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Reference Material for Three Years

Bachelor in Business Administration (General)

Code : 017

Semester – III

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BUSINESS LAWS (201)

UNIT 1

Definition of Business Law

Business law encompasses all of the laws that dictate how to form and run a business. This includes all of the laws that govern how to start, buy, manage and close or sell any type of business. Business laws establish the rules that all businesses should follow. A savvy businessperson will be generally familiar with business laws and know when to seek the advice of a licensed attorney.

CONTRACT DEFINITION AND MEANING

MEANING

Contracts are agreements that are legally enforceable. A contract may involve a duty to do or refrain from doing something, and the failure to perform such duty is called a breach of contract. The law provides remedies if a promise is breached- aiming to restore the person wronged to the position they would occupy if the contract had not been breached, rather than punish the breaching party.

The existence of a contract requires:

a) an offer;

b) an acceptance of that offer which results in a meeting of the minds,

c) a promise to perform,

d) a valuable consideration,

e) a time or event when performance must be made,

f) terms and conditions for performance,

g) performance, if the contract is "unilateral".

DEFINITION

The Indian Contract Act, 1872 defines the term “Contract” under its section 2 (h) as “An agreement enforceable by law”. In other words, we can say that a contract is anything that is an agreement and enforceable by the law of the land.

This definition has two major elements in it viz – “agreement” and “enforceable by law”. So in order to understand a contract in the light of The Indian Contract Act, 1872 we need to define and explain these two pivots in the definition of a contract.

Agreement

The Indian Contract Act, 1872 defines what we mean by "Agreement". In its section 2 (e), the Act defines the term agreement as "every promise and every set of promises, forming the consideration for each other".

Now that we know how the Act defines the term "agreement", there may be some ambiguity in the definition of the term promise.

Promise

This ambiguity is removed by the Act itself in its section 2(b) which defines the term "promise" here as: "when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. Proposal when accepted, becomes a promise".

In other words, an agreement is an accepted promise, accepted by all the parties involved in the agreement or affected by it. This definition thus introduces a flow chart or a sequence of steps that need to be triggered in order to establish or draft a contract. The steps may be described as under:

i. The definition requires a person to whom a certain proposal is made.

ii. The person (parties) in step one have to be in a position to fully understand all the aspects of a proposal.

iii. "signifies his assent thereto" – means that the person in point one accepts or agrees with the proposal after having fully understood it.

iv. Once the "person" accepts the proposal, the status of the proposal changes to "accepted proposal".

v. "accepted proposal" becomes a promise. Note that the proposal is not a promise. For the proposal to become a promise, it has to be accepted first.

Thus, in other words, an agreement is obtained from a proposal once the proposal, made by one or more of the participants affected by the proposal, is accepted by all the parties addressed by the agreement.

To sum up, we can represent the above information below:

Agreement = Offer + Acceptance.

Enforceable By Law

Now let us try to understand this aspect of the definition as is present in the Act. Suppose you agree to sell a unicorn for ten magic beans with a friend. Can you have a contract for this?

Well if you follow the steps in the previous section, you will argue that once you and your friend agree on the promise, it becomes an agreement. But in order to be a contract as per the definition of the Act, the agreement has to be legally enforceable.

Thus we can say that for an agreement to change into a Contract as per the Act, it must give rise to or lead to legal obligations or in other words must be within the scope of the law. Thus we can summarize it as Contract = Accepted Proposal (Agreement) + Enforceable by law (defined within the law)

Difference Between Agreement And Contract

Let us see how a contract and agreement are different from each other. This will help you summarize and make a map of all the important concepts that you have understood

Contract	**Agreement**
A contract is an agreement that is enforceable by law.	A promise or a number of promises that are not contradicting and are accepted by the parties involved is an agreement.
A contract is only legally enforceable.	An agreement must be socially acceptable. It may or may not be enforceable by the law.
A contract has to create some legal obligation.	An agreement doesn't create any legal obligations.
All contracts are also agreements.	An agreement may or may not be a contract.

CHARACTERISTICS OF CONTRACT

- **Legal purpose.** A contract must have a legal purpose to be enforceable. For example, Steve hires Paul to kill Susan. Steve drafts an agreement outlining Paul's responsibilities, namely to acquire a gun and shoot Susan in the head. The agreement also specifies the amount Steve will pay Paul once Susan is dead. A contract of murder for hire is illegal. If Paul fails to fulfill his obligations under the agreement, Steve will have no recourse against Paul. The agreement Steve has drafted is unenforceable.

- **Mutual Agreement.** All parties to the contract must have reached a "meeting of the minds." That is, one party must have extended an offer to which the other parties have agreed. For example, Jim signs a contract with Tom's Tree Trimming. The contract outlines the scope of the work Tom will perform on Jim's property. Jim and Tom have a mutual agreement regarding the work that will be done.
- **Consideration.** Each party to the contract must agree to give up something of value in exchange for a benefit. For example, you hire an independent contractor to repave your driveway. You and the paving contractor sign an agreement in which you promise to pay a sum of money in exchange for the paving work. Both you and the contractor have agreed to give up something of value. You have agreed to pay money, and the contractor has agreed to perform the paving work.
- **Competent Parties.** The parties to a contract must be competent. That is, they must be of sound mind, of legal age, and unencumbered by drugs or alcohol. If you enter into a contract with a minor or an insane person, the contract will not be enforced.
- **Genuine Assent.** All parties must engage in the agreement freely. A contract may not be enforced if mistakes have been made by one or more parties. Likewise, a contract may be voided if one party has committed fraud or exerted undue influence over another. For example, you sign a contract in which you agree to sell your house to your next-door neighbor for $1. When you signed the contract, your neighbor was pointing a gun at your head. Clearly, you made the agreement under duress, so the contract is not valid

KINDS OF CONTRACTS

In connection with contracts, there are four types of classifications. Types of contracts in contract law are as follows;

1. On the basis of Formation,
2. On the basis of Nature of Consideration,
3. On the basis of Execution and
4. On the basis of Validity.

Types of Contracts on the basis of Formation

On this base Contracts can be classified into three groups, namely Express, Implied, Quasi Contracts.

Express Contracts: The Contracts where there is expression or conversation are called Express Contracts. For example: A has offered to sell his house and B has given acceptance. It is Express Contract.

Implied Contract: The Contracts where there is no expression are called implied contracts. Sitting in a Bus can be taken as example to implied contract between passenger and owner of the bus.

Quasi Contract: In case of Quasi Contract there will be no offer and acceptance so, Actually there will be no Contractual relations between the partners. Such a Contract which is created by Virtue of law is called Quasi Contract. Sections 68 to 72 of Contract Act read about the situations where court can create Quasi Contract.

- Sec. 68: When necessaries are supplied
- Sec. 69: When expenses of one person are paid by another person.
- Sec. 70: When one party is benefited by the activity of another party.
- Sec. 71: In case of finder of lost tools.
- Sec. 72: When payment is made by mistake or goods are delivered by mistake.

Example: A case on this occasion is Chowal Vs Cooper. In this case A`s husband becomes no more. She is very poor and therefore not capable of meeting even cost of cremation. B, one of her relatives, understand`s her position and spends his own money for cremation. It is done so without A`s request. Afterwards B claims his amount from A where A refuses to pay. Here court applies Sec. 68 and creates a Quasi Contract between them.

Types of Contracts on the basis of Nature of Consideration

On this base, Contracts are of two types. Namely Bilateral Contracts and Unilateral Contracts.

Bilateral Contracts: If considerations in both directions are to be moved after the contract, it is called Bilateral Contract.

Example: A Contract has got formed between X and Y on 1st Jan, According to which X has to deliver goods to Y on 3rd Jan and Y has to pay amount on 3rd Jan. It is bilateral contract.

Unilateral Contract: If considerations is to be moved in one direction only after the Contract, it is called Unilateral Contract.

Example: A has lost his purse and B is its finder. There after B searches for A and hands it over to A. Then A offers to pay Rs. 1000/- to B to which B gives his acceptance. Here, after the Contract consideration moves from A to B only. It is Unilateral Contract.

Types of Contracts on the basis of Execution

On this base Contracts can be classified into two groups. namely, Executed and Executory Contracts. If performance is completed, it is called executed contract. In case where contractual obligations are to be performed in future, it is called executor contract.

Types of Contracts On the basis of Validity

On this base Contracts can be classified into 5 groups. namely Valid, Void, Voidable, Illegal and Unenforceable Contracts.

Valid: The Contracts which are enforceable in a court of law are called Valid Contracts. To attain Validity the Contract should have certain features like consensus ad idem, Certainty, free consent, two directional consideration, fulfillment of legal formalities, legal obligations, lawful object, capacity of parties, possibility of performance, etc.

Example: there is a Contract between X and Y and let us assume that their contract has all those above said features. It is Valid Contract.

Void: A Contract which is not enforceable in a court of law is called Void Contract. If a Contract is deficient in any one or more of the above features (Except free consent and legal formalities). It is called Void Contract.

Example: there is a Contract between X and Y where Y is a minor who has no capacity to contract. It is Void Contract.

Voidable: A Contract which is deficient in only free consent, is called Voidable Contract. That means it is a Contract which is made under certain pressure either physical or mental. At the option of suffering party, a voidable contract may become either Valid or Void in future. For example: there is a Contract between A and B where B has forcibly made A involved in the Contract. It is voidable at the option of A.

Illegal: If the contract has unlawful object it is called Illegal Contract.

Example: There is a contract between X and Z according to which Z has to murder Y for a consideration of Rs. 10000/- from X. It is illegal contract.

Unenforceable: A contract which has not properly fulfilled legal formalities is called unenforceable contract. That means unenforceable contract suffers from some technical defect like insufficient stamp etc. After rectification of that technical defect, it becomes enforceable or valid contract.

Example: A and B have drafted their agreement on Rs. 10/- stamp where it is to be written actually on Rs. 100/- stamp. It is unenforceable contract.

Void Contracts and Illegal Contracts

All illegal Contracts are void, but all void contracts are not illegal: An illegal Contract will not be implemented by court. So, illegal contract is Void. A void contract may not be illegal because its object may be lawful.

The Contracts which are collateral to illegal contract are void, But the contracts which are collateral to Void contract may be Valid: An illegal makes not only itself Void but also the contracts connected to it. But a contract collateral to void contract may attain Validity because object of main contract is lawful.

Void Contracts and Voidable Contracts

Becoming Valid: A Voidable Contract may become Valid at the option of suffering party. But a Void Contract can never and never become Valid.

Third Party Rights: In case of Voidable Contracts third party may attain rights on concerned property, If the third party gets the property before the Voidable Contracts gets declared as Void. But in case of Void Contract third party cannot get any right.

ESSENTIALS OF A VALID CONTRACT

Intention to create a legal relationship: The parties entering into a contract must have an intention to create a legal relationship. If there is no intention to create a legal relationship, that agreement cannot be treated as a valid contract. Generally, there is no intention to create a legal relationship in social and domestic agreements. Invitation to lunch does not create a legal relationship. Certain agreements and obligation between father and daughter, mother and son and husband and wife do not create a legal relationship. An agreement wherein it is clearly mentioned that "This agreement is not intended to create formal or legal agreement and shall not be subject to legal jurisdiction in the law of courts." cannot be treated as a contract and not valid.

Lawful Object: The objective of the agreement must be lawful. Any act prohibited by law will not be valid and such agreements cannot be treated as a valid contract. Mr. A rents out his house for the business of prostitution or for making the bomb, the acts performing there are unlawful. Hence such an agreement cannot be treated as a valid contract. Therefore *the consideration, as well as the object of the agreement, should be lawful.*

Agreement not expressly declared void: Section 24 to 30 specify certain types of agreement which have been expressly declared void. For example Restraint of marriage which has been expressly declared void under Section 26. If John promises to pay $50 to Mary if she does not marry throughout her life and Mary promise not to marry at all. But this agreement cannot be treated as a valid contract owing to the fact that, under section 26 restraint of marriage expressly declared void. Some of the agreement which has been expressly declared void are *the agreements in restraint of legal proceedings, agreements in restraint of trade, agreement in restraint of marriage and agreement by way of a wager.*

Proper offer and it s acceptance: To create a valid contract, there must be two or more parties. One who makes the offer and the other who accepts the offer. One person cannot make an offer and accept it. There must be at least two persons. Also, the offer must be clear and properly communicated to the other party. Similarly, acceptance must be communicated to the other party and the proper and unconditional acceptance must be communicated to the offerer. Proper offer and proper acceptance should be there to treat the agreement as a contract which is enforceable by law.

Free Consent: According to section 14, *consent is said to be free when it is not caused by (i) coercion, (ii) undue influence (iii) fraud, (iv) misrepresentation, or (v) mistake.* If the contract made by any of the above four reasons, at the option of the aggrieved party it could be treated as a void contract. If the agreement induced by mutual mistake the agreement would stand void or canceled. An agreement can be treated as a valid contract when the consent of the parties are free and not under any undue influence, fear or pressure etc. The consent of the parties must be genuine and free consent.

The capacity of parties to contract: Parties entering into an agreement must be competent and capable of entering into a contract. If "A" agrees to sell a Government property to B and B agrees to buy that property, it could not be treated as a valid agreement as A is not authorized or owner of the property. If any of the party is not competent or capable of entering into the agreement, that agreement cannot be treated as a valid contract. According to Section 11 of the Act which says that *every person is competent to contract who is of the age of majority according to the law to which he is subject and who is of sound mind, and is not disqualified from contracting by any law to which he is subject.* So it is clear that the party must be of sound mind and of age to enter into a valid agreement which can be treated as a valid contract.

Certainty of meaning: Wording of the agreement must be clear and not uncertain or vague. Suppose John agrees to sell 500 tones of oil to Mathew. But, what kind of oil is not mentioned clearly. So on the ground of uncertainty, this agreement stands void. If the meaning of the agreement can be made certain by the circumstances, it could be treated as a valid contract. For example, if John and Mathew are sole traders of coconut oil, the meaning of the agreement can be made certain by the circumstance and in that case, the agreement can be treated as a valid contract. According to Section 29 of the Contract Act says that *Agreements, the meaning of which is not certain or capable of being made certain, are void.*

The possibility of performance: As per section 56, if the act is impossible of performance, physically or legally, the agreement cannot be enforced by law. There must be the possibility of performance of the agreement. Impossible agreements like one claim to run at a speed of 1000km/hour or Jump to a height of 100feet etc. would not create a valid agreement. All such acts which are impossible of performance would not create a valid contract and cannot be treated as a valid contract. In essence, there must be the possibility of performance must be there to create a valid contract.

Lawful consideration: An agreement must be supported by a consideration of something in return. That is, the agreement must be supported by some type of service or goods in return of money or goods. However, it is not necessary the price should be always in terms of money. It could be a service or another goods. Suppose X agrees to buy books from Y for $50. Here the consideration of X is books and the consideration of Y is $50. It can be a promise to act (doing something) or forbearance (not doing something). The consideration may be present, future or can be past. But the consideration must be real. For example If John agrees to sell his car of $ 50000 to Peter for $20000. This is a valid contract if John agrees to sell his car not under any influence or force. It can be valid only if the consideration of John is free. An agreement is valid only when the acts are legal. Illegal works like killing another for money, or immoral works or illegal acts are cannot be treated as a valid agreement. So, illegal works will not come under the contract act.

Legal formalities: The contract act does not insist that the agreement must be in writing, it could be oral. But, in some cases, the law strictly insist that the agreement must be in writing like an agreement to sell immovable property must be in writing and should be registered under the Transfer of Property Act, 1882. These agreement are valid only when they fulfill the formalities like writing, registration, signing by both the parties are completed. If these legal formalities are not completed, it cannot be treated as a valid contract.

CONTRACT OF INDEMNITY AND GUARANTEE

Definition: In common parlance, the word ‘indemnity’ implies reimbursement against financial loss or protect someone from incurring a loss.

In law, Contract of indemnity can be defined as a legal contract between two persons whereby one party commits to indemnify, i.e. to compensate or reimburse, the loss incurred to the other party, by the conduct of the party, who is making the promise or by the conduct of the third party.

Therefore, it does not cover the loss caused by – Conduct of promisee, Accident and An act of God, i.e. any kind of natural calamity such as earthquake, floods etc. Nevertheless, the contracts of insurance, i.e. Fire and Marine Insurance will be covered under the contract of indemnity, but life insurance is not covered in it.

The contract of indemnity is a form of **contingent contract**, as the liability of the indemnifier, is based on an event whose occurrence is contingent. Further, the liability of the indemnifier is primary and independent.

It is characterised by all the essential elements of a valid contract, i.e. lawful object, consideration, free consent of the parties, capacity of the parties to contract, etc.

Parties to Contract of Indemnity

There are only two parties in a contract of indemnity, explained as

under:

- **Indemnifier**: The promisor, who promises to make good the loss caused to the other party, is called as Indemnifier.
- **Indemnified**: The person who is assured to be compensated for the loss caused (if any) is called as indemnified or indemnity holder.

The mode of the contract of indemnity can be express or implied, i.e. if a person explicitly promises to save the other from losses, the mode of the contract will be express, whereas if the contract is signified from the conditions of the case, then the mode of the contract will be implied.

Examples

The examples of the contract of indemnity are given hereunder:

1. Suppose John sold a house to Paul on the instruction of Peter. Afterwards, it is disclosed that Alex is the registered owner of the house. Alex recovered the amount from John for selling his house. Now, John can recover the compensation from Peter. This is an implied form of a contract of indemnity.
2. Beta Insurance Company entered into a contract with Alpha Ltd., to compensate for loss caused by accidental fire to the company's stock of goods up to Rs. 50,00,000 for a premium of Rs. 1,00,000. This is an express form of a contract of indemnity.

Rights of Indemnity Holder

The indemnity holder who is acting within the periphery of his authority can compensate for the loss caused to him/her from the indemnifier. So, the upcoming points will discuss the rights of the indemnity holder on being sued:

- Any kind of damages which the indemnity holder is bound to pay in any suit concerned with any issue to which the contract of indemnity applies.
- Any expenses which the indemnity holder is bound to pay, so as to bring or defend the suit.

- All the amount which the indemnity holder has paid, in connection to the settlement of the suit.

Rights of Indemnifier

- Once the indemnity holder is compensated for the loss caused, the indemnifier possesses all the rights to all the methods and resources that can save the indemnifier from loss.

The essence of the contract of indemnity is the **loss to the party**, i.e. Indemnification can be done only if the loss is incurred to the other party, or if it is sure that the loss will incur.

CONTRACT OF GUARANTEE

Sec. 126 of the Indian Contract Act 1872, which deals with the contract of guarantee, has defined it as "A contract to perform the promise, or discharge the liability of a third person in case of his defaults"

Example: A advances a loan of Rs.10,000 to B, and C promises A that if B does not repay the loan, I will repay it. This is a contract of guarantee. It involves three parties namely,

1. **Surety**, who gives the guarantee.
2. **Principal Debtor**, in respect of whose default the guarantee is given.
3. **Creditor**, to whom the guarantee is given.

Example: A supplies goods to B on C's guaranteeing payment by B to A. This means that if B does not pay, C would be liable to pay. This is a "Contract of Guarantee".

Here B is the principal debtor, C is the surety and A is the creditor.

A guarantee may be either "***oral***" or "***written***". Just like any other contract, it should also fulfill all the essentials of a valid contract. As stated already, three parties are involved in a contract of guarantee. At the same time, there are three collateral contracts also namely,

1. As between A and B [A supplies goods to B on credit who promises that he would pay].
2. As between A and C [C gives guarantee the price of goods, I will pay].
3. As between C and B [B indemnifies C in case of B's default in paying the amount to A)

ESSENTIALS OF VALID CONTRACT OF GUARANTEE

- Tripartite Agreement
- Consent of Three Parties
- Existence of a Liability
- Essentials of a Valid Contracts

- Guarantee not to be obtained by misrepresentation
- Guarantee not to be Obtained by Concealment

CONTRACT OF BAILMENT AND PLEDGE

Bailment and Pledge are two special contracts that are often confused. Every pledge is a bailment but every bailment is not pledge. Bailment means a delivery of goods from one person to another for a special purpose. Whereas Pledge means delivery of goods as security for the payment of debt or performance of a promise. Therefore, Bailment & Pledge are two different contracts. Pledge is a special kind of bailment.

Bailment

A bailment is a special contract defined under section 148 of the Indian Contract Act, 1872. It is derived from a French word i.e. "bailer" which means "to deliver". The etymological meaning of bailment is "handing over"or "change of possession of goods". By bailment, we mean delivery of goods from one person to another for a special purpose on the contract that they shall reimburse the goods on the fulfilment of the purpose or dispose of them as per the direction of the bailor. The person who delivers the goods is known as bailor. And the person to whom the goods are given is known as Bailee. And the property bailed is known as Bailed Property.

Essentials of Bailment

- There shall be a contract between the parties for the delivery of goods,
- The goods shall be delivered for a special purpose only,
- Bailment can only be done for movable goods and not for immovable goods or money,
- There shall be a transfer of possession of goods,
- Ownership is not transferred to Bailee, therefore Bailor remains the owner,
- Bailee is duty bound to deliver the same goods back and not any other goods.
  - ***Exception:*** *The money deposited in the bank shall not account to bailment as the money returned by the bank would not be the same identical notes. And it is one of the essentials of the bailment that same goods are to be delivered back.*

Duties of a Bailor

Section 150 of the Indian Contract Act, 1872 bound the bailor with certain duties to disclose the latent facts specifically pertaining to defect in goods. Bailor's duty of disclosure are:

- **Gratuitous Bailment:** It is the duty of the bailor to disclose all the defects in the goods that he is aware of to the Bailee that can interfere with the use of goods or can expose him to extraordinary risks. And failure to do the same will make bailor liable for damages.
- **Non Gratuitous Bailment (Bailment for Reward):**This duty particularly deals with the goods given on hire. As per this provision, when the goods are bailed for hire, then in such a situation even if the bailor is aware of the defect in the goods or not will be held liable for the injury that has been caused due to the existence of such defect.

In *Hyman v Nye & Sons*, the plaintiff took a carriage on hire from the defendant but the carriage was not fit for the journey and subsequently, the plaintiff suffered injuries. The court held that even though the defendant was aware of such defect or not he shall be liable.

Duties of Bailee

Bailee has to fulfil several obligations as per Indian Contract Act, 1872. That is:

- **Duty to take reasonable care:** It is the duty of the Bailee to take care of goods as his own goods. He shall ensure all safety measures that are necessary to protect the goods. The standard of care should be such as taken care by a prudent man. The goods shall be taken care of equally whether they are gratuitous or non-gratuitous. The Bailee shall be held liable for payment of compensation if he fails to take due care. But if the Bailee has taken due care and instead of that the goods are damaged then in such a situation Bailee will not be liable to pay compensation. The Bailee is not liable for the loss of goods due to destruction by fire. (Section 151-152)
- **Duty not to make unauthorized use of the goods:**Bailee is duty bound to use the goods for a specific purpose only and not otherwise. If he uses the goods for any other purpose than what is agreed for then the bailor has the right to terminate such bailment or is entitled with compensation for damage caused due to unauthorized use. (Section 153-154)
- **Duty not to mix bailor's goods with his own goods:** It is the duty of the Bailee not to mix bailor's goods with his own. But if he wants to do the same then he shall seek consent from the bailor for mixing of goods. If the bailor agrees for the mixing of the goods then the interest in the mixed goods shall be shared in proportion. In case, Bailee without the consent of bailor mixes the goods with his own then two situations arise: goods can be separated and goods can't be separated. In the former case the Bailee has to bear the cost of separation and in the latter case since there is the loss of the goods, therefore, bailor shall be entitled with damages of such loss. (Section 155-157)
- **Duty to return the goods on the fulfilment of purpose:**Bailee is duty bound to return the goods once the purpose is achieved or on the expiry of the time period for which the goods were

bailed. But if the Bailee makes default in returning the goods on proper time then he will be responsible with the loss, destruction or deterioration of the goods if any. (Section 160-161)

In the case of *Bank of India v. Grains & Gunny Agencies* the court held that if the goods are lost or destroyed due to the negligence of servant of Bailee, then in such case as well Bailee shall be liable.

- **Duty to deliver to the bailor increase or profit if any on the goods bailed:** The Bailee has a duty to return the goods along with increase or profit subject to contract to the contrary. Accretion that has accrued from the bailed goods is the part of the bailed goods and therefore bailor has the right over such accretions if any. And such accretions shall be handed over to the bailor along with the goods bailed. For instance, A leaves a cow in the custody of B and cow gives birth to the calf. Then B is duty bound to hand over the bailed goods along with accretion to the bailor. (Section 163)

Rights of a Bailor

As such Indian Contract Act, 1872 does not provide for Rights of a Bailor. But Rights of a Bailor is same as Duties of the Bailee i.e. Rights of Bailor = Duties of Bailee . So the rights of bailor are:

- **Enforcement of Bailee's Duty:** Since Right of the bailor is same as the right of the Bailee, therefore on the fulfilment of all duties of Bailee the bailor's right is accomplished. For example, it is the duty of the Bailee to give the accretions and it is the right of bailor to demand the same.
- **Right to claim damages:** If the Bailee fails to take care of the goods, the bailor has the right to claim damages for such loss. (Section 151)
- **Right to Termination the Contract:** If the Bailee does not comply with the terms of the contract and acts in a negligent manner in such case the bailor has the right to rescind the contract. (Section 153)
- **Right to claim compensation:** If the Bailee uses the goods for an unauthorized purpose or mixes the goods which cause loss of goods in such case bailor has the right to claim compensation.
- **Right to demand the return of goods:** It is the duty of the Bailee to return the goods and the bailor has the right to demand the same.

Rights of a Bailee

- **Right to recover expenses:** In the contract of Bailment, the Bailee incurs expenses to ensure the safety of goods. The Bailee has the right to recover such expenses from the bailor. (Section 158)
- **Right to remuneration:** When the goods are bailed to the Bailee he is entitled to receive certain remuneration for services that he has rendered. But in case of gratuitous bailment, the Bailee is not awarded any remuneration.

- **Right to recover compensation:**At times a situation arises wherein bailor did not have the capacity to contract for bailment. Such a contract causing loss to the Bailee, therefore the Bailee has the right to recover such compensation from the bailor. (Section 168)
- **Right to Lien:**Bailee has the right over Lien. By this, we mean that if the bailor fails to make payment of remuneration or does not pay the amount due, the Bailee has the right to keep the goods bailed in his possession till the time debtor dues are cleared. Lien is of two types: particular lien and general lien. (Section 170-171)

  In the case of Surya Investment Co. v. S.T.C, the court held that expenses incurred by Bailee during preservation of goods under lien shall be borne by bailor.
- **Right to suit against a wrongdoer:** After the goods have been bailed and any third party deprives the Bailee of use of such goods, then the Bailee or bailor can bring an action against the third party. (Section 180)

Pledge

Pledge is a kind of bailment. Pledge is also known as Pawn. It is defined under section 172 of the Indian Contract Act, 1892. By pledge, we mean bailment of goods as a security for the repayment of debt or loan advanced or performance of an obligation or promise. The person who pledges the goods as security is known as Pledger or Pawnor and the person in whose favour the goods are pledged is known as Pledgee or Pawnee.

Essentials of Pledge

Since Pledge is a special kind of bailment, therefore all the essentials of bailment are also the essentials of the pledge. Apart from that, the other essentials of the pledge are:

- There shall be a bailment for security against payment or performance of the promise,
- The subject matter of pledge is goods,
- Goods pledged for shall be in existence,
- There shall be the delivery of goods from pledger to pledgee,
- There is no transfer of ownership in case of the pledge.
  - ***Exception:*** *In exception circumstances pledgee has the right to sell the movable goods or property that are been pledged.*

Rights of Pawnor

As per Section 177 of the Indian Contract Act, 1872 the Pawnor has the Right to Redeem. By this, we mean that on the repayment of the debt or the performance of the promise, the Pawnor can redeem the goods or property pledged from the Pawnee before the Pawnee makes the actual sale.

The right of redemption is extinguished once the actual sale is done by the Pawnee as per his right under section 176 of the Indian Contract Act, 1872.

Rights of a Pawnee

The rights of the Pawnee as per Indian Contract Act, 1872 are:

- **Right to retain the goods:** If the Pawnor fails to make the payment of a debt or does not perform as per the promise made, the Pawnee has the right to retain the goods pledged as security. Moreover, Pawnee can also retain goods for non-payment of interest on debt or non-payment of expenses incurred. But Pawnee cannot retain goods for any other debt or promise other than that agreed for in the contract. (Section 173-174)
- **Right to recover extraordinary expenses:** The expenses incurred by Pawnee on the preservation of goods pledged can be recovered from Pawnor. (Section 175)
- **The right of suit to procure debt and sale of pledged goods:** On the failure to make repayment to Pawnee of the debt, the Pawnee has two right: either to initiate suit proceedings against him or sell the goods. In the former case, the Pawnee retains the goods with himself as collateral security and initiate the court proceedings. He need not provide any notice of such proceedings to the Pawnor. And in the latter case, the Pawnee can sell the goods after giving due notice of sale to the Pawnor. If the amount received from the sale of goods is less than the amount due then the rest amount can be recovered from Pawnor. And if the Pawnee gets more amount than the due amount then such surplus is to be given back to Pawnor. (Section 176)

Difference between Bailment and Pledge

Basis	**Bailment**	**Pledge**
Meaning	Transfer of goods from one person to another for a specific purpose is known as the bailment.	Transfer of goods from one person to another as security for repayment of debt is known as the pledge.
Defined In	It is defined under section 148 of the Indian Contract Act, 1872.	It is defined under section 172 of the Indian Contract Act, 1872.
Parties	The person who delivers the bailed goods is known as Bailor and the person receiving such goods is	The person who delivers the pledged goods is known as Pledger or Pawnor and the person

	known as Bailee.	receiving such goods is known as Pledgee or Pawnee.
Consideration	The consideration may or may not be present.	Consideration is always there.
Right to Sell	Bailee has no right to sell the goods bailed.	Pledgee or Pawnee has the right to sell the goods.
Use of Goods	Bailee can use the goods only for a specific purpose only and not otherwise.	Pledgee or Pawnee cannot use the goods pledged.
Purpose	The purpose of bailed goods is for safekeeping or repairs etc.	The purpose of pledged goods is to act as security for repayment of debt or performance of the promise.

Illustrations

Illustration 1: Mr A gives his watch for repair to Mr B., In this case, Mr A is bailor, Mr B is Bailee and the goods bailed is watch.

Illustration 2: Harry bailed his bike to David for riding for himself to go to college. David used it for racing purpose. Now David will be liable for unauthorized use of the bike bailed.

Illustration 3: Mr X gave his cat to Mr Y for looking after over some days. Cat in that while gave birth to kittens. Now Mr Y is liable to return the cat along the accretions.

Illustration 4: Mr A bailed his carriage for Mr B for hire for a few days. But there was a default in the carriage of which Mr A was not aware. And subsequently, Mr B suffered injuries because of the same. Now Mr A is liable to pay damages to Mr B.

Illustration 5: Y mixes his sweets with that of Z without Z's consent. Since the sweets can be separated so the cost to separate the sweets will be borne by Y.

Illustration 6: Mark took a loan from the bank against a security of gold. In this case, Mark is a pledger, the bank is a pledgee and gold is the pledged goods.

Illustration 7: Z pledged his goods with A. But now Z refuses to make the payment of the same. A now can either sell his goods or can initiate a suit proceeding against Z.

UNIT 2

SALE OF GOODS ACT, 1930

CONTRACT OF SALE, MEANING AND DIFFERENCE BETWEEN SALE AND AGREEMENT TO SELL

Till 1930,transactions relating to sale and purchase of goods were regulated by the Indian Contract Act,1872.In 1930,Sections 76 to 123 of the Indian Contract Act, 1872 were repealed and a separate Act called 'The Indian Sale of Goods Act,1930 was passed.It came into force on 1st July,1930.With effect from 22nd September,1963,the word 'Indian'was also removed.Now,the present Act is called'The sales of goods act,1930'. This Act extends to the whole of India except the State of Jammu and Kashmir.

MEANING OF CONTRACT OF SALE: According to sec 4(1) of the sale of goods ac, 1930, "contract of sale goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price." 'contract of sale' is a generic term which includes both a sale as well as an agreement to sell.

Scope of the Act

The sale of Goods Act deals with 'Sale of Goods Act,1930,'contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price." 'Contract of sale' is a generic term which includes both a sale as well as an agreement to sell.

Essential elements of Contract of sale

1. Seller and buyer

There must be a seller as well as a buyer.'Buyer' means a person who buys or agrees to buy goods[Section 2910].'Seller' means a person who sells or agrees to sell goods [Section 29(13)].

2. Goods

There must be some goods.'Goods' means every kind of movable property other than actionable claims and money includes stock and shares,growing crops,grass and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale[Section 2(7)].

3. Transfer of property

Property means the general property in goods,and not merely a special property[Section 2(11)].General property in goods means ownership of the goods. Special property in goods means possession of goods.Thus,there must be either a transfer of ownership of goods or an agreement to transfer the ownership of goods.The ownership may transfer either immediately on completion of sale or sometime in future in agreement to sell.

4. Price

There must be a price.Price here means the money consideration for a sale of goods[Section 2(10)].When the consideration is only goods,it amounts to a 'barter' and not sale.When there is no consideration ,it amounts to gift and not sale.

5. Essential elements of a valid contract

In addition to the aforesaid specific essential elements,all the essential elements of a valid contract as specified under Section 10 of Indian Contract Act,1872 must also be present since a contract of sale is a special type of a contract.

Difference Between Sale and Agreement to sell

BASIS FOR COMPARISON	SALE	AGREEMENT TO SELL
Meaning	When in a contract of sale, the exchange of goods for money consideration takes place immediately, it is known as Sale.	When in a contract of sale the parties to contract agree to exchange the goods for a price at a future specified date is known as an Agreement to Sell.
Nature	Absolute	Conditional
Type of Contract	Executed Contract	Executory Contract
Transfer of risk	Yes	No
Title	In sale, the title of goods transfers to the buyer with the transfer of goods.	In an agreement to sell, the title of goods remains with the seller as there is no transfer of goods.
Right to sell	Buyer	Seller
Consequences of	Responsibility of buyer	Responsibility of seller

BASIS FOR COMPARISON	SALE	AGREEMENT TO SELL
subsequent loss or damage to the goods		
Tax	VAT is charged at the time of sale.	No tax is levied.
Suit for breach of contract by the seller	The buyer can claim damages from the seller and proprietary remedy from the party to whom the goods are sold.	Here the buyer has the right to claim damages only.
Right of unpaid seller	Right to sue for the price.	Right to sue for damages.

CONDITIONS AND WARRANTIES

In a contract of sale, parties may make certain statements about the stipulation or the course of trade. These stipulations in the contract of sale are made with reference to the subject matter of the sale. These stipulations may either be a condition or in the form of a warranty.

The provisions of the conditions and warranty are provided in the sections 11 to 17 of the Act. The stipulations are the essence of the contract of sale and a breach of these stipulations provides a remedy to the grieved party.

What are Express and Implied Warranties?

Stipulations As To Time – Sec 11

To understand the concept of warranty and conditions, we need to learn about the stipulation as to time. The stipulation as to time may be with regards to the delivery of goods or it may be with regards to the payment of the price.

However, it may be noted that stipulations as to the time of delivery of the goods are usually the essence of the contract. In Section 11 of the Act, the topic of the stipulation as to time has been discussed. The Sec 11 states the follows:

Stipulations as to time: Unless a different intention can be ascertained from the contract, stipulations as to the time of payment are not considered to be of the essence of a contract of sale. Whether any other stipulation as to time is of the essence of the contract or not will ultimately depend on the terms of the contract.

This means that whether the stipulations as to the time of payment of the price is of the essence of the contract or not depends on the terms of the contract. Unless the terms of the contract specify something different than this.

Conditions

A condition is a stipulation essential to the main purpose of the contract, the breach of which gives the right to repudiate the contract and to claim damages. (Sec 12 (2)). We can understand this with the help of the following example:

Say ‘X’ wants to purchase a car from ‘Y’, which can have a mileage of 20 km/lt. ‘Y’ pointing at a particular vehicle says “This car will suit you.” Later ‘X’ buys the car but finds out later on that this car only has a top mileage of 15 km/ liter. This amounts to a breach of condition because the seller made the stipulation which forms the essence of the contract. In this case, the mileage was a stipulation that was essential to the main purpose of the contract and hence its breach is a breach of condition.

Express and Implied Conditions

Warranty

A warranty is a stipulation collateral to the main purpose of the said contract. The breach of warranty gives rise to a claim for damages. However, it does give a right to reject the goods or treat the contract as repudiated. (Sec 12(3)). Let us understand this with the help of an example below.

A man buys a particular car, which is warranted to be quite to drive and very comfortable. It turnsout that after some days the car starts to make a very unpleasant noise every time it is operated. Also sitting inside it is also not very comfortable.

Thus the buyer’s only remedy is to claim damages. This is not a breach of the condition but rather a breach of warranty, because the stipulation made by the seller was only a collateral one.

Identification of a Stipulation as a Condition or Warranty

Whether a stipulation is a condition or a warranty is a very important aspect to have the knowledge about. A stipulation in a contract of sale is either a condition or is a warranty depending in either case on the construction of the contract. A stipulation may be a condition, though called a warranty in the contract.

Solved Examples on Concept of Condition and Warranty

Q: List the main difference between a Condition and a Warranty?

Ans: Following is a table that indicates the major differences between a condition and a warranty:

TRANSFER OF OWNERSHIP IN GOODS INCLUDING SALE BY NON-OWNERS:

- An essential part of the Sale of Goods Act is the Transfer of Property, which passes from the seller to the buyer. Possession is different from ownership, and these must be distinguished.

