



NARAYANI INSTITUTE OF ENGINEERING AND TECHNOLOGY

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LECTURE NOTE ON

**ENTREPRENEURSHIP AND
MANAGEMENT AND SMART
TECHNOLOGY**

DEPARTMENT OF MINING ENGINEERING

UNIT-1: CONCEPT OF ORGANIZATION & ENTERPRISE MANAGEMENT

1.1 MEANING, FEATURES AND COMPONENTS OF BUSINESS:-

Business is the activity of making one's living or making money by producing or buying and selling products (such as goods and services). Activity performed by a person with a view to earn profit is called business activity. A person has to produce and exchange goods and services with money in order to earn profit. For example: - Production of soaps, shampoos etc.

DEFINITION:-

A business is defined as an organization or enterprising entity engaged in commercial, industrial or professional activities.

FEATURES OF BUSINESS:-

There are five broad features of business:

a. Dealings in goods and services

Goods are divided into two types;

i) Consumer goods

ii) Producer goods

Consumer goods are bread, butter, shoes, shirts etc. and Producer goods are machinery, tools, equipment etc.

b. Production and exchange

Business is carried out only when good and services are produced and exchanged for money. If goods are produced for self-consumption, such an activity is not treated as business.

c. Continuity and regularity in dealings

An activity is said to be a business when it maintains continuity and regularity. For example: - if a person sells his house, it is not said to be a business because continuity is not there in dealings. If he repeatedly buys houses and sells them to others, such activity is treated as business.

d. Profit motive

Profits are very important so as to enable the business to survive, grow, expand and get recognition.

e. Element of risk

Risk is of two types- one whose possibility can be calculated and insured and the other whose probability cannot be calculated and which cannot be insured.

OBJECTIVES OF BUSINESS:-

There are 3 different objectives of business. They are: -

- a) Economic objectives
- b) Social objectives
- c) Human objectives

a) Economic objectives

- + Earning of profits
- + Exploring new markets and creating more customers.
- + Making innovations and improvements in goods and services.

b) Social objectives

- + Supply of quality goods to the community.
- + Providing goods at reasonable prices.
- + Providing more employment opportunities to the people in the country.

c) Human objectives

- + Fair deal to employees in terms of wages and incentives.
- + Providing better working conditions and environment to the employees.
- + Providing employees more growth opportunities.

COMPONENTS OF BUSINESS:-

Business has two major components. They are: -

- i) Industry
- ii) Commerce

i) Industry

- ✓ Industry is a place where goods and services are produced.
- ✓ Industry can be classified into three broad categories.

- + Primary industry
- + Secondary industry
- + Tertiary industry

✚ **Primary Industry**

- ✓ It includes activity connected with the production of wealth directly from natural resources such as water, air, & land etc.
- ✓ Primary industries are further subdivided as follows:
 - a) Extractive industries
 - b) Genetic industries
 - a) Extractive industries
- ✓ These industries are concerned with the extraction of materials from earth, sea and air.
- ✓ For example: -mining of ore and minerals, collection of forest products, deep sea fishing, collection of marine products, hunting etc.

b) Genetic industries

- ✓ Genetic industries are concerned mainly with producing-breeding or multiplying of certain species of plants or animals with the object of earning profits from their sale.
- ✓ Example: -nurseries, cattle breeding, fisheries, animal husbandry etc.

✚ **Secondary Industry**

- ✓ This industry is concerned with converting raw material into finishing product.
- ✓ Secondary industries may be further divided as follows:
 - a) Manufacturing industries
 - b) Construction industries

a) Manufacturing industries

- ✓ Manufacturing industries are understood to be the factories and mills where raw materials are introduced and finished products are obtained.
- ✓ In such industries, some sorts of production activities are usually carried out on at a particular place with the use of men and machines.
- ✓ Manufacturing industries are classified into 4 categories, such as;
 1. Assembling industries
 2. Processing industries
 3. Analytical industries
 4. Mixed type or synthetic type industries

1. Assembling industries

- ✓ These industries purchase different components, parts and accessories and assemble them into usable products.
- ✓ Example: -bicycle industries, automobile industries, watch industries, TV industries etc.

2. Processing industries

- ✓ These industries are concerned with the processing of raw-materials through different stages of production.
- ✓ Raw materials travel from one process to another until its completion as finished product.
- ✓ Example: -furniture making, textile industries, paper making, jute mills etc.

3. Analytical industries

- ✓ In analytical industry, the raw material is broken down into several useful materials.
- ✓ For example: -
 - a) An oil refinery separates crude oil into kerosene, gasoline, diesel oil, petrol etc..

4. Mixed type or synthetic type industries

- ✓ These industries put together two or more materials to form a new product.
- ✓ Example: -chemical and fertilizer industries, pharmaceutical industries, cosmetic industries, food processing industries.
 - b) Construction industries
- ✓ These types of industries are engaged in the construction of various infrastructures like road, dam, bridge, canal, flyover, tunnel, building, factory etc.

Tertiary Industry

- ✓ These industries are concerned with providing those services which facilitate a flow of goods & services.

Service industries

- ✓ The industry, which earns profit by giving service, is known as service industry.
- ✓ Institutions like clinic, private hospitals, banking, hotel etc are examples of service industry.

ii) Commerce

- ✓ Commerce includes all those economic activities of buying and selling.

- ✓ Commerce helps the industries to deliver the goods and services to the ultimate user.
- ✓ Commerce includes:
 - a) Trade
 - b) Aids to trade
- a) Trade
- ✓ Trade is an integral part of commerce.
- ✓ The exchange of goods and services for cash or credit is termed as trade.
- ✓ The trade segment of commerce brings together the manufacturer and the consumer, i.e. it is a link between the manufacturer and the consumer.
- ✓ A system or network that allows trade is called a market.
- ✓ The middlemen are also the traders and the activities they carry on are trade.
- ✓ Trade can be classified into two types. They are:-
 - i) Internal trade
 - ii) External trade

i) Internal trade:

- ✓ It refers to buying & selling of goods or services within the geographical boundaries of a country.
- ✓ The internal trade can be two types:
 - Wholesale trade
 - Retail trade
 - Local trade
 - Regional trade

i) Wholesale trade

- ✓ Wholesale trade is a form of trade in which goods are purchased and stored in large quantities.
- ✓ Wholesale trade refers to the sale of goods and services by a large scale trader to a small scale trader i.e., the retailers.

ii) Retail trade

- ✓ Retail trade refers to the sale or transfer of goods and services directly to the consumers.
- ✓ The person selling to the consumers in small quantities is a retailer.

iii) Local trade

- ✓ When buying and selling of a commodity is confined to a particular locality, it is known as local trade.
- ✓ Here the buying and selling of different commodities are carried on in small quantities.

iv) **Regional trade**

- ✓ When buying and selling of goods and services are confined to a particular region only, it is known as regional trade.

ii) **External trade:**

- ✓ When the buying & selling of goods & services is beyond the geographical limits of the country it is called external trade.
- ✓ External trade is of the following types:
 - International trade
 - Entrepot trade

a) **International trade**

- ✓ When goods and services are bought and sold between nations i.e., outside the boundary of a country, it is known as international trade.
- ✓ International trade is of two types. They are:-
 - i) Import trade
 - ii) Export trade

i) Import trade

- ✓ When goods are bought from other countries of the world to meet the domestic demand of a country, it is known as import trade.

ii) Export trade

- ✓ When goods and services are sold from the domestic country to other countries, it is known as export trade.

b) **Entrepot trade**

- ✓ Entrepot trade is also known as Re-exportation.
- ✓ When goods are imported from one country and then re- exported after doing processing, it is called Entrepot trade.

b) **Aids to trade**

- ✓ Aids to trade are the activities which are necessary for smooth flow of goods from producers to consumers.
- ✓ Such activities include- transportation of commodities, warehousing, advertising, banking, insurance, packaging etc.

1.2 DIFFERENT FORMS OF BUSINESS ORGANIZATIONS AND THEIR BASIC CHARACTERISTICS:-

- ✓ A business can be started by a single person or by a group of persons.
- ✓ Depending on how business are started and managed, business organizations are classified into 5 types. they are: -
 1. Sole-proprietorship
 2. Partnership firm
 3. Joint Hindu family business
 4. Cooperative society
 5. Joint stock company

1. SOLE-PROPRIETORSHIP

- ✓ When a business is started by a single person, it is known as sole proprietorship or single ownership or one man business.

Basic characteristics

1. Such a business is owned and controlled by a single individual.
2. The individual invests his own capital in the business.
3. The sole proprietor bears all the risk to which the business is exposed.
4. The sole proprietor derives the entire benefit of the business and all the profits go to his pocket. There is nobody to share the profits of the organization. Similarly, if there is loss, it is to be borne by the sole proprietor only.
5. No legal formalities are necessary to start such a business as it does not require any license, permissions or clearance from any authorities. It is quite easy to start such a business.

ADVANTAGES OF SOLE PROPRIETORSHIP:-

1. Easy to start.

- ✓ Starting a sole proprietorship business is quite easy.
- ✓ He need not require any license, permission or clearance from any agencies to start a sole proprietorship business.

2. Profit

- ✓ The owner is the only risk bearer in a sole proprietorship.

- ✓ He does not have to share his profits with any other stakeholders since there are none. So he must bear the full risk in exchange for enjoying full profits.

3. Business secrecy

- ✓ Sometimes it is very important to maintain the secrecy of a business.
- ✓ As the statements of affairs of a sole –proprietorship is not published; business information can also be kept confidential.
- ✓ So business secrecy can be well maintained under this form of business organisation.

4. Prompt decision.

- ✓ As sole –proprietor is the only individual in his business; he can take prompt decision whenever there is need.
- ✓ He need not consult or contact any one to take business decisions.

5. Flexibility.

- ✓ The sole –proprietor enjoys full freedom as well as flexibility so far his business is concerned.
- ✓ He can do anything for the future of the business; change the name of the business, etc.as per his own suitability.

DISADVANTAGES OF SOLE-PROPTIETORSHIP: -

1. Limited financial resources.

- ✓ As the sole-proprietor is the only person in the business, he can contribute only limited amount of money for the purpose of his business.
- ✓ He cannot collect a large amount of money to start a big business.
- ✓ So, a sole-proprietorship form of business organisation suffers from limited financial resources.

2. Uncertain future.

- ✓ As the sole-proprietor is the only person in the business, the future of such a business is purely uncertain and its continuity is always doubtful.
- ✓ So, people may not like to build up a long term business relation with such a business.

3. Unlimited liability.

- ✓ The liability of the sole-proprietor is always unlimited.

- ✓ His personal assets may be utilised to pay off the business liabilities. So the personal properties of the sole-proprietor are at risk.

4. **No separate legal entity.**

- ✓ The sole-proprietorship business does not enjoy separate legal identity in the eye of law.
- ✓ Both the sole-proprietor and his business are taken to be one unit.
- ✓ So the sole-proprietorship business is not treated as an artificial person like that of a company.

5. **Limited managerial ability.**

- ✓ One single person is not likely to be an expert in all the activities of a business.
- ✓ One may be expert in production but very poor in marketing.
- ✓ So a sole-proprietor may not be an expert in all the activities of his business.

PARTNERSHIP

- ✓ When a group of persons combining together start a business, it may be a partnership business.
- ✓ Persons entering to the agreement are individually called partners and collectively a firm and the name under which business is carried out is called firm name.
- ✓ Partnership is the result of an agreement between or among partners to carry on some business.

BASIC CHARACTERISTICS OF PARTNERSHIP

- 1) The minimum number of members in case of a partnership business is two and maximum limit is twenty. However, in case of banking and financial business the maximum membership is restricted to ten only.
- 2) Partnership comes into existence due to the agreement entered into by the partners. Such an agreement may be expressed. It may be in writing or in oral words. Such an agreement in writing is known as "PARTNERSHIP DEED".
- 3) The motive of the entire partner in the partnership must be to earn profit and share it. If the motive behind partnership is for voluntary, charitable or social cause or for mutual benefits, it is not a partnership .while aiming for profit, there may also be losses but their aim must be earn profits.
- 4) Without the existence of a business and partner there cannot be a partnership. If the partners agree to carry on something which is not a business, it will not be called a partnership.

5) As the partnership is the result of an agreement, all the partners can take active part in the management of partnership. Even only one partner may be authorised to carry on the behalf of all the partners. So there exists a relationship among the partner which is a principle-agent relationship. Under this, a partner is the agent of other partners. So a partner in a partnership is an agent as well as principal. Activities of one partner are binding on all other partners.

PARTNERSHIP DEED:

- ✓ Deed means an agreement.
- ✓ So partnership deed means the partnership agreement.
- ✓ A partnership firm can be formed through an agreement among two or more persons.
- ✓ It must be signed by all the partners and should be properly stamped.
- ✓ It can be altered with the mutual consent of all the partners.

A partnership deed usually contains the following details:

- i. Name of the firm.
- ii. Names and address of all the partners.
- iii. Nature of the firm's business.
- iv. Date of the agreement.
- v. Principal place of the firm's business.
- vi. Duration of partnership, if any.
- vii. Amount of capital contributed by each partner.
- viii. The proportion in which the profits and losses are to be shared.
- ix. Loans and advances by partners and interest payable on them.
- x. Amount of withdrawal allowed to each partner and the rate of interest.

REGISTRATION OF PARTNERSHIP: -

- ✓ Registration is not compulsory for a partnership organization, yet it is desirable to get the firm registered with the registrar of firm registered with the registrar of firms.
- ✓ There is no penalties imposed on non-registration but if a firm gets itself registered, it enjoys certain advantages over an unregistered firm.

✓ The application for registration must contain:

1. Name of the firm.
2. Name and permanent addresses of each and every partner.
3. Place or places of business including the principal place of business.

RIGHTS OF A PARTNER:

1. Right to take active part in the management of the firm
2. Right to express his view.
3. Right to inspect the book of accounts.
4. Right to share the profits.
5. Right to retire.
6. Right to get the share on retirement.
7. Right to act as an agent of the firm.
8. Right to protect his interest as a partner.
9. Right to be indemnified (compensate) in case of expenses or losses incurred or suffered by the partner in course of conducting partnership.
10. Right to exercise free consent.

DUTIES OF A PARTNER:

1. To participate in the business of the firm actively.
2. Perform his duties with honesty and for the common advantage off the partners.
3. Render all the accounts all the partners.
4. Disclose all the facts to all other partners.
5. Should not make any secrecy.

DISSOLUTION OF PARTNERSHIP:

A partnership firm may be dissolved due to any of the following reasons:

1. By mutual agreement among partners.
2. Notice by any of the partners for dissolution.
3. On the event of death of a partner.
4. On the event of insolvency of a partner.
5. If the partnership business becomes illegal.

DISSOLUTION OF PARTNERSHIP DUE TO THE INTERVENTION OF THE COURT.

1. If any partner disobeys or disregard, the partnership agreement.

2. Any misconduct by any partner.
3. Transfer of share by any partner.
4. Disputes among partners.
5. If the business cannot be carried on except on losses.

TYPES OF PARTNERSHIP

There are two types of partnership firms. They are: -

- i) General partnership
- ii) limited partnership.

i) General partnership

- ✓ Under this type of partnership the liabilities of all the partners are unlimited.
- ✓ General partnership is divided into three categories
 - (a) Partnership at will
 - (b) Particular partnership
 - (c) Partnership for a specific period.

(a) Partnership at will.

When all the partners come to an agreement and say nothing about the duration of partnership, such a partnership is dissolved at the will of partners. Such a partnership is known as partnership at will.

(b) Particular partnership.

If the partners have entered into an agreement to complete a particular task or venture, the partnership is automatically closed down at the completion of such task or venture. Such a partnership is known as particular partnership.

(c) Partnership for a specific time.

If the partners have entered into an agreement to carry on business for a specific period of time e.g. for one year, two year, etc. Such a partnership is known as partnership for a specific time.

ii) Limited partnership

- ✓ Limited partnership includes both general partner and limited partners.
- ✓ General partners have unlimited partnership.
- ✓ As the limited partners enjoy limited liabilities, they are not allowed to take active participation in the business.
- ✓ Similarly, the death, retirement, insolvency, etc. of such limited partners does not close down the partnership.

Kinds of partners

1. Active partner.

- ✓ This type of partner is found in all the partnership.
- ✓ Such partners not only contribute capital but also take active part in the management of the partnership firm.
- ✓ The liabilities of such partners in partnership are unlimited.
- ✓ He cannot transfer his share to an outsider or to another partner.

2. Sleeping partners.

- ✓ This type of partners is also known as dormant partner.
- ✓ The liability of such a partner is unlimited.
- ✓ He is not known as a partner to outsiders, so he cannot be directly held liable to any third party for any debt.

3. Partners in profits only.

- ✓ There are some partners who may be interested in the profits of the partnership only.
- ✓ They are not to share the losses, if any.
- ✓ The liabilities of such partners are unlimited.

4. Nominal partner.

- ✓ Nominal partner neither contributes capital to the firm nor takes active part in the management of the partnership firm.
- ✓ This type of partner does not get any direct benefit from the partnership.
- ✓ He only lends his name to the firm to be used as a partner.

5. Partner by estoppel.

- ✓ Sometimes it may so happen that person may represent himself in such a manner that others believe him to be a partner.
- ✓ Actually he is not a partner but behaves like a partner.
- ✓ Such a person neither contributes capital nor takes active part in the management of the partnership.

6. Minor partner.

- ✓ Partnership is the result of a valid agreement or contract among partners.
- ✓ But a person who is below 18 years of age cannot enter into an agreement or contract as per the Indian contract act.
- ✓ Person below 18 years of age is treated as minor.
- ✓ But the Indian partnership act specifically provides that a minor person can enter into a partnership and become a partner.

He can enter into a partnership agreement.

Hence a minor person can be admitted to partnership.

ADVANTAGES OF PARTNERSHIP:-

1. Absence of legal formalities.

- ✓ There is no need of obtaining any permission, license or clearance from any authorities to start a partnership business. So no legal formalities are required to start a partnership firm.
- ✓ Even the registration of the partnership firm is not compulsory.

2. Higher financial resources.

- ✓ As number of persons in case of a partnership firm is more than the sole-proprietorship business, this business has more financial strength.

3. Bigger size of business.

- ✓ As compared to a sole proprietorship business, a partnership business can be started with a comparatively bigger business with more capital, more turnovers, more profits, more area of business, etc.

4. Better management.

- ✓ In a partnership, there are many partners with varieties of talent on various matters.
- ✓ As a result there is more efficient management in partnership business as one individual will look after a particular function of the business according to his specialization.

5. Reduced risk.

- ✓ As there are many persons in a partnership, the risk involved is shared among the partners. So there is no heavy risk on any one of the partners.
- ✓ Lighter risk enables the partners to take good business risk.
- ✓ This helps the partners to be bold in the management of their business.

DISADVANTAGES OF PARTNERSHIP:-

1. Unlimited liability.

- ✓ The liabilities of each and every member in case of a partnership are unlimited.
- ✓ His personal properties can be attached to pay of business of liabilities.
- ✓ This risk will not enable the partners to conduct well.

2. Absence of continuity or uncertain future.

- ✓ A partnership firm cannot continue its business for an unlimited period of time.
- ✓ So people do not have faith in this business organization.
- ✓ They may not be willing to build up long term business relation.

3. Limited financial resources.

- ✓ The number of members in case of a partnership is always limited and such partners can contribute only limited amount of money for the purpose of business of the partnership.
- ✓ So a partnership firm cannot start a big business due to limited financial resources.

4. Higher risk.

- ✓ The risk involved in this type of business is very high in comparison to any other form of business organization.
- ✓ The personal properties of even one partner may be attached and utilized to pay of business liabilities.

5. Absence of understanding among the partners.

- ✓ As there are many partners in a partnership, there may be conflict of opinion which may give rise to misunderstanding among the partners on many matters.
- ✓ This is not good for the business as well as for the partnership.

JOINT HINDU FAMILY BUSINESS: -

- ✓ Joint Hindu family business is a type of business organization which is found only in India.
- ✓ It is not practiced or followed anywhere else in India.
- ✓ Joint Hindu family business is fully operated and managed by Hindu law.
- ✓ These businesses are managed by all members of a joint Hindu family.
- ✓ The eldest member of the family is considered the head and controls the whole business.
- ✓ Head of the business is called "karta" .he looks after all the finances of business.
- ✓ It is one of the unique types of business organization.
- ✓ Joint Hindu family businesses are carried from generation to generation.

- ✓ Karta has unlimited liability.
- ✓ Rest members have liability as per their share in the business.
- ✓ Membership in business is acquired either by birth in family or marriage to a male member in the family.
- ✓ There are basically 2 types of joint Hindu family business. They are
 - i) Mitakshara
 - ii) Dayabhaga
- ✓ In mitakshara only male members can become a member of the business.
- ✓ In dayabhaga both male and female persons of the family can become a member of the business.
- ✓ Examples of joint hindu family business are:
 - Reliance industries limited.
 - Tata sons private limited

COOPERATIVE SOCIETY-

- ✓ In a “cooperative society” a group of persons belonging to a particular class or category or group associate themselves and start a business for their mutual benefits.
- ✓ Cooperative society is usually started by middle class or lower middle class or the weaker section of the society belonging to a particular area to protect their economic interest against the exploitation of rich and powerful businessman.

BASIC FEATURES OF A COOPERATIVE SOCIETY-

1. When a cooperative society is registered under the law it becomes a body corporate and enjoys special privileges, such as:
 - a) It becomes a separate body with separate legal identity.
 - b) It can continue its operation for an unlimited period of time
 - c) It is authorized to have its own common seal.
 - d) It can enter into contract or agreement with any other person or business organization.
 - e) It can purchase and held properties in its own name like any other individual.
 - f) It can be rewarded or penalized and any one can file case in the name of the cooperative society or the cooperative society can file case in the name of any individual.
2. Membership of a cooperative society is purely voluntary and is open to all individual with common economic interest. Anyone can become a member of a cooperative society by purchasing the shares of that cooperative society and can withdraw his membership by a simple application.

3. Each and every member of a cooperative society has only one vote irrespective of shares held by him. The principle one man one vote is applied here to protect the interest of the common man and prohibit the rich and powerful people not to interfere in the affairs of the cooperative society and take undue advantage.
4. The liabilities of the member of a cooperative society are limited to the extent of shares held by him or to the extent of his contribution to the cooperative society. In no case his personal properties can be attracted to pay off the liabilities of the cooperative society.
5. The objective of the cooperative society is not to make profits but to provide the best possible services to its member. The purpose of a cooperative society also includes the promotion of social, educational and other amenities in the society to increase the standard of living of the people. At the same time, it should work to save the people from the economic exploitation of rich and powerful people.

JOINT STOCK COMPANY:-

- ✓ When many persons start a business it may be a joint stock company.
- ✓ Joint stock company are most popular form of business organization not only in Indian but also worldwide.
- ✓ The demerits associated with these and absence of continuity, created the need for a better form of business organization i.e. the joint stock company.
- ✓ The proportion of capital to which each member is entitled in his share.
- ✓ Joint Stock Company can ordinarily be defined as an artificial person created by law, having a distinctive name with a common seal, a common capital with limited liabilities and with perpetual succession.

BASIC FEATURES OF JOINT STOCK COMPANY:-

Some of the distinguishing features of a company are the following:

1. A joint stock company has a separate legal existence apart from the persons composing it. It enjoys separate legal status. It is treated as an individual in the eye of law. It can own property and sue in a court of law. A shareholder being an entity distinct from that of a company can file case in the name of Joint Stock Company and the joint stock can also file cases in the name of any individual.
2. Once a joint stock company is form, it continues to carry on its activities for an unlimited period of time. No events like the death or insolvency of any or all members can lead to the closure of a joint stock company .This is known as perpetual succession

3. In the case of joint-stock company the liability of members is normally limited by guarantee or by the shares he has taken. If they have paid the full value of the shares, they cannot be called upon to pay any further amount.

4. Membership of a joint stock company is usually open to all (except in case of private company). In the case of public limited company the maximum number of members is unlimited, the minimum being seven.

5. The shareholder of a company can transfer his shares to others without consulting other shareholders.

6. The shareholders of the company are the members, who are the owners of that company but the owners don't take active part in the management in the company. They elect a group of persons among themselves who manage the company on the behalf of all the members.

1.3. MEANING, DEFINITIONS AND IMPORTANCE OF MANAGEMENT:

MANAGEMENT: -

- ✓ Management is a must for every organization.
- ✓ Management is defined as all the activities and tasks undertaken for achieving goals by continuous activities like; planning, organizing, leading and controlling.

FUNCTIONS OF MANAGEMENT: -

- ✓ There are 8 functions of management. They are as follows:-
 - a) Forecasting
 - b) Planning
 - c) Organizing
 - d) Staffing
 - e) Directing
 - f) Motivating
 - g) Coordinating
 - h) Communicating &
 - i) Controlling

The above functions have been discussed in details below

a) Forecasting

- ✓ Forecasting is the analysis of the past, study of the present and estimating the future.

Forecasting is nothing but the prediction of the future events by comparative study and analysis of the various factors and forces.

- ✓ Forecasting is essential for proper goal directed performance of each and every activity.
- ✓ We need to forecast because we do not know what is going to happen in future.
- ✓ Without forecasting most of our activities shall be fruitless and cannot be goal oriented.
- ✓ Forecasting is the first thing in the management process basing on which plans are made and actions are taken.
- ✓ Forecasting forms the base for planning process.
- ✓ The efficiency of planning depends on the accuracy of forecasting.

b) Planning

- ✓ It is the most important step of management function.
- ✓ Planning is deciding in advance - what to do? Where to do? When to do? How to do? & who is to do?
- ✓ Planning means deciding a future force of action to be performed by all the persons in their management process.
- ✓ If planning is wrong or defective the entire work shall be defective and all the efforts shall be fruitless.

c) Organizing

- ✓ Organizing follows the planning.
- ✓ Organizing is the management process which helps to carry out the plans.
- ✓ It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals.
- ✓ When all these resources and things are assembled, the organization comes to life.

d) Staffing

- ✓ Staffing functions include recruitment, selection, training, placement, transfer, promotion, personnel administration, compensation etc.
- ✓ Staffing aims at optimum utilization of human resources in an organisation.
- ✓ It is the duty of an organisation to fill up the vacancies created in the organisation by appointing competent, qualified, efficient and appropriate persons for each job.

e) Directing

- ✓ Directing is a process in which the managers instruct, guide and overview the performance of the workers of a company to achieve goals.

- ✓ Simply appointing competent persons in different positions is not enough to get good result.
- ✓ They need direction that is proper order and instructions as per the requirement.
- ✓ So directing is entirely a human function which involves managing the managers and workers by means of motivation, proper leadership, effective communication and coordination.

f) Motivating

- ✓ Without motivation things do not move smoothly.
- ✓ Motivation is nothing but creating an internal desire in the mind of a person to do something.
- ✓ In the management process motivation is a powerful tool to achieve the goal effectively.
- ✓ To carry out plans properly and smoothly a manager has to make use to motivation as a tool to get the work done through them.
- ✓ Motivation is a powerful tool in the hand of management to get the things done through the worker without creating hesitation and dissatisfaction in them.

g) Coordinating

- ✓ Coordination is concerned with interrelating various works and parts of work and persons of the organization to achieve the objectives.
- ✓ Coordination only applies to groups efforts but there is no need it when only individual is working.

h) Communication

- ✓ Communication is the management process which refers to the transmission of message, news, feelings, information, suggestion, instruction and understanding from one person to another.
- ✓ Communication also includes sharing of ideas, message and understanding among persons.
- ✓ Through communication an effective link is created and maintained among all the individuals of the organization.

i) Control

- ✓ Controlling is the last step in the management functions process.
- ✓ Control is a continuous process.
- ✓ It is a means through which discipline is ensured in almost all activities.
- ✓ Control is essential because planning and performance are never perfect.

- ✓ It ensures qualitative production and performance of the plans.
- ✓ Control cannot be exercised automatically.
- ✓ Carry on the corrective measures and keep records for the same.

1.4 DIFFERENCE BETWEEN MANAGEMENT AND ADMINISTRATION: -

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Meaning	An organized way of managing people and things of a business organization is called as management	The process of administering an organization by a group of people is known as administration.
Authority	Middle level and lower level	Top level
Role	executive	decisive
Concerned with	Policy implementation	Policy formulation
Area of operation	It works under administration.	It has full control over the activities of the organization.
Applicable to	Profit making organizations i.e. business organizations	Government offices, military clubs, business enterprises, hospitals, religious and educational organizations.
Decides	Who will do the work? And how will it be done?	What should be done? And when it is to be done?

