Whose Credits are disallowed?</u>

- Apportionment of the ITC, if claimed partly for Business (including zero rated suppliers) and Partly of Personal Use or use of Exempted Supply
- No Credit of Motor Vehicles & other Conveyances, in general except when used similar conveyances, transportation of passengers or imparting training & Transportation of Goods.
- Supply of foods, beverages, catering, etc except when used to similar outward supply.
- Rent-a-Cab, Life & Health Insurance, except Government Notified obligatory duty or similar outward supply.
- Works Contract Services for construction of immovable property (other than P&M)

Supply Name	Description
Nil Rated	It is the supply of goods and services that have **0% GST**. **Example:** Grains, salt, jaggery etc.
Exempted	It is the supply of goods and services that does not attract GST and allows no claim on ITC. **Example:** Education, healthcare.. etc.
Zero Rated	Zero Rated Supplies include: - supplies made to any country other than India; and
Non-GST	It is the supply of goods and services that does not come under the purview of GST while other taxes maybe applicable. **Example:** Petrol, alcohol etc.



The manner of establishing such proportion particularly protecting directly attributable credits is not provided for but expected in a manner perhaps similar to the recently amended Rule 6 of Cenvat Credit Rules.

*Zero rated supplies are those supplies on which ultimate tax incidence is zero. Exports & Deemed exports are zero rated supplies

**Nil rated supplies are those supplies on which 0% tax is charged.

REVERSE CHARGE MECHANISM

REVERSE CHARGE

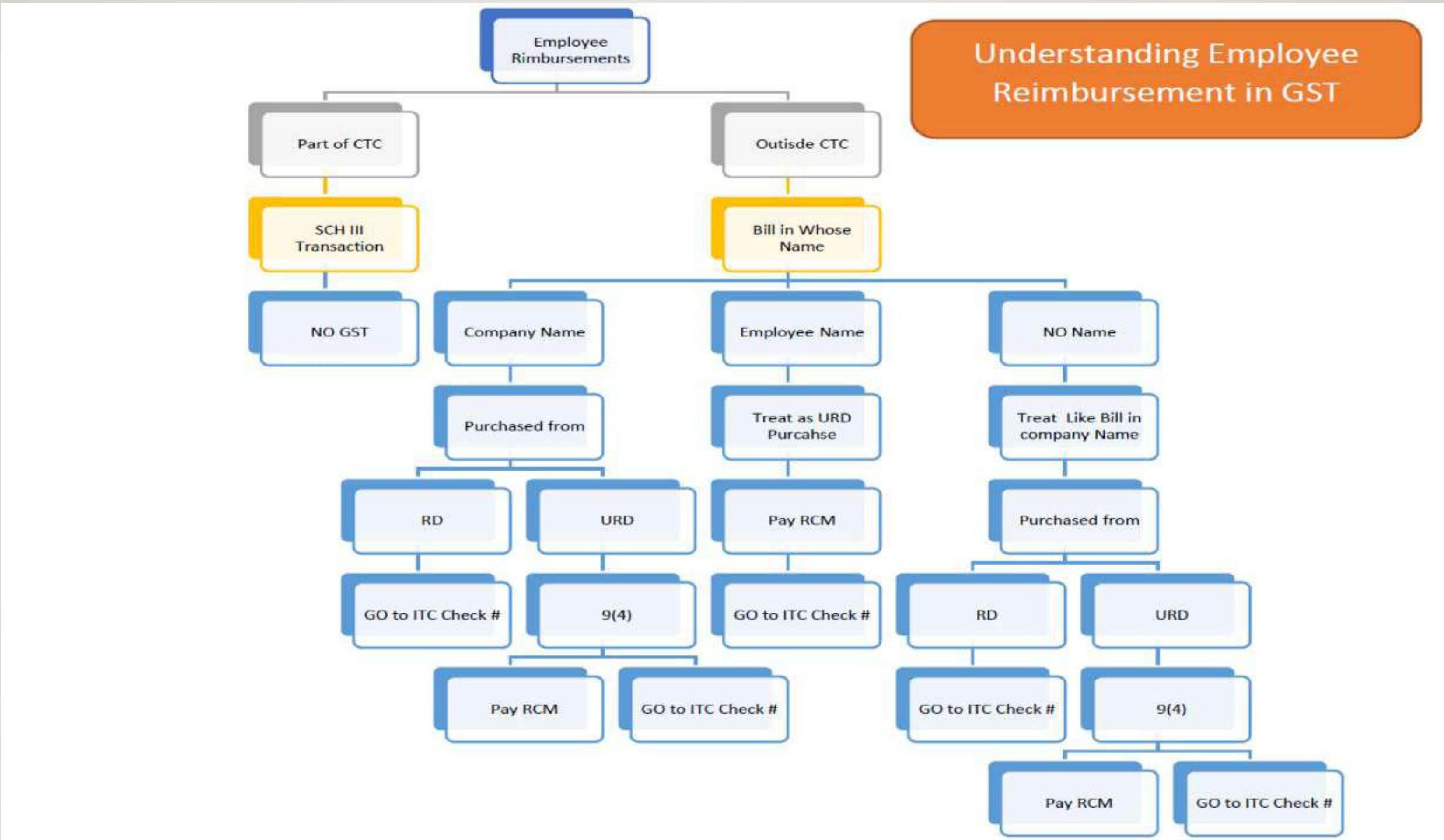
- Govt may notify the categories of supplies of goods/service for RCM - Recipient of goods/service is liable to pay GST.
- Supply by person who is ***Not Registered*** – Recipient of such supply is liable (compulsory registration).
- WHETHER RCM HAS BEEN FULLY DISCONTINUED???

NOTIFIED CATEGORY OF SERVICES UNDER REVERSE CHARGE

- Goods Transport Agency
- Sponsorship services to Business Entity
- Individual advocate or firm of advocates by way of legal services by Business Entity

EXEMPTIONS

Aggregate value of such supplies of goods or service or both received by a registered person from any or all the suppliers, who is or are not registered, exceeds Rs. 5000 in a day.


Understanding Employee Reimbursement in GST
Employee Rimbursements
Part of CTC
Outisde CTC
SCH III Transaction
Bill in Whose Name
NO GST
Company Name
Employee Name
NO Name
Purchased from
Treat as URD Purcahse
Treat Like Bill in company Name
RD
URD
Pay RCM
Purchased from
GO to ITC Check #
9(4)
GO to ITC Check #
RD
URD
Pay RCM
GO to ITC Check #
GO to ITC Check #
9(4)
Pay RCM
GO to ITC Check #

QUESTIONS FOR DISCUSSION

INCOMES

Whether tuition fees is liable for GST?	Not Taxable
Caution Deposits received from students ?	Not Taxable
Yearly Event Fees Collected (Ex-NASA fees)	Taxable
Donation/Voluntary contribution received by the education institution	Not Taxable
Whether Donations received from foreign entity is liable for GST	Not Taxable
Any Donations which are received from other States are taxable	Not Taxable
CET Coaching Fees Received from Students is liable for GST?	Taxable

Whether GST is applicable on Free Education or Scholarship received?	Not Taxable
Whether Free Accommodation to Students is liable for GST?	Not Taxable
Placement Fees received by any Educational Institution	Taxable
Whether GST is applicable on Grants received from the government?	Not Taxable
Research Grants received by educational institutions	Not Taxable*
Whether Grants received for the purpose of Market Study is liable for GST?	Taxable
TEQUIP Grant received by the Educational Institutions	Not Taxable

Whether books, uniforms sold to students is applicable for GST?	Taxable
Transportation provided to Students	Not Taxable
Is GST liable to Transportation Provided to Staff or Faculty?	Not Taxable
Whether GST is Applicable on Examination Conducting Fees received from other institutions?	Not Taxable
Valuation Fees paid to Outside evaluator	Taxable
Whether any Scrap sales made by educational Institution is liable for GST?	Taxable
Advertisement received towards Radio Broadcasting	Taxable

Any amount received as Building rent or Shop rent	Taxable
Whether GST is applicable on Rent received from Mess Contract?	Taxable
Is GST applicable on Printing Press	Taxable
Whether GST is Applicable on Hostel Fees?	Not Taxable
Whether GST is Applicable on Mess Fees?	Not Taxable
Event Fees received from students & faculty	Taxable

Event Fees Received from any Other third party including sponsorship	Taxable
Whether GST is applicable on Magazine Fees	Taxable
Whether Inter-unit Transfers with different Registrations is liable for GST?	Taxable
Is GST liable for Vocational Course Fees	Taxable
Any kind of skill Development Fees	Taxable
Is GST applicable on Pradhan Mantri Kushal Vikas Yojana?	Not Taxable

Whether GST is applicable on Bank Interest Received by any Educational Institutions	Not Taxable
Whether GST is applicable Forfeiture of Fees?	Taxable
Sale of Prospectus & Admission Forms	Taxable
Is GST applicable for Salary Grants received from University?	Not Taxable
Whether Penalties received from students for damages made by them is liable for GST?	Taxable
Sale Doctor Apron & Stethoscope	Taxable

EXPENSES

Whether AMC's is liable for GST	Taxable
Is GST applicable for Broadband facilities used by the educational Institution?	Taxable
House keeping services which is Outsourced, is liable for GST?	Not Taxable*
Gardening work Outsourced	Taxable
Whether fees paid as Pure Agent is liable for GST	Not Taxable
Honorariums Paid to the faculty or Staff for other than education	Taxable

Whether payments made to non payroll deemed employees is liable to GST?	Taxable
Whether GST is applicable on the mess cost which is divided among Students?	Not Taxable
Is GST applicable on hire charges paid to outsiders	Taxable
Is GST applicable on Student Accommodation taken on hire?	Taxable*

Any payments made to foreign visiting speaker	Taxable
Whether GST is applicable on any payments made to Foreign University	Taxable
Whether Online commercial coaching is liable for GST?	Taxable
All Advance payments made to expenses	Taxable
Whether Common Advertisement is taxable under GST?	Taxable
Does Security Services come under the ambit of GST?	Not Taxable*
Whether GST is applicable on Import of goods	Taxable

Whether GST is applicable on Software Imported	Taxable
Is GST applicable on the expenses incurred in maintenance of Guest House	Taxable
Whether RCM on Labor and materials purchased from Unregistered Dealer on construction liable for GST?	Taxable
Is GST applicable for payments made to Trustee or Board of Directors for attending meetings?	Taxable
VTU affiliation Fees	Not Taxable

Whether GST is applicable on Expenses incurred in maintenance of Building	Taxable
Whether GST is applicable on Expenses incurred in maintenance of Equipments	Taxable
Whether Sale of assets liable for GST	Taxable
Is GST applicable on Purchase of Machinery made by the Educational Institution	Taxable

In case of University, whether Fees Received from Inter Colleges Is liable for GST?	Not Taxable
Whether Free Use of Ground is liable for GST	Taxable
Whether Free Use of Building is liable for GST	Taxable
Whether Incubation Centre come under ambit of GST?	Taxable
Guest mess collection fees	Taxable

Is hostel accommodation provided by Trusts to students covered within the definition of Charitable Activities	Not Taxable
Is GST leviable where Hospitals hire senior doctors/ consultants independently and pay them consultancy charges, without there being any employer-employee relationship.	Not Taxable
Food supplied to the patients, may be prepared by the canteens run by the hospitals or may be outsourced by the Hospitals from outdoor caterers.	Not Taxable
Supply food to the doctors and their staff	Taxable

Is Rent charged for rooms for patients taxable under GST	Not Taxable
Hospital is renting space for a chemist shop or providing rooms on rent for care takers, then that would attract GST	Taxable
Residential care services for the elderly and persons with disabilities	Not Taxable
Professional Fees Paid to Medical Staff	Not Taxable
Professional Fees Paid to Non Medical Staff	Taxable

Sale of second hand vehicles	Taxable
Food provided by the hospital to the attendant of the patient	Taxable
Revenue shared to Hospital by third parties	Taxable
Entertainment Programme conducted by Institutions	Taxable
Rent recovered for quarters given to staff.	Not Taxable

THANK YOU

Mock-epic

Characteristics of an Epic #1

- An epic is usually defined as a very long poem composed in a lofty style that tells a story on a grand scale.

- Its protagonist, generally a noble hero of national significance, undergoes many adventures that help create a people or a nation.
- Epics employ a vast setting, relating episodes of courage and valor that cover the expanse of continents or sometimes the entire universe.
- Gods and demons often intervene in the action, either by helping or hindering the hero.
- The poet, whether known or not, relates his tale in simple yet elevated language which underscores the poem's serious mood.

Characteristics of an epic #2

- The poem begins in the middle of the action (critics use the Latin term in medias res to describe this convention).
- The poet states his theme early in the poem.

- A muse is invoked to provide inspiration.
- Catalogs of warriors, ships, and enemies make up large passages. These catalogs present different elements of the culture in detail to create the effect that the epic is including the whole world of its action in the poem.
- Principal characters deliver long, formal speeches in a lofty, non-colloquial style.

History of Mock Epics

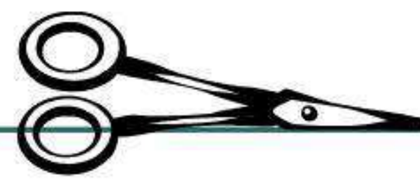
- Became popular in the post-restoration & Augustan periods in England
- In the 17th century, epics and pastoral genres had become exhausted
- Epic genre was heavily criticised, because it expressed traditional values of feudal society
- Among new genres, satirical literature was particularly effective in criticising old habits and values

Mock Epics

- Also known as mock-heroic or heroi-comic
- Typically satires or parodies
- Mock common classical stereotypes of heroes and heroic literature
- Typically, mock-heroic works either put a fool in the role of the hero or exaggerate the heroic qualities to such a point that they become absurd
- Accept same metre, vocabulary & rhetoric of epics

Mock Epic – not really epic

- Normally much shorter than true epics.
- Satirize their subjects instead of extolling them.
- Treat a trivial subject in a lofty fashion to make it appear ridiculous.
- Mock epic uses epic conventions, but instead of describing battles and perilous voyages across deep seas, authors depict card games and suitors vying for advantageous positions in the drawing room.
- Two examples are Pope's Rape of the Lock and Byron's Don Juan.



Definition

Mock-epic (also called mock-heroic or heroi-comic) **is a long narrative poem written in mock-heroic style, intended to be humorous**. More specifically, mock-epic is a parody of the epic style or manner by treating a trivial subject seriously.

- ridicule of subject matter by handling an elevated subject in a trivial manner,
- treatment of a low subject with epic dignity.

- ***Satire*** is a fundamental technique used in all mock-epics. Several literary devices such as, irony, exaggeration, and sarcasm are extensively used to achieve the desired satiric effect.

- During its heyday mock-epic became the favorite genre for a number of notable poets to satirize the contemporary ideas and conditions

Mock-heroic Characteristics:

- A sarcastic tone.
- A trivial or insignificant subject.
- A protagonist with exaggerated heroic qualities such as, stupidity, amorality, etc.
- Mockery of heroic style.

Epic vs. Mock-epic

Sl. no	Epic	Mock-epic
01	Retells an important episode in the life of a hero who embodies the values and ambitions of a particular society.	Relates the exploits of a character who shows individualistic traits that the society does not officially approve of.
02	The hero and major characters hail from upper class or nobility.	The hero is often a commoner, usually from lower social stratum, though sometimes upper class characters are also chosen.
03	Treats a subject which is important and sublime, having a national interest.	Treats an essentially silly or trivial subject infused with personal interest.
04	Intends to narrate the past through the life and heroic deeds of the hero.	Intends to expose the foibles and malpractices of society through the outlandish deeds and actions of the hero.
05	Consists of several volumes and much longer in length.	Consists a fewer volumes and usually much shorter than the traditional epic.

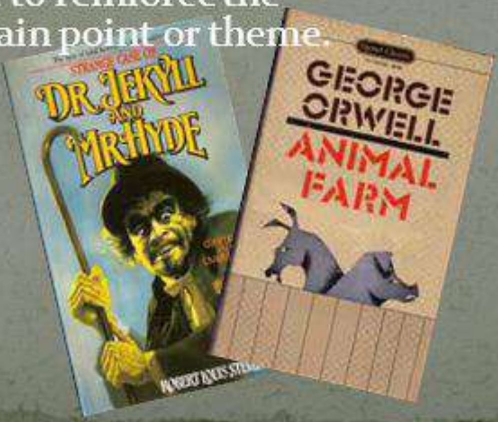
Thanks for your patience…….

Presented by : Prof. Chidananda M Aigali

What is a Novella??????

Novella: A novella is a narrative work of prose fiction longer than a short story but shorter than a novel. While there is some disagreement of what length defines a novella, the most common definition notes the novella as having a word count between 17,500 & 40,000 words or 60 to 130 pages. Common to many European languages, the novella is less common in English.

- ***History of the Novella***:
- As a literary genre (type), the novella's origin lay in the early Renaissance literary work of the Italians & the French. Historically, a novella is a fictional narrative of indeterminate length - a few pages to hundreds – *restricted to a single, suspenseful event, situation or conflict leading to an unexpected turning point, provoking a logical but surprising end.* Novellas tend to contain a concrete symbol, evident throughout the work, which is used to reinforce the narration's main point or theme.



- **Famous Comments on Novellas**:
- ***"The novella is seen as an ill-defined & disreputable literary form due to the difficulties of selling a novella in the commercial publishing world because it does not fit the typical length for either book or magazine publishers"*** -Stephen King
- *"The novella is one of the richest & most rewarding of literary forms…it allows for more extended development of theme & character than does the short story, without making the elaborate structural demands of the full-length book. Thus it provides an intense, detailed exploration of its subject, providing to some degree both the concentrated focus of the short story & the broad scope of the novel"* -Robert Silverberg

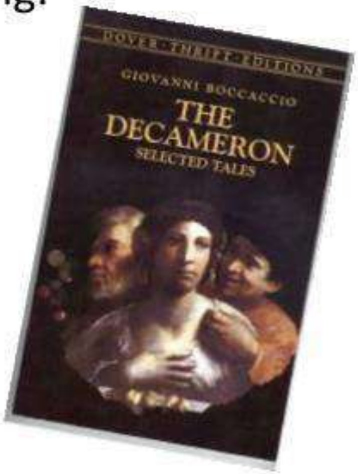
The Novella

It's basically just a short novel.

(Or a long short-story)

The Novella

- *"A short prose tale often characterized by moral teaching or satire"* - http://www.thefreedictionary.com/novella
- The use of the novella was first developed during the early renaissance in Italy and France (1300's).
- Giovanni Boccaccio wrote *The Decameron.*
- Made a literary genre in the late 18th century.
- German's wrote *novellen* (novellas) characterized by one suspenseful event, leading to unexpected turning point, and logical but surprising ending.



A novella is a narrative work that is longer than a short story, but shorter than a novel.

As a form of literature, the novella has a brief yet fascinating history.

History

The novella originated in Renaissance France and Italy as a literary genre.

The original novella, titled The Decameron, was written by an Italian named Giovanni Boccaccio in 1353.

Including a collection of nearly one-hundred novellas, *The Decameron* illustrates the travels of ten young Florentines as they escape from the Bubonic Plague.

History

Sadly enough, the novella was not recognized as a literary genre until the 18th century, when German playwrights formulated regulations and guidelines regarding the novella.

According to the German playwrights, a novella is a "story of indeterminate length focusing specifically on one event or conflict...often these led to a Wendepunkt, an unexpected turning point in the story tale, which resulted in a logical, provocative conclusion."

Characteristics

- between 10 000 and 70 000 words
- a short, concise work of art that allows the author to effectively develop the plot, present themes, and bond with the setting and characters
- fewer conflicts than a novel, but more advanced ones than a short story
- a limited number of principle characters
- no sub-plots or parallel actions
- require very tight/serious diction

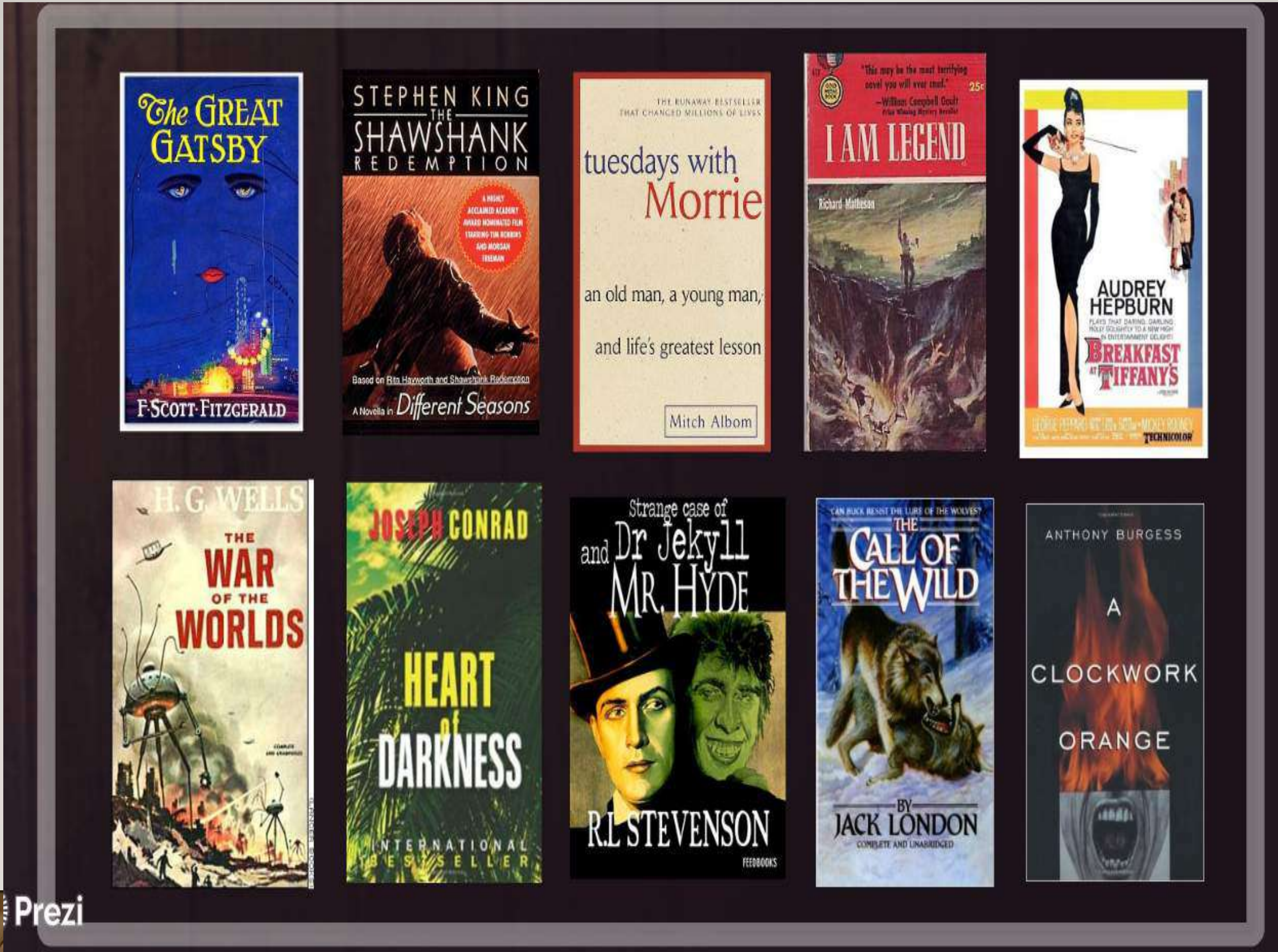
"the novella allows for more extended development of theme and character than does the short story, without making the elaborate structural demands of the full-length book. Thus it provides an intense, detailed exploration of its subject, providing to some degree both the concentrated focus of the short story and the broad scope of the novel."

Length

Short stories: 3,500 - 7,500 Words
Novelettes: 7,500 - 17,000 Words
Novellas: 17,000 - 40,000 Words
Novels: 40,000+ Words

Examples

-Heart of Darkness
-Of Mice and Men
-Breakfast at Tiffany's


The GREAT GATSBY
F·SCOTT·FITZGERALD
STEPHEN KING
THE SHAWSHANK REDEMPTION
Based on Rita Hayworth and Shawshank Redemption
A Novella in Different Seasons
THE RUNAWAY BESTSELLER THAT CHANGED MILLIONS OF LIVES
tuesdays with Morrie
an old man, a young man, and life's greatest lesson
Mitch Albom
I AM LEGEND
Richard Matheson
25¢
AUDREY HEPBURN
BREAKFAST AT TIFFANY'S
TECHNICOLOR
H. G. WELLS
THE WAR OF THE WORLDS
JOSEPH CONRAD
HEART of DARKNESS
INTERNATIONAL BESTSELLER
Strange case of Dr Jekyll and Mr. Hyde
R.L STEVENSON
FEEDBOOKS
CAN BUCK RESIST THE LURE OF THE WOLVES?
THE CALL OF THE WILD
BY JACK LONDON
COMPLETE AND UNABRIDGED
ANTHONY BURGESS
A CLOCKWORK ORANGE
Prezi

Thanks for watching

Presented by :
Prof. Chidananda M Aigali

INTRODUCTION OF ECOLOGY AND ENVIRONMENT

ECOLOGY

- ECOLOGY : IT IS THE BRANCH OF SCIENCE OR BIOLOGY WHICH DEALS WITH THE STUDY OF **"INTERRELATIONSHIPS BETWEEN LIVING ORGANISMS AND NON LINVING ENVIRONMENT".**
- WORD ECOLOGY IS DERIVED FROM **GREEK LANGUAGE** WORD **"OEKOLOGY"**
- IT CONSISTS OF TWO WORDS **1) OIEKOS MEANS HOME OR NATURE 2) LOGOS MEANS STUDY**
- ECOLOGY OR OEKOLOGY MEANS STUDY OF

- ECOLOGIST "**ERNST HAECKEL**" GAVE A MOST CONVENIENT DEFINITION TO ECOLOGY.
- ECOLOGIST "**E.P.ODUM**" WAS KNOWN AS THE FATHER OF ECOLOGY.
- FATHER OF INDIAN ECOLOGY WAS KNOWN AS " **RAMDEO MISRA**"
- HISTORY OF ECOLOGY WAS PRESENT FROM THE **PREHISTORIC PERIOD OF VEDAS TIME.**
- ACCORDING TO ECOLOGISTS **FIVE PILLERS OF THE NATURE (PANCHAMAHABHUTAS)** WERE PLAY AN IMPORTANT ROLE IN THE ECOLOGY.

TWO TYPES OF ECOLOGY MAINLY BASED ON THE LEVEL OF ORGANIZATION

Autecology

- It is also known as Individual ecology.
- Here, study of individual species of population takes place.
- It has self dependent relationship with environment.
- Ex: study of Tree Population.

Synecology

- It is also known as Community ecology.
- Here, Study of group of individuals with different species.
- It has interdependent relationship with environment.
- Ex: study of Forest biome.

OTHER TYPES OR FIELDS OF ECOLOGY

a. HABITAT ECOLOGY
b. ECOSYSTEM ECOLOGY
c. PALEOECOLOGY ECOLOGY
d. CYTOECOLOGY ECOLOGY
e. CONSERVATION ECOLOGY
f. PRODUCTION ECOLOGY ETC…

ECOLOGICAL HIERARCHY

- ARRANGEMENT AND ORGANISATION OF ORGANISMS IN DIFFERENT LEVELS OF ECOLOGY IS CALLED ECOLOGICAL HIERARCHY.
- THERE 6 LEVELS ARE THERE IN ECOLOGICAL HIERARCHY ARE AS BELOW.

BIOSPHERE

↑

BIOME

↑

ECOSYSTEM

↑

COMMUNITY

↑

POPULATION

ENVIRONMENT

- ENVIRONMENT: IT'S **IRREGULAR LAYER OF NATURAL SURROUNDING PRESENT ARROUND US** IS CALLED ENVIRONMENT. IT CONSISTS BOTH LIVING AND NON-LIVING THINGS IN IT.
- WORD ENVIRONMENT IS DERIVED FROM THE **FRENCH** LANGUAGE WORD ENVIRONIA MEANS "**SURROUNDING**"
- IT'S PROTECTED BY " **THE ENVIRONMENT PROTECTION ACT - 1986** "
- **ENVIRONMENT IS DIVIDED INTO FOUR DISTINCT ZONES** OR LAYERS ARE AS BELOW.

1. ATMOSPHERE
2. HYDROSPHERE
3. LITHOSPHERE
4. BIOSPHERE

SEVERAL FACTORS WHICH ARE INFLUENCE AND AFFECTS THE ENVIRONMENT ARE CALLED ECOLOGICAL FACTORS.

MAINLY **4 TYPES** OF ECOLOGICAL FACTORS ARE AS FOLLOWS

1. CLIMATIC FACTORS

AIR OR ATMOSPHERE

LIGHT

TEMPERATURE

PRECIPITATION

HUMIDITY ETC...

2. EDAPIC FACTORS

COMPOSITION OF SOIL

3. TOPOGRAPHIC FACTORS

CONFIGURATION OF EARTH SURFACE

ALTITUDES AND LATITUDES

DIRECTIONS OF MOUNTAIN RANGES

4. BIOTIC FACTORS

INTERELATIONAHIPS BETWEEN THE PLANTS, ANIMALS, MICROBES AND HUMANS

HUMAN ACTIVITIES ON THE ENVIRONMENT

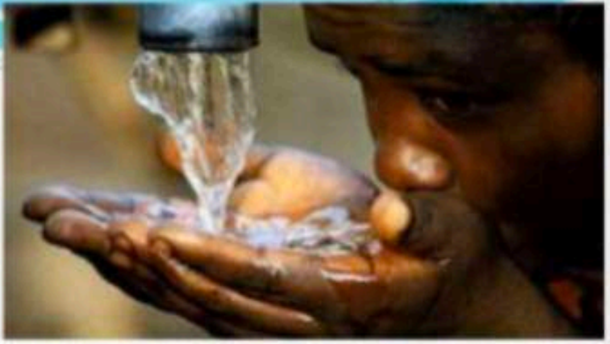
THANK YOU

WATER

What is Water?

- **Definition:**
  - A colourless, transparent, odourless, liquid which forms the seas, lakes, rivers, and rain and is the basis of the fluids of living organisms.
  - If earth's map is observed keenly, it is found that most of the area is blue in color, indicating the presence of water.
  - About 71% of earth's surface is covered with water. Water is present in oceans, seas, lakes, rivers, ice caps, as ground water and in the atmosphere.

❑Introduction

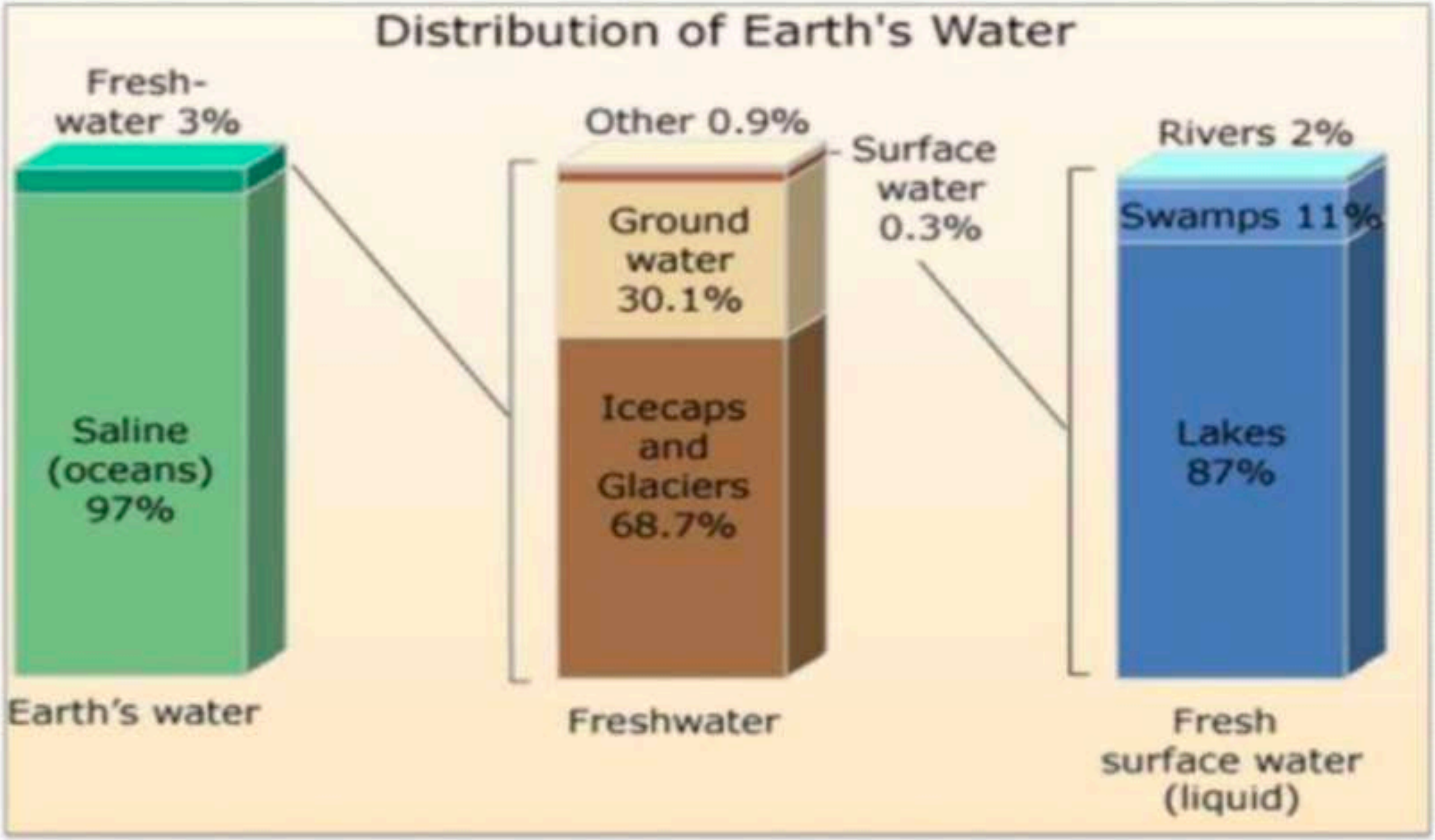


- Water is a vital natural resource which forms the basis of all life.
- It is one of the marvelous gift to us.
- About 70% of the human body is water.
- The bodies of all plants and animals contain water.
- It has be estimated that the total water contained on earth is about 1385.5×10^6.

❑About water

- 97% of the water on the Earth is salt water. However, only 3% percent is fresh water; slightly over 2/3 of this is frozen in glaciers and polar ice caps.
- The remaining unfrozen freshwater is found mainly as groundwater, with only a small fraction present above ground or in the air.
- On the surface of earth 71% is covered by seas and oceans and remaining 29% is occupied by land.
- Fresh water is a renewable resource.

Distribution of water on earth



Uses of water

The uses of water include:

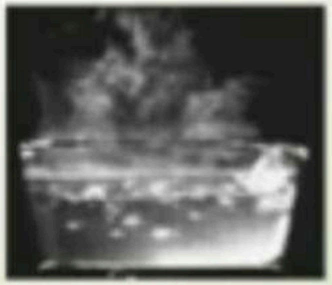
1. ***Domestic use***: Drinking, cooking, washing, bathing, flushing of toilets, gardening etc.
2. ***Public Purposes***: Cleaning streets, purposes like swimming pools, public fountains, ornamental ponds, fire protect and public parks.
3. ***Industrial Purpose***: Processing and Cooling.
4. *Agriculture Purpose*: Irrigation
5. ***Power Production***: from hydropower and steam power
6. ***Carrying of waste***: through drainage.

Sources of water supply

There are three main sources of water

1. Rain water
2. Surface water
   - Impounding reservoir
   - Rivers and streams
   - Tanks, ponds and takes
3. Ground water
   - Shallow wells
   - Deep wells
   - Springs

States of water

- Solid state of water is :  ice
- Liquid state of water is :  water
- Gas state of water is :  vapour

$$\text{Solid} \underset{\text{Freezing}}{\overset{\text{Melting}}{\rightleftarrows}} \text{Liquid} \underset{\text{Condensation}}{\overset{\text{Evaporation}}{\rightleftarrows}} \text{Gas}$$

Solid Water Form

- **Solid Water:**
  - When water freezes, its molecules move further apart, making ice less dense than water.
  - Water freezes at 0° Celsius, 32° Fahrenheit. Celsius is scale that measures temperature.
  - This means that ice will be lighter than the same volume of water, and so ice will float in water.
  - Ice, snow, icicles, ice on a skating rink and frost are examples of water in the solid state.

Liquid Water Form

Liquid Water:

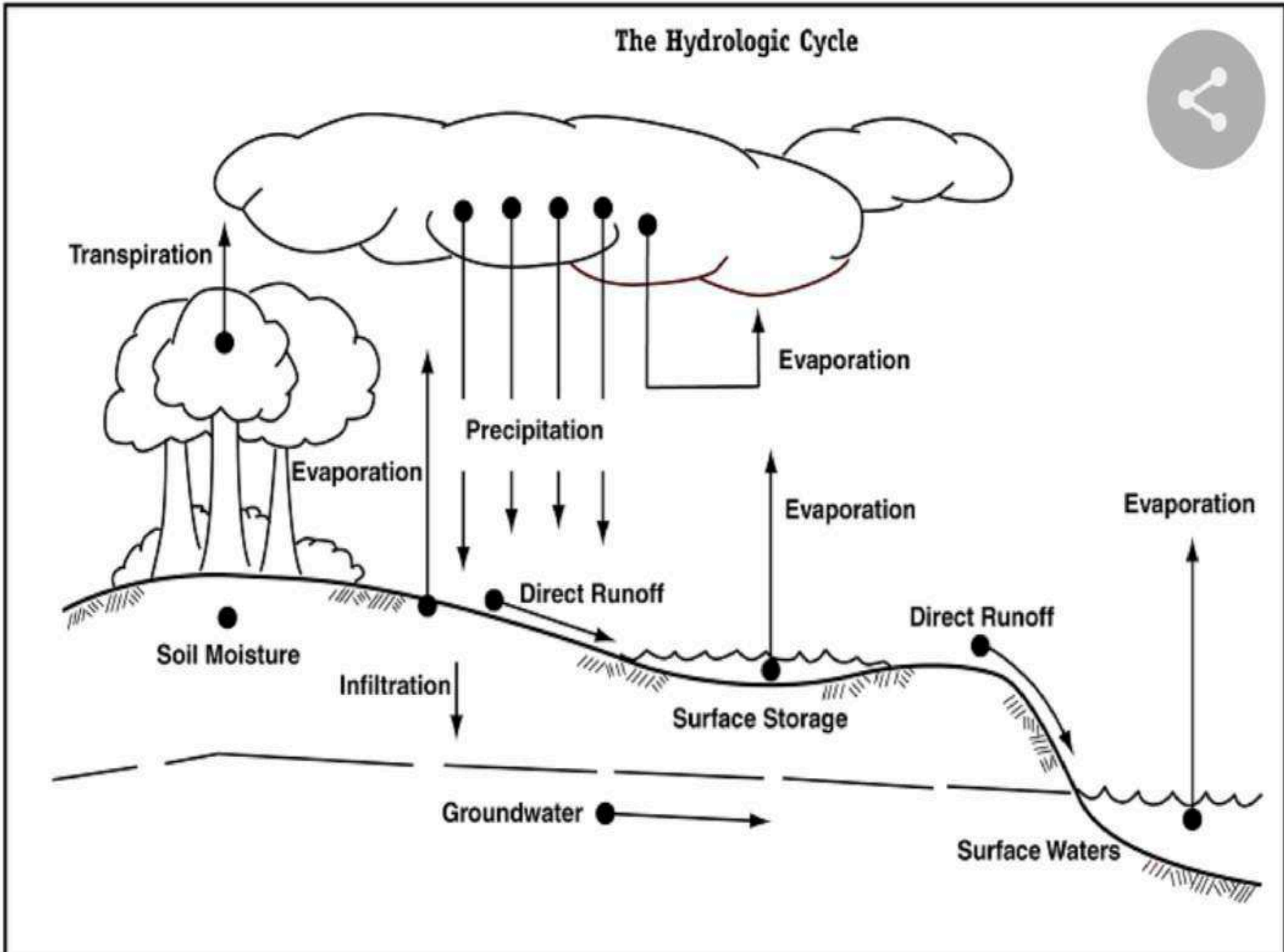
- **Liquid water** is wet and fluid.
- We use liquid water in many ways, including washing and drinking.
- Pure liquid water is free of salt, rocks, soil, and garbage.
- The formation of hydrogen bonds is an important quality of liquid water that is crucial to life.
- In liquid water, hydrogen bonds are constantly formed and broken as the water molecules slide past each other.
- The breaking of these bonds is caused by the motion (kinetic energy) of the water molecules due to the heat contained in the system.

Gas Water Form

- **Gas Water:**
  - Vapor is always present in the air around us. You cannot see it.
  - When you boil water, the water changes from a liquid to a gas or water vapor.
  - As some of the water vapor cools, we see it as a small cloud called steam. This cloud of steam is a miniversion of the clouds we see in the sky.
  - At sea level, steam is formed at 100° Celsius, 212° Fahrenheit.

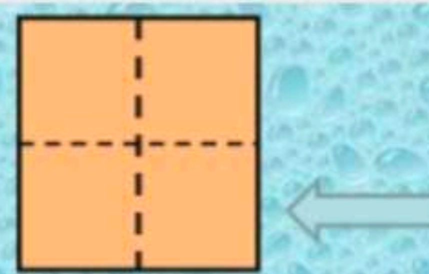
THE WATER CYCLE

is the process by which water travels in a sequence from the air (condensation) to the earth (precipitation) and returns to the atmosphere (evaporation).



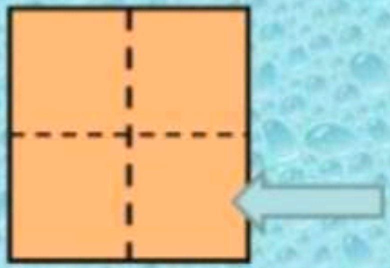
The Hydrologic Cycle
Transpiration
Evaporation
Precipitation
Evaporation
Evaporation
Evaporation
Direct Runoff
Direct Runoff
Soil Moisture
Infiltration
Surface Storage
Groundwater
Surface Waters

Stage 1 : Evaporation

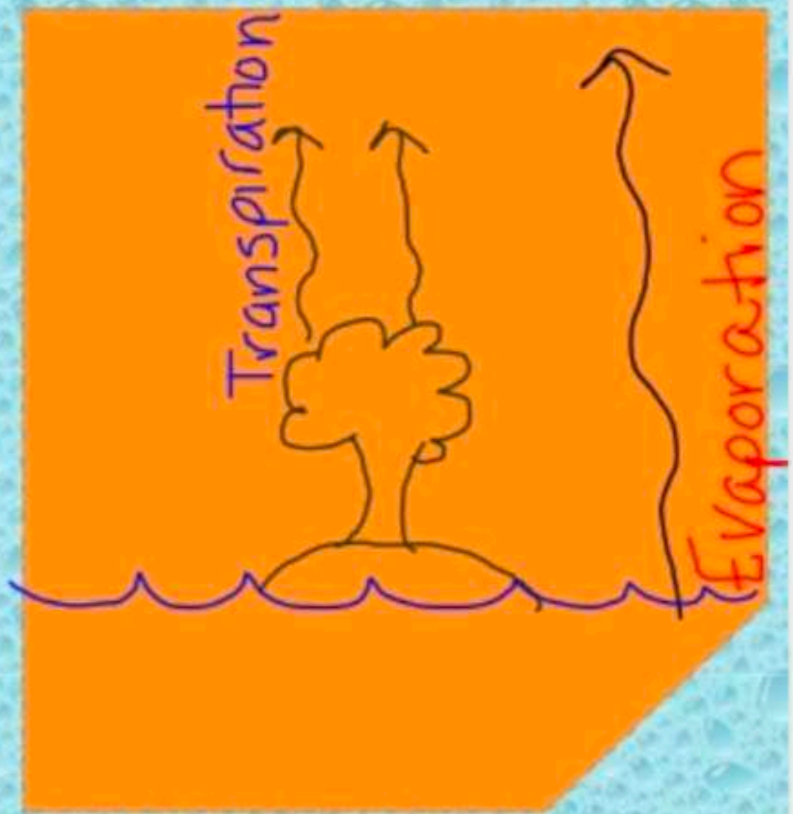


- Evaporation is the process where liquid changes to vapor form.
- Evaporation turns the water that is on the surface of oceans, rivers, & lakes into water vapor using energy from the sun.

Stage 1 : Transpiration

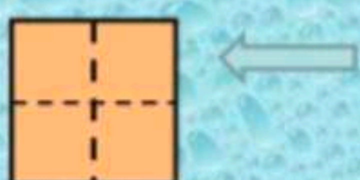


- Transpiration is the process when water evaporates from plants.
- Plants lose water through their stems, leaves, and roots.
- A fully grown tree may lose several hundred gallons of water through its leaves on a hot, dry day.



Stage 2: Condensation

- Condensation is the process by which water vapor in the air is changed into liquid water.
- The water vapor rises in the atmosphere and cools, forming tiny water droplets by a process called condensation.
- Those water droplets make up clouds.

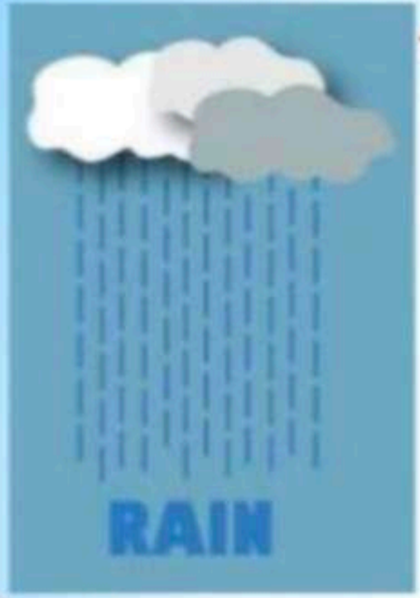


Stage 3: Precipitation

- Those water droplets that CONDENSE make up clouds. If those tiny water droplets combine with each other they grow larger and eventually become too heavy to stay in the air. Then they fall to the ground as rain, snow, and other types of precipitation.

PRECIPITATION

- The action or process of precipitating a substance from a solution.



* **Rain-** moisture condensed from the atmosphere that falls visibly in s

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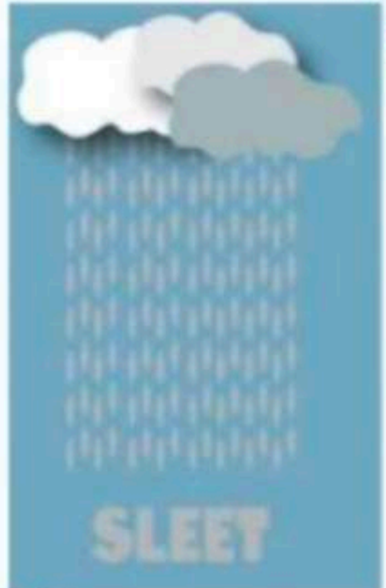


* **Sleet**-a form of precipitatio n consisting of ice pellets, often mixed w or

s

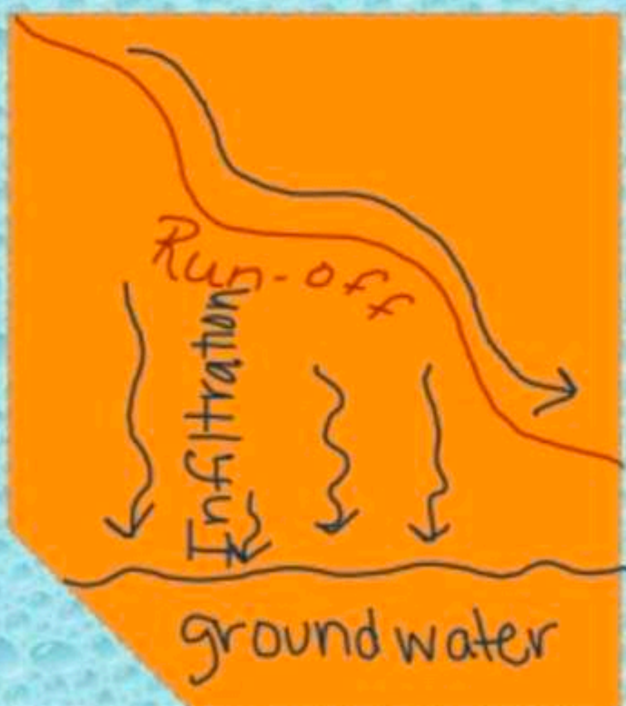
* **Snow-** atmospheric water vapor frozen into ice crystals and falling in light white flakes or lying on the ground as

* **Hail-** pellets of frozen rain that fall in showers from cumulonim bus

Stage 4: Runoff

- <u>The variety of ways by which water moves across the land.</u>
- As it flows, the water may seep into the ground, evaporate into the air, become stored in lakes or reservoirs, or be extracted for agricultural or other human uses.

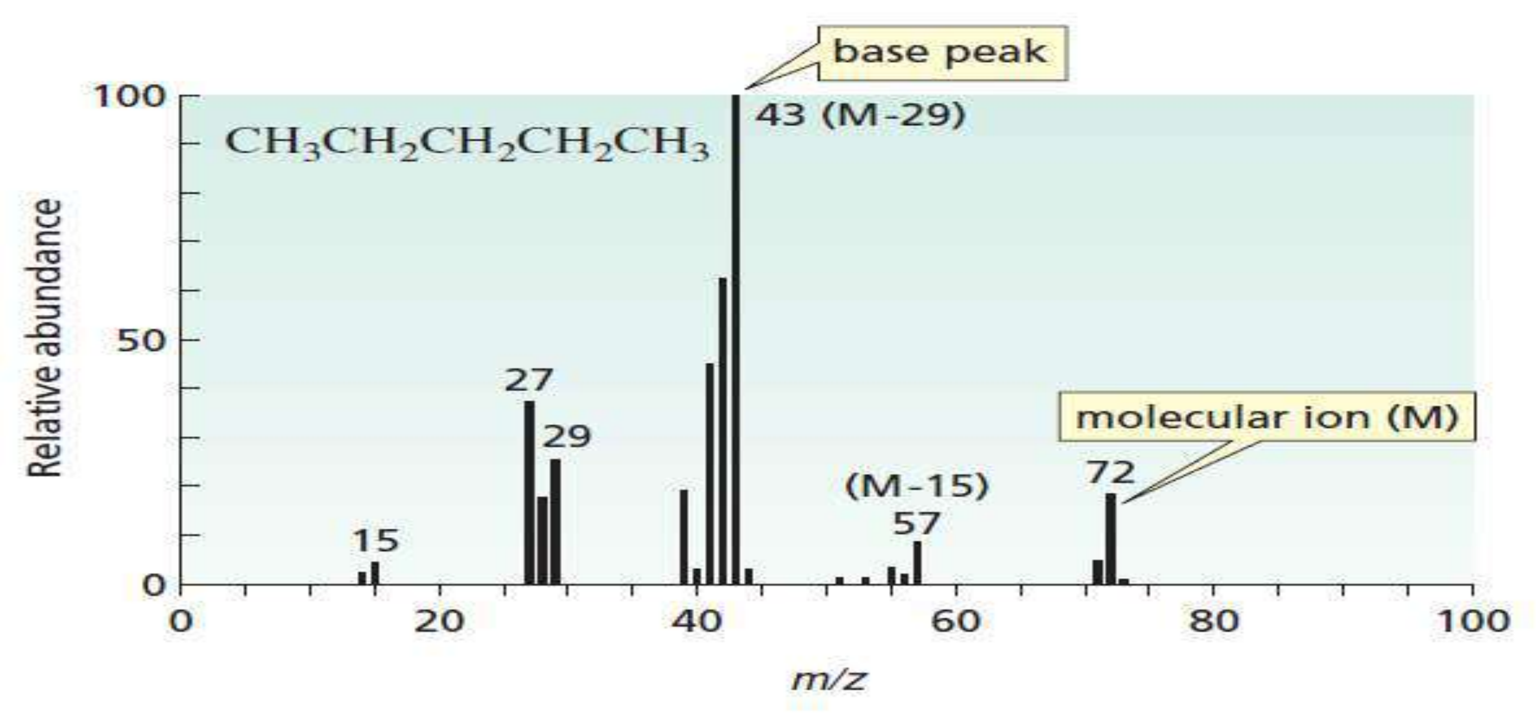
Stage 4: Infiltration



- Some of the precipitation seeps into the ground and becomes a part of the groundwater.
- <u>Infiltration is the process by which runoff soaks into the ground.</u>

THANK YOU

MASS SPECTROMETRY



DEPARTMENT OF CHEMISTRY

CONTENTS

- Introduction to spectroscopy
- Introduction to mass spectroscopy
- Basic principle
- Instrumentation
- Ionisation techniques
- Parent peak and base peak
- McLafferty rearrangement with respect to butyraldehyde

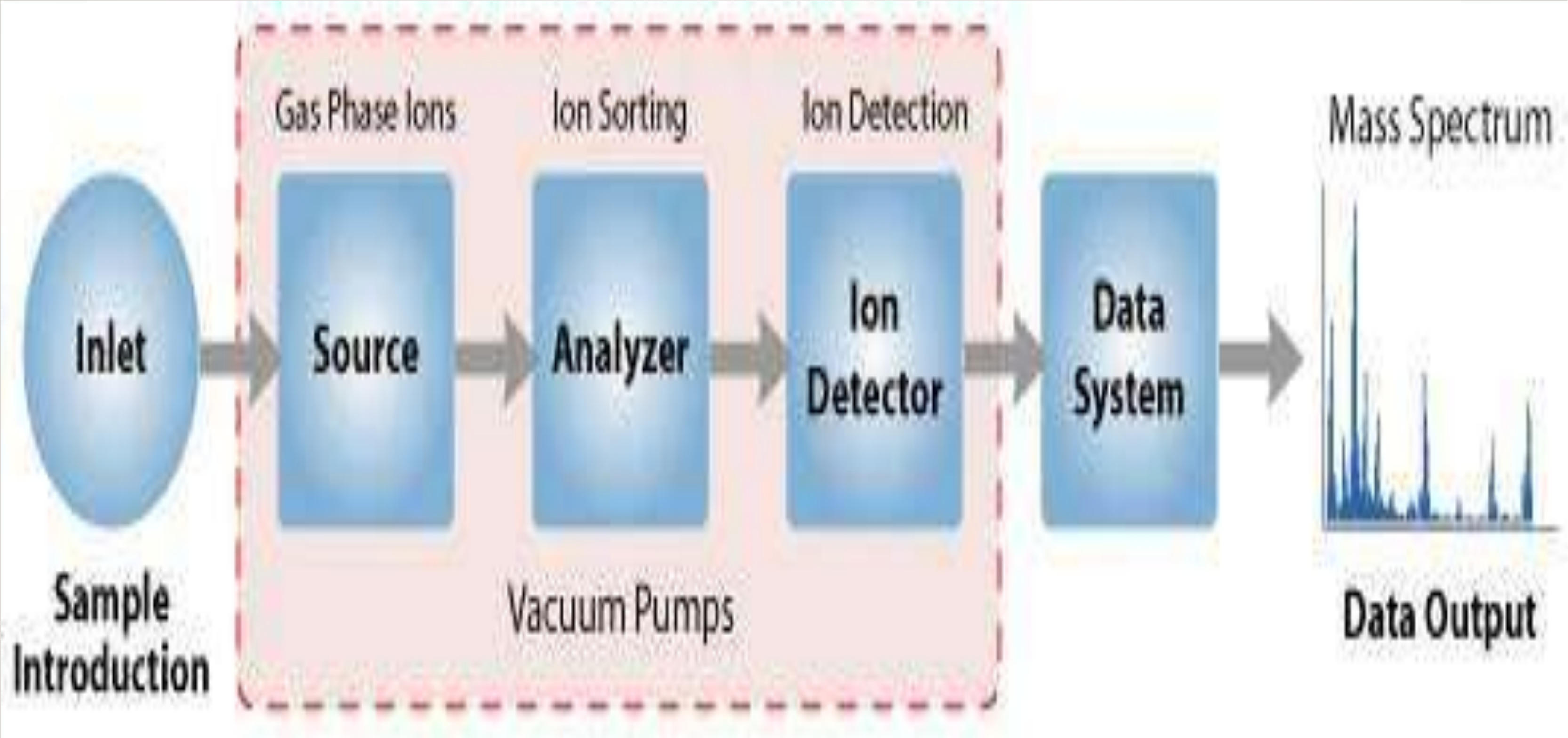
What is Spectroscopy?

