BANKING & RETAIL MANAGEMENT (BRM)

FIRST YEAR

(w.e.f.2020 – 21)

Intermediate Vocational Course

Paper I: **Banking and Insurance - I**

Paper II: **Business Accountancy - I**

Paper III: **Retail Marketing**

STATE INSTITUTE OF VOCATIONAL EDUCATION

BOARD OF INTERMEDIATE EDUCATION, A.P.

Text Book Development Committee

Paper -I Banking & Insurance - I

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BANKING & RETAIL MANAGEMENT (BRM)

Paper – I

Banking & Insurance – I

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UNIT-I

HISTORY AND EVALUATION OF BANKING IN INDIA

Definition of Bank, Origin and growth of Bank – Banking Structure in India: Reserve Bank of India: Functions – Commercial banks: Functions –Development Banks - Regional Rural Banks – Cooperative banks – EXIM bank – NABARD – IDBI - National Housing Bank.

After studying this unit, you will be able to:

- ☞ Explain the meaning and nature of bank
- ☞ Discuss about the origin of the bank
- ☞ Discuss the characteristics of Indian Banking System
- ☞ Describe functions of commercial banks

1.0. **Introduction**: This unit will help you to understand the meaning and nature of bank. The various section and sub-section of this unit will also summarize the characteristics of Indian Banking System and several functions of commercial banks. The banking system in India is significantly different from that of other Asian nations. In this unit, you will study about the banks. Banks play a key role in growth of a nation and its economy. Banks provides a number of services which can be categorized on the bases of different criteria. A bank takes in money from one group of people (depositors) and lends it to another (borrowers).

1.1. Meaning and Nature of Bank: Banking activities are considered to be the life blood of the national economy. Without banking services, trading and business activities cannot be carried on smoothly. Banks are the distributors and protectors of liquid capital which is of vital significance to a developing country. Efficient administration of the banking system helps in the economic growth of the nation. Banking is useful to trade and commerce. A Bank is an institution, which deals with money and credit accepts deposits from the public and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Generally, bank accepts deposits from business. Institutions and individuals, which is mobilized into productive sectors mainly business and

consumer lending. Bank is, therefore, known as a dealer of money. At present context, bank
is not only confined accepting deposits and disbursing loan. In addition to this, a bank may be engaged in different types of functions such as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills etc.

1.2. Origin and Growth of Bank: The name bank is derived from the Italian word banco "desk/bench", used during the Renaissance by Florentine's bankers. These bankers used to make their transactions above a desk covered by a green tablecloth.

There are traces of banking activity even in ancient times. In fact, the word traces its origins back to the ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called macella on a long bench called a bancu. It is from here that the words banco and bank are derived.

The first public banking institution was The Bank of Venice, founded in 1157. The Bank of Barcelona and the bank of Genoa were established in 1401 and 1407 respectively. These are the recognised forerunners of modern commercial banks. Exchange banking was developed after the installation of the Bank of Amsterdam in 1969 and Bank of Hamburg in 1690.

The credit of laying the foundation of modern banking in England goes to the Lombard of Italy who had migrated to other European countries and England. The bankers of Lombardy developed the money lending business in England. The bankers of Lombardy developed the money lending business in England. The Bank of England was established in 1694. The development of joint stock commercial banking started functioning in 1833. The modern banking system actually developed only in the nineteenth century. In India, the first modern bank 'Bank of Bengal' was established in 1806 in the Bengal presidency.

Banks help in money growth and capital formation. They are reservoirs of resources for economic growth and development of the nation. They help in building the infrastructure, boosting the agriculture, setting up industries and aid to global trade. Thus, a bank, by discharging its functions effectively enhances the productive and industrious capacity of the

nation and boosts the pace of growth. Banks are the heart of the financial system.

1.3. Definition of Bank: **Banking Regulation Act 1949 Section 5** defines banking as "accepting deposits from the public for the purpose of lending and investment, repayable on demand and withdrawable by cheque or draft or otherwise".

According to the Banking Regulation Act, every company willing to do banking business should obtain a licence from the Reserve Bank of India for carrying on banking business in India. Besides, all companies carrying on banking business must use the word "**bank**" or "**banker**" or "**banking**" as part of their names.

According to Sir John Paget: "no person or body corporate or otherwise, can be a bankerwho does not:

- Take deposit accounts
- Take current accounts
- Issue and pay cheques drawn on himself
- Collect cheques for his customers"

This definition is regarded as fairly exhaustive. But it does not state the various agency services performed by a modern bank. Similarly, it excludes the various subsidiary servicesrendered by modern banks.

1.4. Characteristics of Indian Banking System: From the meaning and nature of banks mentioned in earlier section, the characteristics/features of a bank may be listed as follows:

1. Dealing in Money: Bank is a business activity which deals with other people's money i.e., getting money from depositors and lending the same to borrowers.

2. Banking Business: A bank is a financial institution which does banking activities of selling financial services like home loans, business loans, lockers, fixed deposit etc. In order to enable people to confirm that it is a bank and is dealing in money, for easy identification, a bank should add the word “bank” as its last name.

3. Acceptance of Deposit: A bank accepts money from the people in the form of deposits where there is an obligation to refund deposits on demand or after the expiry of a fixed tenure as they feel it is a safest place to deposit money.

4. Lending Money: A bank provides advance money in the form of loans to needy persons for promotion & development of business, purchase of home, car etc.

5. Easy Payment and Withdrawal Facility: Payment & Withdrawal of money can be made through issuance of cheques & drafts, ATM, Online Fund Transfer without the need for carrying money in hand. A bank provides easy payment and withdrawal facility to its customers in the form of cheques, drafts, ATM’s.

6. Motive of Profit with Service Orientation: A Bank has a motive of employing funds received as deposits from the public in a profitable manner with service-oriented approach.

7. Linking Bridge: Banks collect money from those who have surplus money and give the same to those who are in need of money. It acts as a trust/custodian of funds of its customers.

1.5. HISTORICAL BACKGROUND OF BANKING IN INDIA: The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian banking system can be segregated into three distinct phases. They are as mentioned below:

PHASE- I: The General Bank of India was set up in the year 1786. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) asindependent units and called it Presidency Banks. These three banks were amalgamated in 1920, Imperial Bank of India was established which started as private shareholders banks, mostly European shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd., was set up in 1894 with headquarters at Lahore. Between 1906 and 1913,Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Mysore Bank were setup. Reserve Bank came in 1935. During the first phase the growth wasvery slow and banks also experienced periodic failures between 1913 and 1948.

There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act 1949 as per amended Act of 1965 (Act No.23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority. During those days, public has lesser confidence in the banks. As a result, deposit mobilization was slow. In addition to it, the savings bank facility provided bythe postal department was comparatively safer. Moreover, funds were largely given to traders.

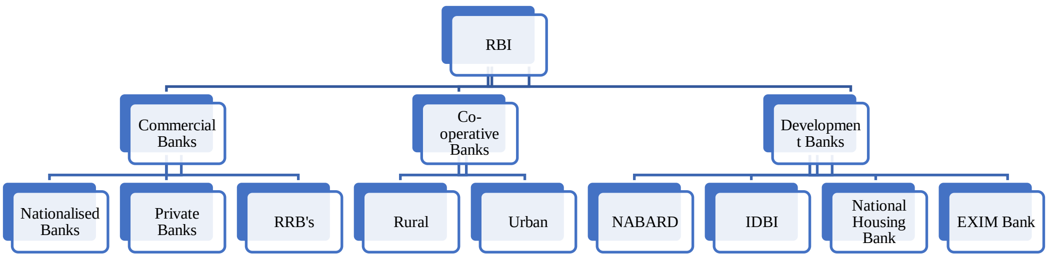
PHASE-II: Government took major steps in Indian Banking Sector Reforms after independence.In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural semi-urban areas. It formed State Bank of India to act as the principalagent of RBI and to handle banking transactions of the Union and State Governments all overthe country.

Seven banks forming subsidiary of State Bank of India were nationalized in 1960 and on 19th July 1969, major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country werenationalized. Second phase of nationalisation in Indian Banking Sector Reforms was carried out in April 1980 with seven more banks. This step brought 80 per cent of the Banking segmentin India under Government ownership. The following are the steps taken by the Governmentof India to regulate banking institutions in the country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalisation of State Bank of India
- 1959: Nationalisation of SBI Subsidiaries
- 1961: Insurance cover extended to deposits
- 1969: Nationalisation of 14 major banks
- 1971: Creation of Credit Guarantee Corporation
- 1975: Creation of Regional Rural Banks
- 1980: Nationalisation of 6 banks with deposits over 200 crores

PHASE- III: This phase has introduced many more products and facilities in the Banking sector in its reforms measure. In 1991, under the chairmanship of M. Narasimham, a committee was set up which worked for the liberalisation of banking practices. The country is flooded with foreign banks and their ATM stations. The economic reforms brought out radical changes in the functioning and objectives of Banking industry in India. Emphasis is attached to provide a satisfactory service to customers. Phone banking and net banking are introduced. The entire system became more convenient and swifter. Time is given more importance than money.

1.6. Banking Structure in India:



1.7. Types of Banks: During the last three centuries different types of banks have developed. Each type usually specializes in a particular kind of business. We can, therefore, distinguish the different banks according to the functions they perform.

Reserve Bank Of India (RBI): In India, the Central Banking Authority is the Reserve Bank of India. It is also referred to as Apex Bank. It functions under an Act called The Reserve Bank of India act, 1934. All the banks and financial institutions operating in India come under the monitoring and control of RBI. It controls the banking sector in India through an Act called The Banking Regulation Act, 1949. In the past, when the number of banks has gone upsubstantially, RBI has to change the schedule.

Functions Of RBI: The functions of RBI are mentioned in RBI Act, 1934. It acts as Central bank as well asOrdinary bank.

A. Central Banking Functions:

a. **Issuance of Paper Currency:** The Reserve Bank has a separate Issue Department, which is entrusted with the issue of currency notes. The RBI, adopted Minimum Reserve System in1957. Under Minimum Reserve System, RBI maintains minimum of gold and foreign securities to the extent of Rs. 200 crores (of which gold Rs 115 crore) and balance in rupee security is maintained.

The Government of India makes one-rupee notes and coins and small coins and RBI on its behalf, distributes all over the country as agent of the Government.

b. **Banker to Government:** Reserve Bank of India Acts as a government banker, agent and adviser. The Reserve Bank has the obligation to transact government business, to keep the cash balances as deposits free of interest, to receive and to make payments on behalf of the government. The Reserve Bank of India helps the government, both the Union and the states to float new loans and to manage public debt.

c. **Banker of banks and Lender of Last Resort:** The Reserve Bank of India acts as the bankers' bank. According to the provisions of the Banking Regulation Act of 1949, every scheduled bank was required to maintain with the Reserve Bank a cash balance equivalent to 5% of its demand liabilities and 2% of its time liabilities in India.

The Reserve Bank of India can change the minimum cash requirements. Commercial banks can always expect the Reserve Bank of India to come to their help in Notes times of banking crisis; the Reserve Bank becomes not only the banker's bank but also the lender of the last resort.

B. Regulatory Functions:

Credit Control: credit control is one of the principal functions of RBI. Credit Controlmeans expansion and contraction of credit. There are mainly **two** methods to control credit which are as follows:

a. Quantitative Credit Control **b.** Qualitative Credit Control

a. Quantitative Credit Control: To control the flow of quantum of credit, RBI adopts thefollowingmeasures:

i) Bank Rate: It is the rate at which RBI charges interest from the schedule banks onthe loans (without security) given to them. It is also known as re-discount rate.

ii) **Differential Rates of Interest**: If any bank borrows before fixed quota, then it has topay higher interest rate than prevailing bank rate.

b. **Qualitative Credit Control**:

i. **Change in Margin Requirement on Loans**: It can direct the bank to change the margin requirement on loan from time to time.

ii. **Margin Requirement on Loans**: It is the percentage value of security that can be used as collateral (additional) security atthe time of loan.

iii. **Maximum Limit of Loans**: RBI fixes the maximum limit of loan by the CommercialBanks.

iv. **Rationing of Credit**: It fixes credit quota for member banks as well as their limits forthe payment of bills.

v. **Moral Suasion**: RBI holds meeting with member banks and seek their cooperation incontrolling the monetary system of country.

C. **General Banking Functions**:

i. It accepts deposits of State and central government deposits without paying anyinterest and deals in bills and foreign securities.

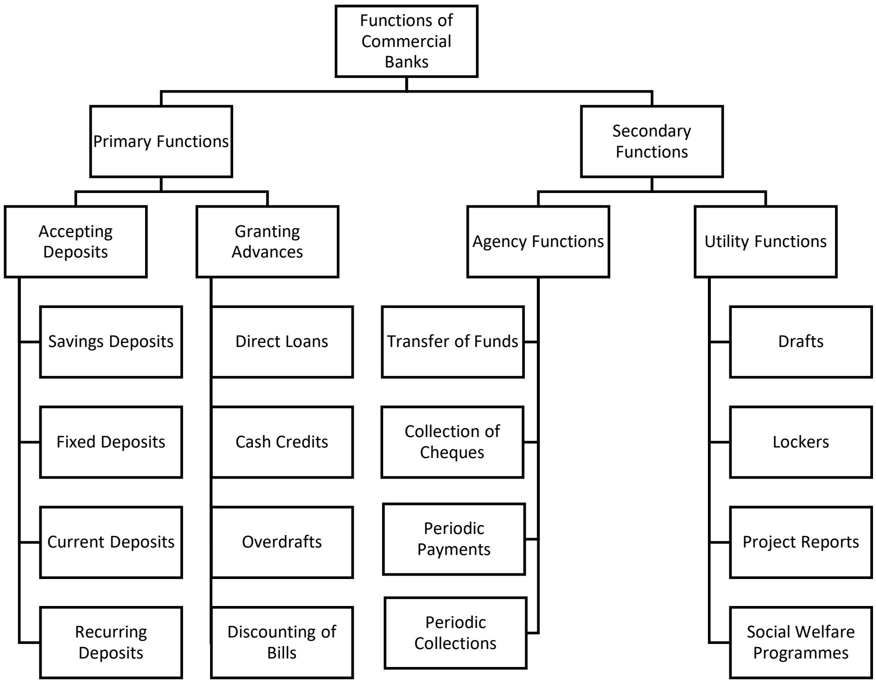
ii. It gives loan to Central and State government (not more than 90 days).

1.8. Commercial Banks – Functions: A **commercial bank** is an institution that provides services such as accepting deposits, providing business loans, and offering basic investment products. Commercial bankcan also refer to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business - as opposed to individual members of the public/small business.

Commercial banks are of 3 types viz., public sector bank, private sector bank and foreignbank. The general role of commercial banks is to provide financial services to general public, business and companies, ensuring economic and social stability and sustainable growth of the economy.

In this respect, "credit creation" is the most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a "credit creation from commercial banks".

Functions of Commercial Banks:



A. Primary Functions

B. Secondary Functions

A. Primary Functions:

1) Accepting deposits
2) Giving loans and advances

1. **Accepting Deposits**: Banks are called custodians of public money and mobilisation of the deposits from the publicis the most important function of the commercial banks. Mainly, there are two types of deposits viz.

   a. **Time Deposits and**

   b. **Demand Deposits.**

a. Time deposits: When money is deposited with "tenure", it cannot be withdrawn before its maturityfixed at a particular time. Such deposits are called "Time deposits" or "Term deposits". Themost common example of Time deposits is "Fixed Deposit". All time deposits are eligible forinterest payments. Interest rate depends upon the tenure and amount of deposit. This rate varies from bank to bank. The interest rate is generally higher for time deposits of longer tenure. On the basis of their nature, time deposits may be of two types as follows:

i. Fixed deposits **ii. Recurring Deposits**

i) Fixed deposits: The deposits can be withdrawn only after expiry of certain period say 3 years, 5 yearsor 10 years. The banker allows a higher rate of interest depending upon the amount and period of time. Previously the rates of interest payable on fixed deposits were determined byReserve Bank. Presently banks are permitted to offer interest as determined by each bank. However,banks are not permitted to offer different interest rates to different customers for deposits ofsame maturity period, except in the case of deposits of Rs. 15 lakhs and above. These days, the banks accept deposits even for 15 days or one month etc. In times of urgent need for money, the bank allows premature closure of fixed deposits by paying interest at reduced rate. Depositors can also avail of loans against Fixed Deposits. The FixedDeposit Receipt cannot be transferred to other persons.

ii) Recurring Deposits: In Recurring Deposit, the customer opens an account and deposits acertain sum of money periodically say every week or every month. After a certain period, say 1 year or 3 years or 5 years, the accumulated amount along with interest is paid to the customer. It is very helpful to the middle and poorer sections of the people. The interest paid on such depositsis generally on cumulative basis. This deposit system is a useful mechanism for regular savers of money. In Recurring Deposits, a fixed amount is deposited at regular intervals for afixed term and the repayment of principal and accumulated interest is made at the end of theterm. These deposits are usually targeted at persons who are salaried or receive other regularincome. A Recurring Deposit can usually be opened for any period from 6 months to 120 months.

Further, banks also provide a combination of demand and time deposits in the form ofvarious products. Examples of such products include Recurring Deposits, Flexible RDs, Multiplier FDs, Special Term deposit accounts etc.

a. Demand deposits: If the funds deposited can be withdrawn by the customer (depositor / account holder) at anytime without any advanced notice to banks, it is called demand deposit. One can withdraw thefunds from these accounts any time by issuing cheque, using ATM or withdrawal forms at the bank branches. The money as demand deposit is liquid and can be encashed at any time. Theownership of demand deposits can be transferred from one person to another via cheques or electronic transfers. There is no fixed term to maturity for Demand Deposits. The demand deposits may or may not pay interest to the depositor. As mentioned above, there are two types of demand deposits viz.

i) Savings accounts and **ii) Current Accounts**.

i) Saving Accounts: These deposits accounts are one of the most popular deposits for individual accounts. These accounts not only provide cheque facility but also have lot of flexibility for deposits and withdrawal of funds from the account. Most of the banks have rules for the maximum number of withdrawals in a period and the maximum amount of withdrawal, but hardly any bank enforces these. However, banks have every right to enforcesuch restrictions if it is felt that the account is being misused as a current account. Savings deposits are deposits that accrue interest at a fixed rate set by the commercial banks.

ii) Current Accounts: Current Accounts are basically meant for businessmen and are neverused for the purpose of investment or savings. These deposits are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day. Most of the current accounts are opened in the names of firm / company. Cheque book facility is provided and the account holder can deposit all types of the cheques and drafts in their name or endorsed in their favour by third parties. No interest is paid by banks on these accounts. On the other hand, banks charge certain service charges, on such accounts. An overdraft facility allows for current account holders to write cheques or withdraw cash from your current account up to the overdraft limit approved. It is a short-term(usually up to

12 months) standby

credit facility which is usually renewable on a yearly basis.It is repayable on demand by the bank at any time.

2. **Giving Loans and Advances**: Commercial banks have to keep a certain portion of their deposits as legal reserves. The balance is used to make loans and advances to the borrowers. Individuals and firms canborrow this money and banks make profits by charging interest on these loans. Commercialbanks make various types of loans such as:
   a. **Demand Loan**: In a demand loan account, the entire amount is paid to the debtor at one time, either incash or by transfer to his savings bank or current account. No subsequent debit is ordinarilyallowed except by way of interest, incidental charges, insurance premiums, expenses incurred for the protection of the security etc. Repayment is provided for by instalment without allowing the demand character of the loan to be affected in any way. There is usually a stipulation that in the event of any instalment remaining unpaid, the entire amount of the loan will become due. Interest is charged on the debit balance, usually with monthly rests unless there is an arrangement to the contrary. No cheque book is issued. The security may bepersonal or in the form of shares, Govt. paper, fixed deposit receipt, life insurance policies, goods, etc.
   b. **Term Loan**: When a loan is granted for a fixed period exceeding three years and is repayable according to the schedule of repayment, it is known as a term loan. The period of term loanmay extend up to 10 years and in some cases up to 20 years. A term loan is generally granted for fixed capital requirements, e.g. investment in plant and equipment, land and building etc.These may be required for setting up new projects or expansion or modernization of the plant and equipment. Advances granted for purchasing land / building / flat (Apartment house) areterm loans.
   c. **Overdraft**: An overdraft is a fluctuating account wherein the balance sometimes may be in creditand at other times in debit. Overdraft facilities are allowed in current accounts only. Openingof an overdraft account requires that a current account will have to be formally opened, andthe usual account opening form completed. Whereas in a current account, cheques are honoured if the balance is

in credit, the overdraft arrangement enables a customer to draw over and above his own balance up to the extent of the limit stipulated. For example, if thereis a credit balance of Rs.40,000/- in a customer's current account and anoverdraft limit of Rs. 50,000/- is sanctioned to the party, he can drawcheques up to Rs. 90,000/-. There is no restriction, unlike in the case ofloans, on drawing more than once. In fact, as many drawings and repayments are permittedas the customer would desire, provided the total amount overdrawn, i.e. the debit balance atany time does not exceed the agreed limit. This is a satisfactory arrangement from the customer's point of view. He need not hesitate to pay into the account any moneys for fear that an amount once paid in cannot be drawn out or borrowed again, unlike in a loan account.As in the case of a demand loan account, the security in an overdraft account may be either personal or tangible. The tangible security may be in the form of shares, government paper,life insurance policies, fixed deposit receipts etc. i.e., paper securities. A cheque book is issued in an overdraft account.

d. **Cash Credit**: A cash credit is essentially a drawing account against credit granted by the bank andis operated in the same way as a current account in which an overdraft limit has been sanctioned. The principal advantages of a cash credit account to a borrower are that, unlike the party borrowing on a fixed loan basis, he may operate the account within the stipulated limit as and when required and can save interest by reducing the debit balance whenever he isin a position to do so. The borrower can also provide alternative securities from time to timein conformity with the terms of the advance and according to his own requirements. Cash credits are normally granted against the security of goods e.g. raw materials, stock in process,finished goods. It is also granted against the security of book-debts. If there is good turnoverboth in the account and in the goods, and there are no adverse factors, a cash credit limit is allowed to continue for years together. Of course, a periodical review would be necessary.

e. **Bills Purchase**: Bills, clean or documentary, are sometimes purchased from approved customers in whose favour regular limits are sanctioned. In the case of documentary bills, the drafts are accompanied by documents of title to goods such as railway receipts or bills of lading (BOL). Before granting a limit, the creditworthiness of the drawer is to be ascertained. Sometimes the financial standing of the drawees of the bills are verified, particularly when the bills are drawn from time to time on the same drawees and/or the amounts are large.

Although the term "Bills Purchased" seems to imply that the bank becomes the purchaser / owner of such bills, it will be observed that in almost all cases, the bank holds thebills (even if they are endorsed in its favour) only as security for the advance. In addition to any rights the banker may have against the parties liable on the bills, he can also fully exercise a pledge's right over the goods covered by the documents.

f. **Bills Discount**: Bills maturing within 90 days or so after date or sight, are discounted by banks for approved parties. In case a bill, say for Rs. 10,000/- due 90 days hence, is discounted today at 20% per annum, the borrower is paid Rs. 9,500/-, its present worth. However, the full amount is collected from the drawee on maturity. The difference between the present worth and the amount of the bill represents earning of the banker for the period for which the bill is to run. In banking terminology thisitem of income is called "discount".

B. **Secondary Functions**: The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions. These functions are explained as follows:

i) **Agency Functions:** Implies that commercial banks act as agents of customers by performing various functions, which are as follows:

Collecting Checks: Refer to one of the important functions of commercial banks. Thebanks collect checks and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

Collecting Income: Constitute another major function of commercial banks. Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

Paying Expenses: The commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school

fees, rents, etc. Similar to credit voucher, a debit voucher is sent to customers for information when expensesare paid by the bank.

ii) General Utility Functions: Include the following functions:

Providing Locker Facilities: The commercial banks provide locker facilities to its customers for safe keeping of jewellery, shares, debentures, and other valuable items.This minimizes the risk of loss due to theft at homes.

Issuing Traveller's Checks: The banks issue traveller's checks to individuals for travelling outside the country. Traveller's checks are the safe and easy way to protectmoney while travelling.

Dealing in Foreign Exchange: The commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the central bank for dealing in foreign exchange.

Transferring Funds: These refer to transferring of funds from one bank to another, which are transferred by means of draft, telephonic transfer, and electronic transfer.

iii) Other Functions: Include the following:

Creating Money: It refers to one of the important functions of commercial banks that help in increasing moneysupply. For instance, a bank lends Rs. 5 lakhs to an individual and opens a demand deposit inthe name of that individual. Bank makes a credit entry of Rs. 5 lakhs in that account. This leads to creation of demand deposits in that account. The point to be noted here is that there isno payment in cash. Thus, without printing additional money, the supply of money is increased.

Electronic Banking: Include services, such as debit cards, credit cards, and Internet banking.

1.9. Development Banks: Development bank is a term lending institution. It is a multipurpose financialinstitution with a broad development outlook. A development bank provides all types of financial assistance to business units.

Development banks in India are classified into the following four groups:

- Industrial Development Banks (IFCI, IDBI, SIDBI)
- Agricultural Development Banks (NABARD)
- Export Import Development Banks (EXIM BANK)
- Housing Development Banks (NHB)

1.10. Regional Rural Banks: These are state owned. Initially five RRB's were set-up on October 2, 1975.These banks have been established with a view to developing the rural economy by providing forthe purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginalfarmers, agricultural labourers and artisans and entrepreneurs.

1.11. Co-operative Banks: Co-operative Bank means a small society or credit institution for providing financialaccommodation to its members on a co-operative basis. These banks in India are establishedunder Co-Operative Societies Act of 1904 and 1912. Cooperative banks are owned by their customers and follow the cooperative principle of one person, one vote. Co-operative banksare often regulated under both banking and cooperative legislation. They provide services such as savings and loans to members, as well as non-members and some participate in thewholesale markets for bonds, money and even equities. Many cooperative banks are traded on public stock markets, with the result that they are partly owned by non-members. Member control is diluted by these outside stakes, so they may be regarded as semi-cooperative.

1.12. EXIM Bank: Export Import Bank of India is the premier export finance institution in India, established on 1st January, 1982 under Export Import Bank of India Act, 1981. Since its inception, EXIM Bank has been both a catalyst and a key player in the promotion of crossborder trade and investment. Exim Bank of India has been both a catalyst and a key player inthe promotion of cross border trade and investment. Commencing operations as a source ofexport credit, like other export credit agencies in the world, Exim Bank India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalisation efforts, through a wide range of products and services offered at all stages of the business cycle, starting from importof technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

1.13. NABARD: **Na**tional **B**ank for **A**griculture and **R**ural **D**evelopment (NABARD) was setup on 12,July 1982, to take over the agricultural credit functions of RBI on the one side and the refinance functions of Agricultural Refinance Development Corporation (ARDC) on the other. NABARD is an apex development financial institution in India, headquartered at Mumbai. The Bank has been entrusted with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas inIndia". NABARD is active in developing financial inclusion policy and is a member of the Alliance for Financial Inclusion.

1.14. IDBI: Industrial Development Bank of India (IDBI) was established on 1st July, 1964 by an act of parliament, to provide credit and other financial facilities for the development of the nascent Indian Industry. The central government is the owner of this bank and employees will be called as Central Government staff. It is one among the public-sector banks in India and is a Nationalised bank to be treated on par with SBI and other Nationalised banks in accordance with the notification dated 26th February, 2013 by the finance ministry. At present, the government holds 77% stake in IDBI Bank. For the first quarter of the current financial year 2017-18, the bank reported a net loss of Rs.853 crore compared to a profit of Rs.241 crore during the corresponding period last financial year. In the fourth quarter of financial year 2016-17, the bank had reported a loss of Rs. 3,200 crores. While the reported loss was lower than the preceding quarter, bad loans continued to surge. In the quarter ending September, 2017 the bank bounced back with a loss of Rs.198 crore compared to a loss of over Rs. 2,000 crores in the previous quarter. The bank is expected to return to profit in the near future.

1.15. National Housing Bank: National Housing Bank, a wholly owned subsidiary of Reserve Bank of India, was setup on 9th July, 1988 under the National Housing Bank Act, 1987. NHB is an apex financial institution for housing. NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith. The Preamble of the National Housing Bank Act, 1987 describes the basic functions of the NHB as –

> "to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto."

Short Questions (2marks):

1. Define Bank.
2. What is RBI?
3. Define "Commercial Banks"
4. What is EXIM Bank?
5. Expand NABARD.
6. What is IDBI?

Essay Type Questions (6 marks):

1. Write briefly about origin and growth of bank.
2. Explain the following:
   i) Cooperative banks
   ii) Regional rural banks
3. What are the functions of Reserve Bank of India?
4. What are the functions of Commercial Banks?

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UNIT-II

GROWTH AND WORKING OF BANKS IN INDIA

Growth and Working of Banks in India: Public Sector banks: State bank of India and other nationalized banks – Private Sector banks: New Generation Private Sector Banks: ICICI, HDFC –Foreign Banks - Lead Bank Scheme – Objectives of Nationalization of Banks – Recent trends in Banking sector – Demonetisation – Mergers of banks.

After studying this unit, you will be able to:

- ☞ Able to understand growth of public sector banks
- ☞ Able to understand development of nationalised banks
- ☞ Able to understand growth of private sector banks
- ☞ Able to understand about demonetisation

1.0. Introduction: Growth and working of banking in India Banking in India, in the modern sense, originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770.

The largest bank, and the oldest still in existence, is the State Bank of India (S.B.I). It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government, the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was establishedin 1935, under the Reserve Bank of India Act, 1934.

In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the Indian government nationalised 14 major private banks, one of the big banks was Bank of India. In 1980, 6 more private banks were nationalised. These nationalised banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

1.1. Structure of Organised Banking Sector: Indian banking industry has been divided into two parts, organized and unorganized sectors. The organized sector consists of Reserve Bank of India, Commercial Banks and Cooperative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC etc.). The Indian banking sector is broadly classified into two categories.

I) Scheduled banks II) Non-scheduled banks.

I) Scheduled Banks: The scheduled banks are those included under the Second Schedule of theReserve Bank of India Act, 1934. The scheduled banks are further classified into four banks:

- **i) State Bank of India and its associates;**
- **ii) Regional Rural Banks (RRBs);**
- **iii) Cooperative Banks**
- **iv) Foreign banks; and**
- **v) Other Indian Public sector banks.**

i) State Bank of India (SBI): State Bank of India (**SBI**): State Bank of India (SBI) is an Indian multinational, public sector banking and financial services statutory body headquartered in Mumbai, Maharashtra. SBI is the 43rd largest bank in the world and ranked 221st in the Fortune Global 500 list of the world's biggest corporations of 2020, being the only Indian bank on the list. It is a public sector bank and the largest bank in India with a 23% market share by assets and a 25% share of the total loan and deposits market.

The bank descends from the Bank of Calcutta, founded in 1806 via the Imperial Bank of India, making it the oldest commercial bank in the Indian Subcontinent. The Bank of Madras merged into the other two presidency banks in British India, the Bank of Calcutta and the Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India in 1955. The Government of India took control of the Imperial Bank of India in 1955, with Reserve Bank of India (India's central bank) taking a 60% stake, renaming it State Bank of India.

ii) **Regional Rural Banks**: Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They were set up in 1975. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. E.g.: Andrapradesh Grameena Vikas Bank etc.,

iii) **Cooperative Banks**: Co-operative banks operate in both urban and non-urban areas. All banks registered under the Cooperative Societies Act, 1912 are considered co-operative banks. These are banks run by an elected managing committee.

iv) **Foreign Banks**: A foreign bank is a type of International Bank that is obligated to follow the regulations of both the home and host countries. Foreign banks are defined as banks from a foreign country working in India through branches. RBI has provided rules and guidelines for a foreign bank to establish and operate in India.

v) **Other Indian Public Sector Banks**: Public Sector Banks (PSBs) are a major type of bank in India, where a majority stake (i.e., more than 50%) is held by the Indian government or State governments of India. The shares of these banks are listed on stock exchanges. The shares of Nationalised Banks (Government Shareholding %, as of 1st January 2021) are given below:

- ❖ State Bank of India (56.92%)
- ❖ Punjab National Bank (85.59%)
- ❖ Bank of Baroda (71.60%)
- ❖ Canara Bank (78.52%)
- ❖ Union Bank of India (89.07%)
- ❖ Indian Bank (88.06%)
- ❖ Bank of India (89.10%)
- ❖ Central Bank of India (92.39%)
- ❖ Indian Overseas Bank (95.84%)

- ❖ UCO Bank (94.39%)
- ❖ Bank of Maharashtra (92.49%)
- ❖ Punjab and Sind Bank (83.06%)
- ❖ India Post Payments Bank (100% owned by Indian Post)
- ❖ National Securities Depository Limited Payments Bank (100% owned by NSDL)

II) Non – Scheduled Banks: Non-scheduled banks by definition are those which are not listed in the 2nd schedule of the RBI act, 1934. Banks with a reserve capital of less than 5 lakh rupees qualify as non-scheduled banks. se four local area banks fall under Non- Schedule Banks:

- ❖ Coastal Local Area Bank Ltd - Vijayawada (Andhra Pradesh)
- ❖ Capital Local Area Bank Ltd - Phagwara (Punjab)
- ❖ Krishna Bhima Samruddhi Local Area Bank Ltd, Mahbubnagar (Andhra Pradesh)
- ❖ Subhadra Local Area Bank Ltd., Kolhapur (Maharashtra)

Except in emergencies, non-scheduled banks are not eligible for Reserve Bank financial assistance. Non-schedule banks are often denied the benefits enjoyed by scheduled banks. They are also not eligible to be a member of a clearinghouse. As a result, unscheduled banks cannot facilitate interbank financial transactions and the clearance of cheques.

Private-sector Banks: The private-sector banks in India represent part of the Indian banking sector that is made up of private and public sector banks. The "private-sector banks" are banks where greater part of share or equity are not held by the government but by private shareholders. The Nedungadi Bank was the first private sector bank in India which was founded in 1899 byRao Bahadur T.M. (Thalakodi Madathil) Appu Nedungadi in Kozhikode, Kerala.

Small Finance Banks: To further the objective of financial inclusion, the RBI granted approval in 2016 to ten entities to set up small finance banks. Since then, all ten have received the necessary licenses. A small finance bank is a niche type of bank to cater to the needs of people who traditionally have not used scheduled banks. Each of these banks is to open at least 25% of itsbranches in areas that do not have any other bank branches (unbanked regions). A small finance bank should hold 75% of its net credits in loans to firms in priority sector lending, and 50% of the loans in its portfolio must be less than 25 lakhs (US$37,000).

New Generation Private Sector Banks:

ICICI Bank: ICICI Bank, stands for Industrial Credit and Investment Corporation of India, is an Indian multinational banking and financial services company headquartered in Mumbai, Maharashtra, India, with its registered office in Vadodara. In 2017, it is the third largest bankin India in terms of assets and third in terms of market capitalisation. It offers a wide range ofbanking products and financial services for corporate and retail customers through a variety of delivery channels and specialised subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management. The bank has a network of 4,850 branches and 14,404 ATMs in India and has a presence in 19 countries including India.

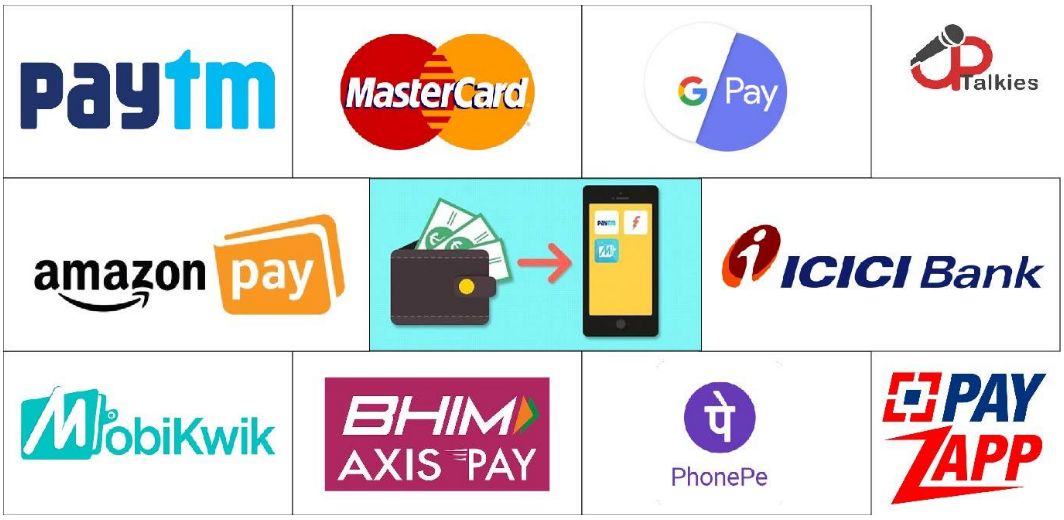
HDFC Bank: HDFC (Housing Development Financial Corporation) Bank Limited is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has 84,325 employees and has a presence in Bahrain, Hong Kong and Dubai. HDFC Bank is India’s largest private sector lender by assets. It is the largest bank in India by market capitalization as of February 2016. It was ranked 69th in 2016 Brand Top 100 Most ValuableGlobal Brands.