1.5 SCIENTIFIC MANAGEMENT:-

INTRODUCTION:-

- ✓ Earlier almost all the works were being performed based on convention, tradition, past experience, imagination, intuition, opinion, etc. & there were no scientific reasons and principles behind the performance of works.
- ✓ Scientific management can be understood to be the scientific approach to be adopted for the solution of different problems of an enterprise.
- ✓ Scientific management is an art of management which involved knowing exactly what is to be done and the best way of doing it.
- ✓ Under this, the method to be adopted for the performance of work has to be decided scientifically.

AIM OF SCIENTIFIC MANAGEMENT:-

1. To ensure higher productivity ,
2. To ensure quality of works as well as finished products.
3. Reduction in the cost of production ,
4. Elimination of wastages at all the level of works ,
5. Providing right people to do the right work to achieve higher degree of excellence ,

To achieve the above aim the management is to:

- a) Provide trained and experienced workforce ,
- b) Standardize all the tools , equipments , machineries , materials , to layout , routing , scheduling , purchasing , storing , accounting , etc .
- c) Adopt scientific approach to improve the condition relating to layout, routing, scheduling, purchasing, storing, accounting, etc.
- d) Ensure greater correlation among various agencies within the organization to protect against delay, negligence, mistakes, misappropriations, accidents, etc and work for the betterment to protect the greater interest of the organization.
- e) Provide timely instructions , constant guidance ,

Principles of scientific management

The principle advocated by F, W. Taylor is as follows:

1. Replacement of old rules of thumb,
2. Scientific selection and training of workers.
3. Cooperation between labour and management
4. Maximization of output, and
5. Equal distribution of responsibilities

1. Replacement of old rule of thumb

- ✓ Under this principle, business decisions should not be taken based on tradition, convention, opinion, intuition or the rule of thumb.
- ✓ Such old practices have to be discontinued and in place of that a new set of rules and methods may be adopted based on scientific principles.
- ✓ Decisions should be made on scientific lines after proper investigation, evaluation and study of facts and consequences.
- ✓ The traditional approach of solving business and business related problem and taking business decisions have to be stopped.

2. Scientific selection and training of workers.

- ✓ According to this principle right man should be selected for the right job.

- ✓ They should be provided with proper and adequate training to handle their jobs on scientific lines.
- ✓ To perform various activities in the organization, varieties of people with various qualities and talent are required.
- ✓ The procedure for selection of workers should be designed scientifically.
- ✓ The errors committed at the time of selection may prove to be very costly later on.

3. Cooperation between labour and management.

- ✓ This principle emphasizes on the need of cooperation between workers and management.
- ✓ Both workers and management should have mutual faith and understanding to maintain cordial relation between them.
- ✓ Both workers and management should work harmoniously to increase productivity and efficiency.
- ✓ Cooperation between the two increases
 - a) Production
 - b) Mutual trust and confidence.
 - c) Developing and applying scientific attitude towards problems

4. Maximization of output

- ✓ According to this principle the management and the workers should try to increase productivity.
- ✓ Their aim should be to achieve maximum output at minimum possible cost.
- ✓ To achieve this, each and every work should be done using scientific lines i.e. by providing standard materials, qualitative tools and equipments to create and maintain a better working condition which will enable to take steps to reduce wastages at all the levels of work.

5. Equal distribution of responsibilities

- ✓ The responsibilities must be equally divided and distributed among the managers and workers.
- ✓ The management should give responsibility of the work for which it is best suited.
- ✓ The management should be responsible for planning and organizing the work, whereas the workers should be responsible for the execution of work as per the instructions of management.

UNIT-2: ENTREPRENEURSHIP & MANAGEMENT OF MSME

2.1. MEANING & NEED OF ENTREPRENEURSHIP:

ENTREPRENEURSHIP:

- ✓ Entrepreneurship is the process of designing, launching and running a new business, which is often initially a small business.

Need of entrepreneurship:

1) Life of a nation

- ✓ No country can progress without the development of entrepreneurship.
- ✓ Every country is trying to promote its trade so that it is able to share the benefits of development.

2) Provides innovation

- ✓ Entrepreneurship provides new ideas, imagination and vision to the enterprise.
- ✓ An entrepreneur is an innovator who tries to find new technology, products and markets.

3) Change of growth/inclusive growth

- ✓ An enterprise operates in changing environment.
- ✓ An entrepreneur moulds not only the enterprise but also alters the environment itself to ensure the success of an enterprise.

4) Increased profit

- ✓ Profits can be increased in any enterprise, either by increasing the sales revenue or reducing cost.
- ✓ Increasing the sales revenue is beyond the control of an enterprise.
- ✓ Entrepreneurship, by reducing costs, increases its profits and provides opportunities for future growth and development.

5) Employment opportunities

- ✓ Entrepreneurship and its activities provide the maximum employment potential.
- ✓ Large numbers of persons are employed in entrepreneurial activities in the country.

- ✓ An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards.
- ✓ Entrepreneurs are the owners of the business who contribute the capital and bear the risk of uncertainties in business life.
- ✓ An entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services and business/or procedures.

2.2 QUALITIES OF AN ENTREPRENEUR:

- ✓ Some of the qualities of an entrepreneur are –

1. Self-confidence

Others will trust you only when you trust yourself. This is the most important trait of an entrepreneur, who should have the confidence to take one's own decisions.

2. Risk-taking ability

Business is all about taking risks and experimenting. Entrepreneurs need to have risk-taking ability.

3. Decision-making ability

Entrepreneurs should have the willingness and capability to take decisions in favor of the organization all the time.

4. Competitive

Entrepreneurs should always be ready to give and face competition.

5. Intelligent

Entrepreneurs always need to keep their mind active and increase their IQ and knowledge.

6. Visualization

Entrepreneurs should have the ability to see things from different point of views.

7. Patience

This is another virtue which is very important for entrepreneurship as the path to success is often very challenging and it requires a lot of patience for sustenance.

8. Emotional tolerance –

The ability to balance professional and personal life and not mixing the two is another important trait of an entrepreneur.

9. Leadership quality – Entrepreneurs should be able to lead, control and motivate the mass.

10. Technical skill

To be in stride with the recent times, entrepreneurs should at least have a basic knowledge about the technologies that are to be used.



2.3 RELEVANCE OF ENTREPRENEURSHIP OF SOCIO-ECONOMIC GAIN:

- ✓ Entrepreneurship plays an influential role in the economic growth and standard of living of the country.
- ✓ Here are the top 7 important roles an entrepreneur plays in the economic development of a country.



1. Wealth Creation and Sharing:

- ✓ By establishing the business entity, entrepreneurs invest their own resources and attract capital (in the form of debt, equity, etc.) from investors, lenders and the public.
- ✓ This mobilizes public wealth and allows people to benefit from the success of entrepreneurs and growing businesses.

2. Create Jobs:

- ✓ Entrepreneurs are by nature and definition job creators, as opposed to job seekers.
- ✓ This kind of job creation by new and existing businesses is again one of the basic goals of economic development.
- ✓ This is why the Govt. of India has launched initiatives such as “Start-up-India” to promote and support new startups, and also others like the “Make in India” initiative to attract foreign companies and their FDI into the Indian economy.

3. Balanced Regional Development:

- ✓ Entrepreneurs setting up new businesses and industrial units help with regional development by starting their businesses in less developed and backward areas.
- ✓ Every new business that locates in a less developed area will create both direct and indirect jobs, helping lift regional economies in many different ways.
- ✓ The combined spending by all the new employees of the new businesses and the supporting jobs in other businesses adds to the local and regional economic output.

4. GDP and Per Capita Income:

- ✓ India’s MSME sector, comprises of 36 million units that provide employment for more than 80 million people, now accounts for over 37% of the country’s GDP.
- ✓ GDP or gross domestic product is the monetary value of all finished goods and services made within a country during a specific period.
- ✓ Per capita income or average income measures the average income earned per person in a given area in a specified period.

5. Standard of Living:

- ✓ Increase in the standard of living of people in a community is yet another key goal of economic development.
- ✓ Entrepreneurs again play a key role in increasing the standard of living in a community.
- ✓ They do this not just by creating jobs, but also by developing and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community.

6. Exports:

- ✓ Any growing business will eventually want to get started with exports to expand their business to foreign markets.
- ✓ Another key benefit is that this expansion leads to more stable business revenue during economic downturns in the local economy.

7. Community Development:

- ✓ Economic development doesn't always translate into community development.
- ✓ Community development requires infrastructure for education and training, healthcare, and other public services.
- ✓ For example, we need highly educated and skilled workers in a community to attract new businesses. If there are educational institutions, technical training schools and internship opportunities, that will help build the pool of educated and skilled workers.

2.4 MICRO, SMALL AND MEDIUM ENTERPRISES:

- ✓ MSME stands for Micro, Small and Medium Enterprises.
- ✓ These industries or enterprises form the backbone of our economy and need assistance and protection from other big companies as they lack in resources and technology.
- ✓ In accordance with the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006, the enterprises are classified into two divisions.

1. Manufacturing enterprises

- + These industries are engaged in the manufacturing or production of goods in any industry.
- + The threshold for the manufacturing enterprises to be called as Micro, Small or Medium is as follows:
 - a) A micro enterprise in manufacturing sector is an enterprise, where the amount of investment in plants and machineries does not exceed rupees 25 lakh.

- b) A small enterprise in manufacturing sector is an enterprise where the amount of investment in plants and machineries is more than 25 lakh but does not exceed rupees 5 crores.
- c) A medium enterprise in manufacturing sector is an enterprise where the amount of investment in plants and machineries is more than 5 crore rupees but does not exceed 10 crores.

2. Service enterprises

- + These industries are engaged in providing or rendering services.
- + The threshold for the service enterprises to be called as Micro, Small or Medium is as follows:
 - a) A micro enterprise in service sector is an enterprise, where the amount of investment in equipments does not exceed rupees 10 lakh.
 - b) A small enterprise in service sector is an enterprise where the amount of investment in equipments is more than 10 lakh but does not exceed rupees 2 crores.
 - c) A medium enterprise in service sector is an enterprise where the amount of investment in equipments is more than 2 crore rupees but does not exceed 5 crores.

LIST OF INSTITUTIONS FOR FINANCIAL SUPPORT OF SMALL ENTERPRISES:

1. SIDBI - Small industries development bank of India
2. IDBI - Industrial development bank of India
3. NABARD - National bank for agriculture and rural development
4. DICGC – Deposit insurance and credit guarantee corporation
5. CGFT – Credit guarantee fund trust for small industries
6. SFC – State financial corporation
7. KVIC – khadi and village industries commission
8. NSIC – National small industries corporation

LIST OF INSTITUTIONS FOR NON-FINANCIAL SUPPORT OF SMALL ENTERPRISES:

1. DIC – District industries centre
2. SIDO – small industries development o
3. NSIC - National small industries corporation
4. KVIC - khadi and village industries commission
5. EDII – Entrepreneurship development institute of India
6. MSME – Micro, small and medium enterprises

7. NIESBUD – National institute for entrepreneurship and small business development
8. CED – Centers for entrepreneurship development
9. NRDC – National research development corporation
10. MSMEI – Micro, small and medium enterprises development institute

2.5 PROJECT REPORT:

- ✓ An entrepreneur should prepare the project report of his enterprise himself.
- ✓ In order to mentally involve the entrepreneur in the project, the project report should be prepared by them only.
- ✓ An entrepreneur may not be an expert to prepare a bankable project report; hence he may be given special training so that he may be able to prepare the project report of his project independently.
- ✓ Project report can be of two types. They are:
 - a) PPR (preliminary project report)
 - b) DPR (detailed project report)

PRELIMINARY PROJECT REPORT (PPR):

- ✓ A preliminary project report is a brief summary of a project describing the expected inputs and outputs like finance, manpower, materials, machinery, technology, expenses, production, profits, sales etc of a project before the project is actually implemented.
- ✓ A PPR may be the picture of a project in the mind of the entrepreneur which has been put into paper in a desired manner to convince others regarding its viability.
- ✓ It is a short description of the project by the entrepreneur.
- ✓ A PPR is a rough estimate of a project as envisaged by the entrepreneur basing on which he will make a detailed project report and start working on the project.
- ✓ The entrepreneur has to submit copies of his PPR to various government agencies and banks and get provisional registration and approval with an assurance for license, permission, loans etc.
- ✓ A proforma of a PPR is given below:

PRELIMINARY PROJECT REPORT

1. INTRODUCTION

A. INFORMATION ABOUT THE ENTREPRENEUR

NAME: _____

DATE OF BIRTH: _____

ADDRESS: _____

AGE: _____

SEX: _____

PRESENT MONTHLY INCOME: _____

EDUCATIONAL QUALIFICATION: _____

SPECIAL TRAINING, IF ANY: _____

WORK EXPERIENCE: _____

CATEGORY: (SC/ ST/ EX-MILITARY/ NRI/ PHYSICALLY HANDICAPPED/ GENERAL)

B. INFORMATION ABOUT THE PROPOSED PRODUCT/PROJECT:

PRODUCT: _____

LOCATION OF THE PROJECT: _____

TYPE OF ORGANISATION: _____

NAME OF THE FIRM: _____

GENERAL INFORMATION ABOUT THE PRODUCT:

(Under this the entrepreneur has to write the details of the product like its uses, its quality, size, specification and other details including its application, advantages over other similar products etc.)

2. MARKET POTENTIAL

- ✓ Under this section the entrepreneur has to mention the area over which his product may be sold.
- ✓ He has to mention the present demand of the product in the area division-wise with quantity and value in a tabular manner.
- ✓ He has also to mention the supply position in quantity and their sources of supply into the areas with quantities in tabular form.

3. BASIS OF PRESUMPTION

Under this section, the entrepreneur has to mention the following details:

- a) The average working hours per day, per month and per year have to be mentioned.
- b) When the plant will operate in its full capacity has to be mentioned.
- c) What will be the payback period of the term loan may be mentioned
- d) How much percentage of margin money shall be provided by the promoter may be stated. Usually the entrepreneur invests 30 % to 35% of the entire fund from his own pockets and the rest may be obtained on loans from banks and the financial institutions.
- e) The rate of interest for the long term loan as well as working capital loans may be stated.

4. IMPLEMENTATION SCHEDULE

- ✓ Under this section the entrepreneur has to mention the time to be taken for the completion of the project.
- ✓ The detailed calculation of time to be taken for each activity may be mentioned.
- ✓ For example:
 - a) Preparation of project report, selection of site, registration.....1 month
 - b) Section of loans.....3 months
 - c) Construction of buildings, procurement of machinery, equipments and installation.....6 months
 - d) Commissioning of land and trial production..... $\frac{1}{2}$ months

Total time required = 15 months

5. PRODUCTION TARGET

The entrepreneur has to mention the production programme of the unit per annum. The information may be furnished in the form of the following table:

Items	Total quantity per year	Sales volume per year (rs.)	Capacity utilization
A	45 Tonne	9, 00, 000	100%
B	6 Tonne	6, 12, 000	95%

6. TECHNICAL DETAILS

The entrepreneur has to mention all the technical details of his project including the details of the manufacturing process, quality and standard, power requirement, pollution control measures, affluent disposal energy conservation measures, etc.

7. FINANCIAL DETAILS

- ✓ Under this the entrepreneur has to mention the amount of investment needed on various items to arrive at the total capital required for the project.
- ✓ The items to be shown are given below:

Fixed capital

A. Land and building

	Area	Value
Land
Building

For building Rs. 250 per square feet for ACC roof and Rs. 250 per square feet for RCC roof is the present standard of valuation.

B. Machinery and equipments

- ✓ Under this the entrepreneur has to mention the name of the machineries and equipments, their qualities, quantity, price, total value and the name and address of the supplier etc.

C. Miscellaneous fixed assets

Tools and tackles	Rs. =.....
Furniture	Rs. =.....
Office equipments	Rs. =.....
Total	Rs. =.....

Total fixed assets = A + B + C

D. Preliminary and preparative expenses

- ✓ This includes the amount to be spent by the entrepreneur to get registration, license, permission, security, deposits, travelling and allied expenses to get license, permission, registration, etc.
- ✓ This also includes the charges payable to consultants, architect etc.
- ✓ The entrepreneur has to mention the details of expenses of each item and arrive at the total figure.

Working capital

a) Raw materials

Under this different raw materials to be used for production per month may be mentioned with their respective values in the following proforma:

Sl. No.	Items	Total monthly requirement in quantity	Value in Rs	Sources
1
2
3

b) Salaries and wages of labour/staff per month

The entrepreneur has to maintain the name of the posts, number of persons needed and salary payable per month in the following proforma:

Sl. No.	Name of the post	No. Of person	Rate per month	Total expenses
1	Manager	01	.....	.....
2	Supervisor	02	.....	.....
3	Skilled workers	18	.....	.....
4	Unskilled workers	36	.....	.....
Total Rs.....				

Grand total Rs.....

c) Utilities per month

Sl. No.	Particulars	Monthly requirement in quantity	Monthly expenses in rs.
1	Electricity	.....	.....
2	Water	.....	.....
3	Coal	.....	.....
4	Oil	.....	.....
5	LPG	.....	.....

d) Other contingent expenses

Sl. no.	Name of the expenses	Rupees
1	Repair and maintenance @ 1% of the cost of machineries and equipments	.....
2	Transportation expenses	.....
3	Consumable stores	.....
4	Postage and stationary	.....
Total =Rs.....		

- ✓ The total working capital per month shall be $a + b + c + d$.
- ✓ If the time take by the operating cycle to convert cash into cash once again is 3 months, then, the enterprise needs working capital for 3 months.
- ✓ So the total working capital per month shall be multiplied by 3.

8. Total capital investment/ cost of the project

- a) Working capital per month X 3 =Rs.....
 - b) Fixed capital =Rs.....
 - c) Preliminary expenses =Rs.....
- Total cost of the project =Rs.....

9. Cost of production per annum

- a) Working capital per month X 12 =Rs.....
 - b) Depreciation =Rs.....
 - i. Plants and machinery @ 10% =Rs.....
 - ii. Building @ 5% =Rs.....
- Total =Rs.....
- c) Interest per annum on the total investment, say @ 15% =Rs.....
- Total cost =Rs.....

10. Turnover per annum

Sl. No.	Items	Quantity	Value in Rs
1	A	45 tonnes	.....
2	B	68 tonnes	.....
3	C	1 lakh units	.....
			Total =Rs.....

11. Profits before tax

Turnover per annum in Rs – cost of production per annum = profits before tax.

12. Breakeven point (BEP)

$$BEP = \frac{\text{total fixed cost}}{\text{total fixed cost} + \text{profit}} \times 100$$

Where the total fixed cost shall be calculated as follows:

Total fixed cost = Total depreciation + total interest + 40% of salary and other contingent expenses and of utilities

13. Profitability ratio

$$\text{Profitability} = \frac{\text{Profit}}{\text{Turnover}} \times 100$$

If the turnover is say Rs 24 lakhs and profit is Rs 7, 50, 000, then profitability ratio shall be:

$$\text{Profitability} = \frac{7,50,000}{24,00,000} \times 100 = 31.25\%$$

So, profitability ratio in the example is 31.25%.

14. Rate of return on investment

$$R = \frac{\text{Profit}}{\text{Total investment}} \times 100$$

If the profit is say Rs 7, 50, 000 and the total investment is Rs 16, 00, 000 then the rate of return is

$$R = \frac{7,50,000}{16,00,000} \times 100 = 46.8\%$$

15. (A) List of suppliers of plant and machineries

- i.
- ii.
- iii.
- iv.

(B) List of suppliers of raw materials

- i.
- ii.
- iii.
- iv.

(C) Bank and branches having financial operation:

- i.
- ii.
- iii.

Date:

Signature of the entrepreneur

- ✓ The entrepreneur has also to mention the names and addresses of such prominent persons, as referees.
- ✓ After the preliminary project report is found to be acceptable, the entrepreneur has to prepare a DPR (detailed project report).

DETAILED PROJECT REPORT:

- ✓ Detailed project report is a detailed elaboration of each and every information and estimates mentioned in the preliminary project report.
- ✓ While preparing a DPR the entrepreneur may take the help of experts to do the job.
- ✓ Preparation of a DPR requires a lot of time and is a voluminous work.
- ✓ Detail analysis of each and every item is necessary.
- ✓ For example:- furniture is one item in the PPR but in the preparation of DPR all the furniture's are to be mentioned in details like items, size, specifications, use, price, quality, name of the supplier, date of supply, date of payment, transportation expenses, installation of such furniture's etc.
- ✓ Detailed project reports are also available with the consultants and can be purchased by the entrepreneur.
- ✓ DPR for different products are also available in the form of book which may be helpful for the entrepreneur to prepare his own DPR.

2.6 INCENTIVES AVAILABLE TO MSME AS PER THE LATEST IPR:

- ✓ Special inducements are offered for development of entrepreneurship among the person in hilly, rural and backward areas. For example: transport subsidy is given in remote and hilly backward areas in selected states or union territories. Capital subsidy of up to 15% is also given to persons setting up their units in specified backward areas.
- ✓ New entrepreneurs are exempted for 5 years from income tax payment on their profits, up to 7.5% P.A. of the capital invested.

- ✓ Entrepreneurs are entitled to deduction of depreciation (on building, plant and equipment) out of the net profit.
- ✓ Entrepreneurs are completely or partially exempted from payments of central excise duty.
- ✓ Concessions are also given in stamp duty payable on the agreements and mortgage deeds executed to take loans from the government.
- ✓ Sales tax is not charged in machines purchased for setting up small scale industries in certain states.
- ✓ Import licences are given to those entrepreneurs who require raw material, machines and their spares to be purchased from other countries for running their units successfully.
- ✓ Training courses are organized exclusively for women entrepreneurs in technical and management subjects, in order to provide them opportunities for self-employment. They are also assisted in preparing projects on specific industries.
- ✓ Indians residing abroad and desirous of starting industries in India can bring machinery up to C.I.F. value of Rs 25 lakhs and raw materials worth Rs 5 lakhs or annual requirement of the unit, whichever is less. In addition to this, they are also given all the facilities normally available to all other prospective entrepreneur in the country.

INSTITUTIONAL SUPPORT TO ENTERPRISES:

- ✓ An entrepreneur interested to start a small enterprise has to face a number of problems.
- ✓ He may run from one office to another and spent a lot of time and energy to solve his problems.
- ✓ Some new entrepreneurs may be totally ignorant and may not have much knowledge on production, marketing, finance etc.
- ✓ Hence, such a person needs to consult many experts and gain considerable idea about the project and problems relating to that.
- ✓ In order to help the entrepreneurs, to get information from various sources, the government has constituted various agencies at both the state and national level.
- ✓ The list of such institutions and their areas of assistance is given below:

2.7. ROLE OF DIC, OSFC, OSIC, IDCO, SIDBI, IPICOL AND COMMERCIAL BANKS IN THE CONTEXT OF MSME:

ROLE OF DIC IN CONTEXT OF MSME:

- ✓ The DIC stands for District Industries Centers.

- ✓ DIC program was started in 1978 with a view to find out the micro, small and medium enterprises in the district level for encouraging entrepreneurs in rural areas.
- ✓ The DIC is treated as a single window interacting agency at the district level which provides service and support to small entrepreneurs under a single roof at both pre and post investments.
- ✓ District Industries Centers (DICs) give full assistance to the entrepreneurs who are going to start the business on their own and in their regional places.
- ✓ Registration of small industries is done at the district industries center and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC.
- ✓ Management of DIC is done by the state government.
- ✓ The functions of DICs are:
 1. To spot the entrepreneurs
 - ✚ DICs conduct various motivational programs so that they can find new entrepreneurs throughout the districts.
 - ✚ It is done primarily under some schemes and with association of SIS,s and TCO,s for conducting entrepreneurial programs.
 2. Purchase of fixed assets
 - ✚ To purchase fixed assets, the DICs suggest loan application of the prospective entrepreneur to some of the concerned financial and development institutions like NSIC, SISI etc.
 - ✚ DICs also recommend commercial banks to meet the working capital requirement of SSI to run operations daily.
 3. Offers subsidies and other incentives
 - ✚ DICs help the rural people with subsidies offered by the government on various schemes.
 - ✚ It leads to the betterment in boosting financial capacity of the units.

ROLE OF OSFC IN CONTEXT OF MSME:

- ✓ OSFC stands for Odisha state financial corporation.
- ✓ It was established in 1956 under the state financial corporation's act, 1951 and state financial corporation's act (amendment) act 2000.
- ✓ Its main objective is to provide loan assistance to the micro, small and medium enterprises (MSMEs).

ROLE OF OSIC IN CONTEXT OF MSME:

- ✓ OSIC stands for Odisha small industries corporation.
- ✓ It was established on 3rd April, 1972 as a wholly owned corporation of government of Odisha.
- ✓ The basic objective of the corporation is to aid, assist and promote the MSMEs in the state for their sustained growth and development to gear up the industrialization process in the state.
- ✓ Although there are a number of other state corporations looking after various aspects of industrial development, yet this is the only corporation in the state exclusively engaged in the development of the MSMEs which form the backbone of industrial sector in the state.

ROLE OF IDCO IN CONTEXT OF MSME:

- ✓ IDCO stands for industrial infrastructure Development Corporation.
- ✓ It was established in 1981 with the specific objective of creating infrastructure facilities in identified industrial estate and areas.
- ✓ The functions of IDCO are:
 1. Development, management and maintenance of industrial estates and industrial complexes.
 2. Land acquisition for mega projects.
 3. Project construction services.

ROLE OF SIDBI IN CONTEXT OF MSME:

- ✓ SIDBI stands for small industries development bank of India.
- ✓ SIDBI was established on 2nd April, 1990.
- ✓ The bank provides several schemes and also offers financial services and products for meeting the individual's requirement of various businesses
- ✓ The functions of SIDBI are:
 1. SIDBI finances loans to small scale industrial units.
 2. SIDBI discounts and rediscounts bills arising from sale of machinery to or manufactured by industrial units in the small scale sector.
 3. SIDBI initiates steps for technological up gradation and modernization of existing units.

4. SIDBI promotes employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

ROLE OF IPICOL IN CONTEXT OF MSME:

- ✓ IPICOL stands for industrial promotion and Investment Corporation of Odisha limited.
- ✓ It was incorporated on April 12, 1973 by the government of Odisha.
- ✓ It has been designated as the state level nodal agency.
- ✓ The function of IPICOL are:
 1. To participate in national and international industrial events to showcase the investment opportunities in the state.
 2. To organize national and international road-shows to raise awareness about Odisha.
 3. To invite major industrial representatives for panels, G2B meetings and workshops on Odisha's industrial potential.

ROLE OF COMMERCIAL BANKS IN CONTEXT OF MSME:

- ✓ In any economy, banks are considered as the prime source of formal finance especially for micro, small and medium enterprises (MSMEs)
- ✓ The contribution of commercial banks towards MSMEs financing is confined to 17.7% of total industrial lending.
- ✓ They accept deposits from the public and lend them to traders, manufacturers and businessman.
- ✓ Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting, money at call etc.
- ✓ Commercial banks help the MSME sector by providing them assistance, guidance and by financing them so that they can start and expand their business, earn profit and generate employment.
- ✓ The MSME is highly dominated by the manufacturing sector where they need finance either in the form of working capital for raw materials/operations or term loan for machinery, land and building.

UNIT-3: FINANCIAL ACCOUNTING AND COST CONTROL

3.1 DOUBLE- ENTRY SYSTEM OF BOOK -KEEPING AND TYPES OF ACCOUNTS:

DOULE ENTRY BOOK KEEPING

Double entry bookkeeping is a system of accounting in which every transaction has a corresponding positive and negative entry (debits and credits)

The double entry system of bookkeeping is based on the fact that every transaction has two parts and that this will therefore affect two ledger accounts.

Every transaction involves a debit entry in one account and a credit entry in another account. This means that every transaction must be recorded in two accounts; one account will be debited because it receives value and the other account will be credited because it has given value.

To make it easier to remember, the main rule is to: "debit the receiver and credit the giver".

For Every Transaction: The Value of Debits must = The Value of Credits

The accounting equation must balance the totals found in the debit and in the credit accounts:

'Assets + Expenses = Liabilites + Owner's Equity + Revenue'

So therefore, 'Debit Accounts (Assets + Expenses) = Credit Accounts (Liabilities + Revenue + Owner's Equity)'.
'

Debits are on the left and increase a debit account and reduce a credit account. Credits are on the right and increase a credit account and decrease a debit account.

Which side should your entry be on?

Every account has two "sides", a right side and a left side. A debit refers to an entry on the left side of an account, and a credit refers to an entry on the right side of an account. Double entry bookkeeping requires that for every transaction, there is an entry to the left side of one (or more) account, and a corresponding entry to the right side of another account(s).