Spectroscopy is the study of interaction of matter with the electromagnetic radiation. Spectroscopic data is often represented by the spectrum

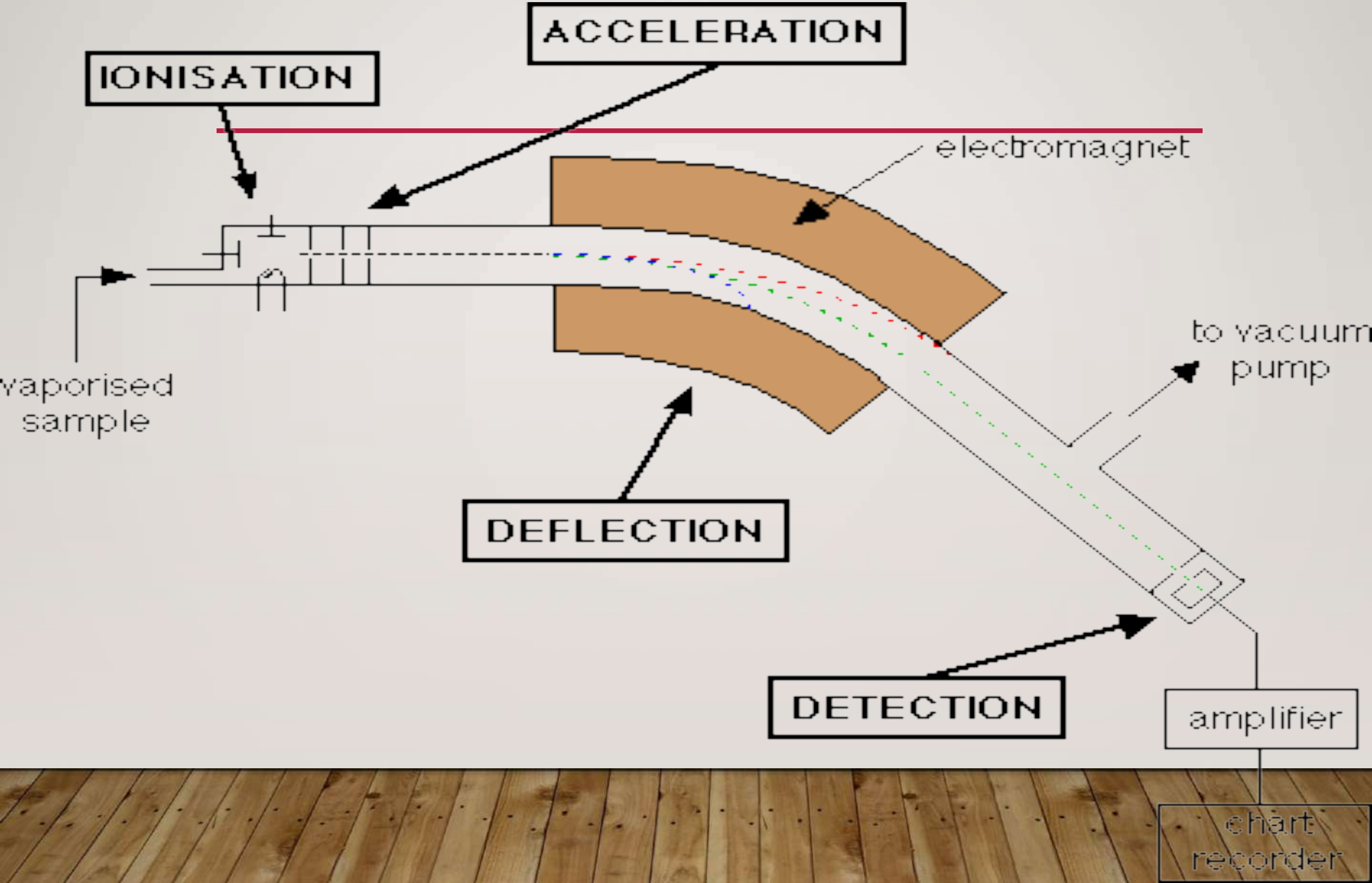
INTRODUCTION TO MASS SPECTROSCOPY

Mass spectroscopy (MS) is an analytical chemistry technique that helps identify the amount and type of chemicals present in a sample by measuring the mass-to charge ratio and abundance of gas-phase ions. A mass spectrum (plural spectra) is a plot of the ion signal as a function of the mass-to- charge ratio

THE INSTRUMENT CONSISTS OF THREE MAJOR COMPONENTS

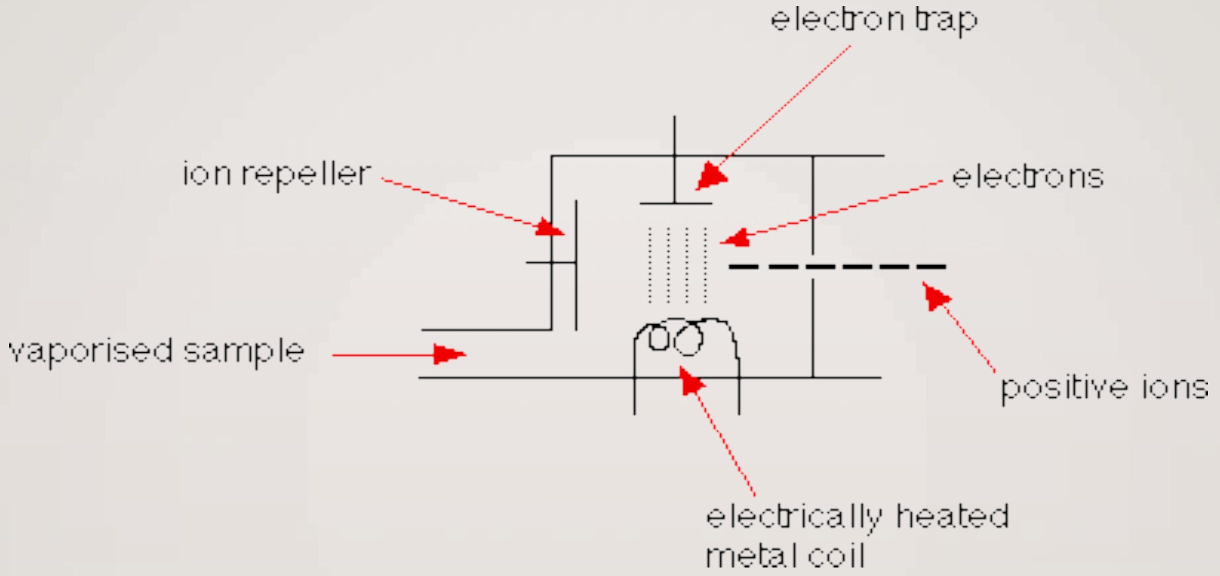


INSTRUMENT


ACCELERATION
IONISATION
electromagnet
to vacuum
pump
vaporised
sample
DEFLECTION
DETECTION
amplifier
chart
recorder

Ionization

❖ The atom is ionized by knocking one or more electrons off to give a positive ion. (Mass spectrometers always work with positive ions).



❖The particles in the sample (atoms or molecules) are bombarded with a stream of electrons to knock one or more electrons out of the sample particles to make positive ions.

❖ Most of the positive ions formed will carry a charge of +1.

❖ These positive ions are persuaded out into the rest of the machine by the ion repeller which is another metal plate carrying a slight positive charge.

Ionisation of molecule

1. Ionisation by electron impact using 70 MeV Electrons:

$$\underset{\text{Neutral molecule}}{M} + e^- \longrightarrow \underset{\text{Odd electron ion}}{M^+} + 2\,e^-$$

2. Ionisation by Electron attachment:

$$\underset{\text{Neutral molecule}}{M} + e^- \longrightarrow \underset{\text{Negative ion}}{M^-}$$

3. a) Chemical ionisation (conversation to an ion by proton transfer)

$$CH_4 + e^- \longrightarrow CH_4^+ + 2\,e^-$$

$$CH_4 + M \longrightarrow MH^+ + \dot{C}H_3$$

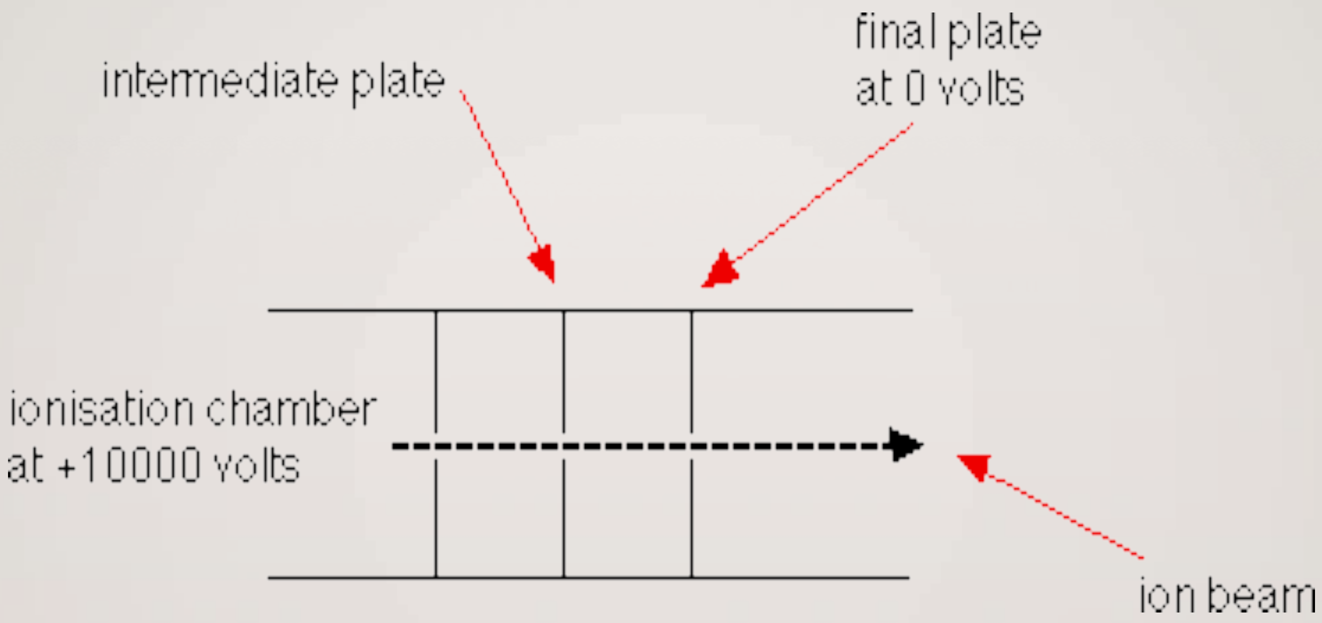
b) Chemical ionisation (conversation to an ion by electron transfer)

$$M_1 + e^- \longrightarrow M_1^+ + 2\,e^-$$

$$M_1^+ + M_2 \longrightarrow M_2^+ + M_1$$

Acceleration

❖ The ions are accelerated so that they all have the same kinetic energy.



❖The positive ions are repelled away from the positive ionisation chamber and pass through three slits with voltage in the decreasing order.

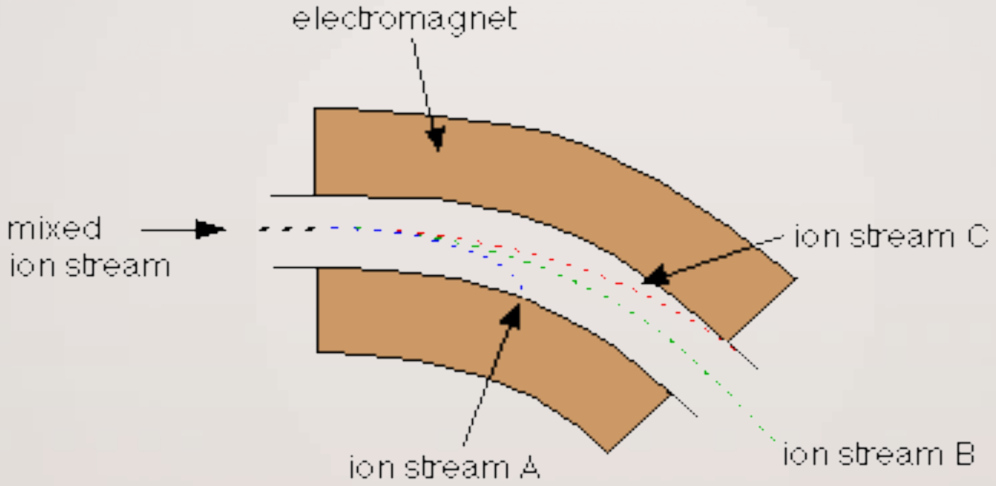
❖The middle slit carries some intermediate voltage and the final at 0 volts.

❖All the ions are accelerated into a finely focused beam.

Deflection

❖ The ions are then deflected by a magnetic field according to their masses. The lighter they are, the more they are deflected.

❖ The amount of deflection also depends on the number of positive charges on the ion -The more the ion is charged, the more it gets deflected.



❖Different ions are deflected by the magnetic field by different amounts. The amount of deflection depends on:

❖***The mass of the ion***: Lighter ions are deflected more than heavier ones.

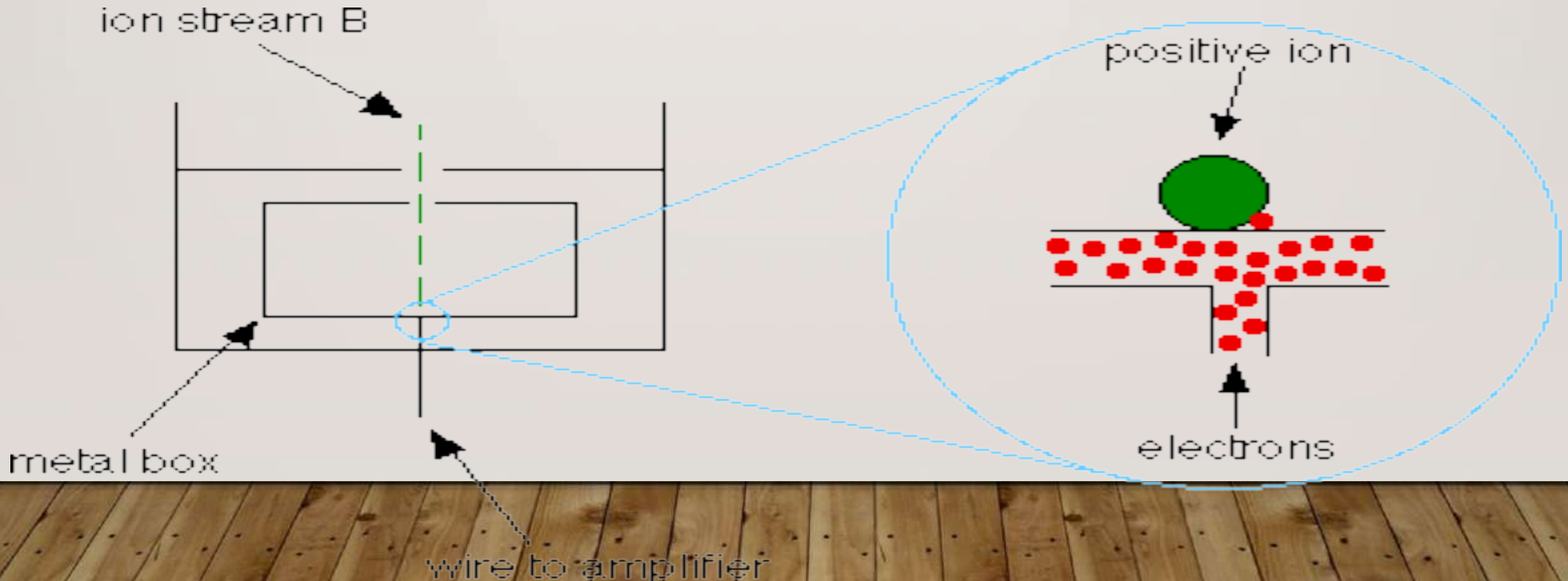
❖***The charge on the ion***: Ions with 2 (or more) positive charges are deflected more than ones with only 1 positive charge.

ANALYZER

WHEN THE ION STREAM REACHED THE DETECTOR THE HIT A WIRE. ON HITTING THE WIRE THEY BECOME NEUTRALISED BY AN ELECTRON JUMPING FROM THE METAL WIRE TO THE ION.

THE AMPLIFIER PICKS UP ON THIS CURRENT BEING CREATED BETWEEN THE WIRE AND THE ION AND AMPLIFIES THE SIGNAL BEING DETECTED.

THE COMPUTER PICKS UP ON THIS AND CONVERTS IT TO MASS/CHARGE RATIO AND A SPECTRUM IS PRODUCED.



Molecular ion peak: Molecular weight of the compound

$$\underset{\text{molecule}}{M} \xrightarrow{\text{electron beam}} \underset{\substack{\text{molecular ion}\\ \text{a radical cation}}}{M^{\cdot+}} + \underset{\text{electron}}{e^-}$$

Base Peak

The **base peak** is the peak with the greatest intensity, due to its having the greatest relative abundance. The base peak is assigned a relative intensity of 100%, and the relative intensity of each of the other peaks is reported as a percentage of the base peak. Mass spectra can be shown either as bar graphs or in tabular form.

The way a molecular ion fragments depends on the strength of its bonds and the stability of the fragments.

Mass spectrum of Methane

$$CH_4^{+\cdot} \longrightarrow {}^{+}CH_3 + H\cdot$$

mass = 16   methyl cation mass = 15

$${}^{+}CH_3 \longrightarrow {}^{+\cdot}CH_2 + H\cdot$$

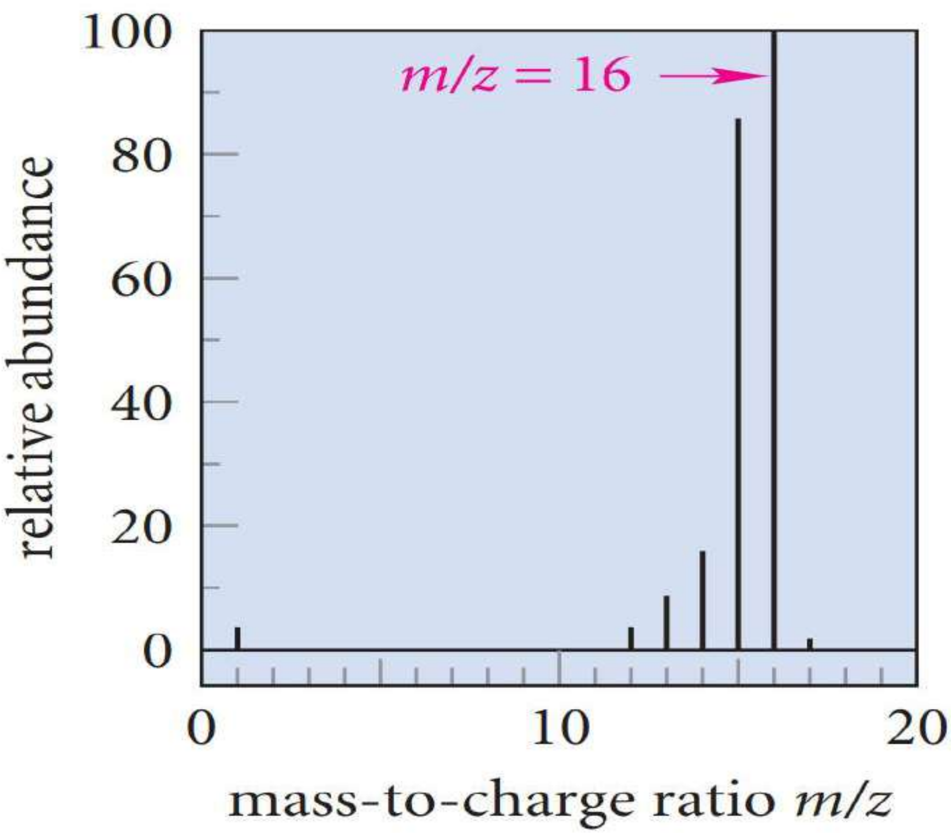
mass = 14

$${}^{+\cdot}CH_2 \longrightarrow {}^{+}CH + H\cdot$$

mass = 13

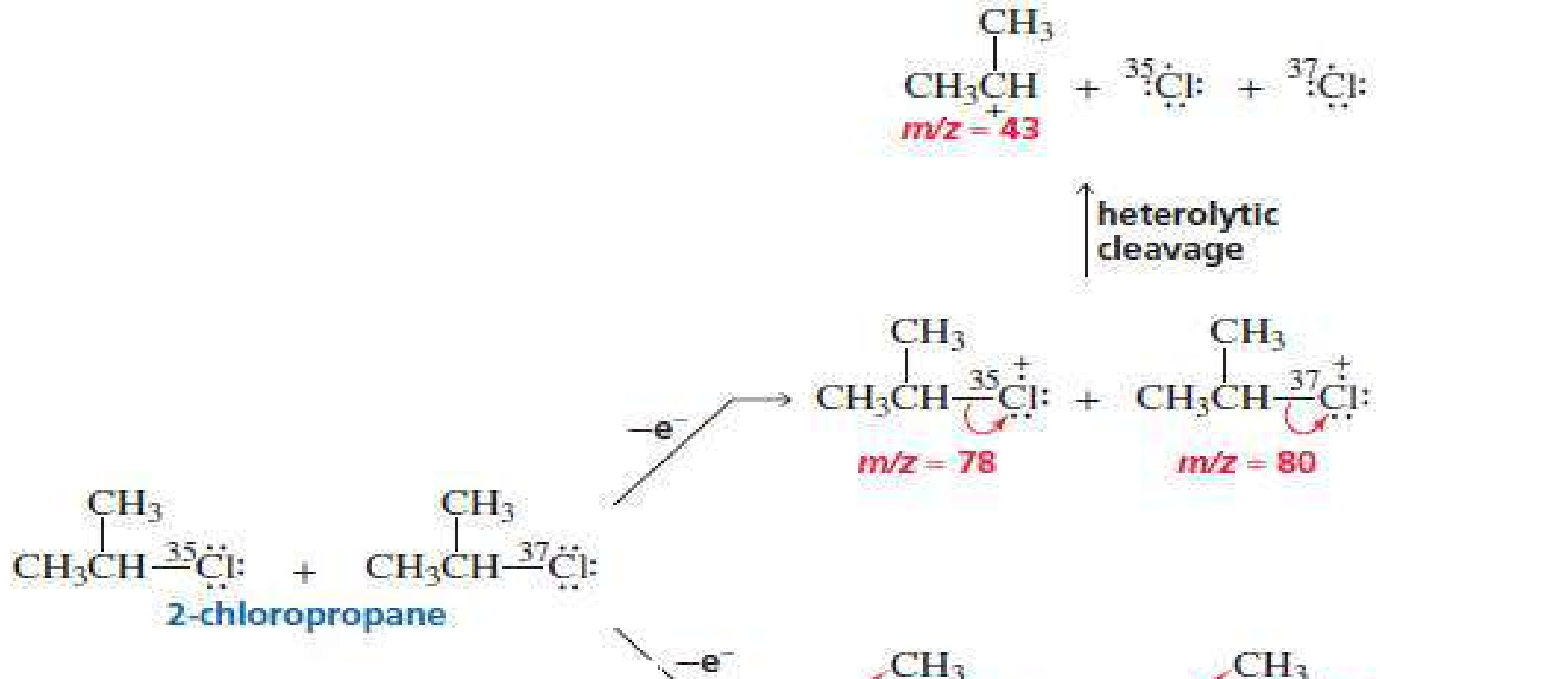
$${}^{+}CH \longrightarrow C^{+\cdot} + H\cdot$$

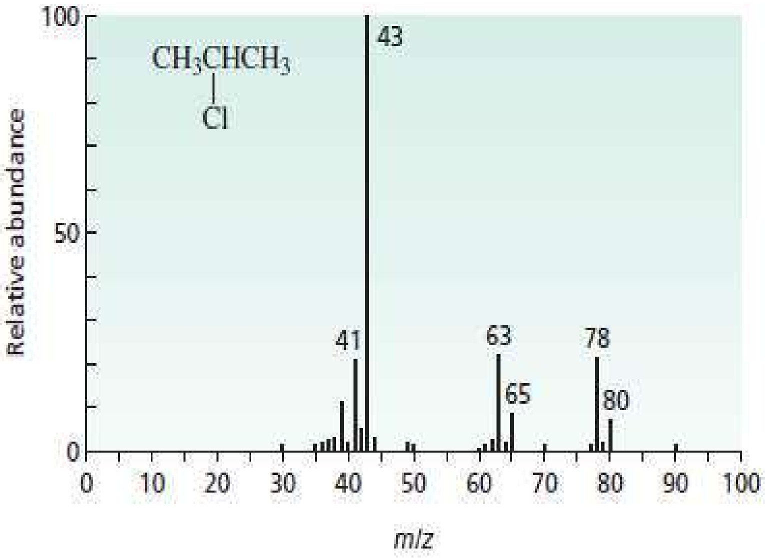
mass = 12



m/z	relative abundance
1	3.36
12	2.80
13	8.09
14	16.10
15	85.90
16	100.00 (base peak)
17	1.17

The Mass spectrum of 2-Chloropropane





Mass spectrum of Acetone

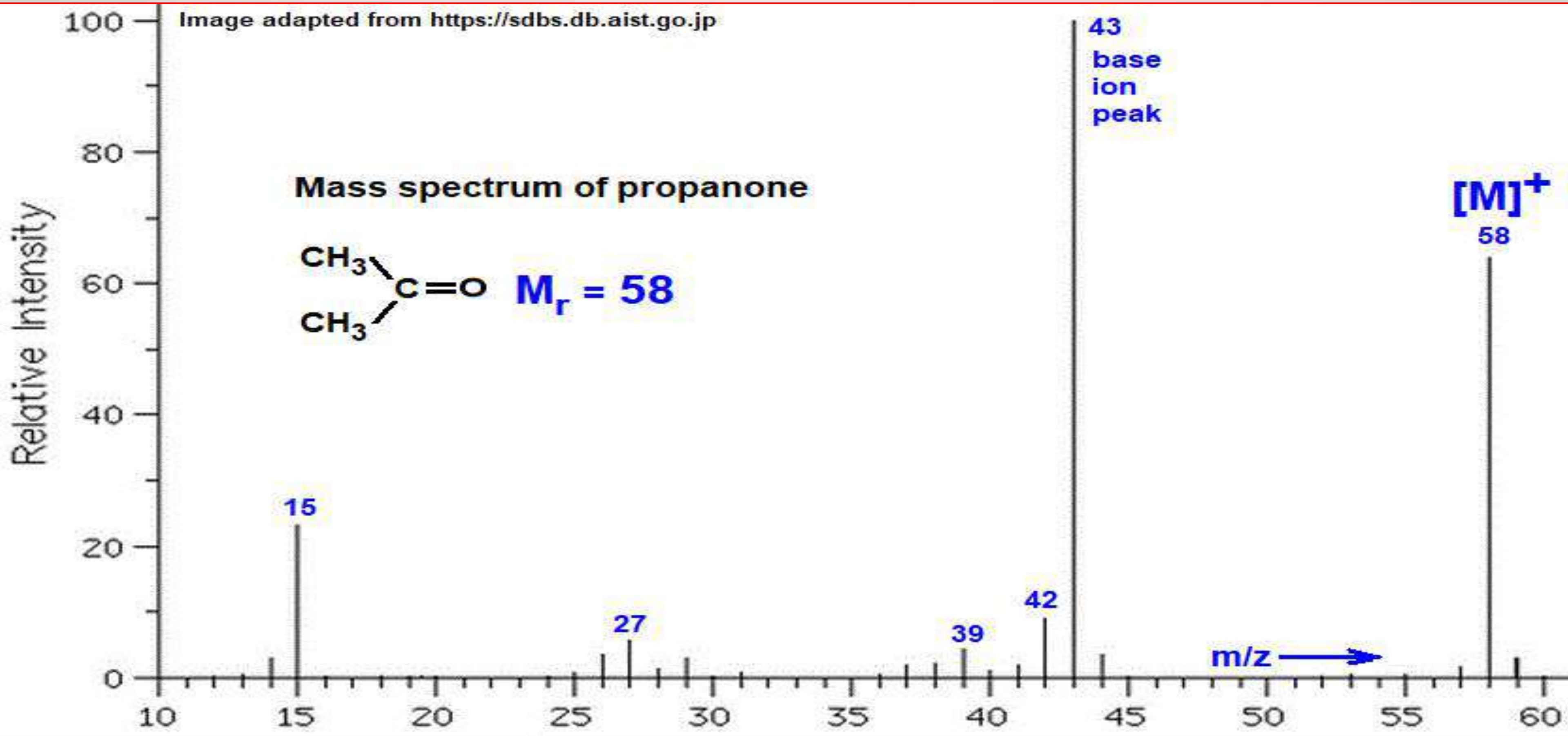
Equations to explain the most abundant ion peaks of propanone

Formation of m/z 43 ion: $[CH_3COCH_3]^+$ ===> $[CH_3CO]^+$ + CH_3

The m/z 43 ion is the base peak, the most abundant ion fragment.

This can lose a proton to give $[CH_2CO]^+$.

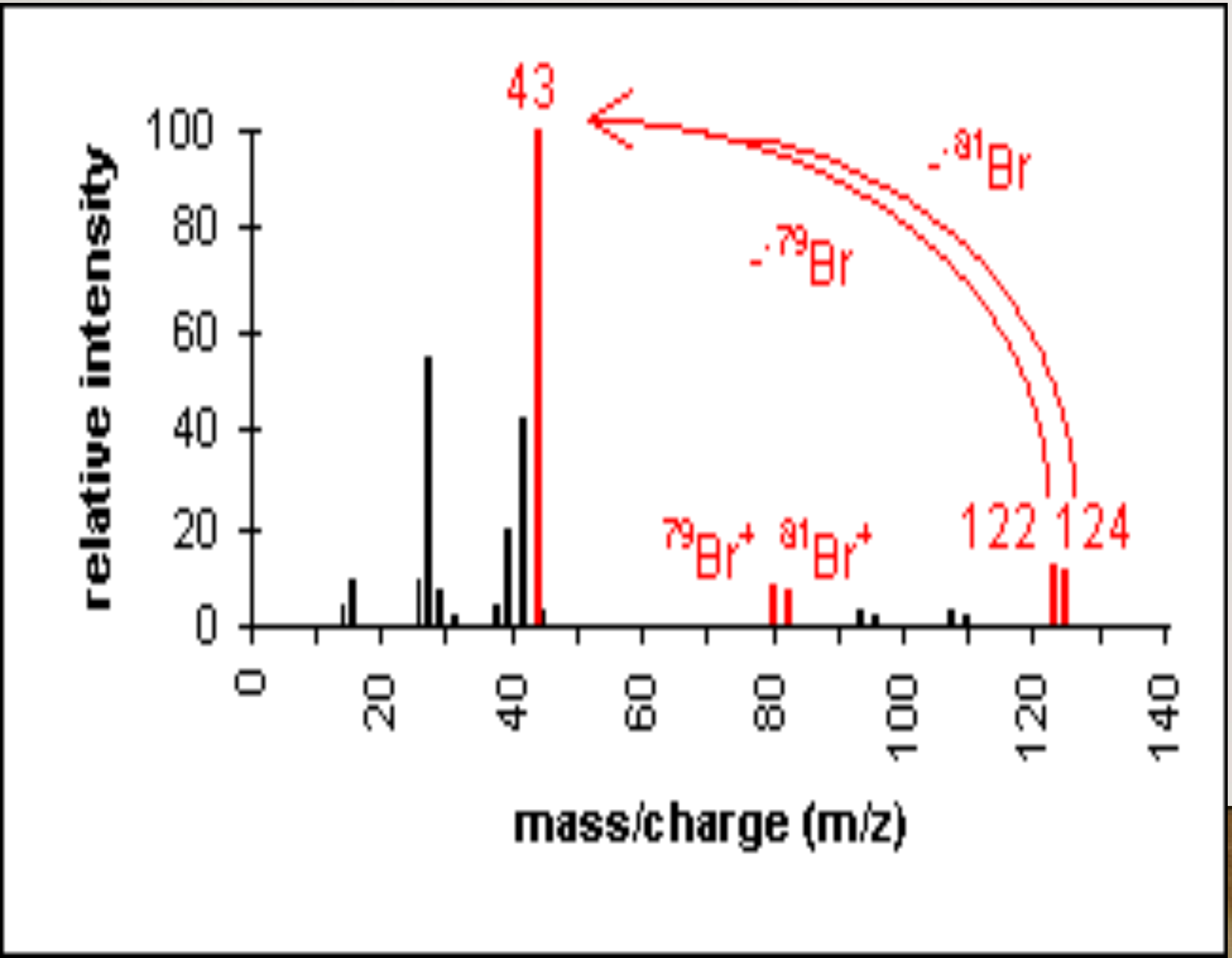
~~Formation of m/z 15 ion: $[CH_3COCH_3]^+$ ===> $[CH_3]^+$ + CH_3C~~

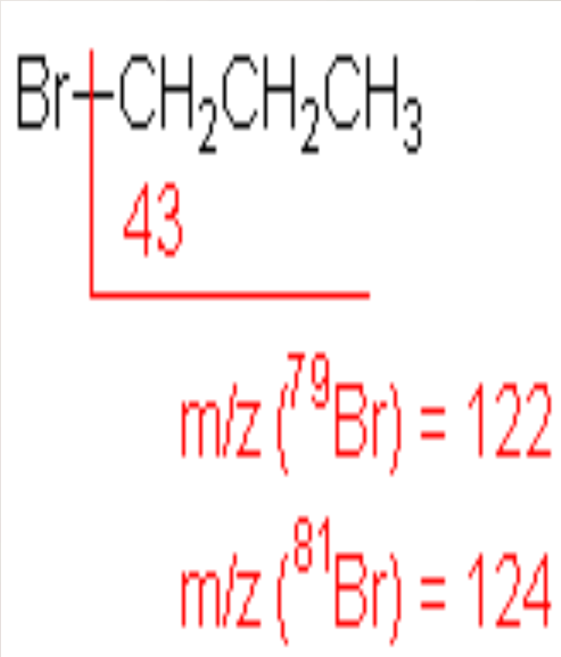


HALIDE

The presence of chlorine or bromine atoms is usually recognizable from isotopic peaks.

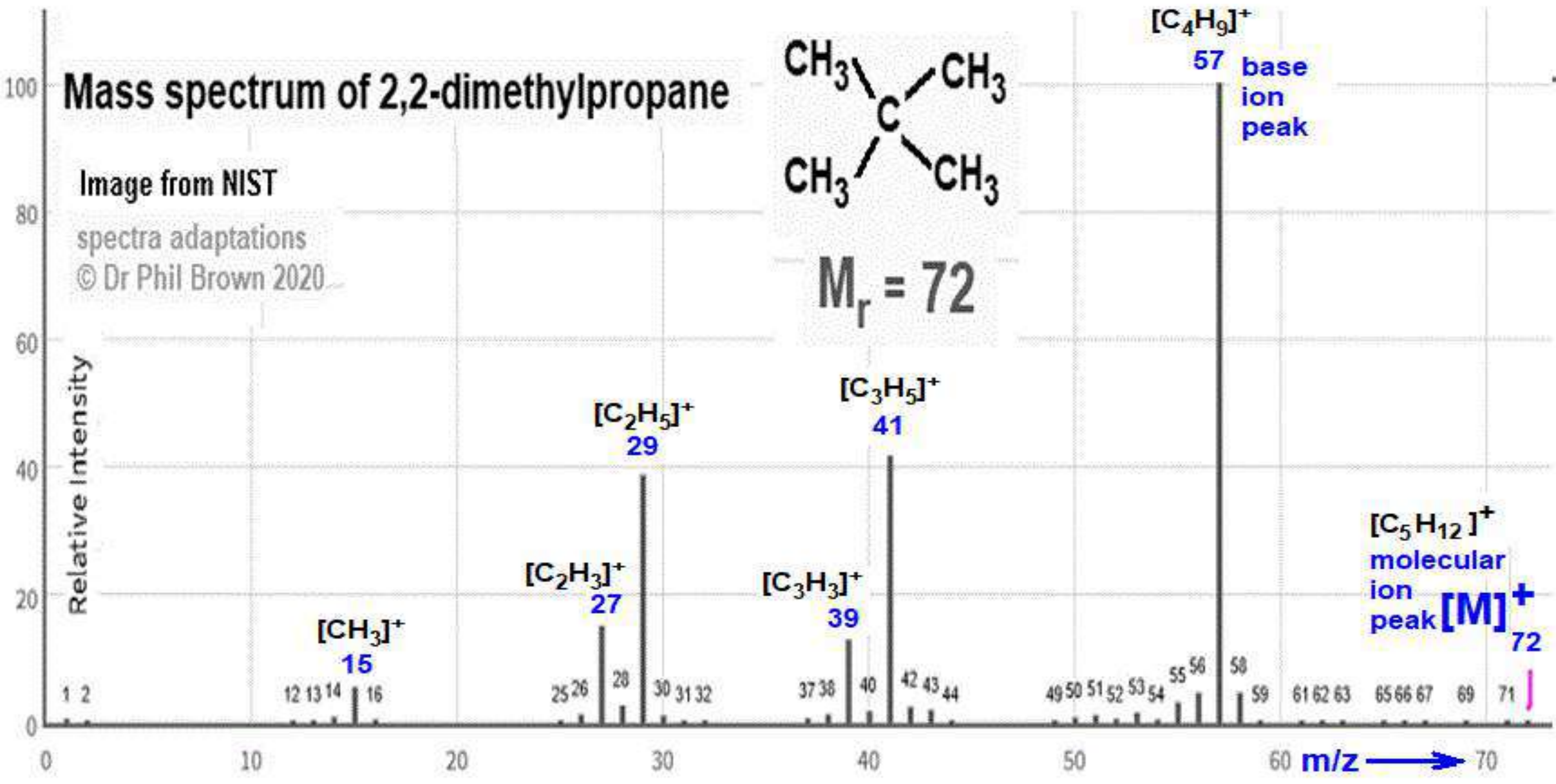
1-Bromopropane (C_3H_7Br) with MW = 123.00





Mass spectrum of Neopentane

m/z value of [fragment]$^+$	**57**	41	39	29	27	15
[molecular fragment]$^+$	**$[C(CH_3)_3]^+$**	$[C_3H_5]^+$	$[C_3H_3]^+$	$[C_2H_5]^+$	$[C_2H_3]^+$	$[CH_3]^+$



Formation of m/z 57 ion:

$[C(CH_3)_4]^+$ ===> $[C(CH_3)_3]^+$ + CH_3

C-C bond scission in the parent molecular ion, mass change 72 - 15 = 57.

The m/z 57 ion is the base peak ion, the most abundant and 'stable' ion fragment, formed by loss of a methyl group from the parent molecular ion.

Note that it is a tertiary carbocation - extra stability from the +I effect of the three methyl groups.

Formation of m/z 15 ion:

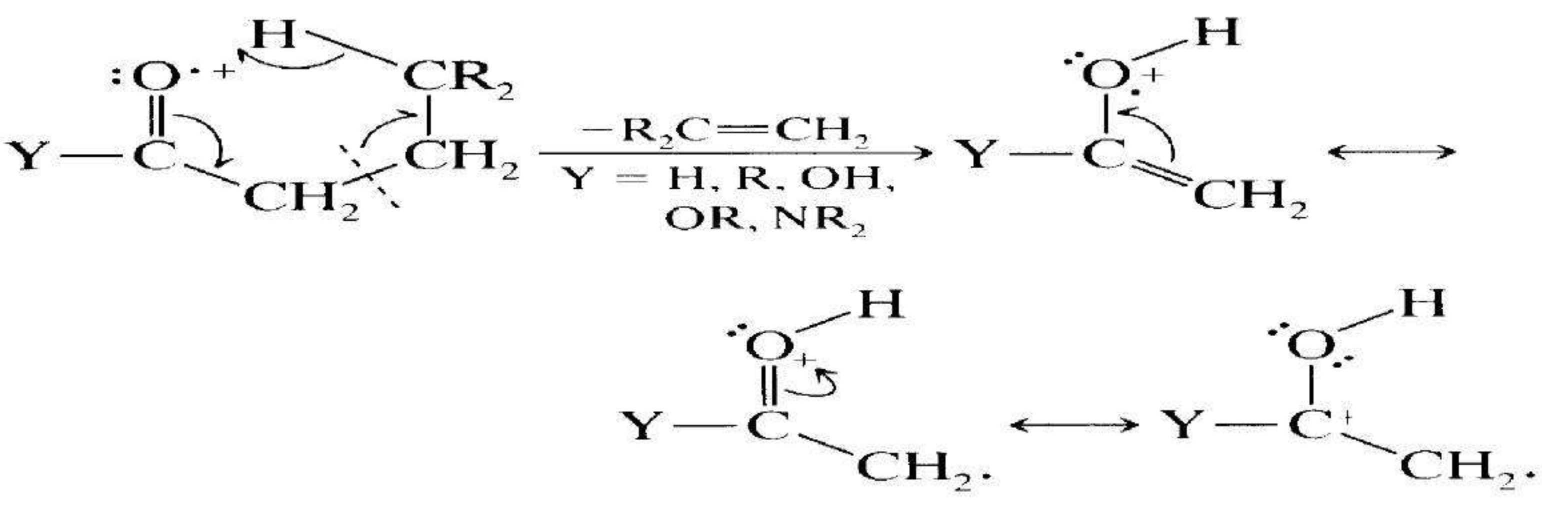
The methyl carbocation ion, **m/z 15**, will result from the breakdown of larger alkyl ions.

e.g.: $[C(CH_3)_3]^+$ ===> $[CH_3]^+$ + $C(CH_3)_2$

similarly from the molecular ion/fragment $[C(CH_3)_4]^+$ or $[C(CH_3)_2]^+$

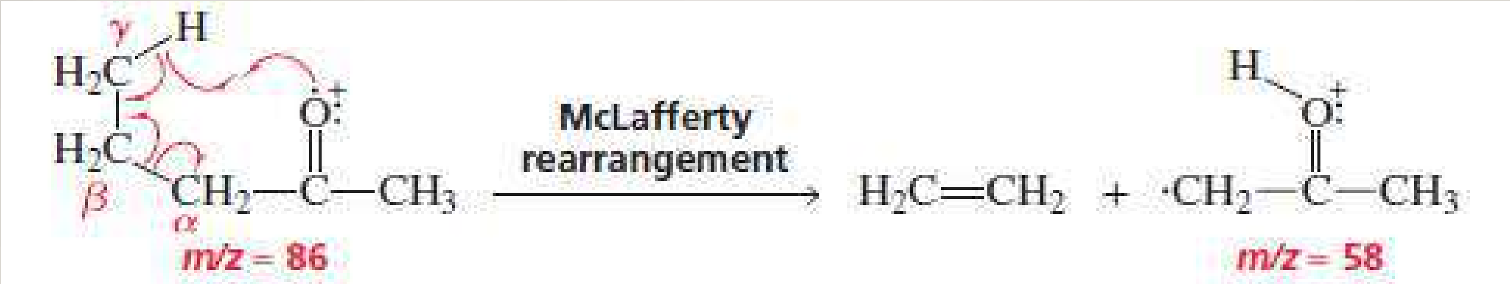
McLafferty Rearrangement

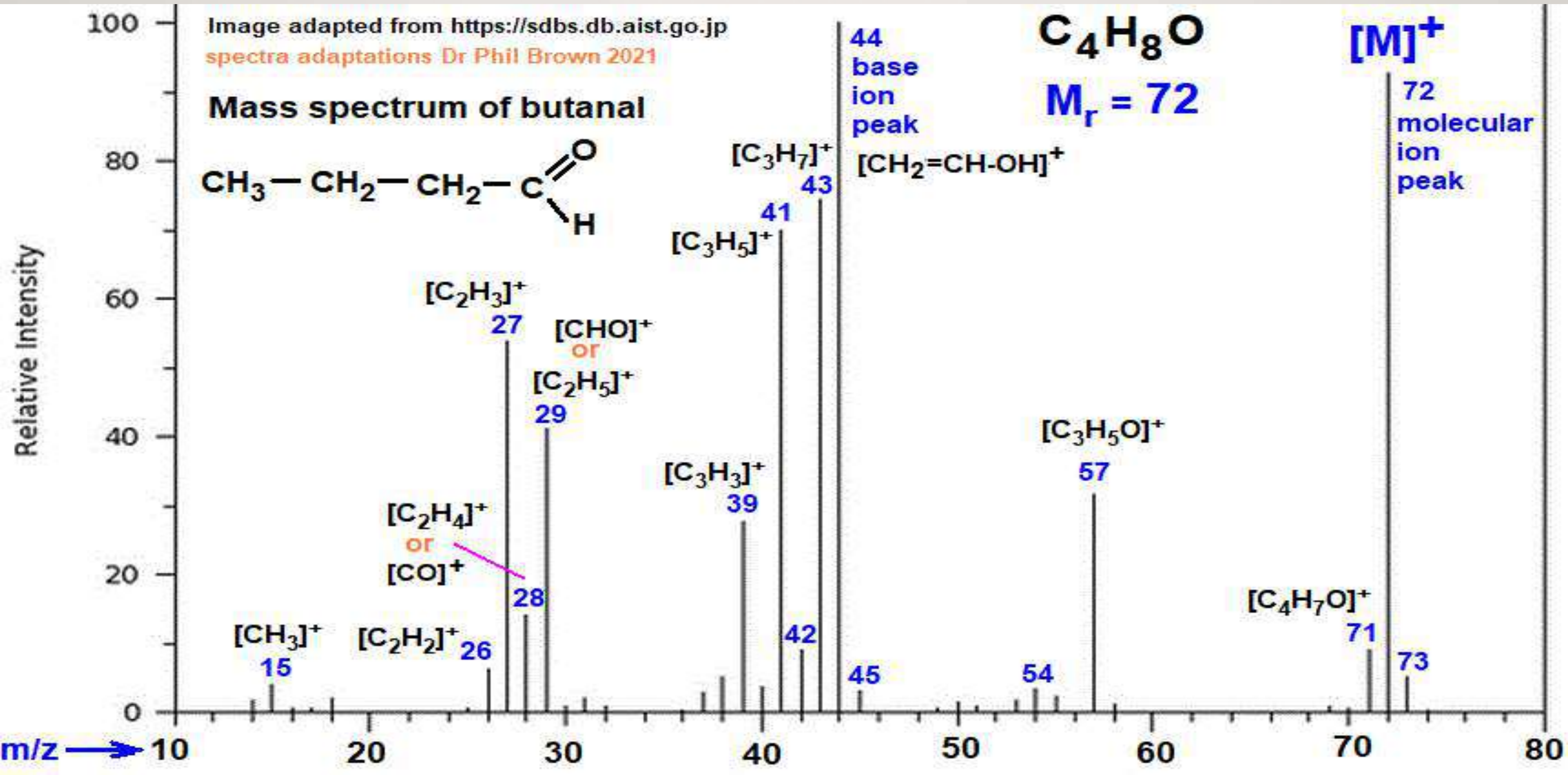
Rearrangement ions are fragments whose origin cannot be described by simple cleavage of bonds in the molecular ion but are a result of intramolecular atomic rearrangement during fragmentation. Rearrangements involving migration of hydrogen atoms in molecules that contain a heteroatom are especially common. One important example is the so-called McLafferty rearrangement.



To undergo a McLafferty rearrangement, a molecule must possess an appropriately located heteroatom (e.g., O), a π system (usually a double bond), and an abstractable hydrogen atom γ to the C=O system.