Payments Banks: Payment’s bank is a new model of banks conceptualized by the Reserve Bank of India(RBI). These banks can accept a restricted deposit, which is currently limited to Rs.1 lakh percustomer. These banks may not issue loans or credit cards but may offer other current and savings accounts. Payments banks may issue ATM and debit cards and offer net-banking andmobile-banking. The banks will be licensed as payment banks under Section 22 of the Banking Regulation Act, 1949, and will be registered as public limited company under the Companies Act, 2013.

Digital wallets/Mobile wallets: A digital wallet refers to an electronic device or online service that allows an individual to make electronic transactions. This can include purchasing items on-line with a computer or using a smart phone to purchase something at a store. An individual's bank account can also be linked to the digital wallet. They might also have their driver's license, health card, loyalty card(s) and other ID documents stored on the phone. The credentials can be passed to a merchant's terminal wirelessly via near field communication (NFC). Digital wallets are being made not just for basic financial transactions but also authenticate the holder's credentials. For example, a digital wallet could verify the age of the buyer to the store while purchasing alcohol. The system has already gained popularity in Japan, where digital wallets are known as "wallet mobiles". A crypto currency wallet is a digital wallet where private keys are stored for crypto currencies like Bitcoin.

Mobile Wallets: A mobile wallet is a virtual wallet that stores payment card information on a mobile device. Mobile wallets are a convenient way for a user to make in-store payments and can beused at merchants listed with the mobile wallet service provider. The mobile wallet is an appthat can be installed on a smart phone or it is an existing built-in feature of a smart phone. A mobile wallet stores credit card, debit card, coupons, or reward cards information. Once theapp is installed and the user inputs payment information, the wallet stores this information bylinking a personal identification format such as a number or key, QR code or an image of theowner to each card that is stored.

Digital wallets are often used interchangeably with mobile wallets. However, while they both store payment information, they are implemented differently. Digital wallets are mostly used for online transactions and may not necessarily be used on mobile devices. Mobile wallets are used by people who would rather not carry a physical wallet when makingin-store purchases. For this reason, these wallets have to be used on mobile and easy to carry platforms. Apple Pay, Samsung Pay and Android Pay are examples of mobile wallets that can be installed on a hand-held or wearable device. A regular PayPal account is a form of a digital wallet, but when it is used in conjunction with mobile payment services and mobile devices, it functions as a mobile wallet.



The Top 10 Digital Wallets in India:

Digital E-wallet Apps: A mobile wallet apps or digital e-wallet apps is nothing but a digital version of the online bank account with all types of transaction services. It is easy to use a mobile e-wallet just by downloading the app from the Apple App Store or Android Play Store. The mobile wallet can be incorporated with UPI payment service for instant money transfer to anyone. Even these days many mobile wallet apps also provide its users with a virtual Debit card, which you be used at any e-commerce store across India.

1) **Paytm**: Without any doubt when it comes to online payment Paytm is the first digital e-wallet app that has revolutionized the mobile e-wallet market. It is one of the largest ecommerce mobile wallets that come in mind to store money and make fast payments. Paytm was launched in 2010, the company works on a semi-closed model and has a huge user base. It is easy to use this app where a customer can add money to the wallet and can pay money to merchants. In addition to this, with the help of this app, it is easy to book a movie ticket, bill payments, transfer money to others and much more.

2) **Amazon Pay:** Amazon Pay is a prime online payment digital e-wallet app which is a fast-processing service that is owned by Amazon. The services were launched in 2007 globally and India, the services inaugurated in 2017. The company mainly offers the users the option to pay with their Amazon accounts on exterior merchant websites, including supermarkets like Big Bazaar, etc.

3) **PhonePe**: As we know that PhonePe is now a part of Flipkart. So, the authenticity of the app has automatically increased. The app started in 2015 and the app crossed

100 million downloads in just 4 years of time. It is trouble-free to make payments through UPI on PhonePe. The app has got a high-quality UI and is one of the safest and gives best ever online payment experiences in India.

4) **Google Pay**: Google Pay digital e-wallet app was well-known as the Tez app. This is a part of the Google system thus the company has scaled up its user base really speedily, even the app was a late participant. Most of the people in India are using this app to make the transactions, pay bills, send money to anyone and make payments online, and much more. Since you can use this Google Pay application with your existing bank account which means your money is protected with your bank. There is no need to get panic while using this app as you don't need to do some extra KYC steps t secure your account – which is required for all the other digital e-wallet apps.
5) **Yono SBI**: Yono app was launched by SBI (State Bank of India) that helps users to transfer money from one account to another using bank accounts. Like other apps in the list, this digital e-wallet app is also used for payment of bills, recharge, hotels, shopping, book for movies and much more. It is a semi-closed type of mobile e-wallet that offers service in approx. 13 diverse languages and can also be used by other bank customers as well. With this app users can also set reminders about their pending payments, money transfers carried out.
6) **MobiKwik**: MobiKwik is a free to download digital e-wallet app that actually connects more than 25 million users with over 50,000 retailers and more. In this app, you can add your information and your bank card details through which users can easily add money to recharge, and pay bills and shop at a variety of marketplaces. The app is growing at fast speed and has also just united up with diverse restaurants and mega marts to make the user experience more appealing.

7) **BHIM Axis Pay**: This app does not need any introduction as it is well popular in India. BHIM Axis Pay is a banking app that lets its users transfer the money instantaneously to anybody using just the Smartphone. The UPI integrated app helps in making a variety of payment processes starting from online recharges to booking tickets in a straight line from the digital e-wallet app.

8) **HDFC Pay Zapp**: PayZapp is a digital e-wallet app giving you the authority to make a transaction in just single tap. With HDFC PayZapp, you can pay all type of

bills; recharge your DTH data cards, and book movie and flight, bus, and hotels. With approximately every app use the user receives some loyalty rewards from the app that the user can avail anytime.

9) **ICICI Pockets**: Well, the app ICICI Pockets is launched by ICICI a digital bank that offers a mobile wallet or digital e-wallet app for all customers. The app also provides the choice of connecting any bank account in India to support your mobile wallet and make transactions. Like other apps mentioned the apps also offer complete payment options on a range of platforms. One thing that makes this app diverse from others is that the wallet uses a virtual VISA card that allows its users to carry out any payment process on any website or mobile application in India. The app offers special deals to its users from time to time.

10) **Citi Master Pass**: The leading Citi Bank India recently launched India's first global digital wallet "Citi Master Pass", for quicker and safe online shopping. By using this wallet, the users become the first in this country to be able to shop at more than 250K e-commerce stores. It guarantees faster transactions with a single click on almost all the online merchants via using your credit and debit cards.

1.2. Lead Bank Scheme: The Lead Bank Scheme was introduced in 1969 to provide lead roles to individual banks (both in public sector and private sector) for the districts allotted to them. The Lead Bank Scheme was introduced by RBI on the basis of the recommendations of both the Gadgil Study Group and Banker's Committee (Nariman Committee). The studies by the committeesfound that the rural areas were not able to enjoy the benefits of banking. Commercial banksdid not have adequate presence in rural areas and also lacked the required rural orientation.

Objectives of Lead Bank Scheme:

- Eradication of unemployment and under employment
- Appreciable rise in the standard of living for the poorest of the poor
- Provision of some of the basic needs of the people who belong to poor sections of thesociety

1.3. Nationalisation of Banks:

Concept of Nationalisation: Nationalisation is the process of transforming private assets into public assets by bringing them under the public ownership of a national government orstate. ... Industries that are usually subject to nationalisation include transport, communications, energy, banking and natural resources. After independence, the Government of India adopted planned economic development for the country. Commercial banks were in the private sector those days. The Government of India had some social objectives of planning. These commercial banks failed in helping the government in attaining these objectives. Thus, the government decided to nationalize 14 major commercial banks on19th July 1969. The second dose of nationalisation came in April 1980 when 6 banks were nationalized.

Objectives (Reasons) of Nationalisation of Banks in India:

1. **To reduce monopoly practices:** Initially, a few leading industrial and business houses had close association with commercial banks. They exploited the bank resources in such a way that the new business units cannot enter in any line of business in competition with these business houses. Nationalisation of banks, thus, prevents the spread of the monopoly enterprise.
2. **Social control was not adequate:** The 'social control' measures of the government did notwork well. Some banks did not follow the regulations given under social control. Thus, the nationalisation was necessitated by the failure of social control.
3. **To reduce misuse of savings of general public**: Banks collect savings from the generalpublic. If it is in the hands of private sector, the national interests may be neglected, besides, infive-year plans, the government gives priority to some specified sectors like agriculture, small-industries etc. Thus, nationalisation of banks ensures the availability of resources to theplan-priority sectors.
4. **Greater mobilisation of deposits:** The public-sector banks open branches in rural areas where the private sector has failed. Because of such rapid branch expansion there is possibility to mobilise rural savings.

5. **Advance loan to agriculture sector:** If banks fail to assist the agriculture in many ways, agriculture cannot prosper, that too, a country like India where more than 70% of the population depends upon agriculture. Thus, for providing increased finance to agriculture, banks have to be nationalised.
6. **Balanced Regional development:** In a country, certain areas remained backward for lack of financial resource and credit facilities. Private Banks neglected the backward areas because of poor business potential and profit opportunities. Nationalisation helps to provide bank finance in such a way as to achieve balanced inter-regional development and remove regional disparities.
7. **Greater control by the Reserve Bank:** In a developing country like India there is need for exercising strict control over credit created by banks. If banks are under the control of the government, it becomes easy for the Central Bank to bring about co-ordinated credit control. This necessitated the nationalisation of banks.
8. **Greater Stability of banking structure:** Nationalised banks are sure to command more confidence with the customers about the safety of their deposits. Besides this, the planned development of nationalised banks will impart greater stability for the banking structure.

1.4. Recent Trends in Banking Sector: Banking systems and financial institutions are integral parts of an economy. Seamless functioning of these sectors is important for an economy to grow. Due to the advent of digital technology, banking and financial services have undergone a massive shift in their mode of operations. New trends are gaining momentum at a fast pace as the customers find it convenient and also flexible at the same time. The emergence of financial technology has resulted in the introduction of several technological advancements in the industry. Fintech companies, internet banking and mobile banking are just some examples that mark this shift. Today, we will read about the latest trends that are revolutionising the Indian banking and financial sector.

Digitisation: With the rapid growth of technology, digital services became an indispensable part of banking operations as these institutions needed to keep up with the changes and introduce innovations that made services convenient. In India, the initial phase of digitisation began in the 1980s when Information Technology was used to perform basic functions like customer service, book-keeping, etc. Gradually core banking solutions were also adopted to improve customer experience. The main shift came during the 1990s when liberalisation opened the Indian market to the global world. Private and international banks which came into operation boosted technological changes in the banking sector. Features like online banking, IMPS **(Im**mediate **P**ayment **S**ervice), RTGS (Real Time Gross Settlement), Tele-banking enabled customers to avail banking facilities from anywhere.

Mobile Banking: Almost a decade back, even though digital services came into the picture, it was only done through desktop computers which means the customer must be at home or at a place with a computer and internet connection. But the vast penetration of smart phones created a need among customers to avail of banking services on their mobile phones. Cheap data charges also contributed towards the increase in usage of mobile banking.

Unified Payment Interface (UPI): UPI is a trend that emerged in the last couple of years and it is revolutionizing the way we pay and receive money. Transactions can be done within seconds using this interface. Google Pay and BHIM (Government of India) are two major interfaces among numerous other services that enable easy payment even if you are out of physical cash.

Block chain: Block chain is a robust technology that is still in the development phase. Security is a major factor as far as digital services are concerned. Despite technical advances, fraudulent practices are still a challenge in the digital domain. Block chain is the answer to these challenges. Like the way in which it operates, there is no scope for any malpractices in it. The technology works on computer science, data structures and cryptography.

Artificial Intelligence (AI) Robots: Many private and nationalised banks have started to make use of chatbots or Artificial Intelligence (AI) robots for assistance in customer support. The practice is still in its initial stage but will definitely evolve and make the entrance to the general public in the near future. Chatbots are one of the emerging trends that are estimated to grow.

Fintech Companies: Fintech or financial technology is indeed a disrupting force in the sector. Due to the changing landscapes in the Indian financial sector, many companies have emerged to be a significant part of this ecosystem. Fintech companies specialise in developing technology solutions that help companies to manage the financial aspects of their business, like new software, applications, processes as well as business models. Investments made on Fintech companies have increased drastically in the past decade making it a multi-billion-dollar industry globally.

Digital-only Banks: Digital-only banks operate only through IT platforms which can be accessed using mobile phones, laptops or tablets. Digital-only banks operate in a paperless and branchless model and seem to overtake the traditional system of banks in the future. These banks provide high-speed banking facility at a low transaction charge. These virtual banks are an ideal choice for the current fast-paced world.

Short Questions (2 marks):

1. What is the meaning of nationalisation?
2. What is a public sector bank?
3. What is a new generation private sector bank?
4. What is a foreign bank?
5. What is lead bank scheme?
6. Write any two digital wallet names.

Essay Type Questions (6 marks):

1. Explain briefly about lead bank scheme.
2. What are the objectives of nationalization of banks?
3. Write about any six Digital wallets?
4. What are the Recent trends in Banking sector?

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UNIT-III

BANKER AND CUSTOMER

Banker and Customer: *Definition of Banker – Definition of Customer – General relationship of Banker and Customer – Rights of the Banker – Rights of the Customer. – Grievance Mechanism – Ombudsman Procedure to file a complaint with Ombudsman – KYC: Objectives – Norms opening of accounts and requirements officially valid require documents – Key elements of KYC Policy.*

After studying this unit: -

- ☞ To able to understand who is banker and who is customer
- ☞ To able understand relationship between banker and customer
- ☞ To able to understand bank ombudsman
- ☞ To able to understand KYC norms

1.0. Introduction: A person who has a bank account in his name and for whom the banker undertakes to provide the facilities as a banker is considered to be a customer. A person whose money has been accepted by the banker on the footing that he undertakes to honour cheques unto the amount standing to his credit is a customer of the bank irrespective of whether his connection is short or long duration. The relationship between a banker and his customer is essentially contractual like Debtor (banker) and creditor (customer). This relationship is sometimes reversed. This happens when the banker lends money to the customer. The relationship also partakes many aspects of agent and principal.

1.1. Definition:

Banker: The Banking Regulations Act (B R Act) 1949 does not define the term 'banker' but defineswhat banking is. As per Sec.5 (b) of the B R Act Banking means "accepting, for the purposeof lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise."

As per Sec. 3 of the Indian Negotiable Instruments Act 1881, the word "banker includes anyperson acting as banker and any post office savings bank".

According to Sec. 2 of the Bill of Exchange Act, 1882, 'banker includes a body of persons, whether incorporated or not who carry on the business of banking.' "A person who manages or owns a bank or group of banks. "An individual that is employed by a

banking institution and participates in various financial transactions, which may or may not include investments.

Customer: The term Customer has not been defined by any act. The word 'customer' has been derived from the word 'custom', which means a 'habit or tendency' to do certain things in a regular or a particular manner. In terms of Sec.131 of Negotiable Instrument Act, when a banker receives payment of a crossed cheque in good faith and without negligence for a customer, the bank does not incur any liability to the true ownerof the cheque by reason only of having received such payment. It obviously means that tobecome a customer account relationship is must. Account relationship is a contractual relationship.

It is generally believed that any individual or an organisation, which conducts banking transactions with a bank, is the customer of bank. However, there are many persons who doutilize services of banks, but do not maintain any account with the bank. Thus, bank customers can be categorized into four broad categories as under:

i) Those who maintain account relationship with banks, i.e., existing customers.

ii) Those whohad account relationship with bank i.e. Former Customers.

iii) Those who do not maintain any account relationship with the bank but frequently visit branch of a bank for availing bankingfacilities such as for purchasing a draft, encashing a cheque, etc. technically they are not customers, as they do not maintain any account with the bank branch.

iv) Prospective/ Potential customers: Those who intend to have account relationship withthe bank.

A person will be deemed to be a 'customer' even if he had only handed over the account opening form duly filled in and signed by him to the bank and the bank has acceptedit for opening the account, even though no account has actually been opened by the bank in its books or record. The practice followed by banks in the past was that for opening account there has to be an initial deposit in cash. However, the condition of initial cash deposit for opening the account appears to have been dispensed with the opening of 'No Frill' account by banks as per directives of Reserve Bank of India. 'No Frill' accounts are openedwith ‘Nil’ or with meagre balance.

The term 'customer' is generally used only with respect to the branch, where the account is maintained. He cannot be treated as a ‘customer' for other branches of the same bank.

However, with the implementation of’ ‘Core Banking Solution’ the customer is the customerof the bank and not of a particular branch as he can operate his account from any branch of the bank and from anywhere. In the event of arising any cause of action, the customer is required to approach the branch with which it had opened account and not with any other branch.

1.2. Know your customer ('KYC'):

Know your customer ('KYC') is the process of a business ‘identifying and verifying the identity of its clients’. The term is also used to refer to the bank and anti-money laundering regulations which govern these activities. Know your customer processes are also employedby companies of all sizes for the purpose of ensuring their proposed agents, consultants, or distributors are anti-bribery compliant. Banks, insurers and export creditors are increasingly demanding that customers provide detailed anti-corruption due information.

The objective of KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities. Related procedures also enable banks to better understand their customers and their financial dealings. This helpsthem manage their risks prudently. Banks usually frame their KYC policies incorporating thefollowing key elements:

- Customer Acceptance Policy;
- Customer Identification Procedures;
- Monitoring of Transactions;

1.3. Banker-Customer Relationship:

Banking is a trust-based relationship. There are numerous kinds of relationships between the bank and the customer. The relationship between a banker and a customer depends on the type of transaction. Thus, the relationship is based on contract, and on certainterms and conditions.

These relationships confer certain rights and obligations both on the part of the banker and on the customer. However, the personal relationship between the bank and its customers is the long-lasting relationship. Some banks even say that they have generation-to-generation banking relationship with their customers. The banker customer relationship is fiducial relationship. The terms and conditions governing the relationship is not be leaked by the banker to a third party.

Classification of Relationship:

The relationship between a bank and its customers can be broadly categorized into General Relationship and Special Relationship. If we look at Sec 5(b) of Banking RegulationAct, we would notice that bank's business hovers around accepting of deposits for the purposes of lending. Thus, the relationship arising out of these two main activities is knownas General Relationship**.** In addition to these two activities, banks also undertake other activities mentioned in Sec.6 of Banking Regulation Act. Relationship arising out of the activities mentioned in Sec.6 of the act is termed as special relationship.

General Relationship:

1. **Debtor-Creditor:** When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form, he enters into an agreement/contract with thebank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank's property and bank has a right to use the money as it likes. The bank is not bound to inform the depositor the manner of utilisation of funds deposited by him. Bank does not give any security to the depositor i.e. debtor. The bank has borrowed money and it is only when the depositor demands, banker pays. Bank's position is quite different from normal debtors.

   Banker does not pay money on its own, as banker is not required to repay the debt voluntarily. The demand is to be made at the branch where the account exists and in a propermanner and during working days and working hours. The debtor has to follow the terms andconditions of bank said to have been mentioned in the account opening form. {Though the terms and conditions are not mentioned in the account opening form, the account openingform contains a declaration that the terms and conditions have been read and understood or has been explained. In fact, the terms and conditions are mentioned in the passbook, which isissued to the customer only after the account has been opened}

In the past while opening an account, some of the banks had the practice of giving a printed hand-out containing the terms and conditions of account along with the account openform. This practice has since been discontinued. For convenience and information of prospective customers, a few banks have uploaded the account opening form, terms and conditions for opening account, rate charge in respect of various services provided

by the bank etc., on their web site. While issuing Demand Draft, Mail/ Telegraphic Transfer, bankbecomes a debtor as it owns money to the payee/beneficiary.

2. **Creditor–Debtor:** Lending money is another most important activity of a bank. The resources mobilized by banks are utilised for lending operations. Customer who borrows money from bank ows money to the bank. In the case of any loan/advance account, the banker is the creditor and the customer is the debtor. The relationship in the first case when person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offers security to the bank before utilising the credit facility.

   In addition to opening of a deposit/loan account banks provide variety of services, which make the relationship wider and complex. Depending upon the type of servicesrendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

Special Relationship:

1. **Bank as a Trustee:** As per Sec. 3 of Indian Trust Act, 1882 ‘A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.’ Thus, trustee is the holder of property on behalf of a beneficiary.

   As per Sec. 15 of the ‘Indian Trust Act, 1882 ‘A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if itwere his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.’ A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.).

In case of trust banker customer relationship is a special contract. When a person entrusts valuable items with another person with an intention that such items would be returned on demand to the keeper, the relationship becomes of a trustee and trustier. Customers keep certain valuables or securities with the bank for safekeeping or deposit certain money for a specific purpose (Escrow accounts) the banker in such cases acts as a trustee. Banks charge fee for safekeeping valuables.

2. **Bailee – Bailor:** Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person deliveringthe goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

Banks secure their advances by obtaining tangible securities. In some cases physical possession of securities goods (Pledge), valuables, bonds etc., are taken. While taking physical possession of securities the bank becomes bailee and the customer bailer. Banks also keeps articles, valuables, securities etc., of its customers in Safe Custody and acts as a Bailee.As a bailee the bank is required to take care of the goods bailed.

3. **Lessor and Lessee:** Sec.105 of 'Transfer of property Act 1882' defines lease, Lesser, lessee, premium and rent. As per the section "A lease of immovable property is a transfer of aright to enjoy such property, made for a certain time, express or implied, or in perpetuity, inconsideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by thetransferee, who accepts the transfer on such term.

Definition of Lesser, lessee, premium and rent:

(1) The transferor is called the lesser;

(2) The transferee is called the lessee;

(3) The price is called the premium; and

(4) The money, share, service or other thing to be so rendered is called the rent.

Providing safe deposit lockers is as an ancillary service provided by banks to customers. While providing Safe Deposit Vault/locker facility to their customers, bank enters into an agreement with the customer. The agreement is known as "Memorandum of letting" and attracts stamp duty. The relationship between the bank and the customer is that of lessor and lessee. Bank's lease (hire lockers to their customers) their immovable property to the customer and give them the right to enjoy such property during the specified period i.e., during the office/ banking hours and charge rentals. Bank has the right to break-open the locker in case the locker holder defaults in payment of rent. Banks do not assume

any liability or responsibility in case of any damage to the contents kept in the locker. Banks do not ensure the contents kept in the lockers by customers.

4. **Agent and Principal:** Sec.182 of 'The Indian Contract Act, 1872' defines "an agent" as a person employed to do any act for another or to represent another in dealing with third persons. The person for whom such act is done or who is so represented is called "the Principal". Thus, an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

   Banks collect cheques, bills, and makes payment to various authorities, viz., rent, telephone bills, insurance premium etc., on behalf of customers. Banks also abides by the standing instructions given by its customers. In all such cases bank acts as an agent of its customer, and charges for these services. As per Indian contract Act agent is entitled to charges. No charges are levied in collection of local cheques through clearing house. Charges are levied in only when the cheque is returned in the clearing house.

5. **As a custodian:** A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer's securities. While opening a Demat account, bank becomes a custodian.

6. **As a Guarantor:** Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31, of Indian contract Act guarantee is a "contingent contract". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

It would thus be observed that banker customer relationship is transactional relationship.

Termination of relationship between a banker and a customer: The relationship between a bank and a customer cease on:

(a) The death, insolvency, lunacy of the customer.

(b) The customer closing the account i.e. Voluntary termination

(c) Liquidation of the company

(d) The closing of the account by the bank after giving due notice.

(e) The completion of the contract or the specific transaction

1.4. Rights of a banker: Apart from the obligations, the banker has certain rights also. Following are the major rightsthat a banker can exercise on his customer.

a) Right of Lien

b) Right of set-off

c) Automatic right of set of

d) Right of Appropriation

e) Right to charge interest

f) Right to charge service charges

a) Right of Lien: The right of a creditor (Bank) to retain goods and securities owned by the debtor bailed (as security) to the bank until the loan due from the debtor is repaid is called the right of lien. Butthe banker can insist on lien only in the absence of an agreement to the contrary. The creditor(bank) has the right to maintain the security of the debtor but not to sell it. There are two types of lien such as:

i) Particular Lien and ii) General Lien

i) Particular Lien: Particular lien is one, in that the craftsman can retain those goods onwhich he has spent time, effort and money until he is paid. In Particular lien the creditor doesn't have the right to retain all the properties of the debtor.

ii) General Lien: General lien gives the banker the right to retain goods and securities delegated to him in his capacity as a banker, in the absence of a contract contradictoryto the right of lien. It extends to all goods/properties placed with him as a banker by his customer which are not particularly identified for another purpose.

Cases in which lien cannot be exercised:

i) If the goods and securities have been entrusted to the banker as a trustee or an agent

ii) If a contract exists between the banker and the customer that is contradictory to thebanker's right of general lien.

A banker's lien is more than a general lien, it is an implied pledge and he has the right tosell the goods in case of default. The right of lien is granted upon the banker by the IndianContract Act and it helps to avoid the need of a separate agreement. To be in a safe position, the banker should take a letter of lien stating that the goods/properties are entrusted as security for a loan at present and in future and that the banker can exercise his lien on them. The banker can also sell the goods if the customer doesn't make the payment (defaults).

iii) The banker can exercise the right of lien only on goods standing in the name of the borrower and not jointly with others.

iv) The banker can exercise his right of lien on securities remaining in his possession after the loan for which they were lodged is repaid by the customer only if there is nocontract to the contrary.

Exception to the Right of lien:

i) The banker cannot exercise the right of lien on valuables entrusted to the banker as abailee or trustee.
ii) Right of lien is not applicable on documents deposited for a special purpose or withspecific instruction that the earnings are to be utilized for a specific purpose.
iii) The banker's general lien is displaced by circumstances that show an implied agreement contradictory to the right of general lien.
iv) The banker has no right of lien on securities left with the banker negligently or unintentionally.
v) The banker doesn't have the right of lien on securities deposited as a trustee in respectof his personal loan.

The banker's right of lien extends over goods and securities handed over to him. Moneydeposited in the bank and credit balance in his/her account does not fall in the category ofgoods and securities. Therefore, the banker can use his right of setoff as opposed to lienwith regard to money deposited with him.

i) The right can be exercised only on the customer's property and not on joint accountsthe customer.

ii) The banker cannot have the right to exercise the lien when the debt has not matured.

iii) The banker cannot exercise the lien when he can exercise set off.

b) Right of Set-off:

The banker has the right to set off the accounts of his customer. This enables a debtor (Bank) to set off a debt owed to him by a creditor (customer) before the latter recovers a debtdue to him from the debtor. Banks can merge two accounts in the name of the same customerand set off the debit balance in one account with the credit balance in the other. But the funds should belong to the customer.

The right of set-off can be exercised only if there is no agreement express or implied that is divergent to this right. It can be exercised only after a notice is served on the customerinforming the customer that the banker is going to exercise the right of set-off. To be on thesafe side, bankers must take a letter of set-off from the customer authorising the bank to exercise the right of set-off without giving him any notice.

Automatic right of set off:

Sometimes the set off will happen automatically, it depends on the situation. In automatic setoff, there is no need of permission from the customer. The cases in which automatic set off can exercise are as follows:

- In case of the death of the customer.
- When the customer becomes insolvent.
- If a Garnishee order is issued on the customer's account by court.
- When a notice of assignment of credit balance to someone e lse is given by thecustomer to the banker.
- When a bank receives the notice of second mortgage on the securities already charged to the bank.

Conditions while exercising right of Set -off:

- The accounts must be in the same name and same right. The account should be in the sole name of the customer
- Funds held in trust accounts are not allowed to set off.
- The right cannot be exercised in respect of future or contingent debts.
- The amount of debts must be certain and measurable.

- The banker might exercise this right at his judgment.
- The banker has the right to exercise this right before a garnishee order is issued.
- There should not be any agreement to the contrary.

c) Right of Appropriation:

In the normal course of business, a banker accepts payments from customers. If the customers have more than one account or he/she has taken more than one loan, the customerhas the right to direct his banker against which debt the payment should be appropriated/settled. If the customer does not direct the banker and there is more than one debt outstanding in his/her name, the bank can exercise its right of appropriation and apply itin payment of any debt. The banker can apply it against time barred debts also. Once an appropriation has been made it cannot be reversed.

Section 59 of the Indian Contract Act, states that the right of appropriation is vested in thehands of debtor. He/she can appropriate the payment by an express intimation. Money received will first be set off against interest.

Section 60 of the Indian Contract Act states that if the debtor does not intimate or there isno circumstance of indicating how the payment is to be used, the right of appropriation is vested in the creditor.

Section 61 of the Indian Contract Act states that where neither party makes any appropriation, the payment shall be used in discharge of the debts in order of time. If the debts are of equal standing, the payment should be applied in discharge of each proportionately. Any payment made by a debtor should be applied in the first instance towards fulfilment of interest and thereafter towards principal unless there is an agreement tothe contrary. If a customer has only one account and he deposits and withdraws money from itregularly, the order in which the credit entry will set off the debit entry is in the chronologicalorder, this is known as Clayton's rule.

d) Right to charge interest:

The banker has an implied right to charge interest on the advances granted to its customer. Bankers generally charge interest monthly, quarterly or semi-annually or annually. There may be an agreement between the banker and customer in this case the manner agreed will decide how interest is to be charged.

e) Right to charge service charges:

- Banks charge customers a particular amount if their balance is below a predetermined amount, for the usage of ATMs and withdrawals.

- Banks are free to charge these, but the Reserve Bank of India expects banks to advise their customers of these charges at the time of opening an account and advise themwhen changes are being made.

1.5. Obligations of Banker:

- Banks have an obligation to honour the cheques drawn on it if the customer has sufficient funds in his account. It is also obliged to honour cheques up to the overdraft limit of a customer.
- Banker is bound to act as per the directions given by the customer. If directions are not given, the banker should act according to how he is expected to act.
- Care should be taken to make sure that the information given is general and only facts that are evident should be revealed.
- Banks are obliged to maintain secrecy of their client accounts. There are times when information may be revealed.
  - ❖ When the customer is statutorily required to do so.
  - ❖ With express or implied permission of the customer.
  - ❖ In common courtesy, whenever the other banks ask for details they have to provide. In this case no specific information such as balances, etc is given.
  - ❖ If the bank's interest requires that the bank can reveal the information
  - ❖ If the disclosure is under the intention of protecting public/ national interest.

Termination of Banker - Customer Relationship

The relationship between banker and customer terminates in the following situations:

- Voluntary termination.
- Death of the customer
- Bankruptcy of the customer
- Liquidation of the company
- Insanity of the customer

1.6. Obligations of Bankers towards Customers:

The relationship that arises between banker and customer, in conducting, various businesses involve certain obligations and rights on the banker as well as the customer.

1. **Obligation to Pay Cheques**: It is a statutory obligation of the bank, having sufficient funds of the customer to pay chequesduly drawn and presented. A bank will be

forced to compensate the customer for any loss ordamage caused by its default. The bank's liability for wrongful dishonor of cheque is of serious nature. The bank will be forced to pay exemplary damage to the customer. However, bank may refuse payment of a cheque for reasons such as:

- Insufficient funds in the account
- Cheque is not properly drawn
- Cheque is stale (presented after stipulated date)
- Cheque is crossed but presented for cash
- Cheque is received after receipt of notice of death, insolvency or lunacy of the drawerof the cheque.

So also, when instructions are received from the drawer to stop the payment of cheque or when attachment/garnishee order is received from a competent authority, payment can be refused. If the drawer's signature differs, bank can refuse payment and also when the amountof the cheque differs in words and figures.

2. **Secrecy**: It is one of the principal duties of the banker to maintain complete secrecy of the status of customer's account and failure to do so will make the bank to compensate the customer for any damage or loss suffered. However, a bank is justified in making disclosure, under the dueprocess of law or under express or implied consent of the customer. Disclosure in the bank'sinterest is permitted. So also, it is an accepted custom among the bankers to disclose certaininformation to a fellow banker on written request. While disclosing information to others, only bare facts should be revealed and not any comments and conclusions on the matter. Thedisclosing bank should indicate to the other bank that in turn it should maintain secrecy.
3. **Banker's Lien**: Lien generally is the right of the creditor to retain possession of the goods and securities owned by the debtor until the debt is repaid. It however, does not vest the right to sell the goods. But the banker's lien has a wider connotation. It is an implied pledge. The bank has the right to sell the subject matter in possession in the ordinary course of business as a banker and adjust the unpaid debt. Lien may be a general or particular lien. General lien empowers the bank to retain all movables in its possession, but particular lien gives the right to retain the goods or property connected with particular debt. Banker's general lien is not applicable to

safe custody articles, documents/money deposited for specific purpose and securities/valuables left through oversight.

4. **Mandate:** The account holder alone has the right to operate his account with the bank. No person otherthan the account holder can order the bank to debit the account. But the account holder can give mandate or a power of attorney to another person to operate his account. A mandate is an authority given by the account holder in favour of a third person. This is issued by an account holder with a direction to his banker authorizing third person to operatethe account. It is unstamped letter signed by the customer.

   A letter of mandate is generally issued for a short period as a temporary measure. Mandate letter should not be accepted from the limited companies. A mandate will automatically lapse, on death, insanity, insolvency and bankruptcy of the account holder.

5. **Power of Attorney**: It is a document executed by the donor or principal in favour of donee or agent to act on behalf of the former as per authority given in the document. The following points must be taken into consideration by the banker while accepting power of attorney issued by the customer. There are two types of power of attorney.

   1. Special Power and 2. General Power.

   While the special power of attorney is given for a specific purpose, the other one covers many activities. Power to sign the cheque, stop payment, signing loan documents when givento Power of Attorney holder, the donor is ultimately liable to pay the loan amount. It is a stamped document. The original power of attorney should be perused, and a copy should beobtained and filed with the Bank. The donor can withdraw or cancel the Power of Attorney atany time.

6. **Circumstances Leading to Closure of Accounts**: The relationship between the banker and the customer is established by mutual agreement to open and operate the account. This relationship may be terminated at any time by either partyby closing the accounts. In fact, the banker-customer relationship imposes an implied obligation on the banker not to close the account of the customer except in extraordinary casesupported by indisputable reasons.

   In other words, the banker should carefully examine the issue before closing the customer'saccount and unless there are justifiable reasons, it should not close the accounts of the customer. A bank may take initiative to close the account of an undesirable customer after giving proper notice for the following reasons.

a) Frequent return of cheque for insufficient balance.
b) Forgery/malpractice committed by the customer.

However, a customer may close the account at any time.

7. **Loans and Advances**: As already said, the Bank deposits are used for lending or investment or both. In addition, bank handles purchase and sale of foreign currencies and also lends for import and export trade. The commercial banks lend money by way of overdrafts, demand loans, cash credit, orby way of purchase or discounting of bills of exchange or hundis, for the purpose of financing trade, commerce, industrial or any other business activity.

   Lending by the banks is mostly against security such as goods, book debts, land and buildings, livestock, share, securities etc. When the advance is given against such security, itis termed as a secured advance and in cases where the advance is not backed by any security, it is classified as unsecured or clean advance.

1.7. Basic rights laid down by RBI for bank customers:

In case a bank violates any right as laid down by the RBI, customers can approach the customer services division of the apex bank. "With this charter, the RBI will have legislativepowers to act against the errant banks," says a retired head of a large public-sector bank. Hereare the rights of customers as notified by the RBI that one should be aware of.

1. **Right to fair treatment**: This right prohibits banks from discriminating against customers on grounds of gender, age, religion, caste and physical ability while offering products and services. Banks can, however, continue to offer differential rates of interest or products to customers. "The financial services provider may, however, have certain special products which are specifically designed for members of a target market group or may use defensible, commercially acceptable economicrationale for discriminating between its customers," the central bank had elaborated in the draft charter released in August.

   Right to transparency, fair and honest dealing:

   The language to be used in all the bank documents should be simple and easily understandable. The charter requires banks to ensure that all contracts are transparent and easily understood by the common person. The onus of sending out effective communication will rest with banks. Information on the product's price, customer's responsibilities and key risks will have to be clearly disclosed. "Any features that may disadvantage the customer should be made known to him. Important terms and conditions

should be clearly brought to the notice of the customer," the charter says.

2. **Right to Suitability**: Despite several regulations, complaints related to mis-selling continue to plague the distribution space, particularly in case of life insurance policies. Lured by higher commissions, sales officials tend to push products without ascertaining their suitability for the customer. With this charter coming into force, such officials might find it difficult to palmoff say market-linked insurance products to senior citizens who are looking for stable returns. The charter has now made it mandatory for banks to sell products after keeping in mind customers' needs, financial circumstances and understanding.
3. **Right to privacy**: Banks are duty-bound to keep customers' personal information confidential, unless the disclosure is required by law or customers have given their consent. "Customers have the right to protection from all kinds of communications, which infringe upon their privacy," thecharter states. Banks cannot pass on your details to telemarketing companies or for cross- selling. "There have been instances where bank officials, on the basis of transaction details, have asked customers to route their investments through them (since banks also act as distributors for mutual funds and insurance companies). This is unethical," says Roongta.
4. **Right to grievance redressal and compensation**: The right to grievance redressal is at your aid if your bank fails to adhere to basic norms. Thecharter makes banks accountable for their own products as well as those of third parties likeinsurance companies and fund houses. They will no longer be able to wash their hands of theresponsibility once the product is sold. Banks will have to communicate the policy for compensating for mistakes on their part, lapses in conduct and non-performance or delays. The redressal and compensation policy will have to state the rights of customers when suchevents occur.