- Expenses are always debits
- Revenues are always credits
- Debit the cash account when cash is received
- Credit the cash account when cash is paid out

ACCOUNTS:

Accounting is a process of recording, classifying and summarizing financial transactions in a significant manner and interpreting results thereof. Accounting is both science and art.

For every type of entity, whether it is large in size or small in size, it is very important to have a proper system of accounting for proper management of an entity's business operations. An accountant must have a good understanding of the terms used in accounting and types of accounts.

An account is the systematic presentation of all the transactions related to a particular head. An account shows the summarized records of transactions related to a concerned person or thing.

For Example: when the entity deals with various suppliers and customers, each of the suppliers and customers will be a separate account.

An account may be related to things which can be tangible as well as intangible. For example – land, building, furniture, etc. are things.

An account is expressed in a statement form. It has two sides. The left-hand side of an account is called a Debit side whereas right-hand side is called as Credit side. The debit is denoted as 'Dr' and credit is denoted as 'Cr'.

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Real Accounts

These account types are related to assets or properties. They are further classified as Tangible real account and Intangible real accounts.

Tangible Real Accounts

These include assets that have a physical existence and can be touched. For example – Building A/c, cash A/c, stationery A/c, inventory A/c, etc.

Intangible Real Accounts

These assets do not have any physical existence and cannot be touched. However, these can be measured in terms of money and have value. For Example – Goodwill, Patent, Copyright, Trademark, etc.

Real Account Rules

Debit what comes into the business.

Credit what goes out of business.

For Example – Furniture purchased by an entity in cash. Debit furniture A/c and credit cash A/c.

Nominal Account

These accounts types are related to income or gains and expenses or losses. For example: – Rent A/c, commission received A/c, salary A/c, wages A/c, conveyance A/c, etc.

Rules

Debit all the expenses and losses of the business.

Credit the incomes and gains of business.

For Example – Salary paid to employees of the entity. Salary A/c will be debited when the expenses are incurred. Whereas, when an entity receives any interest, discount, etc these are credited whenever these are received by the entity.

There are some other accounts in accounting as well:

- **Cash Account** – This account is used for keeping the records of payments done by cash, withdrawals, and deposits.
- **Income Account** – Purpose of this account is to keep the record of the income sources of business.
- **Expense Account** – This account tracks the expenditure of the business.
- **Liabilities** – If there is any debt or loan then that amount comes under liabilities.
- **Equities** – If there is an investment of the account owner or common stocks, retained earnings then these will fall under equities.

3.2. JOURNAL, LEDGER, CASH BOOK (DIFFERENT TYPES), TRIAL BALANCE:

JOURNAL:

A journal is a detailed account that records all the financial transactions of a business, to be used for future reconciling of and transfer to other official accounting records, such as the general ledger. A journal states the date of a transaction, which accounts were affected, and the amounts, usually in a double-entry bookkeeping method.

For accounting purposes, a journal is a physical record or digital document kept as a book, spreadsheet or data within accounting software. When a business transaction is made, a bookkeeper enters the financial transaction as a journal entry. If the expense or income affects one or more business accounts, the journal entry will detail that as well. Journaling is an essential part of objective record-keeping and allows for concise review and records-transfer later in the accounting process. Journals are often reviewed as part of a trade or audit process, along with the general ledger.

A journal is a detailed account that records all the financial transactions of a business, to be used for future reconciling of and transfer to other official accounting records, such as the general ledger. A journal states the date of a transaction, which accounts were affected, and the amounts, usually in a double-entry bookkeeping method.

LEDGER:

A ledger is a book containing accounts in which the classified and summarized information from the journals is posted as debits and credits. It is also called the second book of entry.

The ledger contains the information that is required to prepare financial statements. It includes accounts for assets, liabilities, owners' equity, revenues and expenses. This complete list of accounts is known as the chart of accounts. The ledger represents every active account on the list.

What Is a Ledger Account?

The accounting ledger contains a listing of all general accounts in the accounting system's chart of accounts.

Here are the primary general ledger accounts:

- Asset accounts include fixed assets, prepaid expenses, accounts receivable and cash
- Liability accounts which include notes payable, lines of credit, accounts payable and debt
- Stockholders' equity accounts
- Revenue accounts
- Expense accounts
- Revenue and loss accounts such as interest, investment, disposal of an asset

These transactions are recorded throughout the year by debiting and crediting these accounts. The transactions are caused by normal business activities such as billing customers or through adjusting entries.

The ledger account may be in the form of a written record if accounting is done by hand or in the form of electronic records when accounting software packages are used.

How To Write a Ledger?

Businesses that use the double-entry bookkeeping method of recording transactions make the accounting ledger. Each transaction is recorded into at least two ledger accounts. The entries have debit as well as credit transactions and are posted in two columns. The debit

A general ledger is used by businesses that employ the double-entry bookkeeping method, which means that each financial transaction affects at least two general ledger accounts and each entry has a debit and a credit transaction. Double-entry transactions are posted in two columns, with debit postings on the left and credit entries on the right, and the total of all debit and credit entries must balance.

Ledgers break up the financial information from the journals into specific accounts such as Cash, Accounts Receivable and Sales, on their own sheets. This allows you to see the details of all your transactions.

1. Make a ledger for each account. For example, a cash account ledger will contain all the cash transactions of your business. For unusual or odd expenses, make a general ledger account
2. Make columns on the far left of the page for the date, journal number and description
3. Make columns on the left side for debit, credit, and balance. Debit refers to the money you receive while credit refers to the money that you paid or owe. Balance is the difference between the debit and credit
4. Enter the information from the journals into related accounts. Place related debits and credits side by side. Calculate the balance you've earned or owe
5. Record and make changes to the transactions as they occur. If you've made a journal entry, post it to the ledger immediately
6. Combine the different accounts to make a full ledger. The front page includes the chart of accounts, listing each account in the ledger and its number

The next step in the accounting cycle is to create a trial balance. The information in the ledger accounts is summed up into account level totals in the trial balance report. The trial balance totals are matched and used to compile financial statements.

The financial transactions are summarized and recorded as per the double entry system in a journal. It's also known as the primary book of accounting or the book of original entry.

The ledger, on the other hand, is known as the principal book of accounting. It records the information from the journal in the “T” format. It is used to create the trial balance which is also the source of the financial statements such as the income statement and the balance sheet

RECORDING TRANSACTIONS

The process of recording transactions in a journal is called journalizing while the process of transferring the entries from the journal to the ledger is known as posting.

The transactions in a journal are recorded in a chronological order making it easy to identify the transactions are associated with a given business day, week, or another billing period. By contrast, the arrangement of entries within a ledger has more to do with grouping like transactions together into specific accounts for purposes of assessing the data for internal financial and accounting purposes.

FORMAT

The format of a journal is simple. It includes the transaction date, particulars of the transaction, folio number, debit amount and credit amount. There is no scope for balancing in a journal.

The format of a journal:

DATE	PARTICULARS	L.F.	DEBIT	CREDIT
Transaction Date	Account title and details	Ledger folio number	Amt.	Amt.

The ledger uses the “T” format where the date, particulars, and amount is recorded in each side.

The format of a ledger:

Date	Particulars	Folio Number	Amount	Date	Particulars	Folio Number	Amount
Transaction Date	Amount Name		Transaction amount	Transaction date	Account name		Transaction amount

Unlike a journal, some ledger accounts start with an opening balance that is the closing balance of the previous year. Also, in the end, the ledger amounts should be balanced.

Preparing a ledger is important as it serves as a master document for all your financial transactions. Since it reports revenue and expenses in real time, it can help you stay on top of your spending. The general ledger also helps you compile a trial balance, spot unusual transactions and aids in the creation of financial statements.

CASH BOOKS:

A cash book is like a subsidiary book. It is a special book that will record only one type of transactions – cash transactions. In an organization thousands of cash transactions occur in a year and journalizing them all is tedious work. And so companies maintain cash books. Let us look at the three types of cash books and their functions.

Kinds of Cash Book

A cash book is both a ledger and a journal for all the cash transactions of a company since it performs the function of both. It records all cash receipts on the debit side and all the cash payments of the company on the credit side. Let us now look at the three main kinds of cash book a company may maintain.

1] Simple Cash Books

This is also known as a Single Column Cash Book. This cash book will only record cash transactions. The cash coming in (receipts) will be on the left and the cash payments will be on the right. And since we will record all cash transactions here there is no need for a cash ledger account.

Now since there is only one column we do not record bank transactions in this cash book. Any discounts given will also not feature here. We will record bank and discount transactions in their separate ledger accounts.

Cash books are balanced quite frequently. In fact, most companies balance their cash book daily. One important point to remember is that the cash book can never have a credit balance. Cash books only show a debit balance.

2] Two Column Cash Books

Here instead of one column, we have an additional column for discounts. So along with the cash transactions, we will also record the discounts in the same cash book. So both discounts received and the discount that is given is recorded here. If any organization is in a general practice of giving or receiving discounts this is the preferable option.

Discount is a nominal account – so the discount is given (loss) is on the debit side and discount received (profit) is on the credit side. At the end of the period, we balance both columns and transfer the closing balances.

3] Three Column Cash Books

This cash book has the cash, the discount and additionally the bank columns in it. Since the development of banking most firms, these days prefer to deal in cheques or other such bills of exchange. And so having a bank column in your cash book makes things concise and simpler to understand.

So when you receive a cheque and you deposit it in the bank the same day you make the entry in the bank column (the debit side in this case). But say you send the cheque later (not the same day) then this will be a contra entry. A contra entry is transactions that happen between a cash account and a bank account. Ultimately your Cash & Bank balance remains the same, the money just moves around.

4] Petty Cash Book

In a firm, there are usually cash transactions happening in all the departments. These we will record in one of the above formats of cash books. But there are many cash transactions happening for very small amounts. Sometimes there are dozens of such transactions that occur in just one day. These are known as petty transactions. Examples are expenses for postage, stationery, traveling, food bills, etc.

So since the number of such transactions tends to be very high we maintain a separate cash book for them – the petty cash book. Such a cash book is maintained by the petty cashier (who in most cases also handles the petty cash).

TRIAL BALANCE:

Trial Balance is a list of closing balances of ledger accounts on a certain date and is the first step towards the preparation of financial statements. It is usually prepared at the end of an accounting period to assist in the drafting of financial statements. Ledger balances are segregated into debit balances and credit balances. Asset and expense accounts appear on the debit side of the trial balance whereas liabilities, capital and income accounts appear on the credit side. If all accounting entries are recorded correctly and all the ledger balances are accurately extracted, the total of all debit balances appearing in the trial balance must equal to the sum of all credit balances.

Purpose of a Trial Balance

- Trial Balance acts as the first step in the preparation of financial statements. It is a working paper that accountants use as a basis while preparing financial statements.
- Trial balance ensures that for every debit entry recorded, a corresponding credit entry has been recorded in the books in accordance with the double entry concept of accounting. If the totals of the trial balance do not agree, the differences may be investigated and resolved before financial statements are prepared. Rectifying basic accounting errors can be a much lengthy task after the financial statements have been prepared because of the changes that would be required to correct the financial statements.
- Trial balance ensures that the account balances are accurately extracted from accounting ledgers.
- Trial balance assists in the identification and rectification of errors.

Example

Following is an example of what a simple Trial Balance looks like:

ABC LTD Trial Balance as at 31 December 2011		
Account Title	Debit	Credit
	\$	\$
Share Capital		15,000
Furniture & Fixture	5,000	
Building	10,000	
Creditor		5,000
Debtors	3,000	
Cash	2,000	
Sales		10,000
Cost of sales	8,000	
General and Administration Expense	2,000	
Total	30,000	30,000

- Title provided at the top shows the name of the entity and accounting period end for which the trial balance has been prepared.

- Account Title shows the name of the accounting ledgers from which the balances have been extracted.
- Balances relating to assets and expenses are presented in the left column (debit side) whereas those relating to liabilities, income and equity are shown on the right column (credit side).
- The sum of all debit and credit balances is shown at the bottom of their respective columns.

Limitations of a trial balance

- Trial Balance only confirms that the total of all debit balances match the total of all credit balances. Trial balance totals may agree in spite of errors. An example would be an incorrect debit entry being offset by an equal credit entry. Likewise, a trial balance gives no proof that certain transactions have not been recorded at all because in such case, both debit and credit sides of a transaction would be omitted causing the trial balance totals to still agree.

3.3. COMPONENTS OF FINAL ACCOUNTS- TRADING A/C, PROFIT & LOSS A/C AND BALANCE SHEET: FINAL ACCOUNTS:

Final Accounts are the accounts, which are prepared at the end of a fiscal year. It gives a precise idea of the financial position of the business/organization to the owners, management, or other interested parties. Financial statements are primarily recorded in a journal; then transferred to a ledger; and thereafter, the final account is prepared (as shown in the illustration).

Usually, a final account includes the following components –

- Trading Account
- Manufacturing Account
- Profit and Loss Account
- Balance Sheet

Each of them are discussed in detail –

Trading Account

Trading accounts represents the Gross Profit/Gross Loss of the concern out of sale and purchase for the particular accounting period.

Study of Debit side of Trading Account

- Opening Stock – Unsold closing stock of the last financial year is appeared in debit side of the Trading Account as “To Opening Stock“ of the current financial year.
- Purchases – Total purchases (net of purchase return) including cash purchase and credit purchase of traded goods during the current financial year appeared as “To Purchases” in the debit side of Trading Account.
- Direct Expenses – Expenses incurred to bring traded goods at business premises/warehouse called direct expenses. Freight charges, cartage or carriage charges, custom and import duty in case of import, gas, electricity fuel, water, packing material, wages, and any other expenses incurred in this regards comes under the debit side of Trading Account and appeared as “To Particular Name of the Expenses”.
- Sales Account – Total Sale of the traded goods including cash and credit sales will appear at outer column of the credit side of Trading Account as “By Sales.” Sales should be on net releasable value excluding Central Sales Tax, Vat, Custom, and Excise Duty.
- Closing Stock – Total Value of unsold stock of the current financial year is called as closing stock and will appear at the credit side of Trading Account.

Closing Stock = Opening Stock + Net Purchases - Net Sale

- Gross Profit – Gross profit is the difference of revenue and the cost of providing services or making products. However, it is calculated before deducting payroll, taxation, overhead, and other interest payments. Gross Margin is used in the US English and carries same meaning as the Gross Profit.

Gross Profit = Sales - Cost of Goods Sold

- Operating Profit – Operating profit is the difference of revenue and the costs generated by ordinary operations. However, it is calculated before deducting taxes, interest payments, investment gains/losses, and many other non-recurring items.

Operating Profit = Gross Profit - Total Operating Expenses

- Net Profit – Net profit is the difference of total revenue and the total expenses of the company. It is also known as net income or net earnings.

Net Profit = Operating Profit - (Taxes + Interest)

Format of Trading Account

Trading Account of M/s ABC Limited (For the period ending 31-03-2014)
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Particulars	Amount	Particulars	Amount
To Opening Stock	XX	By Sales	XX
To Purchases	XX	By Closing Stock	XX
To Direct Expenses	XX	By Gross Loss c/d	XXX
To Gross Profit c/d	XXX		
Total	XXXX	Total	XXXX

Manufacturing Account

Manufacturing account prepared in a case where goods are manufactured by the firm itself. Manufacturing accounts represent cost of production. Cost of production then transferred to Trading account where other traded goods also treated in a same manner as Trading account.

Important Point Related to Manufacturing Account

Apart from the points discussed under the section of Trading account, there are a few additional important points that need to be discuss here –

- **Raw Material** – Raw material is used to produce products and there may be opening stock, purchases, and closing stock of Raw material. Raw material is the main and basic material to produce items.
- **Work-in-Progress** – Work-in-progress means the products, which are still partially finished, but they are important parts of the opening and closing stock. To know the correct value of the cost of production, it is necessary to calculate the correct cost of it.
- **Finished Product** – Finished product is the final product, which is manufactured by the concerned business and transferred to trading account for sale.

- Raw Material Consumed (RMC) – It is calculated as.

$$\text{RMC} = \text{Opening Stock of Raw Material} + \text{Purchases} - \text{Closing Stock}$$

- Cost of Production – Cost of production is the balancing figure of Manufacturing account as per the format given below.

Manufacturing Account (For the year ending.....)			
Particulars	Amount	Particulars	Amount
To Opening Stock of Work-in-Progress	XX	By Closing Stock of Work-in-Progress	XX
To Raw Material Consumed	XX	By Scrap Sale	XX
To Wages	XXX	By Cost of Production	XXX
To Factory overheadxx		(Balancing figure)	
Power or fuelxx			
Dep. Of Plantxx			
Rent- Factoryxx			
Other Factory Exp.xx	xxx		
Total	XXXX	Total	XXXX

Profit and Loss Account

Profit & Loss account represents the Gross profit as transferred from Trading Account on the credit side of it along with any other income received by the firm like interest, Commission, etc.

Debit side of profit and loss account is a summary of all the indirect expenses as incurred by the firm during that particular accounting year. For example, Administrative Expenses, Personal Expenses, Financial Expenses, Selling, and Distribution Expenses, Depreciation, Bad Debts, Interest, Discount, etc. Balancing figure of profit and loss accounts represents the true and net profit as earned at the end of the accounting period and transferred to the Balance Sheet.

Profit & Loss Account of M/s			
(For the period ending			
Particulars	Amount	Particulars	Amount
To Salaries	XX	By Gross Profit b/d	XX
To Rent	XX		
To Office Expenses	XX	By Bank Interest received	XX
To Bank charges	XX	By Discount	XX
To Bank Interest	XX	By Commission Income	XX
To Electricity Expenses	XX	By Net Loss transfer to Balance sheet	XX
To Staff Welfare Expenses	XX		
To Audit Fees	XX		

To Repair & Renewal	XX		
To Commission	XX		
To Sundry Expenses	XX		
To Depreciation	XX		
To Net Profit transfer to Balance sheet	XX		
Total	XXXX	Total	XXXX

Balance Sheet

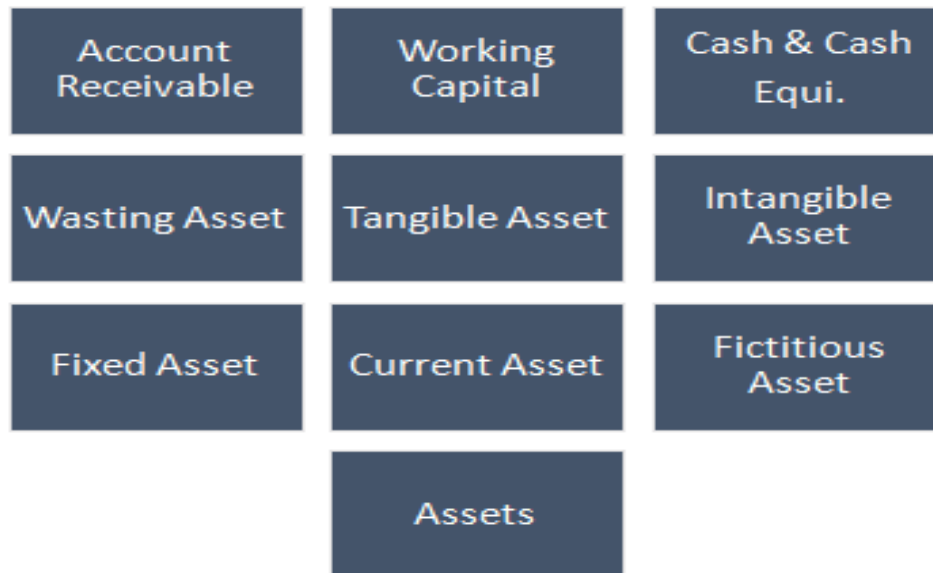
A balance sheet reflects the financial position of a business for the specific period of time. The balance sheet is prepared by tabulating the assets (fixed assets + current assets) and the liabilities (long term liability + current liability) on a specific date.

Assets

Assets are the economic resources for the businesses. It can be categorized as –

- **Fixed Assets** – Fixed assets are the purchased/constructed assets, used to earn profit not only in current year, but also in next coming years. However, it also depends upon the life and utility of the assets. Fixed assets may be tangible or intangible. Plant & machinery, land & building, furniture, and fixture are the examples of a few Fixed Assets.
- **Current Assets** – The assets, which are easily available to discharge current liabilities of the firm called as Current Assets. Cash at bank, stock, and sundry debtors are the examples of current assets.
- **Fictitious Assets** – Accumulated losses and expenses, which are not actually any virtual assets called as Fictitious Assets. Discount on issue of shares, Profit & Loss account, and capitalized expenditure for time being are the main examples of fictitious assets.
- **Cash & Cash Equivalent**s – Cash balance, cash at bank, and securities which are redeemable in next three months are called as Cash & Cash equivalents.

- Wasting Assets – The assets, which are reduce or exhausted in value because of their use are called as Wasting Assets. For example, mines, queries, etc.
- Tangible Assets – The assets, which can be touched, seen, and have volume such as cash, stock, building, etc. are called as Tangible Assets.



- Intangible Assets – The assets, which are valuable in nature, but cannot be seen, touched, and not have any volume such as patents, goodwill, and trademarks are the important examples of intangible assets.
- Accounts Receivables – The bills receivables and sundry debtors come under the category of Accounts Receivables.
- Working Capital – Difference between the Current Assets and the Current Liabilities are called as Working Capital.

Liability

A liability is the obligation of a business/firm/company arises because of the past transactions/events. Its settlement/repayments are expected to result in an outflow from the resources of respective firm.

There are two major types of Liability –

- Current Liabilities – The liabilities which are expected to be liquidated by the end of current year are called as Current Liabilities. For example, taxes, accounts payable, wages, partial payments of long term loans, etc.
- Long-term Liabilities – The liabilities which are expected to be liquidated in more than a year are called as Long-term Liabilities. For example, mortgages, long-term loan, long-term bonds, pension obligations, etc.

Financial Statements with Adjustments Entries and their Accounting Treatment

In order to prepare a true and fair financial statement, there are some very important adjustments those have to be done before finalization of the accounts (as shown in the following illustration) –

Sl.No.	Adjustments	Accounting Treatments
1	<p>Closing Stock</p> <p>Unsold stock at the end of Financial year called Closing stock and valued at “Cost or market value whichever is less”</p>	<p>First Treatment</p> <p>Where an opening and closing stock adjusted through a purchase account and the value of Closing Stock given in Trial Balance –</p> <p>Closing stock will be shown as adjusted purchase account on the debit side of Trading account and will appear in the Balance Sheet under current Assets.</p>
2	<p>Outstanding Expenses</p> <p>Expenses which are due or not paid called as outstanding expenses.</p>	<p>Accounting Treatment</p> <p>Outstanding expenses will be added in Trading or Profit & Loss account in particular expense account and will appear in liabilities side of the Balance Sheet under the current liabilities.</p>
3	<p>Prepaid Expenses</p> <p>Expenses which are paid in advance are called as Prepaid Expenses.</p>	<p>Accounting Treatment</p> <p>Prepaid Expenses will be deducted from the particular expenses as appear in Trading & Profit & Loss account and will be shown in the Balance Sheet under the current assets.</p>
4	<p>Accrued Income</p> <p>The income, which is earned during the year, but not yet received at the end of the</p>	<p>Accounting Treatment</p> <p>Accrued income will be added to a particular income under the Profit &</p>

	Financial Year is called as Accrued Income.	Loss account and will be shown in the Balance Sheet as current assets.
5	<p>Income Received in Advance</p> <p>An income received in advance, but not earned like advance rent etc.</p>	<p>Accounting Treatment</p> <p>An income to be reduced by the amount of advance income in profit & loss account and will appear as current liabilities in the Balance Sheet.</p>
6	<p>Interest on Capital</p> <p>Where an interest paid on the capital introduced by the proprietor or partner of the firm.</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Debit Side of Profit & Loss account • Add to capital account (Credit side of Capital account).
7	<p>Interest on Drawing</p> <p>Where an interest paid on the capital introduced by the proprietor or partner of the firm.</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Credit Side of Profit & Loss account • Reduced from capital account (Debit side of Drawing account).
8	<p>Provision for Doubtful Debts</p> <p>If there is any doubt on the recovery from Sundry Debtors.</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Debit Side of Profit & Loss Account • In a Balance Sheet, provision for the Doubtful will be deducted from the Sundry Debtors' Account.
9	<p>Provision for Discount on Debtors</p> <p>If there is any offer of discount to pay the debtors within certain period.</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Debit Side of Profit & Loss Account • In a Balance Sheet, provision for the Discount on Debtors will be

		deducted from the Sundry Debtors Account.
10	<p>Bad Debts</p> <p>Unrecovered debts or irrecoverable debts</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Debit Side of Profit & Loss Account • In a Balance Sheet, Sundry debtors will be shown after deducting the Bad Debts.
11	<p>Reserve for Discount on Creditors</p> <p>If there is any chance to get discount on the payment of sundry creditors within certain period.</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Credit Side of Profit & Loss Account • In a Balance Sheet, Sundry Creditors will be shown after deducting the Reserve for Discount.
12	<p>Loss of Stock by fire</p> <p>There may be three conditions in this case</p>	<p>Accounting Treatment</p> <ol style="list-style-type: none"> 1. If Stock is fully insured <ul style="list-style-type: none"> • Credit Side of Trading Account • Assets side of Balance Sheet • (With full value of loss) 2. If Stock is partially insured <ul style="list-style-type: none"> • Credit side of Trading Account (With Total value of Loss) • Debit side of Profit & Loss a/c (With value of loss unrecoverable) • Asset Side of Balance Sheet (With value recoverable) 3. If Stock is not insured

		<ul style="list-style-type: none"> • Credit Side of Trading Account • Debit side of Profit & Loss Account
13	Reserve Fund	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Debit side of Profit & Loss Account • Liabilities side of Balance Sheet
14	Free Sample to Customers	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Credit side of Trading Account • Debit Side of Profit & Loss Account
15	Managerial Commission	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Debit side of Profit & Loss Account • Liabilities side of Balance Sheet as commission payable
16	<p>Goods on Sale or Approval Basis</p> <p>If there is any un-approved stock lying with the customers at the end of financial year.</p>	<p>Accounting Treatment</p> <ul style="list-style-type: none"> • Sales AccountDr To Debtors A/c (With Sale Price) • Stock AccountDr To Trading Account (with cost price)

3.4 ELEMENTS OF COST AND PREPARATION OF COST SHEET:

ELEMENTS OF COSTS:

- The Elements of Cost are of two type: product costs (labor, materials and overhead) and period costs.

Materials

Materials costs are the tangible goods used in producing the product. These costs can be direct or indirect. Direct materials are the quantifiable and traceable costs of materials used in production.

Indirect materials either cannot be traced to products or it is not cost effective to do so. For example, a company producing artisan crafts may consider wood to be a direct material, as the company can easily quantify how much wood goes into each craft. However, glue and other fasteners may not be cost effective to track in this manner. In that case, these items would be considered indirect materials.

Labor

Wages and salaries paid to employees involved in manufacturing are known as labor costs. These costs can be broken down into direct and indirect labor. Direct labor costs include the wages that are paid to employees that physically handle the product. For this reason, direct labor is also referred to as touch labor.

Indirect labor costs are any other wages and salaries related to production, but are not traceable back to units of product. For example, wages for materials handlers and line workers are usually considered to be direct labor costs. However, factory maintenance workers, plant supervisors and quality control engineers would be considered indirect labor.

Overhead

Overhead costs are related to production, but are not classified as direct labor or direct materials. This includes all indirect labor and materials costs, as well as any other

untraceable costs. Common overhead costs include depreciation on factory equipment, manufacturing rents, supplies costs, insurance costs and licensing fees.

For some small businesses, overhead costs make up the majority of production costs. In these cases, small-business owners should be careful to recognize that just because overhead costs are not easily traceable to products doesn't mean that effective cost management is any less important.

Period Costs

Period costs are costs that are not related to manufacturing and are not considered an element of cost in management accounting. As opposed to product costs, which are held in inventory, generally accepted accounting principles require that period costs be expensed as soon as they are incurred.

Common small-business period costs include advertising costs, sales commissions, salaries for owners and top management, administrative costs and depreciation for non-factory equipment. Even though period costs are not considered elements of cost in managerial accounting, these costs reduce net income just the same. As such, management may wish to track these costs on an ongoing basis and intervene if these costs are higher than expected.

COST SHEET:

Cost Sheet is a statement which presents detailed information relating to the various stages of cost. It also shows the total cost of the product manufactured during a particular period of time. Thus, the cost sheet is prepared for a particular period of time monthly, quarterly, yearly etc.