McLafferty Rearrangement





Thank you

CHAPTER 1: INTRODUCTION TO ACCOUNTING THEORY

- What is Accounting Theory
- Accounting Theory & Policy Making
- Measurement

ACCOUNTING THEORY IS DEFINED AS

- the basic
  - assumptions
  - definitions
  - principles and
  - concepts that underlie the rule making by a legislative body
- the reporting of
  - accounting and
  - financial information
- applicable to financial accounting, not to
  - governmental or
  - managerial

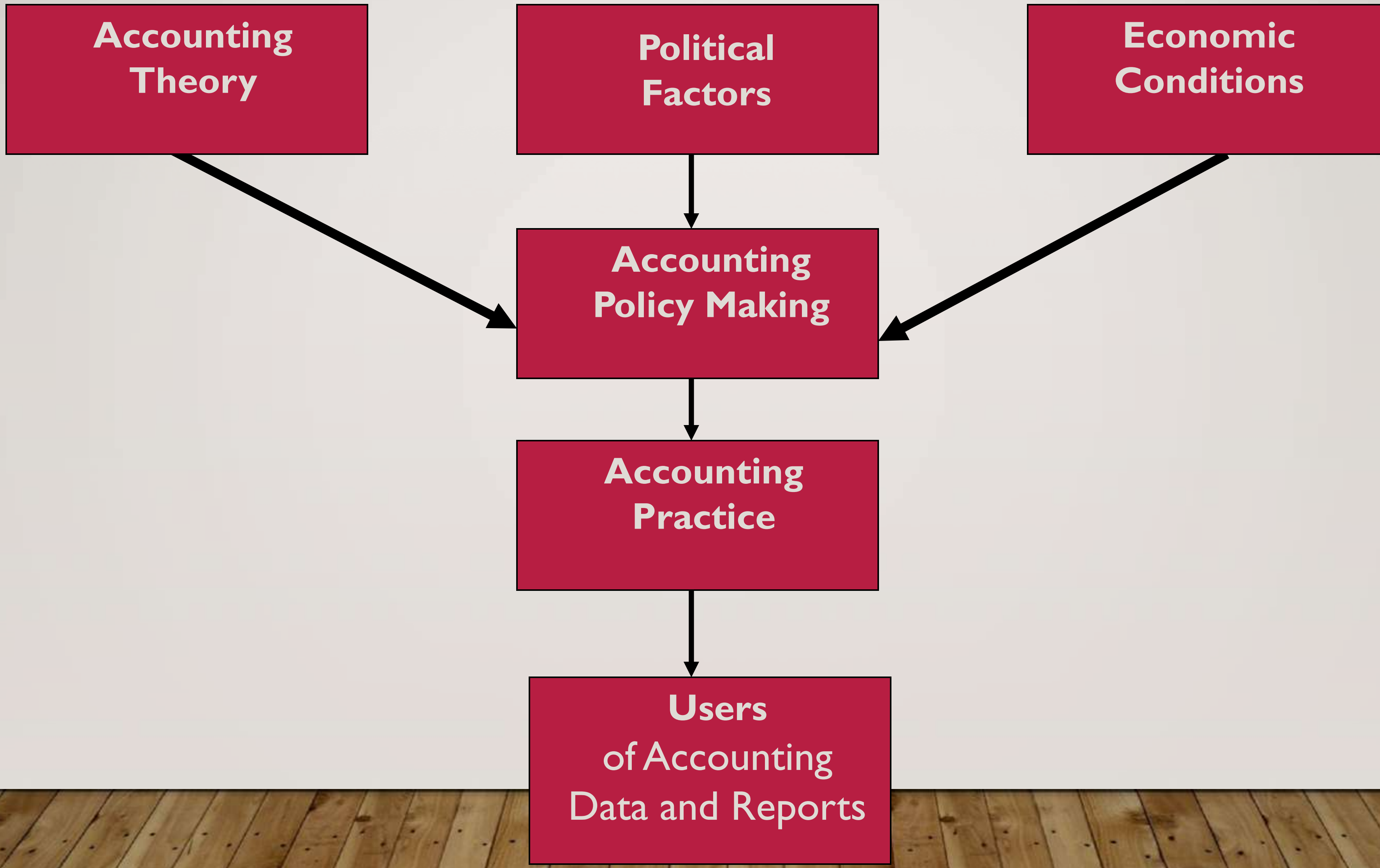
ACCOUNTING THEORY INCLUDES

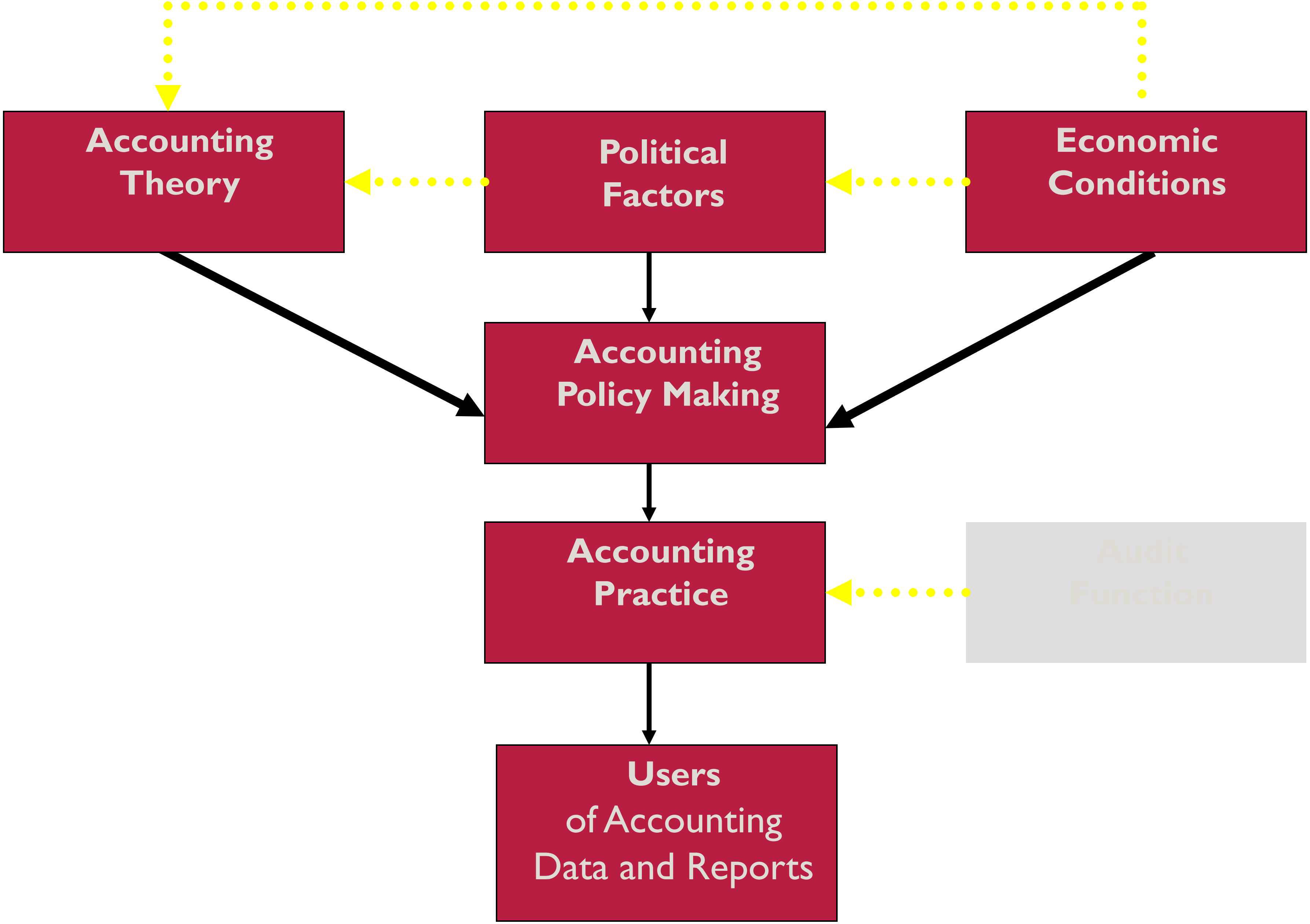
- Conceptual Frameworks
- Accounting Legislation
- Concepts
- Valuation Models
- Hypotheses and Theories

ACCOUNTING THEORY & POLICY MAKING

- 3 inputs to policy making function
  - Accounting Theory
  - Political Factors
  - Economic Conditions
- Once policy is made
  - Accounting Practice implements the policy
  - Users observe effects of implementation

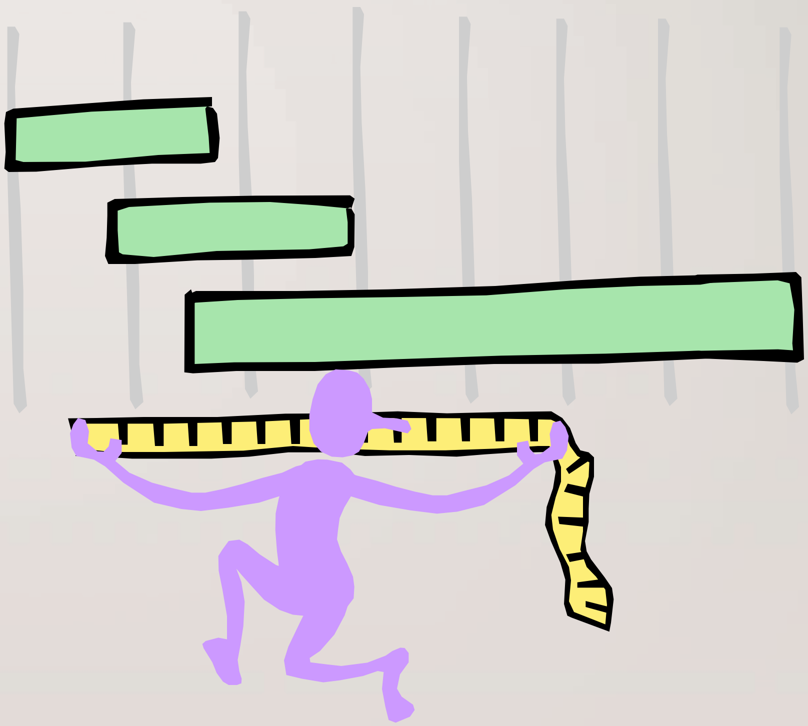
Financial Accounting Environment




Accounting Theory
Political Factors
Economic Conditions
Accounting Policy Making
Accounting Practice
Audit Function
Users of Accounting Data and Reports

MEASUREMENT IS DEFINED AS

the assignment of numbers to the attributes or properties being measured



MEASUREMENT CATEGORIES

- Direct or Indirect
  - Direct is preferable; managers like
  - Indirect is a roundabout way of making the measurement
- Assessment and Prediction
  - Assessment measures are concerned with particular attributes of objects
  - Prediction measures are concerned with factors that may be indicative of conditions in the future

MEASUREMENT PROCESS

- Is not simple
- There is not just one absolutely correct measure
- The process will depend on several factors:

1. The object itself
2. The attribute being measured
3. The measurer
4. Counting operations
5. Instrument used
6. Constraints affecting the measurer

MEASUREMENT TYPES (NOIR)

- Nominal
  - Most simple
  - Groups like objects (e.g., chart of accounts)
- Ordinal
  - Indicates an order of preference
  - Degree of preference among the ranks is not necessarily the same
- Interval: change in the attribute being measured is equal
- Ratio: same as interval, but zero point has a unique quality

QUALITY OF MEASUREMENTS

- Objectivity or Verifiability
  - The degree of agreement among measurers
  - Statistically, this means the less variance there is, the higher the objectivity
- Bias
- Timeliness
- Cost Constraint

SUMMARY: INTRODUCTION TO ACCOUNTING THEORY

- What is Accounting Theory?
- Accounting Theory & Policy Making
- Measurement

ACCOUNTING THEORY: ROLES AND APPROACHES

LECTURED BY S. SUTTHACHAI

ACCOUNTING DEPARTMENT

FACULTY OF MANAGEMENT SCIENCE

KHON KAEN UNIVERSITY

A THEORY: DEFINITION

- A theory: 'a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of the phenomenon by specifying relationships among variables with the purpose of explaining and predicting the phenomenon'
- A theory includes propositions linking concepts in the form of hypotheses to be tested.

A THEORY: DEFINITION

- Elements of a theory include:
  - **Concepts**: the main units of a theory and it is devised to refer to identifiable characteristics or phenomena.

    : The better the concept, the better the theory.

    : A formation of concept starts from the idea or percept generating a concept designated by terms.

A THEORY: DEFINITION

- Elements of a theory include:
  - **<u>Propositions:</u>** establish relation between the concepts of a theory.

: designated by a sentence.

: characterized by 1) the number and degree of predicates;

and 2) the degree of generality.

A THEORY: DEFINITION

- Elements of a theory include:
  - **<u>Hypotheses:</u>** a proposition about a relationship whose truth or falsity is yet to be determined by an empirical test.

    : Confirmation of a theory is the extent to which a hypothesis is capable of being shown to be empirically true, that is, of describing the real world accurately

    : Falsification??

FUNCTIONS OF A THEORY

- **Descriptive function**: using the constructs or concepts and their relationships so as to provide the best explanation of a given phenomenon and the forces underlying it.
- **Delimiting function**: selecting the favorite set of events to be explained and assigning a meaning to the formulated abstractions of the descriptive stage.

FUNCTIONS OF A THEORY

- **Generative Function**: the ability to generate testable hypotheses or to provide hunches, notions, and ideas from which hypotheses could be developed.

- **Integrative Function**: the ability to present a coherent and consistent integration of the various concepts and relations of a theory.

EVALUATION OF A THEORY

- A theory is evaluated to prove the adequacy of what it proposes.
- Criteria to evaluate a theory???

ACCOUNTING THEORY: DEFINITION

- Accounting theory: A set of broad principles that:

  1) provides a general frame of reference by which accounting practice can be evaluated; and

  2) guides the development of new practices and procedures.

ACCOUNTING THEORY: DEFINITION

- Accounting theory should explain and predict accounting phenomena.

- The primary objective of accounting theory is to provide a basis for the prediction and explanation of accounting behaviour and events.

ACCOUNTING THEORY: DEFINITION

- Accounting theory should have 3 elements:

  1) encoding of phenomena to symbolic representation;

  2) manipulation or combination according to rules; and

  3) translation back to real-world phenomena.

FORMATION OF ACCOUNTING THEORIES

- Accounting practitioners and researchers draw on different images of accounting to elaborate different theories of accounting.
- Views of accounting:
  - Accounting as an ideology
  - Accounting as a language
  - Accounting as a historical record

FORMATION OF ACCOUNTING THEORIES

- Views of accounting (continue):
  - Accounting as current economic reality
  - Accounting as an information system
  - Accounting as a commodity
  - Accounting as mythology
  - Accounting as rationale
  - Accounting as imagery

ACCOUNTING THEORY: APPROACHES

- Deductive Approach: it moves from general (basic proposition about the accounting environment) to the particular (accounting principles first and accounting techniques second).

ACCOUNTING THEORY: APPROACHES

- Deductive approach used in formulating a conceptual framework of accounting:
  - Specifying the objectives of financial statements
  - Selecting the 'postulates' of accounting
  - Deriving the 'principles' of accounting
  - Developing the 'techniques' of accounting

ACCOUNTING THEORY: APPROACHES

- Inductive Approach involves 4 stages:
  - Recording all observations
  - Analysis and classification of these observations to detect recurring relationships ('likes' and 'similarities')
  - inductive derivation of generalizations and principles of accounting from observations that depict recurring relationships
  - testing the generalizations.

ACCOUNTING THEORY: APPROACHES

- Ethical Approach: the concepts of
    - fairness: fair, unbiased and impartial presentation
    - justice: equitable treatment of all interested parties
    - true: true and accurate accounting statements without misrepresentation.

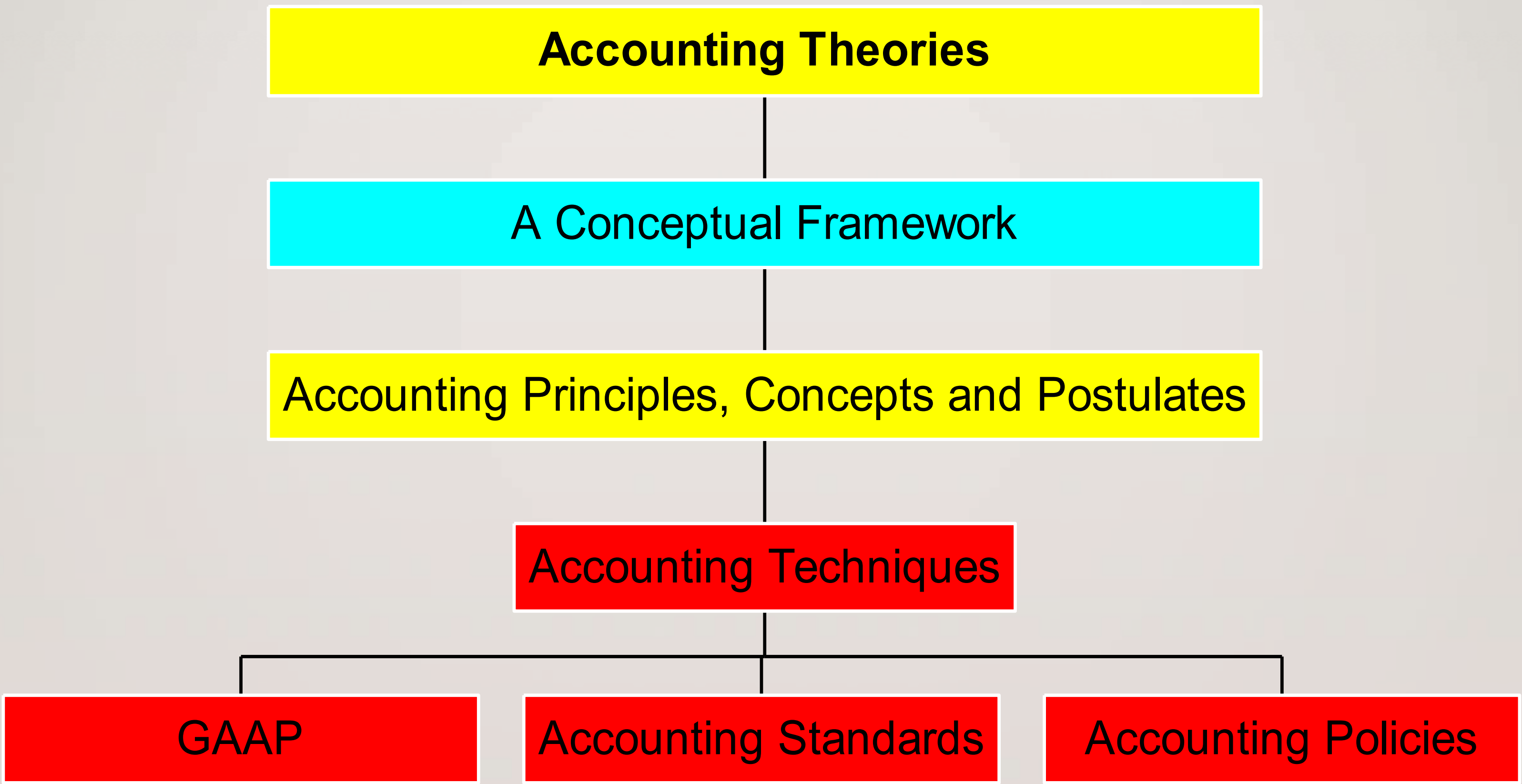
ACCOUNTING THEORY: APPROACHES

- Sociological Approach: Social Welfare
  - the social effects of accounting techniques
  - Socioeconomic accounting: to encourage the business entities that function in a free-market system to account for the impact of their private production activities on the social environment through measurement, internalisation, and disclosure in their financial statements.

ACCOUNTING THEORY: APPROACHES

- Economic Approach: General Economic Welfare
  - the choice of different accounting techniques depends on their impact on the national economic good.
  - Accounting policies and techniques should reflect 'economic reality' and the choice of the techniques should depend on 'economic consequences'.

A ROLE OF ACCOUNTING THEORIES



GAAP

GAAP (Generally Accepted Accounting Principles): a guide to the accounting profession in the choice of accounting techniques and the preparation of financial statements in a way considered to be good accounting practice.

GAAP

- Conditions under which an accounting method will be deemed as generally accepted:
  - The method will be in actual use;
  - The method would have support in the pronouncement of the professional accounting societies;
  - The method would have support in the writing of a number of respected accounting teachers and thinkers.

GAAP

- Little GAAP and Big GAAP
  - A little GAAP for smaller and/or closely held businesses.
  - A big GAAP is for large companies

What is the definition of 'small businesses'?

GAAP

- Examples of pronouncements of the professional accounting societies!!!!
  - In a new situation, what methods would be generally accepted????

ACCOUNTING STANDARDS

What are the differences between GAAP and accounting standards???

ACCOUNTING STANDARDS

- Accounting standards consist of 3 parts:
  - A description of the problem to be tackled.
  - A reasoned discussion or ways of solving the problems.
  - in line with discussion or theory, the prescribed solution.

ACCOUNTING STANDARDS

- Reasons to establish standards are:
  - to ensure quality of financial information
  - to be guidelines and rules
  - to be database for a government
  - to generate interests in principles and theories.

ACCOUNTING STANDARDS

- Who should set accounting standards?
  - Theories of regulation:
    - Public-interest theories
    - Interest-group or capture theories
      - The political ruling-elite theory of regulation
      - the economic theory of regulation

ACCOUNTING STANDARDS

- Who should set accounting standards?
  - The free-market approach
  - The private-sector approach
  - The public-sector regulation of accounting standards

ACCOUNTING STANDARDS

- Standard-setting approach for developing countries
  - The Evolutionary Approach
  - The Transfer of Technology Approach
  - The Adoption of International Accounting Standards

ACCOUNTING STANDARDS

Standard-setting Procedures (IASB Due Process):

- Setting the agenda
- Project planning
- Development and Publication of a discussion paper
- Development and publication of an exposure draft
- Development and publication of an IFRS
- Procedures after an IFRS is issued

ACCOUNTING POLICIES

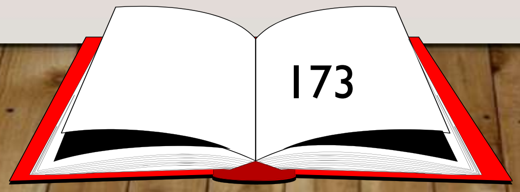
The specific accounting principles and the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances to present fairly financial position, changes in financial position, and results of operations in accordance with generally accepted accounting principles.

CHAPTER 5

Accounting Theory Underlying Financial Accounting

ACCOUNTING THEORY DEFINED

"... a set of basic concepts and assumptions and related principles that explain and guide the accountant's actions in identifying, measuring, and communicating economic information."

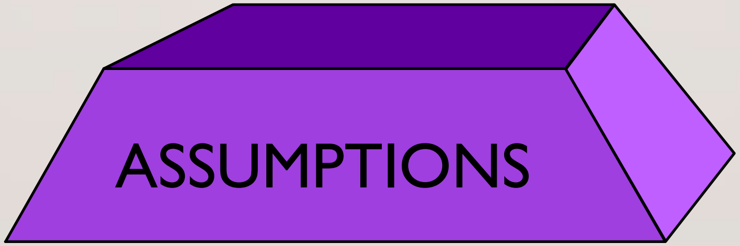


STRUCTURE OF ACCOUNTING THEORY FORMAL APPROACH

Accounting theory provides a <u>logical</u> <u>framework</u> for accounting practice.

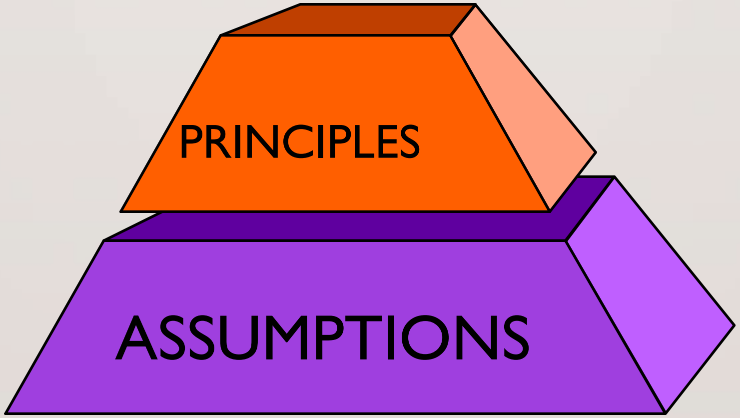
STRUCTURE OF ACCOUNTING THEORY FORMAL APPROACH

Accounting theory provides a logical framework for accounting practice.



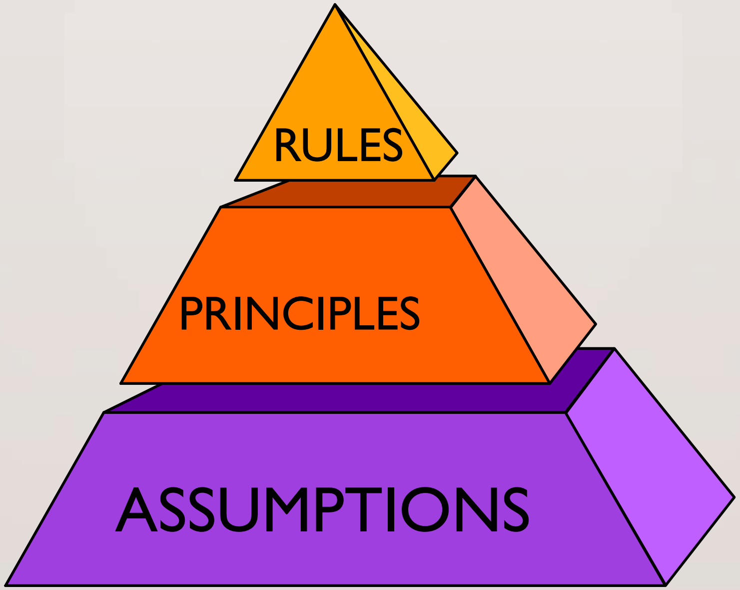
STRUCTURE OF ACCOUNTING THEORY FORMAL APPROACH

Accounting theory provides a logical framework for accounting practice.

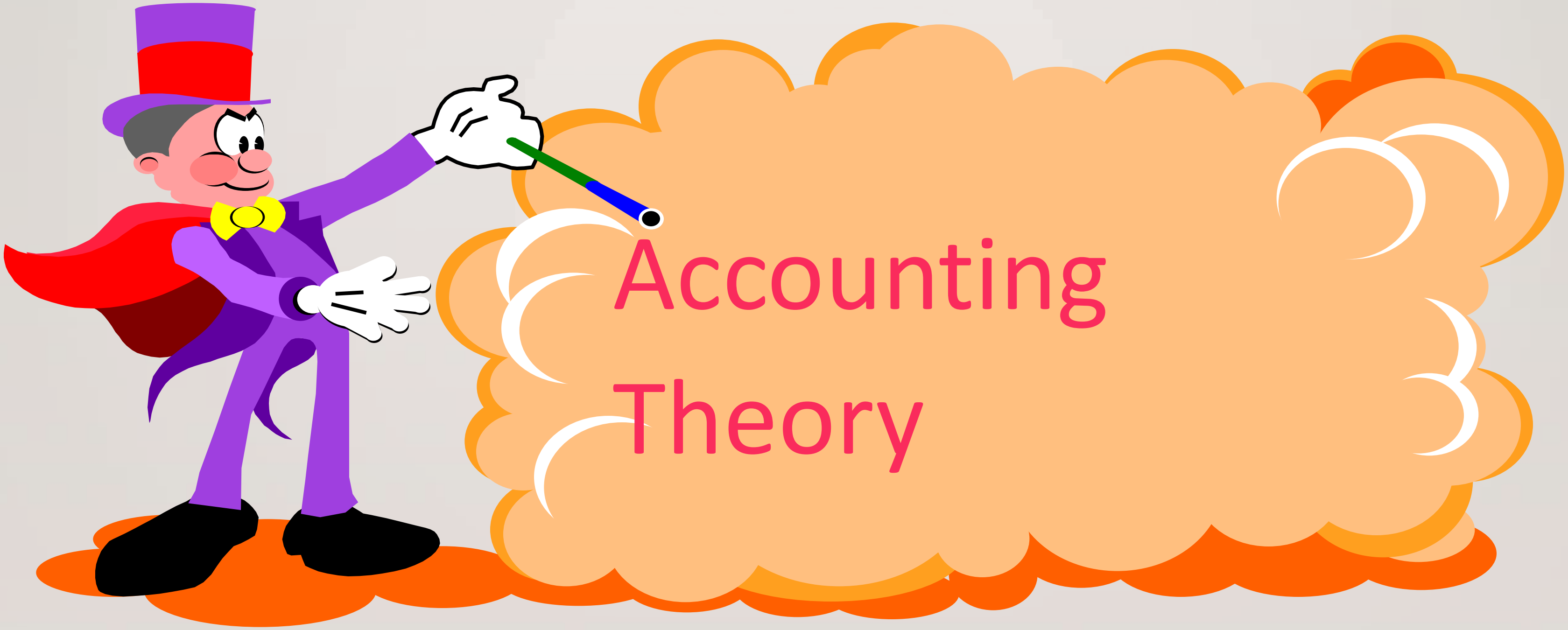


STRUCTURE OF ACCOUNTING THEORY FORMAL APPROACH

Accounting theory provides a logical framework for accounting practice.



STRUCTURE OF ACCOUNTING THEORY INFORMAL APPROACH



Accounting theory is somewhat like a cloud, i.e. not well-defined.

STRUCTURE OF ACCOUNTING THEORY INFORMAL APPROACH

- The terms "assumptions", "principles", "rules", "concepts", "postulates", "standards", etc. are used many different ways in the profession.
- Therefore, the authors' classification of these terms is not important to us in this course.

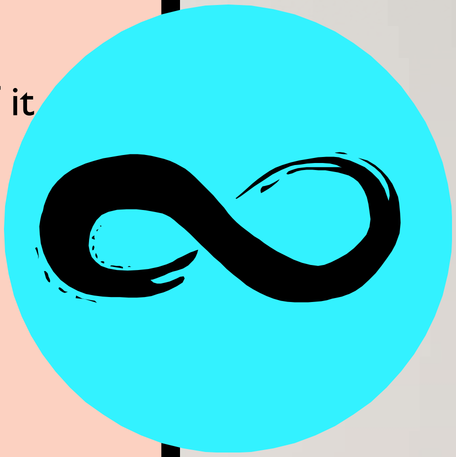
  i.e., you do not have to understand the authors' theory structure - just know the meaning and relevance of the items/"ideas" on the following slides.

BUSINESS ENTITY "IDEA"

- Each business has an identity separate from its owners.
- The business is the accounting entity.
  - Financial statements report only the activities, resources, and obligations of that business.

GOING-CONCERN

- In the absence of evidence to the contrary, we assume that a business will continue to exist indefinitely.
  - For example, a company is more likely to acquire long-term assets if it assume that the company will continue to exist indefinitely.
- It is fundamental to the matching principle.



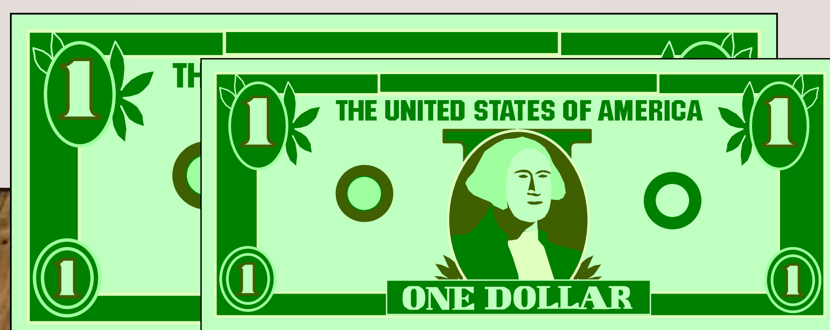
MONEY MEASUREMENT

- **Business entities measure economic events and transactions in monetary units.**
  - **In the United States, the unit of measurement is the dollar.**

STABLE DOLLAR OR STABLE MONETARY UNIT

STABLE DOLLAR OR STABLE MONETARY UNIT

- Assumes that the dollar maintains a relatively stable value.
  - In countries with high inflation, this assumption may not be valid.



STABLE DOLLAR OR STABLE MONETARY UNIT

- Assumes that the dollar maintains a relatively stable value.
  - In countries with high inflation, this assumption may not be valid.
- Accountants do not adjust the accounts for the changing value of the dollar (i.e., inflation)

PERIODICITY

- Continuous business activity is divided into arbitrary time periods as exemplified by this time line.

- Business activity is best reported in annual, quarterly or monthly periods.

OTHER BASIC IDEAS

- Substance Over Form

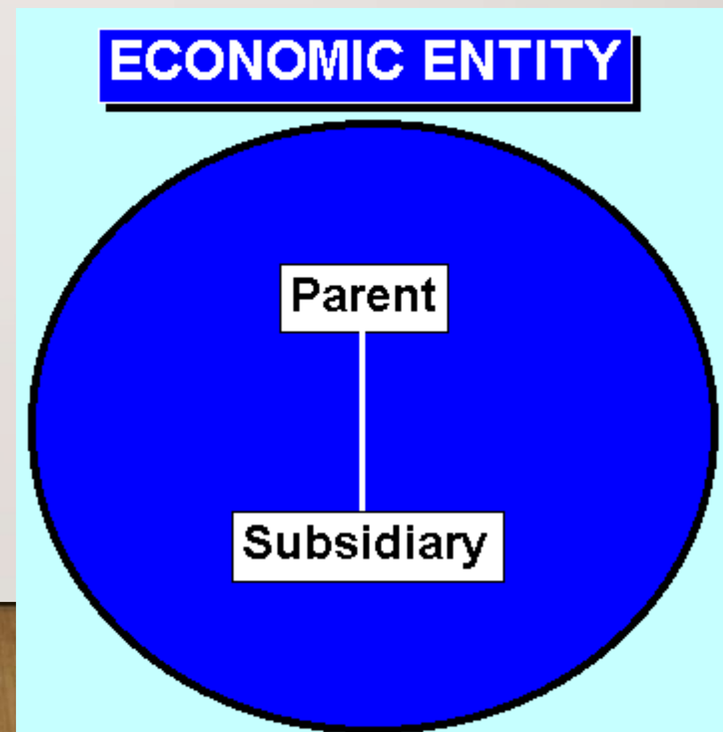
  The substance of a transaction or economic event is more important than its legal form.

OTHER BASIC IDEAS

- Substance Over Form

  The substance of a transaction or economic event is more important than its legal form.

economic entity.



OTHER BASIC IDEAS

Consistency

- **Requires that a company use the same accounting principles from one period to the next. It does not require that all companies use the same principles.**
- **A change from one acceptable accounting principle to another must be disclosed in the notes to the financial statements.**

OTHER BASIC IDEAS

Double-Entry Bookkeeping

Every transaction will have both a debit effect and a credit effect on the primary financial statements.

Total debits must **equal** total credits.

Articulation

The primary financial statements are fundamentally related to each other as shown on page 19.

MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Historical Cost

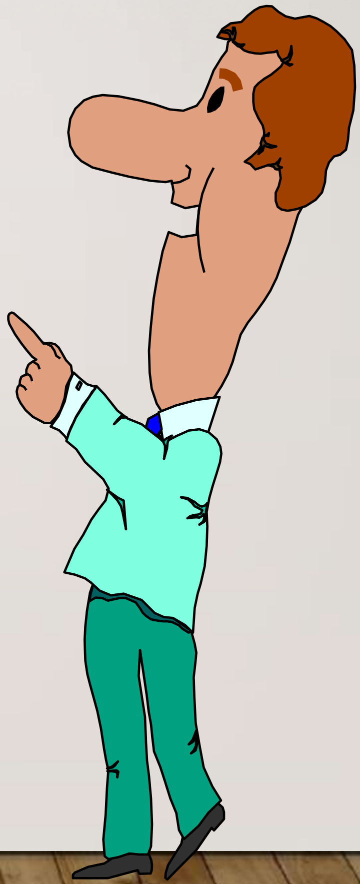
❷ Matching

❸ Revenue Recognition

❹ Expense Recognition

❺ Gain and Loss Recognition

❻ Full Disclosure



MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Historical Cost

❷ Matching

❸ Revenue Recognition

❹ Expense Recognition

❺ Gain and Loss Recognition

❻ Full Disclosure

All transactions are recorded at their historical cost at the time of the transaction.

MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Cost

❷ Matching

❸ Revenue Recognition

❹ Expense Recognition

❺ Gain and Loss Recognition

❻ Full Disclosure

The most important principle. It provides the basis for accrual accounting.

MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Historical Cost

❷ Matching

❸ Revenue Recognition

❹ Expense Recognition

❺ Gain and Loss Recognition

❻ Full Disclosure

Revenues are recorded when they are earned (i.e., realized). When does this happen?

When title passes.

EXCEPTIONS TO REVENUE RECOGNITION PRINCIPLE

➊Cash basis of revenue recognition

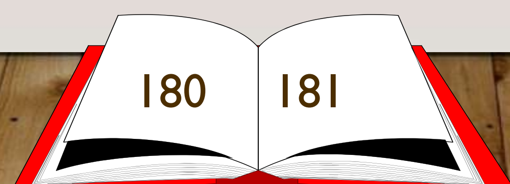
➋Installment basis of revenue recognition

(Need only know concept, not how to apply)

➌Percentage-of-completion basis of revenue recognition

➍Revenue recognition at completion of production

(Need only know concept, not how to apply)



MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Historical Cost
❷ Matching
❸ Revenue Recognition
❹ Expense Recognition
❺ Gain and Loss Recognition
❻ Full Disclosure

Expenses should be recorded as they are incurred in the process of earning revenues.

MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Historical Cost

❷ Matching

❸ Revenue Recognition

❹ Expense Recognition

❺ Gain and Loss Recognition

❻ Full Disclosure

GAIN AND LOSS RECOGNITION

- Gains are recognized/recorded at the time they are realized.

  For example, an increase in the value of land cannot be recognized as a gain until the land is actually sold.

GAIN AND LOSS RECOGNITION

- Gains are recognized/recorded at the time they are realized.

  For example, an increase in the value of land cannot be recognized as a gain until the land is actually **sold**.

- Losses are recognized when they become apparent.

  For example, a decrease in the value of inventory would be recognized as a loss when it becomes apparent.

MAJOR PRINCIPLES/IDEAS

❶ Exchange-Price or Historical Cost
❷ Matching
❸ Revenue Recognition
❹ Expense Recognition
❺ Gain and Loss Recognition
❻ Full Disclosure

Disclose in the financial statements or related notes, all information important enough to influence a stakeholder.

COST-BENEFIT CONSIDERATION

Optional information should be included in the primary financial statements only if the benefits of providing it exceed the costs.

For example, providing a listing of every sales transaction may be interesting, but the cost of providing that information to every shareholder might bankrupt the company.

MATERIALITY

- An item is material if knowledge of the item would affect the decision of an informed user, therefore, this is a somewhat nebulous concept.
- Material items must be reported.
- An item can be material either in amount or in nature.
  - Materiality in amount is relative to the size of the amounts on a company's fin. stmts.
    - (e.g. $50,000,000 may not be material …)

CONSERVATISM

Transactions should be recorded so that net assets and net income are not overstated.

Anticipate losses, but do not anticipate gains.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

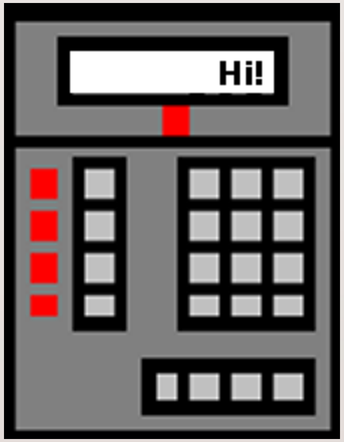
- Appears in the notes to the financial statements.
- Includes a discussion of the major accounting policies.

Almost Finished

A good framework is the best foundation.

Conclusion

Virtual Keypad Questions

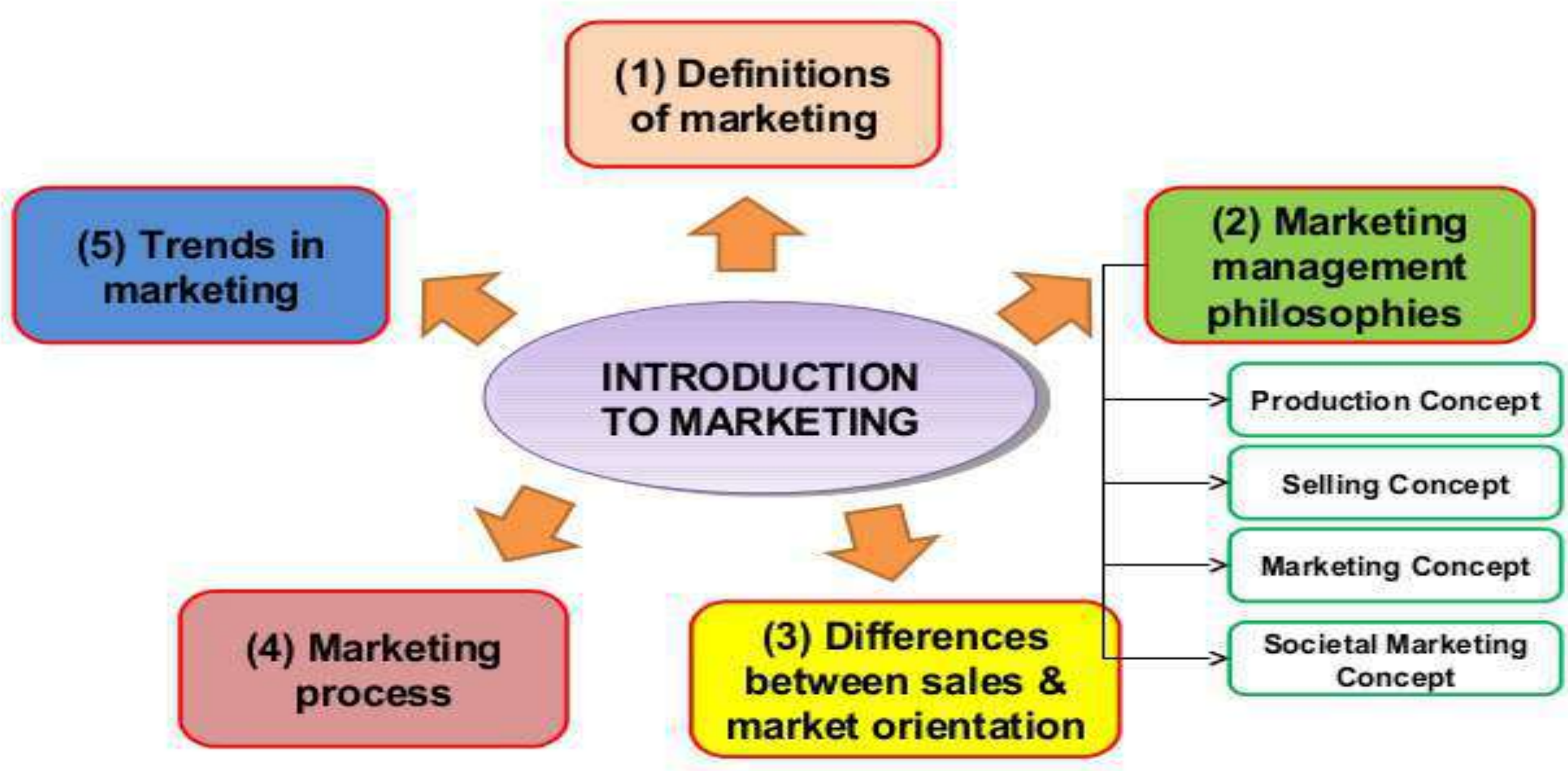


CHAPTER - 1

INTRODUCTION TO MARKETING

PREPARED BY:-

Dr.M.G.Yaranal


(1) Definitions of marketing
(2) Marketing management philosophies
Production Concept
Selling Concept
Marketing Concept
Societal Marketing Concept
(3) Differences between sales & market orientation
(4) Marketing process
(5) Trends in marketing
INTRODUCTION TO MARKETING


Promotion
What is Marketing?
Place
Price
Product
Public Relations
Advertising
Personal Selling

What Is Marketing?

A Philosophy

An Attitude

A Perspective

A Management Orientation

plus

A Set of Activities, including:

- **Products**
- **Pricing**
- **Promotion**
- **Distribution / Place**

Definition Of Marketing

American Marketing Association

Dr. Philip Kotler

AMA : *Marketing* is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

Kotler : A social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with others.

Simply put

Marketing is the delivery of customer satisfaction at a profit.

Goals

Attract new customers by promising superior value and keep and grow current customers by delivering satisfaction.

Other Definitions Of Marketing

- *Marketing* consists of the performance of business activities that direct the flow of goods and services from producer to user.

  (American Marketing Association)

- Marketing is the process of planning and executing the conception, pricing, promotion, & distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

  (American Marketing Association)

- Marketing is that of an individual and organizational activities aimed at facilitating exchanges within a set of dynamic environmental forces.

  (Pride & Ferrell)

Core Marketing Concepts

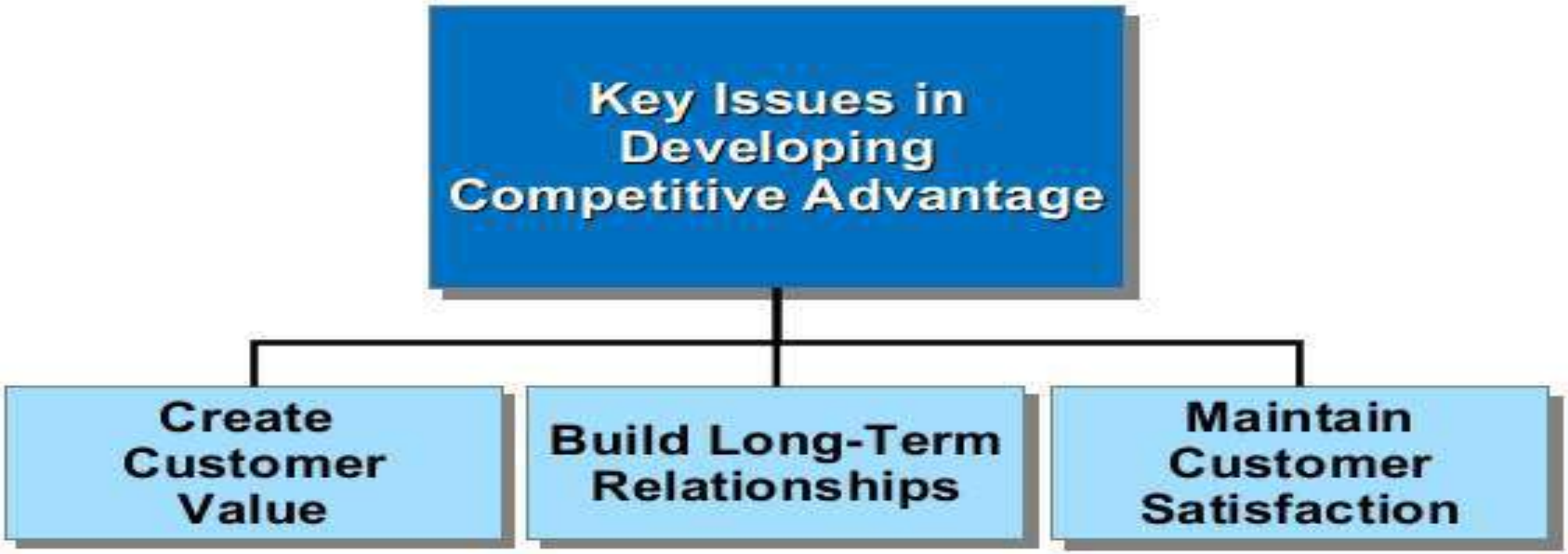
What are Consumers' Needs, Wants, and Demands?

Needs - state of felt deprivation including physical, social, and individual needs i.e hunger

Wants - form that a human need takes as shaped by culture and individual personality i.e. bread

Demands - human wants backed by buying power i.e. money

The Organization's Focus



Customer Value

Customer Value

The ratio of benefits to the sacrifice necessary to obtain those benefits

Customer Value Requirements

- Offer products that perform
- Give consumers more than they expect
- Avoid unrealistic pricing
- Give the buyer facts
- Offer organization-wide commitment in service and after-sales support

Customer Satisfaction

Customer Satisfaction

The feeling that a product has met or exceeded the customer's expectations.

Maintaining Customer Satisfaction

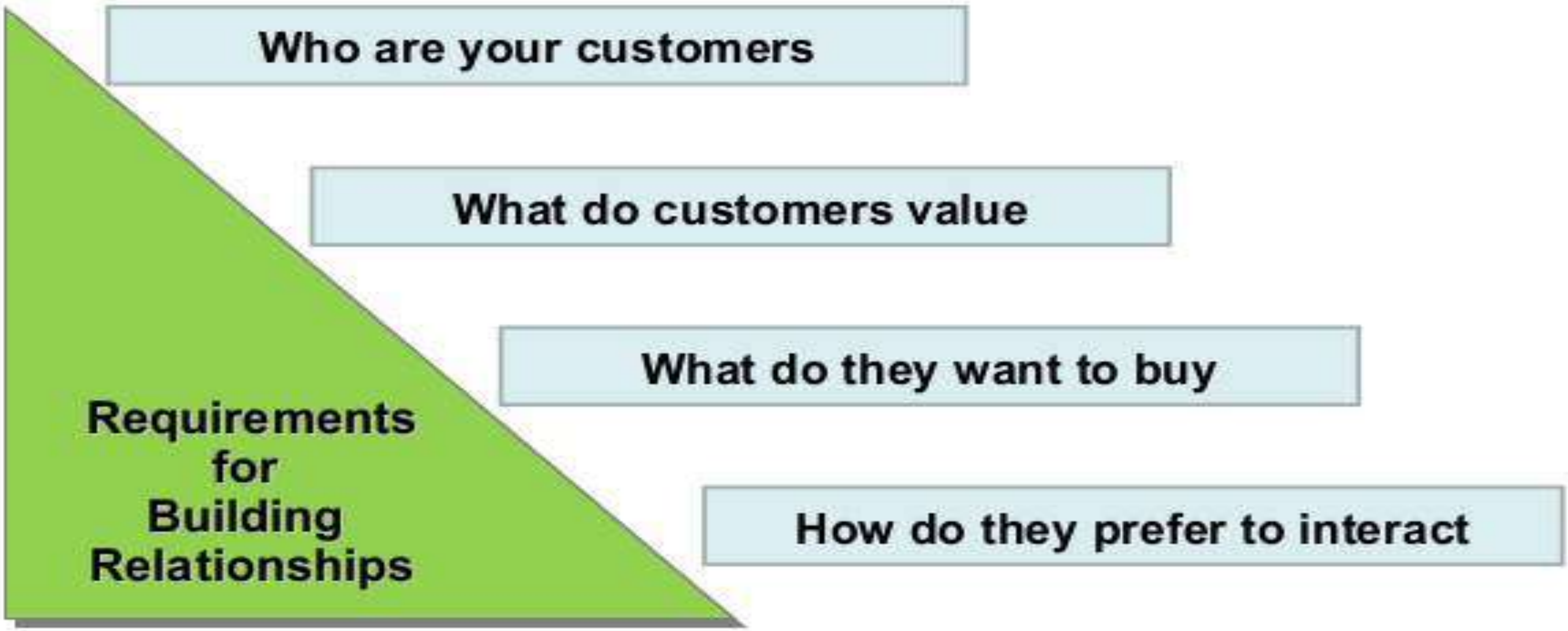
- Meet or exceed customer's expectations
- Focus on delighting customers
- Provide solutions to customer's problems
- Cultivate relationships,
  NOT one-time transactions

Relationship Marketing

Relationship Marketing

The name of a strategy that entails forging long-term partnerships with customers, both individuals and firms.

Relationship Marketing

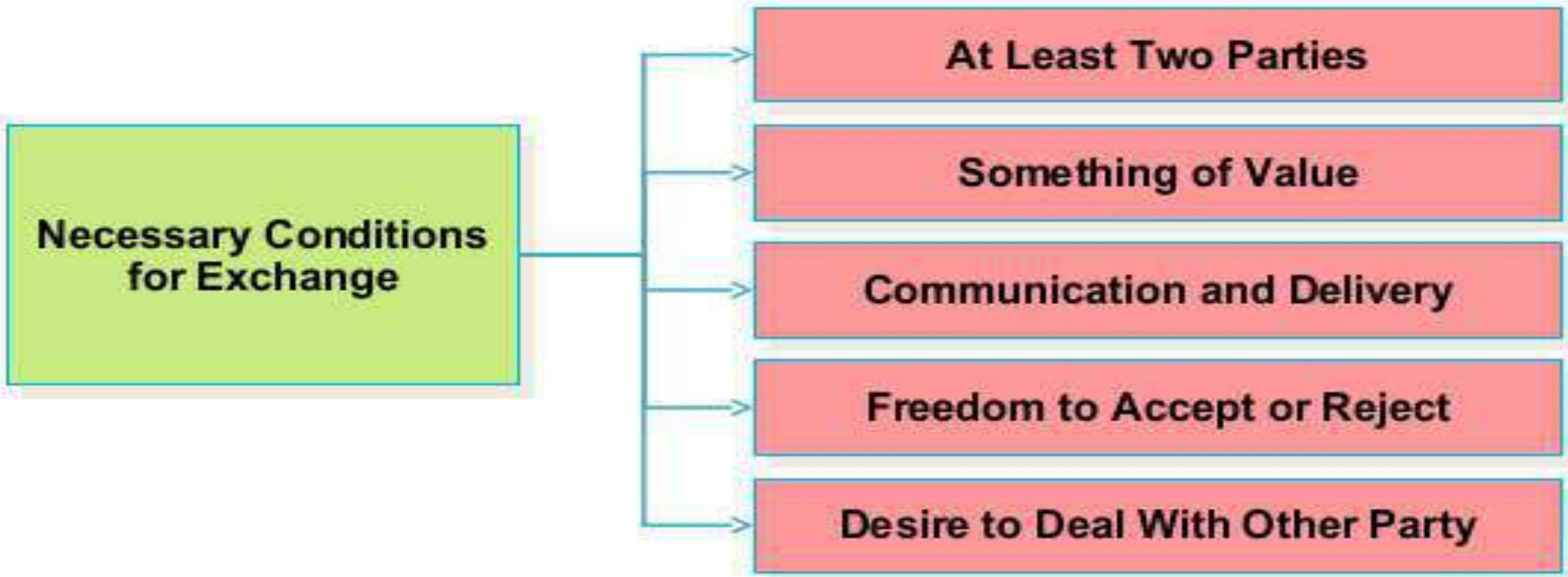


Building Long-Term Relationships

- Customer-oriented personnel
- Effective training programs
- Empowered employees
- Teamwork

The Concept of Exchange

- **Lamb :** The idea that people give up something to receive something they would rather have.
- **Kotler :** The act of obtaining a desired object from someone by offering something in return.



However...

- Exchange may not take place even if conditions are met;
- An agreement must be reached; and
- Marketing occurs even if exchange does not take place.

Marketing Management Philosophies

Focus on internal capabilities of the firm.

Focus on aggressive sales techniques and believe that high sales result in high profits

Focus on satisfying customer needs and wants while meeting objectives

Focus on satisfying customer needs and wants while enhancing individual and societal well-being

The Marketing Concept / Orientation

The Marketing Concept

The idea that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives.

The Marketing Concept

- Focusing on customer wants and needs to distinguish products from competition
- Integrating all the organization's activities to satisfy customer wants and needs
- Achieving the organization's long-term goals by satisfying customer wants and needs

Achieving a Marketing Orientation

- Obtain information about customers, copetitor and markets
- Examine the information from a total business perspective
- Determine how to deliver superior customer value
- Implement actions to provide value to customer

Societal Marketing Orientation

Societal Marketing Orientation

Marketing that preserves or enhances an individual's and society's long-term best interests

- ✓ Less toxic products
- ✓ More durable products
- ✓ Products with reusable or recyclable materials

Review: Marketing Management Philosophies

Orientation	Focus
Production	What can we make or do best?
Sales	How can we sell more aggressively?
Marketing	What do customers want and need?
Societal	What do customers want and need, and how can we benefit society?

Sales vs Market Orientation

	Sales Orientation	Market Orientation
(1) Organization Focus	Inward –fulfill organization's needs.	Outward – fulfill wants and preferences of customers.
(2) What type of business organization is in?	Selling goods and services.	Satisfying customers needs and wants and delivering superior value.
(3) To whom the product is directed?	Everybody.	Specific groups of people.
(4) Firm's primary goal	Achieve profit through maximum sales volume.	Achieve profit through customer satisfaction.
(5) Ways to achieve the goal	Through intensive promotion.	Through coordinated marketing and inter-functional activities.

Marketing Process

- A marketing process include all the marketing's role and activities in the organization.
- The marketing process include the process of:-
  1) Analyzing marketing opportunities and developing the organization's mission and objectives.
  2) Selecting target markets.
  3) Developing the marketing strategy by developing marketing mix (4 P's).
     - ➢ Product , Price, Promotion, and Place.
  1) Managing the marketing effort.
     - ➢ Include analysis, planning, implementation, and control.
     - ➢ Can be done by SWOT analysis (strengths, weaknesses, opportunities, threats).

Defining a Firm’s Business

- Use “customer benefits” instead of “goods/services”

- Ensures a customer focus
- Encourages innovation and creativity
- Stimulates an awareness of changesin customer preference

Why Study Marketing?

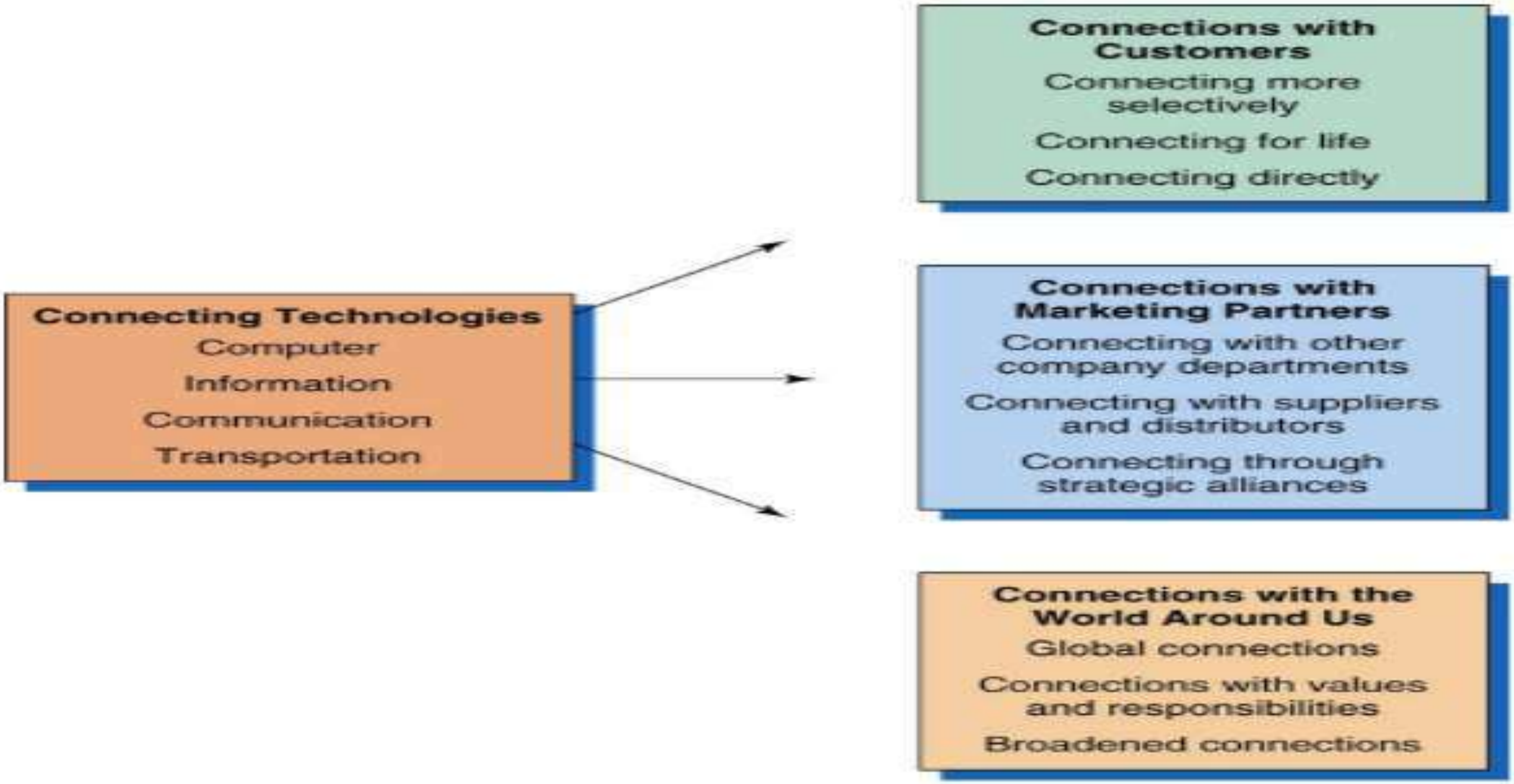
- Plays an important role in society
- Vital to business survival, profits and growth
- Offers career opportunities
- Affects your life every day

Why Study Marketing?