While the customer is assured of certain rights by the R.B.I., he cannot escape from his obligations.

The customer's obligations:

- The customer must be careful in drawing the cheque. If the bank is misled into payinga cheque where the customer has not fulfilled the obligations, then the bank may debit the account and the loss will fall on the customer. So, for example, where a customer filled in only the numbers for the amount to be paid and left the writing blank so that it was easy for another person to 'raise' the cheque from a small amountto a large amount, the bank would be able to debit the account of the customer. The obligation to take care extends only to the circumstances surrounding the immediatedrawing of the cheque. There is no obligation to take special care of the cheque book.
- The second major obligation of the customer is to notify the bank of known forgeries.In one example, a man learned that his wife was forging his name on cheques, but didnot notify the bank after she promised that she would not do it again. She did forge hisname on further cheques. He was held liable for the amounts; since the bank would have taken precautionary measures had it known about the forgery. This duty extendsonly to known forgeries. There is no contractual duty to discover forgeries, even if this could be done simply by reading the periodic statement.

1.8. Grievance Mechanism: A grievance mechanism is a formal, legal or non-legal (or 'judicial/non-judicial') complaint process that can be used by individuals, workers, communities and/or civil society organisations that are being negatively affected by certain business activities and operations. Grievance mechanisms are sometimes also called 'complaints', 'redress', or 'accountability' mechanisms.

All banks have a grievance cell. So a customer can visit the bank and meet the officials to sort out the issue. Banks have a dedicated toll-free customer care number, which one can use to lodge his/her grievance and get a complaint ID.

Any person who has a grievance against services as mentioned above in Clause 12 of the scheme can approach Banking Ombudsman for addressing his concern. The person can make a complaint to Banking Ombudsman within whose jurisdiction the branch or office of the bank complained against is located.

Bank Ombudsman: The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services covered under the grounds of complaint specified under Clause 8 of the Banking Ombudsman Scheme 2006 (As amended upto July 1, 2017).

Procedure to file a complaint with ombudsman

- ❖ If you are not satisfied with your bank's grievance redressal process you can lodge a complaint with the banking ombudsman. However, you need to follow a certain process for filing such a complaint. Here are the steps you have to follow.
- ❖ File a complaint with your bank and not the banking ombudsman (BO) offices. If you don't receive a response within 30 days or it is not satisfactory, approach the ombudsman. Raise complaint within a year of receiving reply or a year and month of making representation.
- ❖ Complain to banking ombudsman within whose jurisdiction the branch or office of the bank is located. For card-related complaints or those related to centralised operations, your billing address will determine the jurisdiction of the banking ombudsman.
- ❖ For written complaint, download, print and fill up form available on www.bankingombudsman.rbi.org.in with relevant details like name, address, facts around the complaint, loss suffered and relief sought. Submit copies of documents that support your case along with the complaint form.
- ❖ You can also file the complaint online (https://secweb.rbi.org.in/BO/precompltindex.htm. The banking ombudsman will examine the case and make a settlement through conciliation and mediation between the bank and the customer, or by passing an award.
- ❖ If you are dissatisfied with the ombudsman's order, you can move the consumer courts.
- ❖ To ensure that the onus of any fraud rests with the bank, notify the bank of any unauthorised transaction within three days. If you report a suspicious transaction after three days and within seven working days, your liability will be capped at

Rs 25,000. After that, determining your liability will be at the bank's discretion.

1.9. KYC (Know Your Customer): It is a process by which banks obtain informationabout the identity and address of the customers. This process helps to ensure that banks' services are not misused. The KYC procedure is to be completed by the banks while opening accounts. The Reserve Bank of India introduced KYC guidelines for all banks in2002. In 2004, RBI directed all banks to ensure that they are fully compliant with the KYC provisions before December 31, 2005.

KYC Objectives & Norms: Money Laundering has become a pertinent problem worldwide threatening the stability of various regions by actively supporting and strengthening terrorist networks and criminalorganizations. The links between money laundering, organised crime, drug trafficking and terrorism pose a risk to financial institutions globally. The objectives of KYC guidelines are to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities. Related procedures also enable banksto better understand their customers and their financial dealings. This helps them managetheir risks prudently.

Opening of accounts and requirements (officially valid documents):

KYC will be carried out for the following but is not limited to:

- Opening a new account. (deposit/lending)
- Opening a subsequent account where documents as per current KYC standards notsubmitted while opening the initial account.
- When the bank feels it is necessary to obtain additional information from existingcustomers based on the conduct of the account.
- After periodic intervals based on instructions received from RBI.
- When there are changes to signatories, mandate holders, beneficial owners, etc.

The features to be verified and documents that may be obtained vary depending upon the typeof customers. The same are furnished below:

Documents requirement for Individuals:

- ❖ Passport
- ❖ PAN Card
- ❖ Voter's Identity Card
- ❖ Driving License
- ❖ Identity Card (Subject to the bank's satisfaction)

- Letter from a recognized public authority or public servant verifying the identity andresidence of the customer to the satisfaction of bank
- Correct permanent address
- Telephone bill (not older than 3 months)
- Bank account statement /Pass Book
- Letter from any recognized public authority
- Electricity bill (not older than 3 months)
- Ration Card
- Letter from employer (Subject to satisfaction of the bank)

Accounts of Companies:

1 Name of the Company
2 Principal place of business
3 Mailing address of the company
4 Telephone/Fax number

i) Certificate of incorporation and Memorandum & Articles of Association.
ii) Resolution of the Board of Directors to open an account and identification of thosewho have authority to operate the account.
iii) Power of Attorney granted to its managers, officers or employees to transactbusiness on its behalf
iv) Copy of PAN allotment letter
v) Any officially valid document establishing the proof of existence and proof ofaddress of the entity to the satisfaction of the bank.
vi) Certificate of Commencement of Business.

Accounts of Partnership firms

1 Legal name
2 Address
3 Names of all partners and their addresses
4 Telephone numbers of the firm and partners

i) Registration certificate, if registered.
ii) Partnership deed
iii) Power of Attorney granted to a partner or an employee of the firm to transactbusiness on its behalf

iv) Any officially valid document identifying the partners and the persons holding thePower of Attorney and their addresses

v) Proof of existence & proof of address of the firm.

Accounts of Trusts & Societies

1 Names of trustees, settlers, beneficiaries and signatories

2 Name and addresses of the founder, the managers / Directors and the beneficiaries

3 Telephone / Fax Numbers

i) Certificate of registration, if registered.

ii) Power of Attorney granted to transact business on its behalf

iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers / directors and their addresses.

iv) Resolution of the managing body of the foundation/association

v) Any officially valid document establishing the proof of existence and proof of address of the entity to the satisfaction of the bank.

Key elements of KYC Policy: As per RBI guidelines issued vide their circular dated 29/11/2004, all banks are required to formulate a KYC Policy with the approval of their respective boards. The KYC Policy consists of the following four key elements.

1. Customer Acceptance Policy
2. Customer Identification Procedures
3. Monitoring of Transactions
4. Risk Management.

1. **Customer Acceptance Policy:** Customer Acceptance Policy refers to the general guidelines followed by banks in allowing customers to open accounts with them. Generally, the guidelines stipulate that no accounts shall be opened in anonymous or fictitious names or when the identity of the customer matches with any person with known criminal background or banned entities. Similarly, accounts should not be opened when the bank is unable to verify the identity and/or obtain documents required as per the bank’s policy.

2. **Customer Identification Procedure:** Customer identification means identifying the customer and verifying his/her identity through reliable and independent documents, data and information. Banks would need to satisfy to the competent authorities that due diligence was observed in accordance with the requirements of existing laws and regulations.
3. **Transaction monitoring**: Transaction monitoring forms part of an organisation's governance, risk and compliance programme and when combined with an anti-money laundering (AML) and KnowYour Customer (KYC) regime; transaction monitoring becomes a highly effective mechanism for revealing risk that may be hiding in your business relationships.

Six good practices for Transaction Monitoring:

Good transaction monitoring is linked to proper risk analysis at client level. In other words, adequate KYC procedures must be put in place. The information gathered atthis point can also be used to form the basis of the items that need to be monitored.

i) Good transaction monitoring is linked to proper risk analysis at client level: In other words, adequate KYC procedures must be put in place. The information gathered at this point can also be used to form the basis of the items that need to be monitored.

ii) Use of transaction profiles: These should be kept up to date (and dated), all account details and beneficiaries noted, payment amounts and their frequency established. Profiles should be clear and easy to understand, with relevant supporting documents provided and the profile saved as part of the client acceptance file.

iii) Insight into bank accounts should give to the trust office via 'online viewing rights': For good transaction monitoring it is essential that the trust office has (preferably digital) access to all bank accounts of the target company, whether it authorises payments to the bankaccounts or not. Transactions can be reviewed prior to implementation (real-time monitoring)or afterwards, when the contract has already been signed and/or the transaction has alreadybeen executed (post-event monitoring). The frequency that bank statements are obtained and monitored should be appropriate for the risk profile of the client.

iv) Monitoring of rights and obligations entered into by a target company is carried out via a specifically designed procedure: For instance, the rights and obligations

v) of the object company can be captured and analysedin detail within a form particularly designed for this purpose. An internal or external legal expert may also be called upon to make a judgement. All relevant underlying documentation should be attached to the form.

vi) Adequate documentation of all monitoring and related activities should be available: A good record should be able to show which transactions are selected and why, what aspectsof the transactions and supporting documents have been reviewed, whether a compliance officer has been involved, and finally, what decision was ultimately made and on what grounds.

vii) Reassessment of previous and related transactions if a suspicious transaction is identified: If an unusual transaction is noticed, it makes sense to go back and review previousand related transactions once more. Such a review can provide insight into possible unusual transaction patterns and allow the risk and transaction profile of the client to be reviewedbefore further activity can resume. As a part of the 4th AML Directive, it is evenrecommended that organisations periodically test the effectiveness of their transactionmonitoring process with a view to carrying out trend analyses, so full access to past data iscrucial.

4. **Risk management**: Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities.

   Risk management's objective is to assure uncertainty and does not prevent the endeavour from the business goals. Risks can come from various sources including uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters, deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Thereare two types of events i.e., negative events can be classified as risks while positive events areclassified as opportunities.

Key features:

i) **Punishment for money-laundering:** The act prescribes that any person found guilty of money-laundering shall be punishable with rigorous imprisonment from three years to seven years and where the proceeds of crime involved relate to any offence under paragraph 2 of Part A of the Schedule (Offences under the Narcotic Drugs and Psychotropic Substance Act, 1985), the maximum punishment may extend to 10 years instead of 7 years.

ii) **Powers of attachment of tainted property:**

Appropriate authorities, appointed by the Government of India, can provisionally attach property believed to be "proceeds of crime" for 180 days. Such an order is required to be confirmed by an independent Adjudicating Authority.

iii) **Presumption in inter-connected transactions:**

Where money laundering involves two or more inter-connected transactions and one or more such transactions is or are proved to be involved in money laundering, then, for thepurposes of adjudication or confiscation, it shall be presumed that the remaining transactions form part of such inter-connected transactions.

iv) **Burden of proof:**

A person, who is accused of having committed the offence of money laundering, has to prove that alleged proceeds of crime are in fact lawful property.

FIU-IND:

Financial Intelligence Unit – India (FIU-IND) was set by the Government of India on 18 November, 2004 as the central national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. FIU-IND is an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

Simplified KYC for small accounts:

In respect of 'small accounts', the RBI said the prescribed limits/conditions should not bebreached and compliance therewith has to be strictly monitored. With the number of casesof deposits in small accounts coming to light following the scrapping of ₹500 and ₹1,000bank notes, the RBI emphasised that regulated entities should strictly comply with the extant instructions, wherein their concurrent/internal audit system has toverify compliance with Know-Your-Customer (KYC)/Anti-Money Laundering (AML) norms.

The RBI, in a notification to all regulated entities (REs), such as banks and non-bankingfinance companies, said it has come to its notice that strict compliance with some of theprovisions relating to the Master Direction on KYC is not being ensured in some cases.

Short Questions (2 marks):

1. Who is Banker?
2. Define Customer.?
3. What is Grievance Mechanism?
4. What is KYC?

Essay Type Questions (6 marks):

1. Write briefly about Banker and Customer relationship.
2. What are the rights of the Banker?
3. What are the rights of Customer?
4. What are the obligations of banker towards customer?
5. What are the key elements of KYC Policy?

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UNIT-IV

NEGOTIABLE INSTRUMENTS ACT-1881

Negotiable Instruments Act 1881: *Definition of Negotiable Instrument – Characteristics – Promissory Note – Bills of Exchange – Cheque – Draft – Stale cheque – Revalidation of Cheque – Post-dated Cheque – Crossing of Cheques – Types of crossing – Dishonor of Cheques–CTS enable cheques.*

After studying this chapter: -

- ☞ Able to understand about characteristics of negotiable instruments
- ☞ Able to understand crossings of cheques

1. Introduction: Negotiable Instrument in simple terms means any written document which is transferable on delivery. Negotiable Instruments Act 1881 regulates the different types of negotiable instruments like Promissory notes, Bills of Exchange and Cheques.

1.1. Negotiable Instruments - Definition: Negotiable Instruments Act, 1881 is an act in India dating from the British colonial rule, which is still in force largely unchanged. A negotiable instrument is a document guaranteeing the payment of a specific amount of money, either on demand, or at a set time, with the payer usuallynamed on the document. More specifically, it is a document contemplated by or consisting of a contract, which promises the payment of money without condition, which may be paid either on demand or at a future date. The term can have differentmeanings, depending on what law is being applied and what country and context it isused in.

Statutory definitions: Some of the important definitions of the act are:

According to Section 4 of N.I. Act -

A "promissory note" is an instrument in writing (not being a bank-note or a currency-note) containing an unconditional promise, signed by the maker, to pay a certain sum ofmoney only to, or to the order of, a certain person, or to the bearer of the instrument.

According to Section 5 of N.I. Act -

A "bill of exchange" is an instrument in writing, containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

According to Section 6 of N.I. Act –

A cheque is bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated chequeand a cheque in the electronic form.

According to Section 13 of N.I. Act -

(1) A Negotiable Instrument means a promissory note, bill ofexchange or cheque payable either to order or to bearer.

(2) A negotiable instrument may be made payable to two or more payees jointly, or itmay be made payable in the alternative to one of two, or one or -some of several payees.

1.2. Characteristics of the Negotiable Instruments:

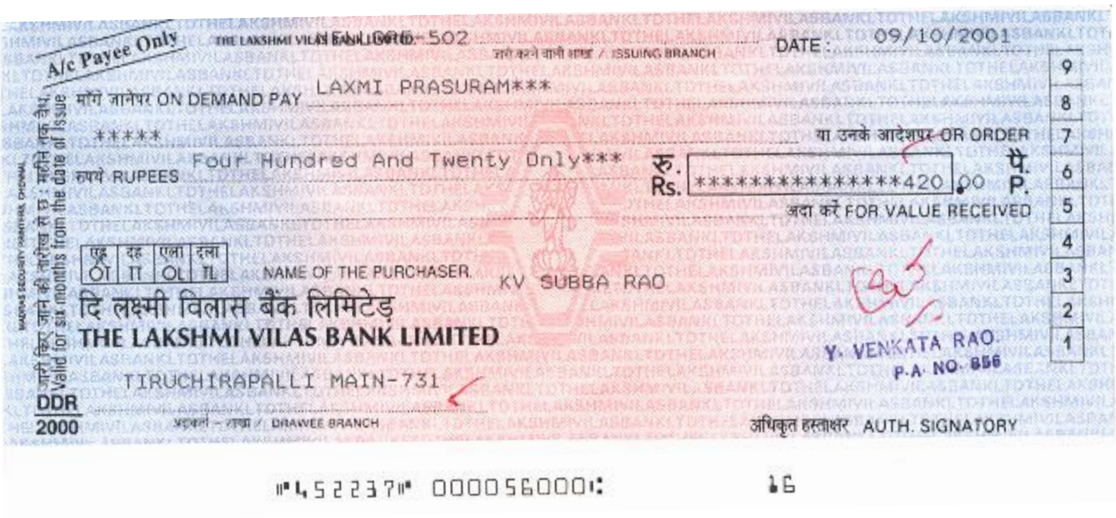
- Witting and Signature according to the rules – A Negotiable Instrument must be in writing and signed by the parties according to the rules relating to (a) promissory notes, (b) Bills of Exchange and (c) Cheques.
- Payable by Money – Negotiable Instruments are payable by the legal tender money ofIndia. The Liabilities of the parties are governed in terms of such money only.
- Unconditional Promise – If the instrument is a promissory note, it must contain an unconditional promise to pay. If the instrument is a bill or cheque, it must be an unconditional order to pay money.
- Freely transferable – A negotiable instrument is transferable from one person to another by delivery or by endorsement and delivery.
- Acquisition of Property – any person, who possesses a negotiable instrument, becomes its owner and entitled to the sum of money, mentioned on the face of the instrument.
- Acquisition of Good Title – The holder in due course, i.e. the transferee of a negotiable instrument in good faith and for value, **acquires a good title to the instrument even if the title of the transferor is defective**. Further his title will not be affected, by any defect in the title of the transferor.

1.3. Bank Draft:

A bank draft is an instruction from one banker to another banker to pay the amount indicated in the instrument to the payee or his order. It is similar to a cheque. But the demand draft is to be "purchased" i.e. the money should be paid in advance to the Banker for purchasing the instrument.

Features of a Bank Draft:

- It is drawn by one office of a bank upon another office of the same bank;
- It is payable on demand; and
- Its payment has to be made to the person whose name is mentioned therein oraccording to his order.



Specimen of Bank Draft

Definition of Stale (Outdated) Cheque:

A stale cheque is one on which a bank will not accept and exchange for money or payment because it was written more than a certain number of months ago.

Cheque presented at the paying bank after a certain period (typically six months) of its payment date. A stale cheque is not an invalid cheque, but it may be deemed an 'irregular' bill of exchange. A bank may refuse to honour it unless its drawer reconfirms it payment either by inserting a new payment date or by issuing a new cheque, also called stale dated cheque.

Post-dated cheque:

"Post-dated cheque is a cheque written by the drawer (payer) for a date in the future." Whether a post-dated cheque may be cashed or deposited before the date written on it depends on the country. A Canadian bank, for example, is not supposed to process a post-dated cheque and if it does so by mistake, the cheque writer may ask his bank to correct the error. In the United States and the UK, post-dated cheques are negotiable instruments and can be drawn upon at any time, while in India and Australia post-dated cheques are not payable until the date written on the cheque.

Revalidation of Cheque:

In a November 2001 ruling, the Supreme Court of India observed that cheques can be revalidated by the drawer to give them fresh life of another six months even if their validity period has expired. The apex court gave the ruling quashing a Madras high court judgement in a case involving T Kalavathy Vs. Veera Exports. The Supreme Court bench noted that: "There is no provision in the Act or in any other law, which stipulates that a drawer of a negotiable instrument cannot revalidate it. It is always open to a drawer to voluntarily revalidate a negotiable instrument, including a cheque."

The Supreme Court said that if the drawer of the cheque himself (respondent) altered the cheque for purposes of validating or revalidating it, he could not take advantage of it later by saying that the cheque became void as there is material alteration thereto. Even if the 'payee' or 'the holder of the cheque' made the alteration with the consent of the drawer, such alteration also cannot be used as a ground to resist the right of the payee or the holder. It is a question of fact (in a given case) whether the alteration was made by the drawer himself or whether it was made with the consent of the drawer.

"Such a provision for revalidation of cheques by the drawer was always there and the Supreme Court ruling on this particular aspect has no new bearings." "All the issuer needs to do is make the change and authenticate the change with his signature."

Commercial banks will also not ask for a fresh cheque if the produced one has expired, provided it is revalidated and endorsed properly by the issuer of the cheque. However, the problem arises when an issued cheque is dishonoured. And if a cheque is dishonoured due to paucity of funds, then a criminal offence can be initiated against the issuer of the cheque. In some countries such as France and Switzerland, if there is insufficiency of funds in an account and a cheque is issued, commercial banks allow the payee the balance money in the account of the issuer of a cheque (upon the insistence of the 'payee'), instead of dishonouring a cheque due to paucity of the balance. However, the Drawee will have to take recourse to other measures (legal) torecover the remaining amount from the issuer of the cheque.

1.4. Classification of Cheques:

Cheques can be opening (uncrossed) or crossed.

- Open cheque

An open [cheque] is a cheque that is not crossed on the left corner and payable at the counter of the Drawee [bank] on presentation of the cheque.

- Crossed cheque

A crossed cheque is a cheque that is payable only through a collecting banker and not directly at the counter of the bank. When two parallel transverse lines, with or without any words, are drawn generally, on the left-hand top corner of the, it amounts to "crossing".

Crossing of cheques:

A crossed cheque is a cheque that has been marked to specify an instruction about the way it is to be redeemed. A common instruction is to specify that it must be deposited directly into an account with a bank and not immediately cashed by a bank over the counter.The format and wording varies between countries, but generally two parallel lines may be placed either vertically across the cheque or in the top left hand corner. By using crossed cheques, cheque writers can effectively protect the cheques they write from being stolen andcashed.

Types of Crossing: Generally, cheque crossing is two types.

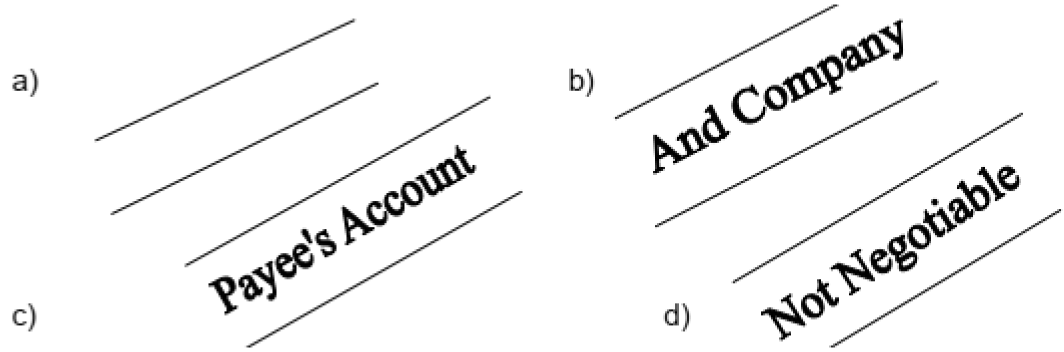
i) General Crossing:

A crossed cheque generally is a cheque that only bears two parallel transverse lines, optionally with the words 'and company' or '& Co.' (or any abbreviation of them) on the faceof the cheque, between the lines, usually at the top left corner or at any place in the approximate half (in width) of the cheque.

Generally, cheques are crossed when

- There are two transverse parallel lines, marked across its face or
- The cheque bears an abbreviation "& Co. "between the two parallel lines or
- The cheque bears the words "Not Negotiable" between the two parallel lines or
- The cheque bears the words "A/c. Payee" between the two parallel lines.

A crossed cheque can be made bearer cheque by cancelling the crossing and writing that thecrossing is cancelled and affixing the full signature of drawer.



ii) Restrictive or Special crossings:

When a particular bank's name is written in between the two parallel lines the cheque is saidto be specially crossed.

Where some customary instruction is written between the two parallel transverse lines (constituting crossing of cheque) that may result in imposing certain restrictions on the collecting or paying banker, and it is called restrictive crossing. The example is "A/c Payee only" or "State Bank of India". In these cases, the respective restrictions permit to pay thecheque in the account of the payee only or to pay the cheque through State Bank of India (acting as collecting banker) only.

Account Payee

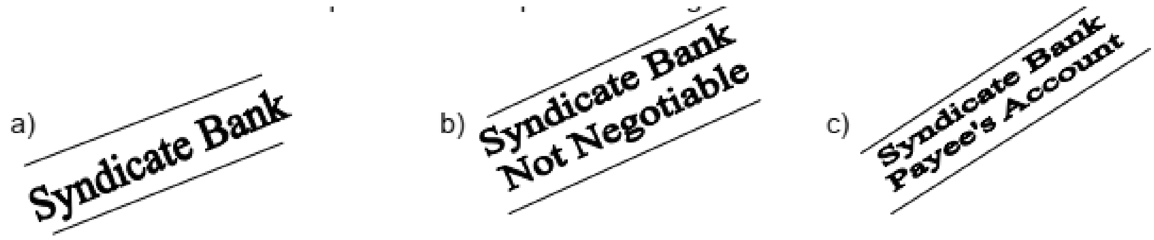
Adding a crossing to a cheque increases its security in that it cannot be cashed at a bank counter but must be paid into an account in exactly the same name as that which appears on the ‘payee’ line of the cheque (i.e. the person who has received the cheque, who islegally the “payee” and “holder” of the cheque).

Specific bank

A crossing may have the name of a specific banker added between the lines. A cheque with such a crossing can only be paid into an account at that bank. The beneficiary bank can add an additional crossing to allow another bank, who is acting as their agent in collectingpayment on cheques, to be paid the cheque on their behalf.

Not negotiable:

The words 'not negotiable' can be added to a crossing. The effect of such a crossing isthat it removes the most important characteristic of a negotiable instrument: the transferee ofsuch a crossed cheque cannot get a better title than that of the transferor (cannot become a holder in due course) and cannot convey a better title to his own transferee, but the instrument remains transferable.



1.5. Dishonor of Cheques:

The cheque should have been drawn by the drawer on an account maintained by him. The cheque should have been returned or dishonoured because of insufficient funds in the drawer's account. The cheque is issued towards discharge of a debt or legal liability.

Reasons for Cheque is Dishonored:

If your cheque has been bounced, then one of the following could possibly be a reason. Alsoremember these reasons while writing a cheque next time to avoid dishonour of your chequeby bank in future.

1. **Insufficient Funds**:

   Salaries sometimes reach late in accounts leaving insufficient funds in your account which may lead to bouncing of cheque. While writing a cheque, make sure that you have sufficientfunds in your bank account.

2. **Irregular Signature**:

   Bank will not honour a cheque if the signature of the drawer on the cheque doesn't match thespecimen signature available with the bank.

3. **Alterations**:

   Alterations on cheques are not allowed. Even if you sign the alteration to authorise it, the chequewill not be considered as valid and will not be honoured by the bank. It is advisable to issue a fresh cheque.

4. **Post-dated Cheque**:

   A post-dated cheque is the one on which the date which is mentioned is yet to come. Post-dated cheques are to be presented to the banks on a future date. For instance, a cheque writtenon 15th January, 2016 bearing a date of 30th January, 2016 is a post-dated cheque. A cheque will be dishonoured if it is presented to the bank before the date mentioned on it.

5. **Stale Cheque**:

If a cheque is presented to the bank for payment after three months from the date mentionedon the cheque it is called stale cheque. After expiry of that period, the cheque will be dishonoured, and no payment will be made by banks against that cheque.

6. **When Payment Is Stopped**:

If the drawer asks the bank to stop payment and not to pay for a cheque already issued, in thatcase, the cheque will not be honoured by the bank.

7. **Frozen Account**:

If government or court has ordered that a person's account has to be frozen, in such case, thebank will dishonour all the cheques bearing that account number.

What Happens When A Cheque Is Bounced?

After dishonour of cheque, bank offers 'cheque return memo' to payee stating why the cheque has been bounced. The cheque can be resubmitted by the payee if he believes that itwill be honoured second time. If the cheque is bounced again, then the payee can prosecutethe drawer legally.

Penalty:

If a cheque is bounced, then penalty is levied on both drawer and payee by their respective banks. If the dishonoured cheque is against repayment of loan, in such case, the person willadditionally have to pay late payment charges.

1. **Damage to Credit History**:

Dishonouring of cheque negatively impacts your credit history. Financial institutions reportyour payment activities to credit bureaus. If you have good credit score then it means that youcan be trusted by lenders. It is a good practice to avoid your cheques from being bounced it will help you build good CIBIL score and benefit you at the time of lending money from financial institutions.

1.6. CTS: Cheque Transaction System (CTS) or Image-based Clearing System (ICS), in India, is a project of the Reserve Bank of India (RBI), commenced in 2010, for faster clearing of cheques. CTS is based on a cheque truncation or online image-based cheque clearing system where cheque images and magnetic ink character recognition (MICR) data are captured at the collecting bank branch and transmitted electronically.

Cheque truncation means stopping the flow of the physical cheques issued by a drawer to the drawee branch. The physical instrument is truncated at some point in route to the drawee branch and an electronic image of the cheque is sent to the drawee branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc. This would eliminate the need to move the physical instruments across branches, except in exceptional circumstances, resulting in an effective reduction in the time required for payment of cheques, the associated cost of transit and delays in processing, etc., thus speeding up the process of collection or realization of cheques.

Short Questions (2 marks):

1. Define Promissory note.
2. Define Bill.
3. Define Cheque.
4. Define Draft.
5. What is post-dated cheque?
6. What is CTS?

Essay Type Questions (6 marks):

1. What are the characteristics of the Negotiable Instruments?
2. Write about different types of crossing of cheques.
3. What are the reasons for Dishonour of Cheques?

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UNIT-V

DEMONETISATION

***Demonetisation:** Background – Demonetisation process – Objectives and Outcomes – Other effects – Legal Issues – Reactions – Political and Long-term Impact.*

After studying this unit: -

- Able to understand about demonetisation and its process
- Able to understand impact of demonetisation

1.0. Introduction: Demonetisation is the process by which the demonetised notes cease to be accepted as legal currency for any kind of transaction. After demonetisation is done, the old currency is replaced by a new currency, which may be of the same denomination or may be of a higher denomination. The impact of changing the legal tender status of a currency unit has a huge impact on the economic transactions that take place in an economy. Demonetisation in India has taken place three times till now, namely in the years of 1946, 1978 and 2016. Let us have a look at all the three events.

1.1. Demonetisation - Meaning: Demonetisation is referred to as the process of stripping a currency unit of its status to be used as a legal tender. In simple words, demonetisation is the process by which the demonetised notes cease to be accepted as legal currency for any kind of transaction.

After demonetisation is done, the old currency is replaced by a new currency, which may be of the same denomination or may be of a higher denomination.

The impact of changing the legal tender status of a currency unit is huge on the economic transactions that take place in an economy.

Demonetisation can cause unrest in an economy or it can help in stabilising the economy from existing problems. Demonetisation is usually taken by a country for various reasons.

1.2. Demonetisation in India: Demonetisation in India has taken place three times till now, namely in the years of 1946, 1978 and 2016. Let us have a look at all the three events.

Demonetisation 1946: The first demonetisation event happened in 1946. At that time the denominations of Rs.1000 and Rs.10000 were removed from circulation.

There was a visibly low impact of the demonetisation as the higher denomination currencies were not available to the common people.

In 1954, these notes were again introduced with an additional denomination of 5000.

Demonetisation in 1978:

The second demonetisation in India took place in 1978, at which time the Prime Minister was Morarji Desai. During the second demonetisation, the denominations of 1000, 5000 and 10000 were taken out of circulation.

The whole purpose of demonetisation was to reduce the circulation of black money in the country. The announcement was made by Morarji Desai over the radio.

Demonetisation in 2016:

The latest demonetisation was announced on 8th of November, 2016 by the Prime Minister Narendra Modi.

During this demonetisation, the notes that were taken out of circulation were the denominations of 500 and 1000.

PM Modi also introduced new currency of denominations 500 and 2000 after demonetisation.

1.3. The Demonetisation Process:

Demonetisation is a form of economic intervention, where a country moves to replace one form of currency with another. At the beginning of the demonetisation process, the old currency is discontinued and pulled from circulation to be replaced with new forms of money.

During the process, people are given time to exchange their existing bank notes and coins for the new currency before it is officially discontinued. After a currency has been discontinued, it is no longer a legal tender and contains no monetary value.

The demonetisation process can occur in many different forms – a country can introduce new bank notes or coins or implement a completely new form of currency altogether. However, demonetisation is a drastic measure that occurs rarely and can disrupt society if implemented improperly. At times, countries may also decide to reinstate discontinued currency as legal tender through a process known as demonetisation.

1.4. Objectives of Demonetisation:

The objectives of demonetisation are as follows:

- To stop the circulation of black money in the market.
- To help in reducing the interest rates of the prevalent banking system

- To help in creation of cashless economy
- To formalize the informal Economy.
- To remove counterfeit notes from the market.
- To help reduce anti-social activities and their finances.

1.5. Advantages of Demonetisation

Through the demonetisation of currency, a country can receive benefits ranging from crime prevention to greater currency standardisation.

1. **Reduces various criminal activities:** One of the benefits of demonetisation is the reduction of various forms of criminal activity. Through the demonetisation process, old bank notes and coins are discontinued and taken out of circulation, and effectively become worthless. For groups conducting criminal activities, such as terrorism, their supply of money effectively becomes worthless, as the currency is no longer a legal tender.

   For those engaged in counterfeiting, the banks will evaluate whether old banknotes are counterfeit before exchanging them, therefore allowing the government to remove counterfeit currency from the system.
2. **Prevents tax evasion**: Demonetisation of currency can also prevent tax evasion, as those that are evading taxes must exchange their existing currency or risk their money becoming worthless. In the currency exchange process, the government can catch those who have evaded taxes and retroactive tax their unreported earnings.
3. **Promotes a cashless economy:** Demonetisation can also further the push towards a cashless economy, as the government can slow the circulation of physical currency and move towards more digital options.

Disadvantages of Demonetisation: On the other hand, some disadvantages can arise from the demonetisation process, including:

1. **Incurs costs from printing new bank notes and minting of coins:** One of the initial drawbacks is the costs involved with the printing of new bank notes and the minting of coins, as well as the discontinuation of existing currency.
2. **May not entirely reduce criminal activity:** In addition, demonetisation may not reduce criminal activity, as criminals may keep their assets in other forms, such as gold or real estate.

3. **Can trigger chaos among citizens:** Finally, if the demonetisation process is not implemented successfully, it can result in chaos among the population, as people rush to exchange their currency before discontinuation.

Other Effects of Demonetisation:

We find that districts that experienced more severe demonetisation shocks had:

- larger contractions in ATM withdrawals;
- larger reductions in economic activity, as measured by satellite data on human-generated nightlight activity and a survey-based measure of employment;
- slower credit growth; and
- faster adoption of alternative payments technologies, such as e-wallets and point-of-service cards.

Legal issues of demonetisation: The demonetisation notification is illegal because it goes beyond the scope of what is permitted under the Reserve Bank of India Act, 1934, ("RBI Act"), the stated source of authority for the notification.

Reactions of Demonetisation:

1. **Jobs:** According to Labour Bureau's Sixth Annual Employment-Unemployment Survey, the unemployment rate rose to a four-year high in 2016-17, when the government demonetized old currency notes. In 2017-18, the country's unemployment rate stood at a 45-year-high of 6.1 per cent, according to the National Sample Survey Office's (NSSO's) periodic labour force survey (PLFS). Moreover, demonetisation caused a 2-3-percentage-point reduction in jobs and national economic activity in November and December 2016, according to a research.
2. **Income taxpayers:** As many as 8.80 million taxpayers did not file tax returns in the financial year 2016-17 - the year Modi government demonetized high-value currency notes. Records accessed by The Indian Express reveal a massive spike in the number of "stop filers" in the same year, reversing a four-year trend. In 2016-17, the number of stop filers jumped 10-fold to 8.80 million from 8,56,000 in 2015-16, the highest increase since 2000-2001.

During 2017-18, there was some positive impact of demonetisation on the widening of the tax base. The Income Tax department said it added 1.07 crore new taxpayers while the number of dropped filers came down to 25.22 lakh.

3. **Real Estate:** The total number of developers in the top nine Indian cities shrunk by over 50 per cent by 2017-18. While Gurugram witnessed a decline of 76.8 per cent in the number of developers from 82 in 2011-12 to 19 in 2017-18, Noida registered a plunge of 73.2 per cent – from 41 to 11.

   Financial distress of small developers, lack of execution capability and over-supply of inventory played a key role in the downturn

4. **Farm income and wages:** Both farmers' incomes from crop cultivation as well as wages of farm labourers contracted in 2016-17 despite the above-normal monsoon season. On the positive side in agriculture as a whole, output from fishing and livestock grew the fastest in 2016-17. The growth was nearly 10 per cent over the previous year.

5. **Factory investment:** In the year when the demonetisation was implemented, investment in the country's factories contracted by10.3 per cent over 2016-17, showing their worst performance since 2002-03. In the year immediately after the note ban exercise, even as factories in the organised sector witnessed job growth and wage rise consistent with previous years, their ability to channel funds in productive capital was severely dented in 2017-18.

6. **Spending on milk and milk products:** In 2017-18, the amount spent on milk and milk products (M&MP) dropped 10 per cent. Households, hotels, and hallway shops spent Rs 6 trillion on M&MP in 2016-17, consumption expenditure reduced to Rs 5.4 trillion in 2017-18, the data released by the National Statistical Office (NSO) showed.