Objects of Preparing a Cost Sheet:

A cost sheet is prepared for:

(i) The total cost and cost per unit of the product can be ascertained;

- (ii) It helps the management to fix up the selling price on the basis of the cost per unit of the product after charging certain percentage of profit on cost;
- (iii) It also helps the management presenting a comparative study of current cost with the existing cost per unit;
- (iv) After proper comparison the management can take the corrective measures;
- (v) It helps the management while formulating suitable production policy;
- (vi) It is very helpful to submit a price quotation for tenders; and
- (vii) It also helps the management by supplying suitable information for management control.

Method of Preparation of Cost Sheet:

Step I = Prime Cost = Direct Material + Direct Labour + Direct Expenses.

Step II = Works Cost = Prime Cost + Factory/Indirect Expenses.

Step III = Cost of Production = Works Cost + Office and Administration Expenses.

Step IV = Total Cost = Cost of Production + Selling and Distribution Expenses. Profit = Sales – Total Cost.

The above method can better be presented with the help of the following proforma Cost Sheet:

Cost Sheet (Proforma)

Period

Units Produced

	Details	Total	Cost Per Unit
	Rs.	Rs.	Rs.
Raw Materials (opening)	...		
<i>Add:</i> Purchase of Raw Materials	...		
	...		
<i>Less:</i> Returns Outward	...		
	...		
<i>Less:</i> Abnormal Loss of Materials	...		
<i>Less:</i> Raw Materials (closing)	...		
	...		

	Details	Total	Cost Per Unit
	Rs.	Rs.	Rs.
Materials Consumed	...		
Direct Wages	...		
Direct Expenses	...		
Carriage Inwards	...		
Hire of Special Plant	...		
Chargeable Expenses	...		
Prime Cost	
Indirect/Factory Expenses			
Indirect Wages	...		
Factory Expenses	...		
Factory Rent and Rates	...		
Factory Lighting and Heating	...		
Factory Fuel and Power	...		
Indirect Materials	...		
Repairs to Plant	...		
Depreciation on Plant	...		
Loose Tools	...		
<i>Less:</i> Sale of Scrap	...		
<i>Add:</i> Work-in-Progress (opening)	...		
<i>Less:</i> Work-in-Progress (closing)	...		
	
Factory Cost/Works Cost/Production Cost	
Office and Administrative Expenses/Overhead			
Office Rent and Taxes	...		
Office Salary, Lighting, Insurance	...		
Establishment Charges, Postage	...		
Repairs, Legal Expenses, Audit Fees,	...		
Depreciation of Furniture	...		
Management Expenses
Cost of Production	
<i>Add:</i> Finished Goods (opening)	
	

	Details	Total	Cost Per Unit
	Rs.	Rs.	Rs.
<i>Less:</i> Finished Goods (Closing)		...	_____
Cost of Production of Goods Sold		_____	...
Selling and Distribution Expenses Overhead		...	
Godown Rent/Storage	...		
Advertisement/Carriage Outwards	...		
Selling Expenses and Commission, Showroom Rent	...		
Salesmen's Salaries, Debt. Collection Charges etc.	...		
Total Cost/Cost of Goods Sold	_____	_____	_____
Profit (bal. fig.)		_____	_____
Sales	_____	_____	_____

3.5 BREAK EVEN ANALYSIS:

A break-even analysis is a financial tool which helps you to determine at what stage your company, or a new service or a product, will be profitable. In other words, it's a financial calculation for determining the number of products or services a company should sell to cover its costs (particularly fixed costs). Break-even is a situation where you are neither making money nor losing money, but all your costs have been covered. Break-even analysis is useful in studying the relation between the variable cost, fixed cost and revenue. Generally, a company with low fixed costs will have a low break-even point of sale. For an example, a company has a fixed cost of Rs.0 (zero) will automatically have broken even upon the first sale of its product.

Components of Break Even Analysis

Fixed costs

fixed costs are also called as the overhead cost. These overhead costs occur after the decision to start an economic activity is taken and these costs are directly related to the level of production, but not the quantity of production. Fixed costs include (but are not limited to) interest, taxes, salaries, rent, depreciation costs, labour costs, energy costs etc. These costs are fixed no matter how much you sell.

Variable costs

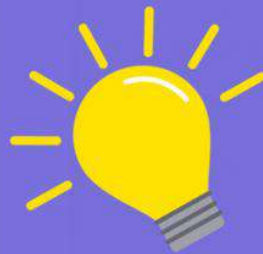
Variable costs are costs that will increase or decrease in direct relation to the production volume. These costs include cost of raw material, packaging cost, fuel and other costs that are directly related to the production.

Calculation of Break-Even Analysis

The basic formula for break-even analysis is driven by dividing the total fixed costs of production by the contribution per unit (price per unit less the variable costs).




Contribution Per Unit

$$\text{Contribution per unit} = \text{Selling price per unit} - \text{Variable cost per unit}$$


Break-even point

$$\text{Break even point in quantity (BEP)} = \frac{\text{FC}}{\text{Contribution Per Unit}} \text{ or } \frac{\text{FC}}{\text{(P-VC)}}$$

*FC = [Total fixed costs] VC = [Variable costs per unit] P = [Average price per unit]



For an example:

Variable costs per unit: Rs. 400 Sale price per unit: Rs. 600 Desired profits: Rs. 4,00,000
Total fixed costs: Rs. 10,00,000 First we need to calculate the break-even point per unit, so we will divide the Rs.10,00,000 of fixed costs by the Rs. 200 which is the contribution per unit (Rs. 600 – Rs. 200). Break Even Point = Rs. 10,00,000/ Rs. 200 = 5000 units
Next, this number of units can be shown in rupees by multiplying the 5,000 units with the selling price of Rs. 600 per unit. We get Break Even Sales at 5000 units x Rs. 600 = Rs. 30,00,000. (Break-even point in rupees)

Contribution Margin

Break-even analysis also deals with the contribution margin of a product. The excess between the selling price and total variable costs is known as contribution margin. For an example, if the price of a product is Rs.100, total variable costs are Rs. 60 per product

and fixed cost is Rs. 25 per product, the contribution margin of the product is Rs. 40 (Rs. 100 – Rs. 60). This Rs. 40 represents the revenue collected to cover the fixed costs. In the calculation of the contribution margin, fixed costs are not considered.

When is Break even analysis used?

1. Starting a new business: If you wish to start a new business, a break-even analysis is a must. Not only it helps you in deciding, whether the idea of starting a new is viable, but it will force you to be realistic about the costs, as well as guide you about the pricing strategy.

2. Creating a new product: In the case of an existing business, you should still do a break-even analysis before launching a new product—particularly if such a product is going to add a significant expenditure.

3. Changing the business model: If you are about to the change your business model, like, switching from wholesale business to retail business, you should do a break-even analysis. The costs could change considerably and this will help you to figure out the selling prices need to change too.

Breakeven analysis is useful for the following reasons:

- It helps to determine remaining/unused capacity of the concern once the breakeven is reached. This will help to show the maximum profit on a particular product/service that can be generated.
- It helps to determine the impact on profit on changing to automation from manual (a fixed cost replaces a variable cost).
- It helps to determine the change in profits if the price of a product is altered.
- It helps to determine the amount of losses that could be sustained if there is a sales downturn.

Additionally, break-even analysis is very useful for knowing the overall ability of a business to generate a profit. In the case of a company whose breakeven point is near to the maximum sales level, this signifies that it is nearly impractical for the business to earn a profit even under the best of circumstances. Therefore, it's the management responsibility to monitor the breakeven point constantly. This monitoring certainly reduces the breakeven point whenever possible.

Ways to monitor Breakeven point

- Pricing analysis: Minimize or eliminate the use of coupons or other price reductions offers, since such promotional strategies increase the breakeven point.
- Technology analysis: Implementing any technology that can enhance the business efficiency, thus increasing capacity with no extra cost.
- Cost analysis: Reviewing all fixed costs constantly to verify if any can be eliminated can surely help. Also, review the total variable costs to see if they can be eliminated. This analysis will increase the margin and reduce the breakeven point.
- Margin analysis: Push sales of the highest-margin (high contribution earning) items and pay close attention to product margins, thus reducing the breakeven point.
- Outsourcing: If an activity consists of a fixed cost, try to outsource such activity (whenever possible), which reduces the breakeven point.

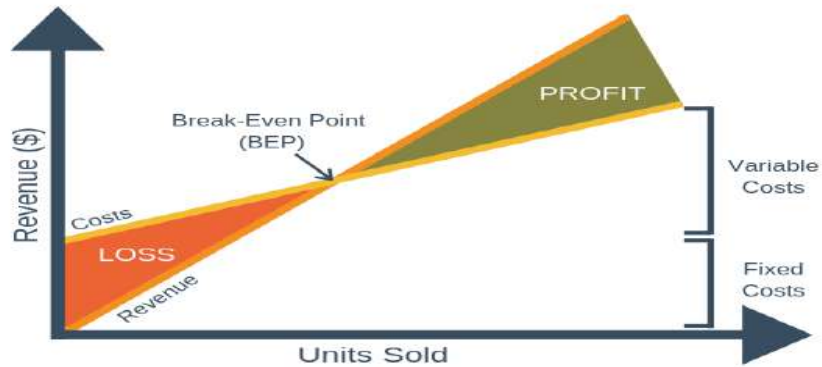
Benefits of Break-even analysis

- a) Catch missing expenses: When you're thinking about a new business, it's very much possible that you may forget about few expenses. Therefore, if you do a break-even analysis you have to review all your financial commitments to figure out your break-even point. This analysis certainly restricts the number of surprises down the road.
- b) Set revenue targets: Once the break-even analysis is complete, you will get to know how much you need to sell to be profitable. This will help you and your sales team to set more concrete sales goals.
- c) Make smarter decisions: Entrepreneurs often take decisions in relation to their business based on emotion. Emotion is important i.e. how you feel, though it's not enough. In order to be a successful entrepreneur, your decisions should be based on facts.
- d) Fund your business: This analysis is a key component in any business plan. It's generally a requirement if you want outsiders to fund your business. In order to fund your business, you have to prove that your plan is viable. Furthermore, if the analysis looks good, you will be comfortable enough to take the burden of various ways of financing.
- e) Better Pricing: Finding the break-even point will help in pricing the products better. This tool is highly used for providing the best price of a product that can fetch maximum profit without increasing the existing price.
- f) Cover fixed costs: Doing a break-even analysis helps in covering all fixed cost.

Break-Even Analysis Graph

We can graphically represent a break-even analysis by using a break-even chart. The break-even analysis chart tells us the different costs incurred at various sales levels.

Break-Even Analysis



Break-even analysis chart can be interpreted as follows:

- The X-axis shows the number of units sold.
- The Y-axis shows the sales revenue generated in dollars.
- The Income line shows the amount of revenue generated in dollars as an increasing number of units is sold.
- The Costs line shows how the costs incurred by the business change as a growing number of units is sold.
- When we sell a low number of units, our costs are higher than our revenue, and we're making a loss (shaded red in the diagram).
- At the point where revenue and costs intersect on the diagram, BEP, total costs are the same as revenue, and we are neither making a profit or a loss.
- When you sell a high number of units, our costs become less than your revenue, and we're making a profit (shaded green in the diagram).

From the diagram, we can see that costs don't start from zero. These are the fixed costs. As soon as we make our first sale our costs begin to increase (fixed costs + variable cost of selling one unit).

As more units are sold your costs continue to climb. However, as we sell more units, our costs don't climb at as steep a rate as your revenue. Eventually, we reach the break-even point (BEP). Here our total costs are the same as your total revenue.

As even more units are sold we move into profit, where revenue exceeds all costs.

UNIT-4: FINANCIAL MANAGEMENT

4.1 MEANING & IMPORTANCE

- ✓ Financial management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.

FINANCE DEPARTMENT:

- ✓ Finance function of an organization is usually managed by a separate department called the finance department.
- ✓ The finance manager has to be experienced, skilled and capable enough to handle the finance function independently.

IMPORTANCE OF FINANCIAL MANAGEMENT:

- ✓ Ensures effective utilization of funds.
- ✓ Increases the financial strength of the business.
- ✓ It helps in obtaining sufficient funds at a minimum cost.

4.2 FINANCE FUNCTIONS:

- ✓ The Finance Function is a part of financial management.
- ✓ Financial Management is the activity concerned with the control and planning of financial resources.
- ✓ In business, the finance function involves the acquiring and utilization of funds necessary for efficient operations.

IMPORTANCE OF FINANCE FUNCTIONS:

1) Identify Need of Finance

- ✓ To start a business one must know how much is required to open it.
- ✓ So, the finance function helps us to know how much the initial capital is, how much of it we have and how much we need to raise.

2) Identify Sources of Finance

- ✓ Once we come to know what needs to be raised we look at areas where we can raise these funds from.

3) Comparison of Various Sources of Finance

- ✓ After identifying various fund sources the cost and risk involved in it are compared.
- ✓ Then the best source of financing should be chosen that suits your business needs.

4) Investment

- ✓ Once the funds are raised it is time to invest them.
- ✓ Investment decisions should be done in a manner that a business gets higher returns.
- ✓ Cost of funds procurement should be lower than the return on investment; this will show a wise investment was made.

4.3. TYPES OF CAPITAL:

- ✓ The word capital refers to the amount of money invested in a business.
- ✓ Capital is also termed as financial assets.
- ✓ The capital may be contributed by the entrepreneur or the owner of the business or he might have borrowed from various sources.
- ✓ Without capital there can be no business.
- ✓ Capital of a business is classified into two types. They are:
 - a. Fixed capital
 - b. Working capital

Source of capital:

1. Owner's fund.
2. Loan and advances from bank and financial institutions.
3. Borrowing from friends and relatives.
4. Investment by outsiders.
5. Fixed deposit accepted by the business from the public.

a. FIXED CAPITAL:

Fixed capital is capital or money that we invest in fixed assets. In other words, money that we invest in assets of a durable nature. These are assets that we

repeatedly use over a long period. We can also use the term 'fixed investment' with the same meaning.

Fixed assets are tangible assets that we cannot convert into cash easily. Property is an example of a fixed asset. So are plant and equipment.

We do not resell fixed assets as part of our everyday business operations. We use fixed assets in the production of our company's income or for administrative purposes.

Some people use the terms fixed assets/capital interchangeably. However, technically, when we use the term 'capital,' we refer to the money we invest in fixed assets.



Fixed capital for businesses

The term includes all the capital investments and assets that we need to start up a business. It also includes all the capital investments and assets we need to conduct business at any stage.

We invest the money in assets that we cannot consume or destroy during the production of a product. We cannot consume or destroy them in the delivery of a service either. Hence, they are 'fixed assets.' However, they have a reusable value.

Fixed assets include tangible items we need for business operations. It does not include items we use in the production of something.

For example, equipment and facilities form part of fixed assets. Wood, however, in a furniture factory, is not. We use wood in the production of furniture, i.e., it is a component of an item of furniture.

The term contrasts with circulating capital. Circulating capital includes, for example, raw materials.

Therefore, in furniture a factory, we refer to the building and machinery as fixed assets and the wood as circulating capital.

✓ Fixed capital is the amount of money invested in fixed assets like land, buildings, plant, machinery, equipment, tools, furniture, fixtures etc. to create physical infrastructure to carry on business.

b. WORKING CAPITAL:

Working Capital is basically an indicator of the short-term financial position of an organization and is also a measure of its overall efficiency. Working Capital is obtained by subtracting the current liabilities from the current assets. This ratio indicates whether the company possesses sufficient assets to cover its short-term debt.

Working Capital indicates the liquidity levels of companies for managing day-to-day expenses and covers inventory, cash, accounts payable, accounts receivable and short-term debt that is due. Working capital is derived from several company operations such as debt and inventory management, supplier payments and collection of revenues.

What are the Sources of Working Capital?

The sources for working capital can either be long term, short term or even spontaneous. Spontaneous working capital are majorly derived from trade credit including notes payable and bills payable while short term working capital sources include dividend or tax provisions, cash credit, public deposits, trade deposits, short-term loans, bills discounting, inter-corporate loans and also commercial paper.

For the long-term, working capital sources include long-term loans, provision for depreciation, retained profits, debentures and share capital. These are major working capital sources for organizations based on their requirements.

What are the Types of Working Capital?

There are several types of working capital based on the balance sheet or operating cycle view. The balance sheet view classifies working capital into net (current liabilities subtracted from current assets featuring in the company's balance sheet) and gross working capital (current assets in the balance sheet).

On the other hand, operating cycle view classifies working capital into temporary (difference between net working capital & permanent working capital) and permanent (fixed assets) working capital. Temporary working capital can be further broken down into reserve and regular working capital as well. These are the types of working capital depending on the view that is chosen.

4.4 COMPONENTS OF WORKING CAPITAL, WORKING CAPITAL CYCLE: COMPONENTS OF WORKING CAPITAL:

These are three main components associated with working capital management:

1. Accounts Receivable

Accounts receivable are revenues due—what customers and debtors owe to a company for past sales. A company must collect its receivables in a timely manner so that it can use those funds to meet its own debts and operational costs. Accounts receivable appear as assets on a company's balance sheet, but they do not become assets until they are collected. Days sales outstanding is a metric used by analysts to assess a company's handling of accounts receivables. The metric reveals the average number of days a company takes to collect sales revenues.

2. Accounts Payable

Accounts payable is the amount that a company must pay out over the short term and is a key component of working capital management. Companies endeavor to balance payments with receivables to maintain maximum cash flow. Companies may delay payments as long as is reasonably possible with the goal of maintaining positive credit ratings while sustaining good relationships with suppliers and creditors. Ideally, a company's average time to collect receivables is significantly shorter than its average time to settle payables.

3. Inventory

Inventory is a company's primary asset that it converts into sales revenues. The rate at which a company sells and replenishes its inventory is a measure of its success. Investors also consider the inventory turnover rate to be an indication of the strength of sales and how efficient the company is in its purchasing and manufacturing. Low inventory means that the company is in danger of losing out on sales, but excessively high inventory levels could be a sign of wasteful use of working capital.

FIXED WORKING CAPITAL:

Fixed working capital varies from firm to firm. Essentially, it is set based on the lowest amount of net working capital as per one financial year. It is this level that is considered to be the permanent or fixed working capital and signifies the minimum investment that you must make towards your company's working capital. If you notice a shortfall in this, you can finance it using funds from a working capital loan.

FLUCTUATING WORKING CAPITAL:

The difference between the net working capital and permanent working capital of your company is its temporary or variable working capital. This is needed to meet the extra cash requirements due to annual fluctuations in production and sales, caused by seasonality. For example, if you're an umbrella manufacturer, you will manufacture stock before the season commences, in anticipation of demand. Hence you will require extra funds to meet this temporary working capital need.

Besides these, some other kinds of working capital are reserve or cushion working capital and special working capital. Reserve working capital, as the name suggests, acts as a cash reserve to tackle uncontrollable risks and uncertainties. Special working capital is set aside to specifically finance certain activities such as running an advertisement campaign, carrying out marketing research or diversifying into a new market.

WORKING CAPITAL CYCLE:

The Working Capital Cycle or WCC means the time period that is taken to convert net current liabilities and assets into cash by any organization. This is an indicator of the organizational efficiency in terms of effectively managing liquidity position in the short-term and the cycle, which is calculated in days, is basically the time period between the generation of revenue through cash by selling products and the buying of materials for producing these products.

The shorter this working capital cycle, the swifter will the company be able to free up its cash, which is blocked. In case the cycle is long, the capital usually gets stuck without earning returns in the operational cycle. Businesses always strive to lower this working capital cycle with a view towards enhancing liquidity in the short-term.

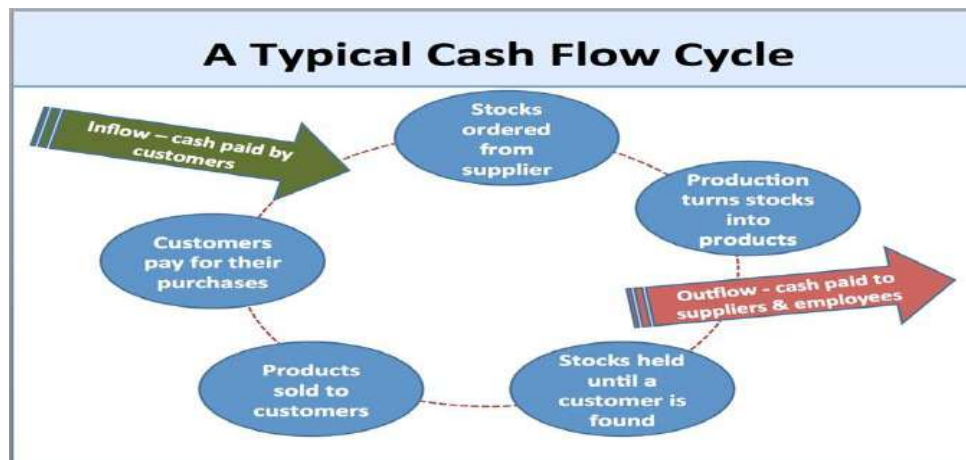
Working Capital Formula

The formula for working capital is the following:

Working Capital = Current Assets - Current Liabilities

The working capital ratio is the indicator of whether ample short-term assets are possessed by an organization for taking care of short-term debt. A ratio lower than 1 is an indicator of negative working capital while positive/sufficient working capital is usually indicated by a ratio between 1.2 and 2.0. Anything exceeding 2 usually indicates there are excess assets that are not being invested by the company and therefore represents missed opportunity.

The organization may be in trouble if the current assets do not exceed the liabilities at present. Working capital also provides a picture of the efficiency of the organization. Money that is locked in the market, inventory or in the hands of customers-who have not paid up yet, will not be considered viable when it comes to settling obligations.



WORKING CAPITAL CYCLE EXAMPLE

Let us assume following details for a company that is in the manufacturing sector.

- A company takes raw materials on credit and has to pay back to its creditors in few days (say 30 days in our example). This is also called as average payables period which is can be calculated as the ratio of creditors to credit purchases.

Average payable period = average creditors / credit purchases X 365.

This means that the company enjoys a credit period of 30 days on the purchase of raw materials used for the production of the final good.

- The company takes "x" number of days to sell off its inventory; the "x" here is nothing but inventory turnover ratio converted into a number of days instead of the

number of times. Assuming average inventory of \$ 5000 and average sales of \$ 18000, the inventory turnover ratio amounts to $\$ 5000 / \$ 18000 \times 365 = 102$ days approximately.

- It takes some time for the company to convert its credit sales into cash due to the credit management policy incorporated by the company in terms of the credit period extended to customers. Assuming outstanding debtors of \$ 9000 and a total credit sale amounting to \$ 60,000 the average collection period can be calculated as
Average collection period = average debtors/ Total Credit Sales X 365

$$= \$ 9000 / \$ 60000 \times 365$$

$$= 55 \text{ days approximately}$$

Based on the above information, we infer that

- The company has to pay back its creditors within 30 days.
- For inventory to convert to sales, it takes roughly 102 days
- Conversion of receivables (debtors) to cash, on an average, takes 55 days

WORKING CAPITAL CYCLE CALCULATION

The working capital cycle for the company can be calculated as given below:

Working Capital Cycle = Inventory turnover in days + debtors turnover in days – creditors turnover

$$= 102 + 55 - 30$$

$$= 127 \text{ days}$$

UNIT-5: STORES AND PURCHASE MANAGEMENT

5.1. INVENTORY CONTROL: IMPORTANCE & TECHNIQUES

INVENTORY:

✓ Inventory is a quantity of goods owned and stored by a business that is intended either for resale or as raw materials and components used in producing goods that the business sells.

✓ For example:-motherboards warehoused at a computer company to be used in the assembling of its computer systems are inventory.

INVENTORY CONTROL:

✓ Inventory control is the process of effectively managing consumable stock items, parts or supplies.

✓ So there is the need of exercising control over the purchase, storing and the usage of inventories in an organization.

IMPORTANCE OF INVENTORY CONTROL:

The following importance of inventory control is discussed briefly below:

1. Inventory Control Paves for Competitive Ability

The usage of Inventory Management and control benefits inventory control by enhancing market shares thus, paving the way for competitive ability. The best example is Apple's smart inventory management which gives them a competitive advantage. Commonalities with values, high factor loadings values, and significant mean values are factors taken into consideration in determining a business supports for competitive strength. These factors undoubtedly demonstrate the importance Inventory Management and control, enhances market share and improves competitive ability.

2. Inventory Planning Improves Service Level

It remains the fact that good Inventory Management and power leads to what all business strive for continuity, the repeat clients. If you desire your hard-earned clients to come back to purchase your products and services, it is necessary always to improve your service level enough to be able to match customer request swiftly. Inventory Management and control aid businesses in meeting such demand by permitting you to provide the right levels of hands-on service immediately your customers require them with the desired lead time, highlighting the importance of inventory management,

3. Inventory Planning and Management Reduces Storage Cost

These benefits of inventory management envisage on focusing upon Inventory planning and reducing storage costs as you maintain adequate inventories. The central values feature significant factor loadings and commonalities exhibited through proper Inventory Management and control. The factor lowers storage costs and increases revenue by using adequate inventory management and control emphasizing importance of inventory management.

4. High Inventory Turnover Brings Revenues

Applying Inventory planning to any business can serve as a bridge to bring in higher revenues. Through proper Inventory Management and control, a company is capable of increasing its profitability. If a business overlooks the benefits of inventory management in its trade, sales, and production, it is possible to hamper maximization of its operational efficiency. Intrinsically, the inventory's cost of purchase and production has a substantial effect on gross profit. Using lessened cost of production, a business raises its gross profit. That is why proper inventory planning is required. And with all accounts placed as equal, such company would record superior revenues, which in effect, leads to more profits, again substantiating importance of inventory management.

5. You Can Utilize Warehouse Space Better

Proper Inventory Management and control involve accounting for all production, purchase, and sale of goods that meets customers' demand. These benefits of inventory management affect management strategy that supports organizational warehouse in attaining better space management.

If you have an unorganized warehouse, you would always find it difficult to handle your inventory effectively. Several businesses elect to enhance their warehouses by arranging higher selling products together in areas that are easily accessible within the warehouse. Performing this process aids in speeding up the order fulfillment and preserves customer's happiness.

6. Inventory Control Makes Cost Accounting Activities Easier.

Better inventory management is surely going to make your financial controller happier and you can be easily in his good books!

Business owners often develop internal strategies and measures that will guarantee better control and planning of production and sales. Such approaches involve binding every partaker in the business to delivering activities that make Accounting Activities Easier including managers. Usually, these strategies aid such industry to order, account for inventory values, keep inventory flow, along with assistance on how to control obsolete goods. By executing such plans in inventory planning, several businesses can be able to manage its cash flow well.

To enhance your business cash flow, it is expected you set aside some investment into the most effective and practical inventory system that is powerful

enough to meet your requirement and is also suitable to match your business environ. For this reason, companies with well thought out plans can save a lot more from the use of active Cost Accounting Activities. Additionally, better Inventory Management and control aid your business in establishing cost benefit for you concerning the financial market conditions. Better cash flow lets companies attain better business and organizational goals.

7. Inventory Control Is Consistent with Safety and Environmental Advantage.

Too much inventory in warehouse can be health and safety issue when employs struggle to walk on the shop floor, cannot moves goods easily and it is falling from the shelves.

Good inventory management leads to inventory reduction which leads to less packaging which leads to less waste and contribute to environmental advantage. For me one of the best reasons to show importance of inventory management!

8. Regular Supply at Reasonable Prices Builds Customer Confidence

Evidently, with better strategies in place, any given organization can use inventory planning and control to improve its cash flow by providing higher customer service at consistent pricing. Inventory control and planning solution allows small business to gain insight into what products are selling more than others. This step will enable them to adjust their product line and to make intelligent business decisions.

9 Inventory Holding Results in Effective Utilization of Human and Equipment

Proper Inventory Management and control solutions save time regarding human resources and equipment usage. Less time expended on managing inventory leads to higher productivity for your business and clients as well. With these benefits of inventory management, your business stays steps ahead of the game and continuously has enough number of products at hand based on inventory movements.

10 Effective Inventory Control Enhances Market Share

For companies whose scale of operations does not permit the running of several inventories by product line or SKU, the usage of Proper Inventory Management and control solves it. Nevertheless, in some situations, your business size does not matter since roles and policies have to be set up irrespective of the size of the business. Such procedures and set up will help govern inventory spending and Enhance Market Share.

As we already established Inventory Management and control allows business to be able to handle all cash flow prospects. Companies are not continuously able to procure large amounts of inventory, as capital remains a significant factor in doing so. By having proper Inventory Management and control, businesses can recognize precisely what inventory size is needed and when to deploy them. This step can Enhances Market Share and free up other capitals for re-investment.