Vital Marketing Activities for Organizations

- Assess the wants and satisfaction of customers
- Design and manage product offerings
- Determine prices and pricing policies
- Develop distribution strategies
- Communicate with present and potiential customer

Trends in Marketing



[illegible]

Selling	Marketing
Selling starts with the seller, and is preoccupied all the time with the needs of the seller.	Marketing starts with the buyer and focuses constantly on the needs of the buyer.
Seller is the centre of the business universe; activities start with the sellers'existing products.	Buyer is the centre of the business universe; activities follow the buyer and his needs.
Emphasises on saleable surplus available within the corporation.	Emphasises on identification of a market opportunity.
Seeks to quickly convert 'products' into 'cash'.	Seeks to convert customer 'needs' into 'products'.
Concerns itself with the tricks and techniques of getting the customers to part with their cash for the products available with the salesman.	Emphasises on fulfilling the needs of the customers.
Views business as a 'goods producing process'.	View business as a 'customer satisfying process'.
Overemphasises the 'exchange' aspect, without caring for the 'value satisfactions' inherent in the exchange.	Concerns itself primarily and truly with the 'value satisfactions' that should flow to the customer from the exchange.

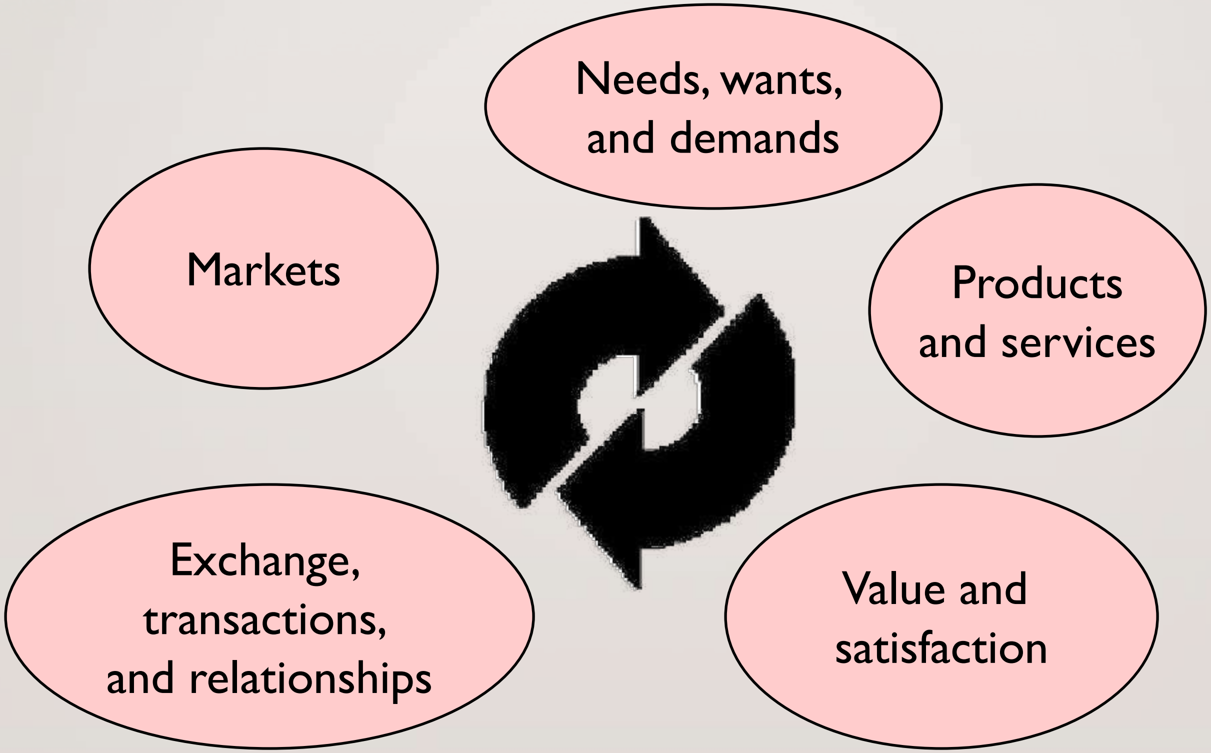
Contd....

MARKETING OBJECTIVES

Typically, marketing objectives include following:

- Increase sales & Increase profit
- Build brand awareness
- Grow market share
- Launch new products or services
- Target new customers
- Enter new markets internationally or locally
- Improve stakeholder relations
- Enhance customer relationships
- Improve internal communications

CORE CONCEPTS OF MARKETING



CORE CONCEPTS OF MARKETING

1. **Needs, Wants and Demands:** Needs describe basic human requirements. People need food, air, water, clothing and shelter to survive.

- **Wants:** The needs become wants when they are directed to specific object that might satisfy the need.
- **Demands** are wants for specific products backed by an ability to pay. Companies must measure not only how many people want their product but also how many would actually be willing and able to buy it.

2. Marketing offering

- Combination of products, services, information or experiences that satisfy a need or want
- Offer may include services, activities, people, places, information or ideas

3. Value

- Customers form expectations regarding value
- Marketers must deliver value to consumers

Satisfaction

- A satisfied customer will buy again and tell others about their good experience

- Value Gained From Owning a Product and Costs of Obtaining the Product is **“Customer Value”**
- Product’s Perceived Performance in Delivering Value Relative to Buyer’s Expectations is **“Ccustomer Satisfaction”**

4. Exchange: Exchange and Transactions

For exchange potential to exist, five conditions must be satisfied:

1. There are at least two parties.

2. Each party has something that might be of value to the other party.

3. Each party is capable of communication and delivery.

4. Each party is free to accept or reject the exchange offer.

5. Each party believes it is appropriate or desirable to deal with the other party. To affect successful exchanges, marketers analyze what each party expects from the transaction. Simple exchange situations can be mapped by showing the two actors and the wants and offerings flowing between them.

5. Market

- Set of actual and potential buyers of a product
- Marketers seek buyers that are profitable

PRODUCTİON CONCEPT

- Consumers will favor those products that are widely ***available and low in cost***.
- Managers concentrate on achieving ***high production efficiency*** *and* ***wide distribution.***

The assumption is valid at least in 2 situations :

- The demand for a product exceeds supply (suppliers will concentrate on finding ways to increase production)
- The product’s cost is high and has to be decreased to expand the market.

PRODUCT CONCEPT

- Consumers will favor those products that offer the *most quality, performance or innovative features*.
- Managers in product-oriented organizations concentrate on making *superior products* and improving them over time.
- The assumption ğ the customers will admire well-made products and can evaluate product quality and performance
- This concept may lead to *marketing myopia*

SELLİNG CONCEPT

- ***Agressive selling and promotion***
- Assumptions are;
  - Consumers must be ***convinced of buying*** company products
  - Company is powerful in generating effective selling and promotion to ***stimulate more buying***
- This concept is mostly used by firms which have overcapacity.
- The aim is "*to sell what they make*" rather than "make what the market wants."
- ***Short-term profits*** are more important (customer dissatisfaction may occur)

MARKETİNG CONCEPT

- Key to achieving organizational goals consists of being more ***effective*** than competitors ***in creating, delivering and communicating customer value to target markets.***

- ***4 pillars of modern marketing :***
    1. **Target market**
    2. **Customer needs**
    3. **Integrated marketing**
    4. **Profitability through customer satisfaction**

Questions ???

THANK YOU

FINANCIAL MANAGEMENT

MEANING

FINANCE FUNCTION

AIMS OF FINANCE FUNCTION

FINANCIAL MANAGEMENT

GOALS OF FINANCIAL MANAGEMENT

FINANCIAL DECISIONS

FINANCE FUNCTION

Meaning

It is one of the <u>main</u> functions of a business organisation, which, <u>aims</u> at <u>procuring</u> and <u>judiciously utilising</u> the <u>financial resources</u> with a view to <u>maximising</u> the <u>value of the firm</u> thereby the <u>value of the owners</u> i.e., equity shareholders in a company is maximised.

APPROACHES TO FINANCE FUNCTION

- Providing of funds needed by a business on most suitable terms (~~This approach confines only to raising of funds~~)
- Second Approach relates finance function to cash. This approach implies that finance function is related to every activity in the business
- Third approach to this function envisages the raising of funds and their effective utilisation .

To conclude, finance function covers financial planning, raising of funds, allocation of funds, financial control.

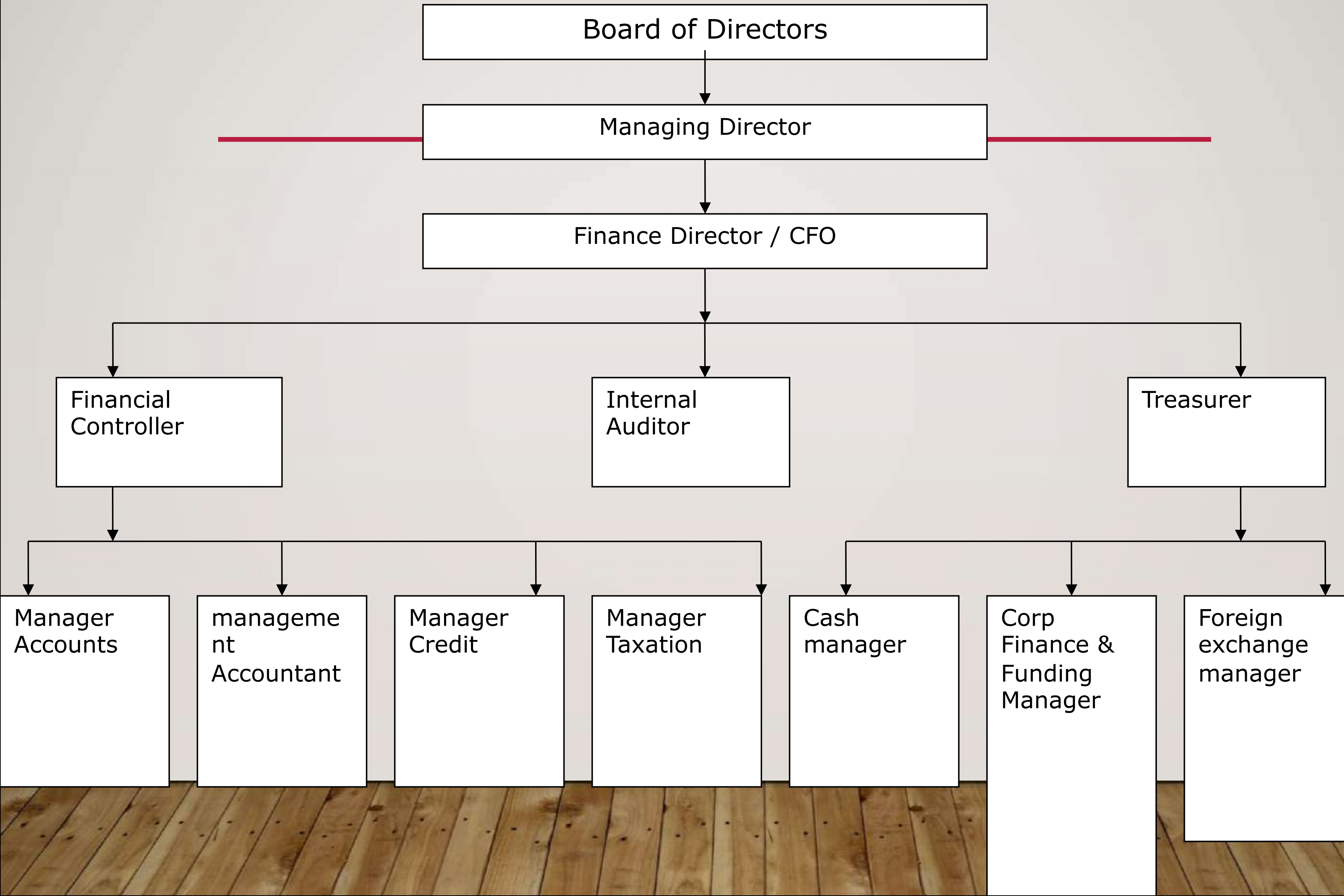
AIMS OF FINANCE FUNCTION

- Acquiring sufficient funds
- Proper utilisation of funds
- Increasing profitability
- Maximising concern's value

SCOPE OR CONTENT OF FINANCE FUNCTION

- Estimating financial requirements
- Deciding the capital structure
- Selecting a Source of finance
- Selecting a pattern of investment
- Proper cash management
- Implementing financial controls
- Proper use of surpluses.

ORGANISATION CHART OF FINANCE FUNCTION



FINANCIAL MANAGEMENT

Meaning

Financial management refers to that part of management activity which is concerned with the planning and controlling of form’s financial resources.

It deals with the finding out various sources for raising funds for the firm.

The basic objective centers around:

- Procurement of funds from various sources like, ESC, PSC, debentures, term loans and bonds
- Effective utilisation of the funds to maximise the profitability of the firm and wealth of its owners.

OBJECTIVES / GOALS OF FINANCIAL MANAGEMENT

Profit maximisation(Survival, Security and maintenance of liquidity) it serves as the protection against the risk, facing competition, adverse government policies.

Arguments in favour of profit Maximisation

1. It is a barometer to measure the efficiency and economic prosperity
2. A firm will be able to survive the adverse business conditions only if it has earnings to face the situation.
3. It facilitates growth
4. It helps to achieve social goals

5. It motivates investment

6. Credibility of the firm increases

7. Stock prices will go up in the market

Arguments against profit maximisation

- The concept profit is very vague
- It ignores risk factor and timing of returns
- It may allow decision to be taken at the cost of Long-run stability and profitability of the concern
- It emphasises more on the short run profitability and short run projects
- It fails to consider the social responsibility

WEALTH MAXIMISATION

It means maximising the Net Present Value (or wealth) of a course of action. The NPV of a course of Action is the difference between the present value of its benefits and the present value of its cost.

The maximisation of wealth is possible by making decisions of the firm to get benefits that exceeds cost. It takes into consideration the time and the risk of effected benefits. The wealth maximisation is not only for the shareholders but also for the stake holders

THE WM GOALS ADVOCATED ON THE FOLLOWING GROUNDS

- It takes into consideration the long-run survival and growth of the firm
- It is consistent with the object of owners economic welfare
- It suggests the consistent dividend payments to the shareholders
- The financial decisions result in the capital appreciation
- It considers risk and time value of money
- It considers all future cash flows, dividends and EPS

- The maximisation of firm's value is reflected in the market price of share.
- Profit Maximisation partly enables the firm in wealth maximisation
- Shareholders prefer WM to PM

Criticisms

- The society's resources are used to the advantage of a particular firm, hence, society welfare is criticised
- It is a prescriptive idea than a descriptive one

VALUE MAXIMISATION

The primary objective of FM is to maximise the value of the firm. It facilitates in maximising the value of equity share which serves as an index of the performance of the company.

It takes into consideration the present and the future earnings, risk dividend, retention policies, level of gearing.

The Share holder wealth is maximised only if market share increases, hence WM is redefined as value maximisation

OTHER MAXIMISATION OF OBJECTIVES

- Sales Maximisation
- Growth Maximisation
- Return on investment maximisation
- Social objectives
- Group of objectives (Production, inventory, sales, market share, profit)

FINANCIAL OBJECTIVES OF A FIRM

- Return on Capital employed or ROI
- Value addition and profitability
- Growth in EPS and PE ratio
- Growth in MV of Share
- Growth in Dividends
- Optimum level of leverage
- Survival and growth of the firm
- Minimisation of finance charges
- Effective utilisation of Short, medium and long term objectives

TYPES OF DECISIONS

- Investment decisions
- Finance Decisions
- Dividend decisions

INVESTMENT DECISIONS

- Ascertainment of the total volume of funds, a firm can commit
- Appraisal and selection of capital investment proposals
- ~~Measurement of risk and uncertainty in the investment~~ proposal
- Prioritisation of investment decisions
- Fund allocation and its rationing
- Determination of fixed assets to be acquired
- Determination of the level of investments and its management
- Buy or lease decisions
- Asset replacement decisions
- Restructuring, reorganisation, mergers and acquisitions
- Securities analysis and portfolio management

FINANCE DECISIONS

- Determination of the degree or level of gearing
- Determination of the pattern of LT, MT & ST funds
- Raising of funds through various instruments
- Arrangement of funds through various institutions
- Consideration of interest burden
- Consideration of debt level changes and firm's bankruptcy
- Taking advantage of interest and depreciation in reducing the tax liability of the firm
- Considering the various modes on improving the EPS and market value of the share.

- Consideration of cost of capital of individual component and weighted average cost of capital to the firm
- Optimisation of finance mix to improve returns
- Portfolio management
- Consideration of the impact of under capitalisation and over capitalisation
- Consideration for foreign exchange risk exposure
- Balance between owner’s capital and outside capital
- Evaluation of alternative use of funds
- Review of performance by analysis.

DIVIDEND DECISIONS

- Determination of dividend and retention policies of the firm
- Consideration of the impact of the levels of dividend and retention of earnings on the market value of the share and the future earnings of the company
- Consideration of possible requirements of funds by the firm for expansion and diversification proposals for financing existing business requirements
- Reconsideration of distribution and retention policies in boom and recession period
- Considering the impact of legal and cashflow constraints on dividend decisions

THANK YOU

Business Law or Mercantile Law

Introduction:

Man is a social animal. He lives in society with his fellow beings. When living so, he has to observe a code of conduct or a set of rules for peaceful living and welfare of the whole society.

These rules of conduct, when recognised by the State and enforced by it on people are termed as Law.

Such law is not static. It changes when circumstances and conditions in the society change. Law is therefore dynamic.

What is Law?

The word 'law' is a general term and has different connotations for different people, e.g.,

- A citizen may think of law as a set of rules which he must obey.
- A lawyer who practices law may think of law as a vocation.
- A legislator may look at law as something created by him.
- A judge may think of law as guiding principles to be applied in making decisions.

Need for the Knowledge of Law:

- Ignorance of law is not an excuse. Though it is not possible for a common man to learn every branch of law, yet he must know at least the general principles of the law of his country.
- Knowledge of Mercantile Law or Business Law is essential to people engaged in various economic and commercial activities i.e. business activities.
- The general knowledge of mercantile law will certainly help businessmen to solve their business problems and avoid conflicts with others.

- **Meaning and Scope:**

- The term '**Mercantile or Business Law**' may be defined as that branch of law which deals with the rights and obligations arising out of business transactions between businessmen.
- It consists of those rules that govern and regulate trade, commerce and industry.
- It is one of the important branches of Civil Law. Mercantile law is also known as Business Law.

The scope of mercantile law is very wide and varied.

It includes law relating to contracts, partnership, companies, sale of goods, negotiable instruments, carriage of goods, insolvency and arbitration and applies not only to businessmen but also to bankers and other professional men as well as to common people. Hence it is also known as Business Law.

Law of Contract

Introduction:

Law of Contract is one of the most important branches of mercantile law. It is the foundation of modern business.

In business, promises are made at one time and are performed at another time.

To see that the promises made are duly performed by the parties to the Contract and to carry on the business smoothly, the law of Contract came into force.

The law of Contract lays down the rules relating to promise, their formation, their performance and their enforceability.

Indian Contract Act 1872

It determines the circumstances in which promise made by the parties to a contract shall be legally binding on them.

All of us enter into a number of contracts everyday knowingly or unknowingly. Each contract creates some right and duties upon the contracting parties.

Indian contract deals with the enforcement of these rights and duties upon the parties.

Meaning of Contract:

According to Section 2(h) of the Indian Contract Act 1872, “A contract is an agreement enforceable by law”.

According to Fredrick Pollock, “Every agreement and promise enforceable by law is a contract”.

A contract is legally binding agreement between two or more persons.

A contract is an agreement between two or more parties which is enforceable at law.

From the above definitions, a contract essentially consists of two elements:

1. an agreement and
2. its legal enforceability i.e. legal obligation.

1. Agreement:

An agreement is defined as "every promise and every set of promises, forming consideration for each other." [(Sec 2.(e)].

Thus it is clear from this definition that a promise is an agreement.

Sec. 2(b) defines. "A proposal, when accepted, becomes a promise."

Thus, an agreement means an accepted proposal.

To sum up:

Agreement = Offer + Acceptance

Therefore, to form an agreement, there must be a proposal or an offer by one party and its acceptance by the other party. An agreement has two main characteristics.

a. **Plurality of Persons:** There must be two or more than two persons to make an agreement, because one person cannot enter into an agreement with himself.

b. **Consensus-ad-idam:** Both the parties to an agreement must agree upon the subject-matter of the agreement in the same sense and at the same time.

2. **Legal Obligation:** An agreement which creates a legal obligation between the parties becomes contract. If an agreement cannot create a legal obligation i.e., a duty enforceable by law, it is not a contract.

Therefore, agreements of moral, religious or social nature are not contracts because they do not create any legal obligation.

Examples:

A promise to attend Pooja ceremony or dinner at your friend’s house is not a contract and failure to attend will not create any legal obligation.

An agreement to buy a horse at Rs. 500 is a contract because it gives rise to legal obligation.

Thus, there are various kinds of agreements but all these agreements are not contracts. “Only those agreements which are legally enforceable by law and which therefore create legal obligation on the parties concerned constitute contracts.

- **ESSENTIAL ELEMENTS OF A VALID CONTRACT**

According to Sec. 10, the following are the essential elements of a Contract.

1. **Offer and Acceptance:** There must be an agreement based on a lawful offer made by one person to another and lawful acceptance of that offer by the other person.
2. **Intention to Create Legal Relationship:** The intention of the parties entering into an agreement must be to create legal relationship between them. If there is no such intention on the part of the parties, there cannot be any contract between them.

3. **Lawful Consideration:** An agreement to form a valid contract should be supported by consideration. Consideration means "something in return" It can be cash, kind, an act or abstinence. It can be past, present or future. However, consideration should be real and lawful.

4. **Capacity of Parties:** In order to make a valid contract the parties to it must be competent to be contracted. According to section 11 of the Contract Act, a person is considered to be competent to contract if he satisfies the following criterion:

   a. The person has reached the age of maturity.
   b. The person is of sound mind.
   c. The person is not disqualified from contracting by any law

5. **Free Consent:** To constitute a valid contract there must be free and genuine consent of the parties to the contract. It should not be obtained by misrepresentation, fraud, coercion, undue influence or mistake.

6. **Lawful Object:** The object of the agreement must not be illegal or unlawful.

7. **Agreement not declared Void:** Agreements which have been expressly declared void or illegal by law are not enforceable at law; hence they do not constitute a valid contract.

8. **Certainty:** The agreement must be certain and not vague or indefinite. It must be possible to ascertain the meaning of the agreement.

Example: X agrees to sell one of his horses to Y at a reasonable price. Here ~~the agreement is vague as to the horse and the price. Hence it~~ is a void contract

9. **Possibility of Performance:** The agreement must be capable of being performed. "An agreement to an act impossible in itself is void." An agreement to do an impossible act either physically or legally cannot be enforced by law.

10. **Legal Formalities:** The agreement may be oral or in writing. Where it is to be in writing, it must comply with the necessary legal requirements as to writing, registration, attestation etc. If the agreement does not comply with these requirements, it cannot be enforced.

Differences between an agreement and contract:

The terms agreement and contract are not one and the same. They differ from each other in some respects. The main differences are as follows.

1. Every promise or every set of promises, forming consideration for each other, is an agreement. On the other hand an agreement enforceable at law is a contract.

2. An agreement is the sum total of offer and its acceptance. But a contract is the sum total of agreement and its enforceability at law

   (i.e. the sum total of offer, its acceptance and the enforceability of the obligation at law.)

2. An agreement may or may not create legal relationship, whereas a contract necessarily creates legal relationship.
3. An agreement is a wider concept and contract is a narrow contract.
4. All agreements are not contracts, where as all contracts are agreements.

Classification of Contract:

Contract may be classified on the basis of their

(a) enforceability,

(b) formation or

(c) performance.

(a) Classification on the basis of enforceability they are classified as

(1) Valid

(2) Voidable

(3) Vide or

(4) Unenforceable or illegal.

1. **Valid Contract:** Agreements enforceable by law are valid contracts.
2. **Voidable:** Agreements which are enforceable at the option of one or more of the parties are voidable.
3. **Void Contract:** Agreements not enforceable by law are void contracts.
4. **Un-enforceable Contracts:** Agreements which are not enforceable because of some technical defects.
5. **Illegal Contracts:** Agreements which are contrary to the law, that means forbidden by law are illegal contracts.

(b) Classification on the basis of Formation:

Contracts are classified as express, implied and constructive on the basis of formation.

1. **Express Contracts:** Where the terms and conditions are expressly agreed by words spoken or written.
2. **Implied Contracts:** Where the terms and conditions are inferred from the acts or conduct of the parties.
3. **Constructive:** Where the terms and conditions do not arise out of agreement but are created by law.

(c) Classification the basis of performance:

On the basis of performance contracts are classified as executed, or executory.

1. **Executed Contracts:** It means both the parties to the contract have performed their obligations.

2. Executory Contracts: Executory contract is one in which the parties to the contract have not yet performed their obligations.

Offer and Acceptance:

Every contract begins with an offer. The first step towards the creation of a contract is that one party should make a proposal or an offer to the other party ~~to do or not to do something. So, one can rightly say that an~~ offer is an essential element of a contract.

Meaning of Proposal or Offer:

According to Sec. 2(a), "When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such an act or abstinence, he is said to make a proposal."

The person making the offer or proposal is called the offeror, proposer, or promisor and the person to whom it is made is called the oferee or promise.

Essentials of a Valid Offer or Proposal:

1. **A valid offer must intend to create legal relations:** It must not be a casual statement. If the offer is not intended to create legal relationship, it is not an offer in the eyes of law.

   For example; Sunil invites Sridhar to a dinner party and Sridhar accepts the invitation. Sridhar does not turn up at the dinner party. Sunil cannot sue Sridhar for breach of contract as there was no intention to create legal obligation. Hence, an offer to perform social, religious or moral acts without any intention of creating legal relations will not be a valid offer.

2. The terms of an offer must be definite, unambiguous and certain: They must not be loose and vague. A promise to pay an extra Rs. 500 if a particular house proves lucky is too vague to be enforceable. for example; Sridhar says to Sunil "I will give you some money if you marry my daughter". This is not an offer which can be accepted because the amount of money to be paid is not certain.

3. **An offer may be made to a definite person or to the general public:** When offer is made to a definite person or to a special class of persons, it is called "specific offer".

When an offer is made to the world at large or public in general, it is called "general offer".

A specific offer can be accepted only by that person to whom it has been made and a general offer can be accepted by any person.

For example; Sunil promises to give Rs.1,000 to Sridhar, if he brings back his missing dog. This is a specific offer and can only be accepted by Sridhar.

Sunil issues a public advertisement to the effect that he would give Rs.1,000 to any one who brings back his missing dog. This is a general offer. Any member of the public can accept this offer by searching for and bringing back Sunil's missing dog.

4. **An offer to do or not to do must be made with a view to obtaining the assent of the other party:** Mere enquiry is not an offer.

5. **An offer should contain any term or condition:** The offeror may prescribe any mode of acceptance. But he cannot prescribe the form or time of refusal so as to fix a contract on the acceptor. He cannot say that if the acceptor does not communicate his acceptance within a specified time, he is deemed to have accepted the offer.

6. **The offeror is free to lay down any terms and conditions in his offer:** If the other party accepts it, then he has to abide by all the terms and conditions of the offer. It is immaterial whether the terms and conditions were harsh or ridiculous. The special terms or conditions in an offer must be brought to the notice of the offeree at the time of making a proposal.

7. **An offer is effective only when it is communicated to the offeree:** Communication is necessary whether the offer is general or specific. The offeror may communicate the offer by choosing any available means such as a word of mouth, mail, telegram, messenger, a written document, or even signs and gestures.

Communication may also be implied by his conduct. A person can accept the offer only when he knows about it. If he does not know, he cannot accept it. An acceptance of an offer, in ignorance of the offer, is no acceptance at all.

ACCEPTANCE:

Section 2(b) of Indian Contract Act defines an acceptance as" When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted." A proposal when accepted becomes a contract.

Acceptance is the act of assenting by the offeree to the offer. An acceptance is the expression, by the offeree, of his assent, consent or willingness to the terms of the offer and establishment of legal relations.

Acceptance may be express or implied.

Express acceptance: When the acceptance is communicated by words spoken or written or by doing some required act, then it is called express acceptance.

Implied acceptance: When acceptance is to be gathered from the surrounding circumstances or the conduct of the parties, then it is called implied acceptance.

Who can accept?

Acceptance of particular offer: When an offer is made to a particular person, it can be accepted by him only. If it is accepted by any other person, there is no valid acceptance.

Acceptance of general offer: When an offer is made to world at large, any person to whom the offer is made can accept it.

Essentials of a Valid Acceptance:

1. **Acceptance by the Offeree:** Offeree is the person to whom the proposal or offer is made. Acceptance must be made by the person to whom ~~the proposal is made.~~

   If any other person accepts the proposal, it is not valid in law. He will not get any right in law unless it is a general offer.

   The offeror has made the offer to a specific person in order to get his assent. So it must be accepted by that specific person. Then only there will be an agreement and a resulting contract.

Example: 'A' advertises a reward of Rs 10,000/- to anyone who gives information of his lost son: B gives the information but is ignorant of the reward. After some time, B claims the reward. It was held that B is not entitled to the reward as he gave the information without being aware of the offer.

2. **Acceptance in time:** In case of specific offers, the one who makes the offer generally gives a certain time within which the offer should be accepted by the offeree.

This is done for giving certainty to the offer. So the acceptance must be within the time specified. But there are cases in which no time is specified. In such cases the acceptance must be within a reasonable time.

After the time is over, the offer is not valid and cannot be accepted in the eyes of law. (Ramsgate Victoria Hotel Co. Vs Montefore)

3. **Acceptance must be unconditional:** The acceptance must be for the whole offer and without any change in the terms of the offer.

A conditional or qualified acceptance is no acceptance in the eyes of the law. Even a slight deviation from the terms of offer would make the acceptance invalid.

In fact a conditional acceptance is a counter offer and not an acceptance. If A offers an article to B for Rs. 100/- the acceptance by B to buy the article for Rs. 90/- is no acceptance in the eyes of the law.

4. **Communication:** Very much like the offer the acceptance should also be communicated. Mere silence cannot be considered accepting the terms of the offer. So the acceptance must be made in some visible form.

(Powell Vs Lee)

5. **Particular method of acceptance:** If the terms of the offer specify it to be accepted in some particular form, it should be made so. The person who made the offer can rightly reject the acceptance if it is not made in the form prescribed.

Example: If the offeror prescribes 'acceptance by telegram' and the offeree sends his acceptance by ordinary post, there is no acceptance of the offer, if the offeror informs the offeree that his acceptance is not according to the prescribed mode.

But if the offeror fails to do so, it will be presumed that he has accepted the acceptance and a valid contract is created between them.

6. **Acceptance must succeed an offer:** Acceptance must be given only after receiving the offer and not before receiving it. If the acceptance precedes the offer, it is not a valid acceptance and does not result into a contract. (**Lalman Shukla Vs Gouri Dutt).**

In this case, Gouri Dutt's nephew was missing. So, Gouri Dutt sent his servant, Lalman Shukla to search for the boy. After Lalman Shukla left for searching the boy, Gouri Dutt announced a reward of Rs. 501/- to anybody who would trace the boy.

Lalman Shukla traced the boy in ignorance of Gouri Dutt's offer of reward. But, later on, when he came to know of the reward, he demanded the reward offered. Gouri Dutt refused to give the reward. At this, Lalman Shkla filed a suit against Gouri Dutt for the reward offered. It was held by the court that Lalman Shukla was not entitled to the reward of which he was ignorant.

Communication of Offer, Acceptance and Revocation:

- **Section 2(a)** of Indian Contract Act 1972 says that when a person signifies his willingness to do or to abstain from doing something to another, with a view ~~to obtaining the assent of that another, he is said to make a proposal~~.
- Further, **section 2(b)** says that when the person to whom the proposal is made signifies his assent, the proposal is said to be accepted. The important point to note here is that the party making the proposal or the party accepting the proposal must "signify" their willingness or assent to the other party.

- Thus, a promise cannot come into existence unless the willingness or assent is communicated to the other party. Further, even the revocation, if any, must be communicated to the other party for it to take effect. Therefore, communication is the most critical aspect in the making of a contract.

1. **Communication of an offer:** The communication of an offer is complete when it comes to the knowledge of the person to whom it is made i.e. when the letter containing the offer reaches the offeree and not when it is posted.

Example: For example, if A sends a proposal in the mail to B and if the mail is lost, it can be held that the communication of the proposal is not complete. In the case of Lalman vs Gauridatta 1913, it was held that the reward for the missing child cannot be claimed by a person who traced the child without any knowledge of the announcement. There was no contract between the two in the first place because the proposal never came to the knowledge of the person who found the child and thus he could never accept it.

2. Communication of an acceptance: Communication of the acceptance is complete, as against the promisor, when it is put in course of transmission to the promisor so as to be out of the power of the acceptor, as against the acceptor, when it comes to the knowledge of the promisor.

Example: As soon as B drops a letter of acceptance in mail back to A, A is bound by the promise. However, B is not bound by it unless A receives the acceptance letter.

In the case of Adams vs Lindsell 1818, it was held that a contract arose as soon as the acceptance was posted by the acceptor. In this case, the plaintiff received the offer to sell wool on 5th and they posted an acceptance, which was received on 9th by the defendants. The defendants, however, had already sold the wool on 8th. The court observed that the contract must arise as soon as the acceptance is posted and is gone out of the reach of acceptor otherwise this will result in an infinite loop.

3. **Communication of revocation:** Communication of a revocation is complete as against the party who makes it when it is put in course of transmission to the party to whom it is made, so as to be out of the power of the party who makes it; as against the party to whom it is made, when it comes to the knowledge of the party to whom it is made.

- For example, if A sends a letter revoking his proposal, it will be complete against A as soon as the letter is dropped in the mailbox and is out of his control. However, the revocation will be held complete against B only when B receives the letter.

- Further, if B revokes his acceptance by telegram, it will he deemed complete against B as soon as he dispatches the telegram. It will be held complete against A, when A receives the telegram.

Consideration:

Consideration is the foundation of every contract. The law enforces only those promises which are made for consideration.

Where one party promises to do something, it must get something in return. This something in return is called consideration.

Consideration is the very life blood of every contract. In the absence of consideration a promise or undertaking is purely gratuitous. However, sacred and binding in honour, it creates no legal obligation.

Definition.

Consideration has been defined in many ways. According to Pollock, "Consideration is the price for which the promise of other is bought and the promise thus given for value is enforceable."

It is something which is some value in the eyes of law. It may be of some benefit to the plaintiff or some detriment to the defendant.

It is also used in the sense of quid pro quo i.e. something in return. A most commonly accepted definition of consideration is given in the famous English case Currie vs Misa as " some right , interest, profit or benefit accruing to one party or some forbearance, detriment, loss or responsibility, given, suffered or undertaken by the other".[(1875)10 Ex.162].

Section 2 (d) of the Indian Contract Act defines consideration as-

“When at the desire of the promisor, the promisee or any other person, has done or abstained from doing , or does or abstains from doing, or promises to do or abstain from doing something, such act or abstinence or promise is called consideration for the promise.”

From the above definition it shows that the consideration has four components.

a. It may be an act or abstinence or a return promise done at the desire of the promisor.

b. It may be done by the promisor or any other person.

c. It must have been already executed or it is in the process of being done or it may be executed.

d. It must be something to which the law attaches a value.

Thus, the consideration need not necessarily be in cash or in kind.

It may be even an act or abstinence, forbearance or a promise to do or not do something.

It must be present in the sense or benefit to one party and a detriment or loss to the other party or detriment to both.

- **Examples:**
- A agrees to sell his car for Rs. 76,000 to B and who accepts the offer. Here B's promise to pay Rs. 76,000 is the consideration for A's promise to sell his car, and A's promise to sell his car is the consideration for B's promise to pay Rs. 76, 000
- X promises his debtor Y not file a suit against him for six months on Y's agreement to pay Rs. 200 more. The abstinence of X is the consideration for Y's promise to pay extra Rs. 200.
- A promise to act as a legal advisor to B and in return B promises to give tution to A's son. The promise of each party is the consideration for the promise of the other party.

ESSENTIALS OF VALID CONSIDERATION

1. **Consideration must move at desire of the promisor.** An act or abstinence must have been done at the desire of the promisor only. Any act performed at the desire of the third party cannot be valid consideration. *(Durga Prasad Vs. Baldeo.)*

- *In this case Durgaprasad spent money and built a market at the request of the District collector. The stalls in the market were occupied by many shop-keepers, promising to pay commission on the articles sold in the market. One of the shop-keeper Baldeo failed to pay the promised commission. Durga Prasad sued Baldeo to recover the promised commission.*
- *It was held by the court that the promise of Baldev could not be enforced against him because the act of Durga Prasad (construction of the market) was not at the desire of Baldeo but at the desire of the third party (the collector of the district).*

2. **It may move from the promisee or any other person.** Under the English Law, consideration must move from the promisee. Under the Indian Law, consideration may move from the promisee or any other person, i.e., even a stranger. This means that as long as there is consideration for a promise it is immaterial who has furnished it. But the stranger to consideration will be able to sue only if he is a party to the contract. (Chinnaya Vs Ramayya).

- *In this case an old lady, by a deed of gift, made over certain property to her daughter D, under the direction that she should pay her aunt, P (sister of the old lady), a certain sum of money annually. The same day D entered into an agreement with P to pay her the agreed amount. Later, D refused to pay the amount on the plea that no consideration had moved from P to D.*
- *It was held that, P was entitled to maintain suit as consideration had moved from the old lady, sister of P, to the daughter D.*

3. Consideration may be past, present or future.

(a) **Past Consideration:-** A consideration for the act done in past is a past con~~sideration. Past consideration valid in Indian Contract Act, but it~~ is no consideration in English Law.

(b) **Present Consideration:-** When both the parties are ready to move consideration at the same time, it is a present consideration.

(c) **Future Consideration:-** When a party promises to or abstain from doing something in future, it is a future consideration.

4. Consideration need not to be adequate: The real meaning of consideration is something in return. This ‘something in return’ need not necessarily be equal in value to ‘something given’. Adequacy is for the parties to decide at the time of making the agreement. No contract can be refused on the ground of inadequacy of the consideration.

5. **Consideration must be real and not illusory:** Although consideration need not be adequate, it must be real, competent and of some value in the eyes of the law.

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6. **Consideration must be lawful:** In valid contract it is necessary that the consideration should be lawful, otherwise it will become void and unenforceable.

- ***EXCEPTIONS:***

No doubt without consideration agreement is void but it has also exceptions which are following:

1. **Case of Love :-**

   Consideration is not compulsory if an agreement made between the parties for natural love and affection.

2. **Case of An Agent:-**

   The contract of agency requires consideration, where the contract is a promise to appoint an agent.

3. **Case of Voluntary Services:-**

   In case of compensation for voluntary services there is a relaxation of consideration.

4. Case of Donation:-

Agreement made for donation is not enforceable for want of consideration. A promised amount can not be legally recovered where the promisee has done nothing on the basis of promise.

Example: - If Mr. Shah promised to donate one lakh rupees for the repair of college. College principal did nothing for repair. Mr. Shah refused to pay. On a suit by principal it was held the Mr. Shah is not liable because it did not result any loss to promisee.

5. Case of Gift:-

In case of gift there is no need of any consideration. According the law any gift which is actually delivered will be valid. It cannot be demanded back on the ground that there was no consideration for him.

6. Extension in Time Limit:-

There is no need of any consideration if agreement is made to extend time for the enforcement of the contract.

Example :- Mr. Chun agrees to construct the shop for Mr. Raju within one year against Rs. 20 lac. Later on the request to Mr. Raju to extend the time period for the completion of the shop. Mr. Raju accepts the request. It is a valid agreement without consideration.

7. Case of Time Barred Debt :-

If a debtor promises to pay a time barred debt, then there is no need of consideration. The promise must be in written and signed by the debtor or his agent.

8. Contract Under Seal :-

A contract without consideration is valid if it is made under seal.

Example :- Mr. Nehra and Mr. Adit enter into agreement by writing the partnership deed to form a partnership. This contract is valid

FREE CONSENT

Free consent of all the parties to a contract is one of the essential elements of a valid contract as per requirement of section 10. The parties to a contract should have identity of minds. This is called consensus ad idem in English law.

Two or more persons are said to consent when they agree upon the same thing in the same sense. (Section 13).

Free consent is the consent which has been obtained by the free will of the parties out of their own accord.

According to Section 14, consent is said to be free when it is not caused by

1. Coercion – as per Sec. 15 or
2. Undue influence – as per Sec. 16 or
3. Fraud – as per Sec. 17 or
4. Misrepresentation – as per Sec. 18
5. Mistake, subject to the provisions of Sections 20, 21, and 22

When consent to an agreement is caused by coercion, undue influence, misrepresentation or fraud, the contract is voidable at the option of the party whose consent was so caused. But when the consent is caused by mistake, the agreement is void.

1. COERTION:

In simple words, coercion is threat or force used by one party against another for compelling him to enter in to an agreement,

Section 15 of the Indian Contract Act defines 'coercion as the committing or threatening to commit any act forbidden by the Indian Penal Code or an unlawful detaining or threatening to detain, any property to the prejudice of any person with the intention of inducing any person to enter into an agreement.'

Coercion is said to have been employed when a person was forced o enter into a contract by use or under the threat of use of physical force by the other person committing or threatening to commit any act forbidden by Indian Penal Code.

- **Example:**
- X threatens to kill Y if he does not sell his house for Rs. 1, 00,000 to X. Y sells his house to X and receives the payments. Here, Y's consent has been obtained by coercion. Hence, this contract is voidable at the option of Y.
- If Y decides to avoid the contract, he will have to return Rs 1,00,000 which he had received from X. "Y" (aggrieved party) will return Rs. 1,00,000. "X" (defendant party) will return the house and any benefit from the goods.

- **When voidable contract cannot be canceled:** When the third party become interested into a voidable contract.
- **Example:** A obtains the car of B through coercion. Let, A sold it to "C" an innocent ~~buyer, now B cannot get the contract canceled.~~
  When the aggrieved party ratify / confirm / affirm, then contract cannot be canceled.

2. UNDUE INFLUENCE:

Meaning: [section 16(1)]: The term 'undue influence' means dominating the will of the other person to obtain an unfair advantage over the other.

According to section 16(1), a contract is said to be induced by undue influence
"Where the relations subsisting between the parties are such that one of them is in a position to dominate the will of the other, and the dominant party uses that position to obtain an unfair advantage over the other."

- When two-partner are in relation, and one of them is dominant and other is in weaker position and dominant person takes undue-Advantage, then it is called "Undue- influence."

  There ~~is no presumption of undue influence in the following relationsh~~ips:

  Husband and wife, landlord and tenant, Creditor and debtor

- **Effect of undue influence [section 19A]:** when consent to an agreement is caused by undue influence, the agreement is a contract voidable at the option of the party whose consent was so caused.

Comparison between coercion and undue influence:

Similarities: In case of both coercion and undue influence, the consent is not free and the contract is voidable at the option of the aggrieved party.

3. FRAUD:

Meaning and essential elements of fraud [section 17] :

The term 'fraud' means a false representation of fact made willfully with a view to deceive the other party. Fraud includes following:

Wrong suggestion about a fact, knowing that it is not-true;

Example: X sells to Y locally manufactured goods as imported goods charging a higher price, it amounts to fraud. OR

A seller claimed that his projector is made in Singapore, and sold it for Rs. 100,000/- However the fact is that "Projector was made in south India".

Active concealment (Hide) of defect in goods:

Example: "A carpenter uses paint to hide the scratches over the old furniture and sold it claiming that is New". This is fraud. OR

X a fur~~niture dealer, conceals the cracks in furniture sold by him by usi~~ng some packing material and polishing it in such a way that the buyer even after reasonable examination cannot trace the defect, it would tent amount to fraud through active concealment.

Promise made without intention to perform:

Example:

"A man and a woman underwent a ceremony of marriage with the husband not regarding it as a real marriage. Held, the husband had no intention to perform the promise from the time he made it and hence the consent of the wife was obtained under fraud. OR

"A farmer agrees to supply 100 kg potato that will be produced by him out of his field, after three month". Two months has been lapsed, but the farmer neither implants seeds, nor does cultivation. This is case of fraud.

Any activity declared fraud as per other law; under companies act and insolvency acts, certain kinds of transfers have been declared to be fraudulent.

Note: ~~In case of fraud, the seller is always liable even though buyer has~~ an opportunity to check the fraud.

Whether silence is fraud?

General concept: According to explanation to section 17, "Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud".

In other words, Silence is not fraud. It is buyer, who must check the goods & suitability.

Example: X purchased a used computer from Z thinking it as a computer imported from USA, Z failed to disclose the fact to X. On knowing the fact X wants to repudiate the contract. So, here X cannot repudiate/ cancel the contract.

Exceptions to the general rule:

The general rule that silence does not amount to fraud has the following exceptions.

When silence is equivalent to speech:

Example: "A student of BBA selects a Business law-book and asks the seller". If seller doesn't stop me from buying this book, I will assume that "it is the best". The seller remained silent here the student will treat "silence" as speech. If the book was inferior, then it is a case of fraud.

Disclosure of dangerous nature:

Example: Shyam sold his horse to Ram a buyer for Rs. 11000/- Shyam knows that horse was "wicked" but fails to disclose it to buyer. Here seller has committed fraud by remaining silent.

4. Misrepresentation: (Section 18)

The term "misrepresentation" means a false representation of fact made innocently or non-disclosure of a material fact without any intention to deceive the other party.

“Misrepresentation does not involve deception but is only an assertion of something by a person which is not true, though he believes to be true. Misrepresentation could arise because of innocence of the person making it or because he lacks sufficient or reasonable ground to make it. A contract which is hit by misrepresentation can be avoided by the person who has been misled.

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For example: A makes the statement on the information derived, not directly from C but from M. B applies for shares on the faith of the statement which turns out to be false. The statement amounts to misrepresentation, because the information received second-hand did not warrant A to make positive statements to B. (Section 18(1)).

5. Mistake:

An error committed innocently is called mistake. Mistake may be ;

A. Mistake of Law

i. Mistake of General Law of Country.

ii. Mistake of Foreign Law

iii. Mistake of Private Rights of a Party Relating to Property and Goods etc.

B. Mistake of Fact

i. Bilateral Mistake

ii. Unilateral Mistake

A. Mistake of Law:

i. **Mistake of General Law:** Every citizen of the country is expected to know the law of his nation. The maxim *'ignorance of law is no excuse'* is applicable and the party cannot be allowed any relief on that ignorance.

No citizen can claim excuse on the grounds of ignorance of law. It does not give right to the parties to avoid the contract, stating the effect of mistake as to law. According to Sec. 21 'a contract is not voidable because it was caused by a mistake as to any law in force in India.

ii. **Mistake of Foreign Law:** Even though the ignorance of law is no excuse, the ignorance of foreign law is excused. Because everyone cannot be expected to know the law of all foreign nations. Therefore, mistake of foreign law is considered as void, if it is bilateral.

iii. **Mistake of Private Rights:** Mistake of rights relating to property or goods is treated as mistake of fact and hence void.

B. Mistake of Fact:

i. **Bilateral Mistake:** Where both the parties to an agreement are under a mistake as to a matter of fact essential to an agreement it is called bilateral mistake and it is void.

ii. **Unilateral Mistake:** When only one party to the agreement is mistaken about the contents of the agreement it is called unilateral mistake. But when it is caused by fraud or misrepresentation on the part of other party, it can be avoided.

LEGALITY OF OBJECT AND CONSIDERATION

INTRODUCTION:

Section 10 (Indian Contracts Act) states that all agreements are contracts if made for lawful considerations and with lawful object. Considerations should be lawful, as otherwise, it would vitiate the whole contract and make it void.

For example: A promises to pay B Rs 500/- if he commits a theft in C's house. Such a promise will not be enforced by law even if B has committed a theft because the object of consideration of the promise is unlawful.

Section 23 also lays down that every agreement of which the object or consideration is unlawful is void. It, therefore follows that every contract, in order to be valid must be made for lawful consideration with a lawful object.

Illustrations of Lawful Considerations:

1. A agrees to sell his house to B for Rs 10,000. Here B's promise to pay the sum of Rs 10,000 is the consideration for A's promise to sell the house, and A's promise to sell the house is the consideration for B's promise to pay Rs 10,000. These are lawful considerations.

2. A promises to pay B Rs 10,000 at the end of six months, if C who owes that sum to B, fails to pay it. B promises to grant time to C accordingly. Here the promise of each party is the consideration for the promise of the other party and they are lawful considerations

3. A promise for a certain sum paid to him by B to make good to B the value of his ship if it is wrecked on a certain voyage. Here A's promises is the consideration for B's payment and B's payment is the consideration for A's promise and these are lawful considerations.

4. A promises to maintain B's child, and B promises to pay A Rs 1,000 yearly for the purpose. Here the promise of each party is the consideration for the promise of the other party. These are lawful considerations.

Lawful considerations and lawful object distinguished:

Object of an agreement should be differentiated from consideration for an agreement. Object is different from consideration. Object means purposes or design. However, certain difficulties are faced in practice to distinguish between the two, particularly when considerations consist in a promise to do or not to do something.

Illustrations:

A promises to obtain or B an employment in the public services and B promises to pay A Rs 100/- The agreements is void as the consideration being A's promise to procure an employment in the public services is opposed to public policy and hence unlawful.

Illustrations of unlawful object:

A promise to drop a prosecution which he has instituted against B for robbery and B promises to restore the value of things taken. The agreement is void as its object to save a robber from punishment is unlawful.

A, B and C enter into an agreement for the division among them of the gains to be acquired by them by fraud. Because object of the agreements is to practice fraud on others, it is unlawful.

What is unlawful consideration?

In the following cases, the consideration or object of an agreement is unlawful: if

1. it is forbidden by law; or
2. is of such a nature that, if permitted, it would defeat the provisions of any law; or
3. is fraudulent; or
4. involves or implies injury to the person or property of another; or
5. the court regards it as in moral or opposed to public policy.

An act promised to be done may be either unlawful to perform (illustrations (1) and (3) below); or the act may be lawful but law will not enforce it for reasons of public policy like wagering agreements. Law means the law for the time being in force in India and includes Hindu and Muslim laws.

What is a Void Agreement?

Section 2 (g) of the Indian Contract Act, states “that a void agreement is one which is not enforceable by law. A void agreement does not create rights, obligations or duties. It does not give rise to any legal consequences. Such agreements are void. The courts can only enforce those agreements that according to Section 10 fulfill the conditions of the Indian Contract Act. It should not be declared void by any law in the country. There is a difference between void agreements and void contracts.

Void Agreement:

- A void agreement is not valid.
- The agreement is not enforceable by law.
- It is void from the very beginning of the making of the agreement.
- Agreement by a minor or a person of unsound mind.[Sec(11)]
- Agreement of which the consideration or object is unlawful[Sec(23)]
- Agreement made under a bilateral mistake of fact material to the agreement[Sec(20)]
- Agreement of which the consideration or object is unlawful in part and the illegal part cannot be separated from the legal part [Sec(24)]

- Agreement made. without consideration.[Sec(25)]
- Agreement in restraint of marriage [Sec(26)]
- Agreement in restraint of trade [Sec(27)]
- Agreement in restraint of legal proceedings[Sec(28)]
- Agreement the meaning of which is uncertain [Sec(29)]
- Agreement by way of wager [Sec(30)]
- Agreement contingent on impossible events [Sec(36)]
- Agreement to do impossible acts [Sec(56)]

DISCHARGE OR TERMINATION OF A CONTRACT

Meaning:

Discharge or termination of a contract means the termination of the contractual relationship between the contracting parties. A contract is said to be discharged or terminated, when the rights and the obligations of the contracting parties arising out of the contract, are extinguished. (Come to an end).

Different modes or ways in which contract may be discharged:

A contract may be discharged in any one of the following ways:

1. By performance - actual performance or attempted performance.
2. By mutual agreement or mutual consent of the parties to terminate the contract.
3. By impossibility of performance.
4. By lapse of time.
5. By operation of law.
6. By breach of contract.

1. Discharge by performance:

Discharge by performance is the most usual method of discharging a contract. The performance of a contract may be:

(a) Actual performance.

(b) Attempted performance or tender.

(a) Actual performance:

When both the parties to a contract fulfill their respective promises or obligations under the contract within the time at the place, in the manner prescribed, the contract is said to have been discharged by actual performance."

In this context, it may be noted that, if only one party performs his promise or his part of the obligations, he alone is discharged, and he also gets a right of action against the other party who is guilty of breach.

(b) Attempted performance or tender:

When a party to a contract (i.e., the promisor) offers to perform his part of the obligations under the contract, but his offer of performance is not accepted by the other party to the contract (the promisee), it is called attempted performance, tender of performance, offer of performance or tender

It may be noted that tender is not actual performance. It is only an offer to perform one's obligation. But, in law, a valid tender is considered equivalent to actual performance.

That is, a valid tender has the same effect as actual performance as far as the renderer or promisor (the party who offers to perform his part of obligations under the contract) is concerned.

So, when there is a valid tender (when the promisor offers to perform his part of the obligations under the contract, and his offer of performance is not accepted by the promisee), the contract is deemed to have been performed by the promisor or renderer, and as such, the promisor is discharged from his obligation without losing his right. of action against the promisee. (Section 38 of the Indian Contract Act).

2. Discharge by Mutual Agreement or Mutual Consent:

Since a contract is created by means of an agreement, it may also be discharged by mutual agreement or mutual consent between the contracting parties .

The parties to a contract may agree to terminate their contract either expressly or impliedly. That means, a contract may be discharged by mutual agreement or mutual consent, and the discharge of contract by mutual agreement or consent may be express or implied.

Sec 62 and 63 of the Indian Contract Act, 1872 deal with the various methods of discharging a contract by mutual agreement or mutual consent.

The various methods of discharging a contract by mutual agreement or mutual consent are:

(a) By Novation:

Substituting a new contract for an existing contract, known as novation.

The new contract may be between the same parties or between different parties.