7. **Digitisation:** The government pushed for a less-cash society by increasing infrastructure to allow digital payments. In most of the tier-II and tier-III towns, digital payments had doubled since demonetisation. From global tech giants such as Google, WhatsApp, to few of the country's biggest mobile wallets, including PayTm, MobiKwik all adopted the digital payments system around the time demonetisation took place.

Political Impacts of Demonetisation : The political impact of the move is huge across the whole country with majority of the educated people offering support to the demonetisation. The sentimental speeches against black money made by Prime

Minister Sri Modi are drawing huge crowds turning into vote banks for BJP. There is a growing support for BJP from the educated mass and especially the youth for the bold step taken to curb black money.

The opposite political parties however oppose the demonetisation drive. The continuous adjournment of both the houses indicates this scenario. The ever silent Dr. Manmohan Singh, former Prime Minister has described this move as unlawful and against democracy. His statement came out of the blue in the Rajya Sabha in the presence of Mr. Narendra Modi, Prime Minister of India. Dr. Manmohan Singh further added that nowhere in the world, people are restricted to withdraw only 2,000 rupees from their account. Opposition parties strongly opposed the demonetisation implementation process.

Social Impacts: The information on demonetisation was released suddenly and the worst affected was the common man. The social impact was drastic with marriages facing severe issues with cash transactions in marriages coming to a standstill. Currently, People conducting marriages must produce the marriage invitation to withdraw 2,50,000 and above. This has caused great hassles among the public.

The impact on the health care sector was huge with hospitals refusing to accept the old currency. The issue was faced by the Union Minister Mr. Siddaramaiah in Bangalore when the hospital administration refused to accept the old currency to retrieve his brother's dead body. The common man faced severe issues transacting in the hospitals with old currencies and several cases of death have been registered for not attending the patients due to demonetisation.

Short Term and Long-Term Impacts of Demonetisation: As the debate around demonetisation rages on in the country, the economists have expressed varied opinions on this unprecedented reform. Here is the long term and short-term impact of government's move to make India a cashless economy.

	Short-term impact	Long-term Impact
GDP Growth	GDP growth to be negatively impacted by 0.5-1% due to drop in consumption	With a tax net widening after restriction on cash economy, GDP in the long-term likely to get a boost.
Inflation	Inflation likely to come down due to low demand owing to liquidity problem	Since effect of lower demand can have a lagging impact on inflation, prices may remain flat or fall in the long term
Interest rates	With Banks flush with cash, interest rates may come down in the short-term	If demonetisation boosts formal banking and more cash continues to come in the system, interest rates may fall further.
G-sec yield	Yields likely to fall as liquidity in the banking system means interest rates are likely to fall	Likely to remain flat to positive depending on how inflation plays out and how the country's fiscal situation is.
Fiscal Deficit	Unlikely to have much impact as most of the gains (RBI surplus, higher tax collections, penalties) will accrue after FY2017.	With likely increase in the size of formal economy, tax collections would improve improving the country's fiscal situation.

Short Questions (2 marks):

1. Define Demonetisation.

2. What is Digitization?

Essay Type Questions (6 marks):

3. What are the Objectives of Demonetisation?

4. What are the Reactions of Demonetisation?

5. Write the Long-term Impact of Demonetisation?

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UNIT-VI

INSURANCE

Insurance: *Introduction –Brief History of Insurance Industry in India – Principles of Insurance – Need and Significance of Insurance – Types of Insurance: General, Life and Health Insurance – Features – Difference between Insurance and Assurance – Re Insurance and Double Insurance.*

After studying this unit**: -**

- ☞ Able to understand principles of insurance
- ☞ Able to understand types of insurance
- ☞ Able to understand features of insurance

1.0. Introduction: Insurance is a legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. It's called a contingency because there's an uncertainty regarding happening of the event. The insured pays a premium in return for the promise made by the insurer.

1.1. Insurance Industry in India: Insurance Companies in India are recognised by the Insurance Regulatory and Development Authority of India (IRDA), the statutory body promoting and regulating various types of insurance companies in India.

- — The insurance industry comprises a total of 57 insurance companies in India.For Life Insurance Business there are 24 companies recognized by IRDA, and similarly for non-life insurance 34 companies got the approval from IRDA.
- — Life Insurance Corporation of India is the only public sector company among the life insurers.
- — General Insurance Corporation of India is the only reinsurer in India recognised by the Insurance Regulatory and Development Authority.

  And, there are 6 public sector insurers among various non-life insurance companies

1.2. Principles of Insurance: The concept of insurance is risk distribution among a group of people. Hence, cooperation becomes the basic principle of insurance. To ensure the proper functioning of an insurance contract, the insurer and the insured have to uphold the 7 principles of Insurances mentioned below:

Let us understand each principle of insurance with an example.

1. **Utmost Good Faith**: The fundamental principle is that both the parties in an insurance contract should act in good faith towards each other, i.e. they must provide clear and concise information related to the terms and conditions of the contract.

   The Insured should provide all the information related to the subject matter, and the insurer must give precise details regarding the contract.

   Example – Jacob took a health insurance policy. At the time of taking insurance, he was a smoker and failed to disclose this fact. Later, he got cancer. In such a situation, the Insurance Company will not be liable to bear the financial burden as Jacob concealed important facts.

2. **Proximate Cause**: This is also called the principle of 'Causa Proxima' or the nearest cause. This principle applies when the loss is the result of two or more causes. The insurance company will find the nearest cause of loss to the property. If the proximate cause is the one in which the property is insured, then the company must pay compensation. If it is not a cause the property is insured against, then no payment will be made by the insured.

   Example – Due to fire, a wall of a building was damaged, and the municipal authority ordered it to be demolished. While demolition, the adjoining building was damaged. The owner of the adjoining building claimed the loss under the fire policy. The court held that fire is the nearest cause of loss to the adjoining building, and the claim is payable as the felling of the wall is an inevitable result of the fire.

   In the same example, the wall of the building damaged due to fire, fell down due to storm before it could be repaired and damaged an adjoining building. The owner of the adjoining building claimed the loss under the fire policy. In this case, the fire was a remote cause, and the storm was the proximate cause; hence the claim is not payable under the fire policy.

3. **Insurable interest:** This principle says that the individual (insured) must have an insurable interest in the subject matter. Insurable interest means that the subject matter

for which the individual enters the insurance contract must provide some financial gain to the insured and also lead to a financial loss if there is any damage, destruction or loss.

Example – the owner of a vegetable cart has an insurable interest in the cart because he is earning money from it. However, if he sells the cart, he will no longer have an insurable interest in it.

To claim the amount of insurance, the insured must be the owner of the subject matter both at the time of entering the contract and at the time of the accident.

4. **Indemnity:** This principle says that insurance is done only for the coverage of the loss; hence insured should not make any profit from the insurance contract. In other words, the insured should be compensated the amount equal to the actual loss and not the amount exceeding the loss. The purpose of the indemnity principle is to set back the insured at the same financial position as he was before the loss occurred. Principle of indemnity is observed strictly for property insurance and not applicable for the life insurance contract.

   Example – The owner of a commercial building enters into an insurance contract to recover the costs for any loss or damage in future. If the building sustains structural damages from fire, then the insurer will indemnify the owner for the costs to repair the building by way of reimbursing the owner the exact amount spent on repair or by reconstructing the damaged areas using its own authorized contractors.

5. **Subrogation:** Subrogation means one party stands in for another. As per this principle, after the insured, i.e., the individual has been compensated for the incurred loss to him on the subject matter that was insured, the rights of the ownership of that property goes to the insurer, i.e. the company.

   Subrogation gives the right to the insurance company to claim the amount of loss from the third-party responsible for the same.

   Example – If Mr. A gets injured in a road accident, due to reckless driving of a third `party, the company with which Mr A took the accidental insurance will compensate the loss occurred to Mr A and will also sue the third party to recover the money paid as claim.

6. **Contribution:** Contribution principle applies when the insured takes more than one insurance policy for the same subject matter. It states the same thing as in the principle of indemnity, i.e. the insured cannot make a profit by claiming the loss of one subject matter from different policies or companies.

   Example – A property worth Rs. 4 Lakhs is insured with Company A for Rs. 3 lakhs and with company B for Rs.1 lakh. The owner in case of damage to the property for 3 lakhs can claim the full amount from Company A but then he cannot claim any amount from Company B. Now, Company A can claim the proportional amount reimbursed value from Company B.

7. **Loss Minimization:** This principle says that as an owner, it is obligatory on the part of the insurer to take necessary steps to minimize the loss to the insured property. The principle does not allow the owner to be irresponsible or negligent just because the subject matter is insured.

   Example – If a fire breaks out in your factory, you should take reasonable steps to put out the fire. You cannot just stand back and allow the fire to burn down the factory because you know that the insurance company will compensate for it.

1.3. Need and Significance of Insurance: Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance contributes a lot to the general economic growth of the society by providing stability to the functioning of process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources.

1. **Provide safety and security:** Insurance provides financial support and reduces uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance, financial assistance is provided to the family of the insured on his death. In case of other insurance, security is provided against the loss due to fire, marine, accidents etc.
2. **Generates financial resources:** Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilized for the economic development of the country. Employment opportunities are

increased by big investments leading to capital formation.

3. **Life insurance encourages savings:** Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured gets the lump sum amount at the maturity of the contract. Thus, life insurance encourages savings.
4. **Promotes economic growth:** Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turns accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities which result in economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.
5. **Medical support:** A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater to different type of health risks. The insured gets a medical support in case of medical insurance policy.
6. **Spreading of risk:** Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.
7. **Source of collecting funds:** Large funds are collected by way of premium. These funds are utilised in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

1.4. Types of Insurance:

General Insurance: - Everything, apart from life, can be insured under general insurance. It offers financial compensation for any loss other than death. General insurance covers the loss or damages caused to all the assets and liabilities. The insurance company promises to pay the assured sum to cover the loss related to the vehicle, medical treatments, fire, theft, or even financial problems during travel. General Insurance can cover almost anything, and everything but the five key types of insurances available under it are –

Health Insurance: Covers the cost of medical care.

Fire Insurance: Gives coverage for the damages caused to goods or property due to fire.

Travel Insurance: Compensates the financial liabilities arising out of non-medical or medical emergencies during travel within the country or abroad

Motor Insurance: Offers financial protection to motor vehicles from damages due to accidents, fire, theft, or natural calamities.

Home Insurance: Compensates the damage caused to home due to man-made disasters, natural calamities, or other threats

Life insurance: As the name suggests, life insurance is insurance on your life. You buy life insurance to make sure your dependents are financially secured in the event of your untimely demise. Life insurance is particularly important if you are the sole breadwinner for your family or if your family is heavily dependent on your income. Under life insurance, the policyholder's family is financially compensated in case the policyholder expires during the term of the policy.

Life insurance is a type of insurance policy in which the insurance company undertakes the task of ensuring the life of the policyholder for a premium that is paid on a daily/monthly/quarterly/ half yearly/ yearly basis.

Life Insurance policy is regarded as a protection against the uncertainties of life. It may be defined as a contract between the insurer and insured in which the insurer agrees to pay the insured a sum of money in the case of cessation of life of the individual (insured) or after the end of the policy term.

Health insurance: Health insurance is bought to cover medical costs for expensive treatments. Different types of health insurance policies cover an array of diseases and ailments. You can buy a generic health insurance policy as well as policies for specific diseases. The premium paid towards a health insurance policy usually covers treatment, hospitalization and medication costs.

1.5. Features of Insurance: The following characteristics are generally observed in the case of life, marine, fire, and general insurances.

1) **Sharing of Risk:** Insurance is a device to share the financial losses which might befall on an individual or his family on the happening of a specified event. The event may be

the death of a breadwinner to the family in the case of life insurance, marine-perils in marine insurance, fire in fire insurance and other certain events in general insurance, e.g., theft in burglary insurance, accident in motor insurance, etc. The loss arising from these events, if insured, are shared by all the insured in the form of premium.

2) **Co-operative Device:** The most important feature of every insurance plan is the co-operation of a large number of persons who, in effect, agree to share the financial loss arising due to a particular risk that is insured.

   Such a group of persons may be brought together voluntarily or through publicity or through solicitation of the agents.

   An insurer would be unable to compensate for all the losses from his own capital. So, by insuring or underwriting a large number of persons, he is able to pay the amount of loss. Like all cooperative devices, there is no compulsion here on anybody to purchase the insurance policy.

3) **Value of Risk:** The risk is evaluated before insuring to charge the amount of share of an insured, herein called, consideration or premium. There are several methods of evaluation of risks.

   If there is an expectation of more loss, a higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

4) **Payment at Contingency:** The payment is made at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty, because the contingency – the death or the expiry of the term – will certainly occur, the payment is certain. In other insurance contracts, the contingency is the fire or the marine perils, etc., may or may not occur.

   So, if the contingency occurs, payment is made, otherwise, no amount is given to the policy-holder. Similarly, in certain types of policies, payment is not certain due to the uncertainty of a particular contingency within a particular period.

   For example, in term-insurance, payment is made only when the death of the assured occurs within the specified term, may be one or two years. Similarly, in Pure Endowment, payment is made only at the survival of the insured at the expiry of the period.

5) **Payment of Fortuitous Losses:** Another characteristic of insurance is the payment of fortuitous losses. A fortuitous loss is one that is unforeseen and unexpected and occurs as a result of chance. In other words, the loss must be accidental. The law of large numbers is based on the assumption that losses are accidental and occur randomly.

For example, a person may slip on an icy sidewalk and break a leg. The loss would be fortuitous. Insurance policies do not cover intentional issues.

6) **Amount of Payment:** The amount of payment depends upon the value of loss that occurred due to the particular risk provided insurance is there up to that amount. In life insurance, the purpose is not to make good the financial loss suffered. The insurer promises to pay a fixed sum on the happening of an event.

   If the event or the contingency takes place, the payment does fall due if the policy is valid and in force at the time of the event, like property insurance, the dependents will not be required to prove the occurring of loss and the amount of loss. It is immaterial in life insurance what the amount of loss was at the time of contingency. But in the property and general insurances, the amount of loss, as well as the happening of loss, is required to be proved.

7) **A large Number of Insured Persons:** To spread the loss immediately, smoothly and cheaply, a large number of persons should be insured. The co-operation of a small number of persons may also be insurance but it will be limited to the smaller area.

   The cost of insurance for each member may be higher.

   So, it may be unmarketable. Therefore, to make the insurance cheaper, it is essential to ensure a large number of persons or property because the lesser would be the cost of insurance and so, the lower would be the premium.

   In past years, tariff associations or mutual fire insurance associations were found to share the loss at a cheaper rate. In order to function successfully, the insurance should be joined by a large number of persons.

1.6. Difference between Insurance and Assurance: Insurance guarantees financial coverage against loss or damage caused due to an uncertain event (an event which might not necessarily happen example: fire, theft, earthquake, etc.)

Assurance guarantees financial coverage against loss or damage caused due to an event that is sure to happen, for example Death.

Point of Distinction	Insurance	Assurance
Meaning	Insurance guarantees financial coverage against loss or damage caused due to an uncertain event (an event which might not necessarily happen example: fire, theft, earthquake, etc.)	Assurance guarantees financial coverage against loss or damage caused due to an event that is sure to happen, example Death.
Basis	Insurance is based upon the principle of indemnity	Assurance is based upon the principle of certainty
Protection offered	For an uncertain or anticipated event	For a definitive event
Claim payment	Claim payment is made after the happening of the anticipated event	Claim payment is made either in the event of happening or at the time of maturity
Duration	The insurance contract is for one year and is renewable every year	The duration of assurance is long-term
Type	General Insurance promises insurance	Life insurance promises assurance
Purpose	The purpose of the policy is to prevent risk and offer financial coverage for the losses of an UNCERTAIN or ANTICIPATED event	The purpose of the policy is to prevent risk, earn benefit and secure financial coverage for the losses for a CERTAIN event.

1.7. Difference between Re Insurance and Double Insurance:

Double Insurance: Double insurance refers to a situation in which the same risk and subject matter is insured more than once.

Reinsurance: Reinsurance implies an arrangement, wherein the insurer transfers a part of risk, by insuring it with another insurance company. It can be claimed with all insurers.

BASIS FOR COMPARISON	DOUBLE INSURANCE	REINSURANCE
Meaning	Double insurance refers to a situation in which the same risk and subject matter is insured more than once.	Reinsurance implies an arrangement, wherein the insurer transfers a part of risk, by insuring it with another insurance company.
Subject	Property	Original insurer's risk
Compensation	It can be claimed with all insurers.	It can be claimed from the original insurer, who will claim the same from reinsurer.
Loss	Loss will be shared by all the insurers in proportion of the sum insured.	The reinsurer will only be liable for the proportion of reinsurance.
Aim	To assure the benefit of insurance	To reduce the risk of the insurer
Interest of insured	Insurable interest	No interest
Consent of insured	Necessary	Not necessary

Short Questions (2 marks):

1. Define Insurance.
2. What is Re - Insurance?
3. What is Assurance?
4. What is Double Insurance?

Essay Type Questions (6 marks):

1. Write briefly about the Principles of Insurance?
2. What are the types of Insurance? Explain briefly.
3. What is the need and significance of the Insurance?

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UNIT-VII

LIFE AND HEALTH INSURANCE

Life and Health Insurance : *Introduction – Objectives of Life Insurance – Procedure for taking a Policy – Different Types of Life Insurance Policies – Insurance Term , Sum Assured , Premium , Bonus ,Surrender Value – Features of Health Insurance – Evaluation of Health Insurance in India – Health Insurance Policies – Significance of Health Insurance in the Light of COVID-19/New Diseases.*

After studying this unit: -

- ☞ Able to understand objectives of life insurance
- ☞ Able to understand different types of life insurance policies
- ☞ Able to understand evaluation of health insurance in India.

1.0. Introduction: Insurance is a legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. It’s called a contingency because there’s an uncertainty regarding happening of the event. The insured pays a premium in return for the promise made by the insurer.

1.1. Life Insurance - Objectives: Life Insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer (insurance company) promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period.

Objectives of Life Insurance: Life Insurance Corporation of India was established on 1st September 1956 with the following objectives –

1) Spread life insurance widely and in particular to the rural areas, to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
2) The maximization of mobilization of people’s savings for nation building activities.
3) Provide complete security and promote efficient service to the policy-holders at economic premium rates.
4) Conduct business with utmost economy and with the full realization that the money

belongs to the policyholders.

5) Act as trustees of the insured public in their individual and collective capacities.
6) Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
7) Promote amongst all agent and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards the achievement of corporate objectives.
8) Involve all people working in the corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy.

1.2. Procedure for Taking a Insurance Policy:

1) **Procedure for Taking a Life Policy:** Life policy is based on the principle of utmost good faith. The procedure-filling in the form is quite simple. It is almost like a home industry where the person who wishes to make an investment in the form of insurance. The first thing to do is to fill in a proposal form.

   The proposal form contains the following details:

   - Name, nationality, permanent residential address, occupation, nature of duties, present employer's name, length of service, previous employment record, father's name in full.
   - Place of birth, date of birth, proof of age and district of birth.
   - Term of insurance, nature of insurance, type of policy, amount to be insured, mode of premium payable — yearly, half-yearly, quarterly and monthly.
   - Personal information regarding height, weight where the life is proposed.
   - Details of any previous policies - whether one or double insurance.
   - Family history, history of father, mother, brothers, sisters, children.
   - Information regarding diseases like epileptics, asthma, tuberculosis, cancer, leprosy, etc.
   - Information regarding previous records of accident, injury, operation diseases.

2) **Medical Examination:** If the applicant has a family history of disease, then the investment procedure is more detailed and description about permanent immunity and other family diseases have to be given including habits, name, income, occupation and salary. A person of normal health almost goes through a medical examination as a matter of formality.

3) **Medical Report:** The next step after filling-in proposal form is to undergo a medical examination from one of the doctors approved by the Life Insurance Corporation.The examination is usually of a routine kind where the identification of the applicant his appearance, measurement, weight, condition of teeth, eyes, throat, tongue, ears, and condition of heart, chest, digestion, nerve system and past operation is taken into consideration to find out the life span of the individual.

4) **Agent's Report:** The third step consists of a report which is confidential in nature. It is made by the agent who is underwriting the life of the person. His report consists of the age of the person insuring himself, his health, occupation, soundness of payment of premium, proper health and longevity of life.

5) **Acceptance of Proposal:** The Life Insurance Corporation accepts the proposal of the insurer on the commitment made by the agent and after taking into consideration the doctor's medical report. The factors which play a dominating role are the mode of premium, type of policy, the age of the applicant, his health, occupation and habits. Once these factors have been considered and the Life Insurance Corporation's officers are satisfied, the form is accepted. An investor's form will be rejected only if he suffers from serious diseases or the longevity of life cannot be guaranteed.

6) **Proof of Age:** The next step after accepting the proposal of a person is to ask him to submit the proof the age. The person who is interested in insuring himself may give this proof by submitting any of the following documents:
   - ❖ A copy of a certificate giving details of the school leaving examination with age or date of birth stated therein;
   - ❖ Municipal records;
   - ❖ Original horoscope prepared at the time of birth, if no proof of age is available;
   - ❖ In the case of uneducated families, entry in the family record through birth registers;
   - ❖ Employer's Certificate
   - ❖ Any other satisfactory proof.

7) **Mode of Premium:** When an investor takes a life policy on his portfolio, he must pay some installment to the life insurance company for this investment. This installment is called premium and may be paid periodically.

It may be paid annually, half-yearly, quarterly or monthly. Usually, a period of 30 days is given as grace beyond the due date of payment of premium. The rates of premium are different for different kinds of policies offered as investment.

8) **Issue of Policy:** When all these formalities are completed the Life Insurance Corporation sends a life policy to the insured. This legal document between the life company and the insured states the details of the policy.

   It gives details regarding the age, address, sum assured, type of policy with or without profits, date of maturity, premium, mode of payment of premium, name of person who is entitled to receive the ultimate sum, amount at the termination of the policy, the surrender value of the policy, the settlement of claims of policy and all other conditions of the contract.

   The Life Insurance Corporation sends this policy under its seal and signature of its officers. On receiving this policy, the investor begins his investment with the Life Insurance Corporation of India.

1.3. Different Types of Life Insurance Policies:

1. **Term insurance plan:** Term insurance plan As the name says Term insurance plan are those plan that is purchased for a fixed period of time, say 10, 20 or 30 years. As these policies don’t carry any cash value their policies do not carry any maturity benefits, hence their policies are cheaper as compared to other policies. This policy turns beneficial only on the occurrence of the event.
2. **Endowment policy**: The only difference between the term insurance plan and the endowment policy is that endowment policy comes with the extra benefit that the policyholder will receive a lump sum amount in case if he survives until the date of maturity. Rest details of term policy are the same and also applicable to an endowment policy.
3. **Unit Linked Insurance Plan:** These plans offer policyholder to build wealth in addition to life security. Premium paid into this policy is bifurcated into two parts, one for the purpose of Life insurance and another for the purpose of building wealth. This plan offers to partially withdraw the amount.
4. **Money Back Policy:** This policy is similar to endowment policy; the only difference is that this policy provides many survival benefits which are allotted proportionately over the period of the policy term.

5. **Whole Life Policy:** Unlike other policies which expire at the end of a specified period of time, this policy extends up to the whole life of the insured. This policy also provides the survival benefit to the insured. In this type of policy, the policyholder has an option to partially withdraw the sum insured. Policyholder also has the option to borrow sum against the policy.

6. **Annuity/ Pension Plan:** Under this policy, the amount collected in the form of a premium is accumulated as assets and distributed to the policyholder in the form of income by way of annuity or lump sum depending on the instruction of insured.

1.4. Insurance Terminology:

Sum Assured: Sum assured is a pre-decided amount that the insurance company pays to the policyholder when the insured event takes place. For example, when you buy a life insurance policy, the insurer guarantees to pay a sum assured to the nominee in case of the insured person's demise.

Premium: An insurance premium is the amount of money an individual or business pays for an insurance policy. Once earned, the premium is income for the insurance company. It also represents a liability, as the insurer must provide coverage for claims being made against the policy.

Bonus: Some life insurance policies allocate a share of their profits as a bonus. It is a payout one receives in addition to the entitled basic sum assured. The concept of the bonus is simple. The extra sum which keeps accumulating under the plan every year is paid to the policyholder at death or upon maturity.

Surrender Value: It is the amount the policyholder will get from the life insurance company if he decides to exit the policy before maturity. A regular premium policy acquires surrender value after the policyholder has paid the premiums continuously for three years.

The cash surrender value is the sum of money an insurance company pays to a policyholder or an annuity contract owner in the event that their policy is voluntarily terminated before its maturity or an insured event occurs. It is also known as "cash value," "surrender value," and "policyholder's equity."

Policy Holder: The policyholder is the one who proposes the purchase of the life insurance policy and pays the premium. The policyholder is the owner of the policy and s/he may or may not be the life assured.

Life Assured: Life assured is the insured person. Life assured is the one for whom the life insurance plan is purchased to cover the risk of untimely death. Primarily, the breadwinner of the family is the life assured.

Life assured may or may not be the policyholder. For instance, a husband buys a life insurance plan for his wife. As the wife is a homemaker, husband pays the premium, thus the husband is the policyholder, and wife is the life assured.

Nominee: The 'nominee' is the person (legal heir) nominated by the policyholder to whom the sum assured and other benefits will be paid by the life insurance company in case of an unfortunate eventuality. The nominee could be the wife, child, parents, etc. of the policyholder. The nominee needs to claim life insurance, if the life assured dies during the policy tenure.

Policy Tenure: The 'policy tenure' is the duration for which the policy provides life insurance coverage. The policy tenure can be any period ranging from 1 year to 100 years or whole life, depending on the types of life insurance plan and its terms and conditions. Many a times, it is also referred to as policy term or policy duration.

The policy tenure decides for how long the company is providing the risk coverage. However, in the case of whole life insurance plans, the life coverage is till the time life assured is alive.

Maturity Age: Maturity age is the age of the life assured at which the policy ends or terminates. This is similar to policy tenure, but a different way to say how long the plan will be in force. Basically, the life insurance company declares up front the maximum age till which the life insurance coverage will be provided to the life insured. For instance, you are 30 years old; you opt for a term plan with a maturity age of 65 years. That means the policy will have coverage till you are 65 years old, which also means, the maximum policy tenure for a 30-year-old is 35 years.

1.5. Health Insurance - Features: Health insurance is bought to cover medical costs for expensive treatments. Different types of health insurance policies cover an array of diseases and ailments. You can buy a generic health insurance policy as well as policies for specific diseases. The premium paid towards a health insurance policy usually covers treatment, hospitalisation and medication costs.

Features of Health Insurance: -

1. **Pre-Existing Condition:** A pre-existing condition is a health problem that existed before you applied for your health insurance policy. Examples include heart disease, high blood pressure, asthma or even something as minor as a previous accidental injury. Check with your health insurance provider for their list of pre-existing conditions, as they wouldn't be covered for 48 months after you purchase the first policy.

2. **The obvious one: how much does it cost?**

   While browsing for the best Health Insurance plans for your family, you may notice that there are significant price differentials between policies of different companies, offering the same coverage. This could be an outcome of differences in underwriting processes or even brokerage structures, but in case the features are more or less the same, why should you pay more?

   In case of young families where the eldest member is under 40, it may make sense to take a family floater plan rather than separate policies. After evaluating what is best for your unique situation, check the difference between taking one family floater plan of say 20 Lakhs, versus four individual plans of 5 lakhs each.

3. **Cap-in:** Though you may have purchased a policy with a cover of Rs. 5 lakhs, your insurer may have incorporated a feature called 'disease wise capping' which might restrict the maximum payout for a specific set of illnesses to say, 1 Lakh. Make sure you know which ones these are. The higher the cap, the better it is for you.

4. **Waiting period:** The waiting period for pre-existing conditions is usually four years. In addition, many policies will incorporate an additional 'waiting period' for specific diseases (for instance, cataract). Needless to say, it is best if this waiting period clause doesn't exist in the policy, you are about to purchase. In the event that it does exist, it is best if the waiting period is extremely short.

5. **Sub-limits:** Many health insurers will issue 'sub limits' on things like lodging, thereby capping the proportion of expenses payable towards it. Make sure yours doesn't.

6. **Claim settlement ratio:** We saved the best for the last! It is vital to know what percentage of claims for a particular policy gets declined and what percentage goes through. Needless to say, a high claim settlement ratio is preferred. You should look for a ratio of at least 90 to 95%. Anything less than 80% is a no-go.

7. **Co-payment required?**

Some Health Plans will mandate that the policyholder bears a percentage of the total expenses. This feature is known as 'co-pay', and is a clear disadvantage. Make sure yours doesn't require a co-payment. If it does - it's best that it isn't more than 10%.

8. **Maternity Coverage:** All Health Policies do not cover expenses related to maternity. Check back to see if yours does. Some policies may cover maternity, but with a pre-specified waiting period.

9. **Medical Check-Up Facility:** Some Health policies have an inbuilt preventive health check facility. This can be very useful for diagnosing lifestyle diseases early on in their cycle.

10. **Wellness Benefits:** Check back to see if your Health Insurance policy provides for a fixed sum of money annually for wellness or fitness services such as a gym membership. That's not a bad feature at all - provided you make use of it, of course!

1.6. Evaluation of Health Insurance in India: Health insurance in India is a growing segment of India's economy. The Indian health system is one of the largest in the world, with the number of people it concerns: nearly 1.3 billion potential beneficiaries. The health industry in India has rapidly become one of the most important sectors in the country in terms of income and job creation. In 2018, one hundred million Indian households (500 million people) do not benefit from health coverage. In 2011, 3.9% of India's gross domestic product was spent in the health sector. According to the World Health Organization (WHO), this is among the lowest of the BRICS (Brazil, Russia, India, China, South-Africa) economies. Policies are available that offer both individual and family cover. Out of this 3.9%, health insurance accounts for 5-10% of expenditure, employers account for around 9% while personal expenditure amounts to an astounding 82%. In the year 2016, the NSSO released the report "Key Indicators of Social Consumption in India: Health" based on its 71st round of surveys. The survey carried out in the year 2014 found out that, more than 80% of Indians are not covered under any health insurance plan, and only 18% (government funded 12%) of the urban population and 14% (government funded 13%) of the rural population was covered under any form of health insurance.

Private health insurance: In 1999, the Insurance Regulatory and Development Authority Act (IRDA) liberalized and opened the market in India to foreign insurance companies. Private–public collaboration in health insurance, advocates claim, would encourage competition between different care plans and permit patient choice of providers affording greater flexibility (WHO 2000). Due to the investment of a number of foreign firms, health insurance is now the second largest business in the non-life insurance sector (Sen, Pickett, and Burns 2014). But despite the efforts of 40 private health insurance providers operating in India in 2010, only 2% of the population had private insurance in that year (Thomas and Vel 2011). While some see India as a lucrative business opportunity for health insurance in the future (Yellaiah 2013), insurance schemes so far have proved to be a risky business venture due to a low level of insurance awareness as well as poor healthcare infrastructure in rural areas (Vellakkal 2009a; Vellakkal and Ebrahim 2013; Ahmed 2013; Gupta 2006; Thomas and Vel 2011).

Private health insurers recognise India as a potential market due to its increasing purchasing power, growing demand for healthcare, an expanding competitive private healthcare market, and rising rates of chronic disease (Burns 2014; Burns, Srinivasan, and Vaidya 2014). Because of this profit-oriented approach, private health insurers target mainly the middle-class population. This is also evident from the cost of insurance policies, with annual premiums typically starting at Rs 4000 per member and covering only inpatient treatment for a maximum of Rs 0.4 million annually (Thomas and Vel 2011).

Health Insurance Plans: Health insurance plans in India today can be broadly classified into these categories:

a) **Hospitalization:** Hospitalization plans are indemnity plans that pay cost of hospitalization and medical costs of the insured subject to the sum insured. The sum insured can be applied on a per member basis in case of individual health policies or on a floater basis in case of family floater policies. In case of floater policies, the sum insured can be utilized by any of the members insured under the plan. These policies do not normally pay any cash benefit. In addition to hospitalization benefits, specific policies may offer a number of additional benefits like maternity and newborn coverage, day care procedures for specific procedures, pre- and post-hospitalization care, domiciliary benefits where patients cannot be moved to a hospital, daily cash, and convalescence.

   There is another type of hospitalization policy called a top-up policy. Top up policies have a high deductible typically set a level of existing cover. This policy is targeted at people who have some amount of insurance from their employer. If the employer-provided cover is not enough, people can supplement their cover with the top-up policy. However, this is subject to deduction on every claim reported for every member on the final amount payable.

b) **Family Floater Health Insurance:** Family health insurance plan covers entire family in one health insurance plan. It works under assumption that not all member of a family will suffer from illness in one time. It covers hospital expenses which can be pre and post. Most of health insurance companies in India offering family insurance have good network of hospitals to benefit the insurer in times of emergency.

c) **Pre-Existing Disease Cover Plans**: It offers covers against disease that policyholder had before buying health policy. Pre-Existing Disease Cover Plans offers cover against pre-existing disease e.g., diabetes, kidney failure and many more. After waiting period of 2 to 4 years, it gives all covers to insurer.

d) **Senior Citizen Health Insurance:** As name suggest these kinds of health insurance plans are for older people in the family. It provides cover and protection from health issues during old age. According to IRDAI guidelines, each insurer should provide cover up to the age of 65 years.

e) **Maternity Health Insurance:** Maternity health insurance ensures coverage for maternity and other additional expenses. It takes care of both pre and post-natal care, baby delivery (either normal or caesarean). Like other insurance, the maternity insurance provider has wide range of network hospitals and takes care of ambulance expense.

These services are supervised by the Maternity Benefit Act. The Maternity Benefit Act applies to women who do not work in an establishment covered by the ESI but who are employed in factories, mines, circuses, plantations, shops or other establishments employing at least 10 persons. Also covered are women working in an establishment covered by the ESI, but whose salary exceeds the ceiling of subjection.

Since 2010, the Indira Gandhi Matritva Sahyog Yojana (IGMSY) program, run by the Ministry of Women and Child Development, has been set up in some districts (52 in 2017). This program is intended for pregnant women aged 19 or over, during their first 2 completed pregnancies (viable child). The benefit consists of a total amount of `.6000 paid in 3 installments, subject to having performed the obligatory medical examinations for the mother and the child -

- at the end of the 2nd trimester of pregnancy
- at birth
- to 6 months of the child

f) **Hospital daily cash benefit plans:** Daily cash benefits are a defined benefit policy that pays a defined sum of money for every day of hospitalization. The payments are for a defined number of days in the policy year and may be subject to a deductible of few days.

g) **Critical illness plans:** These are benefit-based policies which pay a lump sum (fixed) benefit amount on diagnosis of covered critical illness and medical procedures. These illnesses are generally specific and high severity and low frequency in nature that cost high when compared to day-to-day medical / treatment need. e.g., heart attack, cancer, stroke etc. Now, some insurers have come up with option of staggered payment of claims in combination to upfront lump sum payment.

h) **Proactive plans:** Some companies offer Pro-active living programs. These are designed keeping in mind the Indian market and provide assistance based on medical, behavioral and lifestyle factors associated with chronic conditions. These services aim to help customers understand and manage their health better.

i) **Disease specific special plans:** Some companies offer specially designed disease-specific-plans like Dengue Care. These are designed keeping in mind the growing occurrence of viral diseases like Dengue in India which has become a cause of concern and thus provide assistance based on medical needs, behavioral and lifestyle factors associated with such conditions. These plans aim to help customers manage their unexpected health expenses better and at a very minimal cost.

1.7. Significance of Health Insurance in the light of COVID-19/ New Diseases: During this pandemic, everyone is at increased risk and since the disease is also new to the world, the treatment is still being developed and optimized. Health insurance during this time is very important and the following points will stress on why it is important.

ICU Requirement is High in COVID Treatment: The challenge with Covid-19 treatment is that quite a number of hospitalized cases require intensive care treatment and ventilator support, eventually. With the current caseload in India, both of these are scarce and expensive which drives the cost of treatment upwards very quickly.

Cases of hospitalization charges running upwards of Rs. 10 lakhs in tier 1 and tier 2 cities are not uncommon. Without Mediclaim, this is a huge bill for the average Indian citizen.

Everyone is at Risk: The probability of multiple members of a family getting the virus and requiring hospitalization is not too low, as reported by many surveys. Multiple cases of hospitalization from the same family can quickly add up to huge expenses often drying up entire life's savings. Healthcare coverage can save families from financial ruin in such cases.

Expensive Protective Gear: Even wherever hospitalization doesn't require intensive care, the cost of general treatment is high due to special protective gear required for Covid-19. Personal Protective Equipment (PPE) kits including gloves, masks and other supplies to protect healthcare workers come at a cost, and the final bill amount could still end up in a few lakh rupees due to this.

Emergency Coverage: Often there is a requirement for immediate hospitalization due to oxygen levels falling abruptly. This is more of a concern in rural and semi-urban areas where regular transport at odd hours might be difficult. During such times, ambulance cover provided in a healthcare plan can be a savior.

Income Benefit: Some healthcare plans have income benefits which can help families coping with financial difficulties arising out of unemployment (due to hospitalization) triggered by this pandemic.