Whereas a person may be the righteous owner of goods, he may not have the goods in his/her possession. An agent, for example, is not the owner of the goods, he is in possession of, on behalf of the seller. When there is a passing or transfer of property in the form of goods, the element of risk also passes. The essential aspect is the 'ownership' of the goods. This is because several rights and liabilities of the transacting parties are directly connected with the issue of ownership. Usually, a contract of Sale takes place over a period of a few hours, a few days, or even a few months. During such time, there can be events which result in the entire contract of sale being affected. The goods may be damaged, or destroyed, or lost in transit, or confiscated etc. It is in such circumstances, that the questions relating to the passing of property arises. These questions are discussed below:

- **Importance of Transfer of Ownership**

The questions of what is the exact time when the property is stated to have passed from the seller to the buyer; when the risk in the goods is stated to be passed; and who is capable of transferring property in goods, will be answered in this lesson. The following factors make it necessary to decide the actual time when the property in the goods passes from the seller to the buyer. These factors are:

1. Risk passes with property
2. Action against third parties
3. Seller's right for price
4. Effect of insolvency of the seller or the buyer

Risk passes with the property

The usual rule is that in the absence of specialized terms, the risk follows the property. Till goods are the property of the seller, the risk remains with him. When goods become property of the buyer, he must bear any loss arising from their destruction or injury.

Section 26 of the Act provides that, “Unless otherwise agreed, the goods remain at the seller’s risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at the buyer’s risk whether delivery has been made or not.”

Illustration 1: *Amar bids Rs.4000 for a wall clock at a sale by auction. After the bid, the wall clock is broken by an accident. If the accident happens before the hammer falls, the loss falls on the seller. If afterwards, it falls on Amar. Here, property in the picture passes to Amar when the sale is complete, i.e., when Amar’s offer is accepted, the acceptance being communicated by the fall of hammer.*

Illustration 2: *Bhanu offers, and Anil accepts Rs.50,000 for 10 sheds of wood standing on Anil’s premises. The wood is allowed to remain at Anil’s place till a certain date and not to be taken away till paid for. Before payment, and while the firewood is at Anil’s premises, it is accidentally destroyed by fire. Here, Bhanu must bear the loss because the property in the goods has already been passed to him with the acceptance of Bhanu’s offer by Anil. It does not make any difference that the payment and delivery have been both postponed.*

Illustration 3: *Sunil contracts with Bindu to sell a van for Rs.2,00,000. Bindu is to collect the van from Sunil’s premises within a month, on making full payment for the same. They also agree that any loss arising to the van, till it is in possession of Sunil will be borne by Sunil. After 5 days of the contract, van gets burnt. Here, irrespective of the fact that the property in the goods has already passed to Bindu, Sunil shall bear the loss.*

Case Law 1:

Demby Hamilton & Co. Ltd. V. Barden[1]:

S contracts to sell 30 tins of apple juice to B. S accordingly crushes the apples, and put their juice in casks pending delivery. B was late in taking delivery and some juice went bad. The Court held that B bore the risk of deterioration, which was due to his delay in taking the delivery.

- **Action against third parties**

It is only after the passing of property to the buyer that he can exercise proprietary rights over the goods. For example, if after the sale, the seller refuses to deliver the goods, the buyer can bring an action against him for forcing the delivery, and if the seller has already resold those goods to a third person, he can also recover them from such third person in certain circumstances. Moreover, if the goods are damaged or destroyed due to act of a third person, the owner of the goods can take an action against him. Thus, ownership of the goods fixes the rights of a person to have the goods as against the whole world.

- **Seller's right for price**

The seller becomes entitled to recover the price of the goods from the buyer only after the property of the goods has been transferred to the buyer.

- **Effect of insolvency of the seller or the buyer**

On insolvency of a person, the Receiver or the Official Assignee takes the possession of the property belonging to the insolvent. Here, the decision as to the ownership of the goods is very important. If the seller becomes insolvent, and the property, in the goods has already been passed to the buyer, buyer becomes insolvent and the property in the goods is yet to pass to him, his Official Assignee cannot take over the possession of the goods.

- **Rules Regarding Transfer Of Property**

Sections 18 to 24 of the Sale of Goods Act explain the rules regarding transfer of ownership in goods. These rules are as follows:

  - **Goods must be ascertained.** Section 18 provides that, where there is a contract for the sale of unascertained goods, no property in goods is transferred to the buyer unless and until the goods are ascertained (Section 18).
  - **Intention of the parties.** Section 19 provides that, where there is a contract for the sale of specific or ascertained goods, the property in them passes to the buyer at the time when the parties, intend it to pass. For determining intention of the parties, regard shall be had to the terms of the contract, conduct of the parties and the circumstances of the case.

Case Law 2:

Appleby vs. Myers:

S offered to sell to B a certain machine for Rs.5,000. B refused to buy it unless certain work was done on it. S asked B to get the work done himself and deduct the expenses from the cost of the machine. To this B agreed, and took the machine to a repair shop. While being repaired, the machine was destroyed without any fault of the repairman. The property in the machine did not pass to B from S.

The time when the ownership passes from the seller to the buyer will depend upon the category of goods that are being dealt with. In this context, the goods can be classified as follows:

1. Specific or Ascertained goods.
2. Goods that are not ascertained.
3. Goods sent on approval or on return basis.

In each of these cases the rules will be different. Discussion on specific goods which means goods that are identified and agreed upon at the time when a contract of sale is entered into are the following:

- **Transfer of ownership in the sale of specific goods**

When the contract for sale of specific goods is entered into there are three main conditions that will apply:

(a) The sale must be of specific goods, i.e., the identified goods at the time of sale.

(b) The goods must be in a state that they can be delivered; and

(c) The contract of sale must be unconditional and not be restricted by any conditions.

Illustration 1: *Hardeep sold his old Scooter to Vivek and agreed to deliver the Scooter after getting it painted. Here, the ownership of the Scooter is not transferred to Vivek at the time of contract because the subject matter of the contract is not in deliverable state.*

Illustration 2: *Sanjay sold his old Tempo to Amit for Rs.10,000 on the condition that he can take the delivery of the Tempo on making full payment. In this case, the property in the car will not pass to the buyer until he makes the full payment.*

- **Passing of property delayed beyond the date of the contract**

(i) ***When goods are not in a deliverable state***

"If the goods are not in a deliverable state, and contract is for the sale of specific goods, the property does not pass, until the seller brings them in a deliverable state and the buyer has notice thereof. Two conditions are to be fulfilled, if the goods are not in a deliverable state: (1) the seller has done his act of putting the goods that are not in a deliverable state; and (2) the buyer has knowledge thereof "(Section 21).

The seller might be required to do certain acts to put the goods into a deliverable state like packing, filling in containers etc. No property in goods passes unless such an act is done and the buyer knows about it.

Case Law 3:

Rugg Vs. Minett

A sold the entire quantity of oil in a cistern to B. As per the terms of the contract, the oil was to be filled in the casks by A, and then the buyer was to take them away. Some of the casks were filled by A in B's presence, but before they were removed by B and the remainder could be filled up, the *entire quantity of oil was destroyed in a fire. It was held that the buyer was to bear the loss of oil, which was filled in casks and the seller was to bear the loss of the remainder.*

(ii) "*When the price of goods is to be ascertained by weighing of measuring.* Where there is a contract for the sale of specific goods in a deliverable state, but the seller is bound to weigh, measure, test or do some act or thing with reference to goods for the purpose of ascertaining the price, the property in goods does not pass to the buyer until that act or thing is done and the buyer has notice thereof"(Section 22).

Case Law 4:

Turley vs. Bates

T sold to B a heap of fireclay at a certain price per ton. B was to load the clay on his carts and take it away at his own expense. The clay was to be weighed at a certain weighing machine, which the carts were to pass on their way from T's ground to B's place. It was held that ownership of clay passed to B on completion of the bargain and nothing remained to be done by T

https://profalok.blogspot.com/2018/02/sale-of-goods-act-transfer-of-ownership.html

PERFORMANCE OF CONTRACT OF SALE

There are many rules and definitions governing the law on sales in sections 31 to 40 of the Sale of Goods Act, 1930. In this article, we will be looking at various definitions and duties of buyers, sellers, and third parties (wherever applicable).

Definition of Delivery

According to Section 2 (2) of the Sale of Goods Act, 1930, delivery means voluntary transfer of possession of goods from one person to another. Hence, if a person takes possession of goods by unfair means, then there is no delivery of goods. Having understood delivery, let's look at the law on sales

Law on Sales

1] The Duty of the Buyer and Seller (Section 31)

It is the duty of the seller to deliver the goods and the buyer to pay for them and accept them, as per the terms of the contract and the law on sales.

2] Concurrency of Payment and Delivery (Section 32)

The delivery of goods and payment of the price are concurrent conditions as per the law on sales unless the parties agree otherwise. So, the seller has to be willing to give possession of the goods to the buyer in exchange for the price. On the other hand, the buyer has to be ready to pay the price in exchange for possession of the goods.

Rules Pertaining to the Delivery of Goods

The Sale of Goods Act, 1930 prescribes the following rules regarding delivery of goods:

a. Delivery (Section 33)

The delivery of goods can be made either by putting the goods in the possession of the buyer or any person authorized by him to hold them on his behalf or by doing anything else that the parties agree to.

b. Effect of part-delivery (Section 34)

If a part-delivery of the goods is made in progress of the delivery of the whole, then it has the same effect for the purpose of passing the property in such goods as the delivery of the whole. However, a part-delivery with an intention of severing it from the whole does not operate as a delivery of the remainder.

c. Buyer to apply for delivery (Section 35)

A seller is not bound to deliver the goods until the buyer applies for delivery unless the parties have agreed to other terms in the contract.

d. Place of delivery [Section 36 (1)]

When a sale contract is made, the parties might agree to certain terms for delivery, express or implied. Depending on the agreement, the buyer might take possession of the goods from the seller or the seller might send them to the buyer.

If no such terms are specified in the contract, then as per law on sales

- The goods sold are delivered at the place at which they are at the time of the sale
- The goods to be sold are delivered at the place at which they are at the time of the agreement to sell. However, if the goods are not in existence at such time, then they are delivered to the place where they are manufactured or produced.

e. Time of Delivery [Section 36 (2)]

Consider a contract of sale where the seller agrees to send the goods to the buyer, but not time of delivery is specified. In such cases, the seller is expected to deliver the goods within a reasonable time.

f. Goods in possession of a third party [Section 36 (3)]

If at the time of sale, the goods are in possession of a third party. Then there is no delivery unless the third party acknowledges to the buyer that the goods are being held on his behalf. It is important to note that nothing in this section shall affect the operation of the issue or transfer of any document of title to the goods.

g. Time for tender of delivery [Section 36 (4)]

It is important that the demand or tender of delivery is made at a reasonable hour. If not, then it is rendered ineffectual. The reasonable hour will depend on the case.

h. Expenses for delivery [Section 36 (5)]

The seller will bear all expenses pertaining to putting the goods in a deliverable state unless the parties agree to some other terms in the contract.

i. Delivery of wrong quantity (Section 37)

- Sub-section 1 – If the seller delivers a lesser quantity of goods as compared to the contracted quantity, then the buyer may reject the delivery. If he accepts it, then he shall pay for them at the contracted rate.
- Sub-section 2 – If the seller delivers a larger quantity of goods as compared to the contracted quantity, then the buyer may accept the quantity included in the contract and reject the rest. The buyer can also reject the entire delivery. If he wants to accept the increased quantity, then he needs to pay at the contract rate.
- Sub-section 3 – If the seller delivers a mix of goods where some part of the goods are mentioned in the contract and some are not, then the buyer may accept the goods which are in accordance with the contract and reject the rest. He may also reject the entire delivery.
- Sub-section 4 – The provisions of this section are subject to any usage of trade, special agreement or course of dealing between the parties.

j. Installment deliveries (Section 38)

The buyer does not have to accept delivery in installments unless he has agreed to do so in the contract. If such an agreement exists, then the parties are required to determine the rights and liabilities and payments themselves.

k. Delivery to carrier [Section 36 (1)]

The delivery of goods to the carrier for transmission to the buyer is prima facie deemed to be 'delivery to the buyer' unless contrary terms exist in the contract.

l. Deterioration during transit (Section 40)

If the goods are to be delivered at a distant place, then the liability of deterioration incidental to the course of the transit lies with the buyer even though the seller agrees to deliver at his own risk.

m. Buyers right to examine the goods (Section 41)

If the buyer did not get a chance to examine the goods, then he is entitled to a reasonable opportunity of examining them. The buyer has the right to ascertain that the goods delivered to him are in conformity with the contract. The seller is bound to honor the buyer's request for a reasonable opportunity of examining the goods unless the contrary is specified in the contract.

Acceptance of Delivery of Goods (Section 42)

A buyer is deemed to have accepted the delivery of goods when:

- He informs the seller that he has accepted the goods; or
- Does something to the goods which is inconsistent with the ownership of the seller; or
- Retains the goods beyond a reasonable time, without informing the seller that he has rejected them.

Return of Rejected Goods (Section 43)

If a buyer, within his right, refuses to accept the delivery of goods, then he is not bound to return the rejected goods to the seller. He needs to inform the seller of his refusal though. This is true unless the parties agree to other terms in the contract.

Refusing Delivery of Goods (Section 44)

If the seller is willing to deliver the goods and requests the buyer to take delivery, but the buyer fails to do so within a reasonable time after receiving the request, then he is liable to the seller for any loss occasioned by his refusal to take delivery. He is also liable to pay a reasonable charge for the care and custody of goods.

Solved Example on law on sales

Q: Peter agrees to sell 100 kilograms of tomatoes to John at Rs. 20 per kilo. However, he delivers 120 kilograms instead. Can John reject the delivery? What other option does John have according to the law on sales?

Answer: Since the contract was for 100 kilograms but Peter delivers 120 kilograms, John has the following options:

- He can reject the entire lot
- Accept 100 kilograms and reject the additional 20 kilograms
- He can accept the entire 120 kilograms and pay at the contract rate.

UNPAID SELLER- MEANING AND RIGHTS OF AN UNPAID SELLER AGAINST THE GOODS AND THE BUYER

What is Meant by Unpaid Seller? A seller is a person who sells or agrees to sell goods and deemed to be an unpaid seller within the meaning of this Act.

i. When the whole of the price has not been paid or tendered:

ii. When a bill of exchange or other negotiable instrument has been received as conditional payment, and the condition on which it was received has not been fulfilled by reason of dishonor of the instrument or otherwise. Sec.45.

So an unpaid seller means the person who has sold the goods for a price and the payment of price has not been made to him or the instrument which was given to him has been dishonored in its maturity. Such seller is known as an unpaid seller.

person who sells or agrees to sell

RIGHTS OF AN UNPAID SELLER

According to section 46, the seller who has sold the property in goods to the buyer has the following rights against the goods when the whole of the price or a part of the price is not paid by the buyer;

(a) a lien on the goods for the price while he is in possession of them:

(b) in case of insolvency of the buyer a right of stopping the goods in transit after he has parted with the possession of them;

(c) a right of resale as limited by this Act.

(A) UNPAID SELLER'S LIEN

Subject to the provision of The Sale Of Goods Act the unpaid seller of the goods who is in possession of them is entitled to retain possession of them until the price is not paid or tendered in the following case;

Where the goods have been sold without any stipulation as to credit.

Illustration; A sells his car to B for Rs. 5000 to be paid in cash. But B fails to make payment A can retain the possession, (car)

Where the goods have been sold for credit and the terms Of credit have expired,

Where the buyer becomes insolvent,

If the seller has made partial delivery of the goods, he may exercise his right of lien over the undelivered goods unless he has waived his right of lien.

TERMINATION OF UNPAID SELLER'S LIEN

According to section 49 of The Sale of Goods Act, the unpaid seller of the goods loses his right to a lien thereon in the following cases:

(a) When he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods.

(b) When the buyer or his agent lawfully obtains possession of the goods.

(c) By waiver thereof (When he himself waives his right of lien).

(B) RIGHT OF STOPPAGE IN TRANSIT

The unpaid seller who has parted with the possession of goods has the right of stopping them in transit that is to say he may resume possession of the goods as long as they are in the course of transit, and may retain them until payment or tender of the price. In order to do so, the following conditions must be fulfilled.

(i) that the buyer has become insolvent.

(ii) That the goods are still in the course of transit.

The goods are deemed to be in course of transit from the time when they are delivered to the buyer until the buyer or his agent in that behalf takes delivery of them from such carrier or from another bailee. Sec.51.

(C) RIGHT OF RE-SALE

The unpaid seller has also the right that following conditions are fulfilled.

1. The goods must be of perishable nature.
2. The unpaid seller must have given the notice to the buyer of his intention to resale.
3. The unpaid seller has exercised his right of lien or stoppage in transit.
4. The buyer has not within the reasonable time paid or tendered the price.

UNIT 3

THE COMPANIES ACT 2013

MEANING OF COMPANY:

What Is A Company? Meaning, Features, & Types Of Companies

The Companies Act 2013 of India defines a company as-

A registered association which is an artificial legal person, having an independent legal, entity with a perpetual succession, a common seal for its signatures, a common capital comprised of transferable shares and carrying limited liability.

A more precise, global and modern definition of a company could be:

A business entity which acts as an artificial legal person, formed by a legal person or a group of legal persons to engage in or carry on a business or industrial enterprise.

Few points that should be noted in this definition:

Legal Person: A legal person could be human or a non-human entity which is recognised by law as having legal rights and is subject to obligations.

A person or a group of persons: It is no more required to be an association of persons to form a company. A company can also be started as a single person company (one-person company).

Features & Characteristics Of A Company

Incorporated association: A company comes into existence when it is registered under the Companies Act (or other equivalent act under the law). A company has to fulfil requirements in terms of documents (MOA, AOA), shareholders, directors, and share capital to be deemed as a legal association.

Artificial Legal Person: In the eyes of the law, A company is an artificial legal person which has the rights to acquire or dispose of any property, to enter into contracts in its own name, and to sue and be sued by others.

Separate Legal Entity: A company has a distinct entity and is independent of its members or people controlling it. A separate legal entity means that only the company is responsible to repay creditors and to get sued for its deeds. The individual members cannot be sued for actions performed by the company. Similarly, the company is not liable to pay personal debts of the members.

Perpetual Existence: Unlike other non-registered business entities, a company is a stable business organisation. Its life doesn't depend on the life of its shareholders, directors, or employees. Members may come and go but the company goes on forever.

Common Seal: A company being an artificial legal person, uses its common seal (with the name of the company engraved on it) as a substitute for its signature. Any document bearing the common seal of the company will be legally binding on the company.

Limited Liability: A company may be limited by guarantee or limited by shares. In a company limited by shares, the liability of the shareholders is limited to the unpaid value of their shares. In a company limited by guarantee, the liability of the members is limited to the amount they had agreed upon to contribute to the assets of the company in the event of it being wound up.

Types of companies

A company can be classified into various types depending upon the following requirements:

Classification of Companies by Mode of Incorporation

Royal Chartered Companies

These companies are formed under a special charter by the monarch or by a special order of a king or a queen. Few examples of royal chartered companies are BBC, East India Company, Bank Of England, etc.

Statutory Companies

These companies are incorporated by a special act passed by the central or state legislature. These companies are intended to carry out some business of national importance. For example, The Reserve Bank of India was formed under RBI act 1934.

Registered or Incorporated Companies

These companies are formed/incorporated under the companies act passed by the government. These companies come into existence only after these are registered under the act and the certificate of incorporation is passed by the Registrar of companies.

Classification of Companies based on the liability of the members

The registered companies can be classified into the following categories based on the liabilities of members:

Companies Limited By Shares

These companies have a defined share capital and the liability of each member is limited by the memorandum to the extent of the face value of shares subscribed by him.

Companies Limited By Guarantee

These companies may or may not have a share capital and the liability of each member is limited by the memorandum to the extent of the sum of money (s)he had promised to pay in the event of liquidation of the company for payments of debts and liabilities of the company.

Unlimited Companies

There is no formal restriction to the amount of money that the shareholder/member of the company has to pay in the event of the liquidation of an unlimited company.

Classification of Companies based on The Number of Members

Public Company (or Public Limited Company)

A public company is a corporation whose ownership is open to the public. In other words, anyone can buy the shares of a public company. There are no restrictions to the number of members of a public company or to the transferability of shares. However, there are some other restrictions:

(In UK) A public limited company should have at least 2 shareholders and 2 directors, have allotted shares to the total value of at least £50,000, be registered with company house, and have a qualified company secretary.

(In India) A public company should have at least 7 members and 3 directors, and issue a prospectus or file a statement in lieu of prospectus with the Registrar before allotting shares.

Private Company (or Private Limited Company)

A private company cannot be owned by the public; it restricts the number of members, the right to transfer its shares and prohibits any invitation to the public to subscribe for any shares or debentures of the company.

(In UK) A private company is a separate legal entity with a suitable company name, an address, at least one director, at least one shareholder, and memorandum of association and article of association.

(In India) A private company is a separate legal entity with a suitable company name, an address, at least 2 members and at most 200 members, and at least two directors with one being an Indian resident.

One Person Company

A one-person company is an Indian private limited company which has only one founder/promoter. The founder should be a natural person who is a country resident. There is also a threshold of paid-up capital (₹ 50 lakh) and average turnover (₹ 2 crores in 3 immediate preceding financial years) for a one-person

MEMORANDUM AND ARTICLE OF ASSOCIATION

The memorandum of association and articles of association are the two charter documents, for setting up of the company and its operations thereon. '**Memorandum of Association**' abbreviated as MOA, is the root document of the company, which contains all the basic details about the company. On the other hand, '**Articles of Association**' shortly known as AOA, is a document containing all the rules and regulations designed by the company.

While the MOA sets out the company's constitution, and so it is the cornerstone on which the company is built. Conversely, AOA comprises of bye-laws that govern the company's internal affairs, management, and conduct. Both, MOA and AOA, requires registration, with the Registrar of companies (ROC), when the company goes for incorporation

Comparison Chart

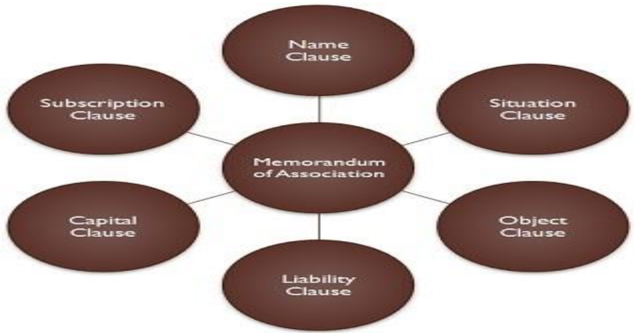
BASIS FOR COMPARISON	MEMORANDUM OF ASSOCIATION	ARTICLES OF ASSOCIATION
Meaning	Memorandum of Association is a document that contains all the fundamental information which are required for the incorporation of the company.	Articles of Association is a document containing all the rules and regulations that governs the company.
Defined in	Section 2 (56)	Section 2 (5)
Type of Information contained	Powers and objects of the company.	Rules of the company.
Status	It is subordinate to the Companies Act.	It is subordinate to the memorandum.
Retrospective Effect	The memorandum of association of the company cannot be amended retrospectively.	The articles of association can be amended retrospectively.
Major contents	A memorandum must contain six clauses.	The articles can be drafted as per the choice of the company.
Obligatory	Yes, for all companies.	A public company limited by shares can adopt Table A in place of articles.
Compulsory filing at the time of	Required	Not required at all.

BASIS FOR COMPARISON	MEMORANDUM OF ASSOCIATION	ARTICLES OF ASSOCIATION
Registration		
Alteration	Alteration can be done, after passing Special Resolution (SR) in Annual General Meeting (AGM) and previous approval of Central Government (CG) or Company Law Board (CLB) is required.	Alteration can be done in the Articles by passing Special Resolution (SR) at Annual General Meeting (AGM)
Relation	Defines the relation between company and outsider.	Regulates the relationship between company and its members and also between the members inter se.
Acts done beyond the scope	Absolutely void	Can be ratified by shareholders.

Definition of Memorandum of Association

Memorandum of Association (MOA) is the supreme public document which contains all those information that are required for the company at the time of incorporation. It can also be said that a company cannot be incorporated without memorandum. At the time of registration of the company, it needs to be registered with the ROC (Registrar of Companies). It contains the objects, powers, and scope of the company, beyond which a company is not allowed to work, i.e. it limits the range of activities of the company.

Any person who deals with the company like shareholders, creditors, investors, etc. is presumed to have read the company, i.e. they must know the company's objects and its area of operations. The Memorandum is also known as the charter of the company. There are six conditions of the Memorandum:



Clauses of Memorandum of Assocuation

- **Name Clause –** Any company cannot register with a name which CG may think unfit and also with a name that too nearly resembles with the name of any other company.
- **Situation Clause –** Every company must specify the name of the state in which the registered office of the company is located.
- **Object Clause –** Main objects and auxiliary objects of the company.
- **Liability Clause –** Details regarding the liabilities of the members of the company.
- **Capital Clause –** The total capital of the company.
- **Subscription Clause –** Details of subscribers, shares taken by them, witness, etc.

Definition of Articles of Association

Articles of Association (AOA) is the secondary document, which defines the rules and regulations made by the company for its administration and day to day management. In addition to this, the articles contain the rights, responsibilities, powers and duties of members and directors of the company. It also includes the information about the accounts and audit of the company.

Every company must have its own articles. However, a public company limited by shares can adopt Table A instead of Articles of Association. It comprises of all the necessary details regarding the internal affairs and the management of the company. It is prepared for the persons inside the company, i.e. members, employees, directors, etc. The governance of the company is done according to the rules prescribed in it. The companies can frame its articles of association as per their requirement and choice.

Conclusion

Memorandum and Articles are the two very important documents of the company, which are to be maintained by them as they guide the company on various matters. They also help in the proper management and functioning of the company throughout its life. That is why every company is required to have its own memorandum and articles.

APPOINTMENT, QUALIFICATION AND POWERS

Meaning of Managing Director:

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—as defined by the Companies Act—means 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:

A managing director is appointed by the Board of Directors subject to the approval of the Central govt. He is appointed at the first instance for the period of five years which can extend for a period of another five years.

The appointment of a person as managing director in a public or its subsidiary private company shall not have effect unless it is approved by the Central Govt. In case of a new company, the approval must be made within three months of his appointment.

The Central Govt. shall not accord its approval unless it is satisfied that:

(i) It is the interest of the company to have a managing director,

(ii) The proposed incumbent is a fit and proper person for such appointment,

(iii) His appointment is not against public interest,

(iv) The terms and conditions of the appointment of the proposed managing director is not against public interest.

If his appointment is not approved by the Central Govt., the incumbent must vacate his office from the date of receipt of the disapproval of the Govt.

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 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 necessary 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 organisation. 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 laid down by the Board of Directors.

3. He is the liaison officer between the Board of Directors and the rest of the organisation.

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 organise 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.

Remuneration of Managing Director:

A Managing Director or a Whole time Director of a company may be paid remuneration either

(i) By way of a monthly payment, or

(ii) At a specified percentage of the net profits of the company, or

(iii) partly by one and partly by the other.

Provided that, except with the approval of the Central Govt., such remuneration shall not exceed 5% of the net profit for one such director and 10% for all of them together. In case of inadequacy of profits, the company may pay, subject to the approval of the Central Govt., to its managing director and other managerial staff together minimum remuneration—such sum not exceeding Rs. 50,000 per annum. Such sum shall be exclusive of any fees payable to directors. Increase of remuneration to managing director requires the approval of the Central Govt.

Any appointment or re-appointment of any such director on a higher remuneration than that of his predecessor shall not be effective without the approval of the Central Govt. and shall be void if it is disapproved by the Central Govt.

While fixing remuneration, the Central Govt. shall have regard to:

(i) The financial position of the company,

(ii) The remuneration or commission drawn by the individual concerned in any other capacity,

(iii) The remuneration or commission drawn by him from any other company,

(iv) His professional qualifications and experience

UNIT 4

NEGOTIABLE INSTRUMENT ACT 1881

MEANING AND CHARACTERISITICS

The advent of modern business practices contributed to the growth of newer ways of facilitating financial transactions. Previously, cash was the most common mode of exchanging goods and services for their value. The rise of negotiable instruments, however, brought radical changes in business practices. These days there are several types of such instruments which have made commerce simpler. Here, we will learn about negotiable instruments meaning.

Whenever one thinks of negotiable instruments meaning (or NIs) the thoughts of cheques and bills of exchange come to mind.

These instruments are nothing but documents which have monetary value and are exchangeable. Hence, the two main characteristics of Negotiable Instruments are financial worth and transferability.

In India, the Negotiable Instruments Act, 1881 is responsible for governing NIs. This law defines these instruments and also deals with each type of them individually.

It governs the use of cheques, promissory notes, and bills of exchange. There are other customary payment methods similar to NIs in India (like Hundis) but this law does not cover them.

Other modes of transactions can also be similar to NIs if they fulfill certain basic requirements. For example, any instrument can be a NI if it is freely transferable by delivery or endorsement. Furthermore, it should carry certain rights, like the right of the holder to sue for it in his own name

CHARACTERISTICS

- Payable to order or bearer
- Freely transferable
- Presumption as to holder

- Tile of holder in due course
- Presumption as to consideration

Negotiable instruments

- Promissory note
- Bill of exchange
- Cheque
- Crossing of cheque
- Bouncing of cheque

Promissory Notes

The Negotiable Instruments Act, 1881 recognizes three kinds of negotiable instruments. Promissory notes are one of them. Under these notes, one person basically promises to pay a sum of money to another. They are one of the most common negotiable instruments in use these days. In this article, we'll see the meaning of promissory notes

Promissory Notes Meaning

Section 4 of the Negotiable Instruments Act defines promissory notes. The definition says promissory notes are basically instruments in writing. They are, however, neither bank notes nor currency notes which also contain this feature.

The next important aspect of promissory notes meaning is that they are unconditional undertakings. The maker of these notes agrees to pay a certain sum either to a particular person or their bearers. This maker undertakes his responsibility to pay by affixing his signature on the notes.

Parties to Promissory Notes

Every promissory note always comprises of three important parties. These include the maker, the payee as well as the holder. Even endorsers and endorsees can be parties in certain cases.

1) **The maker:** This is basically the person who makes or executes a promissory note and pays the amount therein.

2) **The payee:** The person to whom a note is payable is the payee.

3) **The holder:** A holder is basically the person who holds the notes. He may be either the payee or some other person.

Essential Elements of a Promissory Note

A typical promissory note contains several features that separate it from other negotiable instruments. The following are a few such distinct elements:

a) Written notes

A promissory note must always be in writing. It can never be an oral contractual promise to pay money. This is a legal as well as a customary requirement of such instruments.

b) Express undertaking

The undertaking that forms the base of a promissory note must generally be express. Thus, merely inferring an acknowledgement to pay and calling it a promissory note is not enough. For example, A writing "I owe B Rs. 1,000" does not amount to such notes.

c) Unconditional promise

The promise to pay a certain amount of money must be unconditional in all cases. Hence, a conditional promise cannot form the basis of such notes. For example, one cannot promise to pay money only if he has it, as that amounts to a condition.

However, promising to pay on a specific date or upon the happening of an inevitable event is fine. For example, A can promise to pay B three years from the date of the note's execution.

d) Specific amount

Every promissory note must mention a specific and precise amount. There can be neither additions nor subtractions to them. For example, A cannot make a note promising to pay to B any future amount that is not specific.

e) Legal tender

The money payable under a note must always be expressible in legal tenders like Rupees or Dollars. Hence, a maker of a note cannot promise to pay the payee with bags of grains.

Apart from these elements, a typical promissory note has other important requires as well. For example, the maker has to stamp the notes according to the Indian Stamp Act. Furthermore, the makers, payees and endorsees should be specific persons.

BILL OF EXCHANGE

Section 5 of the Negotiable Instruments Act, 1881 defines bills of exchange. According to this definition, a bill of exchange is an instrument in writing containing an unconditional order. Furthermore, the bill's maker directs a certain person to pay some money either to a specific person or its bearer.

This definition is similar to that of promissory notes but there are some differences between them. Hence, the essential elements, parties, and rules governing these two negotiable instruments are different

Parties to Bills of Exchange

The following parties play a role in bills of exchange:

1) **Drawer**: This is basically the person who draws the bill.

2) **Drawee**: In contrast to the drawer, the drawee is the person in whose favour the bill is drawn.

3) **Acceptor**: This is the person who accepts a bill of exchange. Generally, the acceptor is the drawee but a stranger may accept it too.

4) **Payee**: Either the drawee or a stranger may be a payee, which is the person to whom bills are payable.

5) **Holder**: This is generally the payee of the bill. It could also be some other person to whom the payer endorses the bill. In case of bearer bills, the bearer himself is the holder.

6) **Endorser**: The holder becomes an endorser when he endorses the bill to another person.

7) **Endorsee**: This is the person to whom a bill is endorsed by the endorser.

Essentials of Bills of Exchange

After understanding the bills of exchange introduction and parties above, let’s see their features in detail. A typical bill of exchange contains the following elements:

- It should always be in writing and cannot be oral.
- The drawer must sign the bill and undertake to pay a specific sum of money.
- The parties must be certain; they cannot be ambiguous.
- It must comply with all legal requirements like stamping, date, signatures, etc.

Bills of Exchange v/s Promissory Notes

The following are some points of differences between promissory notes and bills of exchange:

a) A promissory note generally involves two parties, i.e. a maker (debtor) and a payer (creditor). On the other hand, bills of exchange include a drawer, a drawee and a payee.

b) As the bills of exchange introduction above shows, a bill orders the drawee to pay as per the drawer’s directions. A promissory note, however, is not an order but a promise to pay.

c) The liability of the maker of a promissory note is absolute, while that of the drawer of a bill is conditional.

d) Notes cannot be payable to their makers, while the drawer and the payee in bills can be the same person.

Forms of Bills of Exchange

The following are some common forms of bills of exchanges that the Negotiable Instruments Act recognizes:

a) Inland Bills

A bill of exchange may be an inland instrument under two conditions. Firstly, the bill must be drawn as well as payable within India. Secondly, it may also be drawn in India upon an India resident but payable in a foreign country.

b) Foreign Bills

All bills that are not inland bills are foreign bills by default. Generally, foreign bills require three copies and different rules govern them.

c) Trade Bills

A bill of exchange that comes into play during a genuine trade transaction is a trade bill. For example, when A sells goods to B, he may draw a bill directing B to pay later on. This bill will mention the purchase price as well as the specific date on which it is payable.

d) Accommodation Bills

Accommodation bills are different from trade bills because they do not involve any transactions of trade. Hence, consideration for the exchange of goods or services is not important here. In accommodation bills, one person lends his name to oblige a friend or some other person. This is basically similar to loan transactions.

CHEQUE

Section 6 of the Negotiable Instruments Act defines what a 'cheque' means. According to this provision, a cheque is basically a bill of exchange drawn on a specific banker. Furthermore, it is not payable otherwise than on demand.

The Negotiable Instruments (Amendment) Act had amended this definition to make it broader in 2015. Accordingly, cheques now include the electronic image of a truncated cheque and also an electronic cheque. Despite this amendment, the basic definition still remains the same.

A truncated cheque is one which undergoes truncation during a clearing cycle. Truncation basically means the conversion of a physical cheque into digital format. Either a clearing-house or a bank may do this upon generating an electronic image of a cheque.

An electronic cheque is a cheque which exists in digital format. A computer resource generates such cheques using digital signatures (either with or without biometrics).

Looking at the definition of a cheque, we can conclude that it is similar to a bill of exchange. Furthermore, it is always drawn on a banker and is payable on demand.

Parties to a Cheque

Generally, there are two parties to a cheque. These include the drawer and the drawee. While the drawer is the person who draws the cheque, the drawee is the banker on whom it is drawn.

Apart from these, there can also be a payee who is liable to pay the amount on the cheque. Furthermore, there can also be a holder who is generally the original payee. When the holder endorses the cheque to somebody, he becomes the endorsee. On the contrary, an endorsee is a person to whom the cheque is endorsed.

Essentials of a Cheque

The main elements of cheques are that they are drawn on a banker and are payable on demand. Furthermore, they never require any formal acceptance.

Cheques can be payable either to the drawer himself or to a bearer on demand. Hence, there might be two or more parties to a cheque depending on the situation.

Another feature of cheques is that they are usually valid only for six months. They do not require any stamping as other negotiable instruments do.

Cheques v/s Bills of Exchange

Cheques and bills of exchange might appear to be similar but there are important differences between them. The following are some such points of distinction:

- A cheque is always drawn only on a banker, while a bill may be drawn on any person.
- Cheques are payable only on demand, while bills may be payable on demand or upon a specific date.
- It is important to cross a cheque but a bill needs no such crossing.
- Bills generally carry a grace period of three days for repayment of money. Cheques, however, do not provide for any grace period.
- Dishonour of a bill requires the production of a notice. No such notice is important for cheques.
- All cheques are bills of exchange but the vice versa is not true.