11. Inventory Control Enhances Product Quality

The use of Inventory Management and control can assist in remarkably improving business efficiency and product quality. These benefits of inventory management would aid in eliminating waste, and enhances focus on producing Right First Time or Six Sigma Quality.

It remains a fact that having a good inventory management system leads to better success and repetitive customers. If you desire your hard-earned customers always to keep coming, you have to enhance your product quality in the best ways possible.

12. Effective Inventory Control Brings Potential Saving

Proper Inventory Management and control can bring in Potential Saving as benefits of inventory management. These benefits of inventory management provide businesses with monetary and real-time benefits. The simple logic is if you reduce \$100k of on hand inventory, and put this money in bank to gain interest, which is equivalent to bottom-line benefit.

By monitoring which product bring in more sales and what other potentials they have, your business can save more on every effort with an inventory recount to safeguard accurate records. Good Inventory Management and control strategy also benefits businesses in saving money that could otherwise be lost in slow-moving products. No one can deny this as top reason to show the importance of inventory management!

13. Inventory Control Avoids Costly Interruptions in Operation

Inventory Management and control are beneficial in limiting the employee's ability to steal or disrupt your operations. Often costly interruptions in service in businesses can be averted with proper planning. Deprived of inventory control, companies may be none-the-wiser to such disruption. These benefits of inventory management ultimately improve business profitability. By avoiding costly interruptions, businesses can reduce any 'hidden' costs.

14. Inventory Control Strategy Facilitates Purchase Economies

Good Inventory Management and control aids in Facilitating Purchase Economies and maintaining steadiness in production operations. This approach is down to the maintenance of smooth flows in accessing raw materials. Consequently, there are no shortages experienced during the production process — these benefits of inventory management aids in reducing the risk of loss due to desuetude or deterioration of items, hence, highlighting the importance of inventory management. Such checks are placed on items regularly.

5.2 PURCHASE MANAGEMENT:

Purchase management is a department in an organization responsible for purchasing activities.

Purchase department is headed by a purchase manager or purchase executive.

Every year the purchase department has to make a purchase budget in consultation with the finance department and other functional departments for smooth purchase function.

Principles of purchase management:

1. Right Quality:

Quality has been defined as the capability of doing a certain thing or the power to satisfy a particular need.

In other words quality means the useful value of a specific thing for a specific purpose to fulfill.

The starting point for determining the quality of the materials needed in an organization is the end use, i.e., what is intended to be done or accomplished.

We then have to establish a specification and this is what quality is all about. A full and complete quality specification is an essential part of a purchase contract.

The quality of a material has a direct relationship with its end use. In other words, an inappropriate quality would mean that the end product is either too good or too bad for a particular purpose. Both these have a direct effect on costs and competitiveness of the end product. In one case, some extra cost has to make the quality more than is necessary and, in other case, the quality of the incurred product would suffer.

We can express quality in various ways, i.e., dimensions, weights, and measures, chemical properties, physical properties, strength, power, limit and tolerance, hardness, finish, color, capacity, durability, performance characteristics, appearance, design, etc.

2. Right Quantity:

The purchaser must buy the materials in the right quantity to ensure that there is no stoppage of production or no extra stock piling. Normally, the inventory control wing of purchase (stores) department, fixes up the economic order quantity (EOQ), i.e., the quantity which should be purchased at a time to get the maximum benefit at minimum total cost.

This requirement is mentioned in the purchase order and it is necessary to see that the materials are delivered.

3. Right Price:

It is not easy to determine the right price of material. However, through cost and value analyses one can guess what an item should cost. Thereafter, the purchaser's negotiation skill, his relations with the supplier and the nature of competition in the market will together determine the actual purchase price.

This function is of prime importance because this is where the purchaser can be really of much help to the company. But to perform this function properly, the purchaser must have a thorough idea about the market prices, especially the current prices of raw materials, their likely future trends, and environmental conditions which

affect prices. The purchaser should not be forced by the seller to accept any price quoted by the supplier. There are various ways of determining the right price.

The supplier may be asked to give a break-up of prices showing the cost of raw materials, overhead, profit, etc., and the buyer should check up the various cost items by comparing them with the available data. He may also take the help of production department. In some situations tendering to a large number of suppliers may also help in obtaining the correct price.

However, the purchaser must use his own judgement because often the suppliers form a cartel or an association (a ring) and they quote high prices. This would really pose a very serious problem. The purchaser can either break the ring or call all the bidders to reduce their prices on a rational basis. For purchasing of engineering items one should have the basic technical knowledge to deal with the suppliers.

One should have an idea about the right price of the materials and current prices should be compared with the past prices to find out how much the prices have gone up over a certain period of time.

4. Right Source:

Right source means the source which is reliable in all respect such as quality, delivery, after sales service, etc. It is obvious that when all the other things have been done right (i.e., selection of right quality, quantity and prices), the source of supply from where the materials have been obtained should be automatically right.

However, there are cases where anomaly occurs and it is, therefore, necessary to get the materials from the right source.

A right supplier must fulfill the following basic conditions:

- (a) He must be fully equipped to manufacture and supply the items ordered.
- (b) He must look into the interest of the company and assist the buyer whenever there is any scope of cost reduction by way of supplying alternative materials suited for the purpose.
- (c) He must also assist the buyer in market research.
- (d) He must be polite.
- (e) He must be in a position to assist the buyer in improving on delivery negotiations whenever necessary.
- (f) He must be a man of integrity.

For source selection or to develop the right source of supply initial information about the name and address of the suppliers can be had with the help of the following:

- (1) Suppliers' catalogue
- (2) Trade requisition and directories
- (3) Trade journals
- (4) Yellow pages of telephone directory

- (5) Vendors files
- (6) Buyers' guides
- (7) Salespersons
- (8) Trade exhibits — industrial trade fairs
- (9) Company personnel
- (10) Buyer-seller meet
- (11) Purchasing departments of similar organizations.

There are various ways of ascertaining the right suppliers. Typical vendor registration forms are given to the supplier by the purchase department. Such forms should give all the necessary information as required by the buyer.

On receipt of the complete form, a representative of the buyer should call at the vendor's premises and submit his report (containing all his findings).

He should ascertain the following factors during his visit and inspection at the supplier's plant:

- (i) Technical know-how of the supplier for manufacturing items.
- (ii) Financial capability of the supplier to undertake the job.
- (iii) Organizational set-up and manpower of the supplier.

(iv) Records of past performance of the supplier in delivering materials at the right time and in right quality and quantity.

(v) Ability to deliver materials promptly and in required quantity.

(vi) Own manufacturing unit.

(vii) Quality control system of the firm.

(viii) Staff and line capability of the firm.

(ix) Service level.

(x) History of labour relations in the firm.

If this report meets the need of that particular company, the vendor may be registered on the approved suppliers' list and be given a trial order. Performances of the vendor should be only judged after satisfactory and timely execution of orders.

A right supplier today might become a wrong supplier next year. As safeguard against this possibility, the purchase department should also keep some record of the performance of different suppliers. There are some typical ways of evaluating a supplier's performance. Moreover, various norms or criteria could be used to compare one supplier with another.

5. Right Time:

Just as one has to buy the materials in the right quantity, he must also obtain them exactly when required. The delivery timings are again fixed by the indenter or the

stock control department. It is the primary duty of the purchase department to follow up the orders and to ensure that the flow of materials remains unchanged.

It should also be seen that the materials are delivered exactly on time. This function is very important in India as the suppliers often fail to maintain the delivery schedule.

6. Right Place (of Delivery):

The function of purchase department is not over until the materials are delivered at the right place. Therefore, this also becomes a primary function of the purchase department. Suppose the go down of the purchase department is in Calcutta's Taratala area and the material is booked to Howrah railway station. It must be ensured that the materials are cleared from Howrah and delivered to the go down.

Procedures of purchase management:

Following purchasing procedure is generally followed:

1. Determining Purchase Budget:

Purchase Manager prepares a purchase budget for the forthcoming financial year. Purchase budget is prepared with the help of production planning department. It contains detailed information regarding quantity to be purchased, quality of materials, time of purchase and the sources of procurement. A schedule of materials and components needed for various jobs, known as bill of materials, is also prescribed for working out details of purchase budget. A bill of materials is also useful in exercising control over the utilization of materials.

2. Receipt of Purchase Requisition:

The purchase officer initiates action for the purchase of materials only when he receives a request for the same. The store-keeper and departmental heads send requisition slips to purchase department giving details of materials required by their departments etc. A purchase requisition is a form used as a formal request to the purchasing department to purchase materials.

This form is prepared by the store keeper for regular stock materials and by the departmental head for specific materials not stocked as regular items. The store-keeper knows when an action or fresh procurements is to be initiated. He will send the requisition when materials reach re-ordering level. He retains one copy of the requisition with him for future reference .It is on the basis of purchase requisition that orders are placed for materials.

3. Determining Sources of Supply:

Purchase Manager remains in touch with various suppliers of materials. The quotations are invited for the purchase of specific items. After receiving quotations a comparative study is made regarding terms and conditions offered. The factors to be considered include price, quantity, quality, time of delivery, terms of payment, trade discount and reputation of suppliers. After looking at various factors a final decision is taken about the supplier of goods.

4. Placing Order:

After selecting a supplier a formal purchase order is sent for the supply of goods. A purchase order is sent on a printed form and is duly authorized by the purchase manager. This order should contain details about the quantity, quality, price,

mode of delivery, terms of payment etc. The purchase order authorizes the vendor to dispatch goods specified in it. It establishes a contractual relation between the buyer and the vendor.

5. Follow-Up of Purchase Order:

A purchase order normally bears a date by which the goods must be delivered. It is in the interest of the organization that goods are received in time for keeping uninterrupted flow of materials. The suppliers may be reminded of the date of delivery of goods. A follow-up of purchase order is necessary to receive stocks in time.

6. Receipt and Inspection of Materials:

In big concerns the task of receiving materials is assigned to the purchase department whereas in small concerns this work is done by the store keeper. After unpacking goods their quantity is compared to that given in delivery challan. Any discrepancy in items is reported to the purchase department. The specifications and quality of goods is also checked at this stage.

7. Checking Invoices:

Lastly, purchase department checks the invoices supplied by the vendor with that of its own records. The quantity, quality, price, terms etc. are compared with those given in purchase order. After making full checking the invoices are sent to accounts department for payment.

CENTRALISED PURCHASING:

When a single department controls and manages the purchasing for the whole organization, it is known as Centralized purchasing.

PROS:

1. As large volumes of materials are purchased, those materials are obtained at better prices, greater discounts and more agreeable terms can be obtained.
2. This large volume purchase cuts down the delivery charges and staffing costs to move and store the goods.
3. Suppliers know where and whom to contact which makes supplier contact much easier.
4. Centralized records can be kept of all purchases.

CONS:

1. It causes unnecessary delay in getting the materials because of the lengthy procedures involved in it.
2. It is not beneficial for perishable items.
3. It involves slow and complicated procedures for purchase of even a small item.
4. As in centralized purchasing, large quantities of goods are purchased there may be loss of material due to mishandling, carelessness, theft, improper storage etc.

DECENTRALISED PURCHASING:

When different department and sections of the organisation purchase their own requirement separately, it is known as decentralised purchasing.

PROS:

1. Decentralized purchase system is beneficial for the purchase of perishable items.
2. It avoids lengthy and complicated procedures for purchase of different items.
3. It provides autonomy to different departments i.e. now they will have the independence to purchase different items for their department.
4. Better quality products are purchased as the departmental people know well about the materials best suited for the purchase.

CONS:

1. As in this system different items are purchased in small quantities, it results in higher cost of purchase which results in higher cost of production and loss to the business.
2. As purchases are done in small quantities, better term of purchase cannot be obtained from the seller. Price will be high, discount will be less and credit period will also be less.
3. The same item may be purchased by different departments frequently from different suppliers, at different prices and different terms and conditions.

5.3. IMPORTANT STORE RECORDS (BIN CARD, STORES LEDGER & GRN)

BIN CARD:

- + Bin card is the statement of all the receipts and issue of the stock from the store department.
- + It is also called stock card or bin tag.
- + It is the responsibility of the store keeper to write every in and out of stock from the store.
- + The physical stock count and the stock quantity reported according to the bin card should be equal; otherwise internal audit department will have the right to investigate the matter with management.
- + Bin card only contain quantity column for both and receipts and at the close of each transaction, the stock level is calculated to make sure that at every point of time, it can be reconciled with the physical count.
- + Inventory management is not an easy task. That is why, it is crucial to control the flow of the inventory using some effective tools.
- + One of the best tools to exercise tight control over the inventory is the Bin Card.
- + Not just it helps in controlling the inventory very well, it also helps in maintaining an effective working capital.
- + By knowing the pattern of the stock movement, an entity can easily determine how much capital, it should invest in the purchasing of the inventory and for how much quantity.
- + As a result, better working capital policies can be developed that will improve the liquidity of the company.

Advantages of Bin Card

- ✦ As bin card is maintained for each item of inventory, the store keeper is well aware about the stock position.
- ✦ On each bin card, he or she can write the minimum stock and maximum stock level so that in case, any item of inventory is touching minimum level, he or she can create a purchase requisition for the fresh supply of the stock.
- ✦ Bin card is an important inventory control technique and is used in various formats. There is no specific format for the bin card as organization can design their own stock card according to their requirements and reporting analysis.
- ✦ Bin Card can be maintained in the Excel or can be taken as hard copy print out format that store in charge can use.
- ✦ A specimen of the bin card is given below:

ABC Company

Specimen Bin Card Format

Bin card #:		Maximum stock level:						
Code #:		Minimum stock level:						
Material name:		Recorder level:						
Location:		In charge:						
Stores ledger folio:								
Date	Receipts		Issues		Balance	Checked & Verified By		
	G.R.N	Qty	Requisition #	Qty	Qty	Date	Name	Initial

STORE LEDGER:

- ✦ Store ledger is a type of ledger which is maintained in costing department. It is like a reconciliation sheet which is used to find any differences between bin card and costing department records.
- ✦ Though, both bin card and stores ledger look like same but there is a slightly minor difference found between these two, which is the addition of value figures of inventory in stores ledger.

GOODS RECEIVED NOTE:

- + A goods receipt note (Goods Received Note) is a receipt or a note that customer uses to validate the receipt of ordered products.
- + The customer fills the note to verify that they have received the goods.
- + The store's manager or a representative of the stores department fills the record.
- + Several copies of the document are filled at once, the stores department usually retains one, another is issued to the accounts/finance department, and the other copy is sent to the supplier.
- + Once the supplier sends an invoice, the accounts department will use the goods received note to verify the invoice before making any payment.

What to Include in a Goods Received Note

- + Since the stores department has the task of preparing the GRN, they must make sure that all the relevant information is captured in the record.
- + Important details that must appear in the GRN include:
 - The name of the supplier
 - Different products delivered
 - Date and time of delivery
 - Quantities of each product
 - Name and signature of the store's manager or representative
 - Name and signature of the supplier's representative

Importance of GRN

- + A GRN is an essential document used by the accounts department to verify invoices before making payments.
- + Before making payments for goods supplier, the accounts department will rely on the goods received note prepared by the stores' department to counter check if the supplier delivered all the products ordered.
- + Once they have confirmed the invoice is in line with the GRN, they will proceed and make payments.
- + Any goods in the invoice that do not appear in the GRN will not be paid.

✚ On the other hand, the supplier will confirm that the goods were delivered to the customer after verifying the information in the goods received note.

✚ The supplier can use the document to detect any fraud for goods on transit.

✚ Therefore the goods received note is an essential document for both the supplier and the customer.

Sample Goods Received Note

GRN Number:

Goods Received Note

Supplier Date..... Advice note number

Order Number..... Delivery Location..... Cost-Centre.....

	Goods	Pack Size	Price	Order Quantity	Delivered Quantity	Comments
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

Received by..... Checked by.....

1. Accounts/Finance dept. copy
2. Supplier Copy
3. Stores/Goods Inwards copy

UNIT-6: PRODUCTION MANAGEMENT

6.1 PRODUCTION & PRODUCTIVITY:

Production is nothing but the conversion of raw materials into finished products. Productivity is the measure of the efficiency of a person, machine, factory, system etc. in converting inputs into useful outputs.

Productivity is computed by dividing average output per period by the total costs incurred or resources consumed in that period.

6.2. PRODUCTION, PLANNING & CONTROL- (MEANING & STEPS)

PRODUCTION PLANNING AND CONTROL

MEANING:

Production planning and control is an important task of Production Manager. It has to see that production process is properly decided in advance and it is carried out as per the plan. Production is related to the conversion of raw materials into finished goods. This conversion process involves a number of steps such as deciding what to produce, how to produce, when to produce, etc. These decisions are a part, of production planning. Merely deciding about the task is not sufficient.

The whole process should be carried out in a best possible way and at the lowest cost. Production Manager will have to see that the things proceed as per the plans. This is a control function and has to be carried as meticulously as planning. Both planning and control of production are necessary to produce better quality goods at reasonable prices and in a most systematic manner.

Production planning is the function of looking ahead, anticipating difficulties to be faced and the likely remedial steps to remove them. It may be said to be a

technique of forecasting ahead every step in the long process of production, taking them at a right time and in the right degree and trying to complete the operations at maximum efficiency. Production control, on the other hand, guides and directs flow of production so that products are manufactured in a best way and conform to a planned schedule and are of the right quality. Control facilitates the task of manufacturing and see that everything goes as per the plans.

CHARACTERISTICS OF PRODUCTION PLANNING AND CONTROL:

1. It is the planning and control of manufacturing process in an enterprise. The questions like—what is to be manufactured? When it is to be manufactured? How to keep the schedule of production etc.? —are decided and acted upon for getting good results.
2. All types of inputs like materials, men, machines are efficiently used for maintaining efficiency of the manufacturing process.
3. Various factors of production are integrated to use them efficiently and economically.
4. The manufacturing process is organized in such a way that none of the work centers is either overworked or under worked. The division of work is undertaken very carefully so that every available element is properly utilized.
5. The work is regulated from the first stage of procuring raw materials to the stage of finished goods.

OBJECTIVES OF PRODUCTION PLANNING AND CONTROL:

Planning of production precedes control. Whatever is planned needs to be controlled. The ultimate objective of both planning and control is to use various inputs

in an efficient way and to have a proper control over various targets and schedules fixed earlier.

The following details will bring out the objectives of production planning and production control:

Production Planning:

1. To determine the requirements for men, materials and equipment.
2. Production of various inputs at a right time and in right quantity.
3. Making most economical use of various inputs.
4. Arranging production schedules according to the needs of marketing department.
5. Providing for adequate stocks for meeting contingencies.
6. Keeping up-to-date information processes.

Production Control:

1. Making efforts to adhere to the production schedules.
2. Issuing necessary instructions to the staff for making the plans realistic.
3. To ensure that goods produced according to the prescribed standards and quality norms.
4. To ensure that various inputs are made available in right quantity and at proper time.
5. To ensure that work progresses according to the pre-decided plans.

STEPS IN PRODUCTION PLANNING AND CONTROL:

Production control involves the following steps:

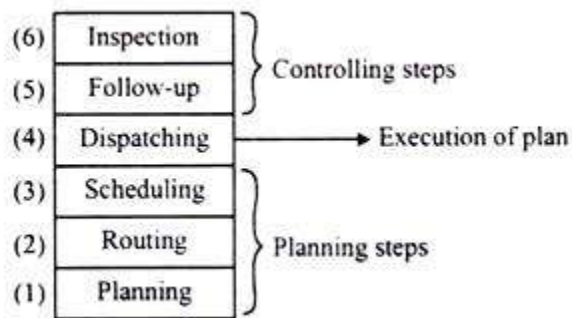
(i) Planning

(ii) Routing

- (iii) Scheduling
- (iv) Dispatching
- (v) Follow-up or checking the progress
- (ii) Routing
- (iii) Scheduling
- (iv) Dispatching
- (v) Follow-up or checking the progress
- (vi) Inspection

Out of these six steps involved in production control, the first three steps relate to planning; the fourth relates to execution of plan and the last two refer to the control aspect of planning.

The above idea is depicted by means of the following diagram:



(1) Planning:

For planning of productive operations in detail, the planning department will receive full information from management about the quantity to be produced and the dates when delivery has been promised to customers. The planning department will also get

the necessary engineering and drawing specifications from the engineering department.

Broadly, at the stage of planning the following issues are considered on which bases charts and written plans are prepared:

- (a) What work should be done?
- (b) How shall the work be done?
- (c) Where shall the work be done?
- (d) When shall the work be done?

(2) Routing:

Routing involves the determination of the path that work shall follow and the order in which various operations will be carried out. The objective of routing is to find out the best and the cheapest sequence of operations. While preparing the route card, it must be kept in mind that machines in the plant are operated at their full capacity; and manpower and other facilities are best utilized.

(3) Scheduling:

Scheduling is the determination of the time that should be required to perform each operation and also the time necessary to perform the entire series, as routed, making allowance for factors concerned. It involves the preparation of a time-table, indicating the total time needed for the manufacture of a product as also the time expected to be spent at each machine and process.

In preparing schedules, the persons concerned will have to take into consideration the various types of orders on hand and the dates by which their completion has been

promised. Some orders may be such as will require over-time work; because completion is not possible according to the delivery dates set for them, in the regular course of production.

(4) Dispatching:

Dispatching literally means sending something towards a particular destination. Here, it means taking all such steps, as are necessary to implement the programme of production chalked out as per routing and scheduling steps.

In particular, dispatching refers to:

1. Procurement of necessary tools, jigs and fixtures etc.; before they are actually required by the workmen.
2. Giving workers the necessary work orders, instructions, drawings etc. for initiating the work.

(5) Follow-Up (or Checking the Progress):

Follow-up is the control aspect of production planning and control. It involves taking steps to check up whether work proceeds according to plans and how far there are variances from standards; and also taking necessary corrective steps to set things in order.

(6) Inspection:

Inspection is the quality control aspect of production planning and control. It ensures that goods produced are of the right quality. The inspectors may inspect materials, semi-finished and finished products either at the work bench or in special laboratories or testing rooms.

To ensure maintenance of high standards of quality, a programme of SQC (Statistical Quality Control) may be fused with a system of production planning and control.

OBJECTIVES/ADVANTAGES OF PRODUCTION PLANNING AND CONTROL:

Following are the objectives (advantages) of production planning and control:

(i) Continuous Production:

Production control ensures continuous production with least possible interruptions; as it eliminates all sources of interruptions in production like non-availability of materials, tools, poor maintenance of machines etc.

(ii) Cost Control and Profit Maximization:

Production control helps in cost control (and thus in profit maximization) by optimizing use of productive resources and eliminating waste and spoilage.

(iii) Customer Satisfaction:

Production control ensures better service to customers due to timely delivery of goods and qualitative products. It, thus, leads to customer satisfaction and better business relations with customers.

(iv) Planning of Resource Requirements and Inventory Control:

Production control seeks to assess in advance requirements of manpower, machinery and other facilities to meet the desired targets of production. It also helps to maintain regular supply of raw-materials, work-in-progress and finished goods with minimum investment in inventories.

(v) Minimum Material Handling and Storage Costs:

Production control helps in minimization of material handling and storage costs.

(vi) Economy in Production Time:

Production control reduces the loss of time by the workers waiting for materials, and causes improvement in plant morale.

(vii) Equipment Utilization:

Production control makes for the most effective use of equipment.

UNIT-7: SALES & MARKETING MANAGEMENT

7.1. SALES & MARKETING MANAGEMENT

MARKETING MANAGEMENT:

Marketing management facilitates the activities and functions which are involved in the distribution of goods and services.

Marketing management is “planning, organizing, controlling and implementing of marketing programs, policies, strategies and tactics designed to create and satisfy the demand for the firms’ product offerings or services as a means of generating an acceptable profit.”

It deals with creating and regulating the demand and providing goods to customers for which they are willing to pay a price worth their value.

Marketing Management performs all managerial functions in the field of marketing. Marketing Management identifies market opportunities and comes out with appropriate strategies for exploring those opportunities profitably. It has to implement marketing program and evaluate continuously the effectiveness of marketing-mix. It has to remove the deficiencies observed in the actual execution of marketing plans, policies, and procedures. It looks after the marketing system of the enterprise.

Marketing Management Involves:

1. The setting of marketing goals and objectives,
2. Developing the marketing plan,
3. Organizing the marketing function,
4. Putting the marketing plan into action and
5. Controlling the marketing program.

Marketing Management is both a science as well as an art. Those responsible for marketing should have good understanding of the various concepts and practices in marketing, communication, and analytical skills and ability to maintain effective relationship with customers, which will enable them to plan and execute marketing plans.

FEATURES OF MARKETING MANAGEMENT CONCEPT:

1. Managerial Process:

Marketing management is a managerial process involving planning, organizing, decision making, forecasting, directing, coordinating and controlling. Stanley Vance defines management as the process of decision making and controlling. Every aspect of marketing, starting with identifying the consumer's need and wants, identifying the targeted customer, product planning, development, pricing, promotion, distribution process requires planning, decision making, coordination and controlling.

2. Consumer Centric:

All marketing activities are consumer centric. The consumers are the king. Marketing activities are based on the premise of "make what the market wants". The principal objective of marketing is to create new customers and to retain current customer. Marketing management performs the task of converting the potential customers into actual customer.

This is possible through satisfaction of customer's needs and wants by delivering them, appropriate goods and services according to their needs and wants, at right time and through convenient channel.

3. Research Analysis:

The basis function of marketing is identification of consumer's needs and wants .This requires continuous and systematic collection of data, analysis and reporting of data relevant to marketing activities. This helps the management to understand consumer's needs, wants, preferences and behavior of the consumer towards firm's marketing mix strategies. This helps in forecasting and planning future course of action.

4. Planning and Development:

Marketing involves planning and development of goods and services. Organizations make a continuous endeavor towards planning, development and innovation of product and services so as to meet the changing demand, taste and preferences of the consumers.

5. Building Marketing Framework:

Marketing activities are not just selling and distribution of ownership of goods and services from the producer to the ultimate consumer. But it involves a series of activities like research analysis, production, development and innovation,

advertisement and promotion pricing decision, selling and distribution, customer relationship and after sales service.

All these functional areas of marketing must be effectively planned, organized and built effectively to achieve best results. Marketing structure depends upon the size of the enterprise, geographical coverage of the operation, number of product lines, nature of product, size of customers.

6. Organizational Objectives:

All marketing activities are based on overall organizational objectives. The marketer bridges the gap between overall organizational objectives of achieving high profit and maximization of sales and consumer's interest of satisfying needs.

7. Promotional and Communication Process:

The ultimate objective of a firm is to maximize sales volume and profit. This can be achieved through promotion and communication about the goods and services. This function of marketing management enables the firm to provide information about the product to the customers.

8. Controlling of Activities:

Marketing management performs the function of controlling of marketing activities. Marketing management evaluates the effectiveness of marketing activities, to judge the efficiency of marketing personnel and the plans. This process involves measuring the actual performance with the standard and identifying the deviations and taking corrective actions.

IMPORTANCE OF MARKETING MANAGEMENT:

Marketing management smoothen the process of exchange of ownership of goods and services from seller to the buyer.

1. Analyzing Market Opportunities:

Marketing management collects and analyses information related to consumer's needs, wants and demands, competitor's marketing strategies, changing market trends and preferences. This helps to identify market opportunities.

2. Determination of Target Market:

Marketing management helps to identify the target market that the organization wishes to offer its product.

3. Planning and Decision Making:

Marketing management helps to prepare future course of action. Planning relates to product introduction, diversification. Decision making regarding pricing, selection of

promotional mix, selection of distribution channel is taken by the marketing management.

4. Creation of Customer:

Consumers determine the future of the market. Therefore providing the best product to the consumer according to their preference is the important task of marketing. Marketing management helps in creation of new customers and retention of current customers.

5. Helps in Increasing Profit:

Marketing caters to the varied and unlimited needs of consumers. Marketing management helps to increase profit and sales volume. This is achieved by expansion of market and increasing customers.

6. Improvement in Quality of Life:

Marketing management aims at providing innovative product and services to the customers. Marketers continuously strive to incorporate new technology and mechanism in their product to provide more satisfaction to customers than before. This improves quality of life and makes life of consumers easier than before.

7. Employment Opportunities:

Marketing process is a combination of different activities like research work to assess the marketing environment, product planning and development, promotion, distribution of product to customers and after sales service. Marketing process requires researcher, production engineer, different distribution intermediaries, sales personnel also creates employment opportunities in advertisement section. Thus marketing management opened up different employment avenues thus creating employment opportunities.