AYUSH Treatment Coverage: During the pandemic the Health Ministry has emphasized alternative treatments like AYUSH which have been found to be highly effective in preventing Corona in many cases. In-patient AYUSH treatments are now covered under most Mediclaim plans, as per IRDAI guidelines. This can prove to be quite helpful for people unable to afford such treatments.

1.8. Benefits of Health Insurance Plans: The benefits of health insurance in India cannot be overstated. Purchasing a health insurance policy can help you receive medical care without blowing up all your savings. Health care plans today offer much more than mere hospitalization expenses.

Here is a little brief on the benefits of health insurance plans and why the investment might be worth it!

Hospitalization expenses: Every health insurance plan covers cost of medical treatments in case the policy holder gets in an accident or incurs an illness.

Day care facilities: Technological advancements in medical field have made it possible for medical procedures to be performed in less than 24 hours and hence they do not need you to be hospitalized. Nearly every health insurance plan covers day care expenses in their network hospitals.

Cashless hospitalization facility: Most insurance plans that offer cashless hospitalization policy for over 6600 hospitals in India. The claim procedure is fairly quick and easy and saves one from worrying about immediate cash arrangements at the time of a medical emergency.

Room rent: Most reputed health insurance providers cover the room rent during hospitalization. While some health insurance policies cover the entire cost of room, some of them cover only a certain percentage of total cost in current room rent. Read the fine print before purchasing the policy.

Domiciliary expenses: The cost of domiciliary expenses is also a part of coverage in your health insurance plan. Special therapies like Unani, Ayurveda, Acupuncture and Acupressure are covered in your health insurance.

Ambulance expenses: Health insurance plans are so planned that even your smallest needs are well taken care of. Cost of ambulance is also covered to ensure extra protection and peace of mind for policy holders.

Tax benefits: Besides all the above-mentioned benefits, the most important one to consider is the health insurance tax benefit offered by your insurance provider. These medical insurance tax benefits can be availed of based on the premiums you are paying for health insurance plan for yourself, spouse, children and other dependents.

Short Questions (2 marks):

1. Define Life Insurance.
2. Define Health Insurance.
3. What is Sum Assured?
4. What is Surrender Value?
5. What is Health Insurance?

Essay Type Questions (6 marks):

1. Write briefly about the Principles of Insurance?
2. What are the Objectives of Life Insurance?
3. Write about the various types Life Insurance policies.
4. What are the Features of Health Insurance?
5. Write briefly about any six Health Insurance Plans.

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UNIT-VIII

GENERAL INSURANCE

General Insurance: *Introduction – Importance – Types of General Insurance: Marine, Fire, Motor Insurance etc, – Advantages – Types of Motor Insurance – Key Insurance Documents: Proposal Forms/Policy Forms/Cover Notes/Certificates of Insurance/Endorsements, Renewal notice/Other Insurance Documents.*

After studying this unit: -

- ☞ Able to understand types of general insurance
- ☞ Able to understand advantages of general insurance

1.0. Introduction: Insurance is a legal agreement between two parties i.e., the insurance company (insurer) and the individual (insured). In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. It is called a contingency because there is an uncertainty regarding happening of the event. The insured pays a premium in return for the promise made by the insurer.

1.1. General Insurance - Importance: General insurance is designed to protect the things you value. Your insurance company will pay you the sum assured or an agreed amount to cover some or all the loss under certain situations.

Definition: Insurance contracts that do not come under the ambit of life insurance are called general insurance. The different forms of general insurance are fire, marine, motor, accident and other miscellaneous non-life insurance. Like life insurance, general insurance products come at a price in the form of premium.

Importance of General insurance: General insurance helps us protect ourselves and the things we value, such as our homes, our cars and our valuables, from the financial impact of risks, big and small – from fire, flood, storm and earthquake, to theft, car accidents, travel mishaps – and even from the costs of legal action against us.

i) **To avoid car damage expenses:** If you have insured your car, you do not need to worry about the costs of the damage occurred. You can claim your insurance amount to pay for your loss.

ii) **To cover hospital bills:** General insurance can cover your hospital bills if you have bought health insurance. You can also avail of additional health insurance policies if the insurance money is insufficient.

iii) **To secure property:** With the full range of choices from various types of insurance, you can select the one or many to safeguard your family as well as your assets. The general insurance financially protects your property from any damage.

iv) **To secure business:** The general insurance plans include a policy to protect the property and anything related to your business. This can save you from facing massive financial loss due to natural calamity.

1.2. Different types of general insurance: General insurance covers home, your travel, vehicle, and health (non-life assets) from fire, floods, accidents, man-made disasters, and theft. Different types of general insurance include motor insurance, health insurance, travel insurance, and home insurance.

Types of General Insurances in India: There are a lot of general insurance plans available in the market. However, the popular and the most important ones are as follows:

A. **Health insurance**
B. **Motor Insurance**
C. **Travel Insurance**
D. **Marine Insurance**
E. **Home Insurance**
F. **Fire Insurance**

A. **Health Insurance**: Health insurance plans cover the medical expenses which you incur if you fall ill or are injured and need medical assistance. Since the cost of medicine is very high, health insurance plans prove very beneficial. They pay for the medical expenses thereby saving your finances from the strain of the costs incurred on your treatments.

Features of health insurance plans: Here are some of the common features of health insurance plans:

- Health plans can be taken to cover yourself as well as your family members

- Expenses incurred on room rent, surgery, nurse's fees, doctor's fees, ambulance, day care treatments, etc. are all covered under health insurance plans
- The premiums paid are allowed as a deduction. You can claim a deduction of up to `. 1 lakh by paying health insurance premiums for yourself, your family and dependent parents.

Types of health insurance plans: There are different types of health insurance plans available in the market. These include the following:

i) Individual health plans: Individual health plans which cover a single individual.
ii) Family floater plans: Family floater plans which cover the whole family.
iii) Senior citizen plans: Senior citizen plans which cover senior citizens
iv) Critical illness plans: Critical illness plans which cover specified critical illnesses
v) Disease specific plans: Disease specific plans for specific diseases.
vi) Top-up and super top-up plans: Top-up and super top-up plans for supplementing an existing coverage
vii) Hospital cash plans: Hospital cash plans which pay a daily benefit in case of hospitalization

B. Motor insurance: Motor insurance plans are general insurance plans for vehicles. These plans are mandatory as per law and have to be bought for every vehicle so that the vehicle is allowed to run on Indian roads.

Types of motor insurance plans: There are two types of policies available in the market.

- third party liability and
- comprehensive

Third-party plans: Third-party plans are legally mandatory while comprehensive plans are voluntary. Third-party plans cover only the financial liability suffered if you harm any individual or third-party property.

Comprehensive plans: Comprehensive plans also cover the damages suffered by your vehicle itself. There are different motor insurance policies covering cars, two-wheelers and commercial vehicles

C. Travel insurance: Travel insurance plans are those which cover financial emergencies that you face when you are travelling to another place. These plans, therefore, cover your trips against unforeseen emergencies.

Types of travel insurance plans: Travel insurance plans can be of the following types:

- International travel insurance plans
- Domestic travel insurance plans
- Student travel insurance plans
- Senior citizen travel insurance plans
- Single trip policies
- Annual multi-trip policies

Features of travel insurance plans: Coverage under travel insurance plans include the following common benefits:

- Medical emergencies
- Medical evacuation and repatriation
- Loss of checked-in-baggage
- Delay of checked-in baggage
- Loss of passport
- Personal accident
- Third-party liability
- Trip cancellation or curtailment
- The policy covers you for the duration of your trip
- You can also cover family members going on a trip with you under the same plan

D. Marine Insurance: Marine Insurance is a type of insurance policy that provides coverage against any damage/loss caused to cargo vessels, ships, terminals, etc. in which the goods are transported from one point of origin to another.

Types of Marine Insurance policies:

- Floating Policy
- Voyage Policy.

- Time Policy.
- Mixed Policy.
- Named Policy.
- Port Risk Policy.
- Fleet Policy.
- Single Vessel Policy.

Principles of Marine Insurance: The following are the principles of Marine Insurance. In fact, these are not restricted to Marine Insurance but any insurance policy. These were already discussed.

- Principle of Utmost Good Faith.
- Principle of Insurable Interest.
- Principle of Indemnity.
- Principle of Cause Proxima.
- Principle of Loss Minimization.

1.3. Home Insurance: Home insurance plans cover the financial losses that you suffer in case of your home and/or its contents are damaged. Home insurance policies, therefore, provide financial coverage against natural and man-made disasters which cause a loss to your house property.

Features of home insurance: There are three types of home insurance policies. They are as follows:

- Structure insurance which covers the structure of your home
- Contents insurance which covers the contents of your home
- A comprehensive policy which covers both structure as well as the contents of your home
- The policy covers natural calamities like earthquakes, floods, storms, cyclones, etc.
- Man-made calamities are also covered like fire, theft, riots, etc.
- The policy can be taken on a replacement value clause or market value clause

1.4. Fire insurance: Fire insurance policies cover the damages caused by fire and other related perils. The policy covers damages suffered by property or specified assets.

Features of fire insurance plans:

- The policy covers the cost of repairs or replacement of the insured asset when it is damaged by fire or related perils
- A fire insurance plan also covers damages suffered due to lightning, floods, storms, cyclones, inundation, impact damage, missile testing operations, etc.
- If any third-party property is damaged due to fire or other covered perils, the policy would cover such losses too.
- There are various extensions which are available under fire insurance plans. These extensions come at an additional premium. You can add as many extensions that you like to enhance the coverage.

Types of fire insurance plans: There are different types of fire insurance policies which include the following:

- Valued policy
- Floating policy
- Specific policy
- Comprehensive policy, etc.

1.5. Documents needed to buy general insurance plans: You would need the following documents to buy a general insurance policy:

- Proposal form for the policy
- Identity proof
- Age proof
- Address proof
- Details of the asset which is being covered
- Photographs
- Other documents depending on the type of policy that you buy

1.6. Advantages of General Insurance: The insurance gives benefits to individuals and organizations in many ways. Some of the benefits are discussed below:

- The obvious benefit of insurance is the payment of losses.

- Manages cash flow uncertainty when paying capacity at the time of losses is reduced significantly.
- Complies with legal requirements by meeting contractual and statutory requirements, also provides evidence of financial resources.
- Promotes risk control activity by providing incentives to implement a programme of losing control because of policy requirements.
- The efficient use of the insured's resources. It provides a source of investment funds. Insurers collect the premiums and invest those in a variety of investment plans.
- Insurance is support for the insured's credit. It facilitates loans to organisations and individuals by guaranteeing the lender payment at the time when collateral for the loan is destroyed by an insured event. Hence, reducing the uncertainty of the lender's default by the party borrowing funds.
- It reduces social burden by reducing uncompensated accident victims and the uncertainty of society.
- The plans cover financial losses and compensate you for the losses that you suffer. As such, general insurance plans provide you financial security even in the case of contingencies
- In some cases, general insurance plans are mandatory by law. For instance, motor insurance plans are mandatory as per the Motor Vehicles Act, 1988. Similarly, if you are travelling to Schengen countries, you mandatorily need a valid overseas health insurance plan. When you buy such mandated plans, you fulfill the legal obligation and save yourself from violation offences.
- General insurance plans help in protecting your savings in emergency situations. You can, therefore, use your savings to fulfill your financial goals
- Health insurance plans, which are a type of general insurance plan, allow you tax benefits. The premiums paid for such plans are allowed as a deduction under Section 80D. This deduction helps in lowering your taxable income which, in turn, lowers your tax liability and helps you save tax.

1.7. Documents required to make a claim:

- Copy of your insurance policy.
- First Information Report (FIR) filed with the police.
- Duly filled up and signed Claim Form.
- Copy of the registration certificate of your car.
- Copy of your driving license.
- A detailed estimate of the repairs.
- Medical receipts in case of physical injuries.

Key Insurance Documents:

Proposal Form: A proposal form is a legal document that seeks relevant information from you so that the insurance company understands you well. A proposal form in insurance is not just about giving out your details such as your name, age, gender and address.

Cover Notes: A cover note is a temporary document issued by an insurance company that provides proof of insurance coverage until a final insurance policy can be issued. A cover note features the name of the insured, the insurer, the coverage, and what is being covered by the insurance.

Certificate of Insurance: A certificate of insurance (COI) is a document that contains all the essential details of an insurance policy. It encompasses a complete snapshot of the policy on a single form, including the most pertinent aspects, such as: Policyholder's Name, Policy Effective Date, Type of Coverage.

Endorsement: An insurance endorsement/rider is an amendment to an existing insurance contract that changes the terms of the original policy. An endorsement/rider can be issued at the time of purchase, mid-term or at renewal time. Insurance premiums may be affected and adjusted as a result.

Renewal Notice: It is an official document that tells you that an agreement will soon end, and an arrangement needs to be made if you want to continue it for an extra period of time: Your new insurance premium is shown on the enclosed renewal notice.

Other Insurance Documents: Documents are necessary to evidence the existence of a contract. In life insurance, several documents are in vogue. The documents stand as a proof of the contract between the insurer and the insured. The major documents in vogue in life insurance are premium receipt, insurance policy, endorsements etc.

Short Answer Questions (2 marks):

1. Define General Insurance.
2. Define marine Insurance.
3. What is Fire Insurance?
4. What is Motor Insurance?
5. What is Endorsement?

Essay Type Questions (6 marks):

1. Write briefly about the Importance of General Insurance?
2. What are the types of Motor Insurance Policies?
3. Write about the various types General Insurance.
4. What are the Advantages of General Insurance?
5. Write briefly about key Insurance Documents.

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BANKING AND RETAIL MANAGEMENT
1st YEAR PAPER – I
BANKING AND INSURANCE - I (THEORY)
MODEL QUESTION PAPER

Time: 3Hrs **Max Marks: 50**

SECTION - A

Answer **All** the Questions Each Question Carries **Two** Marks. 10×2=20

1. Define Bank.
2. What is a RRB?
3. What is Nationalization of Banks?
4. Who is Bank Ombudsman?
5. What are Negotiable Instruments?
6. What is Demonetization?
7. What is Insurance?
8. What is Surrender Value?
9. What is Health Insurance?
10. What is Marine Insurance?

SECTION – B

Answer any **Five** of the following. Each Question Carries **Six** Marks. 5×6=30

11. Write briefly about Banking Structure in India?
12. What are the Objectives of Mergers of Banks?
13. Write the procedure to file complaint with Ombudsman?
14. What are characteristics of the Bill?
15. What are the Objectives of the Demonetization?
16. What are the Principles of Insurance?
17. What is the significance of Health Insurance?
18. What are the advantages of Fire Insurance?

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BANKING AND RETAIL MANAGEMENT (BRM)

1st YEAR PAPER – II

BUSINESS ACCOUNTANCY - I

INDEX

UNIT – I

FUNDAMENTALS OF BUSINESS & ACCOUNTANCY

Introduction – Features of Business –trade, industry and commerce- Classification of trade and industry – Introduction to Accountancy: Definition – Book Keeping – Accountancy – Objectives - Merits and Demerits.

Learning Objectives: After studying this unit, the student will be able to --

- Understand the Features of Business
- Understand the Accountancy Objectives

1. Introduction to Business: Business means the production or purchase of goods with a view to sell them at profit. Besides, if services are rendered on payment to others, they shall be included in business. Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods and services.

"Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods". — L. H. Haney.

1.1. Features of Business:

a) Economic activity: Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industry, trade etc. it is an economic activity concerned with creation of utilities for the satisfaction of human wants. It provides a source of income to the society. Business results in generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

b) Buying and Selling: The basic activity of any business is trading. The business involves buying of raw material, plant and machinery, stationery, property etc. On the other hand, it sells the finished products to the consumers, wholesaler, retailer etc. Business makes available various goods and services to the different sections of the society.

c) **Continuous process**: Business is not a single time activity. It is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. A business should be conducted regularly in order to grow and gain regular returns.

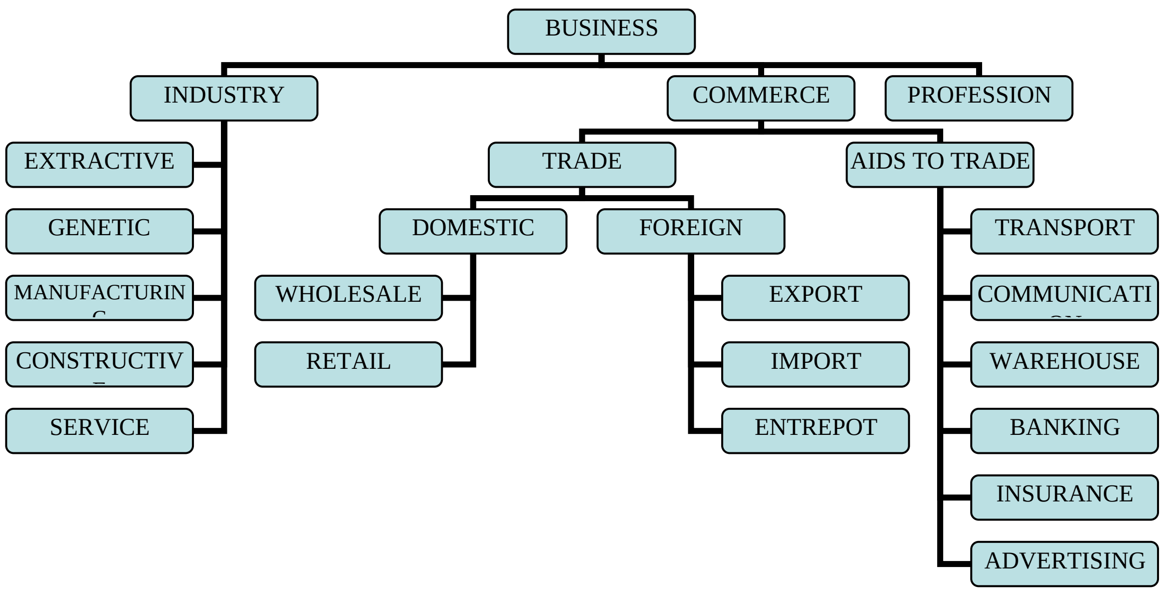
d) **Profit Motive**: Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. It is a return on investment. Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

e) **Risk**: Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business.

Thus, the features of a business are –

- Economic activity
- Capital
- Profit
- Risk

1.2. Classifications of Business Activities:



Industry: The sector where raw material gets converted into useful products is called industry. Activities related to production and processing as well as activities related to rearing and reproduction of animals or other living species are all included in the industry. The purpose of industry is to create form utility by converting raw materials into useful forms of finished products. An industry may produce consumer goods or capital goods. Goods such as bread, butter, cloth, radio, etc. are consumer goods. These goods are directly used by the consumer. Goods such as machinery, cement etc. are called capital goods as these are used further in the production process to make useful products. Industries are further subdivided as follows:

a) **Extractive Industry**: These industries extract or draw out products from natural sources. E.g., farming, mining, lumbering, hunting & fishing operation.
b) **Genetic Industry**: The industries involved in the activities of rearing and breeding of living organism i.e., birds, plants, animals etc. are known as a genetic industry. For example, rearing of cattle for milk, dairy farms, poultry farms, rearing of plants in the nursery, growing fish in ponds etc. are included in the genetic industry. In this case, there is multiplication of species.
c) **Manufacturing Industry**: These industries are engaged in the process of conversion of raw materials or semi-finished goods into finished goods. These industries create the form utility by changing the form of raw materials into finished products. These are the industries that we mostly see and understand. Ex: Conversion of wood into tables and chairs, iron rods into grills etc.
d) **Construction Industry**: These industries are concerned with the construction of buildings, dams, roads etc. These industries use the products of manufacturing industries such as cement, iron & steel, lime etc.
e) **Service Industry**: The service sector provides services, rather than producing material commodities. Activities in the service sector include retail, banks, hotels, real estate, education, health, social work, computer services, recreation, media, communications, electricity, gas and water supply etc.,

Commerce: We can refer to commerce as “all those activities which help directly or indirectly in the distribution of goods to the ultimate consumer”. Commerce can be classified into two broad categories:

a) **Trade**
b) **Aids to trade**

a) **Trade**: Trade is an integral part of commerce. It includes buying and selling of goods and services. The trade segment of commerce brings together the manufacturer and the consumer, i.e., it is a link between the manufacturer and the consumer. Trade can be classified into two types:

i. **Domestic Trade**
ii. **Foreign Trade**

i. **Domestic Trade:** It refers to buying and selling of goods or services within the geographical boundaries of a country. It is also known as home trade or domestic trade. Under internal trade, goods and services are bought and sold in the home currency only. The internal trade can be two types:

- **Wholesale trade and**
- **Retail trade**

Wholesale trade: Wholesale trade is one of the main categories of domestic trade. In this form of trade goods are generally bought in huge quantities from the manufacturer. These goods are then stored and finally sold to retailers, middlemen, merchants etc.

Retail trade: Retail trade is the business activity associated with the sale of goods to the final consumer i.e., the ultimate customer. It is the link between wholesalers or manufacturers and the customers of the product. Typically, retailers sell goods in small quantities to consumers for personal use, not for resale or business use.

ii. **Foreign Trade**: Whenever trade occurs between two countries, it is known as Foreign trade. In foreign trade, both buyer and seller live in different countries. Foreign trade is of the following types:

- **Export trade**
- **Import trade**
- **Entrepot trade**

Export trade: When the trader sells the goods to other countries, it is known as Export trade. International trade refers to the exchange of goods and services between the countries.

Import trade: When the trader gets the goods from other countries, it is known as Import trade.

Entrepot trade: The goods are imported from one country for the purpose of export to another country is known as Entrepot trade. In this, the activity is purely business and not consumption.

b) Aids to Trade: Generally, in trading activity, the trader faces many hurdles. The hurdles are time, place, capital, risk, and knowledge. The tools used to overcome these hurdles are known as Aids to Trade. They are also known as auxiliaries which provide support to perform activities related to industry and trade. They include activities viz transportation, communication, warehousing, banking and financing, insurance, advertising, other allied services.

2.1. Introduction to Accountancy: Accountancy or Accounting is the science of recording business transactions in a systematic manner. Accounting is considered as a system which collects and processes financial information of a business. This information is reported to the users to enable them to make appropriate decisions. Accounting helps in communicating the financial information of an organisation to various parties interested in it.

2.2. Meaning and Definition: In general, Accounting is 'the process of recording, classifying, summarizing the financial transactions and events and communicating the information to its users who need it for decision making'.

There is no unanimity as to the definition of Accounting. Some important definitions of accounting are mentioned below:

The American Institute of Certified Public Accountants (AICPA) defines accounting as 'the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of financial character, and interpreting the results thereof'.

The American Accounting Association (AAA) defined accounting as 'the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of information'.

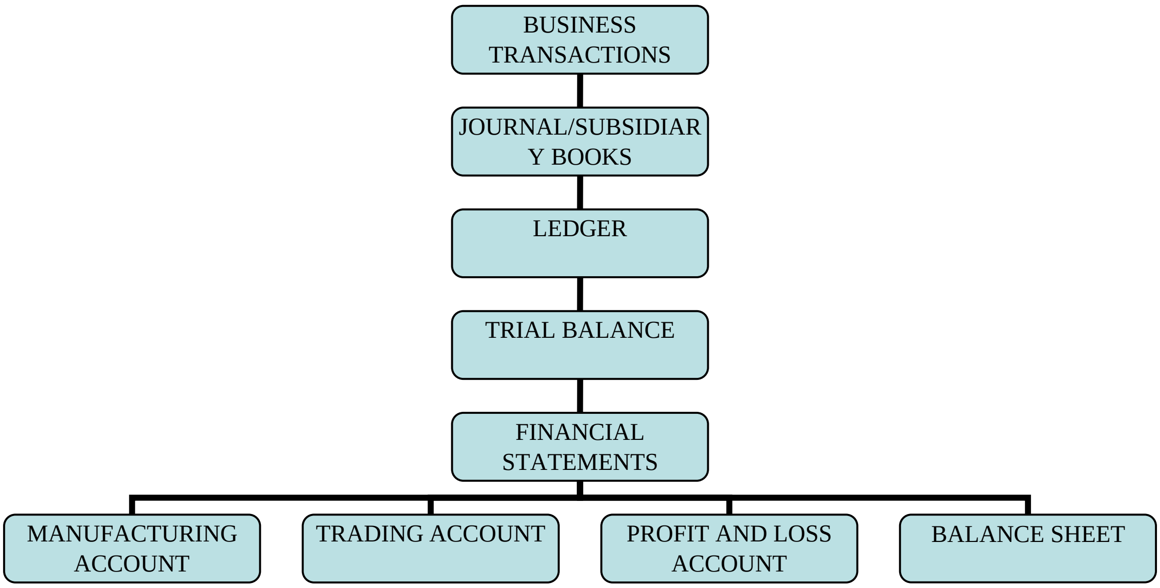
2.3. Book Keeping – Accounting: Book keeping is the recording of financial transactions and maintenance of books of accounts. It is a part of accounting, whereas Accounting is classifying, analyzing, reporting, and summarizing the financial data.

2.4. Accounting Process:

- ☞ Input (Business Transactions)

- Process (Classifying, Summarizing, Analyzing)
- Output (Information to Users)

2.5. Accounting Cycle: An accounting cycle is a complete sequence beginning with the recording of transaction and ending with preparation of financial statements.



2.6. Objectives of Accounting:

- To maintain full and systematic records of business transactions
- To ascertain profit or loss of the business
- To ascertain financial position of the business
- To provide accounting information to the interested parties

2.7. Advantages / Merits of Accounting:

- Accounting helps to maintain the business records in a systematic manner.
- It helps in the preparation of financial statements.
- Accounting information is also used to compare the result of current year with the previous year to analyze the changes.
- It helps the managers in the decision-making process.
- It provides information to other interested parties such as shareholders, creditors, investors, customers, government, employees, regulatory bodies etc.
- It helps in taxation matter
- Accounting information can be produced as evidence in the legal matter.
- It helps in valuation of business.

2.8. Demerits / Limitations of Accounting:

- The items expressed in monetary terms are recorded in the accountings whereas the items which are non-monetary nature are not recorded.
- Sometimes accounting data are recorded on the basis of estimates which could be inaccurate.
- Fixed assets are recorded at the original cost not at the market rate.
- Value of money does not remain stable, so accounting value does not show true financial results.
- Accounting can be manipulated and biased.

2.9. Basic Accounting Terms: The understanding of the subject becomes easy when one has the knowledge of a few important terms of accounting. Some of them are explained below.

a) **Transactions:** Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two accounts. For example, purchase of goods, sale of goods, borrowing from bank, lending of money, salaries paid, rent paid, commission received, and dividend received. Transactions are of two types, namely, cash and credit transactions.

b) **Cash Transaction:** is one where cash receipt or payment is involved in the transaction. For example, When Krishna buys goods from Satya, paying the price of goods by cash immediately, it is a cash transaction.

c) **Credit Transaction:** is one where cash is not involved immediately but will be paid or received later. In the above example, if Ram, does not pay cash immediately but promises to pay later, it is credit transaction.

d) **Proprietor:** A person, who owns a business, is called its proprietor. He contributes capital to the business with the intention of earning profit.

e) **Capital:** It is the amount invested by the proprietor/s in the business. This amount is increased by the number of profits earned and the amount of additional capital introduced. It is decreased by the number of losses incurred and the amounts withdrawn. For example, if Mr. Anand starts business with Rs.5,00,000, his capital would be Rs.5,00,000.

f) **Assets:** Assets are the properties of every description belonging to the business. Cash in hand, plant and machinery, furniture and fittings, bank balance, debtors, bills receivable, stock of goods, investments, Goodwill are examples for assets. Assets can be classified into tangible and intangible.

g) **Tangible Assets:** These assets are those having physical existence. It can be seen and touched. For example, plant & machinery, cash, etc.

h) **Intangible Assets:** Intangible assets are those assets having no physical existence but their possession gives rise to some rights and benefits to the owner. It cannot be seen and touched. Goodwill, patents, trademarks are some of the examples.

i) **Liabilities:** Liabilities refer to the financial obligations of a business. These denote the amounts which a business owes to others, e.g., loans from banks or other persons, creditors for goods supplied, bills payable, outstanding expenses, bank overdraft etc.

j) **Drawings:** It is the amount of cash or value of goods withdrawn from the business by the proprietor for his personal use. It is deducted from the capital.

k) **Debtors:** A person (individual or firm) who receives a benefit without giving money or money’s worth immediately, but liable to pay in future or in due course of time is a debtor. The debtors are shown as an asset in the balance sheet. For example, Mr. Shiva bought goods on credit from Mr. Ganesh for Rs.10,000. Mr. Shiva is a debtor to Mr. Ganesh till he pays the value of the goods.

l) **Creditors:** A person who gives a benefit without receiving money or money’s worth immediately but to claim in future, is a creditor. The creditors are shown as a liability in the balance sheet. In the above example Mr. Ganesh is a creditor to Mr. Shiva till he receives the value of the goods.

m) **Purchases:** Purchases refers to the amount of goods bought by a business for resale or for use in the production. Goods purchased for cash are called cash purchases. If it is purchased on credit, it is called as credit purchases. Total purchases include both cash and credit purchases.

n) **Purchase returns or returns Outward:** When goods are returned to the suppliers due to defective quality or not as per the terms of purchase, it is called as ‘purchases return’. To find net purchases, purchases return is deducted from the total purchases.

o) **Sales:** Sales refers to the amount of goods sold that are already bought or manufactured by the business. When goods are sold for cash, they are cash sales but if goods are sold and payment is not received at the time of sale, it is credit sales. Total sales include both cash and credit sales.

p) **Sales returns or returns inward:** When goods are returned from the customers due to defective quality or not as per the terms of sale, it is called sales return or returns inward. To find out net sales, sales return is deducted from total sales.

q) **Stock:** Stock includes goods unsold on a particular date. Stock may be opening and closing stock. The term opening stock means goods unsold in the beginning of the accounting period. Whereas the term closing stock includes goods unsold at the end of the accounting period. For example, if 4,000 units purchased @ `. 20 per unit remain unsold, the closing stock is `.80,000. This will be opening stock of the subsequent year.

r) **Revenue:** Revenue means the amount receivable or realised from sale of goods and earnings from interest, dividend, commission, etc.

s) **Expense:** It is the amount spent in order to produce and sell the goods and services. For example, purchase of raw materials, payment of salaries, wages, etc.

t) **Income**: Income is the difference between revenue and expense.

u) **Voucher**: It is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher. It may be in the form of cash receipt, invoice, cash memo, bank pay-in-slip etc. Voucher is necessary to audit the accounts.

v) **Invoice**: Invoice is a business document which is prepared when one sells goods to another. The statement is prepared by the seller of goods. It contains the information relating to name and address of the seller and the buyer, the date of sale and the clear description of goods with quantity and price.

w) **Receipt:** Receipt is an acknowledgement for cash received. It is issued to the party paying cash. Receipts form the basis for entries in cash book.

x) **Account:** Account is a summary of relevant business transactions at one place relating to a person, asset, expense or revenue named in the heading. An account is a brief history of financial transactions of a particular person or item. An account has two sides called debit side and credit side.

Short Answer Questions (2 Marks)

1. Define Business.
2. What is Commerce?
3. What is Trade?
4. What is Industry?
5. What is Entrepot Trade?
6. What is Accountancy?
7. What is Book keeping?

Essay Answer Questions (6 Marks)

1. Write the features of Business.
2. Classify and Explain about various types of Industries?
3. Write about various types of Trade.
4. What are the objectives of Accountancy?
5. What are the advantages of Accountancy?

UNIT – II

DOUBLE ENTRY SYSTEM

Double Entry System – Meaning – Difference between Single entry system and Double Entry System – Advantages - Accounting Concepts – Accounting Conventions – Classification of Accounts: Personal, Real and Nominal Accounts – Accounting Principles.

Learning Objectives: After studying this unit, the student will be able to –

- Understand about the Single-Entry System and Double Entry System
- Understand about the Accounting Concepts and Accounting Conventions
- Understand about the Accounting Principles

1.0. Single-Entry System: A single-entry system records each accounting transaction with a single entry to the accounting records, rather than the vastly wide-spread double entry system. The single-entry system is centred on the results of a business that are reported in the income statement. The core information tracked in a single-entry system is cash disbursements and cash receipts. Asset and liability records are usually not tracked in a single-entry system; these items must be tracked separately. The primary form of record keeping in a single-entry system is the cash book, which is essentially an expanded form of a check register, with columns in which to record the particular sources and uses of cash, and room at the top and bottom of each page in which to show beginning and ending balances.

1.1. Double Entry System: Luca Pacioli in 1494 A.D. Though the system of recording business transactions in a systematic manner has originated in Italy, it was perfected in England and other European countries during the 18th century only i.e., after the Industrial Revolution. Many countries have adopted this system today. There are numerous transactions in a business concern. Each transaction, when closely analysed, reveals two aspects. One aspect will be "receiving aspect" or "incoming aspect" or "expenses/loss aspect". This is termed as the "debit aspect". The other aspect will be "giving aspect" or "outgoing aspect" or "income/gain aspect". This is termed as the "Credit aspect". These two aspects, namely "Debit aspect" and "Credit aspect", form the basis of Double Entry System. The double entry system is so named since it records both the aspects of a transaction.

In short, the basic principle of this system is, for every debit, there must be a corresponding credit of equal amount and for every credit, there must be a corresponding debit of equal amount.

1.2. Definition: According to **J.R. Batliboi** "Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two-fold effect of every transaction that has given rise to the term Double Entry System".

1.3. Double Entry System - Features:

i. Every business transaction affects two accounts.
ii. Each transaction has two aspects, i.e., debit and credit.
iii. It is based upon accounting assumptions concepts and principles.
iv. Helps in preparing trial balance which is a test of arithmetical accuracy in accounting.
v. Preparation of final accounts with the help of trial balance.

1.4. Double Entry System - Advantages: Double entry system is acknowledged as the best method of accounting in the modern world. Following are the main advantages of double entry system:

i. Under this method both the aspects of each and every transaction are recorded. So, it is possible to keep complete account.
ii. Since both the aspects of a transaction are recorded, for each debit there must be a corresponding credit of an equal amount. Therefore, total debits must be equal to total credits. In fact, it is possible to verify the arithmetical accuracy of the books of accounts by ascertaining whether the two sides become equal or not through a process known as trial balance.
iii. Under this system profit and loss account can be prepared easily by taking together all the accounts relating to income or revenue and expenses or losses and thereby the result of the business can be ascertained.
iv. A balance sheet can be prepared by taking together all the accounts relating to assets and liabilities and thereby the financial position of the business can be assessed.

v. Under this system mistakes and deflections can be detected - this exerts a moral pressure on the accountant and his staff.

vi. Under this system necessary statistics are easily available so that the management can take appropriate decision and run the business efficiently.

vii. All the necessary details about a transaction can be obtained quickly and easily.

viii. The total amount owed by debtors and the total amount owed to creditors can be ascertained easily.

ix. Sale, purchase of goods, stock, revenue, expenses and profit or loss of different years can be compared, and the success or failure of the business measured. Thereafter, the causes of failure can be found out and necessary remedial measures taken to ensure success of the business.

Double Entry System - Disadvantages: Despite so many advantages of the system, double entry system has some disadvantages which are as follows:

i. Under this method each transaction is recorded in books in two stages (journal and ledger) and two sides (debit and credit). This results in increase of number and size of books of account and creation of complications.

ii. It involves time, labour and money. Hence, it is not possible for small concerns to keep accounts under this system.

iii. It requires expert knowledge to keep accounts under this system as the system is complex; there is greater possibility of committing errors and mistakes.

iv. It is clear from the above discussion that the advantages of double entry system far outweigh its disadvantages. So, it is regarded as the best system in the modern world.

1.5. Accounting Concepts: The subject of Accountancy is based on standard concepts and conventions. They are discussed as follows:

a) Business Entity Concept: A business and its owner should be treated separate legal entities as far as their financial transactions are concerned. As a result, transactions should be recorded in the books of accounts with such persons and individuals together with the owners. It becomes necessary that accounting records of the business must be maintained in a manner which is free from any bias to any particular section of people related to it.

b) **Money measurement concept:** Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.

c) **Cost concept**: The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus depreciation. No rise or fall in market price is taken into account.

d) **Realisation concept**: According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

e) **Going concern concept:** In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at "fire-sale" prices. It applies only to fixed assets.

f) **Dual aspect concept**: For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect. This concept suggests that every transaction has dual aspect or two sides.

i) Receiving of benefit.

ii) Giving of benefit.

These two benefits, when measured in terms of money are equal.

Benefit received = Benefit given

Whenever we purchase an asset, we pay it out of our capital or accept a liability or pay.

1.6. Accounting Conventions: Conventions mean custom or tradition. Accounting conventions are related to Accountancy records. These conventions provide useful guidance in preparing accounts or financial statements.

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

a) **Conservatism:** It is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.

b) **Consistency:** This prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.

c) **Materiality:** It means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.

d) **Full disclosure**: It entails the revelation of all information, both favourable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

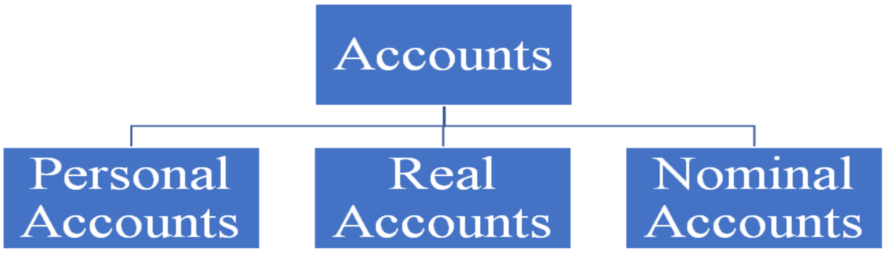
1.7. Classification of Accounts: Transactions can be divided into three categories.

i. Transactions relating to individuals and firms

ii. Transactions relating to properties, goods or cash

iii. Transactions relating to expenses or losses and incomes or gains.