If the new contract is between the same parties then, material terms of law of contract must be altered substantially in the new substituted contract.

On the other hand, if the new contract is between new parties, the terms of the contract can remain the same. The consideration for novation, i.e. for the new contract, is the discharge of the old contract.

Conditions for Novation:

I. Novation cannot be compulsory: It can be only with the mutual or tripartite consent of all the parties concerned.

II. The new contract must be valid and enforceable.

III. Novation should take place before the expiry of the time of performance of the original contract.

IV. For a valid novation, when the parties are not changed, then, the nature of the obligation must be altered substantially in the new substituted contract.

(b) By Alteration:

Alteration of a contract means change of one or more of the material terms of a contract with the consent of all the parties to the agreement.

It maybe noted that, in the case of alteration, only the material terms of the contract are changed, but the parties continue to be the same.

It may also be noted that when there is an alteration of the contract, the old contract is discharged and a new contract in its altered form takes its place.

(c) By Rescission:

Rescission means the cancellation. On rescission of contract, the obligation of both the parties are discharged. It may be express or implied (understood from circumstances). This may be in any one of the following ways.

I. When the contracting parties mutually agrees to rescind the contract.

II. In case of voidable contracts, the aggrieved party may rescind the contract, and contract is discharged.

III. When a party to a contract commits breach of contract, aggrieved party can rescind contract without prejudice to his rights.

(d) By Remission:

Section 63 of the Indian Contract Act provides for discharge of a contract by remission. Remission is the acceptance of a lesser sum than what was contracted for, or a lesser fulfillment of the promise made in discharge of the whole debt or obligation.

e. By Waiver:

Waiver is one of the methods of discharge of a contract by mutual agreement or mutual consent. Waiver means deliberate or intentional abandonment, relinquishment or giving up of a right, which a person is entitled to under a contract.

(f) Merger:

Merger takes place when an inferior right accruing to a party under a contract merges into a superior right accruing to him under the same or any other contract by the mutual agreement between the parties to the contract.

3. Discharge by Impossibility of Performance:

Section 56 of the Indian Contract Act lays down that "an agreement to do an act impossible in itself is void ". From this provision, it is clear that impossibility of performance makes a contract void, and the parties to the contract will be discharged from their obligations. In short, a contract is discharged when its performance becomes impossible.

Types of impossibility of performance

Impossibility of performance may be of four types. They are:

a. Impossibility of performance existing at the time of the formation of the contract and known to both the parties to the agreement.

b. Impossibility of performance existing at the time of the formation of the contract but unknown to both the parties to the contract.

c. Impossibility of performance existing at the time of the formation of the contract but known to only one of the parties to the contract.

d. Impossibility of performance arising after the formation of the contract .

4. Discharge by Lapse Time:

As per the Limitation Act, every contract must be performed within the specified period called the period of limitation. All such, if a contract is not performed by the promisor, and if no action is taken by the promisee against the promisor, in a court of law, within the period of limitation, the contract is discharged, and the promisee is deprived of his remedy (i.e., right of action) under the law against the promisor.

5. Discharge by Operation of Law:

A contract comes to an end (i.e., gets discharged) also

by operation of law.

a. By death:

In the case of a contract involving Personal skill, ability or qualifications. The contract is terminated or discharged on the death of the promisor.

Of course, in the case of other contracts (" contracts which do not involve personal skill, ability or qualification), the contracts remain un discharged and the rights and liabilities of the deceased under the contracts pass on to his legal representatives.

(b) Insolvency:

By insolvency: Under the law of insolvency, when a person is adjudicated insolvent, his rights and liabilities are transferred to the official assignee or official receiver as the case may be, and when he is discharged by the insolvency court he will be discharged from all the liabilities arising from the contracts entered into by him during his solvency. That means, the insolvency of a party to the contract discharges a contract

(c) By Merger:

When an inferior right accruing to a party under a contract merges into a superior right accruing to the same party under the same or some other contract, the process is known as merger. When there is a merger, the original contract gets discharged.

(d) By unauthorized material alteration of the terms of a written contract:

A material alteration is an alteration or change in the terms of a written contract or document, which affects, in a significant manner, the rights and liabilities of the parties to the contract. Ex:-amount to be paid, time of payment, place of payment, rate of interest, party to whom the payment is to be made, etc. in the case of a debt, and the quality, quantity, the make, the place of delivery, etc: in the case of goods.

(e) By rights and liabilities being vested in the same party:

When the rights and liabilities under a contract are vested in the same party, the other party or parties to the contract are discharged from their obligations. That means the contract is discharged

6. Discharge by Breach of Contract :

Meaning of breach of a contract: When a party to a contract fails or disables himself to perform the contract, there is said to be a breach of contract. In other words, there is said to be a breach of contract, when a party to a contract either fails or disables himself to perform his obligations under the contract .

Kinds of breach of contract:

Breach of contract may be:

(A)Actual breach of contract.

(b) Anticipatory or constructive breach of contract.

a. Actual breach of contract:

Actual breach of a contract occurs when a party to a contract fails to perform his obligations under the contract on the date when the performance is due or during the time of the performance of the contract.

b. Anticipatory or Constructive Breach of Contract:

Anticipatory breach of a contract occurs when a party to the contract declares his intention of not performing the contract before the time fixed for its ~~performance (before the due date of the performance~~ of the contract), or by his own voluntary act, disables him self from performing the contract before the time fixed for its performance.

In the former case, there is said to be an express anticipatory breach of contract, and in the latter case, there is said to be an implied anticipatory breach of contract.

Examples:

Anticipatory Breach of Contract: Suppose X agrees to sell his bike to Y on 20th March, 2018. But before that date, without informing to Y, X sells it to Z on ~~15th March, 2018. It is anticipatory breach of contract and it~~ can be understood from the conduct of X.

Express Repudiation: Suppose X agrees to sell his bike to Y on 20th March, 2018. But, on 15th March, 2018, X informs Y that he is going to sell it to Z. This is anticipatory breach of contract by informing expressly to Y.

Effects of anticipatory breach of contract:

As provided in Section 32 of the Act, the promisee is given an option either;

I. to treat the contract as rescinded (cancelled) immediately and sue the other party for damages, or

II. to elect of not rescinding contract immediately but to wait till arrival of actual date of performance and hold the other party responsible for consequences.

As long as the aggrieved party chooses to treat it as rescinded, the contract is not discharged.

REMEDIES FOR BREACH OF CONTRACT

Meaning of Breach of Contact :

The parties to a contract are required to perform or fulfill their respective promises.

But, sometimes, one of the parties to the contract may break the contract, i.e. may fail or refuse to perform his promise, this is known as breach of contract.

The person breaking the contract is called the defaulter or the guilty, and the other party to the contract, is called the aggrieved party or the injured party.

Breach of contract may be committed by anyone of the parties to the contract, i.e., either by the promisor or by the promisee.

Remedies Available to the Aggrieved Party on the Breach of Contract:

Whenever there is a breach of contract by one party, the other party (the aggrieved party) is entitled to one or more of the following remedies against the defaulter or the guilty:

1. Rescission of the contract
2. Suit for damages.
3. Suit upon quantum merit.
4. Suit for specific performance of the contract.
5. Suit for the injunction.

It may be noted that the Indian Contract Act, 1872 regulates the first three remedies, and the last, two remedies are regulated by the Specific Relief Act, 1963.

I. Rescission of the Contract:

Rescission of the contract means setting aside the contract:

Wh~~en there is a breach of contract by one party, the other party m~~ay rescind (set aside) the contract. When the aggrieved party rescinds the contract, he is absolved (freed) from all his obligations under the contract. He need not perform his part of the contract.(his part of the obligation under the contract).

When an aggrieved party decides to rescind the contract, he may carry out the rescission of the contract in anyone of the following, two ways:

a. He may rescind the contract by merely communicating his decision to rescind the contract to the guilty or the defaulter immediately without taking any legal action against the guilty.

In this case, he is, no doubt, freed from all his obligations under the contract. But he will not be entitled to compensation for any damaged which he might have suffered through the breach of contract.

b. Alternatively, if he desires to take legal action against the guilty, he has to file a suit in a court of law.

At the option of the aggrieved party, damages for breach of contract can be claimed even without a suit for rescission of the Contract by merely communicating the rescission of the contract to the guilty.

2. Suit for damages:

When there is a breach of contract by one party, the other party (the aggrieved party) has not only the right to rescind (set aside) the contract, but it also entitled to claim damages.

As such, when there is a breach of contract by one party, the other party (the aggrieved party) may sue the other party for damages for breach of contract.

Damages are monetary compensation allowed by the court to the aggrieved party for the loss or injury suffered by him as a result of the breach of contract.

3. Suit upon Quantum Meruit:

The term "quantum meruit“, literally means as much as merited or "as much as he deserved" or "as much as earned".

In other words it means payment in proportion of the value or amount of work done. In law suit upon quantum meruit means suing on its own merit, i.e., suing for the value of such' part 'or portion of the work as is done.

When a contract has been partly performed by one party and has become discharged by the breach by the other party to the contract, the party who has partly performed his part of promise or circumstances file quantum merit against the other party (the guilty), claiming payment for the portion of work done or goods supplied before the breach of contract.

The aggrieved party may file a suit upon quantum meruit in the following cases:

a. Where work has been done in pursuance of a contract, which has been discharged by the breach of contract or default by the defendant.

b. Where work has been done in pursuance of a contract, which is discovered to be void or becomes void for some reason, the person who has done something under it can claim reasonable payment upon quantum merit in spite of the fact that the agreement has become void. (Section 65 of the Indian Contract Act.)

c. Where a person lawfully does something for another person or delivers something to him without any intention to do so gratuitously and the other person enjoys the benefits thereof, the latter is bound to pay to the former in respect of the act so done or restore the thing so delivered.

4. Suit for Specific Performance of the Contract :

In certain situations or cases of breach of contract, damages may not be an adequate remedy.

In such cases the court may direct the party to perform the act specified in the contract instead of awarding any damages is known as ‘specific performance’.

5. Suit for Injunction :-(Injunction is a preventive relief).

It is particularly useful in cases of anticipatory breach of contract, where damages could not be an adequate relief. Injunction is an order of the court restraining a party from doing a particular act which he promised not to do. It is a mode or method of securing the specific performance of the negative terms of the contract

QUASI CONTRACTS

It is a contract in which there is no intention on either side to make a contract. The law imposes a contract.

Strictly speaking these are not contracts at all. Because, they are not created by means of offer and acceptance.

They are imposed on both the parties as an obligation. They are under the compulsion to perform and act according to the decision, they arise by operation of law.

In short, quasi contracts are contracts, which are not made by agreements between the parties, but are presumed or created by law.

Basis of Quasi Contracts:

"Quasi contracts are not contracts, as they are just ~~created by law, and are not intentionally~~ entered into by the parties. But law enforces them on the ground of equity".

Types of Quasi Contract

There are five circumstances which are identified by the Act as quasi contracts. These five circumstances do not result in regular contracts.

a. **Claim for necessaries supplied to persons incapable of contracting:** Any person supplying necessaries of life to persons who are incapable of contracting is entitled to claim the price from the other person's property. Similarly where money is paid to such persons for purchase of necessaries, reimbursement can be claimed.

For *example* : If 'A' supplies necessaries of life to 'B' a lunatic or to his wife or child whom 'B' is liable to protect and maintain, then 'A' can claim the price from the property of 'B'. For such claim to be valid 'A' should prove the supplies were to the actual requirements of 'B' and his dependents. No claim for supplies of luxury articles can be made. If 'B' has no property 'A' obviously cannot make his claim.

(b) Right to recover money paid for another person: A person who has paid a sum of money which another is obliged to pay, is entitled to be reimbursed by that other person provided the payment has been made by him to protect his own interest.

Here the person who makes the payment must honestly believe that his own interest demands payment. *[Muni Bibi vs. Trilokinath]*.

In a case the plaintiff agreed to purchase certain mills and to save it from being sold to outsiders paid certain arrears of municipal dues. Here the payment made by the plaintiff was held to be recoverable as he had interest in the property as prospective buyer.

c. **Obligation of person enjoying benefits of non-gratuitous act:** In term of section 70 of the Act "where a person lawfully does anything for another person, or delivers anything to him not intending to do so gratuitously and such other person enjoys the benefit thereof, the latter is bound to pay compensation to the former in respect of, or to restore, the thing so done or delivered.

The above can be illustrated by a *case law* where 'K' a government servant was compulsorily retired by the government. He filed a writ petition and obtained an injunction against the order. He was reinstated and was paid salary but was given no work and in the mean time government went on appeal.

The appeal was decided in favour of the government and 'K' was directed to return the salary paid to him during the period of reinstatement.*[Shyam Lal vs. State of U.P.A.I.R (1968) 130]*

d. Responsibility of finder of goods: In terms of section 71 'A person who finds goods belonging to another and takes them into his custody is subject to same responsibility as if he were a bailee'.

Thus a finder of lost goods has:

1. to take proper care of the property as men of ordinary prudence would take
2. no right to appropriate the goods and
3. to restore the goods if the owner is found.

Where 'P' a customer in 'D's shop puts down a brooch worn on her coat and forgets to pick it up and one of 'D's assistants finds it and puts it in a drawer over the week end. On Monday, it was discovered to be missing. 'D' was held to be liable in the absence of ordinary care which a prudent man would have taken.

e. Liability for money paid or thing delivered by mistake or by coercion: In terms of Section 72 of the Act, “a person to whom money has been paid or any thing delivered by mistake or under coercion, must repay or ret~~urn it. Every kind of payment of money or delivery of goods for~~ every type of ‘mistake’ is recoverable. *[Shivprasad vs Sirish Chandra A.I.R. 1949 P.C. 297]*

INDEMNITY AND GUARANTEE

Contract of Indemnity and Guarantee are the special types of contracts given under sections 124 to 147 of the Indian Contract Act,1872.

In terms of Section 124 of the Act, ‘a contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or the conduct of any person is called a “contract of indemnity”. This is also a known as typical form of contingent contract.

There are two parties in this form of contract. The party who promises to indemnify/ save the other party from loss is known as ‘indemnifier’, where as the party who is promised to be saved against the loss is known as ‘indemnified’.

For *examples,*

A may contract to indemnify B against the consequences of any proceedings which C may take against B in respect of a sum of ` 5000/- advanced by C to B.

In consequence, when B who is called upon to pay the sum of money to C fails to do so, C would be able to recover the amount from A as provided in Section 124.

2. X, a shareholder of a company lost his share certificate. He applied for the duplicate. The company agreed to issue the same on the term that X will compensate the company against the loss where any holder produces the original certificate. Here there is contract of indemnity between X and the company.

Rights of Indemnity holder: (Sec. 125)

An indemnity holder is entitled to recover all the losses incurred by him because of acting on behalf and according to directions of promisor. The indemnity holder must have acted according to instructions of promisor and within the power / authority given to him.

In a contract of indemnity, the promisee i.e., indemnity- holder acting within the scope of his authority is entitled to recover from the promisor i.e., indemnifier.

a. all damages which he may be compelled to pay in any suit .

b. all costs which he may have been compelled to pay in bringing/ defending the suit and

c. all sums which he may have paid under the terms of any compromise of suit.

It may be understood that the rights contemplated under section 125 are not exhaustive. The indemnity holder/ indemnified has other rights besides those mentioned above. If he has incurred a liability and that liability is absolute, he is entitled to call upon his indemnifier to save him from the liability and to pay it off.

Contract of Guarantee

A contract of guarantee is a contract to perform the promise made or discharge liability incurred by a third person in case of his default (Section 126).

There are three parties in a contract of guarantee. Surety- person who gives the guarantee, Principal debtor- person in respect of whose default the guarantee is given, Creditor- person to whom the guarantee is given.

Any guarantee given may be oral or written.

For *examples,*

1. **W**here 'A' obtains housing loan from LIC Housing and if 'B' promises to pay LIC Housing in the event of 'A' failing to repay, it is a contract of guarantee.

2. X and Y go into a car showroom where X says to the dealer to supply latest model of SUV to Y. In case of his failure to pay, he will be paying for it.

   This is a contract of guarantee because X promises to discharge the liability of Y in case of his defaults.

The principle of implied promise to indemnify surety(one who gives guarantee) is contained in Section 145 of the Act which provides that ‘in every contract of guarantee there is an implied promise by the principal debtor to indemnify the surety and the surety is entitled to recover from the principal debtor whatever sum he has rightfully paid under the guarantee but no sum which he has wrongfully paid.

The right of surety is not affected by the fact that the creditor has refused to sue the principal debtor or that he has not demanded the sum due from him.

What constitutes consideration in a case of guarantee is an important issue and is laid down in Section 127 of the Act.

As per Section 127 of the Act "anything done or any promise made for the benefit of the principal debtor may be sufficient consideration to the surety for giving the guarantee.

For *example* ‘A’ had advanced money to ‘B’ on a bond hypothecating B’s property stating that C is the surety for any balance that might remain due after realization of B’s property. C was not a party to the bond.

He, however signed a separate surety bond two days subsequent to the advance of the money. It was held that the subsequent surety bond was void for want of consideration*(Nanak Ram vs. Mehinlal 1877, Allahabad 487)*.

Discharge of Surety

Sections 133 to 139 of the Act lay down the law as to when a surety would be discharged.

These are as follows:

a. Where there is any variance in the terms of contract between the principal debtor and creditor without surety's consent it would discharge the surety in respect of all transactions taking place subsequent to such variance.

   Where 'A' stands to 'C' as surety for 'B' for rent payable by 'B' to 'C' for 'C's house and if B & C agree on a higher rent without A's consent, 'A' would stand discharged for the entire rent amount accruing after the date of variance.

b. The surety is discharged if principal debtor is discharged,

- by a contract, or
- by any act or
- by any omission the result of which is the discharge of principal debtor.

For *instance:*

1. Where 'A' contracts with 'B' to build a house for him and if 'C' stands as surety for 'B', 'C' as surety will stand discharged if 'A' discharges 'B' of his obligation to build house.

2. Where 'A' agrees to build a house for 'B' if 'B' supplies the necessary timber and if 'C' stands as surety for A's performance. If 'B' fails to supply the timber, both 'A' and 'C' stand discharged.

c. Where the principal debtor compounds [settles] with the creditor regarding the amount or promises not to sue, the surety will be discharged.

But a contract for giving time to a debtor is entered into with a third party, the surety will not be discharged.

Where there are co-sureties release of one co-surety would not automatically discharge the other co-sureties.

Further in between other co-sureties, the released co-surety is not absolved of his liability vis a vis other co-sureties.

d. The surety would be discharged if the creditor does anything or acts in a manner which is inconsistent with the rights of surety and impairs the eventual remedy of the surety.

For example:'

A' puts 'M' as the cashier under B and agrees to stand as surety provided 'B' checks the cash every month. 'M' embezzles cash. 'A' was not held to be responsible as B failed to verify the cash every month.

There are certain exceptions to the above rule. These are given hereunder:

i. A mere forbearance on the part of a creditor to sue the debtor or to enforce any other remedy would not discharge the surety in the absence of an y specific provision.

ii. Even where the claim is barred by limitation, surety is still responsible. In *Krishto Kishore vs. Radha Romun I.L.R. 12 Cal.330,* the plaintiff sued the principal debtor and the surety for arrears of rent. The plaintiff also made the legal representatives of the principal debtor a party after knowing about the death of the principal debtor to avoid the debt being barred by limitation. It was held that even if debt is barred by limitation on account of death of principal debtor, the surety is still liable.

The same view was confirmed by Privy Council in *Mahant Singh vs U Ba Yi A.I.R 1939 P.C 110* where it was held that omission of the creditor to sue within the period of limitation does not discharge the surety.

Rights of Surety against the Principal Debtor and Creditor

After performing the promise or discharging of the liability of the principal debtor, surety acquires various rights against the parties.

The rights of surety are contained in sections 140 and 141 of the Act. These are

1. Against the principal debtor

a. **Right of subrogation:** Where a guaranteed debt has become due or default of the principal debtor to perform a guaranteed duty has taken place, the surety upon payment or performance of all that he is liable for, is vested with all the rights which the creditor had against the principal debtor.

The right of the surety is known as the right of subrogation namely the right to stand in the shoes of the creditor.

b. **Right to securities**: The surety is entitled to the benefit of all securities made available to the creditor by the principal debtor whether the surety was aware of its existence or not.

c. **Right to recover the amount paid/ Right to indemnity : T**he surety is entitled to recover from the principal debtor whatever sums he has rightfully paid. In this connection the following principles were laid down in *Reed vs. Norris*

I. The claim of the surety is restricted to that smaller amount which he may have paid under the principle of "accord and satisfaction". Surety is not entitled for higher amount than what he has paid.

II. Surety can also claim indemnity for any special damages which he has suffered while discharging his duties

III. Surety can claim even if he has paid a time barred debt as it is a rightful payment though there are contrary views on this issue.

In all the above instances surety can claim reimbursements only if actual payments have been made and not where he has merely executed promissory notes. *[Panth Narayana Murthy vs. Marimuthu (1902) 26 Mad. 322,328]*

Where ~~surety becomes surety without the knowledge of principal debtor~~, he is entitled for all the rights against the principal debtor but not the right to claim an indemnity against the principal debtor.

2. Sureties right against the creditor:

Following are the rights of sureties against the creditor

a. **Right ~~of subrogation: T~~**~~he surety gets the right of subrogation~~ for all payments and performances he is liable. This right would accrue only when the surety has paid the amount of liability in full. For *example* where a creditor had the right to stop the goods or sellers lien, surety would enjoy the same right after he has paid the amount*[Imperial Bank vs. SL Kathereine Docks 1877 5 Ch.D]*

b. Right to securities: Surety is entitled for all securities which the debtor has provided to creditor whether surety is aware of it or not.

Where a creditor loses any of the security by default or negligence the liability of the surety abates proportionately.

If a creditor does not hand over the securities to surety he can be compelled to do so. Classic *examples* of surety's right are: he is entitled for all mortgage rights which the secured creditor has. But the surety is not entitled for any security provided subsequent to the contract of guarantee

c. **Right to sue**: Surety has a right to require the creditor to sue for and recover the guaranteed debt. This right of surety is known as right to file a *'Quia timet action'* against the debtor. There is of course an inherent risk of having to indemnify the creditor for delay and expense

d. **Right to dismiss**: **S**urety has a right to call upon the creditor to dismiss the person from service if the person whose fidelity is guaranteed by surety is persistently dishonest

e. **Right to claim set-off**: **S**urety has a right of set off against the principal debtor exactly as a creditor would have.

f. Right of option on the claim of the funds: Surety also can compel the creditor where he has claim on two funds, to resort to that fund first on which surety has no claim.

g. Right to claim : surety can claim that he is not liable on the guarantee to the creditor, if it can be proved that principal debtor was incapable of entering into a contract, say because he was a minor.

This is on the principle that the liability of the surety is co-extensive with that of the principal debtor.

DISTINCTION BETWEEN A CONTRACT OF INDEMNITY AND A CONTRACT OF GUARANTEE

1. Number of Parties: There are two parties to the contract of indemnity viz., the indemnifier (promisor) and the indemnified (promisee). Where as in case of contract of guarantee there are three parties to the contract viz., the creditor, the principal debtor and the surety.

2. Extent of Liability: The liability of the indemnifier to the indemnified is primary and independent in case of contract of indemnity but the liability of the surety to the creditor is collateral or secondary, the primary liability being that of the principal debtor in the contract of guarantee.

3. Number of Contracts: There is only one contract in the case of a contract of indemnity, i.e., between the indemnifier and the indemnified. But in case of contract of guarantee there are three contracts. One between the principal debtor and the creditor, the second between the creditor and the surety and the third between the surety and the principal debtor.

4. Time to Act: It is not necessary for the indemnifier to act at the request of the indemnified in case of contract of indemnity. Where as in case of contract of guarantee it is necessary that the surety should give the guarantee at the request of the debtor.

5. **Time of Liability:** In case of contract of indemnity the liability of the indemnifier arises only on the happening of a contingency. But in case of contract of guarantee there is usually an existing debt or duty, the performance of which is guaranteed by the surety.

6. **Right to sue third party:** In case of contract of indemnity, indemnifier cannot sue a third party for loss in his own name as there is no privity of contract. Such a right would arise only if there is an assignment in his favour. On the other hand in the case of contract of guarantee surety can proceed against principal debtor in his own right because he gets all the right of a creditor after discharging the debts.

Types of Guarantee:

The Indian Contracts Act defines Guarantee as a contract in which one promises to discharge the liability of the other upon the default of the latter. Creditor, debtor and the surety are the three parties to the contract of guarantee. This contract is formed by the consent of the all the three parties to the contract. Guarantee contract may be oral or written. Following are the different types of guarantee contracts.

1. Unilateral Contract of Commercial Credit:

This is a type of contract of guarantee usually seen in trade transactions. It commonly arises between the wholesale trader and a retail trader. Also, it arises ~~between a retail trader and the customer. In this type of contr~~act of guarantee, the goods are delivered against no payment but with an agreement. The agreement between parties is either written or oral. The agreement may or may not have any securities against discharge of the payment on a later date.

2. Bank Guarantee:

This type of guarantee contract is common in the contracts of the Government. Also, it is common in tender for contracts. This type of contract of guarantee is a commercial document. The bank guarantee is autonomous and is independent of the contract that is underlying. It is a guarantee from a bank against liabilities.

3. Letter of Credit:

A letter of credit is an instrument which is written by one ~~person to the other about giving of credit. The~~ one who writes the letter, requests the other to give credit to the bearer of the letter or in whose favor the letter is drawn. In the international trade this practice is commonly seen. This can be general letter of credit which is drawn against merchants in general or special letter of credit which is drawn against a specific person with all the information enclosed.

4. Absolute Performance Bonds:

Absolute means perfect and it also means complete. In this type of guarantee contract, the surety pays the amount written in the contract upon the failure to discharge the contract by the person against whom the guarantee is given.

5. Retrospective Guarantee:

When the guarantee is given for an existing obligation or debt, it is called retrospective guarantee.

6. Prospective Guarantee:

When the guarantee is given for a future obligation or debt it is called prospective guarantee.

7. Specific Guarantee:

This type of guarantee is for a single transaction. It is ~~extended only to a single debt. It is also called~~ as simple guarantee.

8. Continuing Guarantee:

This type of guarantee extends to more number of transactions. It continues until the guarantee is revoked.

Bailment and Pledge

The term ‘bailment’ is derived from the French word ‘bailer’ which means to deliver a thing under a contract. The delivery of goods by one person to another person for a specific purpose with a condition to return the goods when the purpose is over or otherwise disposed off according to the direction of the person.

Definition of Bailment

Sec. 148 defines Bailment as" the delivery of goods by one person to another for some purpose, upon a contract, that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them".

The person delivering the goods is called the 'bailor' and the person the person to whom they are delivered is called the 'bailee'.

Examples:

A delivers a piece of cloth to B, a tailor, to be stitched into a shirt. There is a contract of bailment between A and B.

A lends a book to B to be returned after the examination. There is a contract of bailment between A and B.

A sells certain goods to B who leaves them in the possession of A. The relationship between A and B is that of bailor and bailee.

Sometimes there may be bailment even without a contract. **For example:** When a person finds goods belonging to another, a relationship of bailee and bailor is automatically created between the finder and the owner.

ESSENTIALS AND REQUISITES BAILMENT:

Contract: A bailment is usually created by agreement between the bailor & bailee.

- **Delivery of Goods:** In bailment, the possession of goods must be delivered by the bailor to the bailee.
- **No Transfer of Ownership:** In bailment, possession is transferred from one person to another but ownership of goods remains with the bailor.
- **Delivery of Goods for Some Purpose:** The delivery of goods must be for some specific performance.

- **Return of Specific Goods:** Goods are delivered to the bailee with the condition that the same goods will be returned to the bailor after the accomplishment of purpose.
- **Movable Goods:** In bailment, the goods bailed must be movable.
- **Deposit of Money Into Bank:** Deposit of money into bank by a customer is not a contract of bailment because the money deposited is not returned in identical coins and notes deposits.

CLASSIFICATION OF BAILMENT:

I. On the basis of benefit derived by the parties:

a. **For the exclusive benefit of the bailor:** As the delivery of some valuables to a neighbor for safe custody, without charge.

b. **For the exclusive benefit of the bailee:** As the lending of a bicycle to a friend for his use, without charge.

c. **For the mutual benefit of bailor and bailee:** As the hiring of a bicycle or giving a watch for repair. In these cases, consideration passes between the bailor and the bailee.

II. Other classification:

a. **Gratuitous bailment:** It is a bailment where no consideration passes between the bailor and the bailee. E.g., where A lends a book to his friend B.

b. **Non-Gratuitous bailment or bailment for reward:** It is a bailment where consideration passes between the bailor and the bailee. E.g. where certain goods are kept in a warehouse for hire, or where A hires a bicycle from B.

RIGHTS OF BAILOR:

a. **Bailor has a right to enforce the duties of the bailee, such as;**

- Right to claim damages for loss caused to the goods by the negligence of the bailee.
- Right to claim compensation for loss caused by an unauthorized use of the goods by the bailee.
- Right to claim damages arising out of the mixing of the goods of the bailor with his own goods.

b. **Termination of Contract:** Bailor has the right to terminate the contract if the bailee does anything which is inconsistent with the conditions of the bailment.

For example: A lets on hire his horse to B for his own riding but B uses the horse for driving for carriage. A has the right to terminate the contract of bailment.

c. **Right to receive back the goods**: Bailor in the case of gratuitous bailment has the right to demand goods back even before expiry of the period of bailment. If in the process loss is caused to bailee, bailor is bound to compensate.

d. **Can claim increase or profit from the goods:** Bailor has a right to claim the increase or profit from the goods bailed which may have occurred from the goods value.

Example: A bails his cow to B and if cow gives birth to a calf, B is bound to return the cow and the calf to A.

DUTIES OF A BAILER:

a. **Disclosure of defects:** Bailor must disclose all defects and faults in the goods bailed. If the bailor does not disclose, he would be responsible for any loss or damage caused to the bailee while keeping the goods in his custody.

b. **Reimbursement of expenditure:** Where the bailment is gratuitous, the bailer must reimburse the expenditure incurred by the bailee in keeping the goods.

c. **Duty to repay any 'extraordinary' expenses in case of non-gratuitous bailment:** Bailor has to bear any extraordinary expenses incurred by the bailee in keeping the goods in his custody intact.

d. **Compensation to the bailee:** The bailor must compensate the bailee for the loss or damage suffered by the bailee that is in excess of benefit received, where has lent the goods gratuitously and decides to terminate the bailment before the expiry of the period of bailment.

e. **Bound to accept the goods:** The bailor is bound to accept the goods after the purpose is accomplished. If the bailor fails, he is responsible for any loss or damage to the goods and he has to reimburse the expenses incurred by the bailee in keeping the goods safely.

RIGHTS OF BAILEE:

a. **To terminate the contract:** The bailee has a right to terminate the contract of bailment, if the bailor does anything inconsistent with the conditions of the bailment.

b. **To claim compensation:** Bailee has the right to claim compensation for any loss arising from non-disclosure of known facts in the goods.

c. **Right to claim indemnification:** Bailee has the right to claim indemnification for any loss or damage as a result of defective title.

d. Deliver the goods back to one of the joint bailors: The bailee has the right to deliver back the goods to one of the joint bailors without the consent of all according to the agreement or direction.

e. Bailee's Lien: Where the lawful charges of the bailee in respect of the goods bailed are not paid, he may retain the goods. This right of the bailee to retain the goods is known as 'particular lien.

DUTIES OF THE BAILEE:

a. To take care of the goods: A bailee is bound to take as much as care of the goods bailed to him as a man of ordinary prudence. Failing to which he is liable to compensate the loss.

Example: If X bails his ornaments to Y and Y keeps these ornaments in his own locket at his house along with his own ornaments. If all the ornaments are stolen or lost due to riot, Y will not be responsible to X. On the other hand if X specifically instructs Y to keep them in a bank. But Y keeps them in his residence. Then Y would be responsible for the loss.

b. Not to make any unauthorized use of the bailed goods: If the bailee uses the goods bailed in a manner which is inconsistent with the terms of the contract, he shall be liable for any loss even though he is not guilty of negligence and even if the damage is the result of an accident.

Example: X lends his bike to Y for his riding only. Y allows Z, a member of his family, to ride the bike, C rides with care, but met an accident. Here, Y is liable to make compensation to X for the damage caused to the bike.

c. **Not to mix the goods bailed with his own goods:** The bailee must not mix the goods of the bailor with his own goods. He should keep them separately from his own goods. If he mixes the bailors goods without his consent, bailee is responsible for the loss of the goods.

d. **Return any accretion to the goods:** In the absence of any contract, the bailee is bound to return goods bailed to the bailor along with any accretion to the goods.

e. **Return the goods to the bailor:** It is the duty of the bailee to return the goods to the bailor as per the direction or as soon as the period for which they were bailed has expired or the purpose for which they were bailed has been accomplished.

BANKING LAW NOTES

1) WHAT IS BANK?

ANS- BANK IS A FINANCIAL INSTITUTION THAT ACCEPTS MONEY FOR THE PURPOSE OF LENDING OR INVESTMENT OF DEPOSITS OF MONEY FROM THE PUBLIC, REPAYABLE ON DEMAND OR OTHERWISE AND WITHDRAWABLE BY CHEQUES, DRAFTS, AND ORDER OR OTHERWISE.

2) DEFINE BANK?

ANS: ACCORDING TO PROF: R.S. SAYER "BANKS ARE INSTITUTIONS WHO DEBT, USUALLY REFERRED TO AS BANK DEPOSITS, ARE COMMONLY ACCEPTED IN FINAL SETTLEMENT OF OTHER PEOPLE'S DEBTS"

3) WHO IS BANKER?

ANS: ONE WHO CARRIES OUT THE BANKING BUSINESS AND DEALER IN MONEY, CREDIT AND CREDIT INSTRUMENTS? THE PERSON WHO IS WORKING BANK IRRESPECTIVE OF THE CADRE OR POSITION IS CALLED BANKER.

- **4) What is banking?**
- Ans: Banking is an industry that handles cash, credit, and other financial transactions. Banks provide a safe place to store extra cash and credit. They offer savings accounts, certificates of deposit and checking accounts.
- **5) What is scheduled bank?**
- Ans: Scheduled banks refer to those banks which have been included in the second schedule of Reserve Bank of India Act 1934. Scheduled banks are usually private, foreign and nationalized banks operating in India.
- **6) What is indigenous bank?**
- Ans: These are banks established by the private persons. Money lenders are called Indigenous Banks. These banks provide the short term financial assistance to the needy. The rate of interest charged by these money lenders is very high. Ex: Shroffs, Marwaris, Multanis, Jains, Seths, Shetties, Banias, Mahajans.

- **7) What is central bank?**
- Ans: It is a special institution which works for the entire banking structure and maintains monetary stability. It is the banker to the government and it is the leader ~~of all banks in the country. It operates the currency and credit syst~~em. It assists government in implementation
- **8) What do you mean by commercial banks?**
- Ans: Commercial banks are the financial institutions which accept deposits from the public in the form of, against which cheques must be drawn, current deposits, fixed deposits, savings bank accounts and the same amount is mainly lent to commerce, industry and trade.
- **9) What do you mean by Industrial Banks?**
- Ans: Banks have been established for the purpose of providing long term finance to industries. They obtain their funds through share capital, debentures and long term deposits from the public. These banks assist business corporation and government agencies to raise funds for long term capital requirements by issue of bonds. Ex IDBI

- **10) What do you mean by agriculture banks?**
- Ans: Those banks providing short term and long term finance to agriculture are called agriculture banks Ex: Co-operative banks, PACS, Land development banks.
- **11) What do you mean by Regional Rural Banks (RRB)?**
- Ans: Regional rural banks have been established by the government of India in 1976. These banks are state-sponsored, regionally based and rural-oriented commercial banking institutions. These banks provide credit facilities to small and small marginal farmers, agricultural labourers, artisans and small scale industries.

- **12) What do you mean by Exchange Banks?**
- Ans: Exchange Banks specialize in financing the foreign trade and they supply the necessary foreign exchange required for settlement of transactions between traders engaged in foreign trade. Ex: EXIM BANK
- **13) What is E- Banking?**
- Ans: E- Banking means electronic banking. It means all the transactions are carried through electronic media. E- Banking refers to linking all the dealings of the bank through computers or internet.

- **14) What is Core banking?**
- Ans: Core banking nothing but centralized banking. All the information such as accounts of other branches is channelized through computer to the head office. The information about the branch working is sent by the branch to the head office periodically.
- **15) What is online banking?**
- Ans: Online banking refers to the use of today's computer technology to avoid the time consuming, paper based aspects of traditional banking, in order to manage our finance more quickly and efficiently. Consumers do not get cash personally; everything is done through PC's like receiving, and transferring deposits/ funds into other accounts.

- **16) Who is customer?**
- Ans: A customer of a bank means a person who has an account with the bank. And there must be some recognizable course or habit of dealing between a customer and banker.
- **17) Define banker as debtor.**
- Ans: "When the banker receives the money from the customer by way of deposits, his obligation to repay the debt as and when it is required by the customer on demand or otherwise".

- **18) Define banker as creditor.**
- Ans: When the customer has taken loan from the bank or customer's account ~~is overdrawn, in such cases, banker becomes the creditor and~~ customer becomes the debtor.
- **19) Who are bailor and bailee?**
- Ans: When a customer deposits securities and valuables for safe custody. In such cases banker is called bailee and customer a bailor.

- **20) Who are trustee and beneficiary?**
- Ans: When a banker is entrusted with some trust work i.e. to safeguard the property of some persons e.g. when customer deposits the money for son's education, it is the bounded duty of the banker that the money should be used for educational purpose only but not for others. In such cases, banker becomes Trustee and customer becomes beneficiary.
- **21) Who are Principal and Agent?**
- Ans: When a banker purchases and sales the securities on behalf of his customer, in such cases banker is called an Agent and customer is called Principal. When the banker pays LIC premium or makes collection of cheques dividend and interest for customers, in such cases, banker is called and Agent and customer is called Principal

- **22) What do you mean by "Honour of cheques"?**
- Ans: When customer presents the cheque to banker for repayment of his deposits, it is the duty or obligation of the banker to honour the cheque and pay the money. Honouring cheques, subject to the credit balance of his customers account.
- **23) What is banker's "Right of lien"?**
- Ans: Lien means to retain or detain the property of debtor. Retain as a security for a general balance of account of any goods and securities bailed to him.

- **24) What is General Lien?**
- Ans: General lien is available not only in respect of a particular debt but in respect of the general balance due by the owner of the goods and securities.
- **25) What is particular lien?**
- Ans: This is a right to retain the goods in respect of which the debt arises. In other words, it is a right of a creditor to retain particular property until the debt is repaid.

- **26) What is banker's right to set- off?**
- Ans: The right to set off is legal right which helps the banker to combine two accounts in the name of the same customer and to adjust debit balance in accounts with the credit balance in other accounts. It is also known as Right of combining accounts.
- **27) What is Garnishee order?**
- Ans: It is an order issued by the court to the banker to stop the payment of money belonging to a particular customer's account. Generally, court issues such an order on the request of creditor. When debtor fails to pay money to his creditor, creditor comes to know that the debtor has an account in the bank in such cases creditor may apply to the court to issue a garnishee order on the debtor's banker.

- **28) What is cheque?**
- Ans: According to sect.6 of the Indian Negotiable instruments Act, 1881. "A cheque is a bill of exchange, drawn on a specified banker and not expressed to be payable otherwise than on demand".
- **29) Who are the parties in cheque?**
- Ans: Drawer: The person who draws a cheque is called Drawer.
- Drawee: The banker on whom it is drawn is the Drawee.
- Payee: The person in whose favour cheque is drawn is the payee.

- **30) What is a bearer cheque?**
- Ans: It is a payable to the bearer or possessor or it means that the amount payable to the possessor of the cheques is to be paid.
- **31) What is an order cheque?**
- Ans: It contains an order to pay the value of cheque to a certain person or to his order. It requires an endorsement and name of the payee should be written on the face of the cheque.

32) What is an anti-dated cheque?

- Ans: A cheque which bears a date before the date of issue is called anti-dated cheque. For example, cheque is issued on 01-09-2018 but bears a date 01-07-2018. It is called Ante-dated cheque.

33) What is Stale cheque?

- Ans: If the cheque is presented after 3 months, it is called stale cheque. Ex: cheque is issued on 01-06-2018 but not presented for payment up to 30-08-2018 and presented on 01-10-2018. It is called stale cheque.

- **34) What are the types of cheque?**
- Ans: There are two types of cheques 1) Open cheques 2) Crossed cheques
- **35) What are Open cheques?**
- Ans: Open cheques are those that are paid across the counter. Great risk is involved in case of the open cheques, because the open cheques may be stolen or lost and the finder can get encashed it.

36) What are Crossed cheques?

- Ans: Crossed cheques are those that are not paid across the counter but paid through the banker. Drawing two parallel transverse lines across the face of the cheque with or without the words and company or any
- abbreviation thereof. There are two types of crossed cheques 1) general crossing 2) special crossing.

37) What is General crossing of cheques?

- Ans: Drawing two parallel transverse lines on the face of cheques with or without mentioning some words, is known a general crossing.

- **38) What is Special Crossing?**
- Ans: Special crossing means mentioning the name of the banker on the face of the ~~cheque. The main objective of special crossing is that the cheque~~ should be paid to a particular banker only.
-
- **39) What do you mean by “Post -dated cheque”?**
- Ans: A cheque which bears a date later than the date of issue is called post dated cheque. Ex. Cheque issued on 01-10-2018 dated 01-12-2018. It is called post dated cheque; such post dated cheques cannot be honoured by the banker before the due date.

- **40) What is 'material alteration of a cheque'?**
- Ans: Any change made in the cheque is known as material alteration. When the changes are made in cheques, it loses its original character and affects the rights and liabilities of parties to the cheque and such altered cheques become invalid. They may be made valid by obtaining the full signature of the drawer at the places where the alterations are made.
- **41) What is Mutilated cheque?**
- Ans: A mutilated cheque is the one which is torn out in part or in full. Such mutilated cheques cannot be debited to customer's account. If the cheque is torn out accidently, i.e. without the knowledge of the drawer and if it is confirmed by the drawer, it cannot be called a mutilated. So, such cheques can be honoured by the paying banker.

- **42) What is MICR?**
- Ans: Magnetic Ink Character Recognition is a technology under which there is a mechanized cheque drafts processing system. Under this system, cheques and drafts are cleared at high speed on machines.
- **43) What is banker's Right to set-off?**
- Ans: It is a right of debtor to adjust an amount due to him from the creditor as against the amount payable to the creditor. The Right to set off is legal right which helps the banker to combine two accounts in the name of the same customer and to adjust debit balance in accounts with the credit balance in other accounts.

- **44) Who is merchant banker?**
- Ans: Merchant Banker is a financial institution. It provides variety of services including investment, banking management of customer's securities, insurance, acceptance of bills etc.
- **45) What is Endorsement of cheque?**
- Ans: Signing on the back of the instrument is known as endorsement. Negotiation of an instrument is the process by which the ownership is transferred from one person to another.

- **46) What is FD fixed deposit account?**
- Ans: Money received by the banker from the customer is deposited for a fixed period of time. It earns higher rate of interest for customer and it cannot be withdrawn on demand which means short notice has to be given for withdrawal of cash. The fixed period helps the banker to invest the money without having to keep it in reserve.
- **47) What is savings bank account?**
- Ans: A savings account is a deposit account held at a retail bank that pays less interest comparatively fixed deposit accounts. Main intention of this type of account is to cultivate the habit of savings. Withdrawals are restriction for this type of account.

- **48) What is Pay in Slip Books?**
- Ans: These books are issued in Bank for deposits of cash, cheque, DD, Pay Order etc. There are two parts in Pay in Slips, one is for bank records and another one is customer copy called as counter foil.
- **49) What is Passbook?**
- Ans: It issued to customer which contains details of the customer's account. It is normally issued to savings bank account but not current account holders. Details include deposits, withdrawal, transfer etc.

50) What is core banking?

- Ans: Core banking is nothing but centralized banking. All the information such as account of other branches is channelized through computer to the head office or corporate office.

51) What is ATM?

- Ans: It is a machine that helps a bank's customer to deposit money in a bank, or withdraw it, transfer it, and check the debit in one's account accurately without the help of the bank employees.

52) What is Network Banking?

- Ans: It refers to joining or forming of network of more than one bank. Every member specialized exclusively in one or more areas of banking or any financial services. No member will be allowed to breach any of the agreement.

- **53) What is TELE Banking?**
- Ans: It is an on-line banking service. By dialing the given Tele-banking number through a landline or mobile from anywhere. Customer can perform a number of transactions from the convenience of their own home or office and infact from anywhere they access to a phone.
- **54) What is Internet Banking?**
- Ans: Medium of delivery of banking services such as deposits, products and application form, downloading and loans and advances through internet is called internet banking.

- **55) What do you mean by Credit Cards?**
- Ans: It is a card issued by banker to his customers for purchasing from shops. It is a guarantee for payment against a sales voucher signed by the credit card holder. The credit card contains name, address, specimen signature of its holder and also number.
- **56) What do you mean by Debit cards?**
- Ans: It is a plastic card used to obtain or initiate a transaction. It allows for direct withdrawal of funds from a customer's bank account. Whenever customer uses the debit card, bank account gets debited immediately. Customer can use it for online purchases also.

Thanks

CLASSIFICATION OF COSTS

OR

ELEMENTS OF COSTS

MEANING:

ELEMENTS OF COST MEANS THE ESSENTIAL PARTS OR COMPONENTS OF GOODS OR SERVICES OR JOBS. IN OTHER WARDS ELEMENTS OF COST IS PART OF TOTAL COST AND ~~INCLUDES THE MAIN ITEMS OF EXPENDITURE~~ INCURRED FOR PRODUCTION OF GOODS, SERVICES AND JOBS.

CLASSIFICATION OF COST:

COST CLASSIFICATION IS THE GROUPING COSTS ACCORDING TO THEIR COMMON FEATURES OR CHARACTERISTICS. CLASSIFICATION IS ESSENTIAL TO FIND OUT THE COST OF PRODUCTION.

IN OTHER WARDS CLASSIFICATION IS THE PROCESS OF GROUPING LIKE FACTS UNDER COMMON DESIGNATION ON THE BASIS OF SIMILARITIES OF NATURE, SCOPE, ATTRIBUTES OR RELATIONS

DEFINITION:

THE NATIONAL ASSOCIATION OF ACCOUNTANTS COMMITTEE DEFINES "CLASSIFICATION AS THE IDENTIFICATION OF EACH ITEM AND THE SYSTEMATIC PLACEMENT OF LIKE ITEMS TOGETHER ACCORDING TO THEIR COMMON FEATURES. ITEMS GROUPED TOGETHER UNDER COMMON HEADS ARE FURTHER DEFINED ACCORDING TO THEIR FUNDAMENTAL DIFFERENCES".

OBJECTIVES OF CLASSIFICATION:

1. IT HELPS THE MANAGEMENT FOR IMPLEMENTING COST CONTROL AND DECISION MAKING.
2. IT HELPS FOR CALCULATION OF COST CONTROL.
3. IT HELPS FOR VALUATION OF WORK-IN-PROGRESS.
4. IT HELPS FOR FIXATION OF PRICING POLICY.
5. IT HELPS FOR CURRENT APPLICATION OF PLANS AND POLICIES.
6. IT HELPS FOR PLANNING PROCESS,

BASIS OR METHODS OF CLASSIFICATION:

1. ACCORDING TO ELEMENTS:

1. MATERIAL COST 2. LABOUR COST 3. EXPENSES

2. ACCORDING TO FUNCTIONS OR OPERATIONS:

1. PRODUCTION COST 2. ADMINISTRATION COST
3. SELLING AND DISTRIBUTION COST

3. ACCORDING TO BEHAVIOUR OR NATURE:

1. FIXED COST 2. VARIABLE COST
3. SEMI- VARIABLE OR SEMI-FIXED COST

4. ACCORDING TO TIME:

1. HISTORICAL COSTS 2. PREDICTED COSTS

5. ACCORDING TO CONTROLLABILITY:

1. CONTROLLABLE 2. NON-CONTROLLABLE COSTS

6. ACCORDING TO NORMALITY:

1. NORMAL COSTS 2. ABNORMAL COSTS

9. ACCORDING TO RELEVANCE FOR DECISION MAKING:

1. RELEVANT COST 2.IMPUTED COST
3.OPPORTUNITY COST 4. JUNK COST
5. IMPLICIT COST 6. REPLACEMENT COST
7. SUNK COST 8. SHUT DOWN COST
9. OUT OF POCKET COST 10.MARGINAL COST
11. DIFFERENTIAL COST

ELEMENT WISE CLASSIFICATION: 1.MATERIAL COST 2. LABOUR COST 3. EXPENSES

EACH OF THESE ELEMENTS OF COSTS ARE FURTHER DIVIDED INTO I) DIRECT COSTS II) INDIRECT COSTS

I) DIRECT COSTS: DIRECT COST MEANS THAT COST WHICH CAN BE IDENTIFIED WITH AND ALLOCATED TO COST CENTRES

II) INDIRECT COST: INDIRECT COST MEANS THAT WHICH CANNOT BE

DIRECT MATERIAL COST: ICMA "THE COST OF COMMODITIES SUPPLIED TO AN UNDERTAKINGS".

DIRECT MATERIALS: DIRECT MATERIALS ARE THOSE MATERIALS WHICH CAN ENTER INTO AND FORM PART OF THE FINISHED PRODUCT. DIRECT MATERIAL COST IS THAT WHICH CAN BE CONVENIENTLY IDENTIFIED AND ALLOCATED TO COST UNITS. E.G. CLOTH IN GARMENTS, CLAY IN BRICKS, TIMBER IN FURNITURE,

INDIRECT MATERIAL: INDIRECT MATERIALS ARE THOSE MATERIALS WHICH CANNOT BE CONVENIENTLY IDENTIFIED WITH COST UNITS.

E.G. NAILS USED IN FURNITURE, SMALL TOOLS, LUBRICATING OIL, THREADS USED IN STITCHING GARMENTS ,GUM.

LABOUR COST: THESE ARE COSTS OF REMUNERATION, WAGES, SALARIES, COMMISSIONS, BONUS ETC. OF THE EMPLOYEES OF AN UNDERTAKING.

LABOUR COSTS ARE DIVIDED INTO I) DIRECT LABOUR

II) INDIRECT LABOUR

DIRECT LABOUR: WAGES PAID TO LABOURERS WHO ARE DIRECTLY ENGAGED IN CONVERTING RAW MATERIALS INTO FINISHED PRODUCTS. DIRECT LABOUR ALSO CALLED DIRECT WAGES, PRODUCTIVE LABOUR, OR OPERATING LABOUR.

E.G. TAILOR, CARPENTER, WEAVER, SHOE MAKER

INDIRECT LABOUR: INDIRECT LABOUR IS NOT DIRECTLY ENGAGED IN THE PRODUCTION OF GOODS BUT ONLY TO ASSIST OR HELP IN

EXPENSES: THE EXPENSES MEANS COST OF SERVICES PROVIDED BY AN UNDERTAKING AND THE NOTIONAL COST OF THE USE OF OWNED ASSETS. IN OTHER WARDS COSTS OTHER THAN MATERIAL AND LABOUR ARE CALLED EXPENSES. EXPENSES ARE DIVIDED INTO

1. DIRECT
2. INDIRECT EXPENSES

DIRECT EXPENSES: DIRECT EXPENSES ARE THOSE EXPENSES WHICH CAN BE

E.G. CARRIAGE INWARDS, OCTROI, FREIGHT, CUSTOM DUTY, ROYALTY PAID TO LANDLORD

INDIRECT EXPENSES: INDIRECT EXPENSES ARE THOSE EXPENSES WHICH CANNOT BE DIRECTLY IDENTIFIED WITH A PARTICULAR JOB. E.G. RENT AND RATES, POWER AND LIGHTING, CARRIAGE, INSURANCE, ADVERTISING ETC.

FUNCTION WISE CLASSIFICATION: COSTS ARE CLASSIFIED ON THE BASIS OF FUNCTIONS ARE –

1. PRODUCTION COST OR MANUFACTURING COST:

THIS IS THE COST WHICH BEGINS WITH SUPPLYING OF MATERIALS, LABOUR AND SERVICES AND ENDS WITH THE COMPLETION OF PRODUCTION. IT IS ALSO CALLED FACTORY OVERHEAD, WORKS OVERHEAD

2. ADMINISTRATION COST: THIS COST CONSISTS OF ALL EXPENSES INCURRED IN THE DIRECTION, CONTROL AND ADMINISTRATION OF AN UNDERTAKING

E.G. SALARIES OF OFFICE STAFF, ACCOUNTANTS, MANAGING DIRECTOR, GENERAL MANAGER, DIRECTORS FEES, BANK CHARGES, POSTAGE, STATIONARY, PRINTING, TELEPHONE, RENT, RATES OF OFFICE, AUDIT FEES, LEGAL CHARGES ETC.

3. SELLING COST: EXPENDITURE INCURRED FOR SALES AND STIMULATING DEMAND AND FOR SECURING ORDERS ARE KNOWN AS SELLING COST

E.G. SHOW ROOM EXPENSES, SAMPLES, FREE GIFTS, TRAVELLING EXPENSES OF SALESMAN, ADVERTISING AND PUBLICITY EXPENSES, EXHIBITION EXPS, MARKETING EXPS, SUBSCRIPTION TO TRADE JOURNALS AND COMMERCIAL JOURNALS, LIGHTING AND DECORATION EXPS

4. DISTRIBUTION COST: EXPENDITURE INCURRED FOR DISTRIBUTION OF GOODS E.G. CARRIAGE OUTWARDS, PACKING COST, WAREHOUSING COST, UPKEEP AND RUNNING COST OF DELIVERY VAN, LOADING CHARGES, FINISHED GOODS DAMAGED IN TRANSIT ETC.

3. Classification according to Behaviour:

Some costs are increased or decreased in production directly; some costs remain unaffected while others change but not in direct proportion to the change in volume of production (i) Variable cost (ii) Fixed cost (iii) Semi variable or semi fixed costs

Variable cost: These costs are varied in a direct proportion to the volume of production or output. If output increases total variable cost also increases and if output decreases total variable cost also decreases. e.g. Direct material, Direct wages, Power

Fixed costs: The total fixed costs remains unaffected either with the increase or decrease in the output. But cost per unit goes on changing e.g. Rent & rates of building, Salary of works manager, Insurance, Interest on capital, Municipal taxes etc.

Semi-variable and Semi-fixed costs: These costs are partly variable and partly fixed. These costs are partly affected by fluctuations in the level of activity.

e.g. Salary of supervisors, Maintenance and repairs, Telephone expenses.

4. Classification according to Time:

1. **Historical costs:** These costs are ascertained and calculated after they have been incurred. These costs are past events or post mortem costs

   These costs are available only after the completion of the production

2. **Predicted or predetermined costs:** These costs are calculated in advance to production. Predetermined costs may be either

a) Estimated costs b) Standard costs

5 According to controllability:

1) Controllable cost: It is cost which can be controlled by managing at a given organisational level e.g. Indirect labour. Power.