CROSSING CHEQUES

A cheque is a negotiable instrument. It can either be open or crossed. An open cheque is the bearer cheque. It is payable over the counter on presentment by the payee to the paying banker. While a crossed cheque is not payable over the counter but shall be collected only through a banker. The amount payable for the crossed cheque is transferred to the bank account of the payee. Types of cheque crossing are General Crossing, Special Crossing and Restrictive Crossing. Let us learn about cheque crossing in more detail

Crossing a Cheque

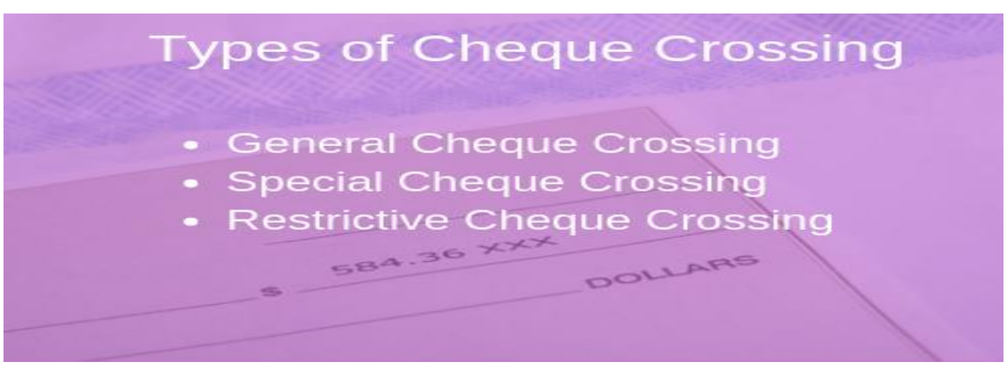
A crossing is an instruction to the paying banker to pay the amount of cheque to a particular banker and not over the counter. The crossing of the cheque secures the payment to a banker.

It also traces the person so receiving the amount of cheque. Addition of words 'Not negotiable' or 'Account Payee only' is necessary to restrain the negotiability of the cheque. The crossing of a cheque ensures security and protection to the holder.

However, we can negotiate a crossed bearer cheque by delivery and a crossed order cheque by endorsement and delivery.

Types of Cheque Crossing (Sections 123-131 A):

- General Crossing – cheque bears across its face an addition of two parallel transverse lines.
- Special Crossing – cheque bears across its face an addition of the banker's name.
- Restrictive Crossing – It directs the collecting banker that he needs to credit the amount of cheque only to the account of the payee.
- Non-Negotiable Crossing – It is when the words 'Not Negotiable' are written between the two parallel transverse lines.



Let us learn about types of cheque crossing in greater detail.

General Cheque Crossing

In general crossing, the cheque bears across its face an addition of two parallel transverse lines and/or the addition of words 'and Co.' or 'not negotiable' between them.

In the case of general crossing on the cheque, the paying banker will pay money to any banker. For the purpose of general crossing two transverse parallel lines at the corner of the cheque are necessary.

Thus, in this case, the holder of the cheque or the payee will receive the payment only through a bank account and not over the counter. The words 'and Co.' have no significance as such.

But, the words 'not negotiable' are significant as they restrict the negotiability and thus, in the case of transfer, the transferee will not give a title better than that of a transferor.

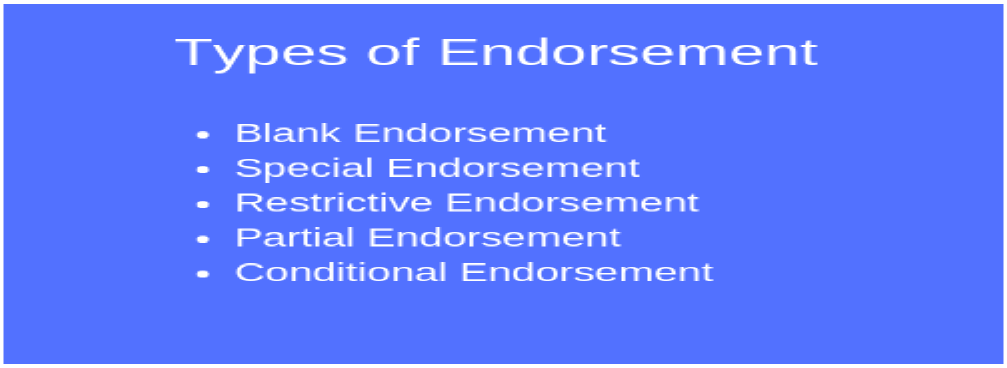
ENDORSEMENT OF INSTRUMENT

The act of a person who is a holder of a negotiable instrument in signing his or her name on the back of that instrument, thereby transferring title or ownership is an endorsement. An endorsement may be in favour of another individual or legal entity. An endorsement provides a transfer of the property to that other individual or legal entity. The person to whom the instrument is endorsed is called the endorsee. The person making the endorsement is the endorser. Let us discuss the Endorsement of Instruments here in detail

Endorsement of Instruments

Types of Endorsement

- **Blank Endorsement** – Where the endorser signs his name only, and it becomes payable to bearer.
- **Special Endorsement** – Where the endorser puts his sign and writes the name of the person who will receive the payment.
- **Restrictive Endorsement** – Which restricts further negotiation.
- **Partial Endorsement** – Which allows transferring to the endorsee a part only of the amount payable on the instrument.
- **Conditional Endorsement** – Where the fulfilment of some conditions is required.



1. Blank Endorsement or General Endorsement

An endorsement is blank or general where the endorser signs his name only, and it becomes payable to bearer. Thus, where a bill is payable to "Ram or order", and he writes on its back "Ram", it is an endorsement in blank by Ram and the property in the bill can pass by a mere presentation.

We can convert a blank endorsement into an endorsement in full. We can do so by writing above the endorser's signature, a direction to pay the instrument to another person or his order.

Learn more about the Classification of Negotiable Instruments Act here in detail.

2. Special or Full Endorsement

An endorsement "in full" or a special endorsement is one where the endorser puts his signature on the instrument as well as writes the name of a person to whom order the payment is to be made.

A bill made payable to Ram or order, and endorsed "pay to the order of Shyam" would be specially endorsed and Shyam endorses it further. We can turn a blank endorsement into a special one by adding an order making the bill payable to the transferee.

3. Restrictive Endorsement

An endorsement is restrictive which restricts the further negotiation of an instrument.

Example of restrictive endorsement: "Pay to Mrs. Geeta only" or "Pay to Mrs Geeta for my use" or "Pay to Mrs Geeta on account of Reeta" or "Pay to Mrs. Geeta or order for collection".

4. Partial Endorsement

An endorsement partial is one which allows transferring to the endorsee a part only of the amount payable on the instrument. This does not operate as a negotiation of the instrument.

Example: Mr. Mohan holds a bill for Rs. 5,000 and endorses it as "Pay Sohan or order Rs. 2500". The endorsement is partial and invalid.

5. Conditional or Qualified Endorsement

Where the endorser puts his signature under such writing which makes the transfer of title subject to fulfilment of some conditions of the happening of some events, it is a conditional endorsement.

Negotiation Back

Where an endorser negotiates an instrument and again becomes its holder, we know it as negotiation back to that endorser. After negotiation back, none of the intermediary endorsees are then liable to him. For example, Ram, the holder of a bill endorses it to Bala, Bala endorses to Kala, and Kala to Lala, and endorses it again to Ram. Ram, being a holder in due course of the bill by the second endorsement by Lala, can recover the amount thereof from Bala, Kala, or Lala and himself being a prior party is liable to all of them.

MARKETING MANAGEMENT (203)

Unit-1

According to American Marketing Association (2004) – "Marketing is an organisational function and set of processes for creating, communicating and delivering value to customers and for managing relationships in a way that benefits both the organisation and the stakeholder." According to Kotler (2000) – "A societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others."

Nature of Marketing

1. **Marketing is an economic function** Marketing embraces all the business activities involved in getting goods and services, from the hands of producers into the hands of final consumers. The business steps through which goods progress on their way to final consumers is the concern of marketing.

2. **Marketing is a Legal Process by which ownership transfers** In the process of marketing the ownership of goods transfers from seller to the purchaser or from producer to the end user.

3. **Marketing is a System of interacting Business Activities** Marketing is that process through which a business enterprise, institution, or organisation interacts with the customers and stakeholders with the objective to earn profit, satisfy customers, and manage relationship. It is the performance of business activities that direct the flow of goods and services from producer to consumer or user.

4. **Marketing is a managerial function** According to managerial or systems approach – *"Marketing is the combination of activities designed to produce profit through ascertaining, creating, stimulating, and satisfying the needs and/or wants of a selected segment of the market."*

5. **Marketing is a social process**

Marketing is the delivery of a standard of living to society. According to Cunningham and Cunningham (1981) societal marketing performs three essential functions:-

1. Knowing and understanding the consumer's changing needs and wants;
2. Efficiently and effectively managing the supply and demand of products and services; and Efficient provision of distribution and payment processing systems. Marketing is a philosophy based on consumer orientation and satisfaction, Marketing had dual objectives – profit making and consumer satisfaction

Scope of Marketing

1. **Study of Consumer Wants and Needs** Goods are produced to satisfy consumer wants. Therefore study is done to identify consumer needs and wants. These needs and wants motivates consumer to purchase.

2. **Study of Consumer behaviour** Marketers performs study of consumer behaviour. Analysis of buyer behaviour helps marketer in market segmentation and targeting.

3. **Production planning and development** Product planning and development starts with the generation of product idea and ends with the product development and commercialization. Product planning includes everything from branding and packaging to product line expansion and contraction.

4. Pricing Policies Marketer has to determine pricing policies for their products. Pricing policies differs from product to product. It depends on the level of competition, product life cycle, marketing goals and objectives, etc.

5. Distribution Study of distribution channel is important in marketing. For maximum sales and profit goods are required to be distributed to the maximum consumers at minimum cost.

6. Promotion Promotion includes personal selling, sales promotion, and advertising. Right promotion mix is crucial in accomplishment of marketing goals.

Market segmentation

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.

Why is market segmentation important for marketers?

Market segmentation makes it easier for marketers to personalize their marketing campaigns.

By arranging their company's target market into segmented groups, rather than targeting each potential customer individually, marketers can be more efficient with their time, money, and other resources than if they were targeting consumers on an individual level. Grouping similar consumers together allows marketers to target specific audiences in a cost effective manner.

Market segmentation also reduces the risk of an unsuccessful or ineffective marketing campaign. When marketers divide a market based on key characteristics and personalize their strategies based on that information, there is a much higher chance of success than if they were to create a generic campaign and try to implement it across all segments.

Marketers can also us segmentation to prioritize their target audiences. If segmentation shows that some consumers would be more likely to buy a product than others, marketers can better allocate their attention and resources.

Importance of Targeting in Marketing

Targeting in marketing is a strategy that breaks a large market into smaller segments to concentrate on a specific group of customers within that audience. It defines a segment of customers based on their unique characteristics and focuses solely on serving them.

Instead of trying to reach an entire market, a brand uses target marketing to put their energy into connecting with a specific, defined group within that market.

The types of target markets are often segmented by characteristics such as:

- Demographics: age, gender, education, marital status, race, religion, etc.
- Psychographics: values, beliefs, interests, personality, lifestyle, etc.
- Business Industry: business industry or vertical
- Geographic Areas: neighbourhood, area code, city, region, country, etc.

Through this strategy of market segmentation, brands get more specific about their target market. They can focus on a small group of customers who will be most likely to benefit from and enjoy their products.

For example, a brand that sells day planners may decide to focus on a smaller, specific target market. Instead of marketing to the masses, they may focus solely on selling planners to female business owners. Or they could choose to exclusively market to high school teachers. Both examples are smaller, more specific segments of the day planner's potential market.

Why Is Targeting in Marketing So Important?

Targeting in marketing is important because it's a part of a holistic marketing strategy. It impacts advertising, as well as customer experience, branding, and business operations. When your company focuses on target market segmentation, you can do the following:

Speak directly to a defined audience. Marketing messages resonate more deeply with audiences when readers can relate directly to the information. Brands that have a large, varied market of customers often struggle with creating marketing campaigns that speak directly to their audience. Because their viewers are very different, few slogans or stories can resonate with each person on a personal level. Through target marketing, you can alleviate this problem and focus on crafting messages for one specific audience.

Attract and convert high-quality leads. When you speak directly to the people you want to target, you are more likely to attract the right people. Your marketing will more effectively reach the people most likely to want to do business with you. When you connect with the right people, you are then more likely to get high-quality, qualified leads that will turn into paying customers.

Differentiate your brand from competitors. When you stop trying to speak to every customer in your market and start focusing on a smaller segment of that audience, you also start to stand out from competitors in your industry. When customers can clearly identify with your brand and your unique selling propositions, they will choose you over a competitor that isn't specifically speaking to or targeting them. You can use your positioning in marketing to make your brand more well-known and unique.

Build deeper customer loyalty. The ability to stand out from competitors by reaching your customers on a more personal, human level also creates longer-lasting relationships. When customers identify with your brand and feel like you are an advocate for their specific perspectives and needs, they will likely be more loyal to your brand and continue to do business with you over a longer period of time.

Improve products and services. Knowing your customers more intimately also helps you look at your products and services in a new way. When you have a deep understanding of your target audience, you can put yourself in their shoes and see how you can improve your offerings. You can see what features you can add to better serve your customers.

Stay focused. Finally, the benefit of using targeting in marketing is that it also serves to help your brand and team. Target marketing allows you to get more specific about your marketing strategies, initiatives, and direction of your brand. It helps you clarify your vision and get everyone in the organization on the same page. You have more direction when it comes to shaping upcoming plans for both marketing and the business as a whole. A focused approach helps you fully optimize your resources, time, and budget.

Market Positioning

What is market position? In marketing and business strategy, market position refers to the consumer's perception of a brand or product in relation to competing brands or products. Market positioning refers to the process of establishing the image or identity of a brand or product so that consumers perceive it in a certain way. For example, a car maker may position itself as a luxury status symbol. Whereas a battery maker may position its batteries as the most reliable and long-lasting. And a fast-food restaurant chain may position itself as a provider of cheap and quick standardized meals. A coffee company may position itself as a source of premium upscale coffee beverages. Then a retailer might position itself as a place to buy household necessities at low prices. And a computer company may position itself as offering hip, innovative, and use-friendly technology products.

Positioning of a Brand

The positioning of a brand or product is a strategic process that involves marketing the brand or product in a certain way to create and establish an image or identity within the minds of the consumers in the target market. Market positioning of a brand or product must be maintained over the life of the brand or product. Doing this requires ongoing marketing initiatives intended to reinforce the target market's perceptions of the product or brand.

Unit 2

Introduction to Product Strategy

All great products start with a clear strategy that is customer and market-driven. Your strategy defines the direction of your product and what you want to achieve. Establishing this first aligns the organization and keeps everyone focused on the work that matters the most. It tells the team where the product is headed and what needs to be done to get there.

The main purpose of a strategy is to align executives and other key stakeholders around how the product will achieve the high-level business objectives. It also provides the product manager with a clear direction to guide the team through implementation and to communicate the value of the product to cross-functional teams, such as sales, marketing, and support.

A product strategy is the foundation for the entire product lifecycle. As product leaders develop and adjust their product strategy, they zero in on target audiences and define the key product and customer attributes necessary to achieve success.

Strategy is comprised of three parts: vision, goals, and initiatives.

A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. These include significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovations include both new products and new uses for existing products:

- New products. These are goods and services that differ significantly in their characteristics or intended uses from products previously produced by the firm. The first microprocessors and digital cameras are examples of new products using new technologies. The first portable MP3 player, which combined existing software standards with miniaturised hard-drive technology, was a new product combining existing technologies.

  New uses for products. The development of a new use for a product with only minor changes to its technical specifications is a product innovation. An example is the introduction of a new detergent using an existing chemical composition that was previously used as an intermediary for coating production only.

Product diffusion

Diffusion is the process by which a new idea or new product is accepted by the market. The rate of diffusion is the speed with which the new idea spreads from one consumer to the next. Adoption (the reciprocal process as viewed from a consumer perspective rather than distributor) is similar to diffusion except that it deals with the psychological processes an individual goes through, rather than an aggregate market process. In economics it is more often named "technological change".

There are several theories that purport to explain the mechanics of diffusion:

1. The two-step hypothesis – information and acceptance flows, via the media, first to opinion leaders, then to the general population
2. The trickle-down effect – products tend to be expensive at first, and therefore only accessible to the wealthy social strata – in time they become less expensive and are diffused to lower and lower strata.
3. The Everett Rogers Diffusion of innovations theory – for any given product category, there are five categories of product adopters:
   - Innovators – venturesome, educated, multiple info sources;
   - Early adopters – social leaders, popular, educated;
   - Early majority – deliberate, many informal social contacts;
   - Late majority – sceptical, traditional, lower socio-economic status;
   - Laggards – neighbours and friends are main info sources, fear of debt.

4. Crossing the Chasm model developed by Geoffrey Moore – This model overlays the Everett Rogers' adoption curve with a 'chasm'. According to Moore, the marketer should focus on one group of customers at a time, using each group as a base for marketing to the next group. The most difficult step is making the transition between visionaries (early adopters) and pragmatists (early majority). This is the chasm that he refers to. Technologies or products that cannot cross this chasm will die or remain niche. If successful, a firm can create a bandwagon effect in which the momentum builds and the product becomes ubiquitous.
5. Technology driven models – These are particularly relevant to software diffusion. The rate of acceptance of technology is determined by factors such as ease of use and usefulness.

Product Life Cycle Stages Explained

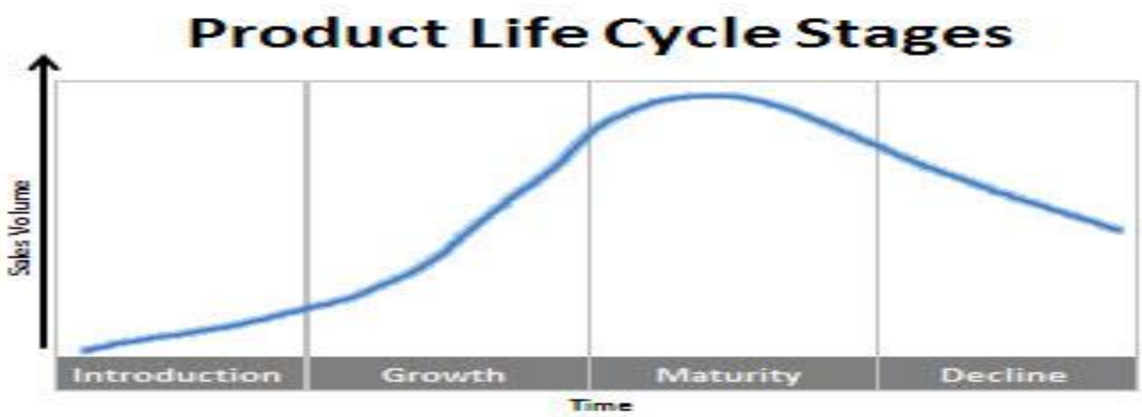
The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

Introduction Stage – This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector.

Growth Stage – The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

Maturity Stage – During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Decline Stage – Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.



Product mix

Product mix, also known as product assortment, refers to the total number of product lines a company offers to its customers. For example, your company may sell multiple lines of products. Your product lines may be fairly similar, such as dish washing liquid and bar soap, which are both used for cleaning and use similar technologies. Or your product lines may be vastly different, such as diapers and razors. The four dimensions to a company's product mix include width, length, depth and consistency.

Pricing Strategies in Marketing

- ✓ **Penetration Pricing or Pricing to Gain Market Share**
- ✓ **Economy pricing or No Frill Low Price**
- ✓ **Use of Psychological Pricing Strategies**
- ✓ **Pricing Strategies of Product Line**
- ✓ **Pricing Optional Products**

- ✓ **Pricing of Captive Products**
- ✓ **Pricing for promotions**
- ✓ **Pricing as Per Geographic Locations**
- ✓ **Value Pricing a Product**
- ✓ **Pricing of Premium Products**

Pricing strategies

A business can use a variety of pricing strategies when selling a product or service. The price can be set to maximize profitability for each unit sold or from the market overall. It can be used to defend an existing market from new entrants, to increase market share within a market or to enter a new market.The 4Pcs of Pricing Pricing is one of the most vital and highly demanded component within the theory of marketing mix.

It helps consumers to have an image of the standards the firm has to offer through their products, creating firms to have an exceptional reputation in the market. The firm's decision on the price of the product and the pricing strategy impacts the consumer's decision on whether or not to purchase the product. When firms are deciding to consider applying any type of pricing strategy they must be aware of the following reasons in order to make an appropriate choice which will benefit their business. The competition within the market today is extremely high, for this reason, businesses must be attentive to their opponent's actions in order to have the comparative advantage in the market. The technology of internet usage has increased and developed dramatically therefore, price comparisons can be done by customers through online access. Consumers are very selective regarding the purchases they make due to their knowledge of the monetary value. Firms must be mindful of these factor and price their products accordingly

Absorption pricing

Method of pricing in which all costs are recovered. The price of the product includes the variable cost of each item plus a proportionate amount of the fixed costs.

Contribution margin-based pricing

Contribution margin-based pricing maximizes the profit derived from an individual product, based on the difference between the product's price and variable costs (the product's contribution margin per unit), and on one's assumptions regarding the relationship between the product's price and the number of units that can be sold at that price. The product's contribution to total firm profit (i.e. to operating income) is maximized when a price is chosen that maximizes the following: (contribution margin per unit) *X* (number of units sold).

In cost-plus pricing, a company first pricing determines its break-even price for the product. This is done by calculating all the costs involved in the production such as raw materials used in its transportation etc., marketing and distribution of the product. Then a markup is set for each unit, based on the profit the company needs to make, its sales objectives and the price it believes customers will pay. For example, if the company needs a 15 percent profit margin and the break-even price is $2.59, the price will be set at $3.05 ($2.59 / (1-15%)

Creaming or skimming

in most skimming, goods are higher priced so that fewer sales are needed to break even. Selling a product at a high price, sacrificing high sales to gain a high profit is therefore "skimming" the market. Skimming is usually employed to reimburse the cost of investment of the original research into the product: commonly used in electronic markets when a new range, such as DVD players, are firstly sold at a high price. This strategy is often used to target "early adopters" of a product or service. Early adopters generally have a relatively lower price-sensitivity—this can be attributed to: their need for the product outweighing their need to economise; a greater understanding of the product's value; or simply having a higher disposable income.

Marginal-cost pricing

in business, the practice of setting the price of a product to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labor. Businesses often set prices close to marginal cost during periods of poor sales. If, for example, an item has a marginal cost of $1.00 and a normal selling price is $2.00, the firm selling the item might wish to lower the price to $1.10 if demand has waned. The business would choose this approach because the incremental profit of 10 cents from the transaction is better than no sale at all.

Cost plus pricing

Cost plus pricing is a cost-based method for setting the prices of goods and services. Under this approach, the direct material cost, direct labor cost, and overhead costs for a product are added up and added to a markup percentage (to create a profit margin) in order to derive the price of the product

Penetration pricing

Penetration pricing includes setting the price low with the goals of attracting customers and gaining market share. The price will be raised later once this market share is gained

A firm that uses a penetration pricing strategy prices a product or a service at a smaller amount than its usual, long range market price in order to increase more rapid market recognition or to increase their existing market share. This strategy can sometimes discourage new competitors from entering a market position if they incorrectly observe the penetration price as a long range price.

Companies do their pricing in diverse ways. In small companies, prices are often set by the boss. In large companies, pricing is handled by division and the product line managers. In industries where pricing is a key influence, pricing departments are set to support others in determining suitable prices.

Penetration pricing strategy is usually used by firms or businesses who are just entering the market. In marketing it is a theoretical method that is used to lower the prices of the goods and services causing high demand for them in the future. This strategy of penetration pricing is vital and highly recommended to be applied over multiple situations that the firm may face. Such as, when the production rate of the firm is lower when compared to other firms in the market and also sometimes when firms face hardship into releasing their product in the market due to extremely large rate of competition. In these situations it is appropriate for a firm to use the penetration strategy to gain consumer attention

Predatory pricing

Predatory pricing, also known as aggressive pricing (also known as "undercutting"), intended to drive out competitors from a market. It is illegal in some countries.

Companies or firms that tend to get involved with the strategy of predatory pricing often have the goal to place restrictions or a barrier for other new businesses from entering the applicable market. It is an unethical act which contradicts anti–trust law, attempting to establish within the market a monopoly by the imposing Company. Predatory pricing mainly occurs during price competitions in the market as it is an easy way to obfuscate the unethical and illegal act. Using this strategy, in the short term consumers will benefit and be satisfied with lower cost products. In the long run, firms often will not benefit as this strategy will continue to be used by other businesses to undercut competitors margins, causing an increase in competition within the field and facilitating major losses. This strategy is dangerous as it could be destructive to a firm in terms of losses and even lead to complete business failure.

Unit-3

Channels of distribution

Different types of channel of distribution are as follows:

Manufacturers and consumers are two major components of the market. Intermediaries perform the duty of eliminating the distance between the two. There is no standardised level which proves that the distance between the two is eliminated.

Based on necessity the help of one or more intermediaries could be taken and even this is possible that there happens to be no intermediary. Their description is as follows:

(A**) Direct Channel or Zero Level Channels:**

When the manufacturer instead of selling the goods to the intermediary sells it directly to the consumer then this is known as Zero Level Channel. Retail outlets, mail order selling, internet selling and selling

(B) Indirect Channels:

When a manufacturer gets the help of one or more middlemen to move goods from the production place to the place of consumption, the distribution channel is called indirect channel. Following are the main types of it:

1. One Level Channel:

In this method an intermediary is used. Here a manufacturer sells the goods directly to the retailer instead of selling it to agents or wholesalers. This method is used for expensive watches and other like products. This method is also useful for selling FMCG (Fast Moving Consumer Goods). This channel is clarified in the following diagram:

2. Two Level Channel:

In this method a manufacturer sells the material to a wholesaler, the wholesaler to the retailer and then the retailer to the consumer. Here, the wholesaler after purchasing the material in large quantity from the manufacturer sells it in small quantity to the retailer.

Then the retailers make the products available to the consumers. This medium is mainly used to sell soap, tea, salt, cigarette, sugar, ghee etc. This channel is more clarified in the following diagram:

3. Three Level Channel:
Under this one more level is added to Two Level Channel in the form of agent. An agent facilitates to reduce the distance between the manufacturer and the wholesaler. Some big companies who cannot directly contact the wholesaler, they take the help of agents. Such companies appoint their agents in every region and sell the material to them.

Then the agents sell the material to the wholesalers, the wholesaler to the retailer and in the end the retailer sells the material to the consumers

Marketing logistics

Marketing logistics involve planning, delivering, and controlling the flow of physical goods, marketing materials and information from the producer to a market as necessary to meet customer demands while still making a satisfactory profit. Maintaining an organization's competitive edge means understanding and implementing an effective marketing logistics strategy regarding product, price, place and promotion. These four functions of marketing logistics help the organization to reach the target customers and deliver the products or services sold by the organization to these customers.

Product Delivery

One function of logistics marketing is finding out who your customer is and how to get the product or service to the customer. Each customer can have individualized needs so the logistical services provided may vary from customer to customer. Regardless of these differences, the customers expects 100 percent conformance and assured reliability at all times with every transaction. The goals of this aspect of marketing logistics include filling the order, on-time delivery, precise invoicing and zero damage.

Price

An organization bases pricing decisions on both internal and external factors. Marketing logistics must recognize price drivers. The profile of the customer, the product and the type of order are factors that drive the price. These changes are not typically controlled by marketing logistics. However, marketing logistics must react to these factors and understand how the factors affect customers' decisions. Discounts for quantities and the related logistical cost structure can impact the price the customer will ultimately pay for the product or service. Additional factors driving price include the shipping costs based on the size, weight and distance the organization will ship the item. Further, the size of the manufacturing run, labor costs and the types, quantities and quality of the materials used in the manufacturing process can affect price.

Promotion

Promotion is another important aspect of an organization's marketing logistics process. When bringing a product to market, the organization must coordinate the logistics of the various marketing materials. For example, the art department might design the artwork for the product's box and an outside supplier might manufacture the boxes with the artwork. Marketing logistics can help to ensure that all of these entities work together and produce the marketing materials needed to sell the product.

Place

The function of place in marketing logistics allows the organization to simplify the transactions between a logistics provider and the customer. The organization must execute logistics in such a way that the customer is not aware of the complexities involved in the logistics process. For the customer, the output is always more important than the process. The organization should, therefore, never expose the backroom processes involved with logistics delivery to the customer. Also the location of the factory, warehouse and customer can greatly impact the marketing logistics process by increasing or reducing costs. For example, locating a factory in Mexico might reduce the labor costs associated with a product. However, at the same time locating the factory in Mexico might increase the shipping costs and negate any cost savings.

What is 'Supply Chain Management (SCM)'

Supply chain management is the management of the flow of goods and services and includes all processes that transform raw materials into final products. It involves the active streamlining of a business's supply-side activities to maximize customer value and gain a competitive advantage in the marketplace. SCM represents an effort by suppliers to develop and implement supply chains that are as efficient and economical as possible. Supply chains cover everything from production to product development to the information systems needed to direct these undertakings.

Supply Chain

A supply chain is the connected network of individuals, organizations, resources, activities, and technologies involved in the manufacture and sale of a product or service. A supply chain starts with the delivery of raw materials from a supplier to a manufacturer and ends with the delivery of the finished product or service to the end consumer. SCM oversees each touch point of a company's product or service, from initial creation to the final sale. With so many places along the supply chain that can add value through efficiencies or lose value through increased expenses, proper SCM can increase revenues, decrease costs, and impact a company's bottom line.

Example of SCM

Understanding the importance of SCM to its business, Walgreens Boots Alliance Inc. placed focused effort on transforming its supply chain in 2016. The company operates the second largest pharmacy chain in the United States and needs to efficiently manage and revise its supply chain so it stays ahead of the changing trends and continues to add value to its bottom line.

As of July 5, 2016, Walgreens has invested in the technology portion of its supply chain. It implemented a forward-looking SCM that synthesizes relevant data and uses analytics to forecast customer purchase behavior, and then it works its way back up the supply chain to meet that expected demand. For example, the company can anticipate flu patterns, which allow it to accurately forecast needed inventory for over-the-counter flu remedies, creating an efficient supply chain with little waste. Using this SCM, the company can reduce excess inventory and all of the inventories' associated costs, such as the cost of warehousing and transportation.

Unit-4

Advertising

Advertising is the best way to communicate to the customers. Advertising helps informs the customers about the brands available in the market and the variety of products useful to them. Advertising is for everybody including kids, young and old. It is done using various media types, with different techniques and methods most suited.

Objectives of Advertising

Let's take a look on these various types of objectives.

1. Trial: the companies which are in their introduction stage generally work for this objective. The trial objective is the one which involves convincing the customers to buy the new product introduced in the market. Here, the advertisers use flashy and attractive ads to make customers take a look on the products and purchase for trials.
2. Continuity: this objective is concerned about keeping the existing customers to stick on to the product. The advertisers here generally keep on bringing something new in the product and the advertisement so that the existing customers keep buying their products.
3. Brand switch: this objective is basically for those companies who want to attract the customers of the competitors. Here, the advertisers try to convince the customers to switch from the existing brand they are using to their product.
4. Switching back: this objective is for the companies who want their previous customers back, who have switched to their competitors. The advertisers use different ways to attract the customers back like discount sale, new advertise, some reworking done on packaging, etc.

Importance of Advertising

Advertising plays a very important role in today's age of competition. Advertising is one thing which has become a necessity for everybody in today's day to day life, be it the producer, the traders, or the customer. Advertising is an important part. Let's have a look on how and where is advertising important:

Advertising is important for the customers

Just imagine television or a newspaper or a radio channel without an advertisement! No, no one can any day imagine this. Advertising plays a very important role in customers life. Customers are the people who buy the product only after they are made aware of the products available in the market. If the product is not advertised, no customer will come to know what products are available and will not buy the product even if the product was for their benefit. One more thing is that advertising helps people find the best products for themselves, their kids, and their family. When they come to know about the range of products, they are able to compare the products and buy so that they get what they desire after spending their valuable money. Thus, advertising is important for the customers.

Advertising is important for the seller and companies producing the products

Yes, advertising plays very important role for the producers and the sellers of the products, because

- Advertising helps increasing sales
- Advertising helps producers or the companies to know their competitors and plan accordingly to meet up the level of competition.
- If any company wants to introduce or launch a new product in the market, advertising will make a ground for the product. Advertising helps making people aware of the new product so that the consumers come and try the product.
- Advertising helps creating goodwill for the company and gains customer loyalty after reaching a mature age.
- The demand for the product keeps on coming with the help of advertising and demand and supply become a never ending process.
- Advertising is important for the society
- Advertising helps educating people. There are some social issues also which advertising deals with like child labour, liquor consumption, girl child killing, smoking, family planning education, etc. thus, advertising plays a very important role in society.

Personal Selling

Definition: Personal selling is also known as face-to-face selling in which one person who is the salesman tries to convince the customer in buying a product. It is a promotional method by which the salesperson uses his or her skills and abilities in an attempt to make a sale.

Personal selling is a face-to-face selling technique by which a salesperson uses his or her interpersonal skills to persuade a customer in buying a particular product. The salesperson tries to highlight various features of the product to convince the customer that it will only add value. However, getting a customer to buy a product is not the motive behind personal selling every time. Often companies try to follow this approach with customers to make them aware of a new market The company wants to spread awareness about the product for which it adopts a person-to-person approach. This is because selling involves personal touch, a salesperson knows better how to pitch a product to the potential customer. Personal selling can take place through two different channels – through retail and through direct-to-consumer channel. Under the retail channel, a sales person interacts with potential customers who come on their own to enquire about a product. The job of the salesperson is to make sure that he understands the need of the customers and accordingly shows various products that he keeps under that category. Under the direct channel, a salesperson visits potential customers in an attempt to make them aware about a new product that the company is launching or it may have a new offer which the customers may not get from the open market.

Need for Personal Selling:

Despite the dominance of advertising, in the present day commercial world, personal selling still occupies its unique place; co-existing with advertising.

Some of the reasons for the need of personal selling are as follows:

(i) **Requirements of Product Demonstration:**

There are certain products which require a demonstration, for purposes of explaining their use, manner of their handling and the precautions required in using them. This requirement for product demonstration necessitates personal selling; as no advertising media cannot undertake this work.

A good instance of products requiring demonstration is a washing machine, used in households. A salesman is required for explaining the operation of a washing machine to housewives.

(ii) Illiterate Prospects:

Where a manufacturer is interested in selling some of his products to prospects, who, by and large, are literate; personal selling is necessary. Illiterate prospects could not be expected to appreciate the need and utility for a product-just through advertising.

Salesmen are needed to approach such illiterate prospects, who would explain the usefulness of the products to them, in a convincing style.

(iii) Traditional Necessity of Personal Selling:

There are cases of products, where advertising is not usually done; partly due to the technical or specialized nature of products and partly due to traditions. In cases of such products, therefore, personal selling is necessitated to meet the requirements of tradition prevalent in particular trades.

Examples of such products as require personal selling are:

(1) Medicines, where salesmen (called medical representatives) still go from doctor to doctor or from hospital to hospital, canvassing new medicines manufactured by their pharmaceutical companies.

(2) Industrial goods (like new machines or spare parts), where salesmen visit various industrial houses and convince the industrialists, of the utility of the new industrial goods manufactured by their companies.

(iv) Emergence of an Entirely New Type of Product:

In case of innovations, i.e. entirely new types of products, manufactured by a producer, salesmen are appointed by the producer to publicize such new products to prepare a base for demand creation. Then, through subsequent advertising, by the manufacturer, demand base is further expanded.

(v) Need to Develop Relations with Customers:

Personal selling helps a manufacturer to develop good relations with customers/prospects. Through advertising alone, development of relations with customers is not possible. This factor again necessitates personal selling and accounts for its survival, in the present-day times.

(vi) Source of Marketing Research Data:

Salesmen, because of their interactions with customers, prospects, dealers etc., are able to provide valuable data to the manufacturer about market trends, consumer preferences, degree of market competition etc.; which are utilized for marketing research purposes.

Some of the manufacturers appoint salesmen precisely for this purpose, besides expecting them to create more sales. This factor, therefore, becomes a modern factor necessitating salesmanship; and accounting for its survival under the modern marketing conditions.

(vii) To Remove Misconceptions Caused by Competitive Advertising:

In the modern marketing world, competitive advertising has become so aggressive that one competitor would not hesitate in defaming the products of others for the sake of building a reputation for his own product.

Sales promotion

Sales promotion is a type of Pull marketing technique. If you have a product which is new in the market or which is not receiving a lot of attention, then you can promote this product to customers via sales promotions. You can use various techniques like giving discounts on the product, offering 1 + 1 free schemes, etc etc.

There are two types of Sales promotions

a) Consumer sales promotions

Any sales promotion activity that you do keeping the end consumer in mind is known as consumer sales promotions. Example – if an E-commerce website gives 10% discount on its products, then it wants the consumers to make the best of this deal. This is a consumer focused promotional activity and hence can be called as consumer sales promotions.

The objective of Consumer sales promotions might be various. A consumer might be asked to test a sample of a completely new perfume in the market and rate it. An existing customer might be asked to use a Scratch card so that he receives a gift.

At the end, the result should be an action from the consumer. Either the consumer should purchase the product right away, or he should come to know about the product so that further awareness is created for the brand.

b) Trade Sales promotions

If your promotional activities are focused on Dealers, distributors or agents, then it is known as trade promotions. There is a lot of competition in any field. And in channel sales, to get the products moving and to motivate the dealer to perform better, trade discounts are given.

Home » SALES MANAGEMENT » What is Sales promotion and what are the types of sales promotions?

What is Sales promotion and what are the types of sales promotions?

Chances are, right now if you step out in the market, you will find a shop offering discounts on all its products. Similarly, you might find a dealer strongly pushing one brand over the other. These are perfect examples of Sales promotions in action.

What is sales promotion?

Sales promotion is a type of Pull marketing technique. If you have a product which is new in the market or which is not receiving a lot of attention, then you can promote this product to customers via sales promotions. You can use various techniques like giving discounts on the product, offering 1 + 1 free schemes, etc etc.

When a brand wants to increase the sales of its products, it uses Sales promotion. The brand can increase the sales by attracting new customers to their products or by retaining the old customers by various means. The company can also motivate the dealers and distributors of their channel to perform better for their brand, and to get their stock moving.