MARKETING MANAGEMENT – FUNCTIONS:

Marketing is related to markets and therefore marketing management calls for integration of the various elements of market. It has the task of organizing these elements into an effective operating system so that it can serve both customer and business enterprise effectively.

Various functions of marketing management are:

1. Assessing the Marketing Opportunities:

Determination of marketing objectives and assessment of the marketing opportunities for the firm is an important function of marketing management. The constantly changing market conditions and opportunities make it imperative for the

marketing management to come out with planned programmes to meet the challenges, and reap the opportunities.

2. Planning the Marketing Activities:

Planning is an important managerial function. Planning of marketing activities is a crucial task and involves numerous steps. It involves planning effective strategies to achieve the desired marketing objectives. It is concerned with formulation of policies relating to product, price, channels of distribution, promotional measures, forecast of target sales etc. Planning provides the basis for an effective marketing for the enterprise.

3. Organizing the Marketing Activities:

Another significant function of marketing is organizing it implies determination of various activities to be performed and assigning these activities to right person, so that marketing objectives are achieved. In the light of the changing concept of marketing, it is necessary that the organization structure is flexible and accommodative. This will help in better interaction between organization and environment.

4. Co-Coordinating Different Activities of Enterprise:

Even the best of planning will not be rewarding if there is improper coordination between different activities of the organization. Marketing involves various activities and these are inter-related and interdependent. Product decisions, pricing strategies, channel structure research activities all require proper coordination. Only then the objectives can be achieved.

5. Directing and Motivating the Employee:

A good direction is a must for effective performance of marketing functions. Direction helps in rightful performance of the work. Different leadership styles are practiced to guide the subordinates. A leader directs his subordinates and ensures through effective supervision, that the performance is as per planned specification. At the same time, it is necessary that employers are properly motivated. Motivation not only helps in better performance by the employee but also holds him back to the organization for longer periods.

These days organizations are very serious as far as their motivation policies are concerned. New ways of motivation are being introduced so that the employee gives his best of services.

6. Evaluating and Controlling Marketing Efforts:

In order to have a profitable venture, marketing manager must on a continuous basis, evaluate the marketing efforts. This will help him in knowing the deficiencies if any,

which can be corrected beforehand only and proper adjustments can be made with the changing environment. Controlling is a managerial function concerned with comparison of actual performance with the standard performance and locating the shortcomings if any, finally corrective measures are taken to overcome the shortcomings.

SALES MANAGEMENT:

Sales management can be seen as a segment of the organization’s marketing mix. It deals with the formation of sales strategies; product merchandising and pricing; sales promotion activities; distribution function; and planning, staffing, supervising, motivating and controlling of sales personnel to attain the desired sales objectives.

It was initially limited to the guiding, directing and controlling of the sales personnel. But today, it has a significant role in organizational success.

NATURE OF SALES MANAGEMENT

To understand the concept of sales management clearly, we must go through its following characteristics:



- **Goal-Oriented:** Similar to other management activities, sales management also have a specific purpose and intended for the achievement of specified goals or objectives.
- **Continuous Process:** The sales manager needs to perform sales management functions regularly, and this process is never-ending.
- **Systematic Approach:** It is an organized way of handling the sales function of the company where every problem has a defined and proven solution.

- **Relationship Selling:** The salespeople make efforts to build a strong customer relationship to sell the products or services effectively.
- **Marketing Management Integration:** Marketing is a broader concept; marketing management includes all the activities related to sales management.
- **Different Sales or Job Position:** It is the combined efforts of the whole sales team, including salesperson, sales executive, sales head, sales manager and after-sales service personnel.
- **Pervasive Function:** It is a universally applicable concept which has been adopted and tested by every kind of business organizations.

IMPORTANCE OF SALES MANAGEMENT



Realizes Organizational Objectives: Sales management is practised to attain the pre-defined organizational goals or objectives which can be increasing profitability, customer satisfaction, market acquisition, and so on.

Manages Sales Force: The sales team includes personnel performing various sales-related tasks; the activities of the sales force are hence monitored and regulated through sales management.

Better Planning: Planning is an essential function of sales management; it includes the formulation of goals, strategies, programmes and budget.

Sales Maximization: It also helps the management in setting sales target, which are though higher than the previous goals but are possibly attainable.

Builds Strong Relationship: The sales personnel emphasizes on building up strong interpersonal relations with the customers, as their primary motive. Since it ultimately drives the sales and profit maximization.

Optimizes Distribution: It provides for maximum utilization of the marketing channels by identifying the key problem areas and finding a solution to these issues.

Aids Top Management Decision Making: It comprises of the comparison between the desired and actual result and thus, supports the top-level management or directors to make crucial decisions (such as business expansion and closure).

Improves Profitability: The most critical concerns of top-level management is profit maximization, which is, therefore, passed on as a primary objective of the sales management.

Develops Personnel: In the process of sales management, the sales personnel is provided sufficient training, growth opportunities and support to ensure their overall development.

Product Development: The sales teams are in constant touch with the clients or customers, which helps the management to know about their preference and taste.

Thus, leading to new product development or improving the existing products or services.

7.2 SELLING METHODS:

The various selection methods are given below:

1. Hire-purchase or installment
2. Self-servicing
3. Sale by sending travelling salesmen approaching door to door
4. Sale by offering quotations against tenders
5. Mail order
6. Retailing
7. Whole-selling
8. Appointing agents at different cities and towns
9. Company's own showroom
10. Tele-shopping
11. E-commerce
12. Auto vending

13. Auction sale
14. Counter sale
15. Networking

1) HIRE-PURCHASE OR INSTALLMENT

In this the entire price of the product is paid in monthly or yearly instalments. On the payment of the first instalment or down payment, the buyer takes possession of the product and start using it. But the right over the product or the ownership lies with the seller till the last instalment is paid. After the down payment is made the rest amount of the value of the product is suitably divided into equal monthly or yearly instalments as per their suitability.

2) SELF-SERVICING

Under this system, goods are kept inside a large spacious shop where customers move from one corner of the shop to the other, selecting commodities of their choice and put them into a trolley. The wheel trolley is pulled to the counter by the customer himself. The person in charge of the counter prepares a bill.

3) SALE BY SENDING TRAVELLING SALESMEN APPROACHING DOOR TO DOOR

Under this method the customers do not go to the market to buy products but the seller takes the pain of sending travelling salesmen to the customers. The salesman demonstrates, convince and negotiate the terms and conditions and even collect money from the customers who buys the product. The customers staying at home can purchase the goods.

4) SALE BY OFFERING QUOTATION AGAINST TENDERS

When large organisations or business houses or government organisations make purchases, they issue tender which appear in the newspaper or in their notice board. Interested sellers submit their quotations against the tenders giving the details of the price, and other terms and conditions. The purchaser selects the best supplier keeping in mind the prices, quantity, and other terms and conditions.

5) MAIL ORDER

In this selling method, the seller advertises in various Medias like newspapers, TV, radio, etc. regarding their products and also mentions that the product shall not be available in shops and one has to write to the seller requesting to supply the product by post. On the receipt of such letter, the seller sends the product by VPP (value payable by post) and the postman collects the required amount on the delivery of the parcel or packet.

6) WHOLESALE

In this selling method, a manufacturer appoints a number of wholesalers. The wholesalers buy goods directly from the manufacturers or resellers. The wholesalers get large discounts for buying large quantities of goods.

7) APPOINTING AGENTS AT DIFFERENT TOWNS AND CITIES

Some producers appoint agents in different cities and towns. These agents sell their products on behalf of the producers, collect orders and supply the goods to the customers and are paid commission for such sales. The order may be directly given by the producers through the agents.

8) COMPANY'S SHOWROOM

Some companies directly sell their goods to the customer through their own show rooms. The customers can directly go to the show rooms and get the product of their choice. Such show rooms are located at prime market places. Example: Bata product.

9) TEleshopping

In tele-shopping Business organizations telecast programmes on television and demonstrate different products, tell them about their uses, advantages prices, etc. and convince the viewers. Interested viewers can order such products just by a phone call, or by fax or by writing letter or by e-mail on the addresses shown on the programme. Example: -home shop 18, Naaptol.

10) E-COMMERCE

These services are provided online over the internet network. Transaction of money, funds, and data are also considered as E-commerce. Online stores like Amazon, Flipkart, Shopify, Myntra, Ebay, Quikr, and Olx are examples of E-commerce websites.

11) AUTO VENDING

Under this method, an automatic vending machine for a particular product is placed at the busy market place. The customer can get that product from the machine by inserting the amount of money into to machine. It is like weighing machine available at the railway station where we put a coin into a machine and check our weight.

12) AUCTION SALE

Auction sale is a public sale where various intending buyers offer bids for the goods and try to outbid each other. It is a type of competition of the buyers to purchase a particular good and the competition is usually organized by the seller or his agent. A minimum price or floor price is usually fixed beforehand by the auctioneer and the bidders are asked to quote their rates. The sale is complete on the follow the hammer.

13) COUNTER SALE

In counter-sale the company or the manufacturers plan to sell their goods directly to the customer and consumers. The manufacturers appoint their own man power to manage the counters.

14) NETWORKING

In this system of selling, the manufacturer or his agent or the seller creates a network of people and supply the products to those people through the same network. This network is created by collecting membership or by having registration. The goods and services are supplied to them at the specified rates through the members of the network. Amway and Modicare are the examples of the networking business.

7.3 PRODUCT POLICY:

Product policy is concerned with defining the type, volume and timing of products a company offers for sale. The product policies are general rules set up by the management itself in making product decisions. Good product policies are the basis on which the right products are produced and marketed successfully.

A product policy generally covers the following:

1. Product Planning and Development

2. Product Line

3. Product Mix

4. Product Branding

5. Product Positioning

6. Product Packaging

Product policy is defined as the broad guidelines related to the production and development of a product. These policies are generally decided by the top management of a company i.e. board of directors. It is like a long term planning with respect to the product-mix of the company in order to deliver maximum customer satisfaction.

Product policy of a company has certain objectives

1. Survival: - The main objective of any company is to stay in the market profitably.

2. Growth: - Based on the long term goals of the company the policies are defined to get a good growth in the market.

3. Flexibility: - The product policy needs to be flexible to the changing needs of the customers, government regulations, global trends and economy.

4. Scalability: - The companies should use its resources properly to make the most of its valuable resources. With time the company needs to develop economies of scale to improve profits.

Product life cycle plays a very important while defining product policies.

When a product is in introduction stage the company needs to decide upon its pricing strategy whether it wants penetration pricing or skimming. To achieve quick breakeven the companies use skimming technique otherwise use penetration to keep the competition out of the market. Also the focus should be on creating awareness about the product and building the brand.

In growth stage the company needs to maintain its profit by improving the product quality. It takes some time to recreate the advertising strategy.

In maturity stage the very few firms are left in the business. The product's sales growth slows down and the company needs to target its loyal customers. A product change or communication changes is required at this stage.

In decline stage the sales for the product begin to fall and very few firms are left in the industry.

BRANDING:

Branding, by definition, is a marketing practice in which a company creates a name, symbol or design that is easily identifiable as belonging to the company. This helps to identify a product and distinguish it from other products and services. Branding is important because not only is it what makes a memorable impression on consumers but it allows your customers and clients to know what to expect from your company. It is a way of distinguishing yourself from the competitors and clarifying what it is you offer that makes you the better choice.

There are many areas that are used to develop a brand including advertising, customer service, promotional merchandise, reputation, and logo. All of these elements work together to create one unique and (hopefully) attention-grabbing professional profile.

Why Is Branding Important?

Branding is absolutely critical to a business because of the overall impact it makes on your company. Branding can change how people perceive your brand, it can drive new business and increase brand awareness.

Branding Gets Recognition

The most important reason branding is important to a business is because it is how a company gets recognition and becomes known to the consumers. The logo is the most important element of branding, especially where this factor is concerned, as it is essentially the face of the company.

This is why a professional logo design should be powerful and easily memorable, making an impression on a person at first glance. Printed promotional products are a way of getting this across.

Branding Increases Business Value

Branding is important when trying to generate future business, and a strongly established brand can increase a business' value by giving the company more

leverage in the industry. This makes it a more appealing investment opportunity because of its firmly established place in the marketplace.

Branding Generates New Customers

A good brand will have no trouble drumming up referral business. Strong branding generally means there is a positive impression of the company amongst consumers, and they are likely to do business with you because of the familiarity and assumed dependability of using a name they can trust. Once a brand has been well-established, word of mouth will be the company's best and most effective advertising technique.

Improves Employee Pride And Satisfaction

When an employee works for a strongly branded company and truly stands behind the brand, they will be more satisfied with their job and have a higher degree of pride in the work that they do. Working for a brand that is reputable and held in high regard amongst the public makes working for that company more enjoyable and fulfilling. Having a branded office, which can often help employees feel more satisfied and have a sense of belonging to the company, can be achieved through using promotional merchandise for your desktop.

Creates Trust within the Marketplace

A professional appearance and well-strategized branding will help the company build trust with consumers, potential clients and customers. People are more likely to do business with a company that has a polished and professional portrayal.

Being properly branded gives the impression of being industry experts and makes the public feel as though they can trust your company, the products and services it offers and the way it handles its business.

Branding Supports Advertising

Advertising is another component to branding, and advertising strategies will directly reflect the brand and its desired portrayal. Advertising techniques such as the use of promotional products from trusted companies such as Outstanding Branding make it easy to create a cohesive and appealing advertising strategy that plays well into your branding goals.

PACKAGING

As we know first impressions go a very long way in how people perceive anything. This is the same idea that companies implement via their packaging. The outer appearance of the product (the package) is the first thing a potential customer will see, and so it can be a great marketing tool for the product.

In fact, the package of a product serves multiple practical purposes as well.

Let us take a look at some of the uses and functions that it serves.

- **Protection:** The first and the most obvious use of packaging is protection. It physically protects the goods from damage that may be caused due to environmental factors. It is the protection against breaking, moisture, dust, temperature changes etc.
- **Information Transmission:** Packaging and labelling are essential tools to inform the customer about the product. They relay important information about directions for use, storage instructions, ingredients, warnings, helpline information and any government required warnings.
- **Convenience:** Goods have to be transported, distributed, stored and warehoused during their journey from production to consumption. Packaging will make the process of handling goods more convenient for all parties involved.
- **Security:** To ensure that there is no tampering with the goods packaging is crucial. The package of a product will secure the goods from any foreign elements or alterations. High-quality packages will reduce the risk of any pilferage.

Packaging as a Marketing Tool

Effective packaging can actually help a company attract consumers to their product. It can be the tool that sets apart their product in a vast sea of options that the consumer has at their disposal. A good packaging can actually add to the perceived value of a product.

There are some effective techniques one can use to ensure that your product package is a great marketing tool for your product. Let us take a look at some elements that you can incorporate into a package to make it more effective.

Capturing Attention

One important aspect of a package is that it must draw the attention of a potential customer when it is sitting on a shelf. It does not have to be the loudest or brightest package, but it must be unique in some way. Sometimes simplicity could be what sets it apart. Other factors could be the shape, the color scheme or even the texture of the package.

Brand and Product Names should be very clear

It is of absolute attention that your packaging draws maximum attention to your brand name. The customer will not buy a product if they do not know whose product they are buying. And clearly displaying your brand name is also a good branding strategy.

Point out to Benefits

Your product may have certain unique elements or benefits. Your packaging should draw attention to such benefits; it is a huge selling point. For example, if the product is 'organic' or has 'no preservatives' it should say so on the package and be displayed prominently.

Designed with the Target Audience in Mind

The company must be clear on whom the packaging is designed to attract and impress. Say the target audience is youth, and then the design can be abstract and modernistic. But say the target customers are senior citizens, and then the design should be clear and specific. Designing your packaging for a target audience is not always easy but certain criteria can be followed.

LABELLING:

Labeling is the display of label in a product. A label contains information about a product on its container, packaging, or the product itself. It also has warnings in it. For e.g. in some products, it is written that the products contain traces of nuts and shouldn't be consumed by a person who's allergic to nuts. The type and extent of information that must be imparted by a label are governed by the relevant safety and shipping laws.

Labeling is also an important part of the brand of the product and the company. It helps the product stand out in the market, and identifies it as a part of a particular brand. This is important in the era of high and intense competition.

Importance of Labeling

Labeling is an important part of the marketing of a product. Labeling is essential as it helps to grab the attention of a customer. It can be combined with packaging and can be used by marketers to encourage potential buyers to purchase the product. Packaging is also used for convenience and information transmission. Packages and labels communicate how to use, transport, recycle or dispose of the package or product.

Labeling is also used to exaggerate the product. Also, it is used for identification. This kind of labeling helps a viewer to differentiate the product from the rest in the shelves of the market. A person can find out about the ingredients of a product. This helps to spread awareness among the customers about the item they are consuming and labeling also helps to mention ingredients.

Labeling is another very important factor in a product. It should show the correct information about the product. This is all the more important in products such as pharmaceuticals. Labeling should also contain information relating to whether the product has harmful chemicals, especially if it is a product that is meant for children.

7.4 PRODUCT-MIX, PRICING METHODS AND SALES PROMOTION INCLUDING ITS TECHNIQUES:

PRODUCT MIX:

Product mix, also known as product assortment, is the total number of product lines that a company offers to its customers. The product lines may range from one to many and the company may have many products under the same product line as well. All of these product lines when grouped together form the product mix of the company.

The product mix is a subset of the marketing mix and is an important part of the business model of a company. The product mix has the following dimensions

Width

The width of the mix refers to the number of product lines the company has to offer.

For example – if a company produces only soft drinks and juices, this means its mix is two products wide. Coca-Cola deals in juices, soft drinks, and mineral water and hence the product mix of Coca-Cola is three products wide.

Length

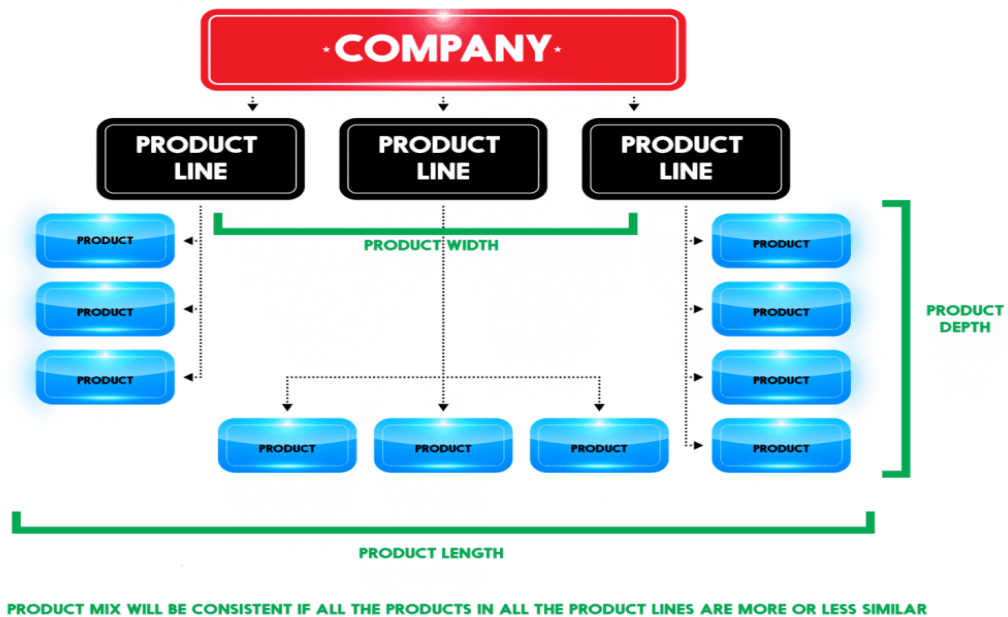
Length of the product mix refers to the total number of products in the mix. That is if a company has 5 product lines and 10 products each under those product lines, the length of the mix will be 50 [5 x 10].

Depth

The depth of the product mix refers to the total number of products within a product line. There can be variations in the products of the same product line. For example – Colgate has different variants under the same product line like Colgate advanced, Colgate active salt, etc.

Consistency

Product mix consistency refers to how closely products are linked to each other. Less the variation among products more is the consistency. For example, a company dealing in just dairy products has more consistency than a company dealing in all types of electronics.



Product Mix Example

Coca-Cola has product brands like Minute Maid, Sprite, Fanta, Thumbs up, etc. under its name. These constitute the width of the product mix. There are a total of 3500 products handled by the Coca-Cola brand. These constitute the length. Minute Maid

juice has different variants like apple juice, mixed fruit, etc. They constitute the depth of the product line 'Minute Maid'. Coca-Cola deals majorly with drinking beverage products and hence has more product mix consistency.

Product Mix depends on many factors like

- Company Age
- Financial Standing
- Area of Operation
- Brand identity, etc.

Many new companies start with limited width, length, depth and high consistency of the product mix, while companies with good financial standing have wide, long, deep and less consistency of the product mix. Area of operation and brand identity also affects its product mix.

PRICING METHODS:

The Pricing Methods are the ways in which the price of goods and services can be calculated by considering all the factors such as the product/service, competition, target audience, product's life cycle, firm's vision of expansion, etc. influencing the pricing strategy as a whole.

The pricing methods can be broadly classified into two parts:

1. Cost Oriented Pricing Method
2. Market Oriented Pricing Method

Cost-Oriented Pricing Method: Many firms consider the Cost of Production as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing:

- **Cost-Plus Pricing:** It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.

E.g. If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as $\text{Selling Price} = \text{cost of production} + \text{Cost of Production} \times \text{Markup Percentage}/100$

$\text{Selling Price} = 500 + 500 \times 0.25 = 625$

Thus, a firm earns a profit of Rs 125 (Profit=Selling price- Cost price)

- **Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price.**E.g.** If the unit cost of a

chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then markup price will be:

Markup Price= Unit Cost/ 1-desired return on sales

Markup Price= $16/1-0.20 = 20$

Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.

▪ **Target-Return pricing**– In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services.**E.g.** If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:

Target return price= Unit Cost + (Desired Return x capital invested)/ unit sales

Target Return Price= $16 + (0.20 \times 100000)/5000$ Target Return Price= Rs 20

Thus, Manufacturer will earn 20% ROI provided that unit cost and sale unit is accurate. In case the sales do not reach 50,000 units then the manufacturer should prepare the break-even chart wherein different ROI's can be calculated at different sales unit.

Market-Oriented Pricing Method: Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

▪ **Perceived-Value Pricing:** In this pricing method, the manufacturer decides the price on the basis of customer's perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer's perception.

E.g. Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

▪ **Value Pricing:** Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re-engineered to reduce the cost of production and maintain the quality simultaneously.

E.g. Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **Going-Rate Pricing-** In this pricing method, the firms consider the competitor's price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

E.g. In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **Auction Type pricing:** This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. There are three types of auctions:

1. **English Auctions-**There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

2. **Dutch Auctions-** There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

3. **Sealed-Bid Auctions:** This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **Differential Pricing:** This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

E.g. the best example of differential pricing is Mineral Water. The price of Mineral Water varies in hotels, railway stations, and retail stores.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being done.

SALES PROMOTIONAL TOOLS:

1. Consumer Promotion Tools:

1. Samples – Small quantity, sometimes free of cost or sometimes at minimum price, sent door to door personally or through mails or with other products etc.

2. Coupons – A certificate that gives buyers a saving when they purchase specified products.

3. Cash refund offers or rebates – Are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. Consumer sends proof of purchase and manufacturer sends the refund part of the purchase price to the consumer.

4. Price packs (cents-off deals) – Offers consumers saving off the regular price of the product, directly cuts price on the label, or combination of two products (tooth paste and tooth brush).

5. Premiums – Goods offered either free or at low cost as an incentive to buy a product. Sometimes premium are costlier than the product it is sold with, (brass tray free with a product).

6. Advertising specialties – They are useful articles imprinted with an advertisers name given as gifts to consumers, e.g. pen, dairy, calendars, key etc.

7. Patronage reward – Cash or gift, for the regular use of a particular product of the company like privilege card membership given by the company to the regular user of the products.

8. POP displays – (Point of purchase promotion) Right display at right place to attract consumers.

9. Contests, Sweepstakes, game –

(i) Contests- Submitting the entry

(ii) Sweepstakes – Calls for consumers to submit their names for draws

(iii) Games – Daily games

10. Demonstrations can be at –

(i) Retail stores

(ii) School

- (iii) Door to door
- (iv) To key people

11. Sales promotion letters and catalogues.

2. Trade Promotion Tools:

Here the focus is more on the wholesalers and retailers as compared to the consumers, i.e. roughly a ratio of 60:40 is maintained in dealing both of them. Trade promotion can persuade the wholesaler, retailers or distributor to carry a brand, advertise or give a shelf space to the products of a particular company.

From company's point of view, shelf space is so important that if it is provided by the wholesaler or retailer to a particular product or company the consumer will buy it. Customer will buy those products or services that are highly advertised, mostly seen etc. For that, company provides extra commission, buy back guarantee, price offs, allowances, gifts, free goods to them.

3. Business Promotion Tools:

Promotion for industrial customers – These promotions are used for such purposes as generating business leads, stimulating purchase, rewarding customers, and motivating sales people.

It uses many tools as used in trade promotion and consumer promotion. Its main focus is on conventions, trade shows and sales contests.

Convention – By this the company gets many benefits like finding new sales leads, contacting customers, introducing new products, meeting new customers, selling more to present customers, and educating customers with publication and audio-visual materials.

Sales contest – It involves salesmen or dealers to motivate them to increase their sales performance during a given period, with prizes going to those who did best.

7.5. ADVERTISING & ITS MEDIA

ADVERTISING MEDIAS:

Advertising media are the devices by which and through which the advertising messages are transmitted by the advertisers to the prospective and existing

customers. The message regarding the product or service is passed on to the consumers or persons concerned through the media.

In advertising, media are the facilitating functions and constitute an industry. Media are the carriers of message of an advertiser whose aim is to reach to the public so that he and his product or service may come to the knowledge of the public and in turn public may turn to him and his product or service.

Types of Advertising Media:

There are large varieties or types of advertising media or channels for advertising. And for each channel there are sub-varieties, e.g., newspaper is a channel or medium but there are varieties of newspapers printed in different languages in a country like India having 18 recognised languages. It is, thus, a difficult task to choose the media because of alternatives.

The different types or classes of advertising media are discussed below:

(1) Direct Mail:

This is one of the oldest types of advertising media. Under this method message is sent to the prospective buyers by post. A mailing list is prepared for this purpose. Circular letters, folders, calendars, booklets and catalogues are sent under this type of advertising. In the sales letter an appeal is made to the buyers separately.

It contains detailed information with regard to the product. The main aim of these letters is to create the reader's interest in the product. The letter should be attractive, interesting and convincing. Booklets and catalogues contain information regarding detailed description and prices of different varieties of products.

This method is very effective as it establishes direct contact with the consumer and also maintains secrecy in advertising. Detailed information with regard to the product can be sent to the buyers. The letters and circulars contain personal appeals which are greatly helpful in arousing their interest in the products. This method can be effectively undertaken in case the manufacturers are selling directly to the consumers.

Direct mail advertising suffers from certain drawbacks also. It has limited access i.e. a small number of buyers can be covered. There are practical difficulties in preparing

and maintaining up-to-date mailing list. This is also not suitable for every type of product.

(2) Newspapers and Magazines:

These are the important forms of press advertising, newspapers are the most effective and powerful medium of advertising. Newspapers contain valuable information with regard to different current events. It may be referred to as 'a store house of information'. There are daily, bi-weekly and weekly newspapers. Newspapers have widest circulation and read by many people. The newspapers may be local, provincial or national.

There is a separate advertisement department in every newspaper which classifies and designs different advertisements in the paper. Before selecting a newspaper the advertiser should take into consideration various factors viz., coverage of the newspaper, the class of customers and the cost of advertising etc.

The newspapers offer widest circulation and have universal appeal. The cost of advertising is lesser as compared to other media. The newspapers have more repetitive value and are very helpful in introducing a new product. These are suitable for all types of goods having wider markets.

A high degree of flexibility is ensured by newspapers i.e., the advertisement campaign can be undertaken and stopped quickly. Advertisements are the main source of revenue to the publishers. The most important benefit derived from the newspapers is that the advertiser's message can be conveyed to the readers quickly.

Besides newspapers suffer from certain drawbacks also. They have shorter life and are not suitable for illiterate people. Most of the people read the papers casually especially in the morning hours when they are in a hurry to join their respective jobs.

Secrecy cannot be maintained in this type of advertising. Another drawback of newspaper advertising is that they are in black and white prints. Colored advertisements are not covered, which are more appealing and attractive.