Therefore, accounts can also be classified into Personal, Real and Nominal Accounts.



1. **Personal Accounts**: The accounts which relate to persons. Personal accounts include the following.
   i) Natural Persons: Accounts which relate to individuals. For example, Lasya a/c, Madhu a/c etc.
   ii) Artificial persons: Accounts which relate to a group of persons or firms or institutions. For example, HMT Ltd., Indian Overseas Bank, Life Insurance Corporation of India, Cosmopolitan club etc.
   iii) Representative Persons: Accounts which represent a particular person or group of persons. For example, outstanding salary account, prepaid insurance account, etc.

The business concern may keep business relations with all the above personal accounts, because of buying goods from them or selling goods to them or borrowing from them or lending to them. Thus, they become either Debtors or Creditors. The proprietor, being an individual, his capital account and his drawings account are also personal accounts.

Impersonal Accounts: All those accounts, which are not personal accounts. This is further divided into two types viz. Real and Nominal accounts.

Real Accounts: Accounts relating to properties and assets which are owned by the business concern. Real accounts include tangible and intangible accounts. For example, Land, Building, Goodwill, Purchases, etc.

Nominal Accounts: These accounts do not have any existence, form or shape. They relate to incomes and expenses and gains and losses of a business concern. For example, Salary Account, Dividend Account, etc.

Accounting Principles:

Personal Accounts:

a) Debit the receiver.

b) Credit the giver.

Real Accounts:

a) Debit what comes in.

b) Credit what goes out.

Nominal Accounts:

a) Debit all expenses and losses.

b) Credit all incomes and gains.

Short Answer Questions (2 Marks)

1. What is Double Entry System?
2. What is Single Entry System?
3. What is Business Entity Concept?

Essay Answer Questions (6 Marks)

1. What are the Advantages of Double Entry System?
2. Write briefly about Accounting Concepts?
3. Write about Accounting Conventions?

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UNIT – III

JOURNAL

Journal: Meaning -Principles of Accounts - Recording of transactions— Rules of Debit and Credit – Journal – Journal entries.

Learning Objectives: After studying this unit, the student will be able to --

- Understand To record the transactions using rules of debit and credit.
- Understand about the Recording of transactions in Journal
- Understand about the Accounting Principles.

1.0. Introduction - Rules of Debit and Credit: As already stated every transaction involves give and take aspect. In double entry accounting, every transaction affect and is recorded in at least two accounts. When recording each transaction, the total amount debited must equal to the total amount credited. In accounting, the terms — debit and credit - indicate whether the transactions are to be recorded on the left-hand side or right-hand side of the account. In its simplest form, an account looks like the letter T. Because of its shape, this simple form called a T-account. T format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period.

All accounts are divided into five categories for the purposes of recording the transactions:

(a) Asset (b) Liability (c) Capital (d) Expenses/Losses, and (e) Revenues/Gains.

Two fundamental rules are followed to record the changes in these accounts:

(1) For recording changes in Assets/Expenses (Losses):

i. “Increase in asset is debited, and decrease in asset is credited.”

ii. “Increase in expenses/losses is debited, and decrease in expenses/ losses is credited.”

(2) For recording changes in Liabilities and Capital/Revenues (Gains):

i. “Increase in liabilities is credited and decrease in liabilities is debited.”

ii. “Increase in capital is credited and decrease in capital is debited.”

iii. “Increase in revenue/gain is credited and decrease in revenue/gain is debited.”

The rules applicable to the different kinds of accounts have been summarized in the following chart:

Rules of Debit and Credit

DEBIT	CREDIT
↑ ASSETS	↓ ASSETS
↓ LIABILITY	↑ LIABILITY
↓ EQUITY	↑ EQUITY
↑ EXPENSES	↑ REVENUE

Accounts are increased and decreased with a debit or credit.

1.1. Accounting Equation: Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner's equity). The equation reads as follows:

A = L + C

Were,

A = Assets

L = Liabilities

C = Capital

The above equation can also be presented in the following forms as its derivatives to enable the determination of missing figures of Capital (C) or Liabilities (L).

i. A – L = C

ii. A – C = L.

The accounting equation depicts the fundamental relationship among the components of the balance sheet, it is also called the Balance Sheet Equation. As the name suggests, the balance sheet is a statement of assets, liabilities and capital.

1.2. Introduction to Journal: A journal is a detailed account that records all the financial transactions of a business. This is the Primary book of original entry. In this book, transactions are recorded in the chronological order, as and when they take place. Afterwards, transactions from this book are posted to the respective accounts. Each transaction is separately recorded after determining the particular account to be debited or credited.

1.3. Proforma of Journal: The Proforma of Journal is shown below:

Journal

Date	**Particulars**	**L.F. No.**	**Debit ₹**	**Credit ₹**
	(Narration…………….)			

The first column in a journal is Date on which the transaction took place. In the Particulars column, the account title to be debited is written on the first line beginning from the left-hand corner and the word 'Dr.' is written at the end of the column. The account title to be credited is written on the second line leaving sufficient margin on the left side with a prefix 'To'. Below the account titles, a brief description of the transaction is given which is called Narration. Having written the Narration a line is drawn in the Particulars column, which indicates the end of recording the specific journal entry. The column relating to Ledger Folio records the page number of the ledger book on which relevant account appears. This column is filled up at the time of posting and not at the time of making journal entry.

The Debit amount column records the amount against the account to be debited and similarly the Credit Amount column records the amount against the account to be credited. It may be noted that, the number of transactions is very large and these are recorded in number of pages in the journal book. Hence, at the end of each page of the journal book, the amount columns are totalled and carried forward (c/f) to the next page where such amounts are recorded as brought forward (b/f) balances.

The journal entry is the basic record of a business transaction. It may be simple or compound. When only two accounts are involved to record a transaction, it is called a simple journal entry.

1.4. Journalizing Procedure: The process of analyzing the business transactions under the heads of debit and credit and recording them in the Journal is called **Journalizing.** An entry made in the journal is called a **'Journal entry'**.

Step1: Determine the two accounts which are involved in the transaction.

Step2: Classify the above two accounts under Personal, Real or Nominal.

Step3: Find out the rules of debit and credit for the above two accounts.

Step4: Identify which account is to be debited and which account is to be credited.

Step5: Record the date of transaction in the date column. The year and month are written once, till they change. The sequence of the dates and months should be strictly maintained.

Step6: Enter the name of the account to be debited in the particular's column very close to the left-hand side of the particular's column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

Step7: Write the name of the account to be credited in the second line starts with the word **'To'** a few spaces away from the margin in the particular's column. Against this, the amount to be credited is written in the credit amount column in the same line.

Step8: Write the narration within brackets in the next line in the particular's column.

Step9: Draw a line across the entire particulars column to separate one journal entry from the other.

Example: cash purchases ₹50,000 on January 1, 2021. In this transaction involves two accounts. i) cash a/c ii) purchases a/c. This transaction is recorded in the journal as follows:

Journal

Date	**Particulars**	**L.F. No.**	**Debit ₹**	**Credit ₹**
1.1.2021	Purchase's a/c ……………………………… Dr To Cash a/c <u>(Being goods purchased for cash)</u>		50,000	50,000

Illustration 1: Journalize the following transactions in the books of Ganesh.

2020 Jan 1.	Business commenced with cash	₹ 100,000.
2020 Jan 2.	Cash sales	₹ 5000.
2020 Jan 5.	Bought machinery	₹ 10,000.
2020 Jan 7.	Purchased goods for cash	₹ 2,000.
2020 Jan 10.	Purchase from Suma	₹ 1,000.
2020 Jan 14.	Sold goods to Lalitha	₹ 6,000.
2020 Jan 18.	Furniture sold	₹ 7,500.
2020 Jan 22.	Drawings	₹ 1,000.
2020 Jan 25.	Salaries paid	₹ 2,500.
2020 Jan 31.	Commission received	₹ 150.

Solution:

Journal Entries in the Books of Ganesh

Date	Particulars	L.F. No.	Debit ₹	Credit ₹
1.1.20	Capital a/c ……………………………………...		100,000	
	Dr			100,000
	To Cash a/c			
2.1.20	<u>(Being business commenced with cash.)</u>		5,000	
	Cash a/c ……………………………………. Dr			5,000
	To Sales a/c			
5.1.20	<u>(Being goods sold for cash.)</u>		10,000	
	Machinery a/c ………………………………. Dr			10,000
	To Cash a/c		2,000	
7.1.20	<u>(Being machinery purchased.)</u>			2,000
	Purchase's a/c ………………………………. Dr			
	To Cash a/c		1,000	
10.1.20	<u>(Being goods purchased for cash.)</u>			1,000
	Purchase's a/c …………………………………			
	Dr		6,000	
14.1.20	To Suma a/c			6,000
	<u>(Being goods purchased on credit from Suma.)</u>			
	Lalitha a/c ………………………………… Dr		7,500	
18.1.20	To Sales a/c			7,500
	<u>(Being goods sold on credit.)</u>			
	Cash a/c ……………………………………. Dr		1,000	
22.1.20	To Furniture a/c			1,000
	<u>(Being furniture sold.)</u>			
	Drawing's a/c …………………………………		2,500	
25.1.20	Dr			2,500
	To Cash a/c			
	<u>(Being cash used for personal.)</u>		150	
31.1.20	Salaries a/c ………………………………… Dr			150
	To Cash a/c			
	<u>(Being salaries paid.)</u>			
	Commission a/c…………………………… Dr			
	To Cash a/c			
	<u>(Being commission received.)</u>			

Illustration 2: Journalize the following transactions in the books of Radha Enterprises.

2020 Feb 1	Brought Capital	₹ 50,000.
2020 Feb 2	Cash sales to Ramu	₹ 5000.
2020 Feb 3	Sold goods to Kumar	₹ 20,000.
2020 Feb 5	Cash Purchases	₹ 5,000.
2020 Feb 7	Goods purchase from Keerthi	₹ 10,000.
2020 Feb 10	Rent Paid to Kamala	₹ 4,000.
2020 Feb 12	Goods returns from Kumar	₹ 1,000.
2020 Feb 15	Drawings	₹ 500.
2020 Feb 18	Returns to Keerthi	₹ 250.
2020 Feb 20	Machinery purchased	₹ 15000.
2020 Feb 21	Sold old furniture	₹ 1200.
2020 Feb 22	Cash paid to Keerthi	₹ 5,000.
2020 Feb 23	Interest received to Shanthi	₹ 150.
2020 Feb 24	Cash deposited into bank	₹ 15000.
2020 Feb 25	Stationery expenses	₹ 100.

Solution:

Journal Entries in the Books of Radha Enterprises

Date	**Particulars**	**L.F. No.**	**Debit ₹**	**Credit ₹**
1.2.20	Capital a/c …………………………………………		50,000	
	Dr			50,000
	To Cash a/c			
2.2.20	(Being business commenced with cash.)		5,000	
	Cash a/c …………………………………………			5,000
	Dr			
3.2.20	To Sales a/c		20,000	
	(Being goods sold for cash to Ramu)			20,000
	Kumar a/c …………………………………………			
5.2.20	Dr		5,000	
	To Sales a/c			5,000
	(Being goods sold to Kumar on credit)			
7.2.20	Purchase's a/c ………………………………………		10,000	
	Dr			10,000
	To Cash a/c			
10.2.20	(Being goods purchased for cash.)		4,000	
	Purchase's a/c ………………………………………… Dr			4,000
	To Keerthi a/c			

12.2.20	(Being goods purchased on credit from Keerthi.)		1,000	
	Rent a/c ……………………………….…. Dr			1,000
	To Cash a/c			
15.2.20	(Being rent paid to Kamala.)		500	
	Sales returns a/c ……………………….…….			500
	Dr			
18.2.20	To Kumar a/c		250	
	(Being goods returned.)			250
	Drawings a/c …………………………….…. Dr			
20.2.20	To Cash a/c		15,000	
	(Being cash used for personal.)			15,000
	Keerthi a/c ……………………………..…. Dr			
21.2.20	To Purchase returns a/c		1,200	
	(Being goods returned.)			1,200
	Machinery a/c……….……………………….			
22.2.20	Dr		5,000	
	To Cash a/c			5,000
	(Being machinery purchased.)			
23.2.20	Cash a/c …………………………...………….		150	
	Dr			150
	To Furniture a/c			
24.2.20	(Being sold old furniture.)		15,000	
	Keerthi a/c ………..……………...………….			15,000
	Dr			
25.2.20	To Cash a/c		100	
	(Being goods sold for cash to Ramu.)			100
	Cash a/c …………………………...………….			
	Dr			
	To Interest a/c			
	(Being interest received to Shanthi.)			
	Bank a/c …………………………...………….			
	Dr			
	To Cash a/c			
	(Being goods sold for cash to Ramu.)			
	Stationery a/c ……………………...………….			
	Dr			
	To Cash a/c			
	(Being stationery expenses paid.)			

Short Answer Questions (2 Marks)

1. What is Journal?
2. What is an Account?

Exercises (6 Marks)

1. Write Journal Entries from the following transactions in the books of Sri Charan Pvt Ltd.

1.3.20	Business started with cash	₹ 200,000.
2.3.20	Cash sales	₹ 10,000.
4.3.20	Cash Purchases	₹ 5,000.
6.3.20	Rent paid	₹ 1,500.
8.3.20	Interest Received	₹ 100.
10.3.20	Drawings	₹ 500.

2. Journalize the following transactions in the books of Mahanthi Enterprises.

2.3.20	Business started with cash	₹ 200,000.
3.3.20	Cash sales	₹ 10,000.
5.3.20	Cash Purchases	₹ 5,000.
7.3.20	Rent paid	₹ 1,500.
9.3.20	Interest Received	₹ 100.
18.3.20	Drawings	₹ 500.

4. Journalize the following transactions in the books of Mahanthi Enterprises.

5.4.20	Business commenced with cash	₹ 1,00,000.
8.4.20	Goods sold on credit to Sunitha	₹ 10,000.
10.4.20	Cash withdrawn from bank	₹ 1,000.
15.4.20	Wages paid	₹ 500.
20.4.20	Goods purchases from Raghu	₹ 1,000.
25.4.20	Bought Furniture	₹ 5,000.

5. Journalize the following transactions in the books of Varun Traders.

6.5.20	Business commenced with cash	₹ 50,000.
8.5.20	Cash Sales	₹ 5,000.
10.5.20	Cash withdrawn from bank	₹ 1,000.
13.5.20	Paid to Telephone bill	₹ 500.

15.5.20 Goods purchases from Raghu ₹ 1,000.

17.5.20 Commission received ₹ 150.

6. Write Journal Entries in the books of Vishal.

6.7.2020 Business started with cash ₹ 50,000, Machinery ₹ 10,000.

7.7.2020 Goods Purchase from Manohar ₹ 5,000.

8.7.2020 Goods sold for cash ₹ 10,000.

9.7.2020 Goods used for Personal ₹ 200.

10.7.2020 Bought Plant and Machinery ₹ 50,000.

11.7.2020 Rent paid ₹ 150.

7. Journalize the following in the books of Manikanta.

1.7.2020 Mankanta brought capital into business ₹ 25,000.

4.7.2020 Goods sold to Naveen ₹ 2,000.

6.7.2020 Withdraw cash from bank for personal use ₹ 10,000.

7.7.2020 Stationery paid ₹ 100.

8.7.2020 Cash paid to Vijay ₹ 5,000; discount received ₹ 50.

9.7.2020 Dividend received ₹ 1500.

8. Pass journal entries in the books of Ibrahim Bro's.

1.8.2020 Business started with cash ₹15000; Furniture ₹ 10,000; Stock ₹ 20,000.

5.8.2020 Cash deposited into bank ₹ 1000.

7.8.2020 Purchases from Prasad ₹ 2,000.

8.8.2020 Goods sold for cash ₹ 5,000.

10.8.2020 Goods returned to Prasad ₹ 150.

15.8.2020 Computer purchased ₹ 15000.

9. On October1, 2020 Prabhu commenced business with cash ₹ 10,000, Stock ₹ 20,000, Machinery ₹ 15,000, Furniture ₹ 5,000. His other transactions during the month were as follows. Pass journal entries.

2.10.2020 Sales to Raghu ₹ 4,000.

4.10.2020 Purchases from Mukund ₹ 2,000.

6.10.2020 Returns from Raghu ₹ 100.

9.10.2020 Returns to Mukund ₹ 150.

UNIT – IV

LEDGER

Ledger - Classification of recorded transactions – Posting the transactions into Separate Accounts – Exercises.

Learning Objectives:

After studying this unit, the student will be able to

- Meaning, Purpose and Utilities of Ledger.
- Classification of Ledger Accounts.
- Post the transactions into their respective accounts in the ledger.

1.0. Introduction: Leger is the third stage in the accounting cycle. It is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts.

1.1. Ledger – Meaning: Ledger is book of final entry. In this book all accounts (personal, real and nominal accounts) are maintained. Journal forms the basis of Ledger. Ledger provides complete information of all accounts. It is easy to ascertain amount due to suppliers and amounts due from customers. It also helps in preparing trial balances from the balances of ledger accounts and thereby statements.

1.2. Utilities of Ledger or Advantages of Ledger: The following are the main utilities of Ledger.

a) It provides complete information about all accounts in one book.
b) It is easy to ascertain how much money is due to suppliers and how much money is due from customers.
c) It enables to ascertain, what are the main items of revenues / incomes.
d) It enables to ascertain, what are the main items of expenses.
e) It enables to know the kind of assets the enterprise holds and their respective values.
f) It facilitates preparation of trial balance and thereafter preparation of financial statements (trading, profit and loss account, balance sheet.)

1.3. Difference between Journal and Ledger:

Journal	Ledger
1.The book of original entry.	It is book of final entry.
2. It is preparing to record all the transactions date wise in chronological order.	It is prepared on the basis of journal.
3.The process of recording in journal is called journalizing.	The process of recording in the ledger is called posting.
4. Transaction is the basis of classification of data within the journal.	Account is the basis of classification of data within the ledger.

1.4. Classification of Ledger Accounts: The number of transactions depends on size and volume of business. The enterprises have large volume of transactions will divide their ledger into:

a) **Debtors Ledger or Sales Ledger:** In this ledger the account of all the customers who regularly purchase goods from the business on credit are maintained. All transactions relating to each customer is posted to their respective accounts. It is easy to ascertain the amount due from each customer at any point of time. The debtor's ledger shows Debit Balance.

b) **Creditors Ledger or Purchase Ledger:** In this ledger, the account of all the suppliers from whom the business purchases the goods on credit are maintained. All transactions relating to each supplier is posted to their respective accounts. It is easy to ascertain the amount payable to each supplier at any point of time. The creditor's ledger shows Credit Balance.

c) **General Ledger:** In this ledger all accounts related to the assets, incomes, expenses are maintained. E.g., Machinery a/c, Building's a/c, Salaries a/c, Commission a/c etc.

1.5. Format of Ledger: The following is the specimen of the standard format of a ledger account.

Dr **Ledger Format** **Cr**

Date	Particulars	J.F.No.	₹	Date	Particulars	J.F.No.	₹

- The ledger account is divided into two sides i.e., left hand side and right-hand side. The left-hand side is called Debit side and the right-hand side is called Credit side.
- The name of the account is mentioned in the top (middle) of the account.
- The date of the transaction is recorded in the date column.
- The word 'To' is used before the accounts which appear on the debit side of an account in the particular's column. Similarly, the word 'By' is used before the accounts which appear on the credit side of an account in the particular's column.
- The name of the other account which is affected by the transaction is written either in the debit side or credit side in the particular's column.
- The page number of the Journal or Subsidiary Book from where that particular entry is transferred, is entered in the Journal Folio (J.F) column.
- The amount pertaining to this account is entered in the amount column

1.6. Ledger Posting: - All those accounts which are mentioned in journal should be opened in ledger.

a) The accounts which are debited in journal are also debited in ledger. In the same way the accounts, which are credited in journal are also credited in ledger.

b) In the debit side of an account, the names of those accounts appear which are its creditors. Word 'To' be added to each account. It denotes that the amount is payable to the account.

c) In the credit side of an account, the names of those accounts appear, which are its debtors. Word 'By' is added to each account. This denotes that the amount is payable by the account.

1.7. Balancing of Accounts: At times to find whether a particular account is a debtor or a creditor we balance it. For this, we total the debit and the credit sides of the account separately and find their difference. If the total of the debit side is more than the total of the credit side, then the difference is called the 'Debit balance'. On the other hand, if the total of the credit side is more than the total of the debit side, the difference is called the 'Credit balance'. After finding the balance in an account, we insert it in the lesser side of the account, with the words 'Balance carried down' (c/d). Then, with this balance we total the two sides of the account and they will be equal. This is called Balancing of Account. After balancing the account, the balance is again brought down on the next date to the appropriate side of the account. In other words, we bring the debit balance to the debit side and the credit balance to the credit side of the account, with the words 'Balance brought down' (b/d). The debit balance in a personal account shows that the person is a debtor and the credit balance show that the person is a creditor. Debit balance in a real account shows, the present value of the asset. In real account there can be no credit balance. It is because an asset cannot have minus value. Debit balance in a nominal account shows, excess of expenses over income and credit balance excess of income over expenses.

1.8. Ledger Posting Illustrations:

1. Prepare Journal Entries and Give ledger posting from the following transactions.

2020 April 1. Gopal business commenced with cash ₹100,000.
2020 April 2. Cash sales ₹ 5,000.
2020 April 5. Bought machinery ₹ 10,000.
2020 April 8. Sold goods to Rana ₹ 5,000.
2020 April 12. Paid to stationery ₹ 100.
2020 April 13. Sold goods to Shanthi for cash ₹ 4,000.
2020 April 14. Received discount ₹ 150.
2020 April 15. Sold old furniture ₹ 1,000.
2020 April 16. Goods purchase on credit from Nani ₹ 2,000.
2020 April 17. Drawings ₹ 500.
2020 April 18. Deposit cash into bank ₹ 5,000.
2020 April 20. Cash purchase ₹ 1,500.
2020 April 22. Cash withdrawn from bank for office use ₹ 500.
2020 April 25. Goods returned to Nani ₹ 100.

2020 April 26. Goods returned from Rana ₹ 500.

2020 April 27. Borrowed additional capital ₹ 10,000.

2020 April 30. Goods used for personal ₹ 200.

Journal Entries in the books of Gopal

Date	Particulars	L.F.NO.	Debit ₹	Credit ₹
01.04.2020	Cash a/c ………………………………………		100,000	
	Dr			100,000
	To Capital a/c			
02.04.2020	(Being business commenced with Cash)		5,000	
	Cash a/c ………………………………………			5,000
	Dr			
05.04.2020	To Sales a/c		10,000	
	(Being goods sold for Cash)			10,000
	Machinery a/c ………………………………			
08.04.2020	Dr		5,000	
	To Cash a/c			5,000
	(Being bought machinery)			
12.04.2020	Rana a/c ………………………………………		100	
	Dr			100
	To Sales a/c			
13.04.2020	(Being goods sold to Rana on credit)		4,000	
	Stationery a/c ……………………………… Dr			4,000
	To Cash a/c			
14.04.2020	(Being stationery expenses paid)		150	
	Cash a/c ………………………………………			150
15.04.2020	Dr			
	To Sales a/c		1,000	
	(Being goods sold to Shanthi for Cash)			1,000
	Cash a/c ………………………………………			
	Dr			
16.04.2020	To Discount a/c		2,000	
	(Being discount received)			2,000
	Cash a/c ………………………………………			
17.04.2020	Dr		500	
	To Furniture a/c			500
	(Being furniture sold)			
18.04.2020			5,000	
	Purchase's a/c………………………………			5,000
	Dr			
20.04.2020	To Nani a/c		1,500	
	(Being goods purchased on credit)			1,500
	Drawing's a/c ………………………………			
22.04.2020	Dr		500	
	To Cash a/c			500
	(Being goods sold to Shanthi for Cash)			
25.04.2020	Bank a/c ………… …..…………………… Dr			
	To Cash a/c		100	

	(Being cash deposited into bank)			100
26.04.2020	Purchase's a/c……………………………….			
	Dr		500	
	To Cash a/c			500
27.04.2020	(Being goods purchased for cash)			
	Cash a/c……………………...…………		10,000	
	Dr			10,000
30.04.2020	To Bank a/c			
	(Being cash withdrawn from bank for office		500	
	use)			500
	Nani a/c………………………………… Dr			
	To Purchase returns a/c			
	(Being goods returned)			
	Sales returns a/c……………………….. Dr			
	To Rana a/c			
	(Being goods returned)			
	Cash a/c ……………………………………			
	Dr			
	To Capital a/c			
	(Being additional capital barrowed)			
	Drawing's a/c……………………………….			
	Dr			
	To Purchases a/c			
	(Being goods used for personal)			

Ledger posting for above transactions: -

Dr Cash Account Cr

Date	Particulars	J.F. NO	₹	Date	Particulars	J.F. NO	₹
1.4.20	To Capital a/c		100,000	5.4.20	By Machinery a/c		10,000
2.4.20	To Sales a/c		5,000	12.4.20	By Stationery a/c		100
13.4.20	To Sales a/c		4,000	17.4.20	By Drawings a/c		500
14.4.20	To Discount a/c		150	18.4.20	By Bank a/c		5,000
15.4.20	To Furniture a/c		1,000	20.4.20	By Purchases a/c		1,500
22.4.20	To Bank a/c		500	30.4.20	By Balance c/d		103,550
27.4.20	To Capital a/c		10,000				
			120,650				120,650
1.5.20	To Balance B/d		103,550				

Dr Capital Account Cr

Date	Particulars	J.F. NO	₹	Date	Particulars	J.F. NO	₹
30.04.20	To Balance c/d		110,000	01.04.20	By Cash a/c		100,000
				27.04.20	By Cash a/c		10,000
			110,000				110,000
				01.05.20	By Balance b/d		110,000

Dr Sales Account Cr

Date	Particulars	J.F. NO	₹	Date	Particulars	J.F. NO	₹
30.4.20	To Balance c/d		14,000	2.4.20	By Cash a/c		5,000
				8.4.20	By Rana a/c		5,000
				13.4.20	By Cash a/c		4,000
			14,000				14,000
1.5.20	To Balance B/d		14,000				

Dr Purchases Account Cr

Date	Particulars	J.F. NO	₹	Date	Particulars	J.F. NO	₹
	To Balance c/d		15,000	2.4.20	By Cash a/c		15,000
			15,000				15,000
					By Balance b/d		15,000

Dr Bank Account Cr

Date	Particulars	J.F. NO	₹	Date	Particulars	J.F. NO	₹
18.4.20	To Cash a/c		5,000	22.4.20	By Cash a/c		500
					By Balance c/d		4,500
			5,000				5,000
30.4.20	To Balance b/d		4,500				15,000

Short Answer Questions (2 Marks)

1. What is Ledger?
2. What is Debtors Ledger?
3. What is Creditors Ledger?
4. What is General Ledger?
5. Write any two advantages of Ledger?

Long Answer Questions (6 Marks)

1. Prepare Krishna a/c in the books of Rama from the following particulars: -

2020 Jan 1.	Goods sold to Krishna	₹ 28,000.
2020 Jan 2.	Cash received from Krishna	₹ 2,500.
2020 Jan 3.	Goods returned by Krishna	₹ 600.
2020 Jan 4.	Cheque received from Krishna	₹ 14,000.
2020 Jan 5.	Purchases from Krishna	₹ 1,000.
2020 Jan 6.	Goods sold to Krishna	₹ 3,500.
2020 Jan 7.	Cash sales to Krishna	₹ 2,000.

(**A: Krishna a/c Debit Balance ₹ 13,400**)

2. Prepare Bunny a/c in the books of Sunny from the following particulars: -

2020 Feb 1	Purchases from Bunny	₹ 25,000.
2020 Feb 2	Cash paid to Bunny	₹5,000.
2020 Feb 3	Returns to Bunny	₹2,00.
2020 Feb 4	Paid to Bunny through cheque	₹ 9,000.
2020 Feb 5	Cash received from Bunny	₹900.
2020 Feb 6	Purchases from Bunny	₹4,000.

2020 Feb 7 Purchases from Madhu ₹5,000.

(**A: Bunny a/c Credit Balance ₹ 15,700**)

3. Prepare Furniture a/c from the following particulars: -

2020 March 1	Bought furniture from woodland	₹ 20,000.
2020 March 2	Bought furniture for cash	₹7,000.
2020 March 3	Cash paid to woodland	₹18,000.
2020 March 4	Sold furniture	₹15,000.
2020 March 5	Depreciation on furniture	₹1,000.
2020 March 6	Goods purchases from Sridhar	₹6,000.

(**A: Furniture a/c 11,000)**

4. Prepare Kavitha a/c in the books of Lalitha from the following particulars.

2020 April 1.	Amount due from Kavitha	₹ 10,000.
2020 April 2.	Goods sold to Kavitha	₹ 12,000.
2020 April 3.	Cash received from Kavitha	₹ 5,000.
2020 April 4.	Goods returned from Kavitha	₹ 200.
2020 April 5.	Cheque received from Kavitha	₹5,000.
2020 April 6.	A/C Settled by Kavitha with 10% discount.	

(**A: Bank ₹ 10,620; Discount ₹ 1,180**)

5. Prepare Radha a/c from the following particulars.

2020 May 1	Amount due to Radha	₹ 5,000.
2020 May 2	Goods purchased from Radha	₹ 1,000.
2020 May 3	Goods sold to Radha	₹ 2,000.
2020 May 4	Goods returned to Radha	₹ 200.
2020 May 5	Cash paid to Radha	₹ 500.
2020 May 6	Cash purchases from Radha	₹ 750.

(**A: Radha a/c Credit Balance ₹ 3,300**)

6. For the following transactions write journal entries and prepare ledger accounts in the books of Sri Traders. (Note: This exercise only for practice purpose.)

2020 May 1	Capital	₹ 100,000.
2020 May 2	Bank account opened	₹ 2,000.
2020 May 3	Bought Computer	₹ 5,000.
2020 May 4	Goods purchased from Ravi	₹ 1,500.
2020 May 5	Gooks sold to Narendra	₹ 5,000.
2020 May 6	Cash purchase	₹ 2,000.
2020 May 7	Goods returned to Ravi	₹ 500.
2020 May 8	Cash paid to Ravi	₹ 500.
2020 May 9	Goods returned from Narendra	₹ 200.
2020 May 10	Cash received from Narendra	₹ 2,000.
2020 May 11	Cash sales	₹ 2,500.
2020 May 12	Cheque received from Anand	₹ 1,000.
2020 May 13	Drawings	₹ 500.
2020 May 14	Advertising expenses	₹ 1,000.
2020 May 15	Salaries paid	₹ 2,000.
2020 May 16	Cash withdrawn from bank for office use ₹ 1,000.	
2020 May 17	Goods withdrawn for personal use ₹ 200.	
2020 May 18	Sold old furniture	₹ 1,500.
2020 May 19	Cash received from Radha ₹ 1,450 and Discount allowed ₹ 50.	
2020 May 20	Cash paid to Satya ₹900 and Discount received ₹ 100.	
2020 May 21	Paid electricity charges	₹ 450.
2020 May 22	Commission received	₹ 500.
2020 May 23	Cash sales to Namrata	₹ 5,000.
2020 May 24	Rent paid to Malathi	₹ 500.
2020 May 25	Cash purchases from Nidhi	₹ 2,500.
2020 May 26	Dividend received	₹ 150.
2020 May 27	Depreciation on Machinery	₹ 1,000.
2020 May 28	Paid to Sudhir by cheque	₹ 650.
2020 May 29	Salary paid to Amith	₹ 1,800.
2020 May 30	Interest paid to bank	₹ 50.

UNIT -V

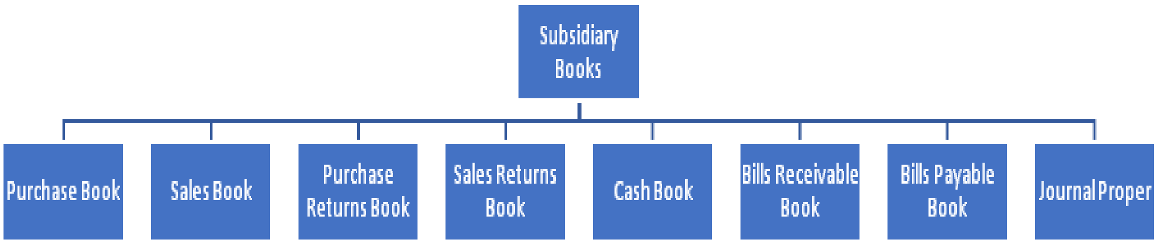
SUBSIDIARY BOOKS

Subsidiary books - Types of subsidiary books: Purchase Book, Sales Book, Purchase Return Book, Sales Return Book, Cash Book: Types of cash book – Single column cash book – Two column cash book – Three column cash book – Petty cash book – Bills Receivable Book, Bills Payable Book and Journal Proper - Exercises.

Learning Objectives: After studying this unit, the student will be able to

- Types of Subsidiary books and their nature.
- Recording transactions in Subsidiary Books.
- Post the transactions into their respective accounts in the ledger.

1. Introduction: In big organisations, where the number of transactions is large, the journal is subdivided in such a way that a separate book is used for each category of transactions. These separate books or special books are known as subsidiary books.



1.1. Types of Subsidiary Books: The Journal is divided into eight Subsidiary Books. They are

i. **Purchase Book**: This book records all credit purchase of goods. Cash purchases and purchase of assets are not recorded in this book.

ii. **Sales Book**: The goods sold on credit are recorded in this book. Cash sales, assets sold for cash or credit are not recorded in this book.

iii. **Purchase Returns Book**: This book is also known as returns outward book. This book records the goods returned to the suppliers.

iv. **Sales Returns Book**: It is also known as Returns Inward Book. In this book all the goods returned by the customers are recorded. It records the returns of goods sold on credit only.

v. **Cash Book**: This cash book is meant to record all cash transactions. In other words, cash receipts and cash payments either in cash or by cheque are recorded in this book.

vi. **Bill Receivable Book**: In this book all the bill received from the customers for the amount due for the goods sold on credit are recorded. It contains the details of acceptor of the bill, its due date, date of bill the amount due etc.

vii. **Bill Payable Book**: It the goods are purchased for credit or loans are taken; the bills are accepted by the trader. All these bills payable are recorded in this book. It contains, the amount due date of the bill, place of payment, due date etc.,

viii. **Journal Proper**: This book is used for recording only those transactions, which cannot be recorded in any one of the seven subsidiary books mentioned above. Now let us discuss each of these subsidiary books.

1.2. Subsidiary Books –Advantages: The following are the advantages Subsidiary Books.

- No need of writing the journal entries. Transactions are entered directly into their respective Journal.
- Ledger accounts can be prepared on the basis of Subsidiary Books.
- Recording of transactions is fast and easy.
- These books help in the checking of ledger postings. If the Trial Balance doesn't agree, the errors can be easily detected by verifying the Subsidiary Books.
- Division of work can be implemented by entrusting different subsidiary books to different persons, which improves efficiency of recording. Accounting work will be done efficiently.
- Posting of total amounts in several ledger accounts instead of writing them separately.
- Labour involved and time can be saved.
- Information relating to similar type of Transactions will be available at one place. E.g., Relating to sales or purchases, cash, bank etc.,

1.3. Purchase Book: In this book, all goods purchased on credit are recorded. Cash purchases should not be recorded. The purchase of Assets either on cash or credit basis to be not recorded in this book.

Invoice: The traders place the orders to the suppliers with all the terms and conditions. In response to the order, the supplier sends the goods required by the trader. Along with the goods the supplier sends a document stating that the goods are supplied as per the order and also mentions the price and discount offered and other terms and conditions. This document is called "Inward Invoice". The trader verifies the invoice to know the prices, quality and quantity received are correct or not. If it is correct the credit purchases of goods will be recorded in the purchases book as per invoice. The invoice is an important document and should be filled properly after giving a serial number.

Proforma of Purchase Book:

Purchase Book

Date	Particulars	Invoice No.	L.F.No.	Amount ₹

E.g., On 1.4.2020 M/s Rama Traders purchased goods on credit ₹ 9,000. Purchase book will appear as follows:

Purchase Book

Date	Particulars	Invoice No.	L.F.No.	Amount ₹
1.4.20	M/s Rama Traders	1	1	9,000
	Total			9,000

The important points to be followed while recording the purchases book:

- The date of transaction is shown in the date column.
- The name and address of the supplier are shown in the particular's column.
- The given serial number to the invoice is to be recorded in the invoice column.
- The page no. of the supplier's account in the ledger is shown in the ledger folio column.
- The value of the goods purchased to be recorded in the amount column.
- The total of the purchases book is posted on the debit side of "purchase account" as "To Sundries" at regular intervals generally at the end of each month.