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Example – You are a dealer for Televisions. Now Sony comes and tells you, you will be given 5% discount if you cross a sale of 100 televisions. Naturally, you will be very motivated because 5% in television sales is huge. Plus selling Sony TV's is easy because it is already a brand. Thus, you divert all potential customers to Sony Televisions so that you can achieve the target.

Similarly, there are other types of trade sales promotions which can be used to motivate the dealer and distributor. More such techniques of sales promotions are discussed below.

As the noise of competitors rises, you will find more and more companies using sales promotions techniques. The advantage of sales promotion is that they are not too expensive for the company when compared with ATL advertising mediums like Television or newspaper. Hence, even small businesses use it quite effectively.

Push pull marketing strategies

Promotional strategies to get your product or service to market can be roughly divided into two separate camps – push and pull.

1. Push strategy

A push promotional strategy involves taking the product directly to the customer via whatever means, ensuring the customer is aware of your brand at the point of purchase.

"Taking the product to the customer"**Examples of push tactics**

- Trade show promotions to encourage retailer demand
- Direct selling to customers in showrooms or face to face
- Negotiation with retailers to stock your product
- Efficient supply chain allowing retailers an efficient supply
- Packaging design to encourage purchase
- Point of sale displays

2. Pull strategy

A pull strategy involves motivating customers to seek out your brand in an active process.

"Getting the customer to come to you"**Examples of pull tactics**

- Advertising and mass media promotion
- Word of mouth referrals
- Customer relationship management
- Sales promotions and discounts

Push strategy explained

The term ‘push strategy’ describes the work a manufacturer of a product needs to perform to get the product to the customer. This may involve setting up distribution channels and persuading middlemen and retailers to stock your product. The push technique can work particularly well for lower value items such as fast moving consumer goods (FMCGs), when customers are standing at the shelf ready to drop an item into their baskets and are ready to make their decision on the spot. This term now broadly encompasses most direct promotional techniques such as encouraging retailers to stock your product, designing point of sale materials or even selling face to face. New businesses often adopt a push strategy for their products in order to generate exposure and a retail channel. Once your brand has been established, this can be integrated with a pull strategy.

Pull strategy explained

‘Pull strategy’ refers to the customer actively seeking out your product and retailers placing orders for stock due to direct consumer demand. A pull strategy requires a highly visible brand which can be developed through mass media advertising or similar tactics. If customers want a product, the retailers will stock it – supply and demand in its purest form, and this is the basis of a pull strategy. Create the demand, and the supply channels will almost look after themselves.

BUSINESS ETHICS & CSR (205)

LIBERTY

1.1 Introduction

Liberty the word more used but less understand .When we think about liberty we have a great feeling but when we practice it we find lot of restrain and confusion. Therefore it becomes necessary to know the real meaning. The word has been drown from a Latin word ‘Liber’ which means absence of restrains, but if we enjoy absolute freedom without limitation it will be harmful to others. if people enjoy absolute freedom and liberty it will destroy the social harmony and will lead to anarchy.

1.2 Meaning and Definition of liberty

Herbert Spencer “Every man is free to do that which he will, provide him infringer equal freedom on any other man”.

Ramsay Muir "Liberty means to secure enjoyments by the individuals and by association of the power to think their own way under the shelter of the law provided they do not impair the corresponding rights of others".

C.D.Burns "liberty is to grow to one's natural height and to develop one's ability.

As above Discussion we can say freedom is such a state of life in which less restrain and maximum opportunities' available for development and self actualization of the life of man.

1.3 Nature of liberty

1. Liberty is not the promise of absence of all restrains.
2. Liberty imposes the rational restrains.
3. Liberty is not a license to do anything and everything anywhere.
4. Liberty is concern to welfare of civil society.
5. Liberty provide to people opportunities of self actualization and self development.
6. Liberty is a states in which any person enjoy their right without impairing the corresponding right of others.
7. Legal environment is necessary for enjoyment of right of liberty.
8. Liberty is basic requisites for enjoy the rights of human being.

1.3.1 Difference between Liberty and Freedom

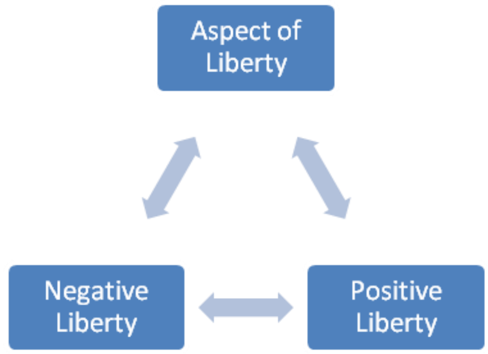
Liberty and Freedom are two different words which may be used interchangeably but there exists a thin line between the two concepts.

Liberty comes in a system where an area is defined where the set of liability can be applied. We say that liberty is the freedom of work which is defined for a particular system.

Whereas freedom is area where an individual group or society is free what so ever they like, there is no particular system abiding or defining the area.

Aspects of Liberty

There are two aspect of liberty



1.4 Negative liberty

Negative view of liberty stand for absolute liberty that means absence of all restrains. As per this theory a person is free to think and to do all things that he thinks useful to them. Jone locke, Hebbes, Rousseau, Adam smith, Ricardo, Herbert Spencer, Macaulay are the main supporters of this theory.

1.5 Feature of Negative liberty

There are following Feature of this theory-

1. Liberty mean absences of all restrain.
2. Every individual is the guardian of his own interest and need not to worry about surroundings.
3. A person can work in social interest but his personal interest will be integrated with social interest and his personal liberty is precondition of social liberty.
4. Negative liberty favour to open competition.
5. The function of state is limited in this context.
6. Social progress depends upon the development of individual harmony.
7. The government is best which govern the least.
8. The interference of the state should be minimal.

As per above discussion its concluded that Individual liberty is more focused than social liberty. The role of government is minimal. The philosophy of this theory that if every individual enjoy their own freedom for their growth and self actualization the society upgrade automatically and when every person engage in own no an and when every person engage in own no any clashes arise.

1.6 Criticism of Negative liberty

1. Clash between individual and social interest

As per this theory the individual interest is much more focused than the social interest, but what about practical? Is it possible to ignore social interest for a single person? Moreover it and it is not always a rule that personal interest is integrated with social interest.

2. The role of law can 'not be underestimated

Whenever an individual's liberty distract the liberty of others the role of low activate automatically. Some time absolute liberty not only harm the society, it also harm the person himself.

3. Bad results of the theory of Laissez faire (non-interference of state)

The supporters of the negative theory of liberty are in favour of the non interference of state and promote the competition by empowering to every individual. This theory does not care of those who are weaker and unable to come in competition in the word of survival of the fittest.

4. A person himself cannot be sole judge of his internal

A man is puppet of mistake .we can 'not expect that he always takes best decision without influencing the human greed. So the fate of whole of the society can't be left on his decision..

5. A person has no existence without society

A person is not an autonomous body his existence is not possible without society. A person has many social, professional and personal relations and he can't ignore their interest.

1.7 Positive liberty

Positive theory does not support absence of all restrain but it supports absence of restrain in rational manner. The status of law would be as a guardian and role of state is more important to establish such an environment in which everyone can enjoy has liberty.

Kant, Fichte, T.H. Green, Maclver, Bentham, Laski, Barker, Hobbouse are the main supporters of the 'theory of positive liberty'.

1.8 Features of Positive liberty

Following are the main features of liberal view of liberty (positive)-

1. Liberty is absence of restraint with rationality.
2. Positive liberty theory emphasize the society more than an Individual.
3. In the absence of regulatory environment equal opportunity of development is not possible.
4. Liberty should be always defined in the context of society.
5. The state is safeguard of society.
6. The duty of state is to create positive environment for realization of real mean of liberty.

1.9 Criticism of Positive liberty

Though the positive theory of liberty is quite popular, yet there are the following drawbacks in it-

1. State becomes absolute

As per positive theory of liberty the state should ensure the rational level of liberty for everyone but it's often found that the state in the name of social and national interest restricts individual liberty.

2. Positive theory of liberty is not possible in class divided society

The main phenomena of positive this theory to provide equal opportunity to enjoy their liberty but it is not possible in class divided society where society is divided in so many classes on the basis of wealth, cast, creed and religion.

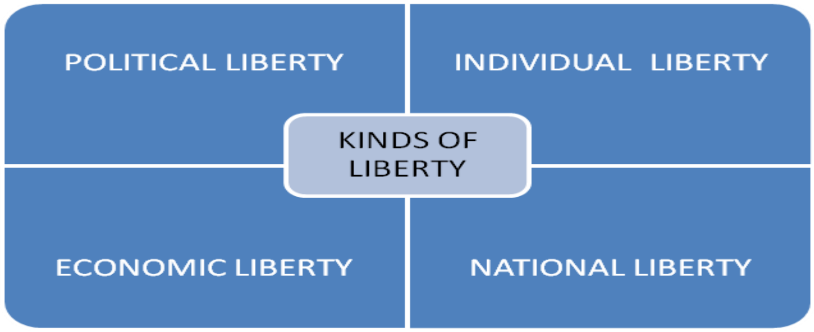
3. Every law does not favour the concept of positive liberty

In positive theory of liberty the role of law is like a guardian but in some cases when dispute arises between individual liberty and social liberty get preference.

4. Democratic Govt. is not guarantee of liberty

The role of Govt. is important in the establishment of such a society in which every individual can enjoy there freedom but ensure the liberty of every individual is not possible and for the lack of betterment of society ,individual liberty is ignored.

1.10 Kinds of liberty



1. Political Liberty

Laski observes political liberty, which means the power to be achieved in the affair of the state. Political liberty means enjoyment of political rights. Political rights include following rights-

1. Rights to vote
2. Right to Contest Election
3. Right to hold Public office
4. Right to criticize and oppose the policies of the government
5. Right to form political parties
6. Right to Interest Group and pressure groups
7. Right to change the government through constitutional means

2. Individual Liberty

The primary condition to enjoy liberty is not to hinder the equal freedom of others, the social order and health and morality. Individual freedom include following points-

1. Freedom of Speech and expression
2. Freedom of tastes and pursuits
3. Freedom of residence
4. Freedom of movement
5. Freedom of conscience
6. Freedom to choose any profession or trade or occupation
7. Freedom to enjoy the fruits of one's labour
8. Freedom to profess or not to profess any religion
9. Freedom to accept or not to accept any ideology.
10. Right to personal property

3. Economic Liberty

In Simple language we can define Economic liberty as freedom of livlihood. Laski writes "By economic liberty we mean security and opportunity to find reasonable significance in the earning of one's daily bread. Economic freedom include following points. Economic liberty is a surety to available equal opportunities to employment for everyone. Economic liberty favour a society free from hunger, starvation and destitution.

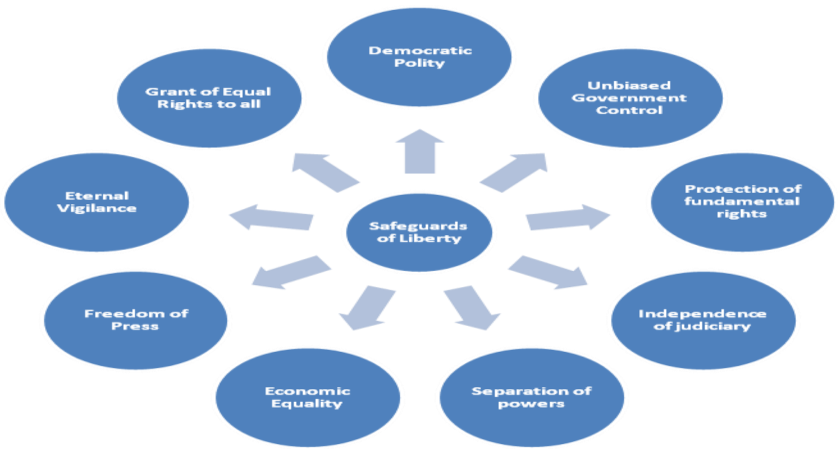
4 National Liberty

Being a citizen of a particular country, an individual enjoy national liberty-

1. Provide their own Constitution
2. Free to organize a governing body
3. Free to taking decision in International affair by formulating foreign policy.
4. Develop a control system over political system.

1.11 Safeguards of Liberty

Liberty is one of the most important essential of life .Therefore to assure the availability of it for every individual, certain safeguard is necessary ,which are stated below-



1. Eternal Vigilance

Eternal vigilance is a primary condition of liberty for every individual. The people should be always ready to bear any consequences to get their status of liberty .Jefferson also once observed that “No country can really defend her freedom unless the people through the expression of protest do not keep their government vigilant.”

2. Grant of Equal Rights to all

Liberty is a natural right of every individual but any discrimination on the ground of sex, caste and religion one side esure the liberty of a particular group of people but another side rest of people deprived to enjoy that particular opportunity.

3. Democratic Polity

Liberty and democracy are a coincide term. We cannot imagine a democratic polity without the presence of civil, economic, political and individual liberty.

4. Unbiased Government Control

In positive theory of liberty govt act as a guardian and it’s his duty to ensure equal opportunity to every individual to enjoy their liberty. The responsibility of govt. is to provide equal benefits of administrative policies and laws to every section of society .The Govt. should also be responsible and accountable before the public.

5. Protection of fundamental rights

The first and foremost known safeguard is constitution that obligate to every people of India to protect their fundamental rights

6. Independence of judiciary

In our country the judiciary is a independent body and have supremacy over political and democratic system. The main purpose of this kind of supremacy to Protect fundamental and all kind of rights.

7.Separation of powers

The power of Executive and legislature are separately describe to avoid any concentration. Absence of such separations may be causes of Dispute and Harmful for liberty of people but power of checking to each other should be also mentioned.

8. Economic Equality

In absence of economic equality real enjoyment of liberty is not possible. Equitable and fairer distribution of income , wealth and resources and adequate opportunities of employment as well as for development are essential safeguards of liberty.

9. Freedom of Press

Freedom of press take for granted as a fourth pillar of democracy. It provides a great support to uphold the right of liberty of Individuals. Press and other Form of media help in create a awareness about their rights.

Summary

The Liberty has been drown from a Latin word ‘Liber’ which means absence of restrains, but if we enjoy absolute freedom without limitation it will be harmful to others. if people enjoy absolute freedom and liberty it will destroy the social harmony and will lead to anarchy. “Liberty means to secure enjoyments by the individuals and by association of the power to think their own way under the shelter of the law provided they do not impair the corresponding rights of others”. Features of liberty are not the promise of absence of all restrains, Liberty imposes the rational restrains., Liberty is not a license to do anything and everything anywhere., Liberty is concern to welfare of civil society, Liberty provide to people opportunities of self actualization and self development. Two aspects of liberty comprises of positive and negative liberty. Kinds of liberty are: political, Individual, economical and national liberty. There are few safeguards of liberty as: Eternal Vigilance, Grant of Equal Rights to al,l Democratic Polity, Unbiased Government Control etc.

Chapter-2 Equality

1.1 Introduction

Equality is first and foremost principal of democracy. Equality is one of the fundamental right Provided and protected by Indian Constitution. Commonly we can define equality as “all are equal in all respect either treatment or reward but it is an ideal and imaginative phenomena .it is not possible either naturally or artificially. Generally we find out two types of inequalities .Natural inequalities and manmade. Natural inequalities such as impact of environment, by birth physical and mental efficiencies or differences etc while. Manmade inequalities like cast, colour creed, religion, sex and place of birth etc. We can define the equalities in negative and positive sense .Negative equalities implies abolition of all special privileges and facilities which generates some special classes and positive equality express that equal right should be made available to all the people without any exception or discrimination.

1.2 Nature of Equality

1. Absolute Equality is not possible. Equality seeks to abolish all un-natural and men made inequalities.
2. Equality focuses to abolish all men made inequalities on the basis of birth, creed colour ,sex , property and wealth.
3.Equality assure to provide equal opportunities of treatment and reward to every person.
4.Equity mean equal distribution of reward and resources.

1.3 Classification of Equality

Social Equality

To develop a sound society for all social equality is must necessary. Though there are many natural and manmade inequalities are exist in society in yet try to establish social equality as much as possible. There should not be any distinction made on the basis of caste, colour, Sex, race, language, education or social status. Any one should not forbidden by avail the facility of education ,worship, job or social fest and cultures and if only that should be on justified basis Social equality Ensure following conditions –

1. Any kind of special privileges on the basis of caste, creed, sex and religion.
2. Prohibition of discrimination on the basis of caste, creed, sex and religion.
3. Any person can assess public places like bus stand, Railway station, Hotels, Roads, without any discrimination.
4. No discrimination is made on the basis of sex.
5. Everyone gets equal opportunities in public employment.

Political Equality

The political equality presumes that human beings always act wisely and take decision with discretion. Everyone is able to understand Indian polity whether they are wealthy or not, more or less educated or more or less powerful in India .It is also assumed that when a person has equal political right then they can convey best expression to public and either inspire or force to policy maker to make policies in the interest of common mass.

Political equality ensure that every citizen enjoy it political rights without any hindrances and their active participation in State affairs. Following are the main characteristics of political equality

1. Any person who completes their age of 18 can exercise the right of vote without any discrimination.
2. Any citizen after attaining the age of 25 years can Contest election to become the member of state legislature and the Loke Sabha and he is not disqualified by any court.
3. Every citizen can make an appeal before the judiciary and high govt. officials in case of abolition of his rights or any harassment.
4. A citizen can make responsible to the Government for its failures.

5. In democracy, everyone has right to form political parties and right to become the member of political parties in interest of public affairs.

Legal Equality

Legal equality implies that all are equal before law and law are equal for all. Equality before law committed to provide equal remedies and provision of law to all whether they are equal or law and for fulfill this purpose they enact equal laws for equal and unequal laws for unequal ,though such discrimination should be on rational ground. Law are equal for all express that no one forbids by process of law on the basis of colour, caste, creed ,sex and education.

Legal equality means equal opportunity for all to secure legal protection of their rights and freedom .following provisions are necessary for the legal aspect of equality-

1. Everyone has equal right to achieve legal protection and no one can deprive them on the basis of cast, colour, creed, sex or religion.
2. The enactment of laws would be equal for every citizen.
3. Every citizen can enjoy their rights without any discrimination the basis of cast, colour, creed, sex or religion.
4. Everyone have equal rights to get appointment in public offices if he is eligible.
5. Laws of the state can provide special privileges and facilities to the weaker sections under certain provisions of the constitution.

Natural Equality

Natural Equality means abolition of manmade inequalities which are generally practices in society. People are different to each other in sense of physical and psychological capacities and capabilities, but everyone deserves respect accordingly. Nobody can Harass or exploit to other.

Civil Equality

Social equality requires equal honors and recognition to all section of the society that are socially and economically weak. Social evils should be abolished and people should be treated equally in all the matters.

Economic Equality

Economic equality stands for equitable and adequate opportunities to all for work and for earning of their livelihoods. The rich should not be as much as rich that he can exploit the poor that means the gap between rich and poor should be minimize.

1.4 Relation between Equality and Liberty

Liberty and equality an complementary to each other .In absence of one, existence of other is not possible. As per opinion of Some scholar Equity and liberty are opposed to each other, both can’t exist together .The main supporters of this view are Lord Acton,De toccqueville, Hogg, Hayek, Friedman and few others. Lord Acton observes, “The passion for equality has made vain the hope for liberty.”The protagonists of this view advance the following main arguments in support of their view:

1. Liberty means absence of all restrain but we know all are not equal there are many type of natural and man mead inequality so it needs implies necessary restrain for levelling purposes.

2. Man’s Economic status is related to his personal ability and pursuit so how can state Interfere to achieve equal status for all.
3. Liberty limited the role of state while for achieving the state of equality interference of state is necessary.
4. Personal property is natural; it cannot be limited for the sake of society.
5. Liberty accept rational restrain for development, while equality accept restrain for prevent over development.
6. Liberty accepts capitalism while equality demand abolition of capitalism.

Some scholars of political thought hold that liberty and equality are compliment to each other .existence of one cannot possible without other. Laski, Arnold, Tawny, Rousseau, Barker and pollard are the main supporters of this view.

This view supported by most of Authors by following reason-

1. Equality opposed extreme level of anything. so it help to other to enjoy there right of freedom.
2. In absence of Equality conflict and revolution will be arises in society so Status of absolute liberty will not be possible.
3. Liberty and equality both required some special privilege.
4. Equality is primary condition for liberty. According to H.J. Gans, “I think there is no inherent conflict between liberty and equality. The society we must create should provide enough equality to permit everyone the liberty to control his or her own life as much as possible, without inflicting undue inequality on others.”
5. Equality and Liberty is two main Pillars of Democracy. In absence of any, the existence of democracy is not possible.
6. Equality and Liberty both are required for development of society.

Finally it concluded that liberty and equality are closely related to each other and compliment of other. Our constitution and system committed to secure both in full mean. It accept as per Pollard. “There is only one solution to the problem of liberty, it lies in equality.”

CHAPTER 3

JUSTICE

Introduction

Justice means ‘just’, ‘Right’, or ‘Reasonable’, that means set everyone in proper and natural order. The word ‘Justice is derived from the Latin word ‘Jus’ which means joining or fitting of a bond. In simple language we can say justice is a state in which the act and decision should be in reasonable form.

Meaning and Definition of Justice

According to Barker, “Justice is itself a value which connects the three values of liberty, equality and fraternity. Justice is, therefore, concerned with the adjustment of human relation, through a just combination of values which are necessary to an organized system of human relation”.

In the word of D.D,Rafel, “The Idea of justice is plainly concerned with the general ordering of the society.”

Salmond “Justice means to provide everybody his share”.

Rabert C. “The idea of justice connotes a rightful balance in a situation where two or more parties or principles are in conflict.”

Features of Justice

1. The phenomena is relating with human being.
2. It is a combination of ethics, values, legitimacy and ideals.
3. Justice favour Act impartially and no any discrimination should be made on the basis of religion, cast, creed, sex, place of birth etc.
4. There are some sorts of discrimination on reasonable grounds permitted in legal procedure.
5. Human welfare is primary condition of justice. So whatever system support to social welfare that’s called a system for justice.
6. Justice favour reasonable interest of human being.
7. It does expect with everyone to be honest towards his duty.
8. It is not an absolute concept; it is related to a particular period of time and vary from one society to another.
9. It is dynamic and change as per social needs and social values of society.

Basic Elements of Justice

The basic elements of justice are required to followed by everyone-

Liberty

Justice always implies a sense of liberty and it is should be required for the sound development of people. A balance between authority of state and freedom of individual is a symbol of Justice.

Equity before law

It’s very well known that law is equal for everyone but what about those who are not even capable of seeking a shelter of law. So a continuous effort of equality is required to make every one equal before law.

Impartiality

Impartiality is another form of justice, one should not be partial towards anything then only they can be justified towards decision making.

Truth

Truth is the soul of justice. Discovering real facts with evidences can be termed as truth. Till the search of truth justice could not be possible.

Respect of one’s capabilities

Capabilities of one person may differ from that of other. So capabilities of one’s should be honoured and task assigned to them must be according to their capability.

Dimensions of Justice

Legal Justice

Legal dimension of justice is very important. Expression of justice without law is not possible. In legal dictionary system of law called system of justice. Legal justice implies, Law should be just and Justice should be according to law.

To maintain the law and order in society state enact so many laws but law should be justified. A justified law should be in public Interest, Enacted by Elected representative of society and according to social acceptance.

A law is justified it's not enough; law should be followed by authorities and judiciary. As per law and order following condition should be followed

1. Everyone should be equal before law
2. Judiciary should be autonomous and independent
3. Unwanted detainment should be prevent
4. A person should not be punished till conviction is not completed.

Political Justice

Political justice assures to provide equal opportunities to all in state affairs. Political justice practices only in a democratic state. Political justice is related with political rights and equality. Political justice is concerned with following-

1. Right to vote
2. Right to election
3. Right to public offices
4. Right to critics
5. Right to hold public offices
6. Right to criticise the government and to protest
7. Right to form political parties
8. Respect of human rights
9. Protection of the interest of minorities

Social Justice

Social justice include social, economical and political, all kind of justice. Social justice demand a dignity to everyone and no discrimination made on the basis of caste, creed, sex or religion. Equal opportunity of education and development should be available, an environment of peace and harmony required for social justice. According to K. Subba Rao "In its large sense it seeks to remove the imbalances in the political, economic and social life of the people. In short social justice helps to bring about a Just society." To establish a justified society following Condition should be fulfilled –

1. Provision should be made for Prohibition of exploitation and discrimination.
2. Social order should be reviewed
3. Interests of minorities should be protected
4. Everyone should provide equality before law
5. Absence of special rights
6. Special facilities should be provided to weaker sections of society
7. Abolition of superstitions and social evils

8. Just conditions should be provided at workplace
9. To stop unequal distribution of wealth and provision should be make for equal distribution of wealth
10. Freedom of thought, expression, faith and worship should be promote.
11. Democratic Government
12. Just balance between freedom and social control should be establish.
13. Social security is the requirement of the society.

Economic Justice

To achieve a status of economic justice the state should provide welfare services to the poor and weaker sections and disparities of income were reduce through taxation ;

M.C. Setavad"Economic Justice is the provision of equal opportunities to the citizens to acquire wealth and use it for their living. It implies to these persons who are disabled or old unemployed and therefore, not in a position to acquire wealth should be helped by society to live". Following provisions are necessary to achieve the status to fulfil the economic condition.

1. Ensure decent living wages
2. Basic needs of everyone of society should be fulfilled
3. Attempt to reduce wide economic Disparities
4. Make provisions regarding to protection of interest of workers
5. Make provisions regarding special protection of the interests of weaker section
6. Attempt to Just distribution of wealth
7. Attempt to end economic exploitation

Relationship between Justice, Liberty and Equality

Relationship between justice and liberty

Liberty is primary condition of justice. In absence of liberty, who will demand the justice? When a person deprive by his liberty he will start to search for justice. Just full society have a distinguish social value.

1. Liberty never qualifiy the condition of justice until and unless it's not spread over equally.
2. Negative Liberty is against to theory of Justice.
3. Justice is provide a rational level of liberty that anybody can enjoy without appose to social interest.

Relationship between Justice and Equality

Justice is necessary to maintain the prestige and dignity of a person but it's not necessary that justice always support to equality, sometime justice support inequalities also. The concept of equality undergoes a change when there is a change in society.

In a feudal society inequality by birth is just. In a capitalist society inequality in private property is just. Although equal protection of law available for everyone but to make every one equal before law inequality is necessary on some rational ground.

Finally It concluded that without liberty we cannot think, talk or demand for justice and equality. Only a person who is achieving his state of liberty he can talk about equality and seek for justice.

Rights and recognition.

The concept of rights based ethics is that there are some rights, both positive and negative, that all humans have based only on the fact that they are human. These rights can be natural or conventional. That is, natural rights are those that are moral while conventional are those created by humans and reflect society's values. Rights Based Ethics System: Examples

- The right to life
- The right to liberty
- The right to pursue happiness
- The right to a jury trial
- The right to a lawyer
- The right to freely practice a religion of choice
- The right to express ideas or opinions with freedom as an individual
- The right of individuals or organizations to express opinions or share information freely in written medium
- The right to come together and meet in order to achieve goals
- The right to be informed of what law has been broken if arrested
- The right to call witnesses to speak on one's behalf if accused of a crime
- The right of a person to be treated with respect and dignity even after beign found guilty of a crime
- The right to freely live and travel within the country
- The right to work
- The right to marry
- The right to bear children
- The right to free education
- The right to join any peaceful parties or groups of choice
- The right to be free from slavery
- The right to not be tortured
- The right to be treated as equal to others
- The right to be considered to be innocent until proven guilty
- The right to personal privacy
- The right to own property

The idea of a good society:

A good society relies heavily on such moral dialogues to determine the values that will constitute the shared cultures of its communities; it does not merely base its values on tradition. Moreover, to ensure broad and genuine adherence to values, a good society relies on the moral voice-the informal controls members of communities exert on one another-rather than law.

The law has often been viewed as the tool of society that ensures that millions of its members will live up to the prescriptions contained in the society's values. Indeed, one obvious sociological function of the law is to prescribe how people are expected to behave (from paying taxes to meeting obligations to caring for children). The law also prescribes what people should refrain from doing (from smoking in defined public spaces to selling, buying, or consuming crack cocaine). Usually, laws also contain penalties to be meted out and sometimes rewards to be accorded for those who ignore, or live up to, these normative prescriptions.

When values are less and less heeded, it is often argued that the society requires more laws, more regulations, stronger sanctions, more law enforcement resources and powers, and more severe punishments for those who violate the laws. Indeed, in most Western societies, one can observe that over the past several decades as social order has deteriorated, there have been increasing demands for more and harsher punishments, more police, and more powers to various public authorities. However, the rising economic and social cost of this approach to value-enforcement-as demonstrated by the failing war against controlled substances and the fact that while crime; has recently declined in the United States, it is still at much higher levels than it was a generation ago-shows that the high reliance'on law enforcement for value fortification does not make for a good society

Understanding Rights Based Ethics

The United States is founded upon a Rights Based Ethics System in which citizens are believed to have certain unalienable rights. John Locke was one of the primary supporters of this type of system as it takes the perspective of what the ideal world looks like and creates a rights system based upon those ideas.

- The United States of America's Bill of Rights is a document that epitomizes the type of rights that are embraced by Rights Based Ethical Systems.
- The Universal Declaration of Human Rights is another document that embraces and

exhibits the values of a Rights Based Ethical System.

Beauchamp and Childress, authors and ethical theorists, have defined the term "right" to be a "justified claim that individuals and groups can make upon other individuals or upon society; to have a right is to be in a position to determine by one's choices, what others should do or need not do."

Rights can be legal in nature, or pertain to human rights or moral rights.

The opposite of rights based ethics are utilitarian ethics. Utilitarian ethics are based on the maximization of "good outcomes" and minimizations of "bad outcomes."

Domain of politics and ethics

Democracy and welfare state

Democracy is a form of government in which all eligible citizens are meant to participate equally – either directly or, through elected representatives, indirectly – in the proposal, development and establishment of the laws by which their society is run. While theoretically these definitions are in opposition, in practice the distinction has been blurred historically. The political system of Classical Athens, for example, granted democratic citizenship to an elite class of free men and excluded slaves and women from political participation. In virtually all democratic governments throughout ancient and modern history, democratic citizenship consisted of an elite class until full enfranchisement was won for all adult citizens in most modern democracies through the suffrage movements of the 19th and 20th centuries. The English word dates to the 16th century, from the older Middle French and Middle Latin equivalents.

Democracy contrasts with forms of government where power is either held by an individual, as in an absolute monarchy, or where power is held by a small number of individuals, as in an oligarchy. Nevertheless, these oppositions, inherited from Greek philosophyare now ambiguous because contemporary governments have mixed democratic, oligarchic, and monarchic elements. Karl Popper defined democracy in contrast to dictatorship or tyranny, thus focusing on opportunities for the people to control their leaders and to oust them without the need for a revolution.

Several variants of democracy exist, but there are two basic forms, both of which concern how the whole body of all eligible citizens executes its will. One form of democracy is direct democracy, in which all eligible citizens have direct and active participation in the political decision making. In most modern democracies, the whole body of eligible citizens remain the sovereign power but political power is exercised indirectly through elected representatives; this is called a representative democracy or democratic republic.

Non democracy

Non democracies are governments that are not democratic. Examples include totalitarian states, autocracies, despots, autarchies, and dictatorships

Welfare state:

A welfare state is a concept of government in which the state plays a key role in the protection and promotion of the economic and social well-being of its citizens. It is based on the principles of equality of opportunity, equitable distribution of wealth, and public responsibility for those unable to avail themselves of the minimal provisions for a good life. The general term may cover a variety of forms of economic and social organization. The sociologist T.H. Marshall identified the welfare state as a distinctive combination of democracy, welfare, and capitalism.

Modern welfare states include the Nordic countries, such asIceland, Sweden, Norway, Denmark, and Finland which employ a system known as the Nordic model. Esping-Andersen classified the most developed welfare state systems into three categories; Social Democratic, Conservative, and Liberal. The welfare state involves a transfer of funds from the state, to the services provided (e.g. healthcare, education) as well as directly to individuals ("benefits"). It is funded through redistributionist taxation and is often referred to as a type of "mixed economy".[Such taxation usually includes a larger income tax for people with higher incomes, called a progressive tax. This helps to reduce the income gap between the rich and poor.

Market and Globalisation.

Globalization (or globalisation) is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture.

Though scholars place the origins of globalization in modern times, others trace its history long before the European age of discovery and voyages to the New World. Some even trace the origins to the third millennium BCE. In the late 19th century and early 20th century, the connectedness of the world's economies and cultures grew very quickly.

The term globalization has been increasingly used since the mid-1980s and especially since the mid-1990s. In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization: trade and transactions, capital and investmentmovements, migration and movement of people, and the dissemination of knowledge. Further, environmental challenges such as climate change, cross-boundary water andair pollution, and over-fishing of the ocean are linked with globalization. Globalizing processes affect and are affected by business and work organization, economics, socio-cultural resources, and the natural environment

Unit II

Freedom and Determinism

The "freedom vs. determinism" controversy is a long-standing one among both philosophers and psychologists. Here a resolution to the problem is presented that is based on the simple and well-known statistical concept of "degrees of freedom." It is shown that in the larger gestalt of the situation, our consciousness and behavior are both determined in the ways that psychoanalysts and behaviorists have argued, and are free in the ways that existentialists and humanists have argued. Gestalt therapy uses the tools of focused awareness to help people become aware of internal and external determining tendencies and, when they wish, increase their freedom of choice in situations where formerly they experienced little or none.
"Is our behavior free, or is it determined? The question, typically posed in precisely this dualistic fashion, is a well-worn bone on which both philosophers and psychologists have gnawed for years, decades, centuries, even millennia. Here I will offer, I believe, an elegant solution to the controversy.

Psychoanalysts insist that that much of our behavior is determined by experiences of infancy and early childhood. Behaviorists maintain that most of what we do is controlled by the cues and reinforcers in our environment, which include the behavior of others. Existentialist philosophers and psychologists, and humanistic psychologists take precisely the opposite position, as in Jean-Paul Sartre's statement that even a man standing before a firing squad may choose to face death in a brave manner or a cowardly one, and in that sense is free. With such radically different points of view, how are we to tell who is right?

On the other hand, as Soren Kierkegaard, Jean Paul Sartre, Simone De Beauvoir, Rollo May, James Bugenthal, and Carl Rogers all emphasized, in every moment we have a chance to act differently than we have acted in similar situations in the past. And as yogis, Buddhist teachers, George Gurdjieff, and Fritz Perls and his compatriots pointed out, the more we cultivate our ability to notice what factors in our past or in our environment are influencing us at any given moment, and how we are responding to them either internally or externally, the better able we become to broaden the range of choices available to us. Personal freedom can be learned, developed, and cultivated. In a Gestalt working session, a person may be asked to exaggerate some act in order to enhance her awareness of it, which in turn opens up the possibility of doing something else. She may be asked to stop doing something she has always done, in order to discover alternatives. She may experiment with acting in ways that had been forbidden, and hence were threatening and "off limits." She may let go of a facade and find her authentic self. And so on almost *ad infinitum.*

So the larger Gestalt of the "freedom vs. determinism" issue is that the question cannot be answered abstractly except in such general terms as those offered just above. In real life it must always be answered concretely, in reference to a given person in a given situation. We can ask how many degrees of freedom that person has, what internal or external conditions are limiting him or her, and what he or she might do to open up a broader range of possibilities if that's desirable. So the next time you hear the tired old argument about whether our actions and consciousness are free or determined, just ask, "Whose?" "When?" "In what situation?" Then an answer becomes possible. And that answer can't be found by logic or argument, but only by examination of the particulars.

Libertarianism

Libertarianism (Latin: *liber*, "free") is a political philosophy that upholds liberty as its principal objective. Libertarians seek to maximize autonomy and freedom of choice, emphasizing political freedom, voluntary association and the primacy of individual judgment.

Libertarians generally share a skepticism of authority, however, they diverge on the scope of their opposition to existing political and economic systems. Various schools of libertarian thought offer a range of views regarding the legitimate functions of state and private power, often calling to restrict or even to wholly dissolve pervasive social institutions.

The term *libertarianism* originally referred to a philosophical belief in free will but later became associated with state socialism and Enlightenment-influenced political movements critical of institutional authority believed to serve forms of social domination and injustice. While it has generally retained its earlier political usage as a synonym for either social or individualist anarchism through much of the world, in the United States it has since come to describe pro-capitalist economic liberalism more so than radical, anti-capitalist egalitarianism. In the *Stanford Encyclopaedia of Philosophy*, libertarianism is defined as the moral view that agents initially fully own themselves and have certain moral powers to acquire property rights in external things. As individualist opponents of social liberalism embraced the label and distanced themselves from the word *liberal*, American writers, political parties and think tanks adopted the word *libertarian* to describe advocacy of capitalist free economics and a night-watchman state.

Morality and Society

With increasing frequency, activities in our society raise the question of what sort of moralities guiding our people. Killing without apparent remorse and a tendency to dehumanise each other are only two of the most obvious symptoms.

This is partly due to the fact that our Guyanese society is diverse, a combination of various cultures and traditions: it is heterogeneous in composition. Dynamic and changing, it is pluralistic in many ways. It has always been to some extent, morally pluralistic, and unfortunately this pluralism appears to be widening.

We can distinguish four levels of moral pluralism: radical moral pluralism, the pluralism of moral principles, the pluralism of moral practices, and the pluralism of self-realisation.

Radical moral pluralism describes that state of affairs in which people hold mutually irreconcilable views about morality, such as what the terms right and wrong mean, and which actions are right and wrong.