Magazines:

Magazines or periodicals are other important media of communication. Magazines may be released weekly, monthly, quarterly, bi-annual or annual. These are read with more interest by the readers as compared to newspapers. Advertisements given in magazines are more descriptive and attractive. They are usually in colored form which depicts the product nicely and gives lasting impression to the reader.

There are magazines or journals meant for general public and special class of people. There are exclusive magazines relating to industry, trade, finance and economics etc. There are also special magazines for men, women and children. The magazines have longer life and are very suitable for advertising specific goods.

Magazines have lesser flexibility as compared to newspapers. Last minute changes cannot be introduced in the advertisement as they are sent to the press many days before the publication. There is lesser repetitive value and no secrecy can be maintained.

Cost of advertising is higher as compared to newspapers. Their circulations are small and are suitable for educated readers only. In the introduction of a new product, magazines are not much suitable on account of lesser continuity.

(3) Radio Advertising:

Radio advertising is very popular these days. The advertisements are broadcasted from different stations of All India Radio. Radio advertising can be explained as “word of mouth advertising on a wholesale scale”. The advertising messages can be in different regional languages.

The most important advantage derived from radio advertising is that it covers every type of listener whether illiterate or educated. It is a very effective medium for popularizing on mass scale various consumer articles. The coverage of this medium is wider extending to a large number of listeners. It ensures quicker repetition.

Radio advertising suffers from shorter life, limited memory and short messages. Cost of advertising is higher. The message may not be listened properly by the listener. There is no secrecy. This is useful for those who possess radio sets. There is lesser flexibility and lack of personal touch.

(4) Television Advertising:

This is the latest and the fast developing medium of advertising and is getting increased popularity these days. It is more effective as compared to radio as it has the advantages of sound and sight. On account of pictorial presentation, it is more effective and impressive and leaves ever lasting impression on the mind of the viewer.

It is a very costly medium which can be employed by big concerns only; it has a shorter life span and limited coverage. Back reference to the advertisement cannot be made after its presentation. The duration of the advertisement is very limited.

Despite of the above mentioned drawbacks, this method of advertising is gaining rapid coverage and immense popularity among the masses.

(5) Film Advertising:

This is also known as cinema advertising. This also provides sight and hearing facilities like television. Short advertisement films are not prepared by big business houses which are sent to different cinema houses to be shown to the audience before the regular shows or during the intermission. It has more repetitive value but not to the same viewers. Its coverage is limited which benefits the local population only.

It is a very costly medium involving higher distribution and film making costs. Only big organizations can afford to produce advertisement films. It ensures more flexibility at larger costs. Its effectiveness cannot be measured properly. Film making is a time consuming process.

(6) Outdoor Advertising:

This type of advertising include different media like posters, placards, electric displays or neon signs, sandwich men, sky writing, bus, train and tram advertising. This is also known as 'Mural advertising'. The main aim of outdoor advertising is to catch the attention of passerby within twinkling of an eye.

This is the most effective medium of advertising. This is very suitable in the case of consumable and household articles like soaps, medicines, fans, shoes and pens etc.

Posters and placards are usually fixed on the walls near the road sides, railway station and bus stands. These posters are made of thick paper or metal plate or wood and carry the advertising message which can be easily read and seen from a distance.

The posters also pasted on the back of buses, trains and trams which are greatly helpful in carrying the message throughout and outside the city. Painted displays are prepared by expert painters which carry attractive multi-colored pictures also to impress upon the people.

Electric displays or neon signs are also used in order to impress the passerby. These carry a very short message. This is a very costly device.

Sandwich-men move from street to street carrying the posters and peculiarly. They shout and sing praising the concern and the product. Sky writing is also known as air advertising.

The pilots of the aeroplanes through whom this is carried write the advertiser's message in the form of smoke or illumination. The message is quite visible even from a long distance. Balloons fitted with the message and pictures of the product are also flown in the sky.

This type of advertising has a wider coverage and leaves effective impression on the people. It is very suitable for making the product popular and creating proper brand image. It has greater flexibility and can be designed by keeping in view the peculiarities of a particular locality. It requires lesser time and effort on the part of the advertiser to undertake this medium. This is more durable and economical form of advertising medium.

It has been referred as reminder or residuary publicity which is used by the advertiser after all the other advertising media.

Sticking of bills and posters destroys the walls of different building and adversely affects the cleanliness and beautification of a particular area.

Various media like skywriting, sandwich men, balloons and electric displays are very costly. They are beyond the means of a small trader.

(7) Window Display:

It is a common method which is usually undertaken by retailers who display their products in the shop windows in order to attract the customers. This is also known as exterior display.

It is the most effective and direct method of influencing the people. Window display has direct appeal to the onlookers. It is instrumental in arousing the desire to purchase in the prospective customers. It acts as a silent salesman.

In order to operate this method successfully, goods should be arranged properly and systematically in the show windows. The articles in the windows should be regularly- changed. The advertiser should not forget that the window is the index of his shop. Utmost care should be undertaken to display the products in windows.

(8) Fairs and Exhibition:

A trade exhibition or a fair is organized on extensive scale which is attended by different manufacturers and traders along with their products to be sold to the large number of people who visit the exhibition. The exhibition may be either organized on local, provincial or international basis. The examples of some of the international exhibitions are EXPO 70 of JAPAN, ASIA 72 and recent trade fair at Delhi every year.

Different stalls or pavilions “are allotted to various traders who display their goods in these pavilions. The manufacturers also distribute the sales literature and sometimes free samples of goods to the people. Facilities of practical demonstration are also provided to the customers. The customers clearly understand the method of operation and use of the product.

In the case of international exhibitions, traders of different countries assemble at one place; they can conveniently share the experiences of their respective countries with each other which are really informative and useful for all of them. It provides ample opportunity for learning. The huge gathering of people in the exhibition provides a larger market for sale.

(9) Specially Advertising:

Most of the business houses in order to increase their sales, advertise their products, give free gifts like diaries, purses, paper weights and calendars to the customers. The name of the firm or the dealer is inscribed on the articles presented.

UNIT-8: HUMAN RESOURCE MANAGEMENT

8.1. NEED & IMPORTANCE

Human Resource Management is a management function concerned with hiring, motivating, and maintaining workforce in an organization.

Need of human resource management

(i) To provide, create, utilise and motivate employees to accomplish organisational goals.

(ii) To secure integration of individual and groups in securing organisational effectiveness.

(iii) To create opportunities, to provide facilities, necessary motivation to individual and group for their growth with the growth of the organisation by training and development, compensation etc.

(iv) To employ the skills and ability of the workforce efficiently, i.e., to utilize human resources effectively.

(v) To increase to the fullest the employee's job satisfaction and self-actualization; it tries to prompt and stimulate every employee to realize his potential.

(vi) To create a sense and feeling of belongingness team-spirit and encourage suggestions from employees.

(vii) To help maintain ethical policies and behavior inside and outside the organization.

(viii) To maintain high moral and good human relation within the organization.

(ix) To manage change to the mutual advantage of individuals, groups, the organization and the society.

(x) To ensure that, there is no threat of unemployment, inequalities, adopting a policy recognizing merit and employee contribution, and condition for stability of employment.

Importance of Human Resource Management:

Human resources are the valuable assets of the corporate bodies. They are their strength. To face the new challenges on the fronts of knowledge, technology and changing trends in global economy needs effective human resource management. Significance of HRM can be seen in three contexts: organizational, social and professional.

Organization Significance:

HRM is of vital importance to the individual organization as a means for achieving their objectives.

It contributes to the achievement of organizational objectives in the following ways:

1. Good human resource practice can help in attracting and retaining the best people in the organization.
2. Developing the necessary skills and right attitudes among the employees through training, development, performance appraisal, etc.
3. Securing willing cooperation of employees through motivation, participation, grievance handling, etc.
4. Effective utilization of available human resources.
5. Ensuring that enterprise will have in future a team of competent and dedicated employees.

Social Significance:

Social significance of HRM lies in the need satisfaction of personnel in the organization. Since these personnel are drawn from the society, their effectiveness contributes to the welfare of the society. Society, as a whole, is the major beneficiary of good human resource practice.

- i. Employment opportunities multiply.
- ii. Eliminating waste of human resources through conservation of physical and mental health.

iii. Scare talents are put to best use. Companies that pay and treat people well always race ahead of others and deliver excellent results.

Professional Significance:

Professional significance of HRM lies in developing people and providing healthy environment for effective utilization of their capabilities.

This can be done by:

1. Developing people on continuous basis to meet challenge of their job.
2. Promoting team-work and team-spirit among employees.
3. Offering excellent growth opportunities to people who have the potential to rise.
4. Providing environment and incentives for developing and utilizing creativity.

8.2.RECRUITMENT & ITS SOURCES:

RECRUITMENT:

Whenever there is a vacancy in the organization, generally it is to be filled. To make the candidate available for filling those vacancies, their selection procedure and placement on a proper job comes under the purview of recruitment.

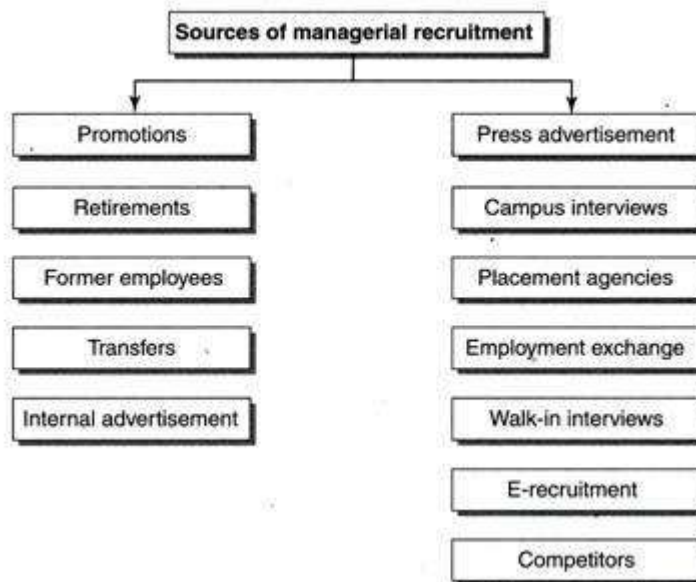
As soon as the available vacancies are known, they are advertised through different media and accordingly the applications are collected for the vacant posts. A group of candidates interested in doing the job and are eligible to do, it is created through recruitment.

It is an operative function of human resource management coming under the managerial function called organizing. Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation'.

In short, it involves attracting and obtaining as many applications as possible from eligible job seekers.

SOURCES OF RECRUITMENT:

The eligible and suitable candidates required for a particular job are available through various sources. These sources can be divided into two categories,



Internal Sources of Recruitment:

1. Promotions:

The promotion policy is followed as a motivational technique for the employees who work hard and show good performance. Promotion results in enhancements in pay, position, responsibility and authority. The important requirement for implementation of the promotion policy is that the terms, conditions, rules and regulations should be well-defined.

2. Retirements:

The retired employees may be given the extension in their service in case of non-availability of suitable candidates for the post.

3. Former employees:

Former employees who had performed well during their tenure may be called back, and higher wages and incentives can be paid to them.

4. Transfer:

Employees may be transferred from one department to another wherever the post becomes vacant.

5. Internal advertisement:

The existing employees may be interested in taking up the vacant jobs. As they are working in the company since long time, they know about the specification and description of the vacant job. For their benefit, the advertisement within the company is circulated so that the employees will be intimated.

Benefits of Internal Sources of Recruitment:

1. The existing employees get motivated.
2. Cost is saved as there is no need to give advertisements about the vacancy.
3. It builds loyalty among employees towards the organization.
4. Training cost is saved as the employees already know about the nature of job to be performed.
5. It is a reliable and easy process.

Limitations of Internal Sources of Recruitment:

1. Young people with the knowledge of modern technology and innovative ideas do not get the chance.
2. The performance of the existing employees may not be as efficient as before.
3. It brings the morale down of employees who do not get promotion or selected.
4. It may leads to encouragement to favoritism.
5. It may not be always in the good interest of the organization.

External Sources of Recruitment:

1. Press advertisement:

A wide choice for selecting the appropriate candidate for the post is available through this source. It gives publicity to the vacant posts and the details about the job in the form of job description and job specification are made available to public in general.

2. Campus interviews:

It is the best possible method for companies to select students from various educational institutions. It is easy and economical. The company officials personally

visit various institutes and select students eligible for a particular post through interviews. Students get a good opportunity to prove themselves and get selected for a good job.

3. Placement agencies:

A databank of candidates is sent to organizations for their selection purpose and agencies get commission in return.

4. Employment exchange:

People register themselves with government employment exchanges with their personal details. According to the needs and request of the organization, the candidates are sent for interviews.

5. Walk in interviews:

These interviews are declared by companies on the specific day and time and conducted for selection.

6. E-recruitment:

Various sites such as jobs.com, naukri.com, and monster.com are the available electronic sites on which candidates upload their resume and seek the jobs.

7. Competitors:

By offering better terms and conditions of service, the human resource managers try to get the employees working in the competitor's organization.

Benefits of External Sources of Recruitment:

1. New talents get the opportunity.
2. The best selection is possible as a large number of candidates apply for the job.
3. In case of unavailability of suitable candidates within the organization, it is better to select them from outside sources.

Limitations of External Sources of Recruitment:

1. Skilled and ambitious employees may switch the job more frequently.
2. It gives a sense of insecurity among the existing candidates.

3. It increases the cost as advertisement is to be given through press and training facilities to be provided for new candidates.

METHODS OF RECRUITMENT:

The most important methods of recruitment are as follows:

1. Direct Method
2. Indirect Method
3. Third Party Method

1. Direct Method:

In this method, the representatives of the organisation are sent to the potential candidates in the educational and training institutes. They establish contacts with the candidates seeking jobs. These representatives work in cooperation with placement cells in the institutions. Persons pursuing management; engineering, medical etc. programmes are mostly picked up in this manner.

Sometimes, some employer firms establish direct contact with the professors and solicit information about students with excellent academic records. Sending the recruiter to the conventions, seminars, setting up exhibits at fairs and using mobile office to go to the desired centers are some other methods used to establish direct contact with the job seekers.

2. Indirect Methods:

Indirect methods include advertisements in news papers, on the radio and television, in professional journals, technical magazines etc.

This method is useful when:

- (i) Organization does not find suitable candidates to be promoted to fill up the higher posts
- (ii) When the organization wants to reach out to a vast territory, and
- (iii) When organization wants to fill up scientific, professional and technical posts.

The experience suggests that the higher the position to be filled up in the organization, or the skill sought by the more sophisticated one, the more widely dispersed advertisement is likely to be used to reach to many suitable candidates.

Sometimes, many organizations go for what is referred to as blind advertisement in which only Box No. is given and the identity of the organization is not disclosed. However, organizations with regional or national repute do not usually use blind advertisements for obvious reasons.

While placing an advertisement to reach to the potential candidates, the following three points need to be borne in mind:

1. First, to visualize the type of the applicant one is trying to recruit.
2. Second, to write out a list of the advantages the job will offer
3. Third, to decide where to run the advertisement, i.e., newspaper with local, state, nation-wide and international reach or circulation.

3. Third Party Methods:

These include the use of private employment agencies, management consultants, professional bodies/associations, employee referral/recommendations, voluntary organizations, trade unions, data banks, and labour contractors etc., to establish contact with the job- seekers.

8.4. TRAINING- NEED, & METHODS:

TRAINING:

Training is an organized activity for increasing the technical skills of the employees to enable them to do particular jobs efficiently. In other words, training provides the workers with facility to gain technical knowledge and to learn new skills to do specific jobs. Training is equally important for the existing as well as the new employees. It enables the new employees to get acquainted with their jobs and also increase the job-related knowledge and skills.

Objectives of Training:

The objectives of training are as follows:

- (i) To provide job related knowledge to the workers.

- (ii) To impart skills among the workers systematically so that they may learn quickly.
- (iii) To bring about change in the attitudes of the workers towards fellow workers, supervisor and the organization.
- (iv) To improve the productivity of the workers and the organization.
- (v) To reduce the number of accidents by providing safety training to the workers,
- (vi) To make the workers handle materials, machines and equipment efficiently and thus to check wastage of time and resources.
- (vii) To prepare workers for promotion to higher jobs by imparting them advanced skills.

Need and Importance of Training:

The need for training of employees arises due to the following factors:

(i) Higher Productivity:

It is essential to increase productivity and reduce cost of production for meeting competition in the market. Effective training can help increase productivity of workers by imparting the required skills.

(ii) Quality Improvement:

The customers have become quality conscious and their requirements keep on changing. To satisfy the customers, quality of products must be continuously improved through training of workers.

(iii) Reduction of Learning Time:

Systematic training through trained instructors is essential to reduce the training period. If the workers learn through trial and error, they will take a longer time and even may not be able to learn right methods of doing work.

(iv) Industrial Safety:

Trained workers can handle the machines safely. They also know the use of various safety devices in the factory. Thus, they are less prone to industrial accidents.

(iv) Reduction of Turnover and Absenteeism:

Training creates a feeling of confidence in the minds of the workers. It gives them a security at the workplace. As a result, labour turnover and absenteeism rates are reduced.

(vi) Technology Update:

Technology is changing at a fast pace. The workers must learn new techniques to make use of advance technology. Thus, training should be treated as a continuous process to update the employees in the new methods and procedures.

(vii) Effective Management:

Training can be used as an effective tool of planning and control. It develops skills among workers and prepares them for handling present and future jobs. It helps in reducing the costs of supervision, wastages and industrial accidents. It also helps increase productivity and quality which are the cherished goals of any modern organization.

Methods of Training:

Management development is a systematic process of growth and development by which the managers develop their abilities to manage. It is concerned with not only improving the performance of managers but also giving them opportunities for growth and development.

There are two methods through which managers can improve their knowledge and skills. One is through formal training and other is through on the job experiences. On the job training is very important since real learning takes place only when one practices what they have studied.

But it is also equally important in gaining knowledge through classroom learning. Learning becomes fruitful only when theory is combined with practice. Therefore on the job methods can be balanced with classroom training methods (off-the-job methods).

1. On-the-job Training (OJT) Methods:

This is the most common method of training in which a trainee is placed on a specific job and taught the skills and knowledge necessary to perform it.

The advantages of OJT are as follows:

1. On the job method is a flexible method.
2. It is a less expensive method.
3. The trainee is highly motivated and encouraged to learn.
4. Much arrangement for the training is not required.

On-the-job training methods are as follows:

1. Job rotation:

This training method involves movement of trainee from one job to another gain knowledge and experience from different job assignments. This method helps the trainee understand the problems of other employees.

2. Coaching:

Under this method, the trainee is placed under a particular supervisor who functions as a coach in training and provides feedback to the trainee. Sometimes the trainee may not get an opportunity to express his ideas.

3. Job instructions:

Also known as step-by-step training in which the trainer explains the way of doing the jobs to the trainee and in case of mistakes, corrects the trainee.

4. Committee assignments:

A group of trainees are asked to solve a given organizational problem by discussing the problem. This helps to improve team work.

5. Internship training:

Under this method, instructions through theoretical and practical aspects are provided to the trainees. Usually, students from the engineering and commerce colleges receive this type of training for a small stipend.

2. off-the-job Methods:

On the job training methods have their own limitations, and in order to have the overall development of employee's off-the-job training can also be imparted. The methods of training which are adopted for the development of employees away from the field of the job are known as off-the-job methods.

The following are some of the off-the-job techniques:

1. Case study method:

Usually case study deals with any problem confronted by a business which can be solved by an employee. The trainee is given an opportunity to analyse the case and come out with all possible solutions. This method can enhance analytic and critical thinking of an employee.

2. Incident method:

Incidents are prepared on the basis of actual situations which happened in different organizations and each employee in the training group is asked to make decisions as if it is a real-life situation. Later on, the entire group discusses the incident and takes decisions related to the incident on the basis of individual and group decisions.

3. Role play:

In this case also a problem situation is simulated asking the employee to assume the role of a particular person in the situation. The participant interacts with other participants assuming different roles. The whole play will be recorded and trainee gets an opportunity to examine their own performance.

4. In-basket method:

The employees are given information about an imaginary company, its activities and products, HR employed and all data related to the firm. The trainee (employee under training) has to make notes, delegate tasks and prepare schedules within a specified time. This can develop situational judgments and quick decision making skills of employees.

5. Business games:

According to this method the trainees are divided into groups and each group has to discuss about various activities and functions of an imaginary organization. They will discuss and decide about various subjects like production, promotion, pricing etc. This gives result in co-operative decision making process.

6. Grid training:

It is a continuous and phased programme lasting for six years. It includes phases of planning development, implementation and evaluation. The grid takes into consideration parameters like concern for people and concern for people.

7. Lectures:

This will be a suitable method when the numbers of trainees are quite large. Lectures can be very much helpful in explaining the concepts and principles very clearly, and face to face interaction is very much possible.

8. Simulation:

Under this method an imaginary situation is created and trainees are asked to act on it. For e.g., assuming the role of a marketing manager solving the marketing problems or creating a new strategy etc.

9. Management education:

At present universities and management institutes give great emphasis on management education. For e.g., Mumbai University has started bachelors and postgraduate degree in Management. Many management Institutes provide not only degrees but also hands on experience having collaboration with business concerns.

10. Conferences:

A meeting of several people to discuss any subject is called conference. Each participant contributes by analyzing and discussing various issues related to the topic. Everyone can express their own view point.

8.5. NEED OF PERFORMANCE APPRAISAL:

PERFORMANCE APPRAISAL:

Performance appraisal is a method of evaluating the behaviour and performance of employees in the workplace. This includes appraisal of both qualitative and quantitative aspects of job performance.

Features of Performance Appraisal:

1. Systematic process of evaluation of an employee.
2. Analysis of the strengths and weaknesses of an employee.
3. To find out how well an employee is performing the job.
4. Appraisal is done periodically.
5. It is based on a definite plan.

6. Performance appraisal is different from job evaluation.

7. Performance appraisal is a continuous process that is accepted by every organization.

Need for Performance Appraisal:

There are certain requirements expected from the employees for which performance appraisal are conducted.

1. Providing information about the performance ranks on which decision regarding salary fixation, promotion, etc. are taken.

2. Review of the performance of the subordinates.

3. Providing information that helps to counsel the subordinates.

4. Getting information to diagnose deficiency in employees regarding skills, knowledge, etc.

5. To prevent grievance and in disciplinary activities.

Methods of Performance Appraisal:

Trait Method:

1. Graphic rating scales

2. Ranking method

3. Paired comparison method

4. Forced distribution method

5. Checklist method

6. Essay method or free-form appraisal

7. Confidential reports

Behaviour Method:

1. Behaviour checklist method

2. Critical incident method

3. Behaviour anchored rating scales (BARS)

4. Assessment center

5. Psychological appraisal

Modern Method:

The modern methods are based on accomplishments of an employee in order to have evaluation. The accomplishments include sales turnover, the number of customers served, as well as the relationship with the customers and dealers.

1. 360-degree appraisal:

Any person having thorough knowledge about the job contents can appraise an employee. According to this method all parties related to an organization will be rating an employee. Thus, performance appraisal by supervisors," peers, subordinates, customer employees themselves (self appraisal), other users of service, and consultants is known as 360-degree appraisal. 360-degree appraisal is a systematic assessment of an employee regarding his present job, organizational expectations and his potentialities for a better job.

2. Supervisor appraisal:

While appraising the performance, supervisors include superiors of employee from the same department, departmental head or managers. Usually, immediate superiors appraise the performance, which in turn is reviewed by the departmental head or manager.

3. Peer appraisal:

Peer appraisal is experimental with military personnel so far. Peer Appraisal is a method of evaluating the employee performance by his co-employees rather than by his manager as they have sufficient opportunity to review the performance on a daily basis.

4. Subordinates appraisal:

This is a novel method in which subordinates may be asked to evaluate the superiors. This rating is quite useful in identifying competent superiors.

5. Self-appraisal:

If individuals understand the objectives, they are expected to achieve the standards by which they are to be evaluated, they are to a great extent in the best position to appraise their own performance. Since employees are interested in the self-development, they appraise systematically and may become highly motivated also.

6. Customer and other related parties:

Employee performance a service organization relating to their behavior, promptness, speed in doing the job, and accuracy can be judged by customers and suppliers (related parties to an organization).

7. Consultants:

Consultants are trained raters who are appointed when employees/employers do not trust self-appraisal, or peer appraisal, or subordinate appraisal. Consultants observe the employees at work for a long period before rating.

UNIT-9: INDUSTRIAL SICKNESS

9.1 MEANING & SYMPTOMS OF SICKNESS:-

According to the reserve bank of India “an industrial unit is regarded as sick if it has incurred cash loss for one year and in the judgement of the bank it is likely to continue to incur case loss in the two following years.

The most common symptoms of industrial sickness may be listed as below: -

1. Increase in inventories,
2. Increase in quantities of slow or non-moving items in the total inventories,
3. Low capacity utilization,
4. Poor industrial relation,
5. Frequent industrial disputes,
6. Higher rejection of completed goods,
7. Default or delay in payment of taxes, excise duty, provident fund contribution, EEI contribution, etc.
8. Failure to make timely payment of electricity bills, telephone bills etc.
9. Delay in making payment to creditors,
10. Inability to pay timely installment of loans and its interest,
11. Increase in interest burden,
12. Increased litigation with the customers,
13. Higher rate of labor turnover,
14. Increase in non-productive expenses, etc.

9.2. CAUSES OF INDUSTRIAL SICKNESS:

The causes of industrial sickness can be studied under the following heads:-

1. External Causes
2. Internal Causes.

3. Entrepreneurial causes

4. Other causes

External Causes:

(i) Recession in the Market:

Sometimes recession hits the whole industry as a result of which individual units are unable to sell their products. The availability of credit is also restricted during such times which jeopardize the production activities of such units. Hence, the work of these units comes to a stand-still.

(ii) Decline in Market Demand for the Product:

A product may reach at a stage of maturity and ultimately a stage of decline. This happens when new better products invade the market, and make the old products redundant, for example, with the advent of motorized vehicles, the demand bullock cart etc. has declined.

(iii) Excessive Competition in the Market:

Excessive competition in the market will justify the survival of only the fittest firms. The high-cost unit's overtime will become weak and fall sick.

(iv) Erratic Supply of Inputs:

Erratic and insufficient supply of inputs like raw materials, power, skilled man power, finance, credit and transport at reasonable prices could cause disturbance in the production schedule and ultimately results in sickness for the firm. This often happens in the case of units depending upon the supply of imported inputs.

(v) Government Policy:

Excessive government control and restrictions of capacity utilization, location, product mix, product quality, prices, distribution etc., come in the way of smooth functioning of the firms and often result in sickness to the firm.

(vi) Unforeseen Circumstances:

Natural calamities such as drought, floods, earthquakes, accidents and war etc., may turn some units sick and unviable.

Internal Causes:

(i) Faulty Planning:

At the planning stage itself, weak foundations may be laid which may ultimately result in down fall of the unit. For example, the location site chosen for the firm may be inappropriate lacking infrastructural facilities or the technology adopted by the unit may be unsuitable. If the production takes place with such technology, the goods produced will be costlier or of poorer quality than those produced by the firms using modern and appropriate technology.

(ii) Incompetent Entrepreneurs:

Many persons starting new business lack technical knowledge of the product they want to manufacture. It is the normal case with small scale entrepreneurs. They sometime plunge into production activity, without bothering to find out the marketing potential of their product.

Or sometime they start producing without properly calculating the ultimate cost. Poor maintenance of plant and machinery, constant technical problems with maintenance production volume, quality, time schedule and cost limits may ultimately spell doom for the firm.

(iii) Problems Relating to Management:

Sine production, marketing, finance etc., are in the hands of the managers, any wrong decision by them with regard to these fields may ultimately ruin a firm. For example, maintaining of excessive or inadequate inventory, lack of quality consciousness, inadequate attention toward maintenance etc., can cause frequent disruptions or problems in the production activity of the firm. In some case, his production may be smooth, but pricing of the product may be improper. Even if pricing is proper sale promotion strategy of the firm may be inadequate.

The management may lack business acumen to make demand projections, to push the product in the market, to build up market image and customer loyalty, to face competition and so on.

Improper level and use of working capital can also ruin the firm. Similarly, poor industrial relations, lack of human resources planning, faulty wage and promotional policies can cause problems for the existence of the firm. So incompetent management is the most important reason behind industrial sickness.

(iv) Financial Problems:

These problems are generally faced by small units. Often the financial base of the small units is very weak. They generally borrow from their own known sources or banks rather than approaching market. Generally, they are unable to meet their debt obligations in time and these debts accumulate.

Banks normally do not help at this stage when symptoms begin to show. The problems deepens and sickness become chronic. Otherwise also, incompetent financial planning and control, excessive expenditure, faulty dividend policy, etc. are the factors causing sickness.