Trade Discount: It the trader purchases goods in large quantity from the suppliers, the supplier offers some rebate. It is offered on the total amount of purchases. So, the total amount of the purchase price and discount offered should be shown separately in the invoice. This kind of rebate offered on the catalogue price is known as "Trade Discount". If the trade discount is given only net amount is recorded in the books.

Example: Prepare Purchase Book from the following transactions.

2020 April 1. Purchased goods from Ravi ₹ 5,000.

2020 April 2. Purchased goods from Siddharth ₹ 2,000. (Trade Discount 5%)

2020 April 3. Purchased goods from Padma ₹ 1,000. (Trade Discount 10%)

2020 April 4. Goods purchases for cash ₹ 500.

2020 April 5. Purchased goods from Ramesh ₹1,500.

Purchase Book

Date	**Particulars**	**Invoice No.**	**L.F.No.**	**Amount ₹**
1.4.20	Ravi	1	1	5,000
2.4.20	Siddharth	2	2	1,900
3.4.20	Padma	3	3	900
4.4.20	Ramesh	4	4	1,500
	Total			9,300

1.4. Sales Book: In the sales book, only credit sale of goods is recorded. Cash sales and sale of assets should not be recorded. The sales book is also known as "sales day book".

Proforma of Sales Book: The proforma of sales book is similar to the proforma of purchase book. This book also contains five columns.

- Date
- Particulars
- Invoice no.
- L.F.No.
- Amount

Sales Book

Date	Particulars	Invoice No.	L.F. No.	Amount ₹

Example: Prepare Sales book from the following particulars.

2020 Jan 1. Sold goods to Mahi ₹ 6,000

2020 Jan 2. Sold goods to Kishan ₹ 2,000 (Trade discount 10%)

2020 Jan 3. Sales to Nani ₹ 5000

2020 Jan 4. Goods sold to Hari ₹ 1,200 (Trade discount 5%)

2020 Jan 5. Cash sales Sindhu ₹ 400

Sales Book

Date	Particulars	Invoice No.	L.F.No.	Amount ₹
1.1.20	Mahi	1	1	6,000
2.1.20	Kishan	2	2	1,800
3.1.20	Nani	3	3	5,000
4.1.20	Hari	4	4	1,140
	Total			13,940

1.5. Purchase Returns Book: Sometimes the traders can return the purchased goods to the suppliers. These returns are known as “Purchase Returns”. This is also called “Returns Outwards”.

- The reasons for the purchase returns may be:
- When the goods are damaged or spoiled
- The supplied goods designs and models are not upto standard
- Difference in prices
- Difference in quality
- Difference in quantity etc.,

Debit Note: At the time of returning the goods, the net amount is calculated and a note or letter is prepared by the purchaser. This note is known as "Debit Note". The purpose of this note is to inform the supplier about the debit given to his account on receiving this debit note. The supplier can understand that his account has been debited. The particulars of the Debit Note are: -

— Name and address of the supplier

— The value of the goods returned

— The value of the goods purchased

— The reasons for the return of the goods

— Remarks, if any

Proforma of Purchase Returns Book:

Purchase Returns Book

Date	**Particulars**	**Debit Note No.**	**L.F.No.**	**Amount ₹**

Example: Record the following transactions in the purchase returns book.

2020 Feb 1 Goods returned to Anitha ₹ 500

2020 Feb 2 Goods returned to Bhanu ₹ 200

2020 Feb 3 Goods returned to Chandu ₹ 100

2020 Feb 4 Goods returned to David ₹ 150

Purchase Returns Book

Date	Particulars	Debit Note No.	L.F.No.	Amount ₹
1.2.20	Anitha	1	1	500
2.2.20	Bhanu	2	2	200
3.2.20	Chandu	3	3	100
4.2.20	David	4	4	150
	Total			950

1.6. Sales Returns Book: This is also known as "Returns Inward Book". The customers may return a part of the goods, to the traders from whom they purchased. The goods returned by the customers are called sales returns. These returns are recorded in the Sales Returns Book.

Credit Note: When the goods are returned by the customers, a credit note is being prepared and sent to him. The credit note informs that his account is credited with the amount of the goods returned.

Proforma of Sales Return Book: - Sales returns book is similar to the Purchase returns book with only one difference i.e., in place of Debit note no. the column is used to note the Credit note no.

Sales Returns Book

Date	Particulars	Credit Note No.	L.F.No.	Amount ₹

Example: Prepare Sales Returns Book from the following:

2020 April 1. Radha & Co. returned goods ₹ 200

2020 April 2. Vikrant returned goods ₹ 100

2020 April 3. Dharani traders returned goods ₹ 200

2020 April 4. Mukund returned goods ₹ 100

Sales Returns Book

Date	**Particulars**	**Credit Note No.**	**L.F.No.**	**Amount ₹**
1.4.20	Radha & Co.	1	1	200
2.4.20	Vikrant	2	2	100
3.4.20	Dharani traders	3	3	200
4.4.20	Mukund	4	4	100
	Total			600

Illustration: -Enter the following transactions in proper subsidiary books and post them in ledger accounts.

2020 April 1. Purchased goods from Manohar ₹ 1,000.

2020 April 2. Goods sold to Rajani ₹ 2,000.

2020 April 3. Goods returned to Manohar ₹ 100.

2020 April 4. Goods returned from Rajani ₹ 200.

2020 April 5. Goods purchased from Surya ₹ 2,500. (Trade Discount 5%)

2020 April 6. Sales to Lakshmi ₹ 5,000. (Trade Discount 10%)

2020 April 7. Returned goods to Surya ₹ 500.

2020 April 8. Returned goods from Lakshmi ₹ 200.

Purchase Book

Date	Particulars	Invoice No.	L.F.No.	Amount ₹
1.4.20	Manohar	1	1	1,000
5.4.20	Surya	2	2	2,375
	Total			3,375

Sales Book

Date	Particulars	Invoice No.	L.F.No.	Amount ₹
2.4.20	Rajani	1	1	2,000
6.4.20	Lakshmi	2	2	4,500
	Total			6,500

Purchase Returns Book

Date	Particulars	Debit Note No.	L.F.No.	Amount ₹
3.4.20	Manohar	1	1	100
7.4.20	Surya	2	2	500
	Total			600

Sales Returns Book

Date	Particulars	Credit Note No.	L.F.No.	Amount ₹
4.4.20	Rajani	1	1	200
8.4.20	Lakshmi	2	2	200
	Total			400

Ledger:

Dr **Purchase Account** Cr

Date	Particulars	L.F. No	₹	Date	Particulars	L.F. No	₹
30.4.20	To Sundries	1	3,375	30.4.20	By Balance c/d		3,375
			3,375				3,375
01.05.20	To Balance b/d		3,375				

Dr **Sales Account** Cr

Date	Particulars	L.F. No	₹	Date	Particulars	L.F. No	₹
30.4.20	To Balance c/d		6,500	30.4.20	By Sundries		6,500
			6,500				6,500
				1.5.20	By Balance b/d		6,500

Dr **Purchase Returns Account** Cr

Date	Particulars	L.F. No	₹	Date	Particulars	L.F. No	₹
30.4.20	To Balance c/d		600	30.4.20	By Sundries		600
			600				600
				01.05.20	By Balance b/d		600

Dr **Sales Returns Account** Cr

Date	Particulars	L.F. No	₹	Date	Particulars	L.F. No	₹
30.4.20	To Sundries		400	30.4.20	By Balance c/d		400
			400				400
1.5.20	To Balance b/d		400				

1.7. Cash Book: Cash book is a book in which all transactions relating to cash receipts and cash payments are recorded. It starts with the cash or bank balances at the beginning of the period. Generally, it is made on monthly basis. This is a very popular book and is maintained by all organisations, big or small, profit or not-for profit. It serves the purpose of both journal as well as the ledger (cash) account. It is also called the book of original entry. When a cashbook is maintained, transactions of cash are not recorded in the journal, and no separate account for cash or bank is required in the ledger.

Kinds of Cash Book: The form of cash book mainly depends on the need, size and network of business. There are different types of cash books maintained by the business organisations. They are: -

I. Simple Cash Book or Single Column Cash Book
II. Double Column Cash Book
   — With Cash and Discount Columns (or)
   — With Bank and Discount Columns
III. Three Column Cash Book (Cash, Bank and Discount Columns)
IV. Analytical Petty Cash Book

I. Simple / Single Column Cash Book: Single Column Cash Book: The single column cash book records all cash transactions of the business in a chronological order, i.e., it is a complete record of cash receipts and cash payments. When all receipts and payments are made in cash by a business organisation only, the cash book contains only one amount column on each (debit and credit) side. The format of single column cash book is shown in the below: -

Dr Single Column Cash Book Cr

Date	Particulars	L.F. NO	₹	Date	Particulars	L.F. NO	₹

Example: Enter the following transactions in the simple cash book of Vardhan Traders for the month of Jan, 2020.

2020 Jan 1. Cash Balance ₹ 9,000

2020 Jan 4. Sales ₹ 12,000

2020 Jan 5. Purchases ₹ 5,000

2020 Jan 6. Interest paid ₹ 150

2020 Jan 7. Received cash from Sarayu ₹ 2,000

2020 Jan 9. Paid cash to Rahim ₹ 500

2020 Jan 15. Bought furniture ₹ 1,000

2020 Jan 20. Received Commission ₹ 100

2020 Jan 27. Sale of old furniture ₹ 450

Dr Single Column Cash Book Cr

Date	Particulars	L.F. NO	₹	Date	Particulars	L.F. NO	₹
1.1.20	To Balance b/d		9,000	5.1.20	By Purchases		5,000
4.1.20	To Sales		12,000	6.1.20	By Interest		150
7.1.20	To Sarayu		2,000	9.1.20	By Rahim		500
20.1.20	To Commission		100	15.1.20	By Furniture		1,000
27.1.20	To Furniture		450	31.1.20	By Balance c/d		16,900
			23,550				23,550
1.2.20	To Balance b/d		16,900				

In Simple Cash Book,

- Only Cash Transactions are to be recorded
- Simple Cash Book resembles an ordinary account
- Enter Cash Receipts on Debit side, Cash Payments on Credit side
- After entered all transactions find out the Balance like an ordinary account.

II. Double Column Cash Book: In this type of cash book, there are two columns of amount on each side of the cash book. Two column cash book records not only receipts and payments of cash but also the cash discount. So, the two-column cash book is also called "Cash Book with Cash and Discount columns".

Cash Discount: A cash discount is a reduction in price that is given to a purchaser who pays in cash or before a particular date. Cash discounts are offered in order to persuade credit customers to pay their bills faster – they are not meant as an incentive to make the purchase in the first place.

Proforma of Double Column Cash Book: -

Dr Double Column Cash Book Cr

Date	**Particulars**	**L.F. NO.**	**Discount Allowed**	**Cash ₹**	**Date**	**Particulars**	**L.F. NO.**	**Discount Received**	**Cash ₹**

Example 1: Prepare Two Column Cash Book from the following particulars.

2020 April 1 Cash in Hand₹ 12,000

2020 March 4 Cash Sales ₹ 5,000

2020 March 8 Cash Purchases ₹ 2,000

2020 March 12 Received cash from Anand ₹ 1,400 and Discount allowed ₹ 100

2020 March 17 Bought Machinery ₹ 10,000

2020 March 20 Paid Cash to Madhu ₹1,950 and Discount received ₹ 50

2020 March 22 Paid Stationery ₹ 150

2020 March 25 Sold goods to Prasanth ₹ 2,000

2020 March 27 Paid Electricity Bill ₹ 400

2020 March 28 Received cash from Prasanth as a final settlement ₹ 50

2020 March 29 Paid to Sumanth ₹ 4,450 and discount received ₹ 50

2020 March 30 Rent received ₹ 500

Dr Double Column Cash Book Cr

Date	Particulars	L. F. NO.	Discount Allowed	Cash ₹	Date	Particulars	L.F. NO.	Discount Received	Cash ₹
1.3.20	To Balance b/d			12,000	8.3.20	By Purchases			2,000
4.3.20	To Sales			5,000	17.3.20	By Machinery			10,000
12.3.20	To Anand		100	1,400	20.3.20	By Madhu		50	1,950
28.3.20	To Prasanth		50	1,950	22.3.20	By Stationery			150
30.3.20	To Rent			500	27.3.20	By Electricity			400
					29.3.20	By Sumanth		50	4,450
					31.3.20	By Balance c/d			1,900
				20,850					20,850
1.4.20	To Balance b/d			1,900					

Example 2: Prepare Two Column Cash Book (Discount and Bank columns) from the following particulars.

2020 April 1 Opening Bank Balance ₹ 2,000

2020 April 5 Sales ₹ 15,000

2020 April 8 Purchases ₹ 1,000

2020 April 12 Received Cheque from Bhanu ₹ 3,500 and Discount allowed ₹ 100

2020 April 14 Bought Furniture and paid by cheque ₹ 5,000

2020 April 16 Paid to Krishna by cheque ₹2,950 and Discount received ₹ 50

2020 April 20 Paid interest ₹ 50

2020 April 22 Cash withdrawn from bank for office use ₹ 1,000

2020 April 24 Paid stationery ₹ 100

2020 April 26 Received cheque from Raghu ₹ 5,000

2020 April 28 Paid to Zaheer by cheque ₹ 2,250 and discount received ₹ 150

2020 April 30 Commission received ₹ 500

Dr Double Column Cash Book Cr

Date	Particulars	L.F.N.O.	Discount Allowed	Bank ₹	Date	Particulars	L.F.NO.	Discount Received	Bank ₹
1.4.20	To Balance b/d			2,000	8.4.20	By Purchases			1,000
5.4.20	To Sales			15,000	14.4.20	By Furniture			5,000
12.4.20	To Bhanu		100	3,500	16.4.20	By Krishna		50	2,950
22.4.20	To Cash			1,000	20.4.20	By Interest			50
26.4.20	To Raghu			5,000	24.4.20	By Stationery			100
30.4.20	To Commission			500	28.4.20	By Zaheer		150	2,250
					30.4.20	By Balance c/d			15,650
				27,000					27,000
1.5.20	To Balance b/d			15,650					

Two Column Cash Book – Important Points:

- Two aspects of the transaction i.e., Amount of cash and Discounts are to be recorded in two column cash books.
- Cash Receipts on Debit side and Cash Payments on Credit side.
- Discount allowed or given to be recorded in Debit side discount column.
- Discount received to be recorded in Credit side discount column.
- Discount columns only to be totalled and not to be balanced.

III. Three Column Cash Book: This book also known as Cash Book with Cash, Discount and Bank columns. It contains three columns on both the sides (Debit and Credit side) in addition to Date, Particulars and LF columns. The main three columns, in which the amounts to be recorded are: -

— Cash column

— Bank column

— Discount column

We are opening bank column in the cash book itself and hence there is no need of opening bank account in the ledger.

Three column cash book is used by large trading organisations for the following reasons: -

- ☞ Receipts and Payments are through cheques.
- ☞ Cheques received are deposited in the bank accounts.
- ☞ To record large number of cash and bank transactions of different nature.

Proforma of Triple Column Cash Book:

Dr Triple Column Cash Book Cr

Date	Particulars	L. F. No	Discount allowed	Cash ₹	Bank ₹	Date	Particulars	L. F. No	Discount received	Cash ₹	Bank ₹

The following points to be noted carefully while preparing three column cash book: -

i. If Opening of cash balance and bank balances are given they should be recorded on the Debit side of the cash and bank columns. If the overdraft balance is given, it should be recorded on the credit side of the cash and bank columns.

ii. All the cash receipts should be recorded on the debit side cash column and cash payments should be recorded in the credit side cash column.

iii. **Contra Entry:** An entry which appears on both sides of the three-column cash book (debit side as well as credit side) is called Contra Entry. It affects two accounts on the opposite side of cash book. For contra entries letter" C" is written in L.F. Column on each side of the cash book.

Contra Entries are recorded in the following cases:

❖ **When cash is deposited into bank**: It effects both the accounts viz. Cash account, Bank Account. So, it should be recorded on both the sides of the cash book. On debit side write “To cash” in particulars column and record the amount in the bank column and on the credit side write “By bank” in particulars column and record the amount in cash column. Write capital letter ‘C’ in L.F. column on both the sides, indicating that it is a contra entry.

❖ **When cash is withdrawn from bank for office use**: This transaction also effects both the accounts of the cash book i.e., Cash account and Bank account and requires posting on both the sides of the cash book as follows:

On debit side write “To Bank” in particulars column and put the amount in the cash column, and on the credit side write “To Cash” in the particulars column and enter the amount in Bank column.

❖ **When an account is opened with bank**:

❖ **When the cheque received on one day and deposited on another day**: When cheques are received, they will be sent to bank for collection. Sometimes they may not be deposited on the same day. Then they are to be entered in cash column treating the cheques as equal to cash. When they are sent to bank for collection on some other day contra entry should be recorded on debit side in bank column and on the credit side in cash column and put capital letter ‘C’ in the L.F. columns of two sides of the cash book indicating that it is a contra entry.

Note: Withdrawn cash from bank for personal use is not a contra entry. It is recorded on only one side of the cash book on credit side in bank column only.

Example: Enter the following transactions in cash book, with cash, bank and discount columns:

2020 Jan 1.	Cash in hand ₹ 9,000, cash at bank ₹10,000
2020 Jan 4.	Sales₹2,000
2020 Jan 7.	Paid into bank ₹4,000
2020 Jan 10.	Cheque received from Amulya ₹ 2,800; discount allowed ₹ 200
2020 Jan 12.	Cash purchase₹ 2,500
2020 Jan 16.	Amulya's cheque sent to bank
2020 Jan 19.	Paid Rent₹ 600
2020 Jan 22.	Issued cheque to Maha ₹ 4,800; discount received ₹ 200
2020 Jan 24.	Furniture purchased and paid by cheque ₹ 5,000
2020 Jan 27.	Paid stationery₹500
2020 Jan 28.	Dividend received ₹ 800
2020 Jan 29.	Withdrawn from bank for office use ₹ 2,000
2020 Jan 30.	Withdrawn cash from bank for personal use ₹ 1,000

Solution:

Dr Triple Column Cash Book Cr

Date	Particulars	L.F.NO.	Discount	Cash	Bank	Date	Particulars	L.F.NO.	Discount	Cash	Bank
			Allowed	₹	₹				Received	₹	₹
1.1.20	To Balance b/d			9,000	10,000	7.1.20	By Bank	C		4,000	
4.1.20	To Sales			2,000		12.1.20	By Purchases			2,500	
7.1.20	To Cash	C			4,000	16.1.20	By Bank	C		2,800	
10.1.20	To Amulya		200	2,800		19.1.20	By Rent			600	
16.1.20	To Cash	C			2,800	22.1.20	By Maha		200		4,800
28.1.20	To Dividend			800		24.1.20	By Furniture				5,000
29.1.20	To Bank	C		2,000		27.1.20	By Stationery			500	
						28.1.20	By Cash	C			2,000
						30.1.20	By Drawings				1,000
						31.1.20	By Balance c/d			6,200	4,000
				16,600	16,800					16,600	16,800
1.2.20	To Balance b/d			6,200	4,000						

IV. Petty Cash Book: In large scale business organisations cash is paid and received through banks. But, every day the organisation has to pay various small payments like transport, postal charges, Stationery expenses, Postal charges etc., it is not possible to make these small or petty payments through cheques and enter in the cash book. Hence all petty payments of the business are recorded in a separate cash book which is called as "Petty Cash Book" or "Analytical Petty Cash Book". It is generally maintained in analytical manner to show the details of the Petty Expenses incurred.

Imprest System: In this system petty cash payments for a period are estimated and that amount is given to the petty cashier as an advance. The cashier makes payments from this amount and records them in petty cash book. At the end of a particular period the petty cashier submits petty cash book to the Head Cashier. The Head Cashier scrutinizes the petty payments and issues a fresh cheque equal to the amount he had received in the beginning as advance. This system of book keeping is called "Imprest System".

Proforma of Analytical Petty Cash Book:

Analytical Petty Cash Book

Cash Received	L.F.No	Date	Particulars	Voucher No	Total Payments	Analysis of Expenses					
						Postage	Printing	Travelling	Carriage	Tiffin exp	Sundries

Example: Enter the following transactions in an analytical petty cash book.

2020 March 1 Cheque received from head cashier ₹ 500
2020 March 2 Paid bus charges ₹ 10
2020 March 3 Postal Stamps ₹ 20
2020 March 4 Carriage ₹ 25
2020 March 5 Tea Expenses₹ 20
2020 March 6 Auto charges ₹ 25

2020 March 7 Telephone charges ₹ 20

2020 March 8 Courier charges ₹ 30

2020 March 9 Carbon papers and Pencils Purchased₹ 50.

Solution:

Analytical Petty Cash Book

Cash Received	L. F. No	Date	Particulars	Voucher No	Total Payments	Analysis of Expenses					
500		1.3.20	To Bank			Postage & Tele	Printing& Stat	Travelling	Carriage	Tiffin exp	Sundries
		2.3.20	By Bus charges		10			10			
		3.3.20	By Postal Stamps		20	20					
		4.3.20	By Carriage		25			25			
		5.3.20	By Tea Expenses		20					20	
		6.3.20	By Auto Charges		25	20		25			
		7.3.20	By Telephone cha		20	30					
		8.3.20	By Courier charge		30		50				
		9.3.20	By Carbon & Pencils		50						
		10.3.20	By Balance c/d		300						
500					500						
300		11.3.20	To Balance b/d								

1.8. Bills Receivable Book: In the business organisation, transactions are of two kinds i.e., cash and credit transactions. If credit transactions involve huge amounts, a creditor draws a document stating the amount of money to be payable by the debtor indicating the date on which he has to pay and the rate of interest charged etc., This document or instrument is called Bill of Exchange. The amount on bills to be received is called "Bills Receivable". All the bills receivables are recorded in a separate book known as "Bills Receivable Book".

Proforma of Bills Receivable Book: -

Bills Receivable Book

S. No	Date	From whom received	Drawer	Acceptor	Endorser	Due Date	Amount	L.F. NO	Where the bill is payable	Terms and conditions	Remarks

1.9. Bills Payable Book: A business organisation accepts the bills to the creditors, like wholesalers or manufacturers for the purchase of goods on credit. Such bills drawn by creditors and accepted by traders are called bills payable and they are recorded in a separate book called "Bills Payable Book".

Proforma of Bills Payable Book: -

Bills Payable Book

No of bill	Date of bill	To Whom given	Drawer	Payee	Where Payable	Term	Due Date	L.F. No	Amount paid	Paid Date	Cash Book Folio	Remarks

1.10. Journal Proper: This book is maintained to record transactions, which do not find place in other seven special journals. Journal Proper is also known as "Journal Residual". The ruling of Journal Proper is similar to the ordinary journal. In this book to record the following transactions: -

— Opening Entries

— Purchase of assets on credit

— Sale of assets on credit

— Rectification Entries

— Adjustment Entries

— Closing Entries

— Transfer Entries

Short Answer Questions (2 Marks)

1. How many types of subsidiary books are there? What are they?
2. What is Invoice?
3. What is Debit Note?
4. What is Credit Note?
5. What is Trade Discount?
6. How many types of cash books are there? What are they?
7. What is Cash Discount?
8. What is Contra Entry?
9. What is Imprest System?

6 Marks Questions

1. Explain about various types of Subsidiary Books?
2. Prepare Purchase Book and Purchase Return Book from the following: -

   2020 June 1 Goods purchased from Srihari₹ 1,000.

   2020 June 2 Purchases from Gayatri₹ 2,000.

   2020 June 3 Cash purchase ₹ 1,000.

   2020 June 4 Goods returned from Srihari₹ 200.

   2020 June 5 Returns from Gayatri₹ 100.

   (Ans: Purchase Book ₹ 3,000; Purchase Returns Book ₹ 300.)
3. Record the following transactions in suitable subsidiary books.

   2020 April 1. Goods sold to Seshu₹2,000(Trade Discount 5%)

   2020 April 2. Sales to Vinod ₹5,000. ((Trade Discount 10%)

   2020 April 3. Furniture sold₹1,000

   2020 April 4. Goods returned from Seshu₹500

   2020 April 5. Returns from Vinod₹100.

   (Ans: Sales Book ₹ 6,400; Sales Returns Book ₹ 600.)
4. Record the following transactions in Sales book and Sales returns book.

   2020 Feb 1 Goods sold to Amir₹ 5000.

   2020 Feb 2 Cash sales₹2000.

2020 Feb 3 Returns from Amir ₹100.

2020 Feb 4 Goods sold to Chinni ₹ 2000.

2020 Feb 5 Returns from Chinni₹200.

(Ans: Sales Book ₹ 7,000; Sales Returns Book ₹ 300.)

5. Record the following transactions in Purchase Book and Purchase Returns Book.

2020 June 1 Goods Purchased from Isha₹5,000(Trade Discount Rs. 500)

2020 June 2 Goods Purchased from Fathima ₹9,000 (Trade Discount 5%)

2020 June 3 Machinery Purchased₹5,000

2020 June 4 Goods Returned to Isha₹400

2020 June 5 Goods Returned to Fathima₹200

(Ans: Purchase Book ₹ 13,050; Purchase Returns Book ₹ 300.)

6.Record the following transactions in suitable subsidiary books.

2020 July 1 Goods purchases from Ganesh₹2,000

2020 July 2 Goods purchase from Mahesh₹ 1,000

2020 July 3 Returns to Ganesh₹ 500

2020 July 4 Goods sold to Karuna₹1,000

2020 July 5 Returns to Mahesh ₹100

2020 July 6 Goods sold to Ananth ₹1,000 (Trade Discount 10%)

2020 July 7 Returns from Karuna₹ 100

(Ans: Purchase Book ₹ 3,000; Purchase Returns Book ₹ 600. Sales Book ₹ 1,900; Sales Returns Book ₹ 100.)

Cash Book Exercises

7. Prepare Simple Cash Book from the following particulars: -

2020 Jan 1.	Cash balance	₹ 5,000
2020 Jan 4.	Cash purchase	₹ 2,500
2020 Jan 7.	Cash sales	₹ 5,000
2020 Jan 10.	Advertisement exp	₹ 500
2020 Jan 12.	Commission received	₹ 550
2020 Jan 14.	Cash paid to Kushal	₹ 1,500
2020 Jan 15.	Drawings	₹ 500
2020 Jan 16.	Cash deposited into bank	₹ 1,000
2020 Jan 22.	Office exp	₹ 300
2020 Jan 23.	Interest received	₹ 500
2020 Jan 27.	Salaries	₹ 2,000
2020 Jan 31.	Rent paid	₹ 1,500
		(Ans: 1,250)

8. Prepare Simple Cash Book of Sreeja.

2020 Feb 1	Brought cash into business	₹ 8,000
2020 Feb 2	Received commission	₹ 550
2020 Feb 6	Cash deposited into bank	₹ 800
2020 Feb 7	Cash purchase	₹ 2,800
2020 Feb 12	Paid to Varun	₹ 1,000
2020 Feb 17	Office expenses	₹ 450
2020 Feb 18	Drawings	₹ 400
2020 Feb 19	Advertisement expenses	₹ 220
2020 Feb 20	Interest received	₹ 400
2020 Feb 24	Paid rent	₹ 500
2020 Feb 25	Salaries	₹ 900
2020 Feb 26	Sales	₹ 5,000
		(Ans: 6,880)

9. Record the following transactions in Two Column Cash Book.

2020 March 1	Cash balance ₹ 5,500
2020 March 2	Paid to Hari₹1,250, discount received ₹ 250
2020 March 3	Cash sales ₹ 1,000
2020 March 4	Cash purchase₹ 900
2020 March 5	Received cash from Indu ₹ 850, discount allowed₹ 150
2020 March 6	Paid cash to Jhon ₹ 650, discount received ₹ 150.
2020 March 7	Paid stationary ₹ 600
2020 March 8	Received cash from Kamal₹ 800, discount allowed ₹ 200
2020 March 9	Paid repairs ₹ 400
2020 March 10	Sold old newspapers ₹ 200
2020 March 11	Received cash from Lahari₹ 325, discount allowed ₹ 75
2020 March 12	Paid salaries ₹750.

(A: Cash ₹ 4125, Discount allowed ₹ 425, Discount received ₹ 400.)

10. Prepare Double Column Cash Book from the following.: -

2020 April 1	Cash in hand ₹ 9,000.
2020 April 2	Deposited into bank ₹ 2,000.
2020 April 3	Drawings ₹ 500.
2020 April 4	Withdrawal cash from bank ₹ 1,000.
2020 April 5	Paid cash to Prasad ₹2,950, Discount received ₹50.
2020 April 6	Received cash from Surabhi ₹ 2,750, Discount allowed ₹ 250
2020 April 7	Sold Old Furniture ₹2,000
2020 April 8	Cash received from Gopal ₹2,500; Discount allowed ₹200.
2020 April 9	Office expenses₹500
2020 April 10	Additional Capital barrowed₹5,000.
2020 April 11	Rent paid ₹1,000.
2020 April 12	Paid cash to Viswa₹1,500, Discount received ₹50.
2020 April 13	Paid Salaries ₹1,000.

(A: Cash ₹12,400, Discount allowed₹450. Discount received ₹100.)

11. Prepare Three Column Cash Book from the following particulars: -

2020 May 1 Cash balance ₹ 10,000; Bank balance₹6,000

2020 May 2 Cash Sales ₹ 3,000.

2020 May 3 Cheque issued to Manoj ₹ 3,950; discount received₹ 50

2020 May 4 Cheque received from Vijay ₹ 1,200,

2020 May 5 Cheque received from Srinivas ₹ 2500; Discount allowed₹100 (this cheque deposited on the same day).

2020 May 6 Vijay cheque deposited into bank

2020 May 7 Cash withdrawn from bank for office use ₹ 800

2020 May 8 Salaries paid ₹ 1,000.

2020 May 9 Cash purchase ₹2,000.

2020 May 10 Cash withdrawn from bank for personal use ₹500.

(A: Cash ₹ 10,800, Bank₹ 4,450, Discount allowed₹ 100, Discount received ₹ 50)

12. Prepare Three Column Cash Book from the following Particulars: -

2020 June 1 Cash ₹10,000, Bank ₹12,000.

2020 June 2 Paid to Akash ₹ 1,500, Discount received ₹ 150.

2020 June 6 Cash Sales ₹6,000.

2020 June 9 Cash paid to Mahanthi ₹ 2,500; Discount received ₹ 50

2020 June 10 Cheque received from Nani ₹ 4,000; Discount allowed ₹ 100

2020 June 11 Postal charges ₹100

2020 June 12 Nani’s cheque deposited

2020 June 18 Paid to Mohith through cheque ₹ 2,475, discount received₹125

2020 June 22 Cash deposited into Bank₹ 5,000.

2020 June 23 Interest received ₹ 450.

2020 June 24 General expenses ₹ 150.

2020 June 30 Cash withdrawn from bank for office use ₹ 1,000.

(A: Cash ₹ 8,200; Bank ₹ 17,525; Discount allowed ₹ 100; Discount received ₹ 225.)

13. Prepare Cash, Bank and Discount Column Cash Book from the following: -

2020 July 1 Cash Balance ₹ 5,000; Bank Balance ₹ 2,000 (Overdraft).

2020 July 4 Cash purchase ₹1,500.

2020 July 8 Cash sales ₹ 4,500.

2020 July 9 Cash deposited into bank ₹ 5,000.

2020 July 14 Paid rent ₹ 500.

2020 July 18 Received interest ₹ 50.

2020 July 19 Sale of old furniture ₹ 950.

2020 July 20 Cash withdrawn from bank for office use ₹ 500.

2020 July 25 Received cheque from Madhu ₹ 250. (deposited immediately).

2020 July 26 Drawings ₹ 100.

2020 July 27 Received cheque from Gopal ₹ 750. Discount allowed ₹ 50.

2020 July 28 Cash paid to Mohan ₹ 900. Discount received ₹ 100.

2020 July 29 Gopal cheque sent to bank.

(A: Cash ₹ 3,000; Bank ₹ 3,500; Discount allowed ₹ 50; Discount received ₹ 100.)

14. Prepare Triple Column Cash Book from the following: -

2020 August 1 Cash balance ₹ 6,000; Bank Balance ₹ 1,000 (Credit).

2020 August 2 Cash sales ₹ 2,000.

2020 August 3 Bought furniture ₹ 500.

2020 August 4 Purchases ₹ 1,000.

2020 August 8 Cash paid to Bank ₹ 2,000.

2020 August 12 Cheque received from Hema ₹ 800. Discount allowed ₹ 200.

2020 August 19 Cash paid to Ramya ₹ 1,400. Discount received ₹ 100.

2020 August 20 Hema Cheque deposited

2020 August 21 Cash withdrawn from bank for personal use ₹ 500.

2020 August 22 Wages paid ₹ 150.

2020 August 30 Additional capital barrowed ₹ 2,000.

(A: Cash ₹4,950; Bank ₹1,300; Discount allowed ₹200; Discount received ₹ 100.)

15. Prepare Petty Cash Book from the following: -

2020 September 1 Advance received from head cashier ₹500.

2020 September 2 Bus charges ₹20.

2020 September 3 Paid stationary ₹15.

2020 September 4 Auto charges ₹ 25.

2020 September 5 Labour charges ₹ 30.

2020 September 5 Telephone Bill ₹ 20.

2020 September 5 Papers, ink charges ₹20.

2020 September 6 Tea charges ₹ 10.

2020 September 6 Speed post charges ₹ 25.

2020 September 7 Tiffin charges ₹ 50.

2020 September 7 Transport charges ₹40.

(A: ₹245)

16. Prepare Analytical Petty Cash Book from the following: -

2020 October 1	Cash balance ₹ 50, Advance received ₹ 450.
2020 October 2	Tiffin charges ₹50.
2020 October 2	Postal charges ₹15.
2020 October 2	Bus charges ₹10.
2020 October 3	Tea charges ₹20.
2020 October 4	Auto charges ₹ 10.
2020 October 5	Tiffin charges ₹50.
2020 October 5	Paid to cooli charges ₹ 20.
2020 October 6	Mobile Recharge ₹20.
2020 October 7	Xerox charges ₹ 20
2020 October 7	Carriage₹ 20.

(A: ₹ 265)

UNIT -VI

BANK RECONCILIATION STATEMENT (BRS)

Bank Reconciliation Statement (BRS)– Meaning – Need – Cash book vs. Pass book – Favourable Balance – Un- favourable balance (Over Draft) – Exercises.

Learning Objectives: After studying this unit, the student will be able to

- Meaning and need for the preparation of BRS.
- Identify the reasons for disagreement between bank balance as per Cash Book and Pass Book.
- Prepare the Bank Reconciliation Statement, for ascertaining Cash Book balance (either Favourable and Unfavourable), if Pass Book balance (either Favourable or Unfavourable) is given or vice versa.

1.0. Introduction: From the previous unit, you learnt how the cash books are prepared in different forms (Single, Double, Three column and Petty cash Book). The present unit revolves around two books, namely Cash Book and Pass Book. You are already familiar with the term Cash Book. In this chapter, the term Cash Book refers to bank column of Cash Book. On other hand, the term pass book means the statement of transactions of a firm's account, maintained in the banker's ledger.

A business concern has to open a current account with a bank. The business organisations keep a record of their cash and bank transactions in a cash book. The cash book also serves the purpose of both the cash account and the bank account and shows the balance of both at the end of the period. Once the cash book has been balanced, it is usual to check its details with the records of the firm's bank transactions as recorded by the bank. To enable this check, the cashier needs to ensure that the cash book is completely up to date and a recent bank statement (or a bank passbook) has been obtained from the bank. A bank statement or a bank passbook is a copy of a bank account as shown by the bank records. This enables the bank customers to check their funds in the bank regularly and update their own records of transactions that have occurred.

1.1. Meaning: Bank Reconciliation Statement (BRS) is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date. A bank reconciliation is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. The goal of this process is to ascertain the differences between the two and to book changes to the accounting records as appropriate. The information on the bank statement is the bank's record of all transactions impacting the entity's bank account during the past month.

1.2. Need for Reconciliation: The Balance shown by a Cash Book should tally with the balance shown by a Pass Book. As both the books may not show equal balance, on a given day, there arises the need to prepare Bank Reconciliation Statement. The need or importance of BRS, may be explained on following grounds.

- Similarity of balances between cash book and pass book can be confirmed by accountant, with the help of Bank Reconciliation Statement.
- It also helps to detect any mistakes that have taken place in both the cash book and pass book.
- It also prevents the frauds, by recording the transactions.
- It also reveals the reasons behind disagreement between both balances.
- Any undue delay in the clearance of cheque will be shown up by the reconciliation statements.
- This statement is prepared only by business concerns.
- To reveal exact cash balance lying with the bank.

1.3. Reasons for the Differences between Passbook and Cash Book: Following are the reasons for the disagreement between the balances of firm’s cash and bank pass book, on a given day. Reasons may be classified in the two, they are:

- Timing difference on recording of the transactions.
- Errors made by the business or by the bank.