People who hold such radically divergent views, however, do not form a society and herein lies the danger for Guyana. To be a society, a group must accept certain fundamental practices and principles. At a basic level, for instance, there must be general agreement that life is worth living, that the lives of the members of the society should be respected, or that people will respect existing differences to the extent that they do not interfere with each other. Some people do not care whether they live or die and also believe it is their moral duty to kill others, it may not be possible to convince them they are mistaken. But people with such a view cannot form a society. To the extent that society and morality go together, the morality of a society must be a shared morality, not a radically pluralistic set of opposing moralities. The morality of the gunmen who raided communities in the not too distant past falls in this category. Yet a society may be morally pluralistic on the other three levels. Secondly, a plurality of moral principles within a society does not necessarily mean irreconcilable diversity. Pluralism on the level of moral principles is compatible with social agreement on the morality of many basic practices. Such agreement does not necessarily involve agreement on the moral principles different people use to evaluate practices. The vast majority of the members of our society, for example, agree that murder is wrong. Some members of our society operate only at the level of conventional morality, and do not ask why murder is wrong. Some may believe it is wrong because the Creator in whom they believe forbids such acts; others because it violates human dignity; others because murder has serious consequences for society as a whole, and so on. Each of these involves a different moral principle. These different principles are compatible with similarity of moral judgments.

Further, we look on the third level, where we see specific actions. On this level, we encounter a variety of moral opinions about some of them. This pluralism regarding moral practices may stem from differences of moral principles, but it may also stem from differences of fact or of perception of facts, differences of circumstances, or differences in the weighing of relevant values. Even when there is basic agreement on principles, not all moral issues are clear.

In a changing, dynamic, developing society there is certainly room for moral disagreement, even if there is unanimous agreement that what helps the society to survive is moral. New practices might be seen by conservatives as threatening the society's survival, and the same practice might be championed by others as the necessary means for survival. Pluralism of practices, however, is compatible with areas of agreement, and this is usually the case. On the fourth level of moral pluralism is that of self-realization. As long as the members of a society abide by the basic moral norms, they are allowed, in such a pluralistic society, to choose freely their other values and their lifestyles.

This constitutes a kind of moral pluralism, because self-development and fulfilment, according to some views, are moral matters.

A society that allows divergence of self-development within the basic moral framework tolerates a great many differences that would not be allowed or found in a homogeneous society.

Theories of moral reasoning-teleological and Deontological Theories.

Normative ethical systems can generally be broken down into three categories: deontological, teleological and virtue ethics. The first two are considered deontic or action-based theories of morality because they focus entirely upon the actions which a person performs. When actions are judged morally right based upon their consequences, we have teleological or consequentiality ethical theory. When actions are judged morally right based upon how well they conform to some set of duties, we have a deontological ethical theory.

Whereas these first two systems focus on the question "What should I do?," the third asks an entirely different question: "What sort of person should I be?" With this we have a virtue-based ethical theory - it doesn't judge actions as right or wrong but rather the character of the person doing the actions. The person, in turn, makes moral decisions based upon which actions would make one a good person.

Deontology and Ethics

Deontological moral systems are characterized primarily by a focus upon adherence to independent moral rules or duties. Thus, in order to make the correct moral choices, we simply have to understand what our moral duties are and what correct rules exist which regulate those duties. When we follow our duty, we are behaving morally. When we fail to follow our duty, we are behaving immorally.

Teleology and Ethics

Teleological moral systems are characterized primarily by a focus on the consequences which any action might have (for that reason, they are often referred to as consequent list moral systems, and both terms are used here). Thus, in order to make correct moral choices, we have to have some understanding of what will result from our choices. When we make choices which result in the correct consequences, then we are acting morally; when we make choices which result in the incorrect consequences, then we are acting immorally.

Virtue Ethics

Virtue-based ethical theories place much less emphasis on which rules people should follow and instead focus on helping people develop good character traits, such as kindness and generosity. These character traits will, in turn, allow a person to make the correct decisions later on in life. Virtue theorists also emphasize the need for people to learn how to break bad habits of character, like greed or anger. These are called vices and stand in the way of becoming a good person.

Unit III

Concept of business ethics

Business ethics (also **corporate ethics**) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations. Business ethics has normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

Corporate code of ethics: environment, accountability, Responsibility.

Ethical codes are adopted by organizations to assist members in understanding the difference between 'right' and 'wrong' and in applying that understanding to their decisions. An ethical code generally implies documents at three levels: codes of business ethics, codes of conduct for employees, and codes of professional practice. Many companies use the phrases 'ethical code' and 'code of conduct' interchangeably but it may be useful to make a distinction. A code of ethics will start by setting out the values that underpin the code and will describe a company's obligation to its stakeholders. The code is publicly available and addressed to anyone with an interest in the company's activities and the way it does business. It will include details of how the company plans to implement its values and vision, as well as guidance to staff on ethical standards and how to achieve them. However, a code of conduct is generally addressed to and intended for employees alone. It usually sets out restrictions on behavior, and will be far more compliance or rules focused than value or principle focused. Also this code is good for the Non Governmental Organization. Ethical codes are often adopted by management, not to promote a particular moral theory, but rather because they are seen as pragmatic necessities for running an organization in a complex society in which moral concepts play an important part.

They are distinct from moral codes that may apply to the culture, education, and religion of a whole society.

Often, acts that violate ethical codes may also violate a law or regulation and can be punishable at law or by government agency remedies.

Even organizations and communities that may be considered criminal in nature may have ethical codes of conduct, official or unofficial. Examples could include hacker communities, bands of thieves, and street gangs.

The Jewish Written Torah and Oral Torah comprise the earliest and best preserved ethical code. Adapted to every field of actual day-to-day life since thousands of years, Jewish Halakha is the oldest collective body of religious laws, laws and jurisdictions still in use.

CSR: Arguments for and against

Corporate social responsibility (**CSR**, also called **corporate conscience**, **corporate citizenship** or **sustainable responsible business/ Responsible Business**) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms. In some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law." CSR aims to embrace responsibility for corporate actions and to encourage a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.

The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly construed.

Proponents argue that corporations increase long term profits by operating with a CSR perspective, while critics argue that CSR distracts from business' economic role. A 2000 study compared existing econometric studies of the relationship between social and financial performance, concluding that the contradictory results of previous studies reporting positive, negative, and neutral financial impact, were due to flawed empirical analysis and claimed when the study is properly specified, CSR has a neutral impact on financial outcomes.

Critics questioned the "lofty" and sometimes "unrealistic expectations" in CSR. or that CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

Political sociologists became interested in CSR in the context of theories of globalization, neo liberalism and late capitalism. Some sociologists viewed CSR as a form of capitalist legitimacy and in particular point out that what began as a social movement against uninhibited corporate power was transformed by corporations into a 'business model' and a 'risk management' device, often with questionable results.

CSR Models drivers and standards

Major drivers of CSR are:

1. Shareholders

Shareholders invest in the capital of the company. The company thus holds the responsibility of a fair dividend and value of investment for the them

2. Employees

The company needs proper conditions for work, financial benefits, participation in decision making and training and motivation.

3. Customers

The customer has to be provide quality goods, complete information, customer service, need based product and regular supply of goods.

4. Community

The company owes the community a pollution free environment, promote artistic and cultural activities and support local health care programs.

5. Organisations

The organisation should have a healthy competition and share resources.

6. Government

The company owes payment of taxes, obeying the law and contributing to national goals.

Unit IV

Issues in social responsibility: Discrimination and Affirmative Action

Discrimination is action that denies social participation or human rights to categories of people based on prejudice. This includes treatment of an individual or group based on their actual or perceived membership in a certain group or social category, "in a way that is worse than the way people are usually treated". It involves the group's initial reaction or interaction, influencing the individual's actual behavior towards the group or the group leader, restricting members of one group from opportunities or privileges that are available to another group, leading to the exclusion of the individual or entities based on logical or irrational decision making.

Not all discrimination is based on prejudice, however. In the U.S., government policy known as affirmative action was instituted to encourage employers and universities to seek out and accept groups such as African-Americans and women, who have been subject to the opposite kind of discrimination for a long time. Discriminatory traditions, policies, ideas, practices, and laws exist in many countries and institutions in every part of the world, even in ones where discrimination is generally looked down upon. In some places, controversial attempts such as quotas have been used to benefit those believed to be current or past victims of discrimination—but have sometimes been called reverse discrimination themselves.

The best short definition of affirmative action is one that focuses on its aim: "to contribute to the demise of occupational segregation by reducing the racist or sexist impact which bias-free practices . . . have on women and minorities." (Ezorsky, p. 265).

Some authors distinguish two kinds of affirmative action:

Unspecific affirmative action is illustrated by "good faith" outreach efforts to recruit minorities and women (without specific numerical targets) through the advertising of positions . . . *Specific* affirmative action is exemplified in . . . setting numerical hiring goals and . . . validation of qualification requirements. (Ezorsky, *ibid.*)

("Validation of qualification requirements" means that employers must prove that tests used to determine qualifications reliably measure ability to perform the job.)

There are three common myths about affirmative action:

1. Affirmative Action means that incompetent people are given jobs for which they are unqualified.

2. Affirmative Action always involves preferential hiring or admissions for members of certain racial or gender groups.
3. When Affirmative Action involves preferential hiring or admissions, as it sometimes does, this is always discrimination in the bad sense of the term.

Diversity

In sociology and political studies, the term **diversity** (or *diverse*) is used to describe political entities (neighborhoods, student bodies, etc.) with members who have identifiable differences in their cultural backgrounds or lifestyles.

The term describes differences in racial or ethnic classifications, age, gender, religion, philosophy, physical abilities, socioeconomic background, sexual orientation, gender identity, intelligence, mental health, physical health, genetic attributes, behavior, attractiveness, or other identifying features.

In measuring human diversity, a diversity index measures the probability that any two residents, chosen at random, would be of different ethnicities. If all residents are of the same ethnic group it's zero. The diversity index does not take into account the willingness of individuals to cooperate with those of other ethnicities. If half are from one group and half from another it's .50.

Political creeds which support the idea that diversity is valuable and desirable hold that recognizing and promoting these diverse cultures may aid communication between people of different backgrounds and lifestyles, leading to greater knowledge, understanding, and peaceful coexistence. For example, "Respect for Diversity" is one of the six principles of the Global Greens Charter, a manifesto subscribed to by Green parties from all over the world. In contrast to diversity, some political creeds promote cultural assimilation as the process to lead to these ends.

Women in the Workplace: Sexual Harassment and Women's Rights.

Sexual harassment at work can have very serious consequences both for the harassed individual as well as for other working women who experience it second hand. The consequences to the individual employee can be many and serious. In some situations, a harassed woman risks losing her job or the chance for a promotion if she refuses to give in to the sexual demands of someone in authority. In other situations, the unwelcome sexual conduct of co-workers makes the working conditions hostile and unpleasant- putting indirect pressure on her to leave the job. Sometimes, the employee is so traumatized by the harassment that she suffers serious emotional and physical consequences—and very often, becomes unable to perform her job properly.

According to data complied by Equal Rights Advocates, a women's law center in the U.S., 90 to 95% of sexually harassed women suffer from some debilitating stress reaction, including anxiety, depression, headaches, sleep disorders, weight loss or gain, nausea, lowered self-esteem and sexual dysfunction. In addition, victims of sexual harassment lose $4.4 million dollars in wages and 973,000 hours in unpaid leave each year in the United States.

The consequences to working women as a group are no less serious. Sexual harassment has a cumulative, demoralizing effect that discourages women from asserting themselves within the workplace, while among men it reinforces stereotypes of women employees as sex objects. Severe or pervasive sexual harassment in certain types of businesses creates a hostile or intimidating environment that causes women to leave their jobs and look elsewhere for work or discourages them from seeking those jobs in the first place.

The effect on the morale of all employees can also be serious. Both men and women in a workplace can find their work disrupted by sexual harassment even if they are not directly involved. Sexual harassment can have a demoralizing effect on everyone within range of it, and it often negatively impacts company productivity on the whole.

Advertising and Marketing: False or Deceptive Advertising,

False advertising or **deceptive advertising** is the use of false or misleading statements in advertising, and misrepresentation of the product at hand, which may negatively affect many stakeholders, especially consumers. As advertising has the potential to persuade people into commercial transactions that they might otherwise avoid, many governments around the world use regulations to control false, deceptive or misleading advertising. "Truth" refers to essentially the same concept, that customers have the right to know what they are buying, and that all necessary information should be on the label.

False advertising, in the most blatant of contexts, is illegal in most countries. However, advertisers still find ways to deceive consumers in ways that are legal, or technically illegal but unenforceable.

Hidden fees and surcharges

Service providers often tack on the fees and surcharges that are not disclosed to the customer in the advertised price. One of the most common is for activation of services such as mobile phones and credit cards, but is also common in broadband,telephony, gym memberships, and air travel. In most cases, the fees are hidden in fine print, though in a few cases they are so confused and obfuscated by ambiguous terminology that they are essentially undisclosed. Hidden fees are frequently used in airline and air travel advertising. In the case of motor vehicles, hidden charges may include taxes, registration fees, freight, pre-delivery inspection (PDI), licenses, insurance or other costs associated with getting a vehicle on the road. Airlines and car manufacturers hire firms that disadvantage customers through:

Unfair contract terms, notably with respect to consumer compensation.

- Use customer data for purposes other than they were obtained for.
- Apply unfair fees, charges and penalties on transactions.
- Place artificial restrictions on the time period during which customers can submit claims.

For delivered items in the US, the amount of shipping and handling fees is typically not disclosed (although the fact that there will be such charges is disclosed). Advertisers will often claim an item costs "only" a small amount (or is even "free") when, in fact, the shipping charges enable them to make a profit.

"Going out of business" sales

In many cases, liquidators hired to sell merchandise from a closing store will actually raise the prices on items that were already marked-down on clearance. For items already marked down, this means the liquidator increases the price and then "discounts" it from there. By marking up their prices before discounting, these companies are maintaining their previous profit margin. Also common is for the sale prices at a retail chain's other stores to be lower than the liquidator's prices at the closing stores. Liquidators typically refuse to accept returns, so if a customer notices being overcharged, there is no apparent recourse. This is used by most advertisers trying to prove the acceptability of their products.

Misuse of the word "free"

The usual meaning of "free" is "devoid of cost or obligation". However, retailers often use the word for something which is merely included in the overall price. One common example is a "buy one, get one free" sale. The second item is not "free" under the normal definition, since, to obtain it, the buyer is obliged to pay the full cost of the first item.

Consumer Safety and Product Liability.

Product liability is the area of law in which manufacturers, distributors, suppliers and retailers are held responsible for any injuries products cause. Regardless of any contractual limitations of liability, if a product or any of its component parts are defective its manufacturer may be liable for damage under the Consumer Protection Act (CPA) or the common law of negligence.

An action under the CPA or for negligence can be brought for death,personal injury and damage caused to private property as the result of a product defect. Neither type of action can be used to compensate for pure economic or consequential loss.

This guide considers claims for a defective product under the Consumer Protection Act. See also our Out-Law Guide to Product Liability for negligence.

Liability **under Part I of the CPA**

The CPA introduced statutory liability for defective products. Liability under the CPA exists alongside liability in negligence, and in some cases a common law claim may succeed where a claim would not be available under the CPA.

The CPA applies to both products used by consumers and products used in a place of work.

The CPA imposes strict liability on manufacturers of defective products for harm caused by those products. This means thatpeople who are injured by defective products can sue for compensation without having to prove that the manufacturer was negligent. It is merely necessary to prove that the product was defective, and that any injury or damage was most likely caused by the product.

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Applicability

The CPA applies to all consumer products and products used at a place of work. The inclusion of 'products used at a place of work' extends the scope of the law to include sales of products between businesses rather than just sales to consumers if such products are used in a place of work.

A claim may be brought under the CPA by any person who is injured by a 'defective product', regardless of whether that person purchased the product. A claim may be brought for death, personal injury or damage toprivate property in excess of £275. However, no claim may be brought for damage to business property or for 'pure' economic losses. In particular, the CPA provides that a claim cannot be made for the loss of or damage to the defective product itself. Other than these restrictions, the CPA imposes no financial limit on the producer's total liability.

Who is liable?

Under the CPA, the 'producer' of a product is liable for any defects. The producer is the manufacturer of the finished product or of a component of the finished product, or any person responsible for an industrial or other process to which any essential characteristic of the product is attributable. Liability may also be imposed on any party who holds itself out to be the producer through the use of a name or trade mark, and any person who imported the product into the European Community.

As such, there may be more than one party liable under the CPA in respect of the same damage. Liability is joint and several, so the injured party may sue any or all of these people. Liability cannot be excluded or limited.

What is a 'defective product'?

A 'product' can include goods, electricity and the component parts of any product. Where a component of or raw material incorporated into a finished product is defective both the manufacturer of the component and the manufacturer of the finished product are potentially liable.

A product is defective for the purposes of the CPA if its safety, including not only the risk of personal injury but also the risk of damage to property, is "not such as persons generally are entitled to expect". A product will not generally be considered defective just because a safer version is later put on the market.

In assessing the safety of the product the court will take into account all of the circumstances, specifically including:

- all aspects of the marketing of the product;
- the use of any mark in relation to the product;

- instructions and warnings;

- What might reasonably be expected to be done with the product at the time the product was supplied.

The Moral Dimensions of Information Technology

Information ethics has been defined as "the branch of ethics that focuses on the relationship between the creation, organization, dissemination, and use of information, and the ethical standards and moral codes governing human conduct in society". It provides a critical framework for considering moral issues concerning informational privacy, moral agency (e.g. whether artificial agents may be moral), new environmental issues (especially how agents should behave in the infosphere), problems arising from the life-cycle (creation, collection, recording, distribution, processing, etc.) of information (especially ownership and copyright, digital divide, and digital rights). Information ethics is related to the fields of computer ethics and the philosophy of information.

Dilemmas regarding the life of information are becoming increasingly important in a society that is defined as "the information society". Information transmission and literacy are essential concerns in establishing an ethical foundation that promotes fair, equitable, and responsible practices. Information ethics broadly examines issues related to ownership, access, privacy, security, and community.

Professional codes offer a basis for making ethical decisions and applying ethical solutions to situations involving information provision and use which reflect an organization's commitment to responsible information service. Evolving information formats and needs require continual reconsideration of ethical principles and how these codes are applied. Considerations regarding information ethics influence "personal decisions, professional practice, and public policy". Therefore, ethical analysis must provide a framework to take into consideration "many, diverse domains" (ibid.) regarding how information is distributed.

MANAGEMENT ACCOUNTING (207)

INTRODUCTION

Management accounting can be viewed as Management-oriented Accounting. Basically it is the study of managerial aspect of financial accounting, "Accounting in relation to management function". It shows how the accounting function can be re-oriented so as to fit it within the framework of management activity.

DEFINITIONS OF MANAGEMENT ACCOUNTING

According to the Report of the Anglo-American Council of Productivity (1950) "Management accounting is the presentation of accounting information in such a way as to assist the management in creation of policy and the day to day operation of an undertaking".

NATURE OF MANAGEMENT ACCOUNTING

Nature of management accounting guides to know main characteristics of management accounting. Following are main points which shows the nature of management accounting:

1. No Fixed Norms Followed

In financial accounting, we follow different norms and rules for creating ledgers and other account books. But there is no need to follow fixed norms in management accounting.

Management accounting tool may be different from one organization to other organization. Using of different tools of management accounting is fully dependent on the persons who are using it. So, business policy of each organization affects rules and regulation of applying management accounting.

2. Increase in Efficiency

It is the nature of management accounting that it is used for increasing in the efficiency of organization. It scans the points of inefficiency through analysis of accounting information. By taking action for improving, organization can increase the efficiency.

3. Supplies Information not Decisions

Management accountant supplies accounting facts and information and also provides interpretation, but decision making is fully dependent on higher authorities. Management accounting is just guide.

4. Concerned with Forecasting

It is the temperament of management accounting that it is fully concerned with forecasting. In management accounting, historical accounting information is analyzed through common size financial statement, ratio analysis, fund flow analysis and accounting data tendency for knowing the probability of next fact. So, all these things are especially useful for forecasting.

These forecasting may be related with following things

a) sales forecasting
b) production forecasting
c) earnings forecasting
d) cost forecasting

FUNCTIONS OF MANAGEMENT ACCOUNTING

The basic function of management accounting is to assist the management in Performing its functions effectively. The functions of the management are Planning, organizing, directing and controlling. Management accounting helps in the performance of each of these functions in the following ways:

(i) Provides data: Management accounting serves as a vital source of Data for management planning. The accounts and documents are a Repository of a vast quantity of data about the past progress of the Enterprise, which are a must for making forecasts for the future.

(ii) Modifies data: The accounting data required for managerial decisions is properly compiled and classified. For example, purchase figures for Different months may be classified to know total purchases made During each period product-wise, supplier-wise and territory-wise.

(iii) Analyses and interprets data: The accounting data is analyzed Meaningfully for effective planning and decision-making. For this Purpose the data is presented in a comparative form. Ratios are Calculated and likely trends are projected.

(iv) Serves as a means of communicating: Management accounting provides a means of communicating management plans upward, downward and outward through the organization. Initially, it means identifying the feasibility and consistency of the various segments of the plan. At later stages it keeps all parties informed about the plans that have been agreed upon and their roles in these plans.

(v) Facilitates control: Management accounting helps in translating given objectives and strategy into specified goals for attainment by a specified time and secures effective accomplishment of these goals in an efficient manner. All this is made possible through budgetary control and standard costing which is an integral part of management accounting.

(vi) Uses also qualitative information: Management accounting does not restrict itself to financial data for helping the management in decision making but also uses such information which may not be capable of being measured in monetary terms. Such information may be collected form special surveys, statistical compilations, engineering records, etc.

SCOPE OF MANAGEMENT ACCOUNTING

Management accounting is concerned with presentation of accounting information in the most useful way for the management. Its scope is, therefore, quite vast and includes within its fold almost all aspects of business operations. However, the following areas can rightly be identified as falling within the ambit of management accounting:

(i) Financial Accounting: Management accounting is mainly concerned with the rearrangement of the information provided by financial accounting. Hence, management cannot obtain full control and coordination of operations without a properly designed financial accounting system.

(ii) Cost Accounting: Standard costing, marginal costing, opportunity cost analysis, differential costing and other cost techniques play a useful role in operation and control of the business undertaking.

(iii) Revaluation Accounting: This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.

(iv) Budgetary Control: This includes framing of budgets, comparison of actual performance with the budgeted performance, computation of variances, finding of their causes, etc.

(v) Inventory Control: It includes control over inventory from the time it is acquired till its final disposal.

(vi) Statistical Methods: Graphs, charts, pictorial presentation, index numbers and other statistical methods make the information more impressive and intelligible.

(vii) Interim Reporting: This includes preparation of monthly, quarterly, half-yearly income statements and the related reports, cash flow and funds flow statements, scrap reports, etc.

(viii) Taxation: This includes computation of income in accordance with the tax laws, filing of returns and making tax payments.

(ix) Office Services: This includes maintenance of proper data processing and other office management services, reporting on best use of mechanical and electronic devices.

(x) Internal Audit: Development of a suitable internal audit system for internal control.

THE MANAGEMENT ACCOUNTANT

Management Accounting provides significant economic and financial data to the management and the Management Accountant is the channel through which this information efficiently and effectively flows to the management. The Management Accountant has a very significant role to perform in the installation, development and functioning of an efficient and effect management information system.

FUNCTIONS OF MANAGEMENT ACCOUNTANT

It is the duty of the management accountant to keep all levels of management informed of their real position. He has, therefore, varied functions to perform. His important functions can be summarized as follows:

(i) Planning: He has to establish, coordinate and administer as an integral part of management, an adequate plan for the control of the operations. Such a plan would include profit planning, programmes of capital investment and financing, sales forecasts, expenses budgets and cost standards.

(ii) Controlling: He has to compare actual performance with operating plans and standards and to report and interpret the results ofoperations to all levels of management and the owners of the business. This id done through the compilation of appropriate accounting and statistical records and reports.

(iii) Coordinating: He consults all segments of management responsible for policy or action. Such consultation might concern any phase of the operation of the business having to do with attainment of objectives and the effectiveness of the organizational structures and policies.

(iv) Other functions:

- □ He administers tax policies and procedures.
- □ He supervises and coordinated the preparation of reports to governmental agencies.
- □ He ensures fiscal protection for the assets of the business through adequate internal control and proper insurance coverage.
- □ He carries out continuous appraisal economic and social forces and the government influences, and interprets their effect on the business

	FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING

PRIMARY USERS	Investors, government authorities, creditors)	Internal(Managers of business, employees)
PURPOSE OF INFORMATION	Help investors, creditors, and others make investment, credit, and other decisions	Help managers plan and control business operations
TIMELINES	Delayed or historical	Current and future oriented
RESTRICTIONS	GAAP FASB AND SEC	GAAP does not apply, but information should be restricted to strategic and operational needs
NATURE OF INFORMATION	Objective, auditable, reliable, consistent and precise	More subjective and judgmental, valid, relevant and accurate
SCOPE	Highly aggregated information about the overall organisation	Disaggregated information to support local decisions
BEHAVIOURAL IMPLICATIONS	Concern about adequacy of disclosure	Concern about how reports will affect employees behavior
FEATURES	Must be accurate and timelyCompulsory under company law Is an end in	Usually approximate but relevant and flexibleExcept for few companies, it is not mandatory Is a mean to the

1.9 LIMITATIONS OF MANAGEMENT ACCOUNTING

Management accounting, being comparatively a new discipline, suffers from certain limitations, which limit its effectiveness. These limitations are as follows:

1. Limitations of basic records: Management accounting derives its information from financial accounting, cost accounting and other records. The strength and weakness of the management accounting, therefore, depends upon the strength and weakness of these basic records. In other words, their limitations are also the limitations of management accounting.

2. Persistent efforts. The conclusions draws by the management accountant are not executed automatically. He has to convince people at all levels. In other words, he must be an efficient salesman in selling his ideas.

3. Management accounting is only a tool: Management accounting cannot replace the management. Management accountant is only an adviser to the management. The decision regarding implementing his advice is to be taken by the management. There is always a temptation to take an easy course of arriving at decision by intuition rather than going by the advice of the management accountant.

4. Wide scope: Management accounting has a very wide scope incorporating many disciplines. It considers both monetary as well as non-monetary factors. This all brings inexactness and subjectivity in the conclusions obtained through it.

5. Top-heavy structure: The installation of management accounting system requires heavy costs on account of an elaborate organization and numerous rules and regulations. It can, therefore, be adopted only by big concerns.

6. Opposition to change: Management accounting demands a break away from traditional accounting practices. It calls for a rearrangement of the personnel and their activities, which is generally not like by the people involved.

7. Evolutionary stage: Management accounting is still in its initial stage. It has, therefore, the same impediments as a new discipline will have, e.g., fluidity of concepts, raw techniques and imperfect analytical tools. This all creates doubt about the very utility of management accounting.

UNIT-2

Financial statement analysis, ratio analysis, cash flow and fund flow

FINANCIAL STATEMENTS

There are two principal statements, the balance sheet and the profit and loss account, and ancillary statement, the cash flow statement and other that are help to provide financial position of organization.

FINANCIAL STATEMENTS ANALYSIS

Financial Statements Analysis (FSA) refers to the process of the critical examination of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm.

OBJECTIVES OF THE FSA:

Broadly the objective of the FSA is to understand the information contained in financial statements with a view to know the weaknesses and strength of the firm and to make a forecast about the future prospects of the firm and thereby enabling the financial analyst to take different decisions regarding the operations of the firm. The objectives of the FSA can be identified as:

1- To assess the present profitability and operating efficiency of the firm as a whole as well as for its different departments and segments.

2- To find out the relative importance of different components of the financial position of the firm.

3- To identify the reasons for change in the profitability/financial position of the firm, and

4- To assess the short term as well as the long term liquidity position of the firm.

TECHNIQUES/TOOLS OF THE FSA

As already discussed, that the FSA can be undertaken by different persons And for different purposes, therefore, the methodology adopted for the FSA May be varying from the one situation to another. However, the following are

Some of the common techniques of the FSA:

a) Comparative financial statements

(b) Common-size financial statements,

(c) Trend percentages analysis,

(d) Ration Analysis.

COMPARATIVE FINANCIAL STATEMENTS (CFS)

In CFS, two or more BS and/or the IS of a firm are presented simultaneously in columnar form. The financial data for two or more years are placed and presented in adjacent columns and thereby the financial data is provided a times perspective in order to facilitate periodic comparison. In CFS, the BS and the IS for number of years are presented in condensed form for year-toyear comparison and to exhibit the magnitude and direction of changes.

COMMON SIZE STATEMENT (CSS)

The CSS represents the relationship of different items of a financial statement with some Common item by expressing each item as a percentage of the Common item. In Common size Balance Sheet, each item of the Balance Sheet is stated as a percentage of the total of the Balance Sheet. Similarly in Common size Income Statement, each item is stated as percentage of the Net Sales.

TREND PERCENTAGE ANALYSIS (TPA)

The TPA is a technique of studying several financial statements over a series of years. In TPA, the trend percentages are calculated for each item by taking the figure of that item for some base year as 100. So, the trend percentage is the percentage relationship, which each item of different years bears to the same item in the base year. Any year may be taken as the base year. Any year may be taken as the base year, but generally the starting/initial year is taken s the base year. So, each item for base year is taken as 100 and then the same item for other years is expressed as a percentage of the base year.

INTRODUCTION TO RATIO ANALYSIS

To evaluate the financial performance of a company, the financial ratios are used as a very sophisticate tool. But, the type of analysis varies according to the specific interests of the party involved. Trade creditors are interested primarily in the liquidity of a firm. Their claims are short term, and the ability of a firm to pay these claims is best judged by means of a thorough analysis of its liquidity. The claims of bondholders, on the other hand, are long term. Accordingly, they are more interested in the cash-flow ability of the company to service debt over the long run. The bondholder may evaluate this ability by analyzing the capital structure of the firm, the major sources and uses of funds, its profitability over time, and projections of future profitability.

Use of Financial Ratios

- allow for the direct comparison of one entity against another regardless of imbalances in size,

- provide the basis for benchmarking against a peer group of similar entities,
- can be used to understand an entity's current performance,
- should be used to optimize an entity's future performance,
- can be trended to show improvement or erosion in performance towards targeted goals,
- can be used in forecasting future performance,
- should be used in determining compensation (bonuses),
- can drive strategy within an entity as long as the ratios are aligned with the strategy

4.2 MEANING & DEFINITIONS OF FUND FLOW STATEMENT

Definitions:

"A statement of sources and application of funds is a technical device designed to analyze the changes in the financial condition of a business enterprise between two dates." Foulke

According to I.C.W.A. "Funds Flow Statement is a statement either prospective or retrospective, setting out the sources and applications of the fund of an enterprise. The purpose of the statement is to indicate clearly the requirement of funds and how they are proposed to be raised and the efficient utilization and application of the same."

FUND FLOW STATEMENT

sources	Amount	application	amount
fund from operation (balance of second step) issue of shares capital issue of debentures raising of long term loans receipts from partly paid shares , called up amount received from sales of non current or fixed assets non trading receipts such as dividend received sale of investments (Long term) decrease in working capital as per schedule of changes in working		Funds lost in operations (Balance negative in second step) . redemption of preference share capital . redemption of debentures repayment of long term loans purchase of long term loans . purchase of long term investments	

		.	
capital		non trading payments . payment of tax . payment of dividends . increase in working capital (As per positive balance of ist step)	

OBJECTIVES OF FUNDS FLOW STATEMENT

As it is clear form the above discussion the main objective of the Funds Flow Statement is to know the sources and applications of the funds within a specific time period. Some other questions are also there which can be sorted out by the help of Funds Flow Statement. These questions are:

- What happened to the net profit? Where did they go?
- How the higher dividend can be paid in case of shortage of funds?
- What are causes of the shortage of fund in spite of higher profit?
- How the fixed assets have been financed?

- How the obligations are fulfilled?
- How was the increase in working capital financed and how it will be financed in future?

IMPORTANCE OF FUNDS FLOW STATEMENT IS AS FOLLOWS:

1. Provide the information regarding changes in funds position Funds Flow Statement provides the infomations regarding the funds, from where they have procured and where they have invested meanwhile two specific dates.
2. It helps in the formation of future dividend policy Sometimes a firm has sufficient profit available for distribution as dividend but yet it may not be advisable to distribute dividend for lack of liquid or cash resources. In such cases, funds flow statement helps in the formation of a realistic dividend policy.
3. It helps in proper allocation of resources The resources of a concern are always limited and it wants to make the best use of these resources. A projected funds flow statement constructed for the future helps in making managerial decisions. The firm can plan the deployment of its resources and allocate them among various applications.
4. It act as future guide A projected funds flow statement also acts as a guide for future to the management. The management can come to know the various problems it is going to face in near future for want of funds. The firm's future needs of funds can be projected well in advance and also the timing of these needs. The form can arrange to finance these needs more effectively and avoid future problems.
5. It helps in appraising the use of working capital It helps to appraise the performance of a financial manager in utilization of the working capital and also suggested the right way to use the working capital efficiently.
6. It helps to the overall credit worthiness of a firm The financial institutions and banks such as SFI, IDBI, IFCI etc. all ask for funds flow statement constructed for a number of years before granting loans to know the creditworthiness and paying capacity of the firm. Hence, a firm seeking financial assistance firm these institutions has no alternative but to prepare funds flow statements.
7. It helps to know about the utilization of the sources It also provides the information to the managers and the another interested parties that the sources they have collected or provided where they have allocated.

LIMITATIONS

The funds flow statement also suffers from some of the limitations, which are as follows:

1-.Prepared from the final statements: The funds flow statement is prepared with the help of final statements. So all the limitations of the final statements are inherent in it.

2. Only rearrangement: The funds flow statement is only the rearrangement of the data provided by the final statements so this is not providing the actual figure and facts.

3. Past oriented: The funds flow statements provides only the historical information. They are not guiding about the future.

4. Working capital oriented: It concentrates on the concept of the working capital and show the position of the working capital in the concern while changes in cash are more important and relevant for financial management than the working capital.

CASH FLOW STATEMENT

MEANING OF THE CASH FLOW STATEMENT

Cash Flow Statement is a statement that describes the inflow (sources) and outflow (applications) of cash and cash equivalent in an enterprise during a specified period of time. Such a statement enumerates net effect of the various business transactions on cash and its equivalent and takes into account receipts and disbursement of cash. Cash flow statement summaries the causes of changes in cash position of a business enterprise between dates of two balance sheets. According to AS-3 (revised), an enterprise should prepare a cash flow statement and should present it for each period for which financial statements are prepared.

PURPOSE AND USES OF CASH FLOW STATEMENT

Cash flows helpful in assessing the following:

1. It is very useful in the evaluation of cash position of a firm.

2-. A projected cash flow statement can be prepared in order to know the future cash position of a concern so as to enable a firm to plan and coordinates its financial operations properly.

3. A comparison of historical and projected cash flow statement can be made so as to find the variation and deficiency or otherwise in the performance so as to enable the firm to take immediate and effective actions.

4. A series of intra firm and inter firm cash flow statement reveals whether the firm’s liquidity is improving or deteriorating over a period of time.

5. Cash flow statement helps in planning the repayment of loans, replacement of fixed assets and

other similar long term planning of cash.

6. Cash flow analysis is more useful and appropriate than funds flow analysis for short-term financial analysis as in a very short period it is cash, which is more relevant, then the working capital for forecasting the ability of the firm to meet its immediate obligations.

7. Cash flow statement prepared according to AS-3 is more suitable for making comparison than the funds flow statement, as there is no standards format used for the same.

8. Cash flow statement provides information of all activities classified under operating, investing and financing activities.

STRUCTURE OF CASH FLOW STATEMENT

According to AS-3, the cash flow statement should report cash flows during the period classified by operating, investment and financing activities as follows:

- Cash flow from operating activities
- Cash flow from investing activities
- Cash flow from financing activitiesRELATIONSHIP BETWEEN FUNDS FLOW STATEMENT AND CASH FLOW STATEMENT

s.no	. Basis of difference	Funds flow statement	Cash flow statement
1	Concept	It is based on wider concept of funds i.e. working capital	It is based on narrower concept of funds i.e. cash
2	Accounting	It is based on accrual basis of accounting	It is based on cash basis of accounting
3	Schedule of changes in working capital	Schedule of changes in working capital is prepared to show the changes in current assets and current liabilities	No such schedule of changes in working capital is prepared

4	Method of preparing	Funds flow statement reveals the sources and applications of funds. The net difference between sources and applications of funds represents net increase or decrease in working capital.	It is prepared by classifying all cash inflows and outflows in term of operating, investing, and financing activities. The net difference represents the net increase or decrease in cash and cash equivalents
5	Basis of usefulness	It is useful in planning intermediate and long term financing	It is more useful it is more useful for short term analysis and cash planning of the business.

UNIT -3

STANDARD COSTING AND VARIANCE ANALYSIS

Aim of this costing method eliminating wastes and increasing efficiency in Performance through setting up standards or formulating different cost plans.

MEANING OF STANDARD COST AND STANDARD COSTING

The word ‘standard’ means a benchmark or gauge. The ‘standard cost’ Is a predetermined cost which determines in advance what each Product or service should cost under given circumstances. Backer and Jacobsen define “Standard cost is the amount the firm thinks a Product or the operation of a process for a period of time should cost, based upon certain assumed conditions of efficiency, economic conditions and other factors.

STANDARD COSTING Vs. BUDGETARY CONTROL

Although budgetary control and standard costing both are based on some common principles; both are pre-determined, comparison will be made with the actual costs and both system need a revision of the standards or the budget, these two systems have certain differences which are as follows:

1. Budgetary control deals with the operation of a department or the business as a whole in terms of

revenue and expenditure. Standard costing is a system of costing which makes a comparison between standard costs of each product or service with its actual cost.