(v) Labour Unrest:

Labour unrest for a long period may ultimately spell doom for the firm. Labour may be unsatisfied with the management over the issues of wages, bonus, suspensions, promotions, etc., and may resort to strikes or such tactics. If not solved in time, such problems can cause sickness.

The above causes are general causes of sickness. A firm could get sick because of one or more of the above causes. However, it has been found that industrial sickness results more due to faulty, careless behaviour and attitudes of management, than due to any other reason. In many cases irresponsible and callous behaviour of the managers has been found to be the most important cause of sickness for the firm, managers has been found to be the most important cause of sickness for the firm.

ENTREPRENEURIAL CAUSES

1. Lack of determination:

Most of the people go to start industries when they fail to secure any other suitable source of income. So they do not have much determination in the job, rather they do not hesitate to try for other alternative.

2. Lack of creativity, innovation and skill:

Starting an industry and running it successfully requires a lot of innovation, creativity and talent. Many people do not possess such talent and depend on others. Hence, they make the industry sick.

3. Attitude of the entrepreneur:

If the attitude of the entrepreneur is clear and is for the betterment of organisation, his struggles will prove to be the reason for his success. But, if the entrepreneur is

lazy, dull, and non-achievement oriented, it is difficult for him to run a business successfully. Such business usually becomes sick very soon.

4. Lack of experience:

If the entrepreneur does not have adequate experience, he may not be able to solve many business problems. That is why, in India, lack of experience is the major reason for sickness of an industry in the first year of its operation.

5. lack of entrepreneurial characteristics:

Entrepreneur is the major element in the success of an industry. But if the entrepreneur does not possess all the characteristics, qualities, abilities, skill and talent, there is every chance that his unit will become sick very soon.

6. Improper selection of business opportunity:

It is usually seen that entrepreneurs don't take adequate care in selecting a business opportunity. They favour a particular business opportunity and don't take a lot of interest in examining other attractive business opportunities. If that particular business opportunity results in low return it leads to business sickness.

OTHER CAUSES:-

a) Natural causes:-

Sometimes activities of the nature such as flood, cyclone, draught, earthquake, etc. cause heavy damage to the industry and make it sick forever.

b) Social causes:-

Sometimes excessive pollution, heat, foul smell, etc. from the industries cause social awareness among the people and they resist the continuance of such industries in that area.

c) Strategical causes:-

Sometimes there may be conflicts among or between countries which may cause war or war like situations. Due to that trade and business between such countries come to a halt causing many industries sick.

d) Liberalization and globalization of economy:-

Due to liberalization of economy, many foreign companies come and start their business in other countries. As a result of this many domestic companies cannot complete with them and have to open the door of sickness.

9.3. REMEDIAL MEASURES OF SICKNESS:

PREVENTIVE MEASURES TO BE TAKEN TO AVOID INDUSTRIAL SICKNESS

Some of the remedial measures to curb and overcome sickness in industrial undertakings are as follows:

1. IDENTIFYING SICKNESS AT INITIAL STAGE

Sicknesses in Small Scale Industries are not a sudden phenomenon but it is a gradual process taking 5 to 7 years eroding the health of a unit beyond cure. Therefore, the identification and detection of the sickness at incipient stage is the first and foremost measure to detect and reduce industrial sickness. Sickness must be identified at initial stage.

2. FINANCIAL ASSISTANCE

Lending agencies need to relax their lengthy process and other norms for extending credit to the SSIs. To combat the incidence of sickness financial institutions should grant credit without delay to SSI sector.

A number of initiatives can be undertaken to overcome credit problems such as:

1. Increasing Working capital limit.
2. Enhancing the powers of bank managers of specialized bank branches in offering credit to SSI.
3. Strengthening the mechanism for discounting bills.
4. Reduced rate of interest.

These measures would improve the flow of credit and keep a check on the incidence of sickness.

3. IMPROVING INFRASTRUCTURE

Infrastructure facilities can be improved by setting up industrial estates. Common testing centers etc., infrastructural problems can be solved by improving the roadways, waterways, establishing telecommunication systems.

4. TECHNOLOGY UP-GRADATION

Funds may be provided by the financial institutions for adoption of advanced technology. Similarly, some sort of training may be provided for use of the latest technology to overcome technological problems. Technological up-gradation can help to overcome technological obsolescence.

5. MARKETING ASSISTANCE

Marketing assistance may be provided to entrepreneurs for marketing the goods produced by them. Government must help to market the goods. Government and Non-Government Organizations (N.G.Os) can come forward for marketing the goods produced by the SSI sector. The problem of poor marketing of the products can be solved by coordinated efforts of entrepreneurs and promotional agencies.

6. LIQUIDATION

It is better to wind up the business when there is no possibility to revive the unit.

7. GOVERNMENT INTERVENTIONS

Interventions must be made by the government to prevent sickness. Periodic review of financial statements can help to identify and prevent sickness at initial stage.

8. TRAINING

A proper environment must be created where an entrepreneur will be educated and will have a proper knowledge, skill and experience about internal and external environment of business to compete with large-scale industries and multinational companies.

9. REHABILITATION

Potentially viable sick units should be dealt well for the purpose of rehabilitation. Rehabilitation is a remedy considered for industrial units, which have already become sick and for the units that are on the verge of collapse.

Under the provisions of SICA, 1985, the Government of India has established Board for Industrial and Financial Reconstruction (BIFR) in January 1987 for determining the preventive, ameliorative, remedial and other measures which are required to be taken in respect of sick industrial company and for expeditious enforcement of rehabilitation schemes.

The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units (unit here in refers to a Sick Industrial Company). It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

The measures taken by BIFR are

1. Legal
2. Financial restructuring
3. Managerial

REHABILITATION PROGRAMMES

Taking into consideration the many sick micro, small and medium (MSM) industries, the MSM policy has provided a separate package for rehabilitation of such industries in India.

The policy proposes to set up a rehabilitation fund for sick industries, which will be managed by the Industries Commissioner and the Director of Industries and Commerce. Funds will be infused into the committee based on the recommendation of a State-Level Rehabilitation Committee (SLRC).

The rehabilitation fund, among other things, will be used for meeting 75 percent of the cost of the cause that made the industry unviable, and to sanction an interest subsidy of 4 per cent for two years on rehabilitation/bridge loans up to Rs.15 lakh to the sick MSM industries.

The rehabilitation measures would ensure that most units under lockout would be able to open at an early date and appealed to MSM units to avail of the facilities the government was providing them.

The rehabilitation program involves the following depending upon the nature of sickness.

1. Change of Management
2. Development of a suitable management information system
3. Settlement with the creditors for payment of their dues in a phased manner, taking into account the expected cash generation as per viability study.
4. Determination of the sources of additional funds needed to refinance.
5. Modernization of plant and equipment or expansion of an existing program or even diversification of the products being manufactured.
6. Concession or relief or assistance allowed by the state level corporation, financial institutions and Central Government.

UNIT-10: INDUSTRIAL LEGISLATION

10.1. MAJOR PROVISIONS OF FACTORIES ACT RELATING TO HEALTH, WELFARE, SAFETY, ACCIDENTS, HOURS OF WORK, EMPLOYMENT OF WOMEN:

PROVISIONS OF FACTORIES ACT RELATING TO HEALTH OF WORKERS:

Health Measures as per Factories Act, 1948

- Section 11: Cleanliness in every factory
- Section 12: Disposal of effluents and wastes
- Section 13: Ventilation and Temperature
- Section 14: Dust and Fume
- Section 15: Artificial Humidification
- Section 16: Overcrowding
- Section 17: Lighting
- Section 18: Drinking Water

Section 11: Cleanliness in Every Factory

Under Section 11, every factory need to keep itself clean and free from effluvia arising from any drain, privy or other nuisance, and in particular-

- Accumulation of dirt and refuse should be removed daily by any effective method from the floors of workrooms and from staircases and passages and disposed of in a suitable and efficient manner.
- In case the floor is subject to become wet during the working time, then they should take proper drainage process or steps.
- Clean the worker's floor every week with proper disinfectant or any other effective method of cleaning.
- Paint or repaint walls, ceilings, and staircases of the factory once in every 5 years.
- Repaint the walls once in every 3 years in case of washable water paints.

- Paint and varnish all doors and window-frames and other wooden or metallic framework and shutters at least once in a period of 5 years.

Special Point on Health Measures

If in view of the nature of the operations carried on in a factory or class or description of factories or any part of a factory or class or description of factories, it is not possible for the occupier to comply with all or any of the provisions of sub-section (1), the State Government may by order exempt such factory or class or description of factories or part from any of the provisions of that sub-section and specify alternative methods for keeping the factory in a clean state.

Section 12: Disposal of Effluents and Wastes

Under this section following things should be considered:

- (a) It is necessary for the factories to arrange proper and effective waste treatment and its disposal.
- (b) The State Government may make rules prescribing the arrangements for the disposal and treatment of waste and effluents.

Section 13: Ventilation and Temperature

This section states:

- Effective and suitable provisions should be made in every factory for securing and maintaining in every workroom proper ventilation by circulation of fresh air. It also involves providing an adequate temperature at the workplace. For this, they should select the material of the walls accordingly.
- The State Government may prescribe a standard of adequate ventilation and reasonable temperature for any factory or class or description of factories.
- Lastly, if it appears to the Chief Inspector that excessively high temperature in any factory can be reduced by the adoption of suitable measures, he can order them to use such a method.

Section 14: Dust and Fume

This section states that:

- If dust and fume release in the manufacturing process of a factory then they should take effective measures to prevent its inhalation and accumulation in the workplace. For this, they should use proper exhaust appliances in the workplace.
- In any factory, no stationary internal combustion engine shall be operated unless the exhaust is conducted into the open air.

Section 15: Artificial Humidification

1. In respect of all factories in which the humidity of the air artificially increases, the State Government may make rules, -

- Firstly, prescribing standards of humidification;
- Secondly, regulating the methods used for artificially increasing the humidity of the air;
- Directing tests for determining the humidity of the air for correct carrying out and recording.
- Lastly, prescribing methods for securing adequate ventilation and cooling of the air in the workrooms.

2. In any factory in which the humidity of the air artificially increases, they should purify the water (drinking water) before the supply.

Section 16: Overcrowding

This section states:

- Firstly, no room in any factory shall be overcrowded to an extent injurious to the health of the workers employed therein.
- Secondly, a factory built after the commencement of this Act at least 14.2 cubic meters of space for every worker employed therein, and for the purposes of this subsection, no account shall be taken of any space which is more than 4.2 meters above the level of the floor of the room.
- If the Chief Inspector by order in writing, may or may not post a notice specifying the maximum number of workers who may be employed in the room.

Section 17: Lighting

This section states:

Firstly, there should be proper lighting in all the places of the factory from where the workers of the factory pass.

In every factory, effective provision shall, so far as is practicable, be made for the prevention of-

- glare, either directly from a source of light or by reflection from a smooth or polished surface;
- The formation of shadows to such an extent as to cause eye-strain or the risk of accident to any worker.

Section 18: Drinking Water

This section states that in every factory, there should be proper arrangements for a sufficient supply of wholesome drinking water and shall be legibly marked as “drinking water”.

Section 19: Latrines and Urinals

This section states that every factory should make arrangements of latrine and urinals for the employees and the rules are laid down by the State Government in this behalf.

Section 20: Spittoons

There should be a sufficient number of spittoons in the factories for the employees and they should be in clean and hygienic condition according to this law

PROVISIONS OF FACTORIES ACT RELATING TO WELFARE OF WORKERS:

Provisions related to Welfare (Under Factories Act, 1948)

Section 42: Washing facilities

This section states that every factory should:

(a) Firstly, provide and maintain adequate and suitable facilities for washing for all the workers in the factory

(b) Secondly, provide separate and adequately screened facilities separately for men and women.

(c) Thirdly, make accessible all the facilities to all the workers

Section 43: Facilities for storing and drying clothes

This section contests some powers with the State Government. It states that the State Government has the powers to direct the factories regarding the place of storing the clothes of the workers.

Moreover, they can also direct them regarding the manner of drying the clothes of the workers. It applies to the situation when workers are not wearing their working clothes.

Section 44: Facilities for sitting

There are various kinds of jobs in a factory. Some of them require the workers to stand for a longer period of time. There is no doubt that human power to stand has limits. Looking at such case, this section states:

(a) Firstly, the factory should provide suitable arrangements for sitting for the workers. This is important because whenever the worker gets some free time, he/she may be able to take some rest by sitting. This will also enhance their efficiency.

(b) Secondly, if the Chief Inspector finds that any worker can do his work more efficiently while sitting, then he can direct the factory officials to arrange sitting arrangements for him.

Section 45: First-aid-appliance

Injuries are somehow an inescapable part of life for the workers especially working in the factories. Looking at the safety and welfare of the workers this section provides that:

(a) The factory should provide and maintain proper first-aid boxes at every workroom. Under this Act, the number of boxes should not be less than one for every 100 or 50 workers. Moreover, the first-aid boxes should have all the relevant contents according to the Act.

- (b) There should be nothing except the prescribed contents in a first-aid box.
- (c) Each box should be under control of a first-aid in-charge who will handle all its requirements and its utilization. The in-charge should be an expert in First-aid field.
- (d) In case the number of workers exceeds 500, then the factory should arrange an 'Ambulance Room' with the availability of all necessary equipment.

Section 46: **Canteens**

This section states:

- (a) Every factory where the number of workers exceeds 250, then the State Government may direct the factory owners to provide and maintain a canteen for the workers.
- (b) Moreover, the government may lay down certain conditions in the construction of canteen, like:

1. The standard in respect of construction, accommodation, furniture and other equipment of the canteen
2. The foodstuffs to be served therein
3. The date by which such canteen shall be provided
4. The constitution of a managing committee for the canteen
5. The delegation to Chief Inspector subject to such conditions as may be prescribed

Section 47: **Shelters, rest-rooms, and lunch-rooms**

This section states:

- (a) If the number of workers in a factory crosses 150, then the factory owners should construct and maintain shelters, rest-rooms and lunch rooms for the workers. It allows the workers to eat the food which they bring along with them.
- (b) The shelters, rest-rooms and lunch rooms should be properly ventilated and lighted.
- (c) The State Government may prescribe the standards, in respect of construction accommodation, furniture, and other equipment.

Section 48: **Creches**

Due to workforce diversity nowadays, women's participation is increasing in all the sectors especially the industrial sector.

One of the factors that stop women to work in factories or any other sector is lack of care for their children during their working hours. In order to solve this problem and increase the engagement of women in factories, section 48 states:

- (a) Where numbers of women workers exceed 30, then the factory should arrange a special room for the worker's kids who are below the age of 6 years.
- (b) The room should be properly lighted and ventilated.

PROVISIONS OF FACTORIES ACT RELATING TO SAFETY OF WORKERS:

Safety Measures (Under the Factories Act, 1948)

Section 21: Fencing the Machinery

This section states that the factory should fence the following machinery or substantial construction and maintain them in the right position:

- (a) Every moving part of a prime-mover and every flywheel, whether the prime-mover or flywheel is in the engine-house or not.
- (b) The headrace and tailrace of every water-wheel and water-turbine.
- (c) Any part of a stock bar which projects beyond the headstock of a lathe.
- (d) Every part of an electric generator, a motor or rotary converter.
- (e) Every part of transmission machinery.
- (f) Every dangerous part of any other machinery.

Section 22: Work on or Near Machinery in Motion

This section states:

- (a) Firstly, whenever machinery is in motion and it becomes necessary to do the inspection, lubrication, repairs, etc., the factory should appoint a specially trained expert man, wearing tight-fitting clothes to do the job.

Moreover, such worker shall not handle a belt at a moving pulley unless:

1. The belt is not more than fifteen centimeters in width
2. The belt, including the joint and the pulley rim, is in good repair
3. There is reasonable clearance between the pulley and any fixed plant or structure
4. The pulley is normally for the purpose of the drive

(b) Secondly, the factory owners should not allow any woman or young person to clean, lubricate or adjust any part of a prime-mover or of any transmission machinery while prime-mover or transmission machinery is in motion.

Section 23: **Employment on Dangerous Machines**

This section states that the factory owners or managers cannot allow any worker to work any machine without instructing him/her about the dangerous outcomes and the relevant precautions. Moreover, before the appointment, the manager has to see that the worker has relevant skills and knowledge to work on the machinery.

Section 24: **Devices for Cutting off Power**

This section states:

- (a) In every factory, there should be suitable devices for cutting off power in emergencies from running machinery in all the workrooms. In the case of factories which do not belong to this Act have to just do the arrangements in the workroom in which electricity is used to generate power.
- (b) The factory should provide and maintain suitable striking gear or other efficient mechanical appliance to move driving belts.
- (c) Driving belts when not in use shall not be allowed to rest.

Section 25: **Self-Acting Machinery**

This section states that no factory should allow any traversing part of a self-acting machine in any factory to run within a distance of forty-five centimeters from any fixed structure which is not part of the machine.

Section 26: **Casing of New Machinery**

In all machinery driven by power and installed in any factory after the commencement of this Act,-

(a) every set screw, bolt or key on any revolving shaft, spindle, wheel shall be so sunk, encased or otherwise effectively guarded as to prevent danger;

(b) all spur, worm and other toothed or friction gearing which does not require frequent adjustment while in motion shall be completely encased, unless it is so situated as to be as safe as it would be if it were completely encased.

Section 27: Prohibition of Employment of Women and Children Near Cotton-Openers

This section states that the factory should not employ any woman or child in any part of a factory for pressing cotton in which a cotton-opener is at work.

PROVISIONS OF FACTORIES ACT RELATING TO ACCIDENTS OF WORKERS:

PROVISIONS OF FACTORIES ACT RELATING TO HOURS OF WORK OF WORKERS:

Working Hours Provisions, Under the Factories Act, 1948

Section 51: Weekly Hours

This section lays down the maximum limit on working time for a worker in a factory on a weekly basis. It states that no factory would ask the workers or make them work for more than 48 hours a week.

Section 52: Weekly Holidays

This section states that no adult worker shall be required or allowed to work in a factory on the first day of the week. But this provision applies subject to certain conditions:

(a) Firstly, he has or will have a holiday for the whole day on one of three days immediately before or after the relevant day.

(b) Secondly, the manager of the factory has, before the said day or the substituted day under the clause.

Section 53: Compensatory Holidays

This section states that if in any case, the factory is under any provision cuts-off a holiday of the worker, then the factory is under due pressure to give the same number of holidays to the workers within the time period of two months.

Section 54: **Daily Hours**

This section is nothing but the extension of Section 51. Keeping in view the weekly working hours limit prescribed by Section 51, this section states the limit on a daily basis. It states that a factory should allow a worker to work for more than 9 hours per day.

Section 55: **Rest Intervals**

This section states that the maximum time for which a worker will work before the interval time period is 5 hours. The interval needs to be of a minimum half an hour, in certain cases, the State Government may exempt some factories from this limitation. In reality, the limitation is not removed but extended to 6 hours only.

Section 56: **Spread Over**

Looking at the human limitations in working, this section states that the periods of work of an adult worker in a factory including the intervals for rest should not spread over more than 10.5 hours in any day.

Section 57: **Night Shifts**

This section provides certain clarifications for the questions related to the night shifts. It states that if any worker works after midnight, then the provisions of holidays of Section 52 and Section 53 will be applicable for 24 hours after his shift ends. Moreover, the extra hours after midnight will form part of the previous day only.

Section 59: **Overtime and Extra Wages**

This section rewards those workers who are trying to work for more than the maximum time. It states that those workers who work for more than 9 hours a day or 48 hours weekly, he/she is entitled to be paid at double wage rate than the ordinary wage rate for the extra time.

The 'ordinary wage rate' includes only the basic salary and the allowances. It does not include the bonus and other perks. Moreover, the factories need to maintain proper registers for the details of the extra time of the workers and the payment made to them.

Section 60: **Double Employment**

This section states that no worker is allowed or required to work for more than one factory in a day. In other words, if a worker is working in a factory on a day then, he cannot work for another factory on the same day.

Section 61: **Notice of Periods of Work for Adults**

This section states that the factory manager should paste a notice on the wall of the factory about the time period of the work for the workers.

Moreover, the manager has to comply with the time limiting sections like Section 52. In case the workers don't have to work at the same time then, the manager should specify the time of their work and the timing of their work.

Section 62: **Register of Workers**

This section states that the manager of the factory to maintain a register about the details of the workers of the factory.

It includes names of the workers, work nature, specific formal groups of the workers, etc. Moreover, no worker can work in the factory unless his/her name is given in the register.

PROVISIONS OF FACTORIES ACT RELATING TO EMPLOYMENT OF WOMEN OF WORKERS:

List of protective provisions for women employees:

Some of the important protective provisions for safeguarding the interests of working women are:

Safety/Health Measures

- Section 22(2) of the Factories Act, 1948 provides that no woman shall be allowed to clean, lubricate or adjust any part of a prime mover or of any transmission machinery

while the prime mover or transmission machinery is in motion, or to clean, lubricate or adjust any part of any machine if the cleaning, lubrication or adjustment thereof would expose the woman to risk of injury from any moving part either of that machine or of any adjacent machinery.

- Section 27 of the Factories Act, 1948 prohibits employment of women in any part of a factory for pressing cotton in which a cotton opener is at work.

Prohibition of Night Work

- Section 66(1)(b) of the Factories Act, 1948 states that no woman shall be required or allowed to work in any factory except between the hours of 6 a.m. and 7 p.m.
- Section 25 of the Beedi and Cigar Workers (Conditions of Employment) Act, 1966 stipulates that no woman shall be required or allowed to work in any industrial premise except between 6 a.m. and 7 p.m.
- Section 46(1)(b) of the Mines Act, 1952 prohibits employment of women in any mine above ground except between the hours of 6 a.m. and 7 p.m.

Prohibition of Sub-terrain Work

- Section 46(1)(b) of the Mines Act, 1952 prohibits employment of women in any part of a mine which is below ground.

Maternity Benefit

- The Maternity Benefit Act, 1961 regulates the employment of women in certain establishments for certain periods before and after child-birth and provides maternity benefits. The Building and Other Constructions (Regulation of Employment and Conditions of Service) Act, 1996 provides for maternity benefit to female beneficiaries of the Welfare Fund.

Provisions for Separate Latrines and Urinals

Provision for separate latrines and urinals for female workers exist under the following:

- Rule 53 of the Contract Labour (Regulation and Abolition) Act, 1970.
- Section 19 of the Factories Act, 1948.

- Rule 42 of the Inter State Migrant Workmen (RECS) Central Rules, 1980.
- Section 20 of the Mines Act, 1952.
- Section 9 of the Plantations Labour Act, 1951.

Provisions for Separate Washing Facilities

Provision for separate washing facilities for female workers exists under the following:

- Section 57 of the Contract Labour (Regulation and Abolition) Act, 1970.
- Section 42 of the Factories Act.
- Section 43 of the Inter-State Migrant Workmen (RECS) Act, 1979.

Provision for Creches

Provision for crèches exists under the following:

- Section 48 of the Factories Act, 1948.
- Section 44 of the Inter State Migrant Workmen (RECS) Act, 1979.
- Section 12 of the Plantations Labour Act, 1951.
- Section 14 of the Beedi and Cigar Workers (Conditions of Employment) Act, 1966.
- Section 35 of the Building and other Constructions (Regulation of Employment and Conditions of Service) Act, 1996.

10.2 DUTIES & POWER OF A FACTORY INSPECTOR:

Sec.9 of the Factories Act, 1948]

Subject to any rules made in this behalf, an Inspector may, within the local limits for which he is appointed,--

(a) Enter, with such assistants, being persons in the service of the Government, or any local or other public authority, [or with an expert] as he thinks fit, any place which is used, or which he has reason to believe is used, as a factory;

(b) Make examination of the premises, plant, machinery, article or substance;

(c) Inquire into any accident or dangerous occurrence, whether resulting in bodily injury, disability or not, and take on the spot or otherwise statements of any person which he may consider necessary for such inquiry;

(d) Require the production of any prescribed register or any other document

relating to the factory.

(e) Seize, or take copies of any register, record or other document or any portion thereof, as he may consider necessary in respect of any offence under this Act, which he has reason to believe, has been committed.

(f) Direct the occupier that any premises or any part thereof, or anything lying therein, shall be left undisturbed (whether generally or in particular respects) for so long as is necessary for the purpose of any examination under clause (b);

(g) Take measurements and photographs and make such recordings as he considers necessary for the purpose of any examination under clause (b), taking with him any necessary instrument or equipment.

(h) In case of any article or substance found in any premises, being an article or substance which appears to him as having caused or is likely to cause danger to the health or safety of the workers, direct it to be dismantled or subject it to any process or test (but not so as to damage or destroy it unless the same is, in the circumstances necessary, for carrying out the purposes of this Act.), and take possession of any such article or substance or a part thereof, and detain it for so long as is necessary for such examination.

(i) Exercise such other powers as may be prescribed.

Provided that no person shall be compelled under this section to answer any question or give any evidence tending to incriminate himself.

Power of Inspectors

An Inspector shall, for the purpose of the execution of the Act, have power to do all or any the following things, that is to say –

(a) To photograph any worker, to inspect, examine, measure, copy, photograph sketch or test, as the case may be, any building or room, any plant, machinery, appliance or apparatus, any register or document or anything provided for the purpose of securing the health, safety or welfare of the workers employed in a factory.

(b) In the case of an Inspector who is duly qualified medical practitioner, to carry out such medical examinations as may be necessary for the purposes of his duties under the Act.

(c) To prosecute, conduct or defend before a court any complaint or other proceeding arising under the Act. or in discharge of his duties as an Inspector:

Provided that the powers of the District Magistrate and such other public officers

as are appointed to be additional Inspectors shall be limited to the inspection of the factories in respect of the following matters, namely –

Cleanliness (Section 11),

Overcrowding (Section 16)

Lighting (Section 17)

Drinking water (Section 18)

Latrines and urinals(Section 19)

Spittoons (Section 20)

Precautions in the case of fire (Section 38)

Welfare (Chapter V)

Working hours of adults (Chapter VI – except the power of exemption under the provision to Section 62)

Employment of young persons (Chapter VII)

Leave with wages (Chapter VIII) and

Display of notice (Section 108)

Provided further that –

(i) The District Magistrate shall not pass any original orders or remarks under Section 11, 17 and 38 of the Act but shall limit and confine his orders or remarks under these Section to the points to which the full time Inspector of Factories has already directed the attention of Manager or occupier of the factory as the case may be;

(ii) All additional Inspectors except District Magistrates shall report the defects found and remedies suggested for enforcing compliance with requirements of Sections referred to above, to the Chief Inspector who shall pass final orders in each case.

10.3 EMPLOYEES COMPENSATION ACT, 1923:

Employees or Worker's Compensation Act, 1923 is one of the most important social security law. The act's main aim is to provide financial protection and assistance to employees and their dependents through compensation in case of any accidental injury

occurs during the course employment. It is generally applicable to the cases where such incidents lead to either death or disablement of the worker.

Applicability of the Act

- It applies to all employees working in mines, factories, plantations, construction establishments, oilfields, etc. Moreover, it applies to establishments which are under Schedule II of the Worker's Compensation Act.
- The act applies to persons who are working abroad or outside India as per Schedule II of the Act.
- It applies to a person recruited as the mechanic, helper, driver, etc. in connection with a motor vehicle. It also applies to a captain or members of the crew of an aircraft.
- Moreover, the act does not cover the members of armed forces of the U&W who are already under ESI (Employee State Insurance) Act.

Employer's Liability

(A) Cases where they have to pay

- Injury by accident during employment
- Diseases in occupation

(B) Cases where they do not have to pay

- In case of any injury or damage which does not lead to the semi or total disablement of the workers for a period exceeding 3 days.
- In case of any injury which does not result in death or permanent total disablement under the following circumstances:
 - The workman present at the time of the work under the control of drink or drugs.
 - When the worker deliberately disobeys the rule which ensures their safety.
 - Non-application of the devices which are especially for the safety of the workers.

Compensation Determination

(A) In case of injury leading to Death

An amount equal to Fifty Percent of the monthly salaries of the dead employee multiplied by the appropriate factor or with the amount of Rs.80,000 or more.

(B) In case of injury leading to permanent total disablement

An amount equal to 60% of the monthly wages of the injured workmen multiplied by the relevant factor or an amount of 90,000 or more.

(C) In case of an injury occurring in permanent partial disablement

In this case of permanent disablement due to injury, an amount equal to the percentage of loss of earning capacity is given to the disabled.

(D) In case of injury leading to temporary disablement

According to Section 4(2), Half-monthly payments are given which is equal to 25% of the worker's compensation.