2) Non controllable cost: The cost which are not controlled at any level of managerial supervisions.

6. According to Normality:

1) **Normal cost:** These costs are normally incurred at a given level of output in normal conditions.
2) **Abnormal cost:** These costs are incurred at a given level of output under abnormal conditions. These costs are beyond normal cost. Abnormal costs are not charged to cost of production.

7. According to Averaging:

1) **Total costs:** The aggregation of all costs incurred for the production of goods and services are called total costs.
2) **Unit costs:** Cost incurred for the particular item is known as unit costs.

8. According to Identifiability:

1) **Direct costs:** The costs which can be identified with a specific product, prices and departments are called direct costs. e.g. wages of carpenter and tailor.
2) **Indirect costs:** The costs which cannot be identified to particular department are called indirect costs. e.g. Salaries of workers, Rent of a factory, Consumable stores.

Classification on the basis of managerial decisions or Relevance to decision making and control:

Managerial decisions involve choosing the most economically desirable courses of actions from alternative course of action

1) Relevant cost 2) Imputed cost
3) Opportunity cost 4) Joint cost
5) Implicit cost 6) Replacement cost
7) Sunk cost 8) Shut down cost
9) Out-of pocket cost 10) Marginal cost
11) Differential cost
12) Avoidable cost and unavoidable costs

1. **Relevant cost:** The costs which is appropriate to a specific managerial decisions are called relevant cost.

2. **Imputed cost or notional cost:** The costs which are not actually incurred but considered in cost accounts are called Notional cost. **According to ICMA Notional cost as "the value of a benefit where no actual cost is incurred".**

3. Junk cost: Discarded materials such as, glass, rags, paper or metal some of which may reused in some form is called junk. In otherwards articles that are warm out of something meaningless.

Junk cost means certain amount spent on discarded material for reuse or sale, such expenses are called Junk cost.

4. Opportunity cost: The maximum possible alternative income that is earned if the resources are applied to some alternative use.

5. Implicit cost: It is the cost arises when the fund is used. Implicit is the opportunity cost. It is the cost of one investment opportunity which is secrificed for getting in other investment opportunity

6. Sunk cost: These costs are the past costs, which are not taken into account in decision making. Cost which incurred or had been already sunk in past is not relevant in a particular decision making at the present time.

Cost Sheet:

Cost sheet is the document which provides for the presentation of the estimated detailed cost in respect of a cost cadre or a cost unit. The statement summarises the cost of manufacturing a particular list of product and discloses

1. Prime cost 2. Works cost 3. Cost of production 4. Total cost

Specimen of Cost sheet

Particulars		Total cost	Cost p.u.
Direct materials: Opening stock of raw materials Add. Purchases of raw materials Carriage inwards Octroi & Custom duty Less. Closing stock raw materials Materials lost Materials transferred to job **Materials consumed** Direct wages Direct expenses (chargeable expenses) **Prime cost** Add. Factory overhead: Indirect materials Indirect wages Rent & rates (factory) Lighting & heating			

Power & fuel			
Repairs & maintenance			
Cleaning			
Overtime payment			
Drawing office salary			
Cost of research & experiments			
Works manager salary			
Consumable stores			
Works stationery			
State insurance (ESI)			
Cost of defective work			
Haulage or crane expenses			
Less. Sale of scrap			
Manufacturing cost			
Add. Opening work-in-progress			
Less. Closing work-in-progress			
Works cost			
Add. Administration overhead:			
Rent & rates			
Salaries			
Lighting &heating			

Insurance on office building			
Telephone & postage			
Printing & stationery			
Legal expenses & Bank charges			
Audit fees			
Cost of production			
Add. Opening stock of finished goods			
Add. Purchase of Manufactured goods			
Less. Closing stock of finished goods			
Cost of goods sold			
Add. Selling and Distribution overhead:			
Salesman salaries & commission			
Showroom rent, rates & Advertising			
Bad debts & debt collection charges			
Depreciation & exps of delivery van			
Carriage outwards, samples, free gifts			
Cost of sales			
Profit/Loss			
Sales			

Preparing cost sheet financial items (income and expenses) are not considered, because such items do not form a part of the cost.

A. Financial charges or Non cost Expenses:

1. Income tax 2. Interest on loan & overdraft 3. Donations 4. Capital expenditure 5. Loss on sale of fixed assets 6. Goodwill written off 7 . Discount on issue of shares & debentures 8. Dividend to share holders 9. Underwriting commission 10. Provision for doubtful debts 11. Obsolescence loss 12. Bonus to shareholders 13. Preliminary expenses 14. Interest on capital contributed by the owner 15. Excess depreciation 16. Cash discount 17. Interest on debentures 18.Fines, penalties & charties

B. Financial Incomes: 1. Abnormal gain
2. Capital gains or profits 3. Interest on investments
4. Stores adjustments (credited in financial books)
5. Interest on bank deposits
6. Dividend received on shares and investments
7. Rent received
8. Share transferred fees received

THANKS YOU

UNIT 3. ELEMENTS OF COSTS

MATERIAL CONTROL

INTRODUCTION

MATERIAL IS THE FIRST AND MOST IMPORTANT ELEMENT OF COST. MATERIAL SIMPLY MEANS ANY COMMODITY OR SUBSTANCE WHICH IS PROCESSED IN A FACTORY IN ORDER TO BE CONVERTED INTO FINISHED PRODUCT. MATERIALS MAY BE RAW MATERIAL, COMPONENTS, TOOLS, SPARE PARTS, CONSUMABLE STORES ETC.

MATERIALS INCLUDE BOTH DIRECT AND INDIRECT MATERIALS. DIRECT AND INDIRECT MATERIALS PURCHASED FOR STOCK PURPOSES TO BE ISSUED TO DIFFERENT JOBS, WORK ORDERS OR DEPARTMENTS AS AND WHEN REQUIRED ARE KNOWN AS STORES.

DIRECT MATERIALS : MATERIALS WHICH FORM A PART OF A FINISHED PRODUCT ARE KNOWN AS DIRECT MATERIALS. FOR EX- LEATHER USED MAKING PAIR OF SHOES OR YARN REQUIRED FOR CLOTH CLAY IN BRICKS ARE DIRECT MATERIALS.

INDIRECT MATERIALS : THEY CANNOT BE TREATED AS A PART OF FINISHED PRODUCT BECAUSE IT CANNOT BE CONVENIENTLY AND ACCURATELY ALLOCATED TO A PARTICULAR UNIT OF A PRODUCT. FOR EX- NAILS USED IN MAKING OF SHOES, OR BUTTON OR THREADS USED IN STORES ETC.

MEANING OF MATERIAL CONTROL

IT CAN BE DEFINED AS A COMPREHENSIVE FRAMEWORK FOR THE ACCOUNTING AND CONTROL OF MATERIAL COST DESIGNED WITH THE OBJECT OF MAINTAINING MATERIAL SUPPLIES AT A LEVEL SO AS TO ENSURE UNINTERRUPTED PRODUCTION BUT AT THE SAME TIME MINIMISING INVESTMENT OF FUNDS.

IT IS THE SYSTEMATIC CONTROL OVER THE PURCHASING, STORING, AND USING OF MATERIAL SO AS TO HAVE THE MINIMUM POSSIBLE COST OF MATERIAL. IN SIMPLE WORDS, ***IT IS A SYSTEM WHICH ENSURES THAT RIGHT QUALITY OF MATERIAL IS AVAILABLE IN THE RIGHT QUANTITY AT THE RIGHT TIME AND RIGHT PLACE WITH THE RIGHT AMOUNT OF INVESTMENT.***

DIMENSIONS OF MATERIAL CONTROL

MATERIAL CONTROL HAS TWO DIMENSIONS :

- PRODUCTION EXECUTIVE OR STOREKEEPER IS INTERESTED IN QUANTITY CONTROL BECAUSE THEIR INTEREST IS TO SEE THAT THERE SHOULD NOT BE ANY STOCK OUT PROBLEM.

- : FINANCIAL EXECUTIVES ARE INTERESTED THAT TOO MUCH MONEY SHOULD NOT BE INVESTED IN MATERIALS AND EVERY RUPEE SPENT IN MATERIAL SHOULD BE EFFICIENTLY AND EFFECTIVELY UTILISED.

ASPECTS OF MATERIAL CONTROL

THERE ARE TWO ASPECTS OF MATERIAL CONTROL AS GIVEN :

THIS ASPECT IS CONCERNED WITH MAINTAINING DOCUMENTARY EVIDENCE OF MOVEMENT OF MATERIALS AT EVERY STAGE RIGHT FROM THE TIME SALES AND PRODUCTION BUDGETS ARE APPROVED TO THE POINT WHEN MATERIALS ARE PURCHASED AND ACTUALLY USED IN PRODUCTION OPERATIONS.

- THIS ASPECT OF MATERIAL CONTROL IS CONCERNED WITH THE MAINTENANCE WITH THE MAINTENANCE OF MATERIAL SUPPLIES AT A LEVEL SO AS TO ENSURE THAT MATERIAL IS AVAILABLE FOR USE IN PRODUCTION AND PRODUCTION SERVICES AS AND WHEN REQUIRED BY MINIMISING INVESTMENTS IN MATERIAL.

NEED FOR (OBJECTIVES OF) MATERIAL CONTROL

- THERE SHOULD BE AVAILABILITY OF ALL TYPES OF MATERIALS IN THE FACTORY SO THAT THE PRODUCTION MAY NOT HELD UP FOR THE WANT OF MATERIALS.

- NO EXCESSIVE INVESTMENT IN MATERIALS : THERE SHOULD NOT BE EXCESSIVE INVESTMENT IN MATERIALS. OVERSTOCKING MUST BE AVOIDED. INVESTMENT MUST NOT TIED UP FUNDS THAT COULD BE BETTER USED IN OTHER ACTIVITIES.

- R WHILE PURCHASING IT IS SEEN THAT IT IS PURCHASED AT LOW PRICES. BUT QUALITY SHOULD NOT BE SACRIFICED AT THE COST OF LOWER PRICE.

- THERE SHOULD BE MINIMUM POSSIBLE WASTAGE OF MATERIALS WHILE THESE ARE BEING STORED IN GODOWN OR USED IN FACTORY. IT SHOULD BE ALLOWED UP TO CERTAIN LEVEL KNOWN AS NORMAL WASTAGE.

- IN ORDER TO AVOID SPOILAGE OR OBSOLESCENCE , MAXIMUM QUANTITY OF EACH MATERIAL IS DETERMINE D AND PROPER METHOD OF ISSUE OF MATERIALS IS FOLLOWED.

- READY INFORMATION ABOUT AVAILABILITY OF THE STORE-KEEPER CAN SUPPLY THE INFORMATION BECAUSE HE KEEPS AN UP TO DATE RECORD OF EVERY ITEM OF STOCKS UNDER A PROPER SYSTEM OF MATERIAL CONTROL.

- MATERIAL CAN EASILY BE MISAPPROPRIATED BY EMPLOYEES. THEREFORE, THIS REQUIRES AN INTERNAL CHECK ON MATERIALS WHICH IS A PART OF MATERIAL CONTROL.

- INVOICES RECEIVED FROM SUPPLIES SHOULD BE APPROVED FOR PAYMENT ONLY IF ITEMS OF MATERIALS ORDERED HAVE BEEN RECEIVED AND PROPERLY CHECKED TO AVOID EXCESS PAYMENT TO SUPPLIES.

ESSENTIALS OF MATERIAL CONTROL

- THERE SHOULD BE PROPER COORDINATION AND COOPERATION AMONG DEPARTMENTS INVOLVED IN PURCHASING, RECEIVING AND INSPECTION, STORAGE AND SALES, PRODUCTION AND ACCOUNTING.
- PURCHASES OF MATERIALS SHOULD BE CENTRALISED.
- THERE SHOULD BE PROPER SCHEDULING OF MATERIALS.
- A GOOD METHOD OF CLASSIFICATION OF MATERIALS SHOULD BE FOLLOWED.
- THERE SHOULD BE PROPER INSPECTION OF MATERIALS WHEN THEY ARE RECEIVED BY THE RECEIVING DEPARTMENT.

PURCHASE CONTROL

PURCHASES ARE MADE BY PURCHASE DEPARTMENT.

PURCHASE DEPARTMENT PROCURES MATERIAL, SUPPLIES, SERVICES, MACHINES AT MOST FAVOURABLE TERMS CONSISTENT WITH MAINTAINING THE DESIRED STANDARD OF QUALITY. THUS, IF SIZE OF BUSINESS CONCERN PERMITS, IT SHOULD HAVE SEPARATE PURCHASE DEPARTMENT AND RESPONSIBILITY OF PURCHASING OF ALL TYPES OF MATERIALS SHOULD BE ENTRUSTED TO THIS DEPARTMENT.

CENTRALISED PURCHASING

IT MEANS THAT ALL PURCHASES SHOULD BE MADE THROUGH ONE ROUTE THROUGH ONE DEPARTMENT.

WHEN MATERIALS ARE PURCHASED , MORE DISCOUNTS CAN BE GET BECAUSE QUANTITY PURCHASED WILL BE MORE.

- SPECIALISED SKILLS AND KNOWLEDGE CAN BE UTILISED.
- BETTER CONTROL ON PURCHASING IS POSSIBLE.
- IT HELPS IN FOLLOWING UNIFORM PURCHASING POLICIES, PRACTICES AND PURCHASES.

➢IT AVOIDS DUPLICATION OF EFFORTS AND HELPS IN ACHIEVING PRODUCT STANDARDS.

DISADVANTAGES :

➢IT CAUSES DELAY.

➢IN CENTRALISED PURCHASING, BRANCHES AT DIFFERENT PLACES CANNOT TAKE ADVANTAGE OF LOCALISED PURCHASING.

➢THERE CAN BE ~~CHANCES OF MISUNDERSTANDING BETWEEN THE BRANCH~~ WHICH REQUIRES THE MATERIAL AND THE PURCHASING DEPARTMENT WITH THE RESULT THAT WRONG PURCHASES OF MATERIAL CAN BE MADE.

➢IT WILL LEAD TO HIGH INITIAL COST BECAUSE A SEPARATE PURCHASING DEPARTMENT WITH THE RESULT THAT WRONG PURCHASES OF MATERIAL IS TO SET UP.

FUNCTIONS OF PURCHASE DEPARTMENT

- WHAT TO PURCHASE ?
- WHEN TO PURCHASE ?
- WHERE TO PURCHASE ?
- HOW MUCH TO PURCHASE ?
- AT WHAT PRICE TO PURCHASE ?

PURCHASE REQUISITIONS

The purchase officer does not initiate any action for the purchase of materials on his own accord. With the help of purchase requisition, purchase officer comes to know the types of material needed in the organisation. This is a form used as a request to the purchasing department to purchase material. This form is prepared by the ~~storekeeper and is generally prepared~~ in triplicate the original copy is sent to the purchasing department, the duplicate is kept by storekeeper or the department which initiates the requisition and triplicate is sent to authorising executive.

STORES CONTROL

TO STRENGTHEN MATERIAL CONTROL, PURCHASE CONTROL MUST BE MATCHED BY EQUALLY EFFECTIVE STORES CONTROL TO AVOID LOSSES FROM MISAPPROPRIATION, DAMAGE, EVAPORATION OR DETERIORATION.

STANDARISATION AND SIMPLIFICATION

THEY ARE THE MOST IMPORTANT METHODS OF CONTROLLING THE SIZE OF MATERIALS WHICH HELP IN REDUCING THE NO. OF VARIETIES STOCKED IN THE STORE. EFFORTS SHOULD BE MADE TO ALLOT SPECIFICATIONS TO EACH ITEM STORED IN THE STORE. THE SPECIFICATION MUST BE CLEAR SO THAT THE BUYER AND SELLER MUST BE CERTAIN THAT THEY ARE CONSIDERING THE SAME THING.

SIMPLIFICATION IS A COROLLARY OF STANDARDISATION AND AIMS AT REDUCING THE NUMBER OF ITEMS CARRIED IN THE STORE SO THAT THE CARRYING COST OF MATERIALS AND INVESTMENTS IN MATERIALS MAY BE REDUCED.

TYPES OF STORES

a) CENTRALISED STORES

b) DECENTRALISED STORES

c) CENTRAL STORES WITH SUB STORES

STORES OR MATERIALS RECORDS

THERE ARE TWO IMPORTANT STORES RECORDS KNOWN AS BIN CARDS AND STORES LEDGER.

- BIN CARDS :

A BIN CARD MAKES A RECORD OF THE RECEIPT AND ISSUE OF MATERIAL AND IS KEPT FOR EACH ITEM OF STORES CARRIED. THESE CARDS ARE MAINTAINED BY STOREKEEPER AND THE STOREKEEPER IS ANSWERABLE FOR ANY DIFFERENCE BETWEEN THE PHYSICAL STOCK AND BALANCE SHOWN IN THE BIN CARD. THESE CARDS ARE NOT ONLY USED FOR RECORDING RECEIPT AND ISSUE OF STORES BUT ALSO TO ASSIST THE SHOPKEEPER TO CONTROL THE STOCK. A BIN CARD IS ALSO KNOWN AS BIN TAG OR STOCK CARD.

STORES LEDGER :

THIS LEDGER IS KEPT IN THE COSTING DEPARTMENT AND IS IDENTICAL WITH THE BIN CARD EXCEPT THAT RECEIPTS, ISSUES AND BALANCES ARE SHOWN ALONG WITH THEIR MONEY VALUES. THIS CONTAINS AN ACCOUNT FOR EVERY ITEM OF STORES AND MAKES A RECORD OF RECEIPTS, ISSUES AND BALANCES BOTH IN QUANTITY AND VALUE. THUS, THIS LEDGER PROVIDES THE INFORMATION FOR THE PRICING OF MATERIALS ISSUED AND THE MONEY VALUE AT ANY TIME OF EACH ITEM OF STORES.

DIFFERENCE BETWEEN BIN CARD ANDSTORE LEDGER

BIN CARD

- **A record of quantities only.**
- **Maintained by storekeeper.**
- **Normally posted just before the transaction take place.**
- **Each transaction is individually posted.**
- **Usually kept inside the stores.**

STORE LEDGER

- **A record of both quantities and values.**
- **maintained by the costing department.**
- **Always posted after the transaction take place.**
- **Transactions may be summarised and posted periodically.**
- **Kept outside the stores.**

ARE BIN CARDS NECESSARY AT ALL

- ✓ THE STOREKEEPER IS RESPONSIBLE FOR THE MAINTENANCE OF STORES AND AS SUCH HE SHOULD HAVE A STORE RECORD UNDER HIM.
- ✓ THE STOREKEEPER IS HELD RESPONSIBLE FOR DIFFERENCE BETWEEN PHYSICAL STOCK AND THE STOCK RECORD.
- ✓ THE STORE LEDGER IS NOT UP TO DATE AS IT IS PREPARED PERIODICALLY AND AS SUCH MAINTENANCE OF BIN CARD IS DESIRED TO HAVE UP TO DATE BALANCE OF STOCK.
- ✓ BIN CARD AND STORE LEDGER ACT AS A CROSS CHECK ON EACH OTHER BECAUSE BALANCE OF STOCK DISCLOSED BY BIN CARD SHOULD AGREE WITH BALANCE SHOWN BY STORE LEDGER.

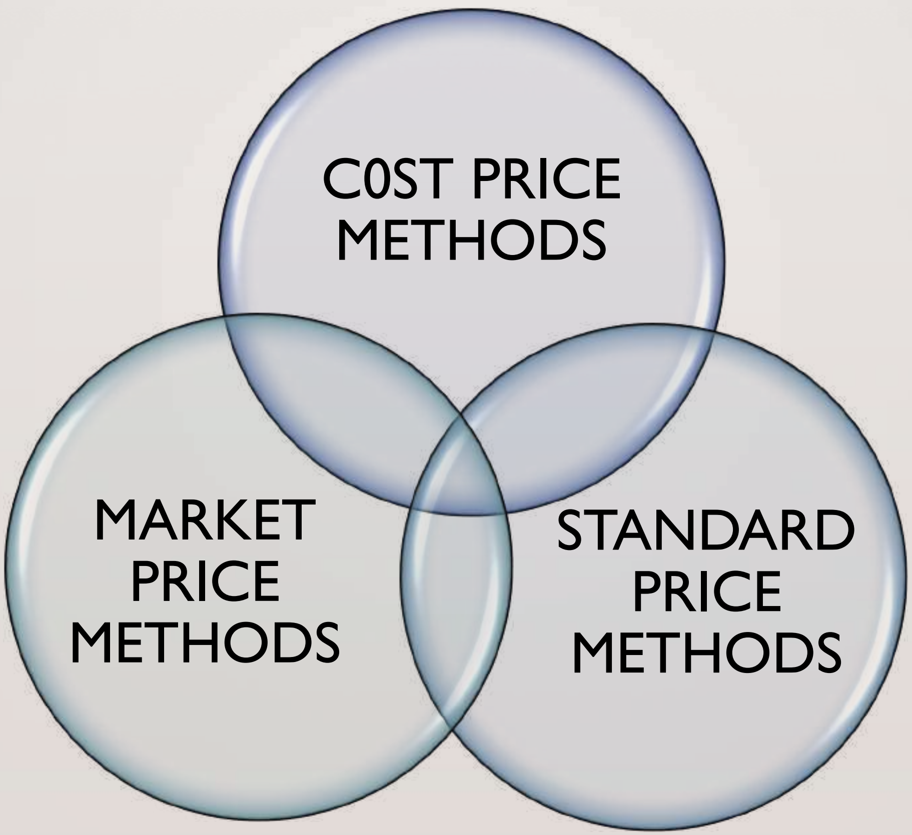
DIFFERENCE BETWEEN MATERIAL REQUISITION AND BILLS OF MATERIAL

- ✓ MATERIAL REQUISITION IS A DOCUMENT AUTHORISING THE STOREKEEPER TO ISSUE MATERIALS STATED THEREIN TO THE CONSUMING DEPARTMENT. BILL OF MATERIAL IS A DOCUMENT WHICH GIVES A LIST OF ALL MATERIAL REQUIRE D WITH THE SPECIFICATIONS AND QUANTITIES FOR A PARTICULAR JOB, ORDER OR PROCESS.
- ✓ MATERIAL REQUISITION GIVES A LIST OF MATERIAL REQUIRED BY A PARTICULAR DEPARTMENT AT A PARTICULAR TIME BUT BILL OF MATERIAL SERVES THE PURPOSE OF MATERIAL REQUISITION BECAUSE IT SHOWS LIST OF ALL MATERIALS REQUIRED FOR A PARTICULAR JOB, ORDER OR PROCESS.

- ✓A BILL OF MATERIAL CAN BE VERY HELPFUL IN CASE OF NON STANDARDISED JOBS WHEREAS MATERIAL REQUISITION WILL NOT SERVE THIS PURPOSE.

- ✓A BILL OF MATERIAL IS HELPFUL IN SENDING COMPETITIVE QUOTATIONS BECAUSE A BILL OF MATERIAL IS PREPARED KEEPING IN VIEW SCIENTIFIC ESTIMATE OF ALL MATERIALS REQUIRED FOR PARTICULAR JOB , ORDER OR PROCESS. THIS IS NOT POSSIBLE IN CASE OF MATERIAL REQUISITION WHICH PREPARED ONLY AT THE TIME OF GETTING MATERIALS ISSUED FROM STORES.

METHODS OF VALUING MATERIAL ISSUES OR MATERIAL COSTING



COST PRICE METHOD

- FIRST IN FIRST OUT
- LAST INFIRST OUT
- AVERAGE COST
- INFLATED PRICE
- SPECIFIC PRICE
- BASE STOCK
- HIGHEST IN FIRST OUT

FIRST IN FIRST OUT [FIFO]

UNDER THIS METHOD MATERIAL IS FIRST ISSUED FROM THE EARLIEST CONSIGNMENT ON HAND AND PRICED AT THE COST AT WHICH IT WAS PLACED IN THE STORES. IT MEANS MATERIAL RECEIVED FIRST ARE ISSUED FIRST.

THIS METHOD IS MOST SUITABLE AT THE TIME OF FALLING PRICES BECAUSE THE ISSUE PRICES OF MATERIALS TO JOB OR WORK ORDERS WILL BE HIGH WHILE THE COST OF REPLACEMENT OF MATERIALS WILL BE LOW.

ADVANTAGES :

- IT IS SIMPLE TO UNDERSTAND AND EASY TO OPERATE.
- IT IS LOGICAL METHOD BECAUSE IT TAKES INTO CONSIDERATION THE NORMAL PROCEDURE OF UTILISING FIRST THOSE MATERIALS WHICH ARE RECEIVED FIRST.
- THIS METHOD IS USEFUL WHEN PRICES ARE FALLING.
- THIS METHOD IS ALSO USEFUL WHEN TRANSACTIONS ARE NOT TOO MANY AND PRICES OF MATERIAL ARE FAIRLY STEADY.

DISADVANTAGES :

- THIS METHOD INCREASES THE POSSIBILITY OF CLERICAL ERRORS
- IN CASE OF FLUCTUATIONS IN PRICES OF MATERIALS, COMPARISON BETWEEN ONE JOB AND OTHER JOB BECOMES DIFFICULT.
- FOR PRICING ONE REQUISITION MORE THAN ONE PRICE HAS OFTEN TO BE TAKEN.
- WHEN PRICES RISE, THE ISSUE PRICE DOES NOT REFLECT THE MARKET PRICE AS MATERIALS ARE ISSUED FROM THE EARLIER CONSIGNMENT.

LAST IN FIRST OUT [LIFO]

IN THIS METHOD, ISSUES ARE PRICED IN THE REVERSE ORDER OF PURCHASE I.E. THE PRICE OF LATEST AVAILABLE CONSIGNMENT IS TAKEN. THIS METHOD IS SOMETIMES KNOWN AS REPLACEMENT COST METHOD BECAUSE MATERIALS ARE ISSUED AT THE CURRENT COST TO JOBS OR WORK ORDER.

THE METHOD IS SUITABLE AT THE TIME OF RISING PRICES BECAUSE MATERIAL WILL BE ISSUED FROM THE LATEST CONSIGNMENT AT A PRICE WHICH IS CLOSELY RELATED TO CURRENT PRICES LEVEL.

ADVANTAGES :

- THIS SIMPLE TO OPERATE AND IS USEFUL WHEN TRANSACTIONS ARE NOT TOO MANY AND THE PRICES ARE FAIRLY STEADY.
- THIS METHOD OF PRICING ISSUES IS SUITABLE BECAUSE MATERIALS ARE ISSUED AT THE CURRENT MARKET PRICE WHICH ARE HIGH.
- THIS METHOD HELPS IN SHOWING LOWER PROFIT BECAUSE OF INCREASED CHARGE TO PRODUCTION DURING PERIODS OF RISING AND LOWER PROFIT REDUCES BURDEN OF INCOME TAX.
- PRODUCTION IS CHARGED AT RECENT PRICES BECAUSE MATERIALS ARE ISSUED FROM THE LATEST CONSIGNMENT.

DISADVANTAGES :

- THIS METHOD MAY LEAD TO CLERICAL ERRORS.
- COMPARISON BETWEEN ONE JOB AND OTHER JOB BECOMES DIFFERENT.
- FOR PRICING A SINGLE REQUISITIONS, MORE THAN ONE PRICE HAVE TO BE ADOPTED.
- THE STOCK IN HAND IS VALUED AT PRICE WHICH DOES NOT REFLECT CURRENT MARKET PRICE. CONSEQUENTLY, CLOSING STOCK WILL BE UNDERSTATED OR OVERSTATED IN THE BALANCE SHEET.

AVERAGE COST METHOD

SIMPLE AVERAGE PRICE

WEIGHTED AVERAGE PRICE

SIMPLE AVERAGE PRICE

IT IS A PRICE WHICH IS CALCULATED BY DIVIDING THE TOTAL OF THE PRICES OF THE MATERIALS IN THE STOCK FROM WHICH THE MATERIAL TO BE PRICED COULD BE DRAWN BY THE NUMBER OF PRICES USED IN THE TOTALS.

THIS METHOD MAY LEAD TO OVER-RECOVERY OR UNDER-RECOVERY OF COST OF MATERIALS FROM PRODUCTION BECAUSE QUANTITY PURCHASED IN LOT IS IGNORED.

IN PERIODS OF HEAVY FLUCTUATIONS IT GIVES BETTER RESULTS BECAUSE IT TENDS TO SMOOTH OUT FLUCTUATIONS IN PRICES BY TAKING AVERAGE PRICES OF VARIOUS LOTS.

FOR EXAMPLE :

THESE ARE THREE DIFFERENT LOTS OF MATERIAL IN STOCK WHEN THE MATERIAL IS TO BE ISSUED.

1000 UNITS PURCHASED @ RS.10

2000 UNITS PURCHASED @ RS.11

3000 UNITS PURCHASED @ RS.12

SIMPLE AVERAGE PRICE = TOTAL OF PRICES OF MATERIALS/NO. OF PRICES

$$\frac{10+11+12}{3} = \text{RS. } 11$$

WEIGHTED AVERAGE PRICE

IT IS A PRICE WHICH IS CALCULATED BY DIVIDING THE TOTAL COST OF MATERIALS IN THE STOCK FROM WHICH THE MATERIAL TO BE PRICED COULD BE DRAWN BY THE TOTAL QUANTITY OF MATERIALS IN THAT STOCK.

THE WEIGHTED AVERAGE PRICE TAKES INTO ACCOUNT THE PRICE AND QUANTITY OF THE MATERIALS IN THE STORE .

IT IS BETTER TO ISSUE THE MATERIALS AT THIS METHOD BECAUSE IT RECOVERS THE COST PRICE OF THE MATERIALS FROM PRODUCTION.

FOR EXAMPLE :

1000 UNITS PURCHASED @ RS.10

2000 UNITS PURCHASED @ RS.11

3000 UNITS PURCHASED @ RS.12

WEIGHTED AVERAGE PRICE =

TOTAL COST OF MATERIALS/TOTAL QUANTITY OF MATERIALS

$$\frac{1000*10 + 2000*11 + 3000*12}{1000 + 2000 + 3000} = \text{RS. } 11.38$$

INFLATED PRICE METHOD

THERE ARE SOME MATERIALS WHICH ARE SUBJECTIVE TO NATURAL WASTAGE. EXAMPLE- MATERIAL LOST DUE TO LOADING AND UNLOADING, TIMBER LOST DUE TO SEASONING ETC. IN SUCH CASES MATERIALS ARE ISSUED AT INFLATED PRICE SO AS TO RECOVER THE COST OF NATURAL WASTAGE OF MATERIAL FROM THE PRODUCTION. IN THIS WAY, TOTAL COST OF MATERIAL IS RECOVERED FROM THE PRODUCTION.

FOR EXAMPLE :

IF 100 TONNES OF COAL ARE PURCHASED AT RS.75 PER TONNE AND IF IT IS EXPECTED THAT 5 TONNES OF COAL WILL BE LOST DUE TO LOADING AND UNLOADING.

INFLATED ISSUE PRICE =

TOTAL COST OF MATERIAL/ NET QUANTITY EXPECTED

$$\frac{100*75}{95} = \text{RS.}78.95 \text{ PER TONNE}$$

SO IN ORDER TO RECOVER COST PRICE RS.7500 (100*75), MATERIAL WILL BE ISSUED AT INFLATED PRICE WHICH IS RS. 78.95

SPECIFIC PRICE OR IDENTIFICATION METHOD

UNDER THIS METHOD, MATERIALS ISSUED TO PRODUCTION ARE PRICED AT THEIR PURCHASE PRICES. BASIC ASSUMPTION UNDER THIS METHOD IS THAT MATERIALS IN THE STORES ARE CAPABLE OF BEING IDENTIFIED AS BELONGING TO SPECIFIC LOTS. IDENTIFICATION CAN BE MADE BY PLACING SOME DISTINGUISHING MARK USUALLY PRICE TAG ON EVERY LOT. THIS METHOD IS SIMPLE IN ITS MECHANISM AND OPERATION. IT IS USEFUL WHERE JOB COSTING IS IN OPERATION AND THE ACTUAL MATERIAL IS ISSUED CAM BE IDENTIFIED. THIS METHOD IS SUITED TO THE NEEDS OF A SMALL BUSINESS ENTERPRISE WHEN A SMALL NO. OF ITEMS OF MATERIALS ARE PURCHASED AND STORED AND ARE EASILY IDENTIFIED.

BASE STOCK METHOD

EACH CONCERN ALWAYS MAINTAIN A MINIMUM QUANTITY OF MATERIAL IN STOCK. THIS MINIMUM QUANTITY IS KNOWN SAFETY OR BASE STOCK AND THIS SHOULD BE ONLY USED WHEN AN EMERGENCY ARISES. THE BASE STOCK IS CREATED OUT OF THE FIRST LOT OF MATERIAL PURCHASED AND THEREFORE IT IS ALWAYS VALUED AT THE COST PRICE OF THE FIRST LOT AND IS CARRIED FORWARD AS A FIXED ASSET.

ANY QUANTITY OVER AND ABOVE THE BASE STOCK IS ISSUED WITH ACCORDANCE WITH THE OTHER METHOD. THE OBJECTIVE OF THIS METHOD IS TO ISSUE THE MATERIAL ACCORDING TO THE CURRENT PRICES. THIS OBJECTIVE IS ONLY ACHIEVED WHEN LIFO METHOD IS USED WITH THE BASE STOCK METHOD.

HIGHEST IN FIRST OUT METHOD (HIFO)

THIS METHOD IS BASED ON THE ASSUMPTION THAT THE CLOSING STOCK OF MATERIAL ALWAYS REMAIN AT THE MINIMUM VALUE, SO THE ISSUES ARE PRICED AT THE HIGHEST VALUE OF THE AVAILABLE CONSIGNMENTS IN THE STORE. THIS METHOD IS MAINLY USED IN CASE OF COST PLUS CONTRACTS OR MONOPOLY PRODUCTS AS IT IS HELPFUL IN INCREASING THE PRICE OF THE CONTRACT OR PRODUCTS.

MARKET PRICE METHOD

MARKET PRICE CAN BE EITHER REPLACEMENT PRICE OR REALISABLE PRICE. THE REPLACEMENT PRICE IS USED IN CASE OF THE ITEMS WHICH ARE HELD IN THE STOCK FOR USE IN THE PRODUCTION WHILE REALISABLE PRICE IS USED IN RESPECT OF THE ITEMS WHICH ARE KEPT IN STORES FOR SALE. UNDER THIS METHOD, MATERIALS ARE ISSUED AT THE PRICE AT WHICH THEY CAN BE REPLACED. THEREFORE COST OF MATERIALS ISSUED IS NOT CONSIDERED BUT MATERIALS ARE ISSUED AT MARKET PRICE PREVAILING ON THE DATE OF ISSUE. THIS METHOD MATCHES CURRENT REVENUE AGAINST CURRENT COST, THEREFORE USEFUL IN MEASURING THE OPERATING RESULTS OF A FIRM CORRECTLY.

THIS METHOD DISCLOSES MARKET PRICE WHETHER THE BUYING IS EFFICIENT OR NOT. THERE WILL BE EFFICIENCY IN BUYING IF THE MARKET PRICE IS HIGHER THAN THE COST PRICE.

THIS METHOD DOES NOT RECOVER THE COST PRICE OF THE MATERIALS FROM PRODUCTION BECAUSE MATERIALS ARE ISSUED AT THE MARKET PRICE WHICH MAY BE MORE OR LESS THAN COST PRICE.

STANDARD PRICE METHOD

STANDARD PRICE IS THE PREDETERMINED PRICE AND BOTH THE RECEIPTS AND ISSUES WILL BE VALUED AT THIS PRICE. THEREFORE, THIS PRICE IS NEITHER COST PRICE NOR MARKET PRICE.

STANDARD PRICE CAN BE OF TWO TYPES :

(a) BASIC STANDARD PRICE : IT IS THE IDEAL STANDARD PRICE FIXED FOR LONG PERIODS SO AS TO HELP FORWARDING PLANS.

(b) CURRENT STANDARD PRICE : IT IS THE BASIC STANDARD PRICE WHICH HAS BEEN ADJUSTED TO PROVIDE FOR PERMANENT CHANGES ON COST OF ACCOUNT PREVAILING TRENDS IN THE MARKET.

TECHNIQUES OF MATERIAL CONTROL

METHODS OR TECHNIQUES OF MATERIAL CONTROL

- LEVEL SETTING
- ECONOMIC ORDER QUANTITY
- JUST-IN-TIME INVENTORY SYSTEM
- ABC ANALYSIS
- VED ANALYSIS
- PERPETUAL INVENTORY SYSTEM
- DOUBLE BIN SYSTEM
- INPUT-OUTPUT RATIO
- MATERIAL TURNOVER RATIO
- FNSD ANALYSIS
- MATERIAL COST REPORTS

LEVEL SETTING

IN ORDER TO HAVE PROPER CONTROL ON MATERIALS, FOLLOWING LEVELS ARE SET :

- ✓ IT IS THE POINT AT WHICH IF STOCK OF A PARTICULAR MATERIAL IN STORE APPROACHES, THE STOREKEEPER SHOULD INITIATE THE PURCHASE REQUISITION FOR FRESH SUPPLIES OF THAT MATERIAL. IT IS FIXED IN SUCH A WAY THAT DIFFERENCE IN QUANTITY OF THE MATERIAL BETWEEN RE ORDERING LEVEL AND THE MINIMUM LEVEL WILL BE SUFFICIENT TO MEET THE REQUIREMENTS OF PRODUCTION UP TO THE TIME OF FRESH SUPPLY OF MATERIAL IS RECEIVED.

ORDERING LEVEL =

MINIMUM LEVEL + CONSUMPTION DURING THE TIME REQUIRED TO GET THE FRESH DELIVERY

WHELDON'S FORMULA

RE-ORDERING LEVEL =

MAXIMUM CONSUMPTION X MAXIMUM RE-ORDER PERIOD (DELIVERY PERIOD)

✓THIS REPRESENTS THE MINIMUM QUANTITY OF THE MATERIAL WHICH MUST BE MAINTAINED IN HAND ALL THE TIMES. IT IS FIXED SO THAT PRODUCTION MAY NOT UP DUE TO SHORTAGE OF THE MATERIAL.

MINIMUM STOCK LEVEL =

RE-ORDERING LEVEL – (NORMAL OR AVERAGE CONSUMPTION X NORMAL OR AVERAGE DELIVERY PERIOD)

✓IT REPRESENTS THE MAXIMUM QUANTITY OF AN ITEM OF A MATERIAL WHICH CAN BE HELD IN STOCK AT ANY TIME. STOCK SHOULD NOT EXCEED THIS QUANTITY. THIS LEVEL IS FIXED SO THAT THERE BE NO OVERSTOCKING.

MAXIMUM STOCK LEVEL =

RE-ORDERING LEVEL + REORDERING QUANTITY - (MINIMUM CONSUMPTION X MINIMUM DELIVERY PERIOD)

✓ THIS MEANS A LEVEL AT WHICH A NORMAL ISSUE OF THE MATERIAL ARE STOPPED AND ISSUES ARE MADE ONLY UNDER SPECIFIC INSTRUCTIONS. THE PURCHASE OFFICER WILL MAKE SPECIAL ARRANGEMENTS TO GET THE MATERIALS WHICH REACH AT THEIR DANGER LEVELS SO THAT PRODUCTION MAY NOT STOP DUE TO SHORTAGE OF MATERIAL.

DANGER LEVEL =

AVERAGE CONSUMPTION * MAXIMUM RE-ORDER PERIOD FOR EMERGENCY SITUATIONS

✓ AVERAGE STOCK LEVEL =

$$\frac{\text{MINIMUM STOCK LEVEL + MAXIMUM STOCK LEVEL}}{2}$$

OR

MINIMUM STOCK LEVEL + ½ OF RE-ORDER QUANTITY

ECONOMIC ORDER QUANTITY

ECONOMIC ORDERING QUANTITY (EOQ)

ACQUISITION COST (ANNUAL CONSUMPTION)

IT IS THE COST AT WHICH MATERIALS ARE PURCHASED FROM SUPPLIER. IN CASE OF DISCOUNTS, RECEIVED FROM SUPPLIERS TOTAL ACQUISITION COST WILL BE CALCULATED AFTER DEDUCTING DISCOUNT.

FOR EXAMPLE :- IF TOTAL ANNUAL REQUIREMENT OF MATERIAL IS 10000 UNITS AT RS. 10 PER UNIT. SO TOTAL ACQUISITION COST WILL BE RS. 100000 (10000UNITS * 10 PER UNIT)

ORDERING COST

IT IS THE COST OF PLACING ORDERS FOR THE PURCHASE OF MATERIALS AND INCLUDE :

- ✓ COST OF STAFF POSTED IN PURCHASING DEPARTMENT , INSPECTION SECTION AND PAYMENT DEPARTMENT.
- ✓COST OF STATIONARY, POSTAGE AND TELEPHONE CHARGES.

IN OTHER WORDS IF IT INCLUDES ALL THE ABOVE COSTS, ORDERING COST VARIES WITH NUMBER OF ORDERS.

CARRYING COST

IT IS THE COST OF HOLDING THE MATERIALS IN THE STORE AND INCLUDE-

- COST OF STORAGE SPACE WHICH COULD HAVE BEEN UTILISED FOR SOME OTHER PURPOSE.
- COST OF MAINTAINING THE MATERIALS TO AVOID DETERIORATION
- AMOUNT OF INTEREST PAYABLE ON THE MONEY LOCKED UP IN THE MATERIALS.
- COST OF SPOILAGE IN STORES AND HANDLING
- TRANSPORTATION COSTS IN RELATION TO STOCK.
- INSURANCE COST
- CLERICAL COST.

ECONOMIC ORDERING QUANTITY (EOQ)

SO ECONOMIC ORDER QUANTITY IS THAT QUANTITY WHICH SHOULD BE PURCHASED AT A PARTICULAR TIME SO THAT IT SHOULD BE ECONOMICAL AND MINIMIZE COST WHICH IS KNOWN AS ECONOMIC PURCHASING POLICY.

$$EOQ = \sqrt{2AO/C}$$

WHERE,

A = ANNUAL CONSUMPTION OF MATERIALS

O = ORDERING COST PER ORDER

C = INVENTORY CARRYING COST PER YEAR, IF IT IS GIVEN IN %, THEN CARRYING COST = (% * COST PRICE PER UNIT)/100

ASSUMPTIONS IN CAL Q

- There are dynamic conditions of the supply which enable a firm to place as many orders as it needs.
- Prices of the items remain stable which keep carrying cost constant.
- The quantity of the item to be consumed during a particular period is totally known i.e. Quantity to be consumed is certain.

DIFFERENCE BETWEEN E.O.Q. AND REORDER QUANTITY

EOQ AND REORDER QUANTITY ARE DIFFERENT TERMS. REORDER QUANTITY IS THE QUANTITY FOR WHICH THE PURCHASE ORDER IS ACTUALLY GIVEN. IT MAY BE MORE OR LESS THAN ECONOMIC ORDER QUANTITY, IF THE FIRM IS NOT PLACING ORDERS ACCORDING TO ECONOMIC ORDER QUANTITY. IN ABSENCE OF INFORMATION REORDER QUANTITY AND EOQ CAN BE USE INTERCHANGEABLY.

JUST IN TIME INVENTORY SYSTEM

JUST IN TIME PURCHASING IS THE PURCHASE OF MATERIAL OR GOODS IN SUCH A WAY THAT DELIVERY OF PURCHASED ITEMS IS ASSURED BEFORE THEIR USE OR DEMAND.

JUST IN TIME PURCHASING RECOGNISES TOO MUCH CARRYING COST ASSOCIATED WITH HOLDING HIGH INVENTORY LEVELS. THEREFORE, IT ADVOCATES GOOD RELATIONS WITH SUPPLIERS AND MAKING TIMELY PURCHASES FROM PROVEN SUPPLIERS WHO CAN MAKE READY DELIVERY OF GOODS AVAILABLE AS AND WHEN REQUIRED. IT ADVOCATES A DIFFERENT QUANTITY FOR EACH ORDER IF DEMAND FLUCTUATES.

ADVANTAGES

- INVESTMENT IN INVENTORY IS REDUCED BECAUSE MORE FREQUENT PURCHASE ORDERS OF SMALL QUANTITIES ARE MADE.
- CARRYING COST IS REDUCED AS A RESULT OF LOW INVESTMENT OF INVENTORY.
- A REDUCTION IN NUMBER OF SUPPLIER TO BE DEALT WITH IS POSSIBLE. ONLY PROVEN SUPPLIERS WHO CAN GIVE QUICK DELIVERY OF QUALITY GOODS ARE GIVEN PURCHASE ORDER.
- JIT ASSURES QUICK AND FREQUENT DELIVERY OF SMALL SIZE ORDERS WHICH RESULT IN LOW INVENTORIES CAUSING MINIMUM WASTAGE.
- IT HELPS IN REDUCING WASTE OF TIME OF THE WORK FORCE

ABC ANAYSIS (ALWAYS BETTER CONTROL)

ABC ANALYSIS

AN ORGANISATION FOUND IT USEFUL TO DIVIDE MATERIALS INTO THREE CATEGORIES FOR THE PURPOSE OF EXERCISING SELECTIVE CONTROL ON MATERIALS. AN ANALYSIS OF MATERIAL COST WILL SHOW THAT A SMALLER PERCENTAGE OF ITEMS OF MATERIAL IN THE STORE MAY CONTRIBUTE TO THE LARGE PERCENTAGE OF VALUE OF CONSUMPTION AND VICE VERSA. IT EXERCISES DISCRIMINATING CONTROL OVER DIFFERENT ITEMS OF STORES CLASSIFIED ON THE BASIS OF INVESTMENT INVOLVED. USUALLY THEY ARE DIVIDED INTO THREE CATEGORIES ACCORDING TO THEIR VALUE AND FREQUENCY OF REPLENISHMENT. IT IS ALSO KNOWN AS VALUE METHOD OR ALWAYS BETTER CONTROL METHOD OR PROPORTIONAL OARTS VALUE ANALYSIS METHOD.

“ A ” CATEGORY OF ITEMS CONSISTS OF SMALL PERCENTAGE I.E. ABOUT 10% OF TOTAL ITEMS HANDLES BY THE STORES BUT REQUIRES HEAVY INVESTMENT ABOUT 70% OF INVENTORY VALUE BECAUSE OF THEIR HIGH PRICE OR HEAVY REQUIREMENT OR BOTH.

“ B ” CATEGORY OF ITEMS ARE RELATIVELY LESS IMPORTANT- 20% OF THE TOTAL ITEMS OF MATERIAL HANDLED BY THE STORE AND % OF INVESTMENT REQUIRED IS ABOUT 20% OF TOTAL INVESTMENT IN INVENTORIES.

“ C ” CATEGORY INCLUDE- 70% OF TOTAL ITEMS HANDLED AND 10% OF VALUE

FEATURES OF ABC

	A items having more consumption value	B items having moderate consumption value	C items having low consumption value
EXTENT OF CONTROL	Very strict control	Moderate control	Loose control
FREQUENCY OF ORDER	Frequent ordering	Once in 3 months	Once in 6 months or once in a year

LEAD TIME	Maximum efforts to reduce lead time	Moderate efforts to reduce lead time	Minimum clerical efforts to reduce lead time
LEVEL OF MANAGEMENT	Must be taken care of by senior officers	Can be supervised by middle management	Can be supervised by clerical staff
PERIOD OF REVIEW	Review after a month or every 15 days of waste, obsolete or surplus items	Review after every 3 months of waste, obsolete or surplus items	Annual review over obsolete and surplus items
SAFETY STOCK	Very low safety stock	Low safety stock	High safety stock

CENTRALISATION	Centralised purchasing	Centralised and decentralised purchasing	Decentralised purchasing
VALUE ANALYSIS	Regular value analysis	Moderate value analysis	Minimum value analysis
FOLLOW UP	Maximum follow up	Periodic follow up	Follow up only exceptional cases

VED ANALYSIS

VED – VITAL, ESSENTIAL AND DESIRABLE ANALYSIS IS USED TO CONTROL FOR SPARE PARTS. THE SPARES OF WHICH EVEN FOR A SHORT TIME WILL STOP PRODUCTION FOR QUITE SOMETIME AND COST OF STOCK IS VERY HIGH IS KNOWN AS VITAL SPARES. THE SPARES, ABSENCE OF WHICH CANNOT BE TOLERATED FOR MORE THAN FEW HOURS OR A DAY AND COST OF PRODUCTION IS VERY HIGH ARE ESSENTIAL SPARES. THE SPARES WHICH ARE NEEDED BUT THEIR ABSENCE FOR A WEEK OR SO WILL NOT LEAD TO STOPPAGE OF PRODUCTION ARE DESIRABLE SPARES. VED ANALYSIS IS MADE TO GET THE EFFECTIVE RESULTS.

PERPETUAL INVENTORY SYSTEM

IT IS A SYSTEM OF RECORDS MAINTAINED BY THE CONTROLLING DEPARTMENT WHICH REFLECTS THE PHYSICAL MOVEMENT OF STOCKS AND THEIR CURRENT BALANCE. BIN CARDS AND STORE LEDGER HELPS THE MANAGEMENT IN MAINTAINING THIS SYSTEM AS THEY MAKE RECORD OF PHYSICAL MOVEMENTS OF STOCKS. IT IS A SYSTEM OF ASCERTAINING BALANCE AFTER EVERY RECEIPT AND ISSUE OF MATERIALS THROUGH STOCK RECORDS TO FACILITATE REGULAR CHECKING. TO ENSURE THE ACCURACY OF PERPETUAL INVENTORY RECORDS, PHYSICAL VERIFICATION OF STORES IS MADE BY THE PROGRAMME OF CONTINUOUS STOCKTAKING,

DOUBLE BIN SYSTEM

IN THIS SYSTEM MATERIALS ARE STORED IN BINS WHICH ARE DIVIDED INTO TWO COMPARTMENTS. MATERIALS ARE ISSUED FOR PRODUCTION FROM ONE COMPARTMENT AND MATERIALS IN THE SECOND COMPARTMENT ARE NOT TOUCHED IN REGULAR COURSE. WHEN THE MATERIALS IN THE FIRST COMPARTMENT ARE FULLY CONSUMED, AN ORDER IS PLACED. THE SECOND COMPARTMENT OF MATERIALS TAKE CARE OF CONSUMPTION REQUIREMENT DURING THE TIME REQUIRED TO GET FRESH DELIVERY. THIS SYSTEM HAS PRACTICAL USAGE AND SIMPLE TO UNDERSTAND AND IS MAINLY USED IN SMALL ORGANISATIONS WHO CANNOT AFFORD EXPENSIVE TECHNIQUES.

INPUT-OUTPUT RATIO

THIS RATIO IS USED TO JUDGE THE EFFICIENCY IN THE USAGE OF MATERIAL. THIS RATIO INDICATES THE RELATION BETWEEN THE UNITS OF MATERIAL PUT IN FOR PRODUCTION AND THE UNITS OF FINISH PRODUCTS.

INPUT OUTPUT RATI0=(UNITS OF INPUT/UNITS OF THE INPUT-OUTPUT RATIO IS COMPARED WITH STANDARD INPUT-OUTPUT RATIO. IF ACTUAL RATIO IS HIGHER THAN STANDARD RATIO, THEN THERE IS INEFFICIENCY IN THE MANUFACTURING PROCESS AND VICE-VERSA.

MATERIAL TURNOVER RATIO

MATERIAL (INVENTORY) TURNOVER RATIO IS CALCULATED AS FOLLOWS :

COST OF MATERIAL CONSUMED DURING THE PERIOD

COST OF AVERAGE STOCK HELD DURING THE PERIOD

IF INVENTORY IS IN DAYS THEN IT IS CALCULATED AS :

DAYS DURING THE PERIOD

INVENTORY TURNOVER RATIO

AVERAGE STOCK IS THE AVERAGE OF CLOSING AS WELL AS OPENING STOCK. A LOW TURNOVER RATIO IS AN INDICATOR OF SLOW MOVING STOCK, ACCUMULATION OF OBSOLETE STOCK AND CARRYING OF TOO MUCH STOCK.

ON THE OTHER HAND, HIGH INVENTORY TURNOVER RATIO IS AN INDICATION OF FAST MOVING STOCK AND LESS INVESTMENT IN STOCK.

IF THE STOCK TURNOVER RATIO FOR A PARTICULAR ITEM IS ZERO, IT MEANS THAT THE ITEM HAD NOT BEEN USED DURING THE PERIOD AND SHOULD BE IMMEDIATELY DISPOSED OFF.

FNSD ANALYSIS

THIS ANALYSIS DIVIDES THE STORES INTO FOUR CATEGORIES IN THE DESCENDING ORDER OF THEIR IMPORTANCE OF THEIR USAGE RATE. "F" STANDS FOR FAST MOVING ITEMS THAT ARE CONSUMED IN SHORT SPAN OF TIME. THEY SHOULD BE TAKEN CARE CONTINUOUSLY AND REPLENISHMENT ORDERS SHOULD BE PLACED IN TIME TO AVOID STOCK OUT. "N" STANDS FOR NORMAL MOVING ITEMS WHICH ARE EXHAUSTED OVER A PERIOD. THEY SHOULD BE REVIEWED AT REGULAR SPAN AND ORDER SHOULD BE GIVEN AT REGULAR INTERVALS. "S" INDICATES SLOW MOVING ITEMS WHICH ARE NOT ISSUED AT FREQUENT INTERVALS. THEY SHOULD BE REVIEWED CAREFULLY TO AVOID OVER STOCKING. "D" MEANS DEAD ITEMS WHICH ARE OBSOLETE ONES AND THEIR CONSUMPTION IS ALMOST NIL. ALTERNATIVE USES SHOULD BE FOUND FOR THEM OR MUST BE DISPOSED OFF AS EARLY AS POSSIBLE.

MATERIAL COST REPORTS

THE OBJECTIVE IS TO HELP THE MANAGEMENT IN EXERCISING EFFECTIVE MATERIAL CONTROL AND TAKING APPROPRIATE DECISIONS. MATERIAL COST REPORT SERVE AS MEANS OF COMMUNICATION USUALLY IN THE WRITTEN FORM OF FACTS RELATING TO MATERIAL WHICH SHOULD BE BOUGHT TO ATTENTION OF VARIOUS LEVELS OF MANAGEMENT WHO CAN USE THEM TO TAKE SUITABLE ACTION FOR THE PURPOSE OF MATERIAL CONTROL. A PROPER DESIGN OF MATERIAL COST REPORT IS REQUIRED TO ACHIEVE THESE PURPOSES OF MATERIAL CONTROL WHICH IS ACCORDING TO INDIVIDUAL REQUIREMENT.