2. Budgetary control covers as a whole in terms of revenue and expenditures such as purchases, sales, production, finance etc. Standard costing is related to a product and its cost only.

3. Budgetary control is applicable to utmost all business organizations. Standard costing is applicable to manufacturing concerns producing standard products and services.

4. Budgetary control is concerned with a specific period and is based on the totals of amounts. Standard costing is concerned with the standard costs, which are worked out generally per unit of production.

5. Budgetary control is not based on standard costing system. Standard costing cannot exist in the absence of a budgetary control system.

STANDARD COSTS AND ESTIMATED COSTS

Estimates are the expressions of of opinion based upon past experiences whereas the standard costs are based upon standard rate that are very carefully developed and set as scientifically as possible. However, both estimated costs and standard costs are related to future period of time but there are some significant differences between them. Some major differences between standard costs and estimated costs are listed below:

1. Estimated costs are the expressions of opinion based upon experience. Standard costs are based upon standard rates that are carefully developed and set as scientifically as possible.

2. Estimated costs are used by those firms that follow historical costing system. Standard costs are used by those organizations that follow standard costing.

3. Estimated costs are based on actual costs and anticipated costs. Standard costs are fixed after scientific analysis of relevant cost elements.

4. Estimated costs are based on approximation. Standard costs are based upon specifications.

5. Estimated costs are normally used as guideline for price determination, quoting the selling price etc. Main purpose of standard costs is to serve as a tool for cost control.

ADVANTAGES OF STANDARD COSTING

Standard costing is not only helpful for cost control purposes but it is also useful in Production planning and policy formulation. It derives following advantages:

1. Measurement of Efficiency: It is a tool for assessing the efficiency after Comparing the actual costs with standard costs to enable the management to evaluate Performance of various cost centers. By comparing actual costs with standard costs Variances are determined and management is able to identify the place of Inefficiencies. It can fix responsibility for deviation in performance. A regular check On various expenditures is also ensured by standard costing system. The standards are Being constantly analyzed and an effort is made to improve efficiency. Whenever a Variance occurs the reasons are studied and immediate corrective measures are Undertaken.

2. Production and Price Policy Formulation: It becomes easy to formulate Production plans by taking into account standard costs. It is also supportive for Finding prices of various products. In case, tenders are to be submitted or prices are to Be quoted in advance then standard costing produces necessary data for price fixation.

3. Reduction of Work: In this system, management is supplied with useful Information and necessary information is recorded and redundant data are avoided. The report presentation is simplified and only required information is presented in Such a form that management is ableto interpret the information easily and usefully. Therefore, standard costing reduces clerical work to a considerable extent

5. Management by Exception: Management by exception means that Everybody is given a target to be achieved and management need not supervise each And everything. The responsibilities are fixed and everybody tries to achieve his Targets. If the things are going as per targets then the management needs not to bother. Management devotes its time to other important things. So, management by exception Is possible only when targets of work can be fixed. Standard costing enables the Determination of targets.

LIMITATIONS OF STANDARD COSTING

Besides all the above benefits derived from this system, it has a number of limitations, which are discussed as follows:

1. Standard costing cannot be used in those concerns where non-standard products are produced.

2. The time and motion study is required to be undertaken for the process of setting up standards. These studies require a lot of time and money. Further, the process of setting up standards is a difficult task, as it requires technical skill.

3. There are no inset circumstances to be considered for fixing standards. With the change in circumstances the standards are also to be revised. The revision of standard is a costly process.

4. This system is expensive and small concerns may not afford to bear the cost. For small concerns the utility from this system may be less than the cost involved in it.

5. The fixing of responsibility is not an easy task. The variances are to be classified into controllable and uncontrollable variances. The responsibility can be fixed only for controllable variances not in the case of uncontrollable.

6. he industries liable for frequent technological changes will not be suitable for standard costing system. The change in production process will require a revision of standard. A frequent revision of standard will be costly. So this system will not be useful for industries where methods and techniques of production are fast changing.

PRELIMINARIES FOR ESTABLISHING STANDARD COSTING SYSTEM

The establishment of a standard costing system involves the following steps:

1. Determination of Cost Centre: A cost centre may be a department or part of a department or item of equipment or machinery or a person or a group of persons in respect of which costs are accumulated and one where control can be exercised. Cost centres are necessary for determining the costs.

2. Classification of Accounts: Classification of accounts is necessary to meet a required purpose i.e., function, asset or revenue item. Codes can be used to have a speedy collection of accounts. A standard is a predetermined measure of material, labour and overheads. It may be expressed in quantity and its monetary measurements in standard costs.

3. Types of Standards: The standards are classified into three categories:

(i) Current Standard. A current standard is a standard which is established for use over a short period of time and is related to current condition. It reflects the performance which should be accomplished during the current period. The period for current standard is normally one year. It is supposed that the conditions of production will remain unchanged. In case there is any change in price or manufacturing condition, the standards are also revised. Current standard may be ideal standard and expected standard.

(a) Ideal Standard. The standard represents a high level of efficiency. It is fixed on the assumption that favourable conditions will prevail and management will be at its best. The price paid for materials will be lowest and wastages cost of labour and overhead expenses will be minimum possible.

(b) Expected Standard. This standard is based on expected conditions. It is the target which can be achieved if expected conditions prevail. All existing facilities and expected changes are taken into consideration while fixing these standards. An allowance is given for human error and normal deficiencies. It is realistic and an attainable and it is used for fixing efficiency standard.

(ii) Basic Standard: A basic standard is established for use for an indefinite period or a long period. These standards are revised only on the changes in specification of material and technology production.

(iii) Normal Standard: Normal standard is a standard which is anticipated can be attained over a future period of time, preferably long enough to cover one trade cycle. This standard is based on the conditions which will cover a future period, say 5 years, concerning one trade cycle. If a normal cycle of ups and downs in sales and production is 10 years then standard will be set on average sales and production which will cover all the years.

4. Organisation for Standard Costing: In a business concern a standard costing committee is formed for the purpose of setting standards. The committee includes production manager, purchase manager, sales manager, personnel manager, chief engineer and cost accountant. The Cost Accountant acts as a coordinator of this committee. He supplies all information for determining the standard and later on coordinates the costs of different departments. He also informs the committee about the change in price level, etc. The committee may revise the standards in the light of the changed circumstances.

5. Setting of Standards: The standard for direct material, direct labour and overhead expenses are fixed. The standards for direct material, direct labour and overheads should be set up in a systematic way so that they can be used as a tool for cost control easily.

ANALYSIS OF VARIANCES

The divergence between standard costs, profits or sales and actual costs, profits or sales respectively will be known as variances. The variances may be favourable and unfavourable. If actual cost is less the standard cost and actual profit and sales are more than the standard profits and sales, the variances will be favourable. On the contrary if actual cost is more than the standard cost and actual profit and sales are less than the standard profits and sales, the variances will be unfavourable

DIRECT MATERIAL VARIANCES

Direct material variances are also known as material cost variances. The material cost variance is the difference between the standard cost of materials that should have been incurred for manufacturing the actual output and the cost of materials that has been actually incurred.

Material Cost Variance comprises of:

- Material Price Variance
- Material Usage Variance
- material Mix Variance

- Material Yield Variance.
- Material sub usage variance.

The following equations may be used for verification of material cost variances.

(i) MCV=MPV+MUV or MPV+MMV+MYV

(ii) MUV=MMV+MYV

(a) Materials Cost Variance: Material cost variance is the difference between standard materials cost and actual materials cost. Material cost variance arises due to change in price of materials and variations in use of quantity of Material cost variance is ascertained as such:

Standard Material Cost = Standard Price per unit x Standard Quantity of materials Actual Material Cost = Actual price per unit x Actual quantity of materials.

NOTE-If the standard cost is more than the actual cost, the variance will be favourable and on the other hand, if the actual cost is more than the standard cost, the variance will be unfavourable or adverse.

(b) Materials Price Variance

Materials Price Variance= Actual Quantity (Standard price–Actual price)

NOTE-If the answer is in plus, the variance will be favourable and it will be unfavourable if the result is in negative.

(c) Material Usage Variance.

Materials usage variance= Standard Price (Standard Quantity – Actual Quantity)

NOTE- If the answer from the above mentioned formula is in plus, the variance will be a favourable variance but if the answer is in minus the variance will be unfavourable or adverse. .

(d) Material Mix Variance: Materials mix variance is that part of material usage variance which arises due to changes in standard and actual composition of mix.

The variance is calculated under two situations:

(i) When actual weight of mix is equal to standard weight of mix, and

(ii) When actual weight of mix is different from the standard mix.

(i) When Actual Weight and Standard Weight of Mix is Equal In this case the formula for calculating mix variance is :

Materials Mix variance=Standard unit cost (Standard Quantity – Actual Quantity)

(ii) When Actual Weight and Standard Weight of Mix are Different

When quantities of actual material mix and standard material mix are different, the formula will be:

Materials Mix variance=Standard unit cost (Revised Standard Quantity – Actual Quantity)

e) Materials Yield Variance. This is the sub-variance of material usage variance. It results from the difference between actual yield and standard yield. It may be defined as that portion of the direct materials usage variance which is due to the standard yield specified and the actual yield obtained. It may arise due to low quality of materials, defective methods of production, carelessness in handling materials, etc. Material yield variance is calculated with the following formula:

Material Yield Variance=Standard Rate (Actual yield – Standard yield)

DIRECT LABOUR VARIANCES

Labour Variances are discussed as follows:

(a) Labour Cost Variance

Labour Cost Variance or Direct Wage Variance is the difference between the standard direct wages specified for the activity and the actual wages paid. It is the function of labour rate of pay and labour time variance. It arises due to a change in either a wage rate or in time or in both. It is calculated as follows:

LabourCostVariance=StandardLabourCost–ActualLabourCost

Or (Standard time standard x Wage Rate) – (Actual Time x Actual Wage Rate)

(b) Labour Rate of Pay or Wage Rate Variance

The wage rates are determined by demand and supply conditions of labour conditions in labour market, wage board awards, etc. So, wage rate variance is generally uncontrollable except if it arises due to the development of wrong grade of labour for which production foreman will be responsible. This variance is calculated by the formula:

LabourRateofPayVariance=Actualtime(StandardRate–ActualRate)

The variance will be favourable if actual rate is less than the standard rate and it will be unfavourable or adverse if actual rate is more than the standard rate.

(c) Labour Efficiency or Labour Time Variance

It is that part of labour cost variance which arises due to the difference between standard labour hours specified and the actual labour hours spent. It helps in controlling efficiency of workers. Labour efficiency variance is calculated as:

Labour efficiency variance = Standard Wage Rate (Standard Time–Actual Time).

NOTE-If actual time taken for doing a work is more than the specified standard time, the X Standard Cost of Standard Labour Mix variance will be unfavourable. On the other hand, if actual time taken for a job is less than the standard time, the variance will be favourable.

(d) Idle Time Variance

This variance is the standard cost of actual time paid to workers for which they have not worked due to abnormal reasons. The Reasons for idle time may be power failure, defect in machinery, and non supply of materials, etc. Idle time variance should be segregated from the labour efficiency variance otherwise it will show inefficiency on the part of workers though they are not responsible for this. Idle time variance is always adverse and needs investigation for its causes. This variance is calculated as:

Idle Time Variance-Idle Hours x Standard Rate

(e) Labour Mix or Gang Composition Variance

This variance arises due to change in the actual gang composition than the standard gang composition. This variance shows to the management how much labour cost variance is due to the change in labour composition.

It may be calculated in two ways:

(i) When standard and actual times of the labour mix are same. In this case the variance is calculated as follows: .

Labour Mix Variance = Standard Cost of Standard Labour Mix – Standard Cost of Actual Labour Mix.

(ii) When standard and actual time of labour mix are different:

In this case the variance will be calculated as follows:

Labour Mix Variance = Standard Cost of Standard Labour Mix – Standard Cost of Actual Labour Mix

5-. Periodic in nature: It only reveals the changes in the working capital position in the concern between to specific dates. It cannot reveal continuous changes.

6- Not a substitute: It is not a substitute of an income statement or a balance sheet, it provide only some additional information as regards changes in working capital.

BUDGETARY CONTROL

Structure

Definition of Budget

Objectives of Budgetary Control

Scope and Techniques of Budgetary Control

Requisites for Effective Budgetary Control

Organization for Budgetary Control

Advantages and Limitations of Budgetary Control

Types of Budgets

Definition of Budget

The Chartered Institute of Management Accountants, England, defines a ‘budget’ as under: “A financial and/or quantitative statement, prepared and approved prior to define period of time, of the policy to be perused during that period for the purpose of attaining a given objective.”

According to Brown and Howard of Management Accountant “a budget is a predetermined statement of managerial policy during the given period which provides a standard for comparison with the results actually achieved.”

An analysis of the above said definitions reveal the following essentials of a budget:

1. It is prepared for a definite future period.
2. It is a statement prepared prior to a defined period of time.
3. The budget is monetary and/or quantitative statement of policy.
4. The budget is a predetermined statement and its purpose is to attain a given objective.

A budget, therefore, be taken as a document which is closely related to both the managerial as well as accounting functions of an organization.

Forecast Vs Budget

Forecast is mainly concerned with an assessment of probable future events. Budget is a planned result that an enterprise aims to attain. Forecasting precedes preparation of a budget as it is an important part of the budgeting process. It is said that the budgetary process is more a test of forecasting skill than anything else. A budget is both a mechanism for profit planning and technique of operating cost

control. In order to establish a budget it is essential to forecast various important variables like sales, selling prices, availability of materials, prices of materials,
wage rates etc. both budgets and forecasts refer to the anticipated actions and events. But still there are wide differences between budgets and forecasts as given below:

Budgetary control

Budgetary control is the process of establishment of budgets relating to various activities and comparing the budgeted figures with the actual performance for arriving at deviations, if any.
Accordingly, there cannot be budgetary control without budgets. Budgetary control is a system which uses budgets as a means of planning and controlling.
According to I.C.M.A. England Budgetary control is defined by Terminology as “the establishment of budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with the budgeted results, either to secure by individual actions the objectives of that policy or to provide a basis for its revision”. Brown and Howard defines budgetary control is “a system of controlling costs which includes the preparation of budgets, co-ordinating the department and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability.”
The above definitions reveal the following essentials of budgetary control:

1. Establishment of objectives for each function and section of the organization.
2. Comparison of actual performance with budget.
3. Ascertainment of the causes for such deviations of actual from the budgeted performance.

4. Taking suitable corrective action from different available alternatives to achieve the desired objectives.

Objectives of Budgetary Control

Budgetary control is planning to assist the management for policy formulation, planning, controlling and co-ordinating the general objectives of budgetary control and can be stated in
the following ways:

1. Planning: A budget is a plan of action. Budgeting ensures a detailed plan of action for a business over a period of time.
2. Co-ordination: Budgetary control co-ordinates the various activities of the entity or organization and secure co-operation of all concerned towards the common goal.

3. Control: Control is necessary to ensure that plans and objectives are being achieved. Control follows planning and co-ordination. No control performance is possible without predetermined standards. Thus, budgetary control makes control possible by continuous measures against predetermined targets. If there is any variation between the budgeted performance and the actual performance the same is subject to analysis and corrective action.

Scope and Techniques of Budgetary Control Scope:

1. Budgets are prepared for different functions of business such as production, sales etc. Actual results are compared with the budgets and control is exercised.
2. Budgets have a wide range of coverage of the entire organization. Each operation or process is divided into number of elements and standards are set for each such element.
3. Budgetary control is concerned with origin of expenditure at functional levels.
4. Budget is a projection of financial accounts whereas standard costing projects the cost accounts.

Technique:

1. Budgetary control is exercised by putting budgets and actual side by side. Variances are not normally revealed in the accounts.
2. Budgetary control system can be operated in parts. For example, advertisement budgets, research and development budgets, etc.
3. Budgetary control of expenses is broad in nature.

Requisites for Effective Budgetary Control

The following are the requisites for effective budgetary control:

1. Clear cut objectives and goals should be well defined.
2. The ultimate objective of realising maximum benefits should always be kept uppermost.
3. There should be a budget manual which contains all details regarding plan and procedures for its execution. It should also specify the time table for budget preparation for approval, details about responsibility, cost centers etc.
4. Budget committee should be set up for budget preparation and efficient of the plan.
5. A budget should always be related to a specified time period.
6. Support of top management is necessary in order to get the full support and cooperation of the system of budgetary control.
7. To make budgetary control successful, there should be a proper delegation of authority and responsibility.
8. Adequate accounting system is essential to make the budgeting successful.
9. The employees should be properly educated about the benefits of budgeting system.

10. The budgeting system should not cost more to operate than it is worth.

11. Key factor or limiting factor, if any, should consider before preparation of budget.

12. For budgetary control to be effective, proper periodic reporting system should be introduced.

Organization for Budgetary Control

In order to introduce budgetary control system, the following are essential to be considered for a sound and efficient organization. The important aspects to be considered are explained as follows:

1. Organisation chart: For the purpose of effective budgetary control, it is imperative on the part of each entity to have definite 'plan of organization'. This plan of organization is embodied in the organization chart. The organization chart explaining clearly the position of each executive's authority and responsibility of the firm. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets. An organization chart for budgetary control is given showing clearly the type of budgets to be prepared by the functional heads.

Organization Chart Chairman

Budget Officer Budget Committee (All Functional Heads)

Purchase Production Sales Personnel Finance Accounts Manager Manager Manager Manager Manager Manager

(Purchase & (Production (Sales Budget (Labour (Cash Budget (Cost Material Budget Plant Advertising Budget) & Income & Budget) Budget) Utilization Budget & Expenditure Budget)

Cost Budget Budget)

From the above chart we can observe that the chairman of the company is the overall in charge of the functions of the Budgeted Committee. A Budget Officer is the convener of the budget committee, who helps in co-ordination. The Purchase Manager, Production Manager, Sales Manager, Personnel Manager, Finance Manager and Account Manager are made responsible to prepare their budgets.

2. Budget Center: A budget center is defined by the terminology as 'a section of the organization of an undertaking defined for the purpose of budgetary control'. For effective budgetary control budget centre or departments should be established for each of which budget will be set with the help of the head of the department concerned.

3. Budget officer: Budget officer is usually some senior member of the accounting staff who controls the budgetary process. He does not prepare the budget himself, but facilitates and coordinates the budgeting activity. He assists the individual departmental heads and the budget committee, and ensures that their decisions are communicated to the appropriate people.

4. Budget committee: Budget committee comprising of the Managing Director, the Production Manager, Sales Manager and Accountant. The main objective of this committee is to agree on all departmental budgets, normal standard hours and allocations. In small concerns, the Budget Officer may co-ordinate the work for preparation and implementation of budgets. In large-scale concern a budget committee is setup for preparation of budgets and execution of budgetary control.

5. Budget manual: A budget manual has been defined as 'a document which set out the responsibilities of persons engaged in the routine of and the forms and records required for budgetary control". It contains all details regarding the plan and procedures for its execution. It also specifies the time table for budget preparation to approval, details about responsibility, cost centres, constitution and organisation of budget committee, duties and responsibilities of budget officer.

6. Budget period: A budget is always related to specified time period. The budget period is the length of time for which a budget is prepared and employed. The period may depend upon the type of budget. There is no specific period as such. However, for the sake of convenience, the budget period may be fixed depending upon the following factors:

(a) Types of business

(b) Types of budget

(c) Nature of the demand of the product

(d) Length of trade cycle

(e) Economic factors

(f) Availability of accounting period

(g) Availability of finance

(h) Control operation Key Factor

Key Factor is also called as 'Limiting Factor' or Governing Factor. While preparing the budget, it is necessary to consider key factor for successful budgetary control. The influence of the Key Factor which dominates the business operations in order to ensure that the functional budgets are reasonably capable of fulfilment. The key factors include- raw materials may be in short supply, non-availability of skilled labours, Government restrictions, limited sales due to insufficient sales promotion, shortage of power, underutilization of plant capacity, shortage of efficient executives, management policies regarding lack of capital, and insufficient research into new product developments.

Advantages and Limitations of Budgetary Control

The advantages of budgetary control may be summarized as follows:

1. It facilitates reduction of cost.
2. Budgetary control guides the management in planning and formulation of policies.

3. Budgetary control facilitates effective co-ordination of activities of the various departments and functions by setting their limits and goals.

4. It ensures maximization of profits through cost control and optimum utilization of resources.

5. It evaluates for the continuous review of performance of different budget centres.

6. It helps to the management efficient and economic production control.

7. It facilitates corrective actions, whenever there are inefficiencies and weaknesses comparing actual performance with budget.It guides management in research and development.

From the above it is clear that the budgetary control is an effective tool for management control. However, it has certain important limitations which are identified below:

1. The budget plan is based on estimates and forecasting. Forecasting cannot be considered to be an exact science. If the budget plans are made on the basis of inaccurate forecasts then the budget programme may not be accurate and ineffective.

2. For reason of uncertainty about future, and changing circumstances which may develop later on, budget may prove short or excess of actual requirements.

3. Effective implementation of budgetary control depends upon willingness, cooperation and understanding among people reasonable for execution. Lack of cooperation leads to inefficient performance.

4. The system does not substitute for management. It is like a management tool.

5. Budgeting may be cumbersome and time consuming process.

Types of Budgets

As budgets serve different purposes, different types of budgets have been developed. The following are the different classification of budgets developed on the basis of time, functions, and flexibility or capacity.

(A) Classification on the basis of Time:

1. Long-term budgets
2. Short-term budgets
3. Current budgets

(B) Classification according to functions:

1. Functional or subsidiary budgets
2. Master budgets

(C) Classification on the basis of capacity:

1. Fixed budgets.
2. Flexible budgets

(A) Classification on the basis of time

1. Long-term budgets: Long-term budgets are prepared for a longer period varies between five to ten years. It is usually developed by the top level management. These budgets summarise the general plan of operations and its expected consequences. Long-term budgets are prepared for important activities like composition of its capital expenditure, new product development and research, long-term finance etc.

2. Short-term budgets: These budgets are usually prepared for a period of one year. Sometimes they may be prepared for shorter period as for quarterly or half yearly. The scope of budgeting activity may vary considerably among different organization.

3. Current budgets: Current budgets are prepared for the current operations of the business. The planning period of a budget generally in months or weeks. As per ICMA London, "Current budget is a budget which is established for use over a short period of time and related to current conditions."

(b) Classification on the basis of function

1. Functional budget: The functional budget is one which relates to any of the functions of an organization. The number of functional budgets depends upon the size and nature of business. The following are the commonly used:

(i) Sales budget
(ii) Purchase budget
(iii) Production budget
(iv) Selling and distribution cost budget
(v) Labour cost budget
(vi) Cash budget
(vii) Capital expenditure budget

2. Master budget: The master budget is a summary budget. This budget encompasses all the functional activities into one harmonious unit. The ICMA England defines a Master Budget as the summary budget incorporating its functional budgets, which is finally approved, adopted and employed.

(C) Classification on the basis of capacity

1. Fixed budget: A fixed budget is designed to remain unchanged irrespective of the level of activity actually attained.

2. Flexible budget: A flexible budget is a budget which is designed to change in accordance with the various level of activity actually attained. The flexible budget also called as Variable Budget or Sliding Scale Budget, takes both fixed, variable and semi fixed manufacturing costs into account.

Control Ratios

Ratios are used by the management to determine whether performance of its activities is going on as per estimates or not. If the ratio is 100% or more, the performance is considered as unsatisfactory. The following are the ratios generally calculated for performance evaluation.

1. Capacity ratio: This ratio indicates the extent to which budgeted hours of activity is actually utilised.

Capacity Ratio = Actual hours worked production Budget hours × 100

2. Activity ratio: This ratio is used to measure the level of activity attained during the budget period.

Activity ratio = Standard hours for actual production Budgeted hours × 100

3. Efficiency ratio: This ratio shows the level of efficiency attained during the budget period

Efficiency ratio = Standard hours for actual production Actual horus worked × 100

4. Calendar ratio: This ratio is used to measure the proportion of actual working days to budgeted working days in a budget period.

Calendar ratio = Numbr of actual working days in a period Budgeted working days for the period × 100

Sales Budget

Sales budget is one of the important functional budgets. Sales estimate is the commencement of budgeting may be made in quantitative terms. Sales budget is primarily concerned with forecasting of what products will be sold in what quantities and at what prices during the budget period. Sales budget is prepared by the sales executives taking into account number of relevant and influencing factors such as: Analysis of past sales, key factors, market conditions, production capacity, government restrictions, competitor's strength and weakness, advertisement, publicity and sales promotion, pricing policy, consumer behaviour, nature of business, types of product, company objectives, salesmen's report, marketing research's reports, and product life cycle.

Production Budget

Production budget is usually prepared on the basis of sales budget. But it also takes into account the stock levels desired to be maintained. The estimated output of business firm during a budget period will be forecast in production budget. The production budget determines the level of activity of the produce business and facilities planning of production so as to maximum efficiency. The production budget is prepared by the chief executives of the production department. While preparing the production budget, the factors like estimated sales, availability of raw materials, plant capacity, availability of labour, budgeted stock requirements etc. are carefully considered.

Cost of Production Budget

After preparation of production budget, this budget is prepared. Production cost budgets show the cost of the production determined in the production budget. Cost of production budget is grouped in to material cost budget, labour cost budget and overhead cost budget. Because it break up the cost of each product into three main elements material, labour and overheads.

Overheads may be further subdivided in to fixed, variable and semi-fixed overheads. Therefore separate budgets required for each item.

Material Purchase Budget

The different levels of material stock are based on planned out. Once the production budget is prepared, it is necessary to consider the requirement of materials to carryout the production activities. Material purchase budget is concerned with purchase and requirement of direct materials to be made during the budget period. While preparing the materials purchase budget, the following factors to be considered carefully:

1. Estimated sales and production.
2. Requirement of materials during budget period.
3. Expected changes in the prices of raw materials.
4. Different stock levels, EOQ etc.
5. Availability of raw materials, i.e., seasonal or otherwise.
6. Availability of financial resources.
7. Price trend in the market.
8. Company’s stock policy etc.

Cash Budget

This budget represents the anticipated receipts and payment of cash during the budget period. The cash budget also called as Functional Budget. Cash budget is the most important of the entire functional budget because, cash is required for the purpose to meeting its current cash obligations. If at any time, a concern fails to meet its obligations, it will be technically insolvent. Therefore, this budget is prepared on the basis of detailed cash receipts and cash payments. The estimated cash receipts include: cash sales, credit sales, collection from sundry debtors, bills receivable, interest received, income from sale of investment, commission received, dividend received and income from non-trading operations etc.

The estimated cash payments include the following:

1. Cash purchase
2. Payment to creditors
3. Payment of wages
4. Payments relate to production expenses
5. Payments relate to office and administrative expenses
6. Payments relate to selling and distribution expenses
7. Any other payments relate to revenue and capital expenditure
8. Income tax payable, dividend payable etc.

Master Budget

When the functional budgets have been completed, the budget committee will prepare a master budget for the target of the concern. Accordingly a budget which is prepared incorporating the summaries of all functional budgets. It comprises of budgeted profit and loss account, budgeted balance sheet, budgeted production, sales and costs. The ICMA England defines a Master Budget as 'the summary budget incorporating its functional budgets, which is finally approved, adopted and employed'. The master budget represents the activities of a business during a profit plan. This budget is also helpful in coordinating activities of various functional departments.

Fixed Budget

A budget is drawn from a particular level of activity is called fixed budget. According to ICWA London 'Fixed budget is a budget which is designed to remain unchanged

irrespective of the level of activity actually attained." Fixed budget is usually prepared before the beginning of the financial year. This type of budget is not going to highlight the cost variance due to the difference in the levels of activity. Fixed budgets are suitable under static conditions.

Flexible Budget

Flexible budget is also called variable or sliding scale budget, 'takes both the fixed and manufacturing costs into account. Flexible budget is the opposite of static budget showing the expected cost at a single level of activity. According to ICMA, England defined Flexible Budget is a budget which is designed to change in accordance with the level of activity actually attained."

According to the principles that guide the preparation of the flexible budget a series of fixed budgets are drawn for different levels of activity. A flexible budget often shows the budgeted expenses against each item of cost corresponding to the different levels of activity. This budget has come into use for solving the problems caused by the application of the fixed budget.

Advantages of flexible budget

1. In flexible budget, all possible volume of output or level of activity can be covered.
2. Overhead costs are analysed into fixed variable and semi-variable costs.
3. Expenditure can be forecasted at different levels of activity.
4. It facilitates at all times related factor can be compared, which essential for intelligent decision are making.
5. A flexible budget can be prepared with standard costing or without standard costing depending upon what the company opts for.
6. A flexible budget facilitates ascertainment of costs at different levels of activity, price fixation, placing tenders and quotations.
7. It helps in assessing the performance of all departmental heads as the same can be judged by terms of the level of activity attained by the business.

Method of preparing flexible budget

The following methods are used in preparing a flexible budget:

1. Multi-activity method
2. Ratio method
3. Charting method.

1. Multi-Activity method: This method involves preparing a budget in response to different level of activity. The different level of activity or capacity levels are shown in Horizontal columns, and the budgeted figures against such levels are placed in the Vertical Columns. The expenses involved in production as per budget are grouped as fixed, variable and semi variable.
2. Ratio method: According to this method, the budget is prepared first showing the expected normal level of activity and the estimated variable cost per unit at the side expected level of activity in addition to the fixed cost as estimated. Therefore, the expenses as per budget, allowed for a particular level of activity attained, will be calculated on the basis of the following formula: Budgeted fixed cost + (Variable cost per unit of activity × Actual unit of activity).
3. Charting method: Under this method total expenses required for any level of activity, are estimated having classified into three categories, viz., variable, semi variable and fixed. These figures are plotted on a graph. The expenses are plotted on the Y-axis

and the level of activity is plotted on X-axis. The graphs will thus, help in ascertaining the quantum of budgeted expenses corresponding to the level of activity attained with the help of this chart.

Zero Base Budgeting (ZBB)

Zero base budgeting is a new technique of budgeting. It is designed to meet the needs of the management in order to ensure the operational efficiency and effective utilization of the allocated resources of a concern. This technique was originally developed by Peter A. Phyhrr, Manager of Taxas Instrument during 1969. This concept is widely used in USA for controlling their state expenditure when Mr. Jimmy Carter was the president of the USA. At present the technique has for its global recognition for many countries have implemented in real terms.

According to Peter A. Phyhrr ZBB is defined as an “Operative planning and budgeting process which requires each manager to justify his entire budget in detail from Scratch (hence zero base) and shifts the burden of proof to each manager to justify why we should spend any money at all”.

In zero-base budgeting, a manager at all levels, have to justify the importance of activity and to allocate the resources on priority basis.

Important aspect of ZBB

Zero-based budgeting involves the following important aspects:

1. It emphasises on all requisites of budgets.
2. Evaluation on the basis of decision packages and systematic analysis, i.e., in view of cost benefit analysis.
3. Planning the activities, promotes operational efficiency and monitors the performance to achieve the objectives.

Steps involved in ZBB

The following are the steps involved in zero base budgeting:

1. No previous year performance of inefficiencies is to be taken as adjustments in subsequent year.
2. Identification of activities in decision packages.
3. Determination of budgeting objectives to be attained.
4. Extent to which zero base budgeting is to be applied.
5. Evaluation of current and proposed expenditure and placing them in order of priority.

6. Assignment of task and allotment of sources on the basis of cost benefit comparison.
7. Review process of each activity examined afresh.
8. Weightage should be given for alternative course of actions.

Advantages of ZBB

1. Utilization of resources at a maximum level.
2. It serves as a tool of management in formulating production planning.
3. It facilitates effective cost control.
4. It helps to identify the uneconomical activities.
5. It ensures the proper allocation of scarce resources on priority basis.
6. It helps to measure the operational inefficiencies and to take the corrective actions.
7. It ensures the principles of management by objectives.
8. It facilitates co-operation and co-ordination among all levels of management.
9. It ensures each activity is thoroughly examined on the basis of cost benefit analysis.

Performance Budgeting

Performance budget has been defined as a 'budget based on functions, activities and projects.' Performance budgeting may be described as 'the budgeting system in which input costs are related to the performance, i.e., end results.'

According to National Institute of Bank Management, Performance budgeting is, "the process of analyzing, identifying, simplifying and crystallizing specific performance objectives of a job to be achieved over a period, in the framework of the organizational objectives, the purpose and objectives of the job."

From the above definitions, it is clear that budgetary performance involves the following:

1. Establishment of well defined centres of responsibilities:
2. Establishment for each responsibility centre- a programme of target performance is in physical units.
3. Forecasting the amount of expenditure required to meet the physical plan laid down.
4. Comparison of the actual performance with the budgets, i.e., evaluation of performance.
5. Undertaking periodic review of the programme with a view to make modifications as required.

Responsibility Accounting

Responsibility accounting involves the creation of responsibility centres. A responsibility centre may be defined as an organization unit for whose performance a manager is held accountable. Responsibility accounting enables accountability for financial results and outcomes to be allocated to individuals throughout the organization. The objective is to measure the result of each responsibility center. It involves accumulating costs and revenues for each responsibility centre so that deviation from performance target (typically the budget) can be attributed to the individual who is accountable for the responsibility centre.

UNIT-IV

Marginal Costing and Profit Planning

Introduction

The costs that vary with a decision should only be included in decision analysis. For many decisions that involve relatively small variations from existing practice and/or are for relatively limited periods of time, fixed costs are not relevant to the decision. This is because either fixed costs tend to be impossible to alter in the short term or managers are reluctant to alter them in the short term.

Marginal costing - definition

Marginal Costing is ascertainment of the marginal cost which varies directly with the volume of production by differentiating between fixed costs and variable costs and finally ascertaining its effect on profit.

Marginal costing may be defined as the technique of presenting cost data wherein variable costs and fixed costs are shown separately for managerial decision-making. It should be clearly understood that marginal costing is not a method of costing like process costing or job costing. Rather it is simply a method or technique of the analysis of cost information for the guidance of management which tries to find out an effect on profit due to changes in the volume of output.

MARGINAL COST = VARIABLE COST DIRECT LABOUR + DIRECT MATERIAL + DIRECT EXPENSE + VARIABLE OVERHEADS

There are different phrases being used for this technique of costing. In UK, marginal costing is a popular phrase whereas in US, it is known as direct costing and is used in place of marginal costing.

Variable costing is another name of marginal costing.

Marginal costing technique has given birth to a very useful concept of contribution where contribution is given by: Sales revenue less variable cost (marginal cost)

Contribution may be defined as the profit before the recovery of fixed costs. Thus, contribution goes toward the recovery of fixed cost and profit, and is equal to fixed cost plus profit (C = F + P).

In case a firm neither makes profit nor suffers loss, contribution will be just equal to fixed cost (C = F). this is known as break even point.

The concept of contribution is very useful in marginal costing. It has a fixed relation with sales. The proportion of contribution to sales is known as P/V ratio which remains the same under given conditions of production and sales.

The basic assumptions made by marginal costing are following:

- Total variable cost is directly proportion to the level of activity. However, variable cost per unit remains constant at all the levels of activities.
- Per unit selling price remains constant at all levels of activities.
- All the items produced by the organization are sold off.

Features of Marginal costing:

- It is a method of recoding costs and reporting profits.
- It involves ascertaining marginal costs which is the difference of fixed cost and variable cost.
- The operating costs are differentiated into fixed costs and variable costs. Semi variable costs are also divided in the individual components of fixed cost and variable cost.
- Fixed costs which remain constant regardless of the volume of production do not find place in the product cost determination and inventory valuation.

Fixed costs are treated as period charge and are written off to the profit and loss account in the period incurred.

- Only variable costs are taken into consideration while computing the product cost.
- Prices of products are based on variable cost only.

- Marginal contribution decides the profitability of the products.

Features of Marginal Costing

The main features of marginal costing are as follows:

1. Cost Classification

The marginal costing technique makes a sharp distinction between variable costs and fixed costs. It is the variable cost on the basis of which production and sales policies are designed by a firm following the marginal costing technique.

2. Stock/Inventory Valuation

Under marginal costing, inventory/stock for profit measurement is valued at marginal cost. It is in sharp contrast to the total unit cost under absorption costing method.

3. Marginal Contribution

Marginal costing technique makes use of marginal contribution for marking various decisions. Marginal contribution is the difference between sales and marginal cost. It forms the basis for judging the profitability of different products or departments.

Advantages and Disadvantages of Marginal Costing Technique Advantages

1. Marginal costing is simple to understand.
2. By not charging fixed overhead to cost of production, the effect of varying charges per unit is avoided.
3. It prevents the illogical carry forward in stock valuation of some proportion of current year's fixed overhead.
4. The effects of alternative sales or production policies can be more readily available and assessed, and decisions taken would yield the maximum return to business.
5. It eliminates large balances left in overhead control accounts which indicate the difficulty of ascertaining an accurate overhead recovery rate.
6. Practical cost control is greatly facilitated. By avoiding arbitrary allocation of fixed overhead, efforts can be concentrated on maintaining a uniform and consistent marginal cost. It is useful to various levels of management.
7. It helps in short-term profit planning by breakeven and profitability analysis, both in terms of

quantity and graphs. Comparative profitability and performance between two or more products and divisions can easily be assessed and brought to the notice of management for decision making.

Disadvantages

1. The separation of costs into fixed and variable is difficult and sometimes gives misleading results.

2. Normal costing systems also apply overhead under normal operating volume and this shows that no advantage is gained by marginal costing.

3. Under marginal costing, stocks and work in progress are understated. The exclusion of fixed costs from inventories affect profit, and true and fair view of financial affairs of an organization may not be clearly transparent.

4. Volume variance in standard costing also discloses the effect of fluctuating output on fixed overhead. Marginal cost data becomes unrealistic in case of highly fluctuating levels of production, e.g., in case of seasonal factories.