Timing difference on recording of the transactions: - There would be time gap in recording the transactions relating to either receipts or payments, between firm’s cash book and bank’s pass book on a given day. The factors affecting such time gap may be discussed as follows:

	Particulars	*Cash Book balance excess (+) short (-)*	*Pass book balance excess (+) short (-)*
(a)	Cheques paid into the Bank but not credited	+	-
(b)	Cheques or cash paid into the Bank and credited in the pass book but omitted in the cash book	-	+
(c)	Outstation cheques paid into bank and credited in the pass book subject to collection charge	+ (to the extent of the charge)	- (to the extent of the charge)
(d)	Cheques issued but not presented for payment	-	+
(e)	Discounted bills dishonoured and debited in the pass book (with noting charge, if any,) but not recorded in the cash book	+ (face value of bill plus noting charge)	- (face value of bill plus noting charge)
(f)	Direct deposits by customers into Bank but not recorded in the cash book	-	+
(g)	Incomes collected and credited by Bank but not recorded in the cash book	-	+
(h)	Payments and remittances by bank but not recorded in the cash book	+	-
(i)	Cheques, expenses and interest on overdraft debited in the pass book but not shown in the cash book	+	-
(j)	Interest on deposit allowed by Bank	-	+

1.4. Preparation of Bank Reconciliation Statement: The reconciliation may be done in the following two ways:

- ☞ Preparation of Bank Reconciliation Statement without adjusting cash book balance.
- ☞ Preparation of Bank Reconciliation Statement after adjusting cash book statement.

Out of above cited two methods, we confine ourselves only to one method.

The Bank Reconciliation Statement is prepared usually at the end of a period, i.e., a month, a quarter, half a year or a year, whichever is convenient to the firm. When both the books, cash book and pass book are given in problem, then see whether the two books relate to same period or for different periods.

If the books are for different periods, then the common items should be considered and if it is for the same period, then items not appearing in both the books should be taken into consideration.

Proforma of Bank Reconciliation Statement

In the books of ……………………...

Bank Reconciliation Statement as on ………………

Particulars	Amount ₹	Amount ₹
Balance as per Cash Book/ Pass Book		XXX
ADD:		
	XXX	XXX
		XXX
LESS:		
	XXX	XXX
Balance as per Pass Book/Cash Book		XXX

Points to be considered for preparation of BRS:

- ☞ BRS is prepared on a particular date. Therefore, the date has to be mentioned at the top in the heading.
- ☞ BRS is a statement and not an account. No entries are required in Cash Book or Pass Book.
- ☞ In the problem, either Cash Book or Pass Book balance is given. We have to determine the unknown balance with the help of known balance (given in the problem).

If the period of Reconciliation is the same for both Cash Book and Pass Book, choose the items, which are not commonly appearing in both Cash Book and Pass Book. Such items give cause for disagreement between the books. Whereas, if the period of Reconciliation is for different periods, then choose the common items appearing in both the books, while preparing Bank Reconciliation Statement.

Technique of Preparing a Bank Reconciliation Statement (Favourable Balance):

Particulars	Amount ₹	Amount ₹
Balance as per Cash Book (Debit Balance)		XXX
ADD:		
1. Cheques issued but not presented for payment	XXX	
2. Cheques deposited but not recorded in Cash Book	XXX	
3. Directly collected by bank on behalf of Customer	XXX	
4. A wrong credit given by bank in the Pass Book	XXX	
5. Dividend, Profits credited only in Pass Book	XXX	
		XXXX
LESS:		
1. Cheques deposited but not collected by bank	XXX	
2. Bank charges, interest debited only in Pass Book	XXX	
3. A wrong entry on the debit side of Pass Book	XXX	
4. Cheques debited in CB but forgot to send to Bank	XXX	
		XXX
Balance as per Pass Book (Credit Balance)		XXX

Preparation of BRS has to be done with a balance which is given in the problem. Additions or deductions are to be made to the balance given, to arrive at the other balance. See the effect of each item on the given balance, accordingly in the problem.

Dr Cash Book (bank column) Cr		Dr Pass Book Cr	
To	By	To	By

On account of an item, the given balance may reduce and the balance to be arrived at, may increase. Then ADD the item to the given balance.

On the other hand, the effect of an item may increase the given balance and the balance to be arrived at may decrease. Under such circumstances, LESS the items from the given balance.

Illustration 1: From the following information, prepare a Bank Reconciliation Statement as on 31.12.2020.

i. Balance as per Cash Book as on 31.12.2020 was ₹ 9,639.
ii. Cheques sent to bank for collection, but not collected ₹ 536.
iii. Cheques issued, but not presented for payment ₹ 500.
iv. Bank charges debited only in Pass Book ₹ 25.
v. One debtor, directly deposited in our bank account ₹ 2,000.
vi. Dividend on shares appears only in Pass Book ₹ 150.

<u>Solution</u>:

BRS as on 31.12.2020

Particulars	Amount ₹	Amount ₹
Balance as per Cash Book (Debit Balance)		9,639
ADD:		
1. Cheques issued but not presented for payment	500	
2. Directly deposited by one debtor in our account	2,000	
3. Dividend on shares credited only in Pass Book	150	
		2,650
LESS:		6,989
4. Cheques deposited but not collected by bank		
5. Bank charges, interest debited only in Pass Book	536	
Balance as per Pass Book (Credit Balance)	25	561
		6,428

Illustration 2: From the following information, prepare a Bank Reconciliation Statement of Srilakshmi Enterprises as on 31.03.2021.

i. Balance as per Pass Book ₹ 4,536.

ii. Cheques received and recorded in bank column of the cash book, but not sent to bank for collection ₹ 636.

iii. On 16.3.2021, the credit side of the bank column of the cash book was undercast ₹ 50.

iv. A cheque given by Bhaskar, dishonoured. Recorded only in pass book ₹ 900.

v. A cheque issued to Sradha, was presented for payment on 4th April, 2021 ₹ 1,000.

vi. Cheques amounting ₹ 2,400 were deposited into the bank, but only cheques of ₹ 1,400 were cleared up to 31st March, 2021.

Solution:

Dr Pass Book Cr

Less:	Add: 4,536
50	636
1000	900
	1000

Bank Reconciliation Statement of Srilakshmi Enterprises as on 31.03.2021

Particulars	Amount ₹	Amount ₹
Balance as per Pass Book (Credit Balance)		4,536
ADD:		
1. Cheques received and recorded but not sent to bank	636	
2. Bhaskar cheque dishonoured. Recorded only in PB	900	
3. Cheques deposited but not collected (2400 -1400)	1,000	2,536
LESS:		7,072
1. Credit side of the CB was undercast		
2. Cheque issued to Sradha, but not presented for payment	50	
Balance as per Cash Book (Debit Balance)	1,000	1,050
		6,022

Overdraft Balance

Preparation of BRS with Unfavourable Balance (Overdraft):

An overdraft facility allows you to write cheques or withdraw cash from your current account up to the overdraft limit approved. It is a short-term (usually up to 12 months) standby credit facility which is usually renewable on a yearly basis. It is repayable on demand by the bank at any time.

Unfavourable (Overdraft) balances:

i. if credit balance as per cash book is given and the balance as per pass book is to be ascertained.

ii. if debit balance as per pass book is given and the balance as per cash book is to be ascertained.

Technique of Preparing a Bank Reconciliation Statement (Favourable Balance):

Particulars	Amount ₹	Amount ₹
Overdraft Balance as per Pass Book (Debit Balance)		XXX
ADD:		
1. Cheques issued but not presented for payment	XXX	
2. Directly collected by bank on behalf of Customer	XXX	
3. A wrong credit given by bank in the Pass Book	XXX	
4. Dividend, Profits credited only in Pass Book	XXX	
5. Cheques debited in CB but forgot to send to Bank	XXX	XXX
		XXX
LESS:		
1. Cheques deposited but not collected by bank	XXX	
2. Bank charges, interest debited only in Pass Book	XXX	
3. A wrong entry on the debit side of Pass Book	XXX	XXX
Overdraft Balance as per Cash Book (Credit Balance)		XXX

Illustration 3: From the following particulars, ascertain the bank balance of pass book as on 31st March, 2021.

i. Overdraft balance as per Cash Book as on 31.03.2021 ₹ 5,460.

ii. The bank has debited ₹ 950 on account of interest on overdraft and ₹ 250 bank charges towards collection of cheques. This is recorded only in PB.

iii. A bill receivable of ₹ 1,500 deposited for collection and dishonoured. But dishonour of bill is not known to the firm till 2nd April, 2021.

iv. The bank has credited ₹ 200 on account of interest collected on securities. This is recorded only in PB.

v. Out of total cheques amounting to ₹ 8,000 deposited, cheques aggregating ₹ 4,000 were credited in March, cheques aggregating ₹ 3,000 were credited in April and the rest have not been collected at all.

vi. Bank charges recorded twice in the cash book ₹ 100.

Solution:

Bank Reconciliation Statement as on 31.03.2021

Particulars	Amount ₹	Amount ₹
Overdraft Balance as per Cash Book (Credit Balance)		5,460
ADD:		
1. Bank charges, interest debited only in Pass Book (950+250)	1,200	
2. Bill receivable dishonoured	1,500	
3. Cheques deposited but not collected by bank (8000 – 4000)	4,000	6,700
LESS:		12,160
1. Interest on securities recorded only in PB	200	
2. Bank charges recorded twice in CB	100	
Overdraft Balance as per Pass Book (Debit Balance)		300
		11,860

Dr CB Cr

Less	Add
	5,460
	1,200
200	
100	1500
	4000

Illustration 4: The pass book of Padma Traders, showed an overdraft balance for ₹ 8,935 as on 31st December, 2020 and a difference was noted when compared with the balance, as per cash book. On a careful scrutiny, the following reasons were noticed.

i. A cheque drawn for ₹ 950 had been incorrectly entered as ₹ 590 in the cash book.

ii. Credit side of the cash book (bank column) was undercast by ₹ 440.

iii. Bank column total debit side of the cash book for ₹ 4,230 was carry forward to the next folio was ₹ 2,430.

iv. Cheque ₹ 5,400 received on 27.12.2020, entered in cash book, but not deposited in bank till 31.12.2020.

v. Transfer from savings bank account to current account recorded by the bank on 31.12.2020
₹ 1,200, but not entered in the cash book.

BRS of Padma Traders as on 31.12.2020

Particulars	Amount ₹	Amount ₹
Overdraft Balance as per Pass Book (Debit Balance)		8,935
ADD:		
1. Bank column total debit side of the CB wrongly carry forward (4230 – 2430)	1,800	
2. Transfer from savings account to current account, but not entered in the cash book	1,200	3,000
LESS:		11,935
3. Incorrectly entered into cash book (950 - 590)	360	
4. Credit side of CB was undercast	440	
5. Cheque received, entered into cash book but not sent to bank	1,800	2,600
Overdraft Balance as per Cash Book (Credit Balance)		9,335

Dr PB Cr

	8,935	Less	
Add			440
	360		1800
	1200		5400

Short Answer Questions (2 Marks)

1. What is Bank Reconciliation Statement?
2. Write any two differences between Cash book and Pass book?

Exercises (Favourable Balance)

1. From the following particulars prepare Bank Reconciliation Statement as 31st Dec, 2020.
   i. Balance as per Cash Book as on 31st December 2020 was ₹ 5,630.
   ii. Cheques deposited but not collected before the date of reconciliation ₹ 1,000.
   iii. Cheques issued but not presented for payment ₹ 900.
   iv. Bank charges debited only in pass book ₹ 150.
   v. Interest credited in pass book only ₹ 200.
   vi. A debtor directly deposited into our a/c ₹ 1,000.

   (Ans: Balance as per Pass Book ₹ 6,580)
2. Prepare BRS as on April 30, 2020 from the following particulars.
   i. Balance as per pass book ₹ 6,300.
   ii. Interest on loan debited only in pass book ₹ 400.
   iii. Bank collected dividend on behalf of Customer ₹ 800. This transaction recorded in pass book only.
   iv. ₹ 1,000 worth of Cheque issued on April 25,2020. But not presented for payment.
   v. ₹ 2,500 worth of Cheque deposited. But this cheque was dishonoured.

   (Ans: Balance as per Cash Book ₹ 7,400)

Exercises (overdraft balance/negative balance)

1. Prepare BRS of Siri Enterprises as on February 28, 2021 from the following particulars.
   i. Overdraft balance as per cash book ₹4,600.

ii. Cheques issued but not presented for payment ₹ 600.

iii. A customer directly deposited into our a/c ₹ 500.

iv. Interest on overdraft ₹ 100 debited in PB only.

v. A cheque ₹ 500 sent for collection but dishonoured.

(Ans: Overdraft Balance as per Pass Book ₹ 2,600)

2. Prepare BRS of Lasya as on March 31, 2021 from the following particulars.

i. Overdraft balance as per pass book ₹ 3,460.

ii. Bank charges ₹ 250 not entered into cash book.

iii. Bank interest ₹ 100 recorded twice in Cash Book.

iv. Cheque ₹ 1,500 entered in cash book but forgot to send to bank for collection.

v. Cheque issued for payment ₹ 800. But not payment before the date of reconciliation.

vi. Commission debited only in pass book ₹ 150.

(Ans: Overdraft Balance as per Cash Book ₹ 2,460)

3. From the following particulars prepare a Bank Reconciliation Statement.

i. Overdraft balance as per Cash Book ₹ 5,600.

ii. Bill collected directly by bank ₹ 1,800, but not entered into cash book.

iii. Debit side of the bank column of cash book was under cast ₹ 200.

iv. A cheque deposited as per bank statement but not recorded in the cash book ₹ 1,200.

v. Bank charges recorded twice in the cash book ₹ 100.

vi. The cheques deposited ₹ 6,000, but collections as per statement ₹ 3,000.

(Ans: Overdraft Balance as per Pass Book ₹5,300)

UNIT -VII

TRIAL BALANCE & FINAL ACCOUNTS

Trial balance & Final Accounts – Importance of trial balance – Preparation of Trial Balance – Suspense Account – Preparation of Final Accounts: Trading account, Profit & Loss account and Balance sheet.

Learning Objectives: After studying this unit, the student will be able to

- State the meaning of trial balance.
- Enumerate the objectives of preparing trial balance.
- Meaning and Importance of Final Accounts.
- Prepare profit and loss account and balance sheet of a sole proprietary firm

1.0. Introduction: A trial balance is a list of all the general ledger accounts (both revenue and capital) contained in the ledger of a business. The purpose of a trial balance is to prove that the value of all the debit value balances equal the total of all the credit value balances. If the total of the debit column does not equal the total value of the credit column, then, this would show that there is an error in the nominal ledger accounts. This error must be found before a profit and loss account and balance sheet can be prepared.

According to the principles of double entry book keeping system, every debit has a corresponding credit. Hence, in every transaction there will be an equal amount of debit/credit. In a financial year, all the debit balances are equal to all credit balances of accounts. If the total of debit and credit balances does not agree, it is necessary to find out the mistakes and rectify them before we proceed to ascertain the profit or loss. In double entry book keeping trial balance offers a means of checking arithmetical accuracy books of accounts. At the end of the financial period the balances of the ledger accounts are extracted and a schedule is prepared in table form to test the accuracy of the ledger accounts. This schedule of balances is called a Trial Balance.

“Trial Balance is a statement in which debit and credit balances of all ledger accounts are shown to test the arithmetical accuracy of the books of account. Trial balance is not conclusive proof of accuracy of books of accounts.”

Definitions: According to J. R. Batliboi, "A Trial Balance is a statement of Debit and Credit balances extracted from the various accounts in the ledger with a view to test the arithmetical accuracy of the books."

According to Spicer and Peglar, "A Trial Balance is a list of all the balances standing on the ledger accounts and cash book of a concern at any given date."

1.1. Features of a Trial Balance:

- It is not an account; it is only a statement which is prepared to verify the arithmetical accuracy of ledger accounts.
- It contains debit and credit balances of ledger account.
- It is prepared on a particular date generally at the end of business year.
- Trial Balance helps in preparing final accounts.
- As it is prepared by taking up the ledger account balances, both debit and credit side of a Trial Balance are always equal.
- The preparation of Trial Balance is not compulsory. There is no hard and fast rule in this regard.

1.1. Merits of Trial Balance:

i. It helps in finding out the arithmetical accuracy of the accounts in the ledger.

ii. Trading, Profit and Loss Account and Balance Sheet are prepared on the basis of Trial Balance.

iii. It will help in detecting the errors in the books of accounts and in their rectification.

iv. Trial Balance enables us to know balances of all accounts in one place.

1.1.1. Demerits of Trial Balance:

i. Trial Balance tallies even though errors are existing in the books of accounts.

ii. It is only possible to prepare Trial Balance of an organisation, if the double entry system is followed, which is costly and time consuming.

iii. Even if some transactions are omitted the Trail Balance tallies.

iv. If Trial Balance is not prepared in a systematic method the final accounts prepared on the basis of trial balance do not depict the actual financial position of the concern.

1.2. Methods of Preparing Trial Balance: A Trial Balance can be prepared in the following two methods.

1. Totals Method
2. Balances Method

1. Totals Method: Under this method, Debit total of each account of ledger are recorded in Trial Balance. In this method, all accounts of Ledger without balancing them will be totalled and recorded in Trial Balance in their respective rows (i.e., Dr & Cr). **This method is not in practice.**

2. Balances Method: Under this method, only balance of each account in ledger is found out and recorded in trial balance. All the accounts at end of the year are balanced from the view point of Trial Balance. All the accounts may be grouped into the following three types;

a. Account t showing Debit Balances
b. Account showing Credit Balances
c. Account showing Nil/No Balances

While preparing the Trial Balance all the accounts with debit balances are shown on the debit side whereas all the accounts with credit balances are shown on the credit side of the Trial Balance.

Trial balance Format is given as follows: -

Trial Balance of …………………………. As on ……………………….

S.No.	Name of the Account	L.F.No.	Debit ₹	Credit ₹
	Total			

1.3. Objectives of Preparing the Trial Balance: The trial balance is prepared to fulfil the following objectives:

- To ascertain the arithmetical accuracy of the ledger accounts.
- To help in locating errors.
- To help in the preparation of the financial statements. (Profit & Loss account and Balance Sheet).

1.4. Preparation of Trial Balance – Procedure:

i. As the Trial Balance is prepared on a particular date that particular date should be shown on the head of trial balance.

ii. Trial Balance is prepared in the form of statement containing S. No. Name of the Account, Ledger Folio, Debit Balance and Credit Balance.

iii. The Debit Balances of the accounts are to be written in debit column, whereas Credit Balances of the accounts to be written in the Credit column of Trial Balance. If the totals of both columns should be equal, it proves the arithmetical accuracy.

Aspects to be considered while preparing Trial Balance:

First prepare the format of Trial Balance showing heading with date on which it is prepared. Whenever the balances of ledger accounts are given based on the name of the account decide whether the account is debit or credit.

Generally, the accounts which show debit balance are the accounts of various Assets, Expenses and Losses, Debtors, Drawings etc., The Accounts which show credit balances are Capital account, Loan a/cs Profit & Loss a/cs etc.

Check list of most frequent Debit and Credit Balances

S. No.	Name of the Account	L.F. No.	Debit ₹	Credit ₹
1	Capital			√
2	Drawings		√	
3	Trade Debtors		√	
4	Trade Creditors			√
5	Provisions, Funds and Reserves			√
6	Bank Balance		√	
7	Outstanding Expenses			√
8	Prepaid Expenses		√	
9	Accrued Incomes		√	
10	Incomes Received in Advance			√
11	Opening Stock		√	
12	Goodwill		√	
13	Trade Marks		√	
14	Bills Receivables		√	
15	Bills Payables			√
16	Investments		√	
17	Buildings		√	
18	Furniture, Machinery and other assets		√	
19	Purchases		√	
20	Sales			√
21	Purchase returns			√
22	Sales returns		√	
23	Expenses		√	
24	Losses		√	
25	Incomes			√
26	Gains and other Profits			√
27	Patents, Copyrights		√	

1.5. Suspense Account: When the total of debit balances of Trial Balance does not equal with that of Credit Balances, then efforts are made to find out the reasons of difference i.e., errors. If the errors are not detected at the time of preparation of Final Accounts, the difference which arises is temporarily transferred to a newly opened suspense account then trial balance automatically agree. The suspense a/c is also called "Difference in Trial Balance a/c". Creation of suspense a/c is an attempt to get the Trial Balance tallied.

> Even if the trial balance does not tally due to the existence of one-sided errors, accountant has to carry forward his accounting process i.e. prepare financial statements. The accountant tallies his trial balance by putting the difference on shorter side as 'suspense account'.

If the Trial Balance shows less in Debit Balances, suspense a/c will be debited. In the same way if trial Balance shows less in Debit Balances, suspense a/c will be credited to that extent.

1.6. Illustrations of Trial Balance:

1. The following are the balances extracted from the books of Sri Chakra Enterprises. Prepare a Trial Balance as on 31.12.2020.

Particulars	₹
Purchases	6,000
Sales	10,000
Buildings	50,000
Wages	2,000
Debtors	12,000
Creditors	5,000
Bills Payable	6,000
Discount received	200
Discount allowed	100
Stock	10,000
Capital	60,000
Drawings	1,500
Return inwards	600
Return outwards	1,000

Solution:

Trial Balance of Sri Chakra Enterprises as on 31.12.2020

S. No.	Name of the Account	L.F. No.	Debit ₹	Credit ₹
1	Purchases		6,000	
2	Sales			10,000
3	Buildings		50,000	
4	Wages		2,000	
5	Debtors		12,000	
6	Creditors			5,000
7	Bills Payable			6,000
8	Discount received			200
9	Discount allowed		100	
10	Stock		10,000	
11	Capital			60,000
12	Drawings		1,500	
13	Return inwards/outwards		600	1,000
	Total		82,200	82,200

2. The following are the balances extracted from the books of ABC Ltd. Prepare a Trial Balance as on 31.03.2021.

Particulars	₹
Capital	100,000
Purchases	10,000
Goodwill	10,000
Sales	25,000
Debtors	20,000
Creditors	15,000
Bills Payable	15,000
Commission received	700
Discount allowed	200
Opening Stock	5,000
Salaries	5,000
Drawings	1,000
Premises	25,000
Carriage	650
Reserve for Bad Debts	2,500
Plant & Machinery	50,000
Bad Debts	250
Depreciation	1,500
Bank Overdraft	4,500
Cash	1,000
Repairs	150
Bank Loan	5,600
Rent Paid	1,500
Dividend received	250
Return inwards	500

Solution:

Trial Balance of ABC Ltd as on 31.03.2021

S.No.	Name of the Account	L.F. No.	Debit ₹	Credit ₹
1	Capital			100,000
2	Purchases		20,000	
3	Goodwill		20,000	
4	Sales			25,000
5	Debtors		36,000	
6	Creditors			15,000
7	Bills Payable			15,000
8	Commission received			700
9	Discount allowed		1,000	
10	Opening Stock		5,000	
11	Salaries		5,000	
12	Drawings		1,000	
13	Premises		25,000	
14	Carriage		650	2,500
15	Reserve for Bad Debts			
16	Plant & Machinery		50,000	
17	Bad Debts		250	4,500
18	Depreciation		1,500	
19	Bank Overdraft			
20	Cash		1,000	5,600
21	Repairs		150	
22	Bank Loan			250
23	Rent Paid		1,500	
24	Dividend received			
25	Return inwards		500	
			1,68,550	1,68,550

Short Answer Questions (2 Marks)

1. What is Trial Balance?
2. What are the objectives of preparing the Trial Balance?
3. What is Suspense Account?

Exercises (6 Marks)

1. Prepare trial balance of Karan as on 31.03.2021.

Particulars	₹
Bills receivables	5,000
Sales	33,000
Purchase returns	1,000
Bills payables	5,000
Purchases	12,000
Capital	60,000
Sales returns	2,000
Buildings	50,000
Furniture	30,000

(A: 99,000)

2. Prepare trial balance of Rajiv as on 31.12.2020.

Particulars	₹
Cash	500
Capital	18,000
Sales	6,000
Salaries	900
Debtors	2,000
Creditors	1,000
Purchases	4,000
Investments	10,000
Closing Stock	7,600

(A:25,000)

3. Prepare Trial balance of Suchitra as on 31.03.2021.

Particulars	₹
Capital	25,000
Purchases	10,000
Bills payable	2,000
Sales	12,000
Bills receivables	4,000
Sales returns	1,000
Furniture	24,000

(A: 39,000)

4. Prepare Trial balance of Anupama.

Particulars	₹
Cash in hand	5,000
Buildings	35,000
Goodwill	10,000
Sales	27,000
Stock	4,000
Capital	50,000
Purchases	20,000
Bank loan	5,000
Patents	8,000

(A: 82,000)

5. From the following balances, prepare trial balance as on 31.12.2020.

Particulars	₹
Cash at bank	2,500
Cash in hand	1,200
Salaries	5,500
Purchases	28,500
Sales	33,300
Stock	3,100
Buildings	22,000
Bills payable	1,500
Bills receivables	2,000
Capital	30,000

(A: 64,800)

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FINAL ACCOUNTS

1.0. Introduction: Final Accounts are prepared at the end of the year to find out results of the business during the year in terms of Profit or Loss and Financial Position of the business.

1.1. Objectives / Importance of Final Accounts:

- Knowing Profitability of Business
- Knowing the Solvency of the Business
- Judging the Growth of the Business
- Judging Financial Strength of Business
- Making Comparison and Selection of Appropriate Policies
- Forecasting and Preparing Budget:
- Communicating with Different Parties.

1.2. Capital and Revenue items: Before preparation of Final Accounts, it is necessary to know something about Capital and Revenue items.

A. Capital Items: Capital items are classified into two types: -

a) Capital Expenditure

b) Capital Receipts

a) Capital Expenditure: Any amount spent in increasing the earning capacity of a business is called as Capital Expenditure and includes Expenses like Purchase, Installation and Improvement of Fixed Assets and repayment of Loans.

All the items of Capital Expenditure are to be shown as an asset or to be deducted from the liability in the Balance Sheet.

b) Capital Receipts: An amount received as investment by the owners, raised by the way of loans and sale proceeds of fixed assets is called as Capital Receipts.

All the items of Capital Receipts are to be shown as a liability or to be deducted from the assets in the Balance Sheet.

Revenue Items: Revenue Items are classified into two types: -

a) **Revenue Expenditure**: Any amount spent in earning Revenue / Profit is called as Revenue Expenditure and includes the Expenses like salaries, rent, wages, repairs, maintenance stores, depreciation and materials etc.,

All the items of Revenue Expenditure are to be debited to Trading, Profit and Loss Account.

b) **Revenue Receipts:** Any amount received in the normal course of business is called as Revenue Receipts and includes sale of goods, interest, discount, commission, rent received.

All the items of Revenue Receipts are to be credited to Trading, Profit and Loss Account.

1.2.1. Deferred Revenue Expenditure: Any amount of revenue expenditure spent in huge sum and its benefits will be spread over more than one year is called as "Deferred Revenue Expenditure" and includes the expenses like Preliminary Expenses, discount on issue of shares and debentures, heavy advertisement expenses and shifting of business premises etc.,

All the items of Deferred Revenue Expenditure are to be shown as an asset in the Balance Sheet where as part of such expenditure (to the extent of benefit received during the current year) should be debited to Profit and Loss Account.

1.3. Final Accounts: The firm usually prepares the following financial statements:

1. **Trading Account**
2. **Profit and Loss Account**
3. **Balance Sheet**

1. **Trading Account:** A trading account shows the results of the buying and selling of goods. This sheet is prepared to demonstrate the difference between selling price and cost price. The trading account tally is prepared to show the trading results of the business, e.g., gross profit earned or gross loss sustained by the business. It records the direct expenses of a business firm.

   According to J.R. Batliboi: The Trading Account shows" the result of buying and selling goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included."

Gross Profit = Total Net Sales – Cost of Goods Sold

Total Net Sales = Gross Sales – Returns;

Cost of Goods Sold = Opening Stock + Purchases (less Returns) + Direct Expenses – Closing Stock

Trading Account Proforma:

Dr Trading Account of ………………… For the year ended ……………… Cr

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		XXX	By Sales	XXX	
To Purchases	XXX		Less: Returns	XX	XXX
Less: Returns	XX	XXX	By Closing Stock		XXX
Purchase Expenses:					
To Carriage inwards		XXX			
To Freight, Cartage		XXX			
To Custom Duty		XXX			
To Clearing Charges		XXX			
To Octroi		XXX			
Direct Expenses:					
To Wages		XXX			
To Manufacturing Expenses		XXX			
To Gas, Water, Coal etc.,		XXX			
To Factory Rent		XXX			
To Works Manager Salary		XXX			
To Gross Profit (c/d) (Transferred to Profit and Loss Account)		XXX	By Gross Loss (c/d) (Transferred to Profit and Loss Account)		XXX
		XXXX			XXXX

Illustration 1: From the following particulars, prepare Trading Account of Mr. Kranthi for the year ended 31.03.2021.

Stock as on 01.04.2020	₹ 25,000
Purchases	₹ 25,000
Sales	₹ 50,000
Purchase returns	₹ 1,500
Sales returns	₹ 2,000
Carriage inwards	₹ 5,000
Wages	₹ 6,500
Manufacturing Expenses	₹ 4,500
Factory rent	₹ 9,000
Customs duty	₹ 1,000
Octroi	₹ 2,000
Clearing charges	₹ 3,200

Gas, Water, Coal	₹ 750
Freight	₹ 2,300
Import duty	₹ 1,500
Power	₹ 500
Factory insurance	₹ 5,000
Stock as on 31.03.2021	₹ 30,000

Solution: -

Dr Trading Account of Mr. Kranthi (for the year ended 31.03.2021) Cr

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		25,000	By Sales	75,000	
To Purchases	25,000		Less: Returns	2,000	73,000
Less: Returns	1,500	23,500			
To Carriage inwards		5,000	By Closing Stock		30,000
To Wages		6,500			
To Manufacturing		4,500			
Expenses		9,000			
To Factory Rent		1,000			
To Customs Duty		2,000			
To Octroi		3,200			
To Clearing Charges		750			
To Gas, Water, Coal		2,300			
To Freight		1,500			
To Import duty		500			
To Power		5,000			
To Factory insurance		13,250			
To Gross Profit (c/d) (Transferred to Profit and Loss Account)					
		103,000			103,000

2. **Profit and Loss Account**: This account is prepared to ascertain the net profit/loss of a business during an accounting period. The profit and loss account are a statement that summarizes the revenues and expenses of an accounting period so as to reflect the changes in various critical areas of a firm's operations. It records the indirect expenses of a business firm.

Profit and Loss account shows Net Profit or Net Loss incurred in the business. In the first place it is credited with the Gross Profit or debited with the Gross Loss, shown by the trading account. After this all those expenses shown in the Trial balance but not debited to trading account are debited into it. Similarly, all those incomes shown in trial balance, but not credited to the trading account are credited into it. Then the profit and loss account is balanced.

The credit balance in profit and loss account shows net profit and debit balance net loss. This net profit or net loss is transferred to capital account. Thus, the profit and loss account is closed.

While preparing Profit and Loss Account, the following equation can be used: -

Net Profit = Gross Profit + Other Incomes – Indirect Expenses/Losses

Profit and Loss Account Proforma: -

Dr Profit and Loss Account of …………………….. for the year ended……………… Cr

Particulars	₹	₹	Particulars	₹	₹
To Gross Loss (c/d) (Transferred from Trading a/c)		XXX	By Gross Profit (b/d) (Transferred from Trading a/c)		XXX
To Salaries		XXX	By Discount received		XXX
To Carriage outwards		XXX	By Dividend received		XXX
To Rent, Rates, Taxes		XXX	By Rent received		XXX
To Postage, Telegrams		XXX	By Interest on drawings		XXX
To Insurance		XXX	By Profit on sale of assets		XXX
To Legal charges		XXX			
To Advertising		XXX			
To Bad debts		XXX			
To Depreciation		XXX			
To Repairs		XXX			
To Discount allowed		XXX			
To Interest on capital		XXX			
To Interest on loans		XXX			
To Travelling Expenses		XXX			
To Loss due to fire accident		XXX			
To Loss on sale of assets		XXX			
To Net Profit (c/d) (Transferred to Capital Account)		XXX	To Net Loss (c/d) (Transferred to Capital Account)		XXX
		XXXX			XXXX

Illustration 2: From the following particulars, prepare Profit and Loss Account of Mr. Mahanthi, for the year ended 31.12.2020.

Gross Profit	₹ 14,500
Salaries	₹ 6,000
Rent, Taxes	₹ 2,500
Printing & Stationery	₹ 1,250
General Expenses	₹ 650
Carriage on sales	₹ 500
Advertising	₹ 900
Bad debts	₹ 1,600
Depreciation	₹ 1,200
Repairs	₹ 250
Discount received	₹ 1,600
Rent received	₹ 4,000
Discount allowed	₹ 500
Interest on drawings	₹ 1,000
Loss on sale of asset	₹ 1,350
Dividend received	₹ 1,500.

Solution: -

Dr Profit and Loss Account of Mr. Mahanthi (for the year ended 31.12.2020) Cr

Particulars	₹	₹	Particulars	₹	₹
To Salaries		6,000	By Gross Profit (b/d)		14,500
To Rent, Taxes		2,500	(Transferred to Trading		
To Printing & Stationery		1,250	a/c)		
To General Expenses		650	By Discount received		
To Carriage on sales		500	By Rent received		1,600
To Advertising		900	By Interest on drawings		4,000
To Bad debts		1,600	By Dividend received		1,000
To Depreciation		1,200			1,500
To Repairs		250			
To Discount allowed		500			
To Loss on sale of assets		1,350			
To Net Profit (c/d)		5,900			
(Transferred to Capital					
Account)					
		22,600			22,600

Illustration 3: - From the following particulars, Preparing Trading, Profit and Loss Account of Srinidhi for the year ended 31.12.2020.

Stock as on 01.01.2020	₹ 5,800
Purchases	₹ 12,500
Sales	₹ 27,500
Returns (Dr)	₹ 1,500
Returns (Cr)	₹ 2,500
Carriage on Purchase	₹ 600
Carriage on Sales	₹ 800
Wages	₹ 750
Salaries	₹ 1,500
Stationery	₹ 150
Power	₹ 400
Travelling Expenses	₹ 1,100
Import Duty	₹ 900
Rent received	₹ 1,200
Bad Debts	₹ 500
Stock as on 31.12.2020	₹ 8,000

Solution: -

Dr Trading, Profit and Loss Account of Srinidhi (for the year ended 31.12.2020) Cr

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		5,800	By Sales	27,500	
To Purchases	12,500		Less: Returns	1,500	26,000
Less: Returns	2,500	10,000	By Closing Stock		
To Carriage on Purchase		600			8,000
To Wages		750			
To Power		400			
To Import Duty		900			
To Gross Profit (c/d)		15,550			
(Transferred to P & L a/c)					
		34,000			34,000
To Salaries		1,500	By Gross Profit (b/d)		15,550
To Carriage on Sales		800	By Rent received		1,200
To Stationery		150			
To Travelling Expenses		1,100			
To Bad Debts		500			
To Net Profit (c/d)		12,700			
(Transferred to Capital a/c)					
		16,750			16,750

3. **Balance Sheet**: The balance sheet is a statement demonstrating the financial position of a business **on a specific date**. The financial position of a business is found by tabulating its assets and liabilities on a particular date. The excess of assets over liabilities represents the capital sunk into the business, and reflects the financial soundness of a company. Now it is known as the statement of financial position of the company.

In preparing the Balance Sheet, Liabilities are shown on the left hand side whereas the Assets are shown on the right hand side.

Balance Sheet Proforma:

Balance Sheet of ………………………. (as on …………….)

Liabilities	₹	₹	Assets	₹	₹
Capital	XXX		Land & Buildings		XXX
Add: Net Profit	XX		Office Premises		XXX
Add: Interest on Capital	XX		Plant & Machinery		XXX
	XXX		Furniture & Fixtures		XXX
Less: Net Loss	XX		Loose Tools		XXX
Less: Drawings	XX		Motor Vehicle		XXX
Less: Interest on Drawings	XX	XXX	Investments		XXX
Mortgage Loan		XXX	Goodwill		XXX
Bank Loan		XXX	Patents		XXX
Loan from others		XXX	Trademarks		XXX
Creditors		XXX	Copy Rights		XXX
Bills Payable		XXX	Bills Receivables		XXX
Bank Overdraft		XXX	Debtors		XXX
Income received in Advance		XXX	Closing Stock		XXX
Outstanding Expenses		XXX	Prepaid Expenses		XXX
			Accrued Incomes		XXX
			Cash in Hand		XXX
			Cash at Bank		XXX
		XXXX			XXXX

Illustration 4: From the following particulars of Mrs. Prasanthi as on 31.03.2021. Prepare Balance Sheet.

Capital	₹ 100,000
Bank overdraft	₹ 25,000
Cash	₹ 5,000
Bank	₹ 16,000
Bills Payable	₹ 6,500
Bills Receivable	₹ 9,500
Outstanding Salaries	₹ 2,500
Prepaid Insurance	₹ 1,500
Plant & Machinery	₹ 50,000
Net Profit	₹ 27,500
Interest on Capital	₹ 1,000
Drawings	₹ 10,000
Goodwill	₹ 18,000
Furniture	₹ 25,000
Closing Stock	₹ 22,000
Debtors	₹ 34,500
Creditors	₹ 10,000
Accrued Rent	₹ 1,800
Loan from Anitha	₹ 5,500

Solution: -

Balance Sheet of