TTOTUHTAT NKYOTTU

UNIT-2
ANALYSIS & INTREPRETATION OF FINANCIAL STATEMENTS

OVERVIEW OF THE UNIT

- NATURE, OBJECTIVES, AND LATEST TRENDS IN IN PRESENTING FINANCIAL DATA
- TYPES & TOOLS OF FINANCIAL ANALYSIS
- ACCOUNTING RATIOS-CLASSIFICATION, ADVANTAGES AND LIMITATIONS.

CONCEPT OF FSS:

- Financial statements, as used in corporate business houses, refer to a set of reports and schedules which an accountant prepares at the end of a period of time for a business enterprise. The financial statements are the means with the help of which the accounting system performs its main function of providing summarized information about the financial affairs of the business. These statements comprise Balance Sheet or Position Statement and Statement of Profit & Loss or Income Statement.

- Of course to give a full view of the financial affairs of an undertaking, in addition to the above, the business may also prepare a Statement of Retained Earnings and a Cash Flow Statement. In India, every company has to present its financial statements in the form and contents as prescribed under Section 2(2), 129 & 133 of the Companies Act 2013.

NATURE OF FSS:

- **Recorded facts:** The term 'recorded facts' means, facts which have been recorded in the accounting books such as cash in hand, cash at bank, bills receivables, bills payable, debtors, creditors, fixed assets, sales, purchases, wages, capital and so forth. These items are recorded as per the historical data valued at which transactions took place.
- **Accounting Conventions:** Accounting conventions have reference to certain fundamental accounting principles, the applications of which has been sanctified by long usage. These conventions are applied for the valuation of inventory, allocation of expenditure between capital and revenue for the purpose of assets valuations etc.

- **Postulates:** Accountants make various assumptions for the conventions adopted. One of these assumptions or postulates is to the effect that the enterprise will continue in business beyond the period which is covered by the financial statements.
- **Personal Judgements:** personal judgements of the accountant.
- **Accounting Standards and Guidance Notes:** Accountants are guided by various accounting standards and guidance notes in preparing the financial statement.

OBJECTIVES OF FINANCIAL STATEMENTS

- 1. To provide reliable financial information about economic resources and obligations of a business enterprise.
- 2. To provide reliable information about the net resources (resources less obligations) of an enterprise that results from its activities.
- 3. To provide financial information that assists in estimating the earning potentials of a business.
- 4. To provide other needed information about changes in economic resources or obligation.
- 5. To disclose, to the extent possible, other information related to the financial statements that is relevant to the needs of the users of these statements.

ATTRIBUTES OF FINANCIAL STATEMENTS

- **Relevance:** significant data to show true position of the firm.
- **Accuracy and Freedom from Bias:** must be correct data.
- **Comparability:** with previous statement.
- **Analytical Presentation:**
- **Promptness:**
- **Generally Accepted Principles:**
- **Consistency:**
- **Authenticity:**
- **Compliance with Law:** In India, companies are required to present their financial statements according to the provisions of Section 129 of the Companies Act, 2013.

RECENT TRENDS IN PRESENTING FINANCIAL STATEMENTS:

- **Statement of Profit and Loss and Balance Sheet:** Every company registered under the Companies Act shall prepare its Balance Sheet, Statement of Profit and Loss and notes thereto in accordance with the manner prescribed in Schedule III to the Companies Act, 2013.
- **Highlights:** Highlights are usually shown at the beginning of the annual report so that the users may come across the important facts of the company immediately as he opens the report.

- **Cash flow statements:** The preparation of cash flow statement has become mandatory now-a days. A statement of cash flow, reports the cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities of an enterprise during a period in a format that reconciles the beginning and ending cash balances. It reports a net cash inflow or outflow for each activity and for the overall business.
- **Provision of important accounting ratios:** Accounting ratios show the inter- relationship which exists among various accounting data. Balance sheet is substantiated by the important ratios of the current year and of the last two years.

- **Provision of important accounting ratios:** Accounting ratios show the inter- relationship which exists among various accounting data. Balance sheet is substantiated by the important ratios of the current year and of the last two years.
- **Disclosure of accounting policies:**
- **Use of charts, graphs and diagrams:**
- **Use of schedules:**
- **Rounding off of figures:**

TYPES AND TOOLS OF FIANCIAL ANALYSIS

- According to Myers, “financial statement analysis is largely a study of relationship among the various financial factors in business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements”.
- Thus, analysis of financial statements refers to the treatment of information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned.

- **External Analysis:** It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in nominal way.
- **Internal Analysis:** The internal analysis is accomplished by those who have access to the books of accounts and all other information related to business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing.

- **Horizontal Analysis:** When financial statements for a number of years are reviewed and analyzed, the analysis is called 'horizontal analysis'. As it is based on data from year to year rather than on one date or period of time as a whole, this is also known as 'dynamic analysis'.

- **Vertical Analysis:** It is frequently used for referring to ratios developed for one date or for one accounting period. Vertical analysis is also called 'Static Analysis'.
- **Long-term Analysis:** This analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business.

- **Short-term Analysis:** This analysis is made to determine the short-term solvency, stability, liquidity and earning capacity of the business.

METHODS OF ANALYSING FINANCIAL STATEMENTS

- The methods are used to ascertain or measure the relationships among the financial statements items of a single set of statements and the changes that have taken place in these items as reflected in successive financial statements.

- Analytical methods and devices used in analysing financial statements are as follows:
- 1. Comparative Statements
- 2. Common Size Statements
- 3. Trend Ratios
- 4. Ratio Analysis
- 5. Cash Flow Statements
- 6. Fund Flow Statement.

COMPARATIVE STATEMENTS:

- These financial statements are so designed as to provide time perspective to the various elements of financial position contained therein. These statements give the data for all the periods stated so as to show:
- (a) Absolute money values of each item separately for each of the periods stated.
- (b) Increase and decrease in absolute data in terms of money values.
- (c) Increase and decrease in terms of percentages.
- (d) Comparison expressed in ratios.
- (e) Percentages of totals.

- Thanks You

BANKING LAW NOTES

1) WHAT IS BANK?

ANS- BANK IS A FINANCIAL INSTITUTION THAT ACCEPTS MONEY FOR THE PURPOSE OF LENDING OR INVESTMENT OF DEPOSITS OF MONEY FROM THE PUBLIC, REPAYABLE ON DEMAND OR OTHERWISE AND WITHDRAWABLE BY CHEQUES, DRAFTS, AND ORDER OR OTHERWISE.

2) DEFINE BANK?

ANS: ACCORDING TO PROF: R.S. SAYER "BANKS ARE INSTITUTIONS WHO DEBT, USUALLY REFERRED TO AS BANK DEPOSITS, ARE COMMONLY ACCEPTED IN FINAL SETTLEMENT OF OTHER PEOPLE'S DEBTS"

3) WHO IS BANKER?

ANS: ONE WHO CARRIES OUT THE BANKING BUSINESS AND DEALER IN MONEY, CREDIT AND CREDIT INSTRUMENTS? THE PERSON WHO IS WORKING BANK IRRESPECTIVE OF THE CADRE OR POSITION IS CALLED BANKER.

- **4) What is banking?**
- Ans: Banking is an industry that handles cash, credit, and other financial transactions. Banks provide a safe place to store extra cash and credit. They offer savings accounts, certificates of deposit and checking accounts.
- **5) What is scheduled bank?**
- Ans: Scheduled banks refer to those banks which have been included in the second schedule of Reserve Bank of India Act 1934. Scheduled banks are usually private, foreign and nationalized banks operating in India.
- **6) What is indigenous bank?**
- Ans: These are banks established by the private persons. Money lenders are called Indigenous Banks. These banks provide the short term financial assistance to the needy. The rate of interest charged by these money lenders is very high. Ex: Shroffs, Marwaris, Multanis, Jains, Seths, Shetties, Banias, Mahajans.

- **7) What is central bank?**
- Ans: It is a special institution which works for the entire banking structure and maintains monetary stability. It is the banker to the government and it is the leader ~~of all banks in the country. It operates the currency and credit system~~. It assists government in implementation
- **8) What do you mean by commercial banks?**
- Ans: Commercial banks are the financial institutions which accept deposits from the public in the form of, against which cheques must be drawn, current deposits, fixed deposits, savings bank accounts and the same amount is mainly lent to commerce, industry and trade.
- **9) What do you mean by Industrial Banks?**
- Ans: Banks have been established for the purpose of providing long term finance to industries. They obtain their funds through share capital, debentures and long term deposits from the public. These banks assist business corporation and government agencies to raise funds for long term capital requirements by issue of bonds. Ex IDBI

- **10) What do you mean by agriculture banks?**
- Ans: Those banks providing short term and long term finance to agriculture are called agriculture banks Ex: Co-operative banks, PACS, Land development banks.
- **11) What do you mean by Regional Rural Banks (RRB)?**
- Ans: Regional rural banks have been established by the government of India in 1976. These banks are state-sponsored, regionally based and rural-oriented commercial banking institutions. These banks provide credit facilities to small and small marginal farmers, agricultural labourers, artisans and small scale industries.

- **12) What do you mean by Exchange Banks?**
- Ans: Exchange Banks specialize in financing the foreign trade and they supply the necessary foreign exchange required for settlement of transactions between traders engaged in foreign trade. Ex: EXIM BANK
- **13) What is E- Banking?**
- Ans: E- Banking means electronic banking. It means all the transactions are carried through electronic media. E- Banking refers to linking all the dealings of the bank through computers or internet.

- **14) What is Core banking?**
- Ans: Core banking nothing but centralized banking. All the information such as accounts of other branches is channelized through computer to the head office. The information about the branch working is sent by the branch to the head office periodically.
- **15) What is online banking?**
- Ans: Online banking refers to the use of today's computer technology to avoid the time consuming, paper based aspects of traditional banking, in order to manage our finance more quickly and efficiently. Consumers do not get cash personally; everything is done through PC's like receiving, and transferring deposits/ funds into other accounts.

- **16) Who is customer?**
- Ans: A customer of a bank means a person who has an account with the bank. And there must be some recognizable course or habit of dealing between a customer and banker.
- **17) Define banker as debtor.**
- Ans: "When the banker receives the money from the customer by way of deposits, his obligation to repay the debt as and when it is required by the customer on demand or otherwise".

- **18) Define banker as creditor.**
- Ans: When the customer has taken loan from the bank or customer's account is overdrawn, in such cases, banker becomes the creditor and customer becomes the debtor.
- **19) Who are bailor and bailee?**
- Ans: When a customer deposits securities and valuables for safe custody. In such cases banker is called bailee and customer a bailor.

- **20) Who are trustee and beneficiary?**
- Ans: When a banker is entrusted with some trust work i.e. to safeguard the property of some persons e.g. when customer deposits the money for son's education, it is the bounded duty of the banker that the money should be used for educational purpose only but not for others. In such cases, banker becomes Trustee and customer becomes beneficiary.
- **21) Who are Principal and Agent?**
- Ans: When a banker purchases and sales the securities on behalf of his customer, in such cases banker is called an Agent and customer is called Principal. When the banker pays LIC premium or makes collection of cheques dividend and interest for customers, in such cases, banker is called and Agent and customer is called Principal

- **22) What do you mean by "Honour of cheques"?**
- Ans: When customer presents the cheque to banker for repayment of his deposits, it is the duty or obligation of the banker to honour the cheque and pay the money. Honouring cheques, subject to the credit balance of his customers account.
- **23) What is banker's "Right of lien"?**
- Ans: Lien means to retain or detain the property of debtor. Retain as a security for a general balance of account of any goods and securities bailed to him.

- **24) What is General Lien?**
- Ans: General lien is available not only in respect of a particular debt but in respect of the general balance due by the owner of the goods and securities.
- **25) What is particular lien?**
- Ans: This is a right to retain the goods in respect of which the debt arises. In other words, it is a right of a creditor to retain particular property until the debt is repaid.

- **26) What is banker's right to set- off?**
- Ans: The right to set off is legal right which helps the banker to combine two accounts in the name of the same customer and to adjust debit balance in accounts with the credit balance in other accounts. It is also known as Right of combining accounts.
- **27) What is Garnishee order?**
- Ans: It is an order issued by the court to the banker to stop the payment of money belonging to a particular customer's account. Generally, court issues such an order on the request of creditor. When debtor fails to pay money to his creditor, creditor comes to know that the debtor has an account in the bank in such cases creditor may apply to the court to issue a garnishee order on the debtor's banker.

- **28) What is cheque?**
- Ans: According to sect.6 of the Indian Negotiable instruments Act, 1881. "A cheque is a bill of exchange, drawn on a specified banker and not expressed to be payable otherwise than on demand".
- **29) Who are the parties in cheque?**
- Ans: Drawer: The person who draws a cheque is called Drawer.
- Drawee: The banker on whom it is drawn is the Drawee.
- Payee: The person in whose favour cheque is drawn is the payee.

- **30) What is a bearer cheque?**
- Ans: It is a payable to the bearer or possessor or it means that the amount payable to the possessor of the cheques is to be paid.
- **31) What is an order cheque?**
- Ans: It contains an order to pay the value of cheque to a certain person or to his order. It requires an endorsement and name of the payee should be written on the face of the cheque.

32) What is an anti-dated cheque?

- Ans: A cheque which bears a date before the date of issue is called anti-dated cheque. For example, cheque is issued on 01-09-2018 but bears a date 01-07-2018. It is called Ante-dated cheque.

33) What is Stale cheque?

- Ans: If the cheque is presented after 3 months, it is called stale cheque. Ex: cheque is issued on 01-06-2018 but not presented for payment up to 30-08-2018 and presented on 01-10-2018. It is called stale cheque.

- **34) What are the types of cheque?**
- Ans: There are two types of cheques 1) Open cheques 2) Crossed cheques
- **35) What are Open cheques?**
- Ans: Open cheques are those that are paid across the counter. Great risk is involved in case of the open cheques, because the open cheques may be stolen or lost and the finder can get encashed it.

36) What are Crossed cheques?

- Ans: Crossed cheques are those that are not paid across the counter but paid through the banker. Drawing two parallel transverse lines across the face of the cheque with or without the words and company or any
- abbreviation thereof. There are two types of crossed cheques 1) general crossing 2) special crossing.

37) What is General crossing of cheques?

- Ans: Drawing two parallel transverse lines on the face of cheques with or without mentioning some words, is known a general crossing.

- **38) What is Special Crossing?**
- Ans: Special crossing means mentioning the name of the banker on the face of the ~~cheque. The main objective of special crossing is that the cheque~~ should be paid to a particular banker only.
- **39) What do you mean by "Post -dated cheque"?**
- Ans: A cheque which bears a date later than the date of issue is called post dated cheque. Ex. Cheque issued on 01-10-2018 dated 01-12-2018. It is called post dated cheque; such post dated cheques cannot be honoured by the banker before the due date.

- **40) What is 'material alteration of a cheque'?**
- Ans: Any change made in the cheque is known as material alteration. When the changes are made in cheques, it loses its original character and affects the rights and liabilities of parties to the cheque and such altered cheques become invalid. They may be made valid by obtaining the full signature of the drawer at the places where the alterations are made.
- **41) What is Mutilated cheque?**
- Ans: A mutilated cheque is the one which is torn out in part or in full. Such mutilated cheques cannot be debited to customer's account. If the cheque is torn out accidently, i.e. without the knowledge of the drawer and if it is confirmed by the drawer, it cannot be called a mutilated. So, such cheques can be honoured by the paying banker.

- **42) What is MICR?**
- Ans: Magnetic Ink Character Recognition is a technology under which there is a mechanized cheque drafts processing system. Under this system, cheques and drafts are cleared at high speed on machines.
- **43) What is banker's Right to set-off?**
- Ans: It is a right of debtor to adjust an amount due to him from the creditor as against the amount payable to the creditor. The Right to set off is legal right which helps the banker to combine two accounts in the name of the same customer and to adjust debit balance in accounts with the credit balance in other accounts.

- **44) Who is merchant banker?**
- Ans: Merchant Banker is a financial institution. It provides variety of services including investment, banking management of customer's securities, insurance, acceptance of bills etc.
- **45) What is Endorsement of cheque?**
- Ans: Signing on the back of the instrument is known as endorsement. Negotiation of an instrument is the process by which the ownership is transferred from one person to another.

- **46) What is FD fixed deposit account?**
- Ans: Money received by the banker from the customer is deposited for a fixed period of time. It earns higher rate of interest for customer and it cannot be withdrawn on demand which means short notice has to be given for withdrawal of cash. The fixed period helps the banker to invest the money without having to keep it in reserve.
- **47) What is savings bank account?**
- Ans: A savings account is a deposit account held at a retail bank that pays less interest comparatively fixed deposit accounts. Main intention of this type of account is to cultivate the habit of savings. Withdrawals are restriction for this type of account.

- **48) What is Pay in Slip Books?**
- Ans: These books are issued in Bank for deposits of cash, cheque, DD, Pay Order etc. There are two parts in Pay in Slips, one is for bank records and another one is customer copy called as counter foil.
- **49) What is Passbook?**
- Ans: It issued to customer which contains details of the customer's account. It is normally issued to savings bank account but not current account holders. Details include deposits, withdrawal, transfer etc.

50) What is core banking?

- Ans: Core banking is nothing but centralized banking. All the information such as account of other branches is channelized through computer to the head office or corporate office.

51) What is ATM?

- Ans: It is a machine that helps a bank's customer to deposit money in a bank, or withdraw it, transfer it, and check the debit in one's account accurately without the help of the bank employees.

52) What is Network Banking?

- Ans: It refers to joining or forming of network of more than one bank. Every member specialized exclusively in one or more areas of banking or any financial services. No member will be allowed to breach any of the agreement.

- **53) What is TELE Banking?**
- Ans: It is an on-line banking service. By dialing the given Tele-banking number through a landline or mobile from anywhere. Customer can perform a number of transactions from the convenience of their own home or office and infact from anywhere they access to a phone.
- **54) What is Internet Banking?**
- Ans: Medium of delivery of banking services such as deposits, products and application form, downloading and loans and advances through internet is called internet banking.

- **55) What do you mean by Credit Cards?**
- Ans: It is a card issued by banker to his customers for purchasing from shops. It is a guarantee for payment against a sales voucher signed by the credit card holder. The credit card contains name, address, specimen signature of its holder and also number.
- **56) What do you mean by Debit cards?**
- Ans: It is a plastic card used to obtain or initiate a transaction. It allows for direct withdrawal of funds from a customer's bank account. Whenever customer uses the debit card, bank account gets debited immediately. Customer can use it for online purchases also.

Thanks

Business Environment

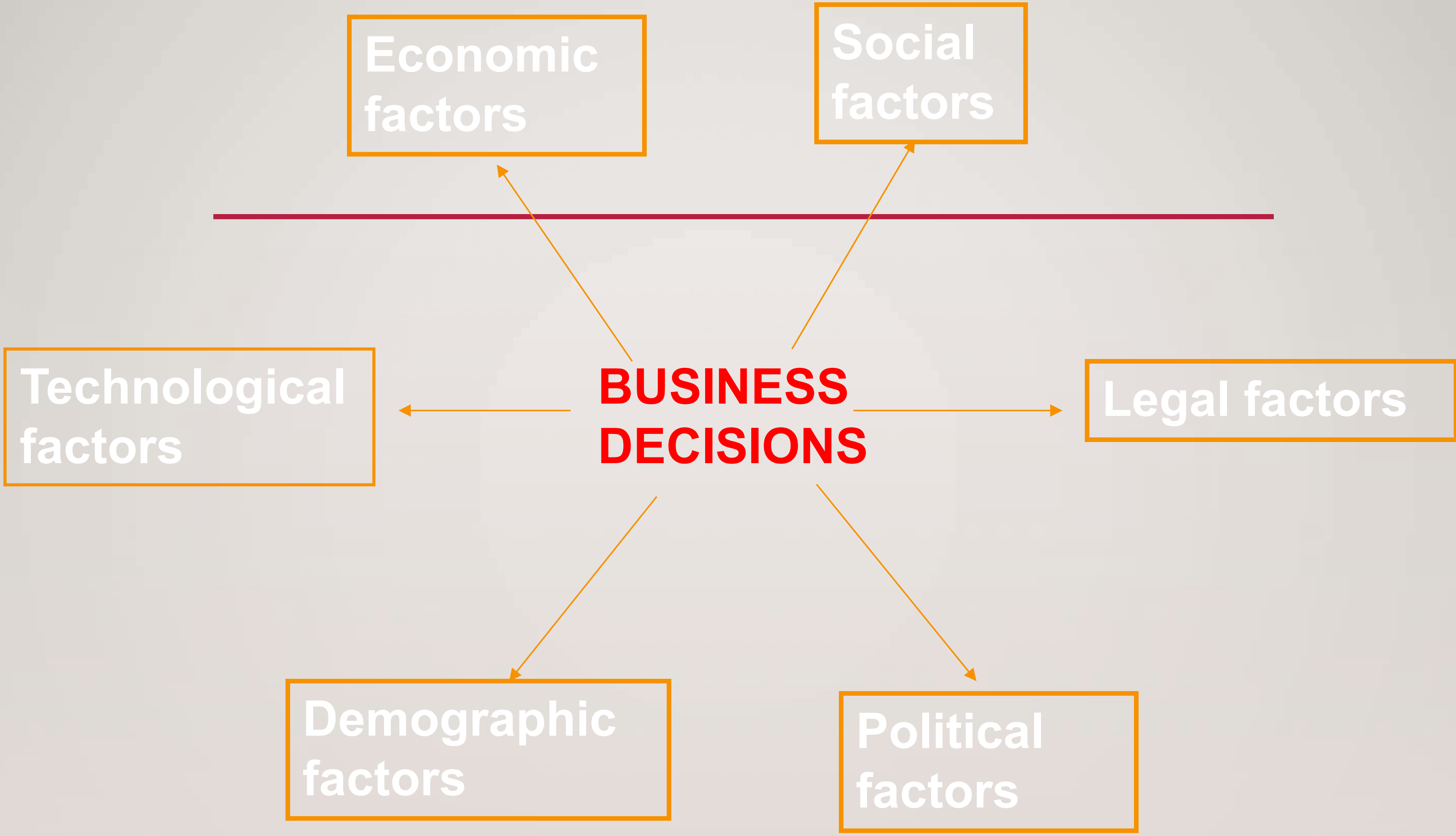
BUSINESS ENVIRONMENT

WHAT IS BUSINESS ENVIRONMENT?

Business environment includes the 'climate' or set of conditions, economic, social, political or institutional which have a direct or indirect bearing on the functioning of business

It signifies external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise.

Thus it is the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.


Economic factors
Social factors
Technological factors
BUSINESS DECISIONS
Legal factors
Demographic factors
Political factors

FEATURES OF BUSINESS ENVIRONMENT

a. Business environment is the sum total of all factors internal & external to the business firm that greatly influence their functioning

b. It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

CONTINUED…

c. The changes in business environment are unpredictable.

d. Business Environment differs from place to place, region to region and country to country. Ex: Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

IMPORTANCE OF BUSINESS ENVIRONMENT

Business environment is complicated and active in nature and has a far-reaching impact on the survival and growth of the business.

a. Determining Opportunities and Threats
b. Giving Direction for Growth
c. Continuous Learning
d. Image Building

CONTINUED…

e. Meeting Competition

f. Identifying Firm's Strength and Weakness: Business environment helps to identify

Types of environment

- Internal environment
- External environment
  - Micro environment
  - Macro environment

INTERNAL ENVIRONMENT

Important internal factors which have a bearing on the decisions of a business firm are:

1. Value system
2. Vision, mission and objectives
3. Management structure and nature
4. Internal power relationship
5. Human resources
6. Company image

VALUE SYSTEM

The value system of the founders and those at the top has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices and is an important factor contributing to success.

VISION, MISSION & OBJECTIVE

Ranbaxy's mission: "*to become a research based international pharmaceutical company*"-has driven it to enter the foreign markets and development.

Thus the business domain of the company, priorities, direction of development, business philosophy, business policy etc, are guided by the vision, mission and objectives of the company.

MANAGEMENT STRUCTURE & NATURE

Organizational structure, composition of board of directors, extent of professionalisation of management sometime delay decision making while some others facilitate quick decision making.

Board of directors is the highest decision making body and it overseas performance of the organization and so its quality is very important.

The share holding pattern can also have important managerial implications.

INTERNAL POWER RELATIONSHIP

The amount of support the top management enjoys from different levels of employees, shareholders and board of directors have important influence on the decisions and their implementation.

For example: relationship between the members of the board of director and between CEO.

HUMAN RESOURCES

The characteristics of human resources like skill, ~~quality, morale, commitment, attitude~~ etc. could contribute to the strength and weakness of an organization

Ex: Some organizations find it difficult to carry out restructuring or modernization because of resistance by employees whereas they are smoothly done in some others.

COMPANY IMAGE

While raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new products etc. the image of the company matters the most.

MISCELLANEOUS FACTORS

- Physical assets and facilities like production capacity, technology and efficiency of the productive apparatus, distribution logistics etc., affect competitiveness of a firm.

- R&D, technological capabilities determine a company's ability to innovate and compete.

- Marketing resources like quality of marketing men, distribution network etc. are important for brand extension, new product introduction etc.

CONTINUED….

- Financial factors and policies, financial position, capital structure affect business performances, strategies and decisions.

CONTINUED….

7. Miscellaneous factors

- Physical assets and facilities
- R & D and technological capabilities
- Marketing resources
- Financial factors

EXTERNAL ENVIRONMENT

- Micro environment consists of the actors in the company's immediate environment that affect the performance of the company. They are more intimately linked with the company.

- Macro environment consists of larger societal forces that affect all the actors in the company's micro environment.

Micro environment

- Suppliers
- Customers
- Competitors
- Marketing intermediaries
- Financiers
- Public

- **Suppliers:** It has been observed that India maintained indigenous stocks of 3-4 months and imported stock of 9 months as against an average of a few hours to two weeks in Japan.

- Steps taken:

1. Vendor development
2. Backward integration
3. Removal of dependence on single supplier
4. Move towards relationship marketing

Customers: In choosing the customer segments a company should consider factors like;

1. relative profitability
2. dependability
3. stability of demand
4. growth prospects
5. extent of competition.

The business firm should not be dependent on a single customer

With globalization Indians have become more exposed to global competition.

- **Competitors**: An implication of customer demand is that a marketer should strive to create primary and selective demand for its products.

- However many companies have restructured their business portfolio and strategies.

- Seller's market existed buyer's market has emerged.

- Firms that aid a company in promoting, selling and distributing its goods to final portfolio constitute the marketing intermediaries.

- It includes agents, merchants who help the company find customers or close sales with the.

- Choice of wrong marketing intermediary may land up the business in heavy losses.

- **Financiers:** Their policies, strategies, attitudes, ability to provide non-financial assistance are much more important than the financing capabilities.

- **Public :** A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests. Ex-media, citizens, local public etc.

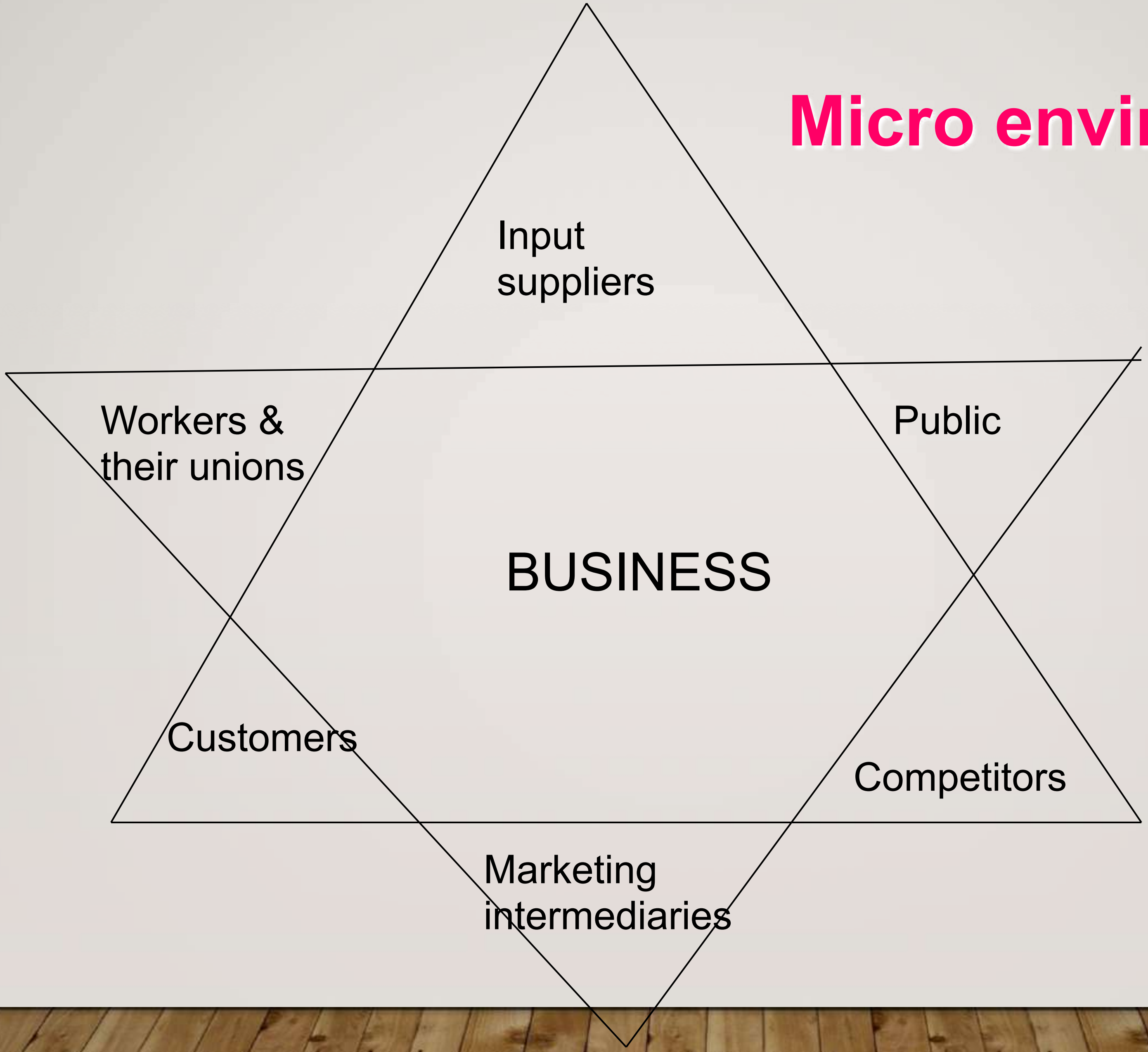
- Companies affected by leading daily which tries to bring down share prices of the company.

- NGOs have been protesting against child labour, cruelty against animals, environmental problems, deindustrialization resulting from imports etc.

- However some of publics are opportunities for the business when they can be used to disseminate useful information.

- Thus a company should have good relation with local publics so that they can work for mutual benefit.

Micro environment



Macro environment

- Economic environment
- Political environment
- Regulatory environment
- Demographic environment
- Technological environment
- Natural environment
- Global environment

REGULATORY ENVIRONMENT

- Government regulation of business may cover

1. Entry into business
2. Reservation of industries to small scale, co-operative sectors, licensing system
3. Ceilings on profit margins, dividend
4. Restriction on intra-corporate investments

ECONOMIC ENVIRONMENT

- Business is dependent on economic environment for inputs.

- Business is dependent on economic environment for selling its finished goods.

- Economists are supplying macro economic forecasts to various industrial establishments.

POLITICAL ENVIRONMENT

- It includes factors such as characteristics and policies of the political parties, nature of Constitution and government system relating to business policies and regulations.

- Important economic policies such as industrial policy, policy towards foreign capital and technology, fiscal policy and foreign trade policy are often political decisions.

CONTINUED….

- The government expenditure forms a substantial percentage of GDP in the developed and developing countries.

- Government normally plays four important roles in an economy in relation to business

1. Regulatory role
2. Promotional role
3. Entrepreneurial role
4. Planning role

- Government regulation may be broadly divided into direct controls and indirect controls.

- Indirect controls-fiscal policy, monetary incentives/disincentives.(eg-high import duty)

- Direct control-can be applied selectively from firm to firm and industry to industry

DEMOGRAPHIC ENVIRONMENT

- Demographic bases of market segmentation include:

1. Age structure
2. Gender
3. Income distribution
4. Family size
5. Occupation
6. Education
7. Social class
8. Religion
9. Race
10. Nationality

TECHNOLOGICAL ENVIRONMENT

- Technology is one of the important determinants of global competitiveness.
- The type of technology in use, level of technological developments, speed with which new technologies are adopted and diffused, appropriate technologies are important for business.
- Innovations may help companies to increase market share, capture new markets, create new market segments, industries and markets.

NATURAL ENVIRONMENT

- Environment is the source and support of everything used by businesses.

- The geographical and ecological factors such as natural resource endowments, weather and climatic conditions, topographical factors, locational aspects in the global context, port facilities etc. are all relevant to business.

CONTINUED….

- Geographical factors influence

1. Location of certain industries
2. Choice of technology
3. Demand pattern

- Depletion of natural resources, environmental pollution and disturbance of the ecological balance have caused great concern.

GLOBAL ENVIRONMENT

- The global environment refers to those factors which are relevant to business such as:
- WTO principles and agreements
- International conventions
- Treaties, agreements, declarations, protocols, economic
- Sentiments in other countries, hike in crude oil prices etc.

- Ex-Indian pharmaceutical company is affected by WTO's acceptance of product patents.
- Import and investment liberalizations mandated by WTO has changed competitive environment in India.
- War or political tensions globally , uncertainties, strained political relations between nations etc. affect business.
- Developments in information and communication technologies have significant implication for business.

Macro environment

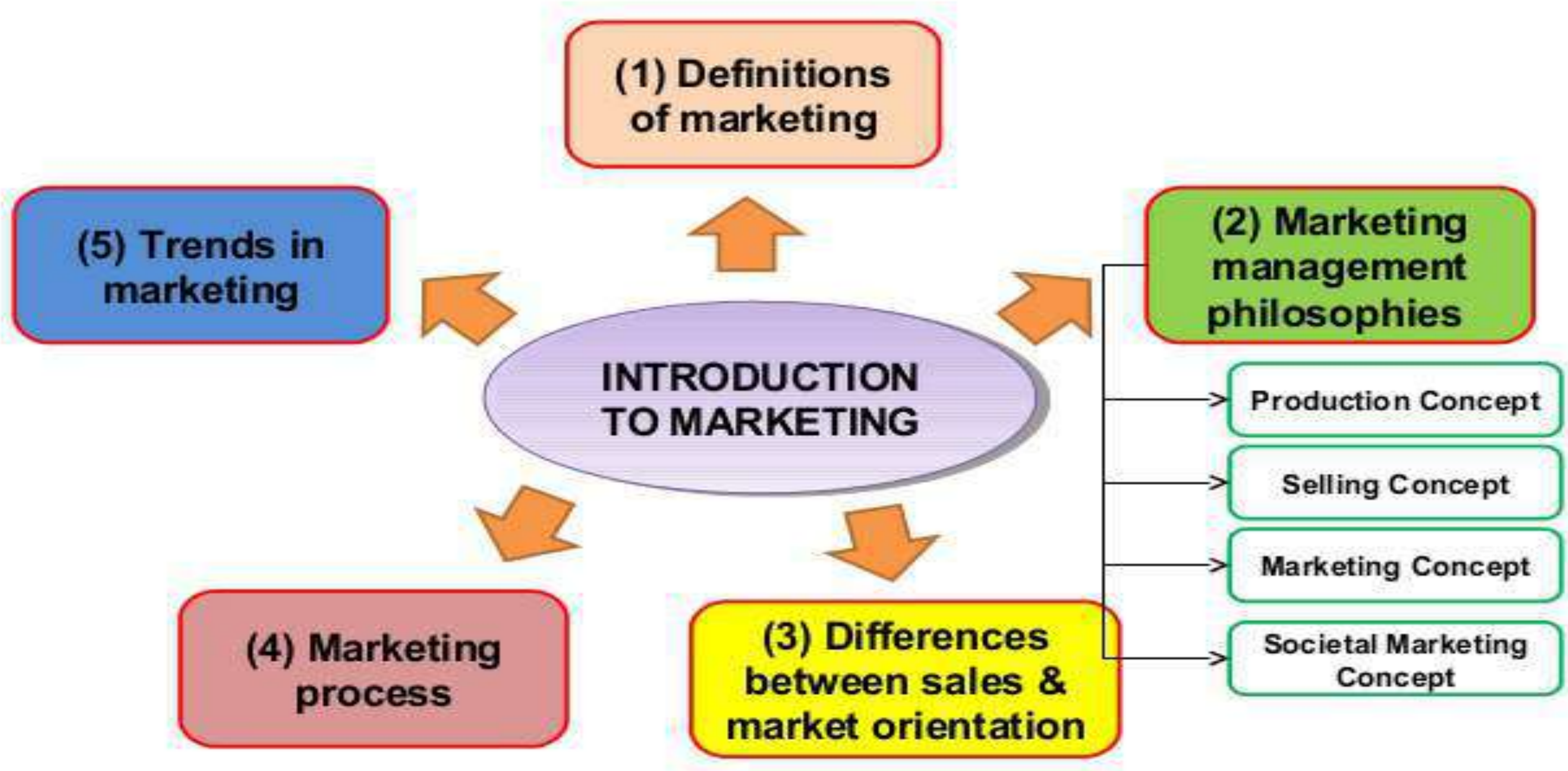
THANK YOU

CHAPTER - 1

INTRODUCTION TO MARKETING

PREPARED BY:-

Dr.M.G.Yaranal


(1) Definitions of marketing
(2) Marketing management philosophies
Production Concept
Selling Concept
Marketing Concept
Societal Marketing Concept
(3) Differences between sales & market orientation
(4) Marketing process
(5) Trends in marketing
INTRODUCTION TO MARKETING

Promotion
What is
Marketing?
Place
Price
Product
Public Relations
Advertising
Personal Selling

What Is Marketing?

A Philosophy

An Attitude

A Perspective

A Management Orientation

plus

A Set of Activities, including:

Products

Pricing

Promotion

Distribution / Place

Definition Of Marketing

American Marketing Association

Dr. Philip Kotler

AMA : *Marketing* is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

Kotler : A social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with others.

Simply put

Marketing is the delivery of customer satisfaction at a profit.

Goals

Attract new customers by promising superior value and keep and grow current customers by delivering satisfaction.

Other Definitions Of Marketing

- *Marketing* consists of the performance of business activities that direct the flow of goods and services from producer to user.

  (American Marketing Association)

- Marketing is the process of planning and executing the conception, pricing, promotion, & distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

  (American Marketing Association)

- Marketing is that of an individual and organizational activities aimed at facilitating exchanges within a set of dynamic environmental forces.

  (Pride & Ferrell)

Core Marketing Concepts

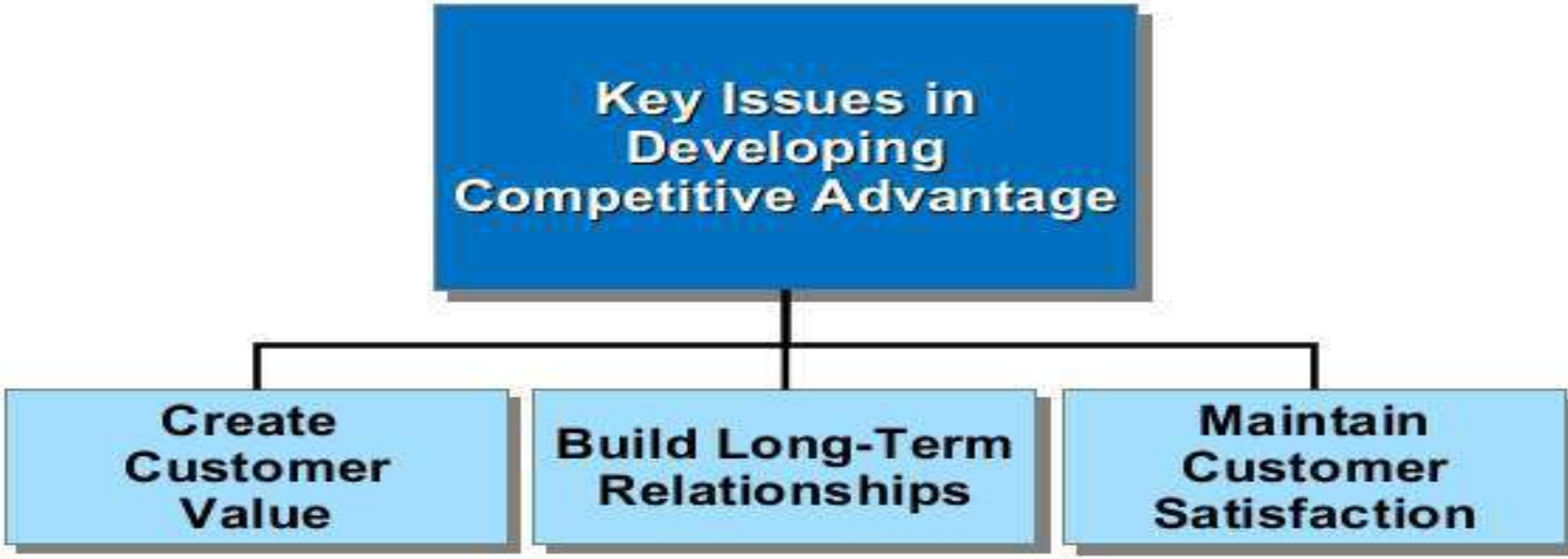
What are Consumers' Needs, Wants, and Demands?

Needs - state of felt deprivation including physical, social, and individual needs i.e hunger

Wants - form that a human need takes as shaped by culture and individual personality i.e. bread

Demands - human wants backed by buying power i.e. money

The Organization's Focus



Customer Value

Customer Value

The ratio of benefits to the sacrifice necessary to obtain those benefits

Customer Value Requirements

- Offer products that perform
- Give consumers more than they expect
- Avoid unrealistic pricing
- Give the buyer facts
- Offer organization-wide commitment in service and after-sales support

Customer Satisfaction

Customer Satisfaction

The feeling that a product has met or exceeded the customer's expectations.

Maintaining Customer Satisfaction

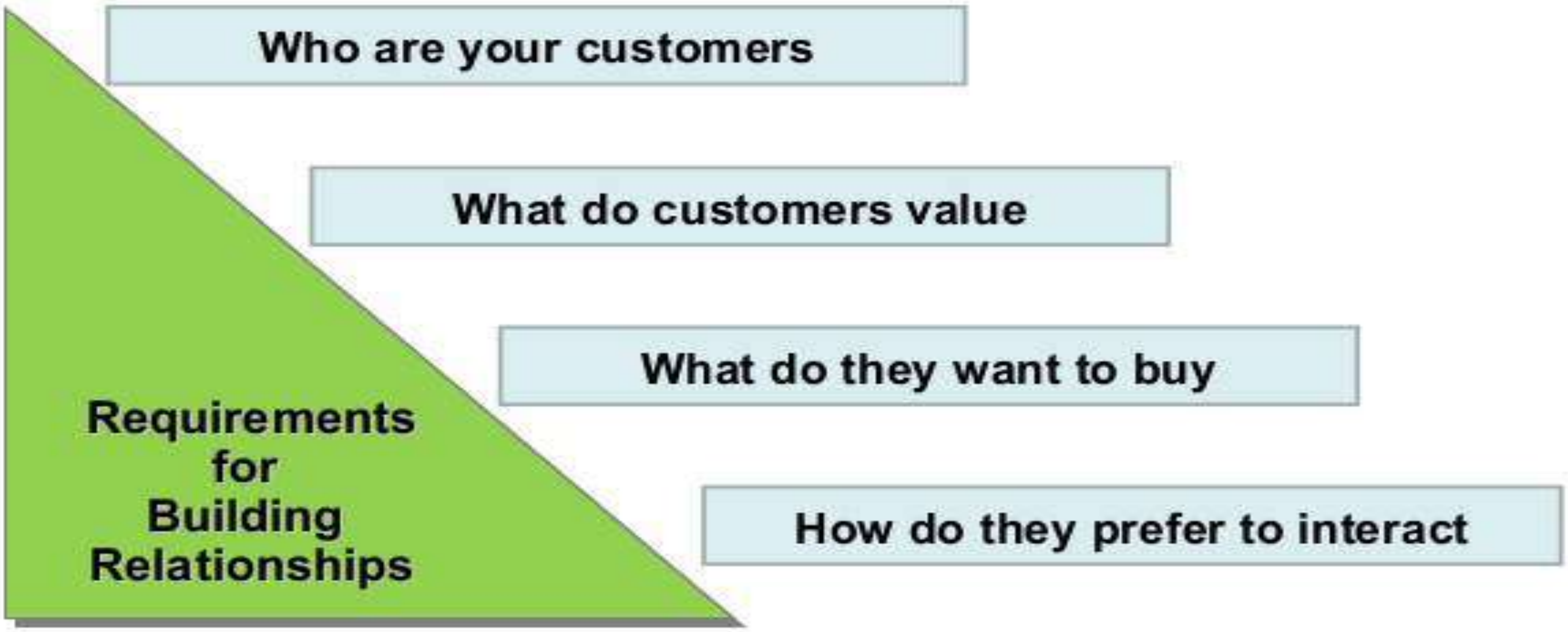
- Meet or exceed customer's expectations
- Focus on delighting customers
- Provide solutions to customer's problems
- Cultivate relationships,
  NOT one-time transactions

Relationship Marketing

Relationship Marketing

The name of a strategy
that entails forging long-term partnerships with customers, both individuals and firms.

Relationship Marketing

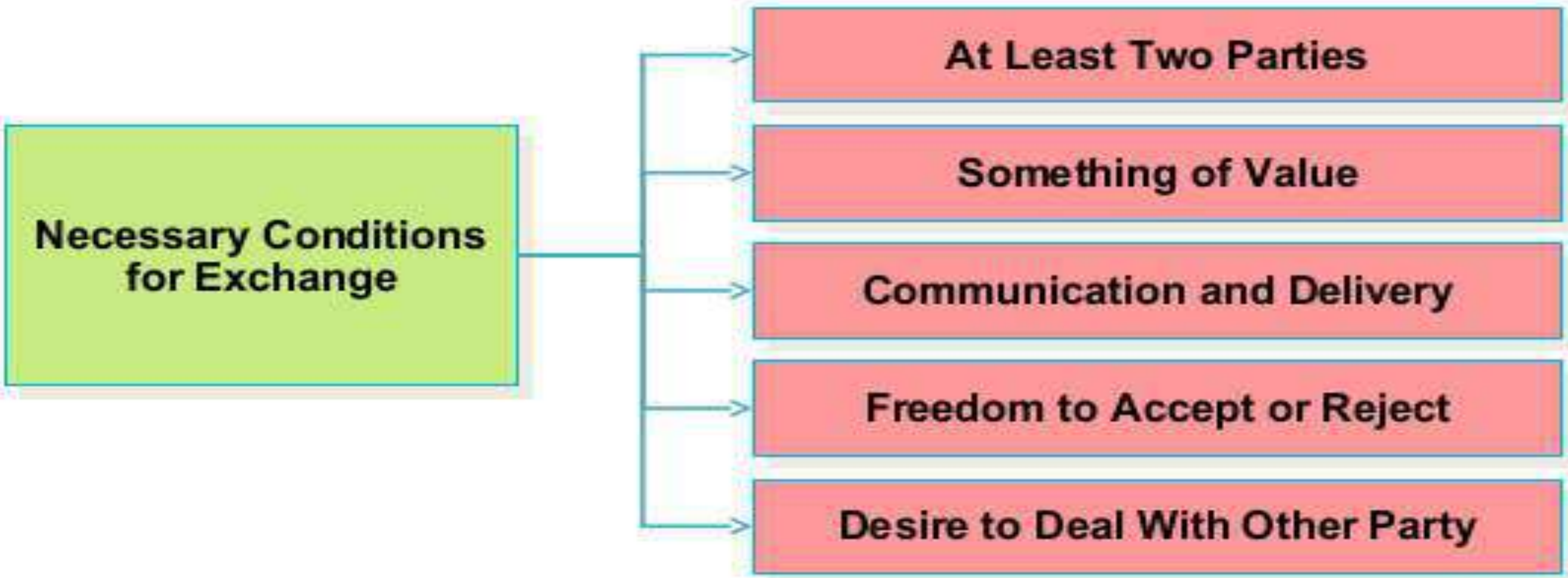


Building Long-Term Relationships

- Customer-oriented personnel
- Effective training programs
- Empowered employees
- Teamwork

The Concept of Exchange

- **Lamb :** The idea that people give up something to receive something they would rather have.
- **Kotler :** The act of obtaining a desired object from someone by offering something in return.



However...

- Exchange may not take place even if conditions are met;
- An agreement must be reached; and
- Marketing occurs even if exchange does not take place.

Marketing Management Philosophies

Focus on internal capabilities of the firm.

Focus on aggressive sales techniques and believe that high sales result in high profits

Focus on satisfying customer needs and wants while meeting objectives

Focus on satisfying customer needs and wants while enhancing individual and societal well-being

The Marketing Concept / Orientation

The Marketing Concept

The idea that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives.

The Marketing Concept

- Focusing on customer wants and needs to distinguish products from competition
- Integrating all the organization's activities to satisfy customer wants and needs
- Achieving the organization's long-term goals by satisfying customer wants and needs

Achieving a Marketing Orientation

- Obtain information about customers, copetitor and markets
- Examine the information from a total business perspective
- Determine how to deliver superior customer value
- Implement actions to provide value to customer

Societal Marketing Orientation

Societal Marketing Orientation

Marketing that preserves or enhances an individual's and society's long-term best interests

- ✓ Less toxic products
- ✓ More durable products
- ✓ Products with reusable or recyclable materials

Review: Marketing Management Philosophies

Orientation	Focus
Production	What can we make or do best?
Sales	How can we sell more aggressively?
Marketing	What do customers want and need?
Societal	What do customers want and need, and how can we benefit society?

Sales vs Market Orientation

	Sales Orientation	Market Orientation
(1) Organization Focus	Inward –fulfill organization's needs.	Outward – fulfill wants and preferences of customers.
(2) What type of business organization is in?	Selling goods and services.	Satisfying customers needs and wants and delivering superior value.
(3) To whom the product is directed?	Everybody.	Specific groups of people.
(4) Firm's primary goal	Achieve profit through maximum sales volume.	Achieve profit through customer satisfaction.
(5) Ways to achieve the goal	Through intensive promotion.	Through coordinated marketing and inter-functional activities.

Marketing Process

- A marketing process include all the marketing's role and activities in the organization.
- The marketing process include the process of:-
  1) Analyzing marketing opportunities and developing the organization's mission and objectives.
  2) Selecting target markets.
  3) Developing the marketing strategy by developing marketing mix (4 P's).
     - ➢ Product , Price, Promotion, and Place.
  1) Managing the marketing effort.
     - ➢ Include analysis, planning, implementation, and control.
     - ➢ Can be done by SWOT analysis (strengths, weaknesses, opportunities, threats).

Defining a Firm's Business

- Use "customer benefits" instead of "goods/services"

- Ensures a customer focus
- Encourages innovation and creativity
- Stimulates an awareness of changesin customer preference

Why Study Marketing?

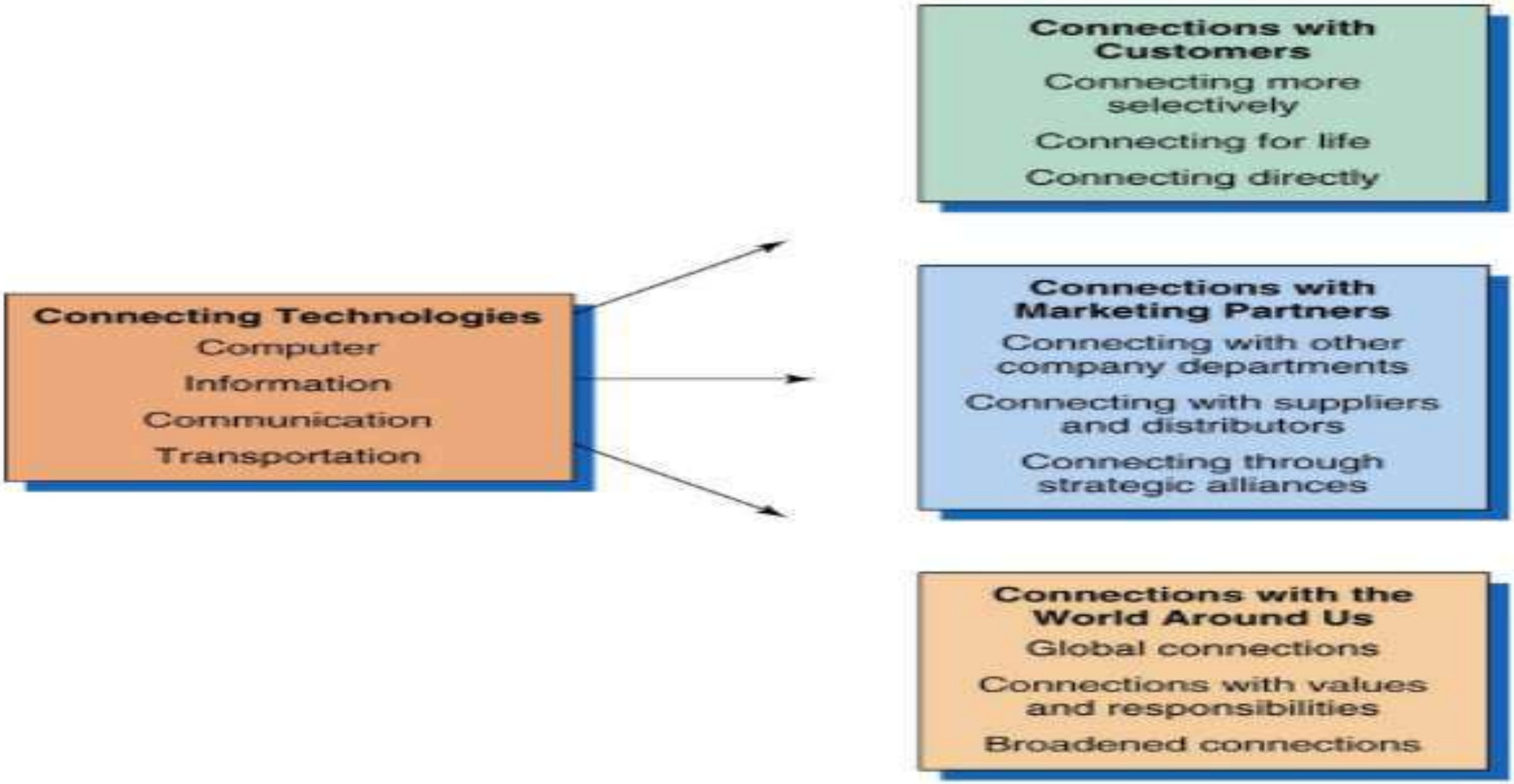
- Plays an important role in society
- Vital to business survival, profits and growth
- Offers career opportunities
- Affects your life every day

Why Study Marketing?