5. Application of fixed overhead depends on estimates and not on the actuals and as such there may be under or over absorption of the same.

6. Control affected by means of budgetary control is also accepted by many. In order to know the net profit, we should not be satisfied with contribution and hence, fixed overhead is also a valuable item. A system which ignores fixed costs is less effective since a major portion of fixed cost is not taken care of under marginal costing.

7. In practice, sales price, fixed cost and variable cost per unit may vary. Thus, the assumptions underlying the theory of marginal costing sometimes becomes unrealistic. For long term profit planning, absorption costing is the only answer.

Presentation of Cost Data under Marginal Costing and Absorption Costing

Marginal costing is not a method of costing but a technique of presentation of sales and cost data with a view to guide management in decision-making. The traditional technique popularly known as total cost or absorption costing technique does not make any difference between variable and fixed cost in the calculation of profits. But marginal cost statement very clearly indicates this difference in arriving at the net operational results of a firm.

Following presentation of two Performa shows the difference between the presentation of information according to absorption and marginal costing techniques:

MARGINAL COSTING PRO-FORMA

	Rs.		
Sales Revenue			xxxxx
Less Marginal Cost of Sales			
Opening Stock (Valued @ marginal cost)		xxxx	
Add Production Cost (Valued @ marginal cost)		xxxx	
Total Production Cost		xxxx	
Less Closing Stock (Valued @ marginal cost)		(xxx)	
Marginal Cost of Production		xxxx	
Add Selling, Admin & Distribution Cost		xxxx	
Marginal Cost of Sales			(xxxx)
Contribution			xxxxx
Less Fixed Cost			(xxxx)
Marginal Costing Profit			xxxxx

ABSORPTION COSTING PRO-FORMA

	Rs	
Sales Revenue		xxxxx
Less Absorption Cost of Sales		
Opening Stock (Valued @ absorption cost)		xxxx

Marginal Costing versus Absorption Costing

After knowing the two techniques of marginal costing and absorption costing, we have seen that the net profits are not the same because of the following reasons:

1. Over and Under Absorbed Overheads

In absorption costing, fixed overheads can never be absorbed exactly because of difficulty in forecasting costs and volume of output. If these balances of under or over absorbed/recovery are not written off to costing profit and loss account, the actual amount incurred is not shown in it. In marginal costing, however, the actual fixed overhead incurred is wholly charged against contribution and hence, there will be some difference in net profits.

2. Difference in Stock Valuation

In marginal costing, work in progress and finished stocks are valued at marginal cost, but in absorption costing, they are valued at total production cost. Hence, profit will differ as different amounts of fixed overheads are considered in two accounts. The profit difference due to difference in stock valuation is summarized as follows:

a. When there is no opening and closing stocks, there will be no difference in profit.

b. When opening and closing stocks are same, there will be no difference in profit, provided the fixed cost element in opening and closing stocks are of the same amount.

c. When closing stock is more than opening stock, the profit under absorption costing will be higher as comparatively a greater portion of fixed cost is included in closing stock and carried over to next period.

d. When closing stock is less than opening stock, the profit under absorption costing will be less as comparatively a higher amount of fixed cost contained in opening stock is debited during the current period.

The features which distinguish marginal costing from absorption costing are as follows.

a. In absorption costing, items of stock are costed to include a 'fair share' of fixed production overhead, whereas in marginal costing, stocks are valued at variable production cost only. The value of closing stock will be higher in absorption costing than in marginal costing.

b. As a consequence of carrying forward an element of fixed production overheads in closing stock values, the cost of sales used to determine profit in absorption costing will:

i. include some fixed production overhead costs incurred in a previous period but carried forward into opening stock values of the current period;

ii. exclude some fixed production overhead costs incurred in the current period by including them in closing stock values. In contrast marginal costing charges the actual fixed costs of a period in full into the profit and loss account of the period. (Marginal costing is therefore sometimes known as period costing.)

c. In absorption costing, 'actual' fully absorbed unit costs are reduced by producing in greater quantities, whereas in marginal costing, unit variable costs are unaffected by the volume of production (that is, provided that variable costs per unit remain unaltered at the changed level of production activity). Profit per unit in any period can be affected by the actual volume of production in absorption costing; this is not the case in marginal costing.

d. In marginal costing, the identification of variable costs and of contribution enables management to use cost information more easily for decision-making purposes (such as in budget decision making). It is easy to decide by how much contribution (and therefore profit) will be affected by changes in sales volume. (Profit would be unaffected by changes in production volume).

In absorption costing, however, the effect on profit in a period of changes in both:

i. production volume; and

ii. sales volume; is not easily seen, because behaviour is not analysed and incremental costs are not used in the calculation of actual profit.

Contribution Income Statement:

- Separates expenses into variable and fixed.
- Sales – Variable Expenses = Contribution Margin.
- Contribution Margin – Fixed Expenses = Net Income (Loss).

Contribution Margin:

- The amount of sales available to cover fixed expenses with any remaining
- contribution margin providing profits.
- If the contribution margin is not sufficient to cover fixed expenses, there will be a net loss for the period.

Contribution Margin Ratio:

1. Sales, variable expenses and contribution margin are all variable, and therefore may be expressed as a percent of revenue.
2. The contribution margin ratio is calculated as the contribution margin dollars as a percent of sales dollars.
3. In a company producing a single product, this relationship applies to either total sales dollars and total contribution margin or per-unit sales dollars and contribution margin dollars.
4. In a company producing multiple products, each product will have its own unique contribution margin ratio, with the contribution margin for the entire company calculated only for total contribution margin dollars as a percent of total sales dollars.
5. The variable expense ratio is the complement to the contribution margin ratio. It represents

the percent of sales dollars not included in the contribution margin
ratio.

Break Even Point:

At the breakeven point: Operating Income = 0

Total revenue = total expenses

Fixed Expenses = Contribution Margin

Target Profit:

- Rather than setting operating income = 0, target profit calculations assume a certain operating income and calculate the sales dollars and units sold necessary to achieve it.
- The same equations are used as to calculate the breakeven point, except that a non-zero operating income term is included in the numerator.

Margin of Safety:

- The margin of safety is the excess of budgeted or actual sales over the break even volume of sales.
- It is expressed as both the dollar amount of the difference and as a percent of budgeted or actual sales.

Operating Leverage:

Operating leverage quantifies, at a given level of sales, the percent change in operating income caused by a percent change in sales. Leverage calculations are a two-step process:

1. First, calculate the Degree of Leverage or Leverage Factor Degree of Leverage = Contribution Margin Operating Income
2. Second, Percent change inoperating income = Degree of Leverage x Operating Income

Cost Structure and Profit Volatility:

Cost structure refers to the proportion of variable costs and fixed costs in the total costs incurred during the period.

No one cost structure is the right one. Different industries have different cost structures and management may work to change the company's cost structure in response to changing business conditions and expectations.

Breakeven Equations

The breakeven point is expressed in sales dollars and units sold. The link between the two is selling price per unit, meaning that breakeven units sold x selling price per unit = breakeven sales.

Breakeven problems are made more complex because some information is given in per-unit amounts, other information is given in total dollars and still other information is not dollars but units sold.

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INDIAN ECONOMY (209)

Unit 1: Structure of Indian Economy

Economic Growth

- A country's general economic health can be measured by looking at that country's economic growth and development.

- Let's first examine **economic growth**. A country's economic growth is usually indicated by an increase in that country's **gross domestic product**, or **GDP**. Generally speaking, gross domestic product is an economic model that reflects the value of a country's output. In other words, a country's GDP is the total monetary value of the goods and services produced by that country over a specific period of time.

Example of Economic Growth

- For example, let's say that a special berry grows naturally only in the country of Utopia. Natives to Utopia have used this berry for many years, but recently a wealthy German traveler discovered the berry and brought samples back to Germany. His German friends also loved the berry, so the traveler funded a large berry exporting business in Utopia. The new berry exporting business hired hundreds of Utopians to farm, harvest, wash, and box and ship the berries to grocers in Germany.
- In one calendar year, the berry exporting business added over one million dollars to Utopia's GDP because that's the total value of the goods and services produced by the new berry exporting business. Since Utopia's GDP increased, this means that Utopia experienced economic growth.
- In the United States, our periods of large economic growth are mostly associated with new technology. The Industrial Revolution and the development of the Internet are two examples. When new developments bring an increase in output capacity, economic growth usually follows.

Economic Development

- Now let's take a look at **economic development**. A country's economic development is usually indicated by an increase in citizens' quality of life. 'Quality of life' is often measured using the **Human Development Index**, which is an economic model that considers intrinsic personal factors not considered in economic growth, such as literacy rates, life expectancy and poverty rates.
- While economic growth often leads to economic development, it's important to note that a country's GDP doesn't include intrinsic development factors, such as leisure time, environmental quality or freedom from oppression. Using the Human Development Index, factors like literacy rates and life expectancy generally imply a higher per capita income and therefore indicate economic development.

Example of Economic Development

- For example, before the berry exporting business, most Utopians lived in small villages many miles from one another. Few Utopians had access to schools, fresh water or healthcare. Utopian men worked long hours attempting to farm land that was naturally unsuitable for most crops, just to feed their immediate families.
- After the berry exporting business, many Utopians found work through the new industry. Newly employed villagers relocated closer to the business, giving them better access to schools, healthcare and fresh water produced for the plant and surrounding areas. Most Utopian men were able to trade labor-intensive hours in the fields for easier eight-hour shifts. Besides earning a salary, the new work enabled them more leisure time and contributed to longer life spans. Thus, Utopia experienced economic development through economic growth.

Difference between Growth and Development

Economic growth measures an increase in Real GDP (Real Output). GDP is a measure of the national income / national output and national expenditure. It basically measures the total volume of goods and services produced in an economy.

Economic Development: Development looks at a wider range of statistics than just GDP per capita. Development is concerned with how people are actually affected. It looks at their actual living standards

Measures of economic Development will look at:

- Real income per head – GDP per capita
- Levels of literacy and education standards
- Levels of health care e.g. number of doctors per 1000 population
- Quality and availability of housing
- Levels of environmental standards

Basic Characteristics of Indian Economy

Indian economy is a developing economy in which Agriculture is the back bone of Indian economic. 60% of India's population are on the below poverty line. Mineral resources are not fully utilized. We are selling iron ore by trucks and getting blades by packets. Majority of the people of India are leading a poverty line. Indian economic is affected by it.

- **Low per capita income**. Developing economy is characterized by low per capital income. India per capital income is very low as compared to the advanced countries. For example the capital income of India was 460 dollar, in 2000.
- **Heavy Population Pressure**. The Indian economy is facing the problem population explosion. It is clearly evident from the total population of India which was 102.67 cores in 2001 census. It is the second highest populated country China being the first. India's population has reached 110 cores. All the developing countries are characterized by high birth rate which stimulates the growth of population; the fast rate of growth of population necessitates a higher rate of economic growth to maintain the same standard of living.
- **Pre-dominance of Agriculture**. Occupational distribution of population in India clearly reflects the backwardness of the economy. One of the basis characteristics of an developing economy is that agriculture contributes a very large portion in the national income and a very high proportion of working population is engaged in agriculture.

- **Unemployment**. There is larger unemployed and under employment is another important feature of Indian economy. In developing countries labor is an abundant factor. It is not possible to provide gainful employment the entire population. Lack of job opportunities disguised unemployed is created' in the agriculture fields. There deficiency of capital formation.
- **Low Rate of Capital Formation**. In backward economics like India, the rate of capital formation is also low. capital formation mainly depends on the ability and willingness of the people save since the per capita income is low and there is mal-distribution of income and wealth the ability of the people to save is very low in developing countries for which capital formation is very low.
- **Under utilization of Resources**. India is a poor land. So our people remain economically backwards for the lack of utilization of resources of the country.
- **Price instability**. Price instability is also a basis feature of Indian economy. In almost all the developing countries like India there is continuous price instability. Shortage of essential commodities and gap between consumption aid productions increase the price persistently. Rising trend of price creates a problem to maintain standard of living of the common people.

Changes in structure of Indian Economy (Primary Sector, Secondary Sector & Tertiary Sector)

1. Changing Sectoral Distribution of Domestic Product:

Change in composition of domestic product or change in national income by industry of origin refers to change in relative significance (share) of different sectors of the economy. Generally, an economy is divided into three major sectors viz. primary, secondary and tertiary sectors.

Primary sector includes agricultural and allied activities, secondary sector includes manufacturing industries and tertiary sector includes services. With the development process, significance of primary sector declines while that of secondary and tertiary sectors increases. After independence, Indian economy has also experienced such changes.

The share of primary sector in GDP at factor cost (at 1999-2000 prices) which was 56.5 per cent in 1950-51 declined to 34.6 per cent in 1990 91 and then to 19.7 per cent in 2007-08.

The secondary sector's share in GDP was 13.6 per cent in 1950-51 increased to 23.2 per cent in 1990-91 and further to 24.7 per cent in 2007-08. Tertiary sector's share in GDP increased from 29.9 per cent in 1950-51 to 55.6 per cent in 2007-08, and in 2009-10 it was over 7 per cent.

2. Growth of Basic Capital Goods Industries:

When country attained independence, the share of basic and capital goods industries in the total industrial production was roughly one-fourth.

Under the second plan, a high priority was accorded to capital goods industries, as their development was considered a pre-requisite to the overall growth of the economy. Consequently, a large number of basic industries which produce capital equipment and useful raw materials have been set up making the country's industrial structure pretty strong.

3. Expansion in Social Overhead Capital:

Social overhead capital broadly includes transport facilities, irrigation systems, energy production, educational system and organization and health facilities. Their development creates favorable conditions for growth and also for better human living. The transport system in India has grown both in terms of capacity and modernization.

The railways route length increased by more than 9 thousand kms and the operation fleet practically doubled. The Indian road network is now one of the largest in the world as a result of spectacular development of roads under various plans. India has also seen growth in Life- lixpectancy and Literacy Rate but education has not expanded at a desired rate.

4. Progress in the Banking and Financial Sector:

Since independence, significant progressive changes have taken place in the banking and financial structure of India. The growth of commercial banks and cooperative credit societies has been really spectacular and as a result of it the importance of indigenous bankers and money-lenders has declined.

Since nationalisation, these banks have radically changed their credit policy. Now more funds are made available to priority sectors such as agriculture, small-scale industries, transportation, etc.

Indian economy has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, etc.

These factors over the years are believed to have created an element of dynamism in the country's economy and one can now hopefully say that it would sustain development in the future.

Trends in National Income Occupational Distribution:

The real national income of India has increased at an annual average rate of 4.5 per cent. The rate of growth initially decelerated over the years but has subsequently accelerated continuously.

During the first decade, real income went up by 3.8 per cent, this rate came down to 3.5 per cent in the 1960s, 3.1 per cent in the 1970s and 5.5 per cent in 1980s. In the first three years of the 1990s, the GDP grew at 4 per cent annually.

In the following four years, the growth rate jumped to 7.1 per cent but only to fall back to 5.2 per cent in the succeeding five years. The major breakthrough occurred and sustained during the period 2003-08; real GDP grew at 8.2 per cent annually in the period 2003-08.

The world economy went through an unprecedented crisis in 2008-09. The slowdown affected all the countries. By the end of the year 2008-09, India was rapidly returning to the buoyant years preceding 2008.

The economy recovered to grow at 8.0 per cent during 2009-10, and further 8.6 per cent during 2010-11, with projections of 9.0 per cent during 2011-12. The Prime Minister's Economic Advisory Council (PMEAC) lowered the economic growth projection for the year 2011-12 to 8.2 per cent from 9 per cent.

Rise in Per Capita Income:

Per Capita Income is considered a better index of economic growth. In 1950-51 India's Per Capita Income at 1999-2000 prices was Rs. 5,708. Since then it rose to Rs. 19,331 in 2004-05 and in 2009-10 it stood at Rs. 33,731.

There has been more than fourfold increase in real Per Capita Income during the planning period. Growth in Per Capita Income was much less than growth in National Income because of high population growth rate. The Planning Commission expects that country's Per Capita Income would be doubled in the next 20 years.

Occupational distribution

Occupational distribution of population or occupational pattern in India refers to – the proportion of total working population engaged in different broad sectors of the economy. These broad sectors are:

1. Primary sector which includes occupations like agriculture, mining, fishing, animal husbandry and forestry,

2. Secondary sector which consists of occupations like manufacturing, construction, electricity, etc., and

3. Tertiary sector which consists of occupations such as trade, transport, communications, banking, insurance, personal services, and both government and non-governmental services, etc. This sector is supposed to meet the needs of both primary and secondary sectors.

Occupational Distribution of Working Population in India [in %]

Year	Primary Sector	Secondary Sector	Tertiary Sector
1901	72%	12%	16%
1951	72%	11%	17%
1971	72%	11%	17%
1981	68.7%	13.5%	17.8%
1991	65%	15.0%	20.0%
1999-2000	60.4%	15.8%	23.8%

Social Disorganization and Social Problems:

It is quite significant to note that the occupational distribution of population in the country remained almost constant over the last 90 years. It reveals the same. Even after the vigorous efforts by the Central and the State Governments to develop industries, trade, transport and communication, banking, insurance, etc. the majority of our working population are still dependent on agriculture for their livelihood. During the recent years, that is, after 1991 sizeable number of educated people has been able to get jobs with attractive salaries in the service sector.

The occupational distribution of population in India is imbalanced. It shows that India is still backward in the field of industries and depending too much on agriculture. Inadequate and lop sided growth of secondary and tertiary sectors is another fundamental cause for this imbalance in the occupational distribution. The performance of public sector industries is not that satisfactory, and the tertiary sector too has failed to absorb the excess population.

In order to forge a balance in the occupational distribution of the people, it is necessary for us to give more importance to industrial growth. Industry should be able to attract and accommodate a sizeable number of people from the rural areas to lessen their dependence upon agriculture. Further, the tertiary sector which consists of trade and commerce should be developed to absorb increasing number of unemployed youths.

Work Force Participation

It is important to learn about participation of Males & Females in Economy, so that corrective decision may be taken for overall economic growth of the Nation. The phenomenon of female economic activity and women's employment in each of these segments are main issues in the economy of all developing nations. The economic activity may be classified as organized and unorganized, each of which may be in the formal or informal sector. Participation of women in economic activities in formal sectors of industries, services and agricultural sector is measurable, but activities of women in informal sectors such as house works, training and education of children, activities in agricultural sectors and household services are Although women constitute a little less than the half of the economically active population, but their contribution to economic activity is far below its potential.

Workforce Participation Rate

As per Census 2011, the workforce participation rate for females is 25.51% against 53.26% for males. Rural sector has a better female workforce participation rate of 30.02% compared with 53.03% for males whereas for urban sector. The participation rate of females trails at 15.44% against 53.76% for males. 41.1% of female main and marginal workers are agricultural labourers, 24.0% are cultivators, 5.7% are household

Worker Population Ratio

National Sample Survey (68th Round) results indicate that the worker population ratio for females in rural sector was 24.8 in 2011-12 and 54.3 for males. In Urban sector, the ratio is 14.7 for females and 54.6 for males. Among the States/UTs, highest worker population ratio for females in the rural sector was in Himachal Pradesh at 52.4% and in the urban sector in Sikkim at 27.3%. In the assessment, it emerged that 59.3% females of the rural workforce were self-employed, 5.6% had regular wage/salaried employment and 35.1% females were casual labours as compared with 54.5%, 10.0% and 35.5% males in the same categories respectively. Urban India had equal proportion (42.8%) of women participation in self-employed and regular

Women Employed in Organized Sector

A total of 20.5% women were employed in the organized sector in 2011 with 18.1% working in the public sector and 24.3% in the private. The labour force participation rate for women across all age groups was 25.3 in rural sector and 15.5 in urban sector compared with 55.3 and 56.3 for men in the rural and urban

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Changes in Occupational Structure in India.

The distribution of the population according to different types of occupation is referred to as the occupational structure. In India, about 64 per cent of the population is engaged only in agriculture. The proportion of population dependent on secondary and tertiary sectors is about 13 and 20 per cent respectively. There has been an occupational shift in favor of secondary and tertiary sectors because of growing industrialization and urbanization in recent times.

Unit II

Planning and Economic Development and Problems in Indian Economy

Objective of Economic Planning in India

Planning without an objective is like driving without any destination. There are generally two sets of objectives for planning, namely the short-term objectives and the long-term objectives. While the short-term objectives vary from plan to plan, depending on the immediate problems faced by the economy, the process of planning is inspired by certain long term objectives. In case of our Five Year plans, the long-term objectives are:

(i) A high rate of growth with a view to improvement in standard of living.

(ii) Economic self-reliance;

(iii) Social justice

(iv) Modernization of the economy

(v) Economic stability

Twelfth Five Year Plan (2012–2017)

The Twelfth Five-Year Plan of the Government of India has decided for the growth rate at 8.2% but the National Development Council (NDC) on 27 Dec 2012 approved 8% growth rate for 12th five-year plan.

With the deteriorating global situation, the Deputy Chairman of the Planning Commission Mr Montek Singh Ahluwalia has said that achieving an average growth rate of 9 percent in the next five years is not possible. The Final growth target has been set at 8% by the endorsement of plan at the National Development Council meeting held in New Delhi.

"It is not possible to think of an average of 9% (in 12th Plan). I think somewhere between 8 and 8.5 percent is feasible," Mr Ahluwalia said on the sidelines of a conference of State Planning Boards and departments. The approached paper for the 12th Plan, approved last year, talked about an annual average growth rate of 9%.

"When I say feasible... that will require major effort. If you don't do that, there is no God given right to grow at 8 percent. I think given that the world economy deteriorated very sharply over the last year...the growth rate in the first year of the 12th Plan (2012-13) is 6.5 to 7 percent."

He also indicated that soon he would share his views with other members of the Commission to choose a final number (economic growth target) to put before the country's NDC for its approval.

The government intends to reduce poverty by 10% during the 12th Five-Year Plan. Mr Ahluwalia said, "We aim to reduce poverty estimates by 9% annually on a sustainable basis during the Plan period. Earlier, addressing a conference of State Planning Boards and Planning departments, he said the rate of decline in poverty doubled during the 11th Plan. The commission had said, while using the Tendulkar poverty line, the rate of reduction in the five years between 2004–05 and 2009–10, was about 1.5%points each year, which was twice that when compared to the period between 1993-95 to 2004-05

Industrial Policy-1991

With the gradual liberalisation of the 1956 Industrial policy in the mid-eighties the tempo of industrial development started picking up. But the industry was still feeling the burden of many controls and regulations.

For a faster growth of industry, it was necessary that even these impediments should be removed. The new government by Shri Narasimha Rao, which took office in June 1991, announced a package of liberalisation measures under its Industrial Policy on July 24, 1991.

Objectives:

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

(i) Liberalising the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialization of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

The New Industrial Policy has made very significant changes in four main areas viz., industrial licensing role of public sector, foreign investment and technology and the MRTP act. The major provisions of this policy are discussed below.

(1) Abolition of Industrial Licensing:

In the earlier industrial policy, industries were subjected to tight regulation through the licensing system. Though some liberalization measures were introduced during 1980's that positively affected the growth of industry. Still industrial development remained constrained to a considerable extent.

The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation.

To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to health security and strategic concerns that require compulsory licensing. Thus the industry has been almost completely made free of the licensing provisions and the constraints attached with it.

(2) De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses.

Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty.

The new industrial policy seeks to limit the role of public sector and encourage private sector's participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector industries:

(i) Reduced reservation for public sector:

Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries.

Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy.

However, if need be even some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the national interest so demands.

(ii) Efforts to revive loss making enterprise:

Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

(iii) Disinvestment in selected public sector industrial units:

As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers.

For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment. On the basis of recommendations of the 'Disinvestment Commission' the government sells the shares of public enterprise.

(iv) Greater autonomy to public enterprises:

The New Industrial Policy seeks to give greater autonomy to the public enterprises in their day-to-day working. The trust would be on performance improvement of public enterprises through a mix of greater autonomy and more accountability.

(3) Liberalised Policy Towards Foreign Capital and Technology:

The inflow of foreign capital and import of technology was tightly regulated under the earlier Industrial policy. Each proposal of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept very low so that majority of ownership control remains with Indians.

But such a policy kept the inflow of foreign capital very small and industrial development suffered for want of capital resources and technology. The July, 1991 Industrial policy made several concessions to encourage flow of foreign capital and technology into India, which are follows:

(i) Relaxation in Upper Limit of Foreign Investment:

The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation.

In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalised and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbours etc.

Recent decision taken to further liberalise FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ's), some activities in telecom see tor etc.

(ii) Automatic Permission for Foreign Technology Agreement:

The New Industrial Policy states that automatic permission will be granted to foreign technology agreements in the high priority industries. Previously technology agreement by an Indian company with foreign parties for import of technology required advance clearance from the government.

This delayed the import of technology and hampered modernisation of industries. Now the Indian companies could enter into technology agreements with foreign companies and import foreign technology for which permission would be automatically granted provided the agreements involved a lump sum payment of upto Rs. 1 crore and royalty upto 5 percent on domestic sales and 8 per cent on exports.

(4) Changes in the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to obtain clearance from the MRTP Commission for setting up any new industrial unit, because such companies (called MRTP companies) were allowed to invest only in some selected industries.

Thus, besides obtaining a licence they were also required to get MRTP clearance. This was a big impediment for industrial development as the big business firms which had the resources for development could not grow and diversify their activities.

The Industrial Policy, 1991 has put these industries on par with others by abolishing those provisions of the MRTP Act which mediate mandatory for the large industrial houses to seek prior clearance from MRTP Commission for their new projects.

Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are unfair and restrict competition to the detriment of consumer s interests. No prior approval of or clearance from the MRTP Commission is now required for setting up industrial units by the large business houses.

(5) Greater Support to Small-Scale Industries:

The New Industrial Policy seeks to provide greater government support to the small-scale industries so that they may grow rapidly under environment of economic efficiency and technological upgradation.

A package of measures announced in this context provides for setting up of an agency to ensure that credit needs of these industries are fully met.

It also allows for equity participation by the large industries in the small scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to provide small scale sector an access to the capital market and to encourage their upgradation and modernisation the government would also encourage the production of parts and components required by the public sector industries in the small-scale sector.

(6) Other Provisions:

Besides above discussed measures, the Industrial Policy 1991 announced some more steps to promote rapid industrial development. It said that the government would set up a special board (which was established as Foreign Investments Promotion Board—FIPB) to negotiate with a number of international companies for direct investment in industries in India.

It also announced the setting up of a fund (called National Renewal Fund) to provide social security to retrenched workers and provide relief and rehabilitate those workers who have been rendered unemployed due to technological changes.

The New Policy also removed the mandatory convertibility clause under which the Public Sector Financial Institution were asked to convert the loans given by them to private industries in equity (shares) and thus become partners in their management.

This removed a big threat to the private sector industries as they were always under threat that their management and control could pass on into the hands of the Government owned financial institutions.

Evaluation of the New Industrial Policy:

The New Industrial Policy 1991 aims to unshackle Indian's industrial economy from the cobwebs of unnecessary bureaucratic control. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays.

Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'Licence-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.

The public sector's role has been confined largely to industries of defence, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The industry is thus expected to grow faster under the new industrial policy 1991.

Definition of Disinvestment

The term „Disinvestment" is the opposite of the term „Investment". Investment is acquisition of earning asset with the help of money. For example if bonds are purchased or shares of companies are purchased by spending money it is known as investment. In the case of investment money is converted into earning asset to earn income. On the other hand in the case of disinvestment an earning asset is converted into liquid cash. Here we shall use the term disinvestment in a special sense. By disinvestment we mean the sale of shares of public sector undertakings by the government. The shares of government companies held by the government are earning assets at the disposal of the government. If these shares are sold to get cash, then earning assets are converted into cash. So it is referred to as disinvestment.

Difference between disinvestment and privatization: Before we proceed further let us clear one semantic problem. There is a difference between disinvestment and privatization. Privatization implies a change in ownership resulting in a change in management. But disinvestment need not always imply change in management. Disinvestment is actually dilution of the stake of the government in a public enterprise. If the dilution is less than 50 percent the government retains management even though disinvestment takes place. It is not privatized. But if the dilution is more than 50 percent there is transfer of ownership and management. It will be called privatization. Thus disinvestment is wider than privatization. Privatization implies disinvestment but disinvestment does not necessarily imply privatization. Only when disinvestment goes beyond 51 percent it implies privatization. The extent of dilution of the government`s stake is determined as part of the policy of disinvestment.

Objectives of Disinvestment

The following are the main objectives of disinvestment policy of the government.
i. To reduce the financial burden on government.

ii. To improve public finances.

iii. To introduce, competition and market discipline.

iv. To find growth.

vi. To encourage wider share of ownership.

The target set for disinvestment proceeds was met in only three of the last twelve years. The most recent of such years is 1998-99. In the early 90's, India used to have relatively modest targets of generating around Rs.2000 – Rs.3000 crores through disinvestment. By mid-nineties, the targets were jacked up to an annual revenue of Rs.5,000 crores. By the late nineties, Rs.10,000 crore plus targets became common.

The reasons for such low proceeds from disinvestment against the actual target set are –

i. Unfavorable market conditions
ii. Offers made by the government were not attractive for private sector investors.
iii. Lot of hue and cry being made on valuation process.
iv. Government has no clear-cut policy on disinvestment.
v. Strong opposition from employee and trade unions.
vi. Lack of transparency in the whole process.
vii. Lack of political will.

Economic Problems: Poverty

Poverty in India is widespread, and a variety of methods have been proposed to measure it. The official measure of Indian government, before 2005, was based on food security and it was defined from per capita expenditure for a person to consume enough calories and be able to pay for associated essentials to survive. Since 2005, Indian government adopted the Tendulkar methodology which moved away from calorie anchor to a basket of goods and used rural, urban and regional minimum expenditure per capita necessary to survive.

Condition where people's basic needs for food, clothing, and shelter are not being met. Poverty is generally of two types: (1) Absolute poverty is synonymous with destitution and occurs when people cannot obtain adequate resources (measured in terms of calories or nutrition) to support a minimum level of physical health. Absolute poverty means about the same everywhere, and can be eradicated as demonstrated by some countries. (2) Relative poverty occurs when people do not enjoy a certain minimum level of living standards as determined by a government (and enjoyed by the bulk of the population) that vary from country to country, sometimes within the same country.

The World Bank has similarly revised its definition and benchmarks to measure poverty since 1990, with $1.25 per day income on purchasing power parity basis as the definition in use from 2005 to 2013. Some semi-economic and non-economic indices have also been proposed to measure poverty in India; for example, the Multi-dimensional Poverty Index placed 33% weight on number of years spent in school and education and 6.25% weight on financial condition of a person, in order to determine if that person is poor.

Inequality

An unfair situation in which some people have more rights or better opportunities than other people

According to the World Bank, between 1994 and 2005, the income share held by the highest 10 per cent of the population increased from 26 per cent to 28.3 per cent while that of the bottom 20 per cent decreased from 9.09 per cent to 8.64 per cent. According to the OECD, between 1993 and 2008, India's Gini coefficient increased from 0.32 to 0.38. As per the recently released Human Development Report (HDR) 2013, India ranked 136th (134th in 2011) in Human Development Index (HDI). Strikingly, when the HDI is adjusted for inequality, the index loses its value by as much as 29.3 per cent.

Causes of Inequality

Highly Unequal Asset Distribution:

Incomes are derived from two main sources, namely, assets like land, cattle, shares, etc., and labour. In India a few own a large chunk of income – earning assets. Some others, who do not own, or own a part of the assets they operate, organize finances through banks, cooperatives, etc, and acquire/hire productive assets.

These inequalities enable the few to get incomes in the form of rent, interest and profit. As these assets accumulate and pass on from generation to generation, the earning capacity of these increases continuously.

As for rural areas, the ownership pattern of the most important asset, namely, land, is highly unequal. The marginal households (with holdings less than 1 hectare), which account for as many as 72 per cent of the rural households own very little about 17 per cent of the land.

At the other end, there are those with large holdings (of more than 10 hectares) who are about 1 per cent of the rural households. But they have under their ownership as much as 14 per cent of the area.

Private ownership of property and inheritance laws is mainly responsible for highly unequal distribution of assets.

Inadequate Employment Generation:

People at the bottom could raise their economic status and to an extent reduce the distance separating them from those at the top, if they could get work. In other words, if they did not possess adequate earning assets, they could at least earn from their labour.

But there too the situation was not favourable. For long the increase in employment opportunities remained less than the rise in the labour force.

Differential Regional Growth:

Of the large many at the bottom rung of incomes, a very great proportion lives in the poor backward states regions, and most of the few at the top live in the high- income states regions.

This is the geographical facet of income inequalities for the country as a whole. Within the states also there are inequalities, perhaps larger in the poorer states. Both these aspects are the outcome of the different growth rates of the states, with a few having grown at a fast rate, and many having lagged behind.

Parallel economy

Parallel economy, based on the black money or unaccounted money, is a big menace to the Indian economy. It is also a cause of big loss in the tax-revenues for the government. As such, it needs to be curbed. Its elimination will benefit the economy in more than one way.

In a general way, we can define black economy as the money that is generated by activities that are kept secret, in the sense that these are not reported to the authorities. As such, this money is also not accounted to (he fiscal authorities i.e., taxes are not paid on this money.

An estimate by Suraj B. Gupta had put the size of black money at over 50 per cent of GDP (at factor cost) in 1987-88. It is also stated that annual rate of growth of black economy is higher than the annual growth rate of GDP.

According to Global Financial Integrity Study of 2009, $ 1.4 trillion belongs to Indians were parked in safe havens abroad. $ 1.4 trillion is equivalent to Rs. 70 lakh crore, more than India's national income of around Rs. 50 lakh crore.

A statement from the Swiss Central Bank declared that Indians have $2.5 billion deposits in various Swiss Banks. It is suspected that the deposits of Indians in tax havens are mostly being withdrawn and shifted to a third country; making it difficult for the government to gather any further details once the accounts are closed.

Harmful Effects of Parallel Economy:

The circulation of black money has adversely affected the economy in several ways. First, is the misdirection of precious national resources? A part of black money is kept in a form that contributes nothing/little to productive activities. Again, much around half to two third is squandered away on ostentatious consumption of goods and services.

Second, it has enormously worsened the income distribution, and has thereby undermined the fabric of the society.

Third, the existence of a big-sized unreported segment of the economy is a big handicap in making a correct analysis and formulation of right policies for it. Nor. it is possible to monitor the development in the economy with precision.

Fourth, the black money has eroded the social values of the society. The undeclared income is 'earned' by illegitimate ways. This is spent in undesirable and vulgar manner.

Unemployment in India

Unemployment

India as a nation is faced with massive problem of unemployment. Unemployment can be defined as a state of worklessness for a man fit and willing to work. It is a condition of involuntary and not voluntary idleness. Some features of unemployment have been identified as follows:

The incidence of unemployment is much higher in urban areas than in rural areas.

1. Unemployment rates for women are higher than those for men.
2. The incidence of unemployment among the educated is much higher than the overall unemployment.
3. There is greater unemployment in agricultural sector than in industrial and other major sectors.

Economists and social thinkers have classified unemployment into various types. Generally unemployment can be classified in two types:

(1) Voluntary unemployment

In this type of unemployment a person is out of job of his own desire doesn't work on the prevalent or prescribed wages. Either he wants higher wages or doesn't want to work at all. It is in fact social problem leading to social disorganization. Social problems and forces such as a revolution, a social upheaval, a class struggle, a financial or economic crisis a war between nations, mental illness, political corruption mounting unemployment and crime etc. threaten the smooth working of society. Social values are often regarded as the sustaining forces of society. They contribute to the strength and stability of social order. But due to rapid social change new values come up and some of the old values decline. At the same time, people are not is a position to reject the old completely and accept the new altogether. Here, conflict between the old and the new is the inevitable result which leads to the social disorganization in imposed situation. In economic terminology this situation is voluntary unemployment.

(2) In voluntary unemployment

In this type of situation the person who is unemployed has no say in the matter. It means that a person is separated from remunerative work and devoid of wages although he is capable of earning his wages and is also anxious to earn them. Forms and types of unemployment according to Hock are.

a. **Cyclical unemployment** - This is the result of the trade cycle which is a part of the capitalist system. In such a system, there is greater unemployment and when there is depression a large number of people are rendered unemployed. Since such an economic crisis is the result of trade cycle, the unemployment is a part of it.

b. **Sudden unemployment** - When at the place where workers have been employed there is some change, a large number of persons are unemployed. It all happens in the industries, trades and business where people are employed for a job and suddenly when the job has ended they are asked to go.

c. **Unemployment caused by failure of Industries** - In many cases, a business a factory or an industry has to close down. There may be various factors responsible for it there may be dispute amongst the partners, the business may give huge loss or the business may not turn out to be useful and so on.

d. **Unemployment caused by deterioration in Industry and business** - In various industries, trades or business, sometimes, there is deterioration. This deterioration may be due to various factors. In efficiency of the employers, keen competitions less profit etc. are some of the factors responsible for deterioration in the industry and the business.

e. **Seasonal unemployment** - Certain industries and traders engage workers for a particular season. When the season has ended the workers are rendered unemployed. Sugar industry is an example of this type of seasonal unemployment.

Concentration of Economic Power

- It refers to economic rivalry amongst economic enterprises to control greater market power. Economic enterprises compete to outsmart their competitors and in the process sometimes eliminate rivals.
- Level of Competition does not depend upon number of players in an industry but degree of contestability.

Meaning of monopoly A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute.

- Benefits of COMPETITION
    - Promotes efficiency
    - Encourages innovation
    - Punishes the laggards
    - Facilitates better governance
    - Boosts choice improves quality, reduce costs
    - Ensures availability of goods in abundance of acceptable quality at affordable price.
- UNIQUE FEATURES OF COMPETITION
    - We teach and preach competition but invariably do not practice.
    - Competition does not have a human face.
    - Competition kills competition.
    - Competition is unstable.
    - Nature has created monopolies.
- History of Competition Law
    - In 1980, less than 40 countries had Competition Law.
    - Currently over hundred countries have Competition Law.
    - Over 30 countries are in the process of enacting Competition Law.
    - An Expert Group set up by the Union Ministry of Commerce to study inter action between the trade and competition. The said Expert Group in its Report submitted in January,1999 suggested enactment of Competition Law.
    - The High Level Committee on Competition Law & Policy in its Report submitted to Government in May, 2000 observed that the Monopolies and Restrictive Trade Practices Act[M.R.T.P. Act], 1969 is limited in its sweep and in the present competitive milieu it fails to fulfill the need of Competition Law.
    - The "Department Related Parliamentary Standing Committee on Home Affairs" to which Competition Bill, 2001 was referred for examination and report, the Government submitted that in view of the policy shift from curbing monopolies to promoting competition, there is a need to repeal the M.R.T.P. Act, 1969.
    - The rigidly structured M.R.T.P. Act, 1969 also necessitated its repeal in view of Government's policy of being facilitator rather than regulator.

COMPETITION ACT, 2002

OBJECTIVES-

- To prevent practices having appreciable adverse effect on competition;
- To promote and sustain competition in trade and industry;
- To protect the interest of consumers;
- To ensure freedom of trade carried on by the participants in market in India;
- Establishment of the Competition Commission of India.

The trade practice concepts "Monopolistic, Restrictive and Unfair Trade Practices" has been given good bye.

- The four important Concepts incorporated in the Act are:
- Prohibition of Anti Competitive Agreements
- Prohibition of Abuse of Dominant Position
- Regulation of Combinations
- Competition Advocacy

Law to Be Implemented in the Phases

- In the first phase, the Competition Commission of India to undertake competition advocacy;
- In the second phase, the Competition Commission will commence enquiries relating to anti-competitive agreements and abuse of dominant position.
- In the third phase, the Commission will commence regulation of combinations.
- Law also stipulates that different dates may be appointed for different provisions.

Present Status

- The Central Government has since established the Competition Commission of India with head office at New Delhi with effect from 14.10.2003.
- The Central Government has also appointed a Member with effect from 17.10.2003 and he has been designated as Member Administration with effect from 21.10.2003.

- The Commission is presently seized of preparatory work such as formulation of regulation, setting up of infrastructure, advocacy material, capacity building etc.
- The Government is contemplating to make certain amendments in the Act.
- Competition Act seeks to modernize competition regime.
- The Act provides for repeal of the M.R.T.P. Act, 1969 and the dissolution of the M.R.T.P. Commission.

Comparison between Competition act 2001 and MRTP Act 1969

The Competition Act focus only on "competition issues" and does not contain provisions, which directly relate to consumer protection. The M.R.T.P. Act contains provisions both relating to anti-competitive practices and consumer protection.

Under the Competition Act, the DG is vested with all the powers as are vested in a Civil Court. Under the M.R.T.P. Act, the powers of the DG have been found to be deficient and limited in carrying out investigation.

Competition Act	MRTP Act
No requirement of registration of agreements.	Registration of agreements compulsory.
Frowns upon abuse of dominance.	Frowns upon dominance.
Simple in arrangement and language and easily comprehensible.	Complex in arrangement and language.
Competition offences explicit and defined.	Competition offences implicit or not defined.
Based on structure as a factor.	Based on size as a factor.
Based on the post-reforms scenario.	Based on the pre-reforms scenario

Balanced Regional Development

In essence, balanced regional development means developing the full potential of each area to contribute to the optimal performance of the State as a whole – economically, socially and environmentally'

1. To Minimise backwash effects:

According to Gunnar Myrdal, the regional disparities in the developing countries have been caused by the strong backwash effects and weak spread effects. The profit motive in a capitalist system accentuates disparity by the free play of market forces. So, a country like India should endeavour to minimise the backwash effects through deliberate state intervention.

2. Need for faster growth in economy:

A balanced regional development is needed for our economy because the advancement of the entire economy hinges on the development of all regions keeping in pace with their factor endowments. In the long run, the progress of the national economy will be the result of the growth realised by different regions.

3. To develop the economy smoothly:

Smooth development of the economy calls for the removal of regional disparity, because the low level of economic development in backward enclaves would only retard the development of more advanced areas.

4. To develop and conserve resources:

The aim of regional development should be to conserve available resources by the sustainable development of agriculture and industries.

5. To maintain political stability:

Increasing regional disparity is a source of political tension and instability in India. And without political stability, economic advancement is not possible.

6. To overcome social evils:

Balanced regional development in India is needed for the removal of social evils like caste bias, communal bigotry, corruption, etc. Only balanced development can ensure enlightenment of people.

7. To promote employment opportunities:

Regional imbalances lead to low income, unemployment and low output among a vast section of population. In order to remove these evils, all-round development is necessary in India.

8. To provide a strong India:

A striking disparity in the levels of development of a country like India is not a healthy trend vis-a-vis the safety and security of the nation. Unbalanced development increases the risk of groups of people becoming disenchanted and falling prey to the ploys of anti-national elements. Furthermore, the few developed regions could easily be targeted by enemy at war and short strikes could virtually paralyse the whole country.

The Meaning and Process of Capital formation

Capital formation or accumulation plays a predominant role in all types of economics whether they are of the American or the British type, or the Chinese type. Development is not possible without capital formation. Capital formation refers to all the produced means of further production, such as roads, railways, bridges, canals, dams, factories, seeds, fertilisers, etc.

According to Professor Nurkse, "The meaning of 'capital formation' is that society does not apply the whole of its current productive activity to the needs and desires of immediate consumption, but directs a part of it to the tools and making of capital goods: tools and instruments, machines and transport facilities, plant and equipment— all the various forms of real capital that can so greatly increase the efficacy of productive effort…. The essence of the process, then, is the diversion of a part of society's currently available resources to the purpose of increasing the stock of capital goods so as to make possible an expansion of consumable output in the future."

Saving and investment are essential for capital formation. According to Marshall, saving is the result of waiting or abstinence. When a person postpones his consumption to the future, he saves his wealth which he utilises for further production. If all people save like this, the aggregate savings increase which are utilised for investment purposes in real capital assets like machines, tools, plants, roads, canals, fertilizers, seeds, etc.

But savings are different from hoardings. For savings to be utilised for investment purposes, they must be mobilised in banks and financial institutions. And the businessmen, the entrepreneurs and the farmers invest these community savings on capital goods by taking loans from these banks and financial institutions. This is capital formation.

Process of Capital Formation:

The process of capital formation involves three steps:

(1) Increase in the volume of real savings;

(2) Mobilisation of savings through financial and credit institutions; and

(3) Investment of savings.

Thus the problem of capital formation becomes two-fold: one, how to save more; and two, how to utilise the current savings of the community for capital formation. We discuss the factors on which capital accumulation depends.

(1) Increasing Savings:

(a) Power and Will to Save:

Savings depend upon two factors: the power to save and the will to save.

The power to save of the community depends upon the size of the average income, the size of the average family, and the standard of living of the people. Other things being equal, if the income of the people increases, or the size of the family is small, or people get accustomed to a particular standard of living which does not lean towards conspicuous consumption, the power to save increases.

The power to save also depends upon the level of employment in the country. If employment opportunities increase, and existing techniques and resources are employed fully and efficiently, incomes increase, and so do the propensity of the people to save.

Savings also depend upon the will to save. People may themselves forego consumption in the present and save. They may do so to meet emergencies, for family purposes, or for social status. But they will save only if certain facilities or inducements are available.

People save if the government is stable and there is peace and security in the country. People do not save when there is lawlessness and disorder, and there is no security of life, property and business. The existence of banking and financial institutions paying high rates of interest on different term-deposits also induces people to save more.

The taxation policy of the government also affects the savings habits of the people. Highly progressive income and property taxes reduce the incentive to save. But low rates of taxation with due concessions for savings in provident fund, life insurance, health insurance, etc. encourage savings.

(b) Perpetuation of Income Inequalities:

Perpetuation of income inequalities had been one of the major sources of capital formation in 18th century England and early 20th century Japan. In most communities, it is the higher income groups with a high marginal propensity to save that do the majority of savings. If there is unequal distribution of income, the society's upper level incomes accrue to the businessmen, the traders and the landlords who save more and hence invest more on capital formation. But this policy of deliberately creating inequalities is not favoured now either in developed or developing economics when all countries aim at reducing income inequalities.

(c) Increasing Profits:

Professor Lewis is of the view that the ratio of profits to national income should be increased by expanding the capitalist sector of the economy, by providing various incentives and protecting enterprises from foreign competition. The essential point is that profits of business enterprises should increase because they know how to use them in productive investment.

(d) Government Measures:

Like private households and enterprises, the government also saves by adopting a number of fiscal and monetary measures. These measures may be in the form of a budgetary surplus through increase in taxation (mostly indirect), reduction in government expenditure, expansion of the export sector, raising money by public loans, etc. If people are not saving voluntarily, inflation is the most effective weapon. It is regarded as hidden or invisible tax. When prices rise, they reduce consumption and thus divert resources from current consumption to investment. Besides, the government can increase savings by establishing and running public undertakings more efficiently so that they earn larger profits which are utilised for capital formation.

(2) Mobilisation of Savings:

The next step for capital formation is the mobilisation of savings through banks, investment trusts, deposit societies, insurance companies, and capital markets. "The Kernal of Keynes's theory is that decisions to save and decisions to invest are made largely by different people and for different reasons." To bring the savers and investors together there must be well-developed capital and money markets in the country. In order to mobilise savings, attention should be paid to the starting of investment trusts, life insurance, provident fund, banks, and cooperative societies. Such agencies will not only permit small amounts of savings to be handled and invested conveniently but will allow the owners of savings to retain liquidity individually but finance long-term investment collectively.

(3) Investment of Savings:

The third step in the process of capital formation is the investment of savings in creating real assets. The profit-making classes are an important source of capital formation in the agricultural and industrial sectors of a country. They have an ambition for power and save in the form of distributed and undistributed profits and thus invest in productive enterprises.

Besides, there must be a regular supply of entrepreneurs who are capable, honest and dependable. To perform his economic function, the entrepreneur requires two things, according to Professor Schumpeter, first, the existence of technical knowledge to produce new products; second, the power of disposal over the factors of production in the form of bank credit.

To these may he added, the existence of such infrastructure as well-developed means of transport, communications, power, water, educated and trained personnel, etc. Further, the social, political and economic climatic conditions in the country must be conducive for the emergence of a growing supply of entrepreneurs.

Domestic sources for capital formation are required to be supplemented by external sources. There are two reasons for external borrowing, according to Professor A.J. Brown. One is that it may be the easiest way of getting hold of capital funds at all, and the other that it may be the easiest way of getting foreign currency with which to buy imports which are needed for development.

The countries which have borrowed most from abroad for development purposes are those which have at some stage had a colonial status, have been developed by European immigrants, or have traded heavily with the highly developed countries, or have satisfied all these conditions.

For instance, the United States, in spite of its high rate of internal saving was a heavy foreign borrower in the earlier part of its development, with a net foreign indebtedness which in the eighteen-nineties perhaps reached 4 or 5 per cent of its already very large capital.

Low Capital Formation

Lower saving power - The people in India have a desire to save and possess all those factors, which motivate the 'WILL POWER TO SAVE', but they have lower per capita income. Moreover, the margin between production and consumption is very narrow and so the saving capacity is very little. It results in lower per capita income.

Habit of hoarding - Most of the illiterate people have a very little capacity to save, are in the habit of hoarding their savings in their houses. But such are of no use as far as capital formation is concerned, as their can't be utilized in any productive channel.

Inflation - Because of inflationary trend, the prices of commodities have gone very high and the middle class people are finding it very difficult to save any money. Rather, it is becoming increasingly impossible for them to make both ends meet under such circumstances, the majority of middle class is not contributing in capital formation.

Lack of economic and social overheads- Basic overhead like road, building, communication, education, water, health etc. are generally lacked in underdeveloped counties like India which create an improper atmosphere for the capital formation and the slow process of capital formaton.

Lack of skilled entrepreneur - Able and efficient entrepreneur are not available in our country. It is the only reason for the low rate of capital formation. Due to absence of risk-taking enterpreneurs, estabishment of industries and expansion is quiet limited and industrial diversification is not carried out and no balanced development of economy is possible.

Inadequate investment - The banking and financial facilities are inadequate in India. After nationalization, large number of branches of banks have been opened even in remote areas and villages, but still wide gap exists. Similarly, the means of transport and communication are not fully developed. These adequacies adversely affect the mobilization and investment of savings.

Taxation policy - High level of taxes on property in India affect the savings and capital formation is adversly affected. The industialists and buisnessmen believe that level of taxation should be reduced so that the people's capacity to save is improved, simultaniously improving their capacity invest.

Insecurity - The condition of law and order in many parts of the country is not normal. There is no adequate security of life and property in some of the region and this has discouraged the opening of new industries in those areas. Besides above causes, frequent failures of joint-stock companies have made the people reluctant for investment.

Small size of market - Due to small size of domestic market, investment is not encouragement in poor countries like India. It does not expand the work of economic development and modern machines cannot be used as extra quantity produced has no market access.

Fear of nationalism - The private entrepreneurs and industrialists are doubtfull about the government policies of nationalization. As, such they hesitate to set up industries, which results slow rate of capital formation.

Industrial sickness is defined in India as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year"

As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4lakhs unit were also reported to be ailing.

And this position also remain same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1.47,740 involving an outstanding bank credit of Rs. 487crores.

Industrial Sickness

Industrial sickness relates to *uneconomic functioning of industrial units.* It suggests something seriously wrong as regards the normal working of an industrial unit. A sick unit may not work to its full capacity, may not earn reasonable profit, may not pay fair wages and dividends and may face financial, marketing and other problems in a continuous manner. Such sick units are harmful to employees, corporate sector and the entire economic system. Some business units are born sick whereas some others are made sick. As the name indicates, industrial sickness relates to industrial/manufacturing/production units and not relates to other type of business activities. Industrial sickness relates to large scale or small-scale industrial/manufacturing units.

Causes of sickness in small scale industry

The different types of industrial sickness in Small Scale Industry (SSI) fall under two important categories. They are as follows:

Internal causes for sickness:

We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

a) Lack of Finance: This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

b) **Bad Production Policies** : The another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

c) **Marketing and Sickness** : This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

d) **Inappropriate Personnel Management**: The another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labor relations, lack of behavioral approach causes dissatisfaction among the employees and workers.

e) **Ineffective Corporate Management**: Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

External causes for sickness:

a) **Personnel Constraint**: The first for most important reason for the sickness of small scale industries are non availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

b) **Marketing Constraints**: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restrain of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

c) **Production Constraints**: This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

d) **Finance Constraints**: The another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

Unit III

Indian Economy & Foreign Trade

The Meaning and Definition of Foreign Trade or International Trade

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Significance of Foreign trade in Indian economy

Foreign trade has got an important place in the economic development of a country. What is the importance of foreign trade for economic development of country is stated below:

Firstly, foreign trade helps to produce those commodities which have a comparative cheaper cost than others. It results in less cost of production in producting a commodity. If all the countries adopt this procedure to produce these goods in. which they have less comparative cost, it will lead to availability of goods at a lower price.

Secondly, foreign trade increases the scope of market because of domestic demand and foreign demand for the product. So there is mass production. If the production of goods increases, average cost declines and price of goods declines.

Thirdly, foreign trade helps the people to get different varieties of goods both in quantities terms and qualitative terms.

Fourthly, foreign trade helps a developing country like India in its economic development. Iron and steel industry, has been established due to stored iron-ore and coal. But for the establishment of this type industry, we have to import technical knowledge from foreign countries. Had there been no foreign trade, then it would not have been only difficult but also too expensive.

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Without foreign trade, it is not possible to fulfill the demand for petroleum products and it will retard the economic development of our country. There is also scarcity of consumer goods due to natural calamities or due to any other reason. During the time scarcity of consumer goods, we import these goods from foreign countries and keep prices stable which help people to get their commodities.

Due to all these above reasons, foreign trade has got an important place in every country.

Foreign Exchange Reserve

Foreign-exchange reserves (also called **forex reserves** or **FX reserves**) are assets held by a central bank or other monetary authority, usually in various reserve currencies, mostly the United States dollar, and to a lesser extent the euro, the pound sterling, and the Japanese yen, and used to back its liabilities—e.g., the local currency issued, and the various bank reserves deposited with the central bank by the government or by financial institutions.

In a strict sense, foreign-exchange reserves should only include foreign banknotes, foreign bank deposits, foreign treasury bills, and short and long-term foreign government securities.[2] However, the term in popular usage commonly also adds gold reserves, special drawing rights (SDRs), and International Monetary Fund (IMF) reserve positions. This broader figure is more readily available, but it is more accurately termed **official international reserves** or **international reserves**.

Purpose

Official international reserves assets allow a central bank to purchase the domestic currency, which is considered a liability for the central bank (since it prints the money or fiat currency as IOUs). Thus, the quantity of foreign exchange reserves can change as a central bank implements monetary policy, but this dynamic should be analyzed generally in the context of the level of capital mobility, the exchange rate regime and other factors. This is known as Trilemma or Impossible trinity. Hence, in a world of perfect capital mobility, a country with fixed exchange rate would not be able to execute an independent monetary policy.

Balance of Trade (BOT)

In today's world, all countries import some goods and services from other countries, and they also export certain other goods and services which are surplus in their country.

The difference between the value of goods and services exported out of a country and the value of goods and services imported into the country.

If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports.

The balance is said to be favorable when the value of the exports exceeded that of the imports (i.e.exports exceed imports), and unfavorable when the value of the imports exceeded that of the exports (i.e. imports exceed exports).

Balance of Trade

Factors that can affect the balance of trade include:

The cost of production (land, labour, capital, taxes, incentives, etc.) in the exporting economy vis-à-vis those in the importing economy;

The cost and availability of raw materials, intermediate goods and other inputs;

Exchange rate movements;

Multilateral, bilateral and unilateral taxes or restrictions on trade;

Non-tariff barriers such as environmental, health or safety standards;

The availability of adequate foreign exchange with which to pay for imports; and

Prices of goods manufactured at home (influenced by the responsiveness of supply)

Balance of Payment

Balance of Payment is a system of recording all the economic transactions of a country, with the rest of the world over a period, say one year.

Typically, the transanctions included in BoP are country's exports and imports of goods, services, financial capital, and financial transfers. Thus, in nut shell we can say, the BoP accounts summarize international transactions for a specific period, usually a year, and are prepared in a single currency, typically the domestic currency for the country concerned.

To understand the same better, we can conclude : -

· The balance of payments (BOP) is an accounting of a country's international transactions for a particular time period.

- Any transaction that causes money to flow into a country is a credit to its BOP account, and any transaction that causes money to flow out is a debit.
- The BOP includes the current account, which mainly measures the flows of goods and services; the capital account, which consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets; and the financial account, which records investment flows.

The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports.

BOP is said to be favorable balance of payments, when more payments are coming in than going out, and will be unfavourable when less payments are coming in than what is going out.

The Balance of Payments Divided:

The BOP is divided into three main categories: (a) the current account,(b) the capital account and (c) financial account. Within these three categories are sub-divisions, each of which accounts for a different type of international monetary transaction.

The differences between balance of trade (BOT) and balance of payment (BOP) are as follows:

Balance of Trade (BOT)

i. It records only merchandise (i.e., goods) transactions.

ii. It does not record transactions of capital nature.

iii. It is a part of current account of BOP.

iv. It may be favourable, unfavourable or in equilibrium.

v. Defect in BOT cannot be met by BOP

vi. It is not true indicator of economic relations or economic prosperity of a country.

Balance of Payment (BOP)

(i) It records transactions relating to both goods and services.

(ii) It records transactions of capital nature.

(iii) It includes balance of trade, balance of services, balance of unilateral transfers and balance of capital transactions.

(iv) It always remains in balance in the sense that receipt side is always made to be equal to payment side.

(v) Defect in BOP can be met through BOT.

(vi) It is true indicator of economic performance of an economy.

Summary of BOX, Services, Unrequited Transfers and Capital Payment:

Credits *(Inflow of foreign exchange)*			**Debits** *(Outflow of foreign exchange)*		
Row(1)	Exports of goods *(Visible items)*	550	**Row(5)**	Imports of goods	800
Row(2)	Exports of services *(Invisibles)*	150	**Row(6)**	Imports of services	50
Row(3)	Unilateral transfers *(gifts, remittances, indemnities, etc. received from foreigners)*	100	**Row(7)**	Unilateral transfers *(gifts, indemnities, etc. paid to foreigners)*	80
Row(4)	Capital receipts *(borrowings from abroad, capital repayments by, or sale of assets to to foreigners)*	200	**Row(8)**	Capital payments *(lending to, capital repayments to, or purchase of assets from foreigners)*	70
	Total Receipts	**1,000**		**Total Payments**	**1,000**

A close look at the hypothetical data and further clarifies the distinction.

Balance of Trade = Rows (1) and (5)

= 550-800 = -250

Balance of Services = Rows (2) and (6)

= 150-50= 100

Balance of Unilateral Transfers = Rows (3) and (7)

= 100-80 = 20

Balance of Payment on Current A/c = -250 + 100 + 20 = -130

Balance of payment on Capital A/c = Rows (4) and (8)

= 200-70= 130 Balance of Payment = Rows (1 to 4) – (5 to 8)

= (550 + 150 + 100 + 200) – (800 + 50 + 80 + 70)

= 1000- 1000 = Zero

A deficit in balance of payment on current account (i.e., -130 crore) has been offset by surplus in BOP on capital account (i.e., + 130 crore). As a result, balance of payment is in equilibrium.

The Foreign Trade Policy, 2015-20

ISO 9001:2015 & 14001:2015

The Foreign Trade Policy, 2015-20, is notified by Central Government, in exercise of powers conferred under Section 5 of the Foreign Trade (Development & Regulation) Act, 1992 (No. 22 of 1992) [FT (D&R) Act], as amended.

Following are the highlights of the Foreign Trade Policy 2015-20

Increase exports to $900 billion by 2019-20, from $466 billion in 2013-14

Raise India's share in world exports from 2% to 3.5%.

Merchandise Export from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) launched.

Higher level of rewards under MEIS for export items with High domestic content and value addition.

Chapter-3 incentives extended to units located in SEZs.

Export obligation under EPCG scheme reduced to 75% to Promote domestic capital goods manufacturing.

FTP to be aligned to Make in India, Digital India and Skills India initiatives.

Duty credit scrips made freely transferable and usable For payment of custom duty, excise duty and service tax.

Duration of FTP

The Foreign Trade Policy (FTP), 2015-2020, incorporating provisions relating to export and import of goods and services, shall come into force with effect from the date of notification and shall remain in force up to 31st March, 2020, unless otherwise specified. All exports and imports made upto the date of notification shall, accordingly, be governed by the relevant FTP,

TRADE FACILITATION & EASE OF DOING BUSINESS

Objective

Trade facilitation is a priority of the Government for cutting down the transaction cost and time, thereby rendering Indian exports more competitive. The various provisions of FTP and measures taken by the Government in the direction of trade facilitation are consolidated under this chapter for the benefit of stakeholders of import and export trade.

The **Foreign Exchange Management Act, 1999** (FEMA) is an Act of the Parliament of India "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India". It was passed in the winter session of Parliament in 1999, replacing the Foreign Exchange Regulation Act (FERA). This act makes offences related to foreign exchange civil offenses. It extends to the whole of India.,[1] replacing FERA, which had become incompatible with the pro-liberalisation policies of the Government of India. It enabled a new foreign exchange management regime consistent with the emerging framework of the World Trade Organisation (WTO). It also paved the way for the introduction of the Prevention of Money Laundering Act 2002, which came into effect from 1 July 2005.

Unlike other laws where everything is permitted unless specifically prohibited, under this act everything was prohibited unless specifically permitted. Hence the tenor and tone of the Act was very drastic. It required imprisonment even for minor offences. Under FERA a person was presumed guilty unless he proved himself innocent, whereas under other laws a person is presumed innocent unless he is proven guilty.

FEMA is a regulatory mechanism that enables the Reserve Bank of India and the Central Government to pass regulations and rules relating to foreign exchange in tune with the Foreign Trade policy of India.

Switch from FERA

FERA, in place since 1975, did not succeed in restricting activities such as the expansion of transnational corporations (TNCs). The concessions made to FERA in 1991-1993 showed that FERA was on the verge of becoming redundant. After the amendment of FERA in 1993, it was decided that the act would become the FEMA. This was done in order to relax the controls on foreign exchange in India, as a result of economic liberalization. FEMA served to make transactions for external trade (exports and imports) easier – transactions involving current account for external trade no longer required RBI's permission. The deals in Foreign Exchange were to be 'managed' instead of 'regulated'. The switch to FEMA shows the change on the part of the government in terms of foreign capital.

Need for this management

The buying and selling of foreign currency and other debt instruments by businesses, individuals and governments happens in the foreign exchange market. Apart from being very competitive, this market is also the largest and most liquid market in the world as well as in India. It constantly undergoes changes and innovations, which can either be beneficial to a country or expose them to greater risks. The management of foreign exchange market becomes necessary in order to mitigate and avoid the risks. Central banks would work towards an orderly functioning of the transactions which can also develop their foreign exchange market.

Whether under FERA or FEMA's control, the need for the management of foreign exchange is important. It is necessary to keep adequate amount of foreign exchange from Import Substitution to Export Promotion.

Main Features

- Activities such as payments made to any person outside India or receipts from them, along with the deals in foreign exchange and foreign security is restricted. It is FEMA that gives the central government the power to impose the restrictions.
- Restrictions are imposed on residents of India who carry out transactions in foreign exchange, foreign security or who own or hold immovable property abroad.
- Without general or specific permission of the MA restricts the transactions involving foreign exchange or foreign security and payments from outside the country to India – the transactions should be made only through an authorised person.
- Deals in foreign exchange under the current account by an authorised person can be restricted by the Central Government, based on public interest generally.
- Although selling or drawing of foreign exchange is done through an authorised person, the RBI is empowered by this Act to subject the capital account transactions to a number of restrictions.

- Residents of India will be permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad if the currency, security or property was owned or acquired when he/she was living outside India, or when it was inherited by him/her from someone living outside India.

- Exporters are needed to furnish their export details to RBI. To ensure that the transactions are carried out properly, RBI may ask the exporters to comply to its necessary requirements

The Meaning and Definition of Export Promotion:

Export promotion has been defined as "those public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level". Although many forces determine the international flow of goods and services, export promotion is one of the principal opportunities that governments have to influence the volume and types of goods and services exported from their areas of jurisdiction.

The major objective of export promotion programmes is to create awareness about exports and make the people understand that it is one of the most crucial instruments of growth and market expansion.

A non-exporter needs to be motivated by making him or her aware of the international marketing opportunities.

A first-time exporter has to be assisted in finding export marketing opportunities and may be supported on matters related to export policy, procedures and documentations.

Exporters consistently attempt to explore ways to improve their international marketing operations and need to be assisted by way of trade fairs, buyer sellers meet, and market promotion programmes.

The export promotion programmes initiated by the government are in the form of public policy measures.

The functions of export promotion programmes are:

- To create awareness about exporting as an instrument of growth and market expansion.
- To reduce and remove barriers of exporting,
- To create promotional incentives.

- To provide various forms of assistance to potential and actual exporters.

The export promotion programmes are basically designed to assist firms in entering international markets and achieving optimum opportunities from their international business activities.

Functions:

- To provide commercially useful information and assistance.
- To offer professional advice to the members.
- To organize visits to abroad to the members.
- To organize participation in trade fairs, exhibitions.
- To promote interaction between the exporting community and government.

There are restrictions on imports and exports for various strategic, health, and other reasons. There can be quantitative and qualitative restrictions on the imports and exports. If the goods are not banned, the government can give a permission/license for specific reasons.

Qualitative Restrictions

Principles of Restriction:

- Protection of public morals
- Protection of human, animal or plant life or health
- Protection of patents, trademarks and copyrights and the prevention of deceptive practices
- Prevention of prison labor
- Protection of national treasures of artistic, historic or archaeological value
- Conservation of exhaustible natural resources
- Protection of trade of fissionable material or material from which they are derived
- Prevention of traffic in arms, ammunition and implements of war.

Labeling and Marking Rules for Imports:

stipulates that MRP, generic name of product, month and year of entry in trade channel, importer name and address and quantity in standard units must be carried prominently on the "principle display panel" of the of prepackaged commodities for retail sale only.

Technical Standards for quality:

The government has subjected imports of some products to mandatory compliance of Indian Quality Standards. The foreign manufacturers and exporter are required to register with Bureau of Indian Standards (BIS) to comply with this requirement. Quality Standards are not applicable on imports made under Advance Licenses for physical exports issued with actual user condition. Similarly the imports made for re-export purposes are also exempted from the quality standards.

Import of second hand goods:

- All second hand goods are restricted for imports and may be imported only in accordance with the provisions of the Policy, ITC (HS), Public Notice or a license / certificate / permission issued in this behalf.
- The following items may be imported without a license / certificate / permission
- Second Hand Capital Goods except personal computers, laptops, photocopiers, air-conditioners, diesel- generating sets.

Any form of metallic waste, scrap, seconds and defectives, other than those which are of a value below the value specified for any such items by a notification issued in this behalf, and excluding hazardous, toxic waste, radio active contaminated waste/ scrap containing radio active material.

Woolens rags / synthetic rags / shoddy wool in completely mutilated form subject to the condition that mutilation must conform to the requirements as specified by the customs authorities.

Unit IV Indian Economy – Emerging Issues

Economic reforms initiated in the nineteen nineties have had a much needed positive impact on the Indian economy. The resultant high growth trajectory into which the economy was drawn caught the attention of the rest of world and catapulted India into the league of promising emerging economies of the world. Comparing India to economies like China became fashionable. From 2008 onwards, like many other economies of the world, the Indian economy too, began to get sucked into the quagmire of global recession. The difficult external situation which the economy has been facing for some time coupled with the weakening of its macroeconomic fundamentals have reflected in falling growth rates.

High levels of domestic inflation, fiscal difficulties and increasing current account deficits have not only taken the rupee on a roller-coaster drive but have also contributed towards the ebbing of business sentiments. Inability to tackle the problems on priority and proactive basis has raised questions about equity, transparency, inclusiveness and sustainability of the growth model.

World Trade Organization on the Indian Economy

Introduction: The World Trade organization was established to deal with all the major aspects of international trade and it had far reaching effects not only on India's foreign trade but also on its internal economy. The impact of the WTO on the Indian economy can be analyzed on the basis and general concepts.

Impact: The WTO has both favorable and non-favorable impact on the Indian economy.

Favourable impact:

1) **Increase in export earnings**: Increase in export earnings can be viewed from growth in merchandise exports and growth in service exports:
2) **Growth in merchandise exports**: The establishment of the WTO has increased the exports of developing countries because of reduction in tariff and non-tariff trade barriers. India's merchandise exports have increased from 32 billion us $ (1995) to 185 billion u $ (2008-09).
3) **Growth in service exports**: The WTO introduced the GATS (general Agreement on Trade in Services) that proved beneficial for countries like India. India's service exports increased from 5 billion us $ (1995) to 102 billion us $ (2008-09) (software services accounted) for 45% of India's service exports)
4) **Agricultural exports** :Reduction of trade barriers and domestic subsidies raise the price of agricultural products in international market, India hopes to benefit from this in the form of higher export earnings from agriculture
5) **Textiles and Clothing**: The phasing out of the MFA will largely benefit the textiles sector. It will help the developing countries like India to increase the export of textiles and clothing.

World Trade UNFAVOURABLE IMPACT

• **Pharmaceutical sector**: Under the Indian Patent act, 1970, only process patents are granted to chemicals, drugs and medicines. Thus, a company can legally manufacture once it had the product patent. So Indian pharmaceutical companies could sell good quality products (medicines) at low prices. However under TRIPs agreement, product patents will also be granted that will raise the prices of medicines, thus keeping them out of reach of the poor people, fortunately, most of drugs manufactured in India are off –patents and so will be less affected

• **Agriculture:** Since the agreement on TRIPs extends to agriculture as well; it will have considerable implications on Indian agriculture. The MNG, with their huge financial resources, may also take over seed production and will eventually control food production. Since a large majority of Indian population depends on agriculture for their livelihood, these developments will have serious consequences. Micro-organisms: Under TRIPs Agreement, patenting has been extended to micro-organisms as well. These mills largely benefit MNCs and not developing countries like India.

TRIMS : The Agreement on TRIMs also favors developed nations as there are no rules in the agreement to formulate international rules for controlling business practices of foreign investors. Also, complying with the TRIMs agreement will contradict our objective of self –reliant growth based on locally available technology and resources.

GATS: The Agreement on GATS will also favors the developed nations more. Thus, the rapidly growing service sector in India will now have to compete with giant foreign firms. Moreover, since foreign firms are allowed to remit their profits, dividends and royalties to their parent company, it will cause foreign exchange burden for India.

TRADE AND NON – TARIFF Barriers: Reduction of trade and non-tariff barriers has adversely affected the exports of various developing nations. Various Indian products have been hit by Non-tariff barriers. These include textiles, marine products, floriculture, pharmaceuticals, basmati rice, carpets, leather goods etc.

LDC exports: Many member nations have agreed to provide duty – free and quota – free market access to World Trade all products originating from least developed countries.

India will have to now bear the adverse effect of competing with cheap LDC exports internationally. Moreover, LDC exports will also come to the Indian market and thus compete with domestically produced goods.

CONCLUSION: Thus the WTO is a powerful body that will enact international laws on various matters. It will also globalize many countries and help them to develop their competitive advantages and seek benefits from advanced technology of other nations. Though countries like India will face serious problems by complying to the WTO agreements, it can also benefit from it by taking advantage of the changing international environment.

GATT

The **General Agreement on Tariffs and Trade** (**GATT**) was a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis." It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed by 23 nations in Geneva on October 30, 1947 and took effect on January 1, 1948. It lasted until the signature by 123 nations in Marrakesh on April 14, 1994 of the Uruguay Round Agreements, which established the World Trade Organization (WTO) on January 1, 1995.

The Agreement on Trade Related Aspects of Intellectual Property Rights TRIPS (TRIPS) is an international agreement administered by the World Trade Organization (WTO) that sets down minimum standards for many forms of It was negotiated at the end of the intellectual property (IP) regulation Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.

TRIPS

Specifically, TRIPS requires WTO members to provide copyright rights, covering content producers including performers, producers of sound recordings and broadcasting organizations; geographical indications, including appellations of origin; industrial designs; integrated circuit layout-designs;

patents; new plant varieties; trademarks; trade dress; and undisclosed or confidential information. A TRIPS also specifies enforcement procedures, remedies, and dispute resolution procedures.

TRIPS require member states to The Requirements of TRIPS provide strong protection for intellectual property rights. For example, under Copyright terms must extend at least 20 years, unless based on the life TRIPS: Computer programs must be regarded as "literary works" under of the author. Patents must be copyright law and receive the same terms of protection. Granted for "inventions" in all "fields of technology" provided they meet all other patentability requirements

TRIMS

The (TRIMs) are rules that apply to the domestic regulations a country TRIMS applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organization. The WTO wasn't agreement was concluded in 1994 and came into force in 1995 established at that time, it was its predecessor, the GATT (General Agreement on Trade and Tariffs. The WTO came about in 1994- 1995.)

Policies such as local content requirements and trade balancing rules that have traditionally been used to both promote the interests of domestic industries and combat restrictive business practices are now banned. In short, TRIMs are rules, which restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets.

Foreign Direct Investment

An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

The foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company.

An example of foreign direct investment would be an American company taking a majority stake in a company in China. Another example would be a Canadian company setting up a joint venture to develop a mineral deposit in Chile.

Advantages of foreign direct investment

- It can stimulate the economic development of the country in which the investment is made, creating both benefits for local industry and a more conducive environment for the investor.
- It will usually create jobs and increase employment in the target country.
- It will enable resource transfer, and other exchanges of knowledge whereby different countries are given access to new skills and technologies.
- The equipment and facilities provided by the investor can increase the productivity of the workforce in the target country.

Disadvantages of foreign direct investment

- Foreign direct investment can sometimes hinder domestic investment, as it focuses resources elsewhere.
- Occasionally as a result of foreign direct investment exchange rates will be affected, to the advantage of one country and the detriment of the other.
- Foreign direct investment may be capital-intensive from the investor's point of view, and therefore sometimes high-risk or economically non-viable.
- The rules governing foreign direct investment and exchange rates may negatively affect the investing country.
- Investment in certain areas is banned in foreign markets, meaning that an inviting opportunity may be impossible to pursue.

Foreign Institutional Investor (FII)

Foreign Institutional Investor (FII) means an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as FIIs in accordance with Section 2 (f) of the SEBI (FII) Regulations 1995. FIIs are allowed to subscribe to new securities or trade in already issued securities. This is just one form of foreign investments in India

In order to remove the ambiguity that prevails on what is Foreign Direct Investment (FDI) and what is Foreign Institutional Investment (FII), it is proposed to follow the international practice and lay down a broad principle that, where an investor has a stake of 10 percent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 percent, it will be treated as FDI. A committee will be constituted to examine the application of the principle and to work out the details expeditiously."

However, FII as a category does not exist now. It was decided to create a new investor class called "Foreign Portfolio Investor" (FPI) by merging the existing three investor classes viz. FIIs, Sub Accounts and Qualified Foreign Investors. Accordingly, SEBI (Foreign Portfolio Investors) Regulations, 2014 were notified on January 07, 2014 followed by certain other enabling notifications by Ministry of Finance and RBI.

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