Vital Marketing Activities for Organizations

- Assess the wants and satisfaction of customers
- Design and manage product offerings
- Determine prices and pricing policies
- Develop distribution strategies
- Communicate with present and potiential customer

Trends in Marketing



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Selling	Marketing
Selling starts with the seller, and is preoccupied all the time with the needs of the seller.	Marketing starts with the buyer and focuses constantly on the needs of the buyer.
Seller is the centre of the business universe; activities start with the sellers'existing products.	Buyer is the centre of the business universe; activities follow the buyer and his needs.
Emphasises on saleable surplus available within the corporation.	Emphasises on identification of a market opportunity.
Seeks to quickly convert 'products' into 'cash'.	Seeks to convert customer 'needs' into 'products'.
Concerns itself with the tricks and techniques of getting the customers to part with their cash for the products available with the salesman.	Emphasises on fulfilling the needs of the customers.
Views business as a 'goods producing process'.	View business as a 'customer satisfying process'.
Overemphasises the 'exchange' aspect, without caring for the 'value satisfactions' inherent in the exchange.	Concerns itself primarily and truly with the 'value satisfactions' that should flow to the customer from the exchange.

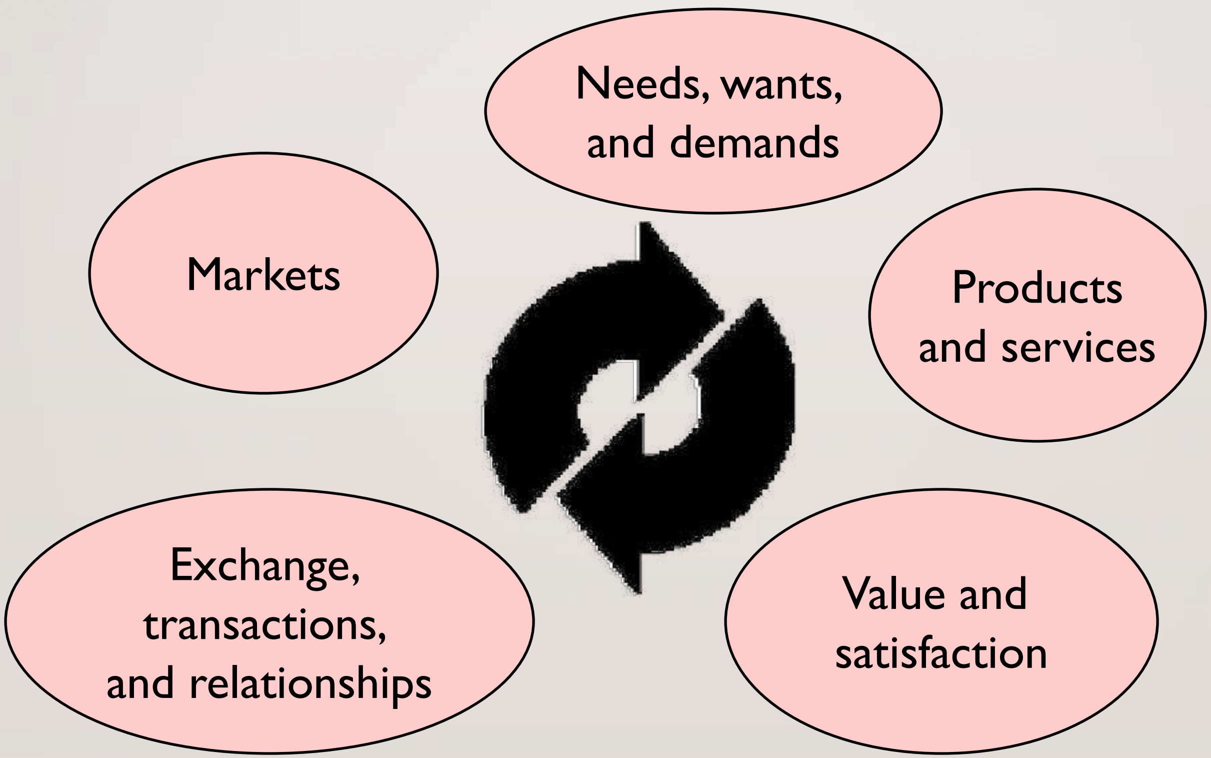
Contd....

MARKETING OBJECTIVES

Typically, marketing objectives include following:

- **Increase sales & Increase profit**
- **Build brand awareness**
- **Grow market share**
- **Launch new products or services**
- **Target new customers**
- **Enter new markets internationally or locally**
- **Improve stakeholder relations**
- **Enhance customer relationships**
- **Improve internal communications**

CORE CONCEPTS OF MARKETING



CORE CONCEPTS OF MARKETING

1. **Needs, Wants and Demands:** Needs describe basic human requirements. People need food, air, water, clothing and shelter to survive.

- **Wants:** The needs become wants when they are directed to specific object that might satisfy the need.
- **Demands** are wants for specific products backed by an ability to pay. Companies must measure not only how many people want their product but also how many would actually be willing and able to buy it.

2. Marketing offering

- Combination of products, services, information or experiences that satisfy a need or want
- Offer may include services, activities, people, places, information or ideas

3. Value

- Customers form expectations regarding value
- Marketers must deliver value to consumers

Satisfaction

- A satisfied customer will buy again and tell others about their good experience

- Value Gained From Owning a Product and Costs of Obtaining the Product is **“Customer Value”**
- Product’s Perceived Performance in Delivering Value Relative to Buyer’s Expectations is **“Ccustomer Satisfaction”**

4. Exchange: Exchange and Transactions

For exchange potential to exist, five conditions must be satisfied:

1. There are at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party. To affect successful exchanges, marketers analyze what each party expects from the transaction. Simple exchange situations can be mapped by showing the two actors and the wants and offerings flowing between them.

5. Market

- Set of actual and potential buyers of a product
- Marketers seek buyers that are profitable

PRODUCTİON CONCEPT

- Consumers will favor those products that are widely ***available and low in cost***.
- Managers concentrate on achieving ***high production efficiency*** *and* ***wide distribution.***

The assumption is valid at least in 2 situations :

- The demand for a product exceeds supply (suppliers will concentrate on finding ways to increase production)
- The product's cost is high and has to be decreased to expand the market.

PRODUCT CONCEPT

- Consumers will favor those products that offer the *most quality, performance or innovative features*.
- Managers in product-oriented organizations concentrate on making *superior products* and improving them over time.
- The assumption ğ the customers will admire well-made products and can evaluate product quality and performance
- This concept may lead to *marketing myopia*

SELLİNG CONCEPT

- ***Agressive selling and promotion***
- Assumptions are;
  - Consumers must be ***convinced of buying*** company products
  - Company is powerful in generating effective selling and promotion to ***stimulate more buying***
- This concept is mostly used by firms which have overcapacity.
- The aim is "*to sell what they make*" rather than "make what the market wants."
- ***Short-term profits*** are more important (customer dissatisfaction may occur)

MARKETİNG CONCEPT

- Key to achieving organizational goals consists of being more ***effective*** than competitors ***in creating, delivering and communicating customer value to target markets.***

- ***4 pillars of modern marketing :***
  1. **Target market**
  2. **Customer needs**
  3. **Integrated marketing**
  4. **Profitability through customer satisfaction**

Questions ???

THANK YOU

CONTRACT COSTING

MEANING OF CONTRACT COSTING

Contract costing is a form of job costing. It is employed in business undertakings engaged in building construction, road construction, bridge construction, and other civil engineering works.

When the work is undertaken for completion, it is known as contract. The main object of the contractor is to know the profit. For this purpose a separate account is maintained which is known as contract account. It contains the details of expenditure incurred such as direct and indirect expenses and work in progress.

FEATURES OF CONTRACT COSTING

1 Contracts are carried out away from the contractors premises

2 Contracts may continue for more than one accounting year

3 Sub contractors may be employed e.g. electrical fixing, glass works etc.

4 A separate account is prepared for each contract to ascertain profit or loss on each contract.

5 Payments by the customers are made at various stages based on engineers certificate for the completed stage.

Retention Money

Generally as per the terms of contract, the whole amount shown in the engineers certificates shall not be paid immediately but a certain percentage thereof should be retained for a specified period after the contract is completed. The sum retained is known as **Retention Money.** This is in the form of security for any defective work which may be found later on.

Cost plus Contract

When the contractor and contractee are unable to calculate the amount of the cost of contract (advance), in such cases cost plus contract is used. In this case price is ascertained by adding a specified amount of profit to the costs allowed on the contract. Cost plus contract is applied in case of dam, bridge, power house, etc.

Circumstances for entering into cost plus contract

1 When it is not possible to estimate its costs with reasonable accuracy due to unstable prices at the time of contract is under-taken or when the work is spread over a long period of time.

2 When there is an emergency and no time to negotiable a contract price & work is more important than in cost.

3 Where contract is with a Government Department

Escalation clause

This clause is to cover the changes in prices for materials and labour. On account of changes in prices of material and labour, the contractor can increase the contract price. The object of this clause is to safeguard the interest of the contractor against un favorable changes in cost.

TERMS USED IN CONTRACT COSTING

Contract Price : It is the price of the contract agreed to be paid by contractee to the contractor on the completion of contract.

Advance : It is the money paid by the contractee to the contractor before the commencement of the contract. Some times contractors demand the advance amount as the money to be invested is high or it may be a measure in guarantee.

Earnest Money Deposit (EMD) : The bidders for the contract are required to deposit a specific sum of money with the contractee. The money so deposited is called **Earnest money Deposit.** This is adjusted towards the contract price or refunded as the case may be. This practiced is followed in Government contracts.

Sub Contract Cost : It is the cost of a sub contract carried out by a sub contractor to the sub contractee (i.e. electric fitting)

Work Certified : This is that part of contract work completed which has been certified by an architect or engineer or surveyor as complete during a specified period. It is a part of work- in- progress. It acts as a basis for making payment by the contractee

Work un certified : This is that part of contract work completed which has not been certified by an architect or engineer or surveyor during a specified period. This indicates the work completed but not certified at the end of an accounting period.

Work-in-progress : This is that part of the total contract which has been actually completed up to a specific period. It is the total of work certified and work uncertified. This concept of WIP in contract costing arises only when the completion of contract extends beyond an accounting period.

CONTRACT ACCOUNT

Particulars	Rs	Particulars	Rs
To Materials	Xx	By **Contractee A/c**	Xx
Direct purchases	Xx	(Contract price is credited	
Issued from stores	Xx	if the work is completed)	
To Wages		**By Work -in –progress**	Xx
xx	Xx	Work certified	
Add Outstanding x	Xx	xx	Xx
To Plant (cost price)	Xx	Work un certified x	Xx
To Direct expenses	Xx	**By Abnormal loss**	Xx
To Indirect expenses	Xx	Material lost	Xx
To Sub contract cost	Xx	xx	xx
To Profit on sale of materials	Xx	Plant lost	
To Notional profit		x	
(Balancing figure)		By Materials returned to stores	
		By Loss on sale of materials	
		By Materials at site	
		By Plant returned to stores xx	
		Less Depreciation	
		x	

Particulars	Rs	Particulars	Rs
		By Plant xxx	
		Less Plant lost x	
		Less Returned to	
		stores x	
			Xxx
			xx
		xxx	
	---------		---------
	xxx	Less Depreciation x	xxx
	---------		---------
	xx	By Sales price of materials	xxx
By Profit & Loss Account			
	xx		
By Reserve			
	---------		---------
	xxx		xxx
	---------		---------
		By Notional Profit b/d	

BALANCE SHEET AS ON

Capital and Liabilities	Amount	Assets	Amount
Share Capital	Xxx	Work-in-progress xxx	
Profit &Loss A/c		Less Cash received x	
Last year xx		_ xxx	
Add Current year xx		Less Reserve x	Xxx
xxx		Land & Buildings	xx
Less I Abnormal loss x		Plant & Machinery xxx	
2 Unabsorbed depreci x		Less Depreciation x	Xxx
3 Unabsorbed expenses x	Xxx	Furniture & Fixture xx	
Creditors	Xx	Less Depreciation x	Xx
Bills Payable	Xx	Plant returned to stores xx	
Outstanding expenses	x	Less Depreciation x	Xx
		Cash &Bank	Xx
		Insurance claim	Xx
		Stock	Xx
		Materials at site	Xx
		Prepaid expenses	Xx
	-----------	Outstanding incomes	Xx
	XXX----		XXX

PROFIT ON IN-COMPLETED CONTRACT

1 For the contract which have just started i.e. if the work completed is less than ¼ of the contract price no amount is transferred to P &L A/c.

2 If the work completed is ¼ or more but less than ½ of the contract price, 1/3 of the notional profit that bears to the % of cash received to the work certified is transferred to P & L A/c.

$$\text{P \& L A/c} = 1/3 \text{ of Notional profit} \times \frac{\text{cash received}}{\text{work certified}} \text{ or \% of cash received}$$

3 If the work completed is ½ or more than half of the contract price but less than ¾ of contract price. In such case 2/3 of the notional profit is transferred to P & L A/c.

4 If the work completed is ¾ or nearing completion of the contract. In such cases amount transferred to P & L A/c is based on the estimated profit

$$\text{P\&L A/c} = \text{Estimated profit} \times \frac{\text{Work certified}}{\text{Contract price}}$$

Operating Costing

Meaning : Operating Costing is a cost of services. In some undertakings goods are not produced, but services are rendered. When the services are rendered they have to charge for these services. The calculation of cost of service rendered in the form of price is known as operating costing.

"Operating Cost applies where standardized services are provided by an undertaking or a by service cost centre within an undertaking"

I.C.M.A. England

SCOPE OF OPERATING COSTING

The undertaking to which this method is applicable as –

1. ***Transport Services*** : Bus, Railway, Trams, Truck, Airway & Marine Transport.
2. ***Supply Services*** : Gas, Water, Electricity etc.
3. **Welfare Services** : Hospital, Library, Hotel, Canteen, Hostel, Cafeteria, etc.
4. ***Entertainment Services*** : Cinema, Circus, etc.
5. ***Municipal Services*** : Road Maintenance, Street Light etc

CHARACTERISTICS

1 Undertakings are engaged in providing or operating services of unique nature.

2 A large amount of capital expenditure is invested in capital assets of the undertaking depending upon the nature of business.

3 The total cost has to be calculated into fixed and variable cost as these have a significant effect on the cost per unit.

4 Low amount of working capital is required to meet out the day to day operating expenses.

OPERATING COST UNITS

Undertaking		Cost unit	
1	Passenger Buses and Trains	1	Per passenger kilometer or Per seat kilometer
2	Public carriers, Trucks and Goods Train	2	Per tone kilometer
3	Electricity Supply	3	Per kilowatt-hour
4	Hospital	4	Per patient day, per bed
5	Canteen	5	Per Tea-cup, Per meal
6	Road maintenance	6	Per kilometer of road maintenance
7	Road Lighting	7	Per Lamp Post
8	Hotel (Rent)	8	Per Room

How to calculate cost per unit

First of all ~~the costs for a period related to the services rendered during that~~ period (monthly, Quarterly etc) are intended.

For calculating the operating cost, the costs are collected under the following heads viz ---

1 Fixed or standing charges

2 Maintenance charges

3 Running charges

Cost unit *:According to ICMA "A cost unit is a unit of quantity of product, service or time (or combination of these) in relation to which costs may be ascertained or expressed".*

TRANSPORT OPERATING COSTING

Transport operating costing is applied in those organisations where services are rendered for carriage of passengers or carriage of goods from one place to another. In these organisations, cost related to services provided as regard to transportation are collected and classified in such a manner so that cost per unit of transportation service may be ascertained. Though, transport services can be related to air, water and land, but here the study deals with the cost of transport service specially provided by means land, especially by bus or truck.

TRANSPORT OPERATING COSTING PROCEDURE

In order to determine the cost of transport services provided by the transport organasations, the following accounting procedure is followed :

1 Collection of transport cost

2 Classification of transport cost

3 Construction of Operating cost sheet

1 ***Collection of Transport Cost:*** For determination of service cost in transport organisation, all the cost related to transport service is collected continuously. Generally, in these type of organisations detailed information as regard to each vehicles is collected. For this purpose a separate log book is kept for each vehicle

Log Book : Log book is an important record maintained for each vehicle. This book contains the full information about the vehicles regarding its history, ~~capital cost, capacity, maintenance and running details, etc.~~

2 ***Classification of Transport Cost*** : The transport costs can be classified into three heads

I ***Fixed or standing Charges*** : These are the expenses which are bound to be incurred irrespective of the fact whether vehicle is running or not. For example :

(i) Interest on financing of capital (ii) Road license fee

(iii) Insurance premium of vehicle (iv) Road Tax

(v) Depreciation - if it is charged on the basis of time or fixed %on depreciation

(vi) Garage Rent (vii) Monthly salary of Driver, Conductor or cleaner

(viii) Salary of Supervisor (ix) Stationery Expenses (x) Office Expenses etc

II ***Maintenance Charges*** : These expenses are incurred on the up-keep and on maintaining the vehicle in running condition. The examples of such expenses are –

(i)Repairs and maintenance (ii) Renewal& overhauling of vehicle

(ii) Cost of Tyres, Tubes, etc (iv) Salary & expenses of Garage staff

(v) Consumable stores and minor equipments

III ***Running or Operating Charges*** : The expenses which are incurred on running the vehicles or keeping the vehicle in mobility are called running or operating charges. If the vehicles are not running, expenses are also zero. Expenses are-

(i) Depreciation– It is calculated on km basis

(ii) Cost of Petrol, Diesel, Lubricants, etc

(iii) Payments to Drivers, Conductors, Cleaners, etc, if such payment is made on the basis of time or on the basis of distance covered.

(iv) Overtime to Drivers, Conductors, Cleaners, etc

3 ***Construction of Operating Cost Sheet*** : This is a cost sheet prepared monthly or quarterly and it contains the items of expenses in the classified form to show the cost per unit. This cost sheet is an important document in operating costing and should be prepared carefully.

Particulars		Amount
1 **Fixed Charges or Standing Charges**		
Road Taxes	xx	
Interest on capital	xx	
Depreciation	xx	
Salaries of Drivers & Conductors	xx	xxx
2 Maintenance Charges		
Repairs	xx	
Wear and Tear of tyres and tubes	xx	
Painting	xx	xxx
3 Running Charges		
Oil	xx	
Petrol, Diesel, Grease, etc	xx	
Wages of Drivers & Conductors if they are paid hourly	xx	xxx
Total operating cost		

Determination of Number of Cost Units

The cost unit in passenger transport is usually a passenger kilometer and in goods transport it is in tone kilometer.

Passenger Km = No of Buses x No of Trips x Distance x No of Days x Seating capacity x Actual capacity utilized

In case of goods transport

Tones Km = No of Trucks x No of Trips x Distance x No of Days x Loading capacity x Actual capacity used

Banker and Customer

Banker

CUSTO
MER

What do you mean by Banker?

A banker, official of bank is one who accepts deposits from public subject to withdrawal by cheque, draft or order and uses these deposits for making loans and advances to public and for investment.

A bank provides all financial solution to customers

What is the meaning of a Customer?

- A customer is a person who maintains an account with the bank, without taking into consideration the duration and frequency of operation of his account.

Banking, An Evolutionary Concept

- Banking Means the **accepting** , for **purpose of lending or investment of deposits of money from public** , repayable on demand or otherwise and withdrawal by cheque , draft, order or otherwise

  -Banking Regulation Act 1949

- Banking Company means any company which **transacts the business of banking**

  -Section 5 (c), Banking Regulation Act 1949

Banking, An Evolutionary Concept

- A banker is one who in the ordinary course his business, **honours cheques** drawn upon him by person from and for whom he receives money on current accounts

  -Dr Herbert L Hart

- Banker can be an individual, partnership, or corporations , whose **sole or predominating business is banking** , the receipt of money on current or deposit account, and the payment of cheques drawn by and the collection of cheques paid in by the customer

  -Halbury

- A banker is one **who take deposit accounts**, take **current accounts**, issue and pay cheques, collect cheques crossed and uncrossed for his customers

  -Sir John Paget

Permitted and Prohibited Business for Banks

- **Accepting Deposits**
  - Borrowing, raising, or taking up money
- **Making Advances**
  - Lending or advancing of money either upon or without security
- **Facilitating Trade**
  - Drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hoondees, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scripts and other instruments and securities whether transferable or negotiable or not
- **Investments and Loans**
  - Purchasing and selling of bonds , shares or other forms of securities on behalf of constituents or others , the negotiating of loans and advances
- **Investments**
  - Acquiring , holding , issuing on commission , underwriting and dealing in stock, funds, shares, debentures , debenture stock, bond obligations, securities and investments of all kinds
- **Ancillary Services**
  - Providing of safe securities vaults , the collecting and transmitting of money and securities
  - Receiving of all kinds of bonds, or valuables on deposit for safe custody or otherwise
- **Foreign Exchange**
  - Buying and selling of foreign exchange including foreign bank notes

Customer is a King

- Most business function in world of competitive environment and want to acquire more and more customers
- Provide excellent services to entities who are even one time users of services to attract them for repeat business
- In modern concept of banking, customers making one time transactions are also called as customers for banks

Banker and Customer Relationship

- The relationship between the banker and customer is very important. It is generally studied under the following two heads.
  - General Relationship
  - Special Relationship

General Relationship

- **Debtor and Creditor:**
- The true relationship between banker and customer is primarily of a debtor and creditor.
- When a customer deposits money with a bank, the bank then is the debtor and the customer is the creditor.

- **Principal and agent:**
- The special relationship between the customer and the banker is that of principal and agent.
- The customer (principal) deposits checks, drafts, dividends for collection with the bank.
- He also gives written instructions to the bank to purchase securities, pay insurance premium, installments of loans etc on his behalf.
- When the bank performs such agency services, he becomes an agent of his customer.

Bailer and Bailment relationship

- A bailment is the delivery of goods in trust. A bank may accept the valuables of his customer such as jewellary, documents, securities for safe custody.
- In such a case the customer is the Bailer and the bank is bailee.

- The bank (bailee) charges a very small amount as service charges for safe custody of the valuables from his customer (bailer).
- This relationship between the bank and the customer as bailee and bailer started from the days of earlier goldsmiths.

Pawner and Pawnee:

- When a customer Pledge goods and documents as security for an advance he then become Pawner (Pledger) and the bank becomes the pawnee (pledgee).
- The pledged goods are to be returned intact to the pawner after the debt is repaid by him.

Mortgager and Mortgagee relationship:

- Mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan.
- When a customer pledges a specific immovable property with the bank as security for advance, the customer becomes mortgager and banker is the mortagee.

Bank as a trustee

- The bank act as a trustee for his customer in those cases where he accept securities and other valuables for safe custody.
- In such cases the customer continues to be the owner of the valuables deposited with the bank.

Executer, attorney, guarantor

- The bank also acts as executor, attorney and guarantor for his customer.

Special Relationship..

- Obligation to honour Cheques
- Wrong Dishonour of cheque
- Obligation to maintain confidentiality/secrecy of customers accounts
- Premature Closure
- Act in Good faith without negligence
- Deceased Depositors
- Payment to Nominee
- Closure of Account

Obligation to honour Cheques

- The banker must have sufficient funds to pay
- The funds must be properly applicable to payment of such cheque.
- The cheque has been presented within a reasonable time after the apparent date of its issue.
- There are no prohibitory orders of court or any other competent authority.

Premature Closure

- A bank may allow premature encashment of a fixed deposit at the request of customer.
- In such cases, the banker's obligations are as follows:
  - Ensure that the customer has the information about the bank's penal interest rates for the premature withdrawal of term deposits, if bank charges such an interest .
  - Inform the customer while opening the account whether the bank disallows premature withdrawals of large deposit held by entities other than individuals

Obligation to maintain secrecy of customers accounts

- Banker should not disclose information concerning the customer's financial position to others, since it may affect reputation, credit worthiness and business.
- Therefore, the banker should
  - Not disclose any information regarding the account to third party
  - Ensure no information leaks out of account books
  - Prevent such disclosure even after account is closed or even after customer's death.
- The exceptions are (Disclosure as a Banking Practise)
  - Practice and usage by bankers/When it is in the bankers own interest
  - With customer's implied or expressed consent
  - When disclosing information in public interest
  - When required by law

Act in Good Faith without Negligence

- The banker collects numerous cheques on behalf of the customers and cannot verify the validity of each instrument
- The Negotiable Instrument Act protection to the banker can be specified as follows:
  - The cheque must be crossed before it is deposited
  - The cheque must be received as an agent of the customer whose account is to be credited with the amount of cheque
  - Payment is received in good faith and without negligence
- Examples of negligence are as follows
  - Opening an account without proper instruction
  - Overlooking irregularity of endorsement (spelling and signature) while Collecting account payee cheques from another person

Obligations (Duties) of a Banker

- Obligation to honour Cheques
- Wrong Dishonour of cheque
- Obligation to maintain confidentiality/secrecy of customers accounts
- Premature Closure
- Act in Good faith without negligence
- Deceased Depositors
- Payment to Nominee
- Closure of Account

Deceased Depositors

- If depositor dies, the banker is obliged to pay the amount to the credit of a deposit account to the nominee survivor or claimant
- If death occurs before maturity of the deposit ,
  - the interest is payable at the rate applicable to the deposit up to the actual date of payment.
  - the claimants may be paid at the **saving rate of interest** prevalent on maturity date for the period from maturity to payment date.
- A succession certificate is not mandatory , however, the bank may obtain an indemnity bond. Where there is a dispute among legal heirs who are unable to provide a unanimous indemnity bond, the bank should obtain succession certificates.
- If there are doubts about the claimants , the bank should insist on succession certificates.

Payment to Nominee

- The payment to nominee is made in the following conditions:
  - Nomination may be made in the name of individuals.
  - In case of joint account , there can be one nominee and nominee may receive the dues only after the death of all depositors.
  - Nomination may be altered at any time in prescribed manner.

Closure of accounts

- The banker must comply with a written directive from the customer to close his or her account.
- The customer must be asked to return unused cheques.
- A bank can close the account on receiving the notice of a customer's insanity or death or when customers become insolvent.

Right of General Lien

Right of Set off

BANKER'S RIGHT OF APPROPRIATION

Right to charge interest, incidental Charges etc

Law of limitations

Right of General Lien

- Lien is the right of a creditor to retain the goods and securities
- owned by his debtors until the debt is repaid.
- Banker's Lien amounts to a pledge
- The banker possesses the right of general lien
- The right of general lien is conferred upon the banker by Indian Contracts Act
- Right of lien only on goods in the name of the holder and not in joint names
- The banker can exercise his right of lien on securities remaining
- This right has some important features and conditions.
- When a lien applies to a specific debt , it is known as a particular lien
- A general lien applies to all amounts due from the debtor

Example

- Mr. Sagar has two accounts in SBI.
- In saving bank account, he has credit balance of Rs. 500
- In current account, he has overdraft of Rs 1000.
- Bank (SBI) can exercise right of lien on savings account for amount due on current account.

Right of lien does not apply to properties deposited for safe custody or for a specific purpose.

Right of Set off

- Under this right, the bank may use the credit balance in another account , when both accounts belong to the same customer. The accounts may be held in different branches.
- Normally, the bank takes a letter in advance from the customer authorising the set off without prior notice to the customer.
- Condition: Both the accounts must be in the "**same name and in same right or same capacity**"
- This is to avoid misuse of funds belonging to someone else but standing in name of customer.
- The debts must be due on the date and the debts must be certain
- The banker must exercise his rights at his discretion

BANKER'S RIGHT OF APPROPRIATION

Right of General Lien

Right of Set off

Right to charge interest, incidental Charges etc

Law of limitations

Banker's Right of Appropriation

- At times a customer takes several loans from the bank.
- When there are several debts outstanding between the creditor and debtor the question may arise as to which of debts is to be discharged first when the payment is made by the debtor and the amount is not sufficient to discharge all the debts.
- When the banker receives the payment from the customer against which loan should the deposit be appropriated?
- Who is the deciding authority on this?
- According to the Indian Contract Act, the right of appropriation vests with the debtor (customer).
- Alternatively, the payment may be made under circumstances clearly implying the debt to be discharged.
- In the absence of such circumstances and instruction from the debtor , the bank , as creditor can exercise the right.

Right to Charge Interest, Incidental Charges

- In case of debt carrying interest and the debtor has not given specific directions as to the appropriation of money paid, the rule , to apply the money in ordinary cases, first towards the **payment of interest** and then to apply the **surplus in payment of principal amount**.
- The banker has to **right to charge interest for loan** and advances it might have granted to its customers.
- Periodically, **customer account is debited** with interest due.
- The banks might levy charges to meet

Law of Limitations

- After a debt becomes time barred (or statue barred) the remedy of action by the creditor is lost even though the debt still remains owing.
- A debt becomes times barred after the time limits stipulated in Limitations Act, 1963.
- However, it is only the debt that becomes time barred and creditor can enforce the security in his hands if any.
- In the case of security over land, enforcement is not possible because after the period is over, the title deeds must be returned to owners.
- Since the deposits with banks are repayable on demand and therefore the period of limitation begins only from the date on which demand for payment has been made by customer.


THANK YOU FOR LISTENING
ANY QUESTIONS??
makeameme.org

BANKER CUSTOMER RELATIONSHIP

A banker is the one who gets into debts and creates debts.

- H.L. HART – the banker is one who receives money, collects cheques and drafts, for customers, with an obligation to honour the cheques drawn by customers from time to time subject to availability of amounts in the account.

- Section 3 of NI ACT 1881, and Section 2 of BILL OF EXCHANGE ACT 1882. state that the term banker includes person or corporation or a company acting as banker.

- Under Section 5 (1) of Banking Regulations of 1949, a banking company is defined as any company which transacts banking business.

- Under Section 5 (1) B , banking business means accepting for the purpose of landing or investment, deposits of money from the public, repayable on demand or otherwise withdrawable by cheque , draft or otherwise.

CUSTOMER

- A person who buys goods or services from a shop or a business entity.
- A person you deal with as a business entity.
- There is no statutory definition.
- A person/ company/entity who has an account with a bank is a customer.
- There is no unanimity as regards to the time period of the dealings.
- A casual transaction like encashment of a cheque does not entail a person to be customer.
- The duration of association of the customer with the bank is of no essence.
- A customer is one who has an account with the bank and to whom the banks undertakes to extend business of banking.

RELATIONSHIP

❖ CREDITOR-DEBTOR

- Relationship between the customer having a deposit account and the banker.
- Depositor is the lender and the banker is the borrower.
- Depositor is the creditor and the banker is the debtor.
- The money handed over to the bank is a debt.
- The money once deposited in the bank becomes the money of the bank and it is prerogative of the bank to use that money as it deems fit. The depositor remains a creditor that too an unsecured creditor

RELATIONSHIP

❖ DEBTOR-CREDITOR

- When the customer avails a loan or an advance then his relationship with the banker undergoes a change to what it is when he is a deposit holder.
- Since the funds are lent to the customer , he becomes the borrower and the banker becomes the lender.
- The relation is the debtor- creditor relation, the customer being a debtor and the banker a creditor.

RELATIONSHIP

❖ BENEFICIARY-TRUSTEE

- If a customer keeps certain valuables or securities with the bank for safe-keeping or deposits a certain amount of money for a specific purpose, the banker, besides becoming a bailee, is also a trustee. The money or the securities so kept are not at the disposal of the bank. The banker cannot utilize those moneys or securities as he desires since the money does not belong to him.
- Here there is delivery of goods or securities from one person to the other which amounts to the bailment. As per section 148 of Indian Contract Act 1872, the delivery of goods from one person to the other for some purpose upon the contract that the goods will be returned when the purpose is accomplished.
- The customer is the bailer and the banker is the bailee.

RELATIONSHIP

PRINCIPAL-AGENT

- Banks provide ancillary services such as collection of cheques, bills etc.They also undertake to pay regularly the electricity bills, phone bills etc.
- The relationship arising out of these ancillary services is of principal-agent between the customer and the bank.
- The relationship seizes once the customer dies, becomes insane or becomes insolvent.
- The proceedes of the cheques sent for collection,which are in transit, not created to the customer account are not the moneys of the banker till such time as they are credited into the customer account.

RELATIONSHIP

- LESSEE-LESSOR

- The banks provide safe deposit lockers to the customers who hire them on lease basis. The relationship therefore, is that of lessee and lessor. In certain banks, this relationship is termed as licensee and licensor. The bank leases out the space for the use of clients. The bank is not responsible for any loss that arises to the lessee in this form of transaction except due to negligence of that bank.

RELATIONSHIP

INDEMNIFIER- INDEMNIFIED

- The customer is indemnifier and the bank is indemnified.
- A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or the conduct of any other person is called a contract of indemnity – section 124 (Indian Contract Act, 1872). In the case of banking, this relationship happens in transactions of issue of duplicate demand draft, fixed deposit receipt etc. The underlying point in these cases is that either party will compensate the other of any loss arising from the wrong/excess payment.

OBLIGATIONS OF THE BANK

Obligation to honour the cheque

- Under section 31 of NI Act 1881, the banker is obliged to make payment of the cheque ,with mandate, properly presented, provided there is balance in the account.
- However, when a garneshee order is served on the banker, the banker may seek refuse under order 21 of code of civil procedure 1908 and the banker may not pay the cheque when such order is served.If a debtor fails to pay the debt to the creditor, the latter may approach a court of law to issue a garneshee order on the banker of his debtor.

OBLIGATIONS OF THE BANK

Obligation to maintain secrecy

- Section 13 of banking companies Act 1970 stipulates the banks to maintain secrecy of their customers accounts and dealings with them.
- However there are exceptions.The exceptions are :

➢ When law requires

➢ When the practices and usages among bankers warrants exchange of information.

RIGHTS OF BANKER

- Right of general lien- Lien is the right of the creditor to retain the goods and securities owned by the debtor untill the debt due from him is paid.
- It conferes upon the creditor to retain the securities of the debtor.
- It does not confer the right to sell.
- There are two types of liens – General lien and particular lien.
- Section 171 of Indian contract Act 1872 conferes general lien on bankers.
- Bankers lien is tantamount to implied pledge. The reason being the banker is bestowed with a right even to sell securities without the intervention of the court.
- Pledge – Section 172 of Indian contract Act 1872- bailment of goods as security for payment of a debt or performance.

RIGHTS OF BANKER

- Right of set off – The mutual claims of a debtor and a creditor are adjusted together and only the remainder amount due is payable.
- Right of appropriation - If the customer has more than one loan account , the customer can direct the repayment of the loan as credit into any other accounts. If there is no specific directions from the customers the banker has a right to appropriate as per his choice.
- Right to charge interest- As a creditor the banker has right to charge interest on the funds he lends as per the norms and as per the contract.

BANKERS BOOKS EVIDENCE ACT

Despite the fact the banker has to maintain secrecy he has to disclose the accounts and an order from the court.

Earlier the books of accounts were required to be produced in court of law as evidence.

However on the advent of bankers books evidence act 1891.The banker can produce certified copies of the records of the accounts as evidence which are tenable as evidence in court of law.

SPECIAL TYPES OF CUSTOMERS

- **LUNATICS-** Under Indian Contract Act , a contract with or by a lunatic is void. The reason being the lunatic being of unsound mind is not competent to comprehend a contract.
- If the banker without knowing that the person is lunatic opens an account and enters into a contract acting in good faith is protected. But when once he gets a notice of lunacy of a person, he should not entertain any contract either existing or new.

SPECIAL TYPES OF CUSTOMERS

- **<u>DRUNKARDS-</u> Under section 12 of Indian contract act 1872, a sane man who is delirious from favour or who is drunk that he cannot understand the contract, or form rational judgement cannot enter into contract while such delirium or drunkedness lasts.**

When a customer who is drunk presents a cheque across a counter the payment must be witnessed.

SPECIAL TYPES OF CUSTOMERS

- **MINORS-** Any person under the age of 18 yrs is a minor.

If a court appoints a guardian and the minor is below 18 yrs the minority extends upto 21 yrs.

A minor is not competent to enter into a contract and all the contracts entered in by him are void.

The banker can open an account but he has to be careful that the account will never be allowed to be overdrawn.

The minor can be a partner but cannot be held liable for the liabilities of the partnership.

SPECIAL TYPES OF CUSTOMERS

- **PARTNERSHIP -** Section 4 of the Indian Partnership Act 1932, defines partnership as a relationship subsisting between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

While opening an account the partnership letter should be signed by all the partners.

The purpose of the business address, names and other details should be clearly obtained.

The partnership letter and the deed should contain as regards to instructions pertaining to opening a bank account and the operations.

In case of any internal dispute among partners, if any of them gives notice of stoppage of operations, then the account would only be operative by all partners jointly.

Death of the partner deserves the partnership. In order to determine the liability of deceased partner the banker should close the account.

SPECIAL TYPES OF CUSTOMERS

- **COMPANIES** – Company is a legal entity and the formation of the company is governed by Companies Act 1956.

While opening an account on company's name the banker has to ask for:

- Certifies copies of memorandum and articles of association and certificate of incorporation.
- Names of the directors
- Certificate of commencement of business.
- Copy of resolution appointing the bank as companies bank. And the names of the persons authorized to operate that account along with the signatures.
- Death of authorized signatories does not demand the stopping of payments since the company is in existence.

SPECIAL TYPES OF CUSTOMERS

- **TRUSTES-** According to Indian Trust Act 1882, trust is an obligation annexed to the ownership of a property, arising out of confidence reposed in and accepted by the person for the benefit of another person.

The person who reposes are declares confidence is called the author of the trust.

The person who accepts the confidence is the trustee.

The person for whose benefit the confidence is accepted is a beneficiary.

The instrument by which the trust is created is the trust deed.

Bank has to study the trust deed as regards to the opening and operations of the account.

SPECIAL TYPES OF CUSTOMERS

- **HINDU UNDIVIDED FAMILY-** Where a hindu dies leaving a business, the business is passed onto the legal heads. It becomes HUF property. The members of the family are called Coparceners and eldest male child is the manager or the karta.

  - The karta has the employed authority to avail loan and execute necessary documents. It binds all the members.
  - The other members of the family are also required to sign the documents as a precautionary measure even though legally they are bound by the actions of the karta.

SPECIAL TYPES OF CUSTOMERS

JOINT ACCOUNT HOLDERS- A joint account is an account opened by two or more persons , while opening an account the account opening form should be signed by all the account holders.

Instructions for opening an account may be any of the following:

- Either or survivor
- Former or survivor
- Both jointly

Any of them can stop payment of the cheque issued by any bother joint account holder.

The instructions for operations in the account will stand countermanded in case of insanity, insolvency, death of any of the joint holders and the operations in the account will be stopped.

PRINCIPLES OF LENDING

- SAFETY
- LIQUIDITY
- PROFITABLE
- PURPOSE
- DIVERSIFICATION OF RISK
- SECURITY

SAFETY

THE REPAYMENT DEPENDS UPON :

ii) CAPACITY TO PAY

iii) WILLINGNESS TO PAY

iv) INCOME GENERATION

THE THREE ‘C’s ARE CHARACTER, CAPACITY AND CAPITAL

THE THREE ‘R’s ARE RELIABLITY,RESPONSIBILITY AND RESOURCES

LIQUIDITY

70% ~~OF THE DEPOSITS ARE DEPOSITS~~ REPAYABLE WITHIN ONE YEAR.SO THE AMOUNT LENT IS TO BE AVAILABLE FOR REPAYMENT OF DEPOSITS.

LIQUIDITY IS THE NATURE OF THE ASSEST TO GET COVERTED INTO CASH.

PROFITABILITY

- IN ORDER TO CASRRY ON THE OPERATIONS, TO RUN THWE MACHINERY OF BUSINESS AND AT THE END TO EARN SOMETHING OUT OF THE BUSINESS ACTIVITY IN RETURN FOR THE EFFORTS PUT IN PROFIT IS AIMED AT.
- IN VIEW OF VARIOUS LENDING ACTIVITIES AND VARIOUS OBLIGATIONS , A CLEAR CUT PATH IS ENVISIGED KEEPING IN VIEW THE PROFIT FACTOR.

PURPOSE

- WHILE LENDING THE PURPOSE OF THE ACTIVITY FOR WHICH THE LOAN IS EXTENDED IS TO BE GIVEN PRIORITY. LOANS FOR UNDESIREABLE AND SPECULATIVE PURPOSES CANNOT BE GRANTED.

DIVERSIFICATION OF RISK

SHOULD NOT LAY ALL THE EGGS IN ONE BASKET. THE LOAN PORTFOLIO SHOULD BE DISTRUBUTED TO DIFFERENT SECTORS, DIFFERENT GEOGRAPHICAL AREAS AND DIFFERENT SPECTRUM OF PEOPLE.

SECURITY

- SINCE THE FUNDS THAT ARE LENT TO PUBLIC ARE THE BORROWED FUNDS AND SINCE THEY ARE TO BE PAID ON DEMAND OR OTHERWISE, THE MAIN PRIORITY OF THE BANKER IS THE RELISABILITY OF THE FUNDS LENT. IN ORDER TO SECURE THE FUNDS, IN CASE OF ANY EVENTUALITY, CERTAIN PRECAUTIONS AS REGARDS TO SECURITY ARE TAKEN. THEY ARE KEEP IN MARGIN, RELISABILITY OF SECURITY, ADEQUACY OF THE SECURITY AND FREE FROM ANY ENCUMBERENCE.

CREDIT CARDS

A CREDIT CARD IS BASICALLY A PAYMENT MECHANISM WHICH ALLOWS THE HOLDER OF THE CARD TO MAKE PURCHASES WITH OUT ANY IMMIDIET CASH PAYMENT.

THE ISSUING BANK MAKES PAYMENT TO THE MERCHANT ESTABLISHMENTS

THE CREDIT IS EXTENDED BY THE MERCHANT ESTABLISHMENTS ON THE GUARENTEE OF ISSUING BANK

SERVICE CHARGES AND INTEREST ARE CHAGED ON THE OVERDUE BALANCE TO THE CARD HOLDER

CREDIT CARDS

PARTYS TO THE OPERATION OF CREDIT CARD:

2) THE CREDIT CARD HOLDER
3) THE ISSUING BANK
4) MERCHANT ESTABLISHMENT
5) PAYMENT BRAND

PAYMENT BRAND IS THE ONE WHICH PROVIDES PAYMENT PRODUCTS AND TECHNOLOGY – VISA AND MASTERS ETC.

THE BANK ISSUING THE CARD IS MEMBER OF THE PAYMENT BRAND. THE PAYMENT BRAND DOES NOT PROVIDE ANY SERVICES OR ISSUE CARDS TO THE CUSTOMERS.

CREDIT CARDS

ADVANTAGES :

2) PURCHASE OF GOODS UPTO THE LIMIT OF CARD CAN BE MADE.
3) HAS A PERIOD OF INTEREST FREE CREDIT
4) CAN DRAW CASH TO A LIMIT FROM BRANCHES OR ATM.

DISADVANTAGES:

6) TENDS TO SPEND MORE
7) FRAUDS DUE TO LOSS OF CARDS

DEBIT CARDS

- IN ~~CASE OF CREDIT CARDS , THE CARD~~ HOLDER MAKES PAYMENT AT A LATER POINT OF TIME.
- IN CASE OF DEBIT CARDS, THE BALANCE IN THE DEPOSIT ACCOUNT OF THE CARD HOLDER IS RUN DOWN.
- IN CASE OF DEBIT CARD ONES OWN MONEY IN HIS BANK ACCOUNT IS USED.
- IF THE CARD IS LOST OR STOLEN THE ENTIRE BALANCE IN THE ACCOUNT IS SUSCEPTIBLE TO BE DRAWN.

ATM

- AUTOMATIC TELLER MACHINE- THE ATM CAME INTO BEING ON THE RECOMMENDATIONS OF DR. C. RANGARAJAN’S COMMITTEE.
- THE STAND ALONE ATM FIRST APPEARED IN INDIA IN EARLY 1990’S.
- THE CUSTOMER IS GIVEN THE PERSONAL IDENTIFICATION NUMBER – PIN.
- THE CUSTOMER CAN DRAW CASH FROM THE MACHINE (ATM) BY PUNCHING THE PIN AND OTHER REQUIRED DETAILS.

ATM

- BENEFITS OF THE ATM FOR THE CUSTOMER

2) 24X7-AVAILABILITY
3) LESS TIME FOR TRANSACTION
4) PRIVACY OF TRANSACTION

BENEFITS FOR THE BANK

7) COST OF SETTING UP OF ATM IS LOWER THAN SETTING UP A BRANCH
8) LESS MANPOWER
9) LESS HASSELS IN HANDLING CASH
10) ENABLES BANK TO DISPLAY PRODUCTS ON ATM SCREENS- PUBLICITY

ATM

- ATM MODELS

2) ONLINE-THE ATM IS CONNECTED TO THE BANK'S DATABASE AND PROVIDES ONLINE REAL TIME ACCESS TO THE CUSTOMER ACCOUNT. THE LIMIT IS MONITORED BY ATM'S SWITCH CENTRE
3) OFFLINE-THE ATM IS NOT CONNECTED TO BANK'S DATABASE.WITHDRAWALS ARE PERMITTED TO A PRE-FIXED LIMIT ONLY.
4) STAND ALONE- NOT CONNECTED TO ANY ATM NETWORK. IN THIS CASE TRANSACTIONS AT A AN ATM ARE RESTRICTED TO CUSTOMERS OF THE ATM BRANCH AND ITS LINK BRANCHES.

ATM

- NETWORKING OF ATMS

BANKS JOINING TOGETHER TO SHARE THEIR ATM NETWORKS.THEY JOIN IN MANY SMALL CLUSTERS.

THERE ARE MANY SUCH ATM CLUSTERS IN INDIA.

IN ORDER TO FECILITATE INTER-OPERABILITY OF THESE CLUSTERS AT NATIONAL LEVEL THE PROCESS OF SETTING UP NATIONAL FINANCIAL SWITCH FOR APEX LEVEL CONNECTIVITY OF SWITCHES OF DIFFERENT BANKS INITIATED.

IT HAD A BEGINNING IN 1997 BY IBA IN MUMBAI CONNECTING THE MEMBER BANKS ATM IS CALLED SHARED PAYMENT NETWORK SYSTEMS.

ATM

- COMPONENTS OF ATM

2) VIDEO DISPLAY MONITOR
3) KEYBOARD/ KEYPAD
4) TOUCH SCREEN
5) SLOTS FOR CARD READER, CASH DISPENSER ETC.

ATM

- BIOMETRIC ATMS

PHYSICAL, BIOLOGICAL ATTRIBUTES ARE USED TO PROCESS THE VARASITY OF TRANSACTION INSTEAD OF USING A PIN.

THE ATTRIBUTES THAT ARE CONSIDERED FOR IDENTIFICATION ACT AS PIN-A KIND OF PASSWORD.

PAYMENT OF CHEQUES

- Section 31 NI – the banker is supposed and obliged statutorily to pay the cheques of his customer if it is other wise in order, on demand.

What is a cheque?

Section 6 of NI –it is a bill of exchange drawn on a specified banker not expressed to be payable otherwise on demand.

bill of exchange-section 5of NI-a bill of exchange is a instrument in writing containing an unconditional order signed by the maker, directing a certain person ,to pay ascertain sum of money only ,to or to the order of a certain person or to the bearer of the instrument.

PAYMENT OF CHEQUES

- ~~PREREQISETS FOR HONOURING CHEQUES~~
- 1-the cheques must be drawn in proper form
- 2-drawer signature must correspond with the specimen signature
- 3-the cheque must not be either stale or post dated

4- The amount should be expressed in words or in words and figures which should agree

when the amount in words and figures do not agree the amount in words is to be paid

PAYAMENT OF CHEQUES

- 5-~~mutilated cheques- it may be intentional or~~ accidental. if it is accidental it is to be confirmed by the drawer. if it requires confirmation the cheque is to be returned with remarks “mutilated cheque requires confirmation”
- 6-material alteration-section 87 of NI -an alteration which in any way alters materially or substantially the operations of the instrument and the liabilities of the parties there to is material alteration
- The material alteration makes a cheque void unless the alteration is confirmed by the drawer.

PAYMENT OF CHEQUES

The confirmation is to be done by:

- all the joint signatories in case of joint operations
- Any one of the persons who is authorized to operate the account as per the mandate not neccerily the one who signed the cheque.
- Only the drawer can alter an order cheque into a bearer cheque by striking the word order and substituting with the word bearer.

However any of the parties to a bearer cheque can can make it an order one by just striking off the words bearer

PAYAMENT OF CHEQUES

- 7)-the cheque must be properly endorsed-
- In case of a bearer cheque endorsement is not required.it remains a bearer cheque despite the endorsement on the reverse.-section 85 of NI.
- An order instrumentrequires to be endorsed.an order cheque can be paid to the bearer if the endorsement is blank.

PAYMENT OF CHEQUES

- when can a banker refuse payment ?
- 1)-notice from the customer countermanding payment
- 2)-notice of customer’s death
- 3)-notice of customer’s insanity
- 4)-notice of customer’s bankruptcy.
- 5)-doubts regarding the person presenting the cheque.
- 6)-notice of attachment.
- 7)-notice of garnishee order

PAYMENT OF CHEQUES

- Protection to paying banker
- Section 128 of NI-against payment of crossed cheques if the payment is made in due course.
- Section 85 of NI-protection for un crossed cheques.

PAYMENT OF CHEQUES

- Payment in due course
- Section 10-of NI –payment in accordance with the tenor of the instrument ,in good faith and without negligence to any person in possession there of under circumstances which do not afford a reasonable ground for believing that he is entitled to receive payment of amount mentioned there in.

PAYMENT OF CHEQUES

MONEY PAID BY MISTAKE

- The person receiving the money is aware that he is not entitled to the money , the banker has the right to recover.
- If an agent recieves the payment on behalf of principal and he is not aware that he is not entitled to receive the money and the money he recieves , is transferred to the principal, the banker does not have a right to recover from the agent since he changed his position and since he is no more an agent for that particular transaction.
- If the mistake of payment is immediately brought to the notice of the person to whom the amount is paid before he alters his position then the banker can recover from such person to whom the payment is made.

PAYMENT OF CHEQUES

MONEY PAID BY MISTAKE

- If the banker finds out after passing the cheque that the account has no sufficient funds or the cheque is passed and paid to an innocent holder, the banker cannot recover the amount from the person to whom it is paid, even the person has not left the bank.
- If an amount is wrongly credited by a third party into the account of bank's customer, the bank cannot repay the amount to the third party without the consent of his customer. Even though his customer is legally liable to pay to the third party the banker cannot pay without the consent of his customer.

COLLECTION OF CHEQUES

- Banker is the agent of his customer while making collection of insruments.
- Conversion- it is unlawful creation of right to a person who is not entitled to the ownership.
- Banker is responsible for such conversion.
- Banker has protectiction under 131 of NI in case of conversion provided
- 1)-he acts in good faith
- 2)-without negligence
- 3)-receives payment of a cheque crossed
- 4)-collects cheque for customer

COLLECTION OF CHEQUES

- precautions to be taken
- A)-examine the endorsement-if it is in order
- B)-make sure there is no conversion especially while crediting company's cheques to directors account ,partnership cheque to parterner's a/c,trust cheques to trustee's personal account etc.
- C)-An account payee cheque is to be credited into the a/ c of that payee only
- D)-notnegotiable cheque is to be crdited in to the a/c of of the payee only
- .
-

COLLECTION OF CHEQUES

- To avail protection under 131 of NI while opening the account the banker has to seek proper enquires about the prospective customer and an introduction is to be obtained.

COLLECTION OF BILLS OF EXCHANGE

- Bills payable on demand or at sight or on a fixed date do not need any accptence.they are called demand bills.
- Bills payable after sight need to be presented for acceptance.they are called usance bills.
- The due date is calculated from the date of accptance.the usnce bill is to be presented for accptance.
-

CLEARING-CLEARING HOUSE

- Clearing is offsetting the inter bank indebtedness arising out of collection and payment of cheques.
- Clearing house is a body constituted by a group of constituent banks to fecilitate clearing operations.

CLEARING HOUSE

- Objectives
- To make arrangements for the speedy collection of cheques.
- To frame rules and regulations to fecilitate clearing operations.
- To maintain records of operations.
- To netting of the transactions and arrive at the balanceses receivable or payable.
- Accordingly arrange for credit or debit the individual bank accounts as needed.
-

CLEARING HOUSE

- The clearing house is headed by the president who is from the bank that conducts the operations-RBI,SBIor any nationalized bank.
- It has a standing committee consisting of minimum 5 maximum 7 members,including the president,from member banks.
- The tenure of each member from a bank is 2 years.

ADVANCES

- ~~LOANS– Are mainly classified into secured and~~ unsecured loans – section 5A of banking regulation act 1949.

A secured loans means a loan made on the security of an asset , the market value of which is not at any time less than the amount of loan.

ADVANCE- handover payment to someone as a loan or before it is due.

LOAN- Some of money that is lent.

ADVANCES

- ADVANCES- Can be classified as

2) Cash credits
3) Overdrafts
4) Bills discounting/purchasing
5) Loans
6) Letters of credit

ADVANCES

- For sanction of loans the following guidelines have to be taken into consideration:

2) Purpose
3) Target groups
4) Quantum of loans
5) Age of the borrower
6) Repayment
7) Security
8) Interest
9) Margin

ADVANCES

- QUANTUM OF LOAN- Eligibility as regards to the amount of the loans dependent on the gross monthly salary and net income monthly. For these details salary certificate is to be looked into for salaried people and for business people the income tax returns are to be looked into.

ADVANCES

HOUSING LOANS- Documents required :

2) Agreement of sale
3) Non-encumberance certificate for last 13 years.
4) Approved building plan
5) Link documents tracing to last 30 years
6) valuation report from bank’s engineer.
7) Bank statement for the last 12 months
8) Salary certificate
9) IT return for last 3 years

ADVANCES

- Documents to be executed:

2) HOUSING LOAN AGREEMENT to be executed by the borrower and the co-obligant.
3) INSURANCE FOR BUILDING
4) TITLED TO THE PROPERTY TO BE MORTAGED
5) DEPOSIT OF TITLE DEEDS.

ADVANCES

- DOCUMENTATION – It is to fix terms and conditions, to identify the borrower, to identify the securities ,to count the period of limitation, to resort to legal remedies in case of need.
- The documents are governed by indian contract act , partnership act , company’s act, registration act, indian stamps act.
- DIFFERENT TYPES OF DOCUMENTS

4) dpn
5) agreements
6) forms

ADVANCES

- DOCUMENTATION- The stamp duty for Dpn as per section 35 of Indian stamp act is uniformed all over the country.
- Agreements – term loan agreement, hypothecation agreement, pledge agreement, mortgage agreement etc.
- Indian contract act specifies the nature of agreement
- It contains loan amount, rate of interest , repayment schedule, security etc.
- The stamp duty on agreements varies from state to state.
- FORMS- Application, undertaking letters, authorization letters etc.

ADVANCES

- DOCUMENTATION-

LIMITATION- DPN- 3 Years

STAMPING – To be done before or at the time of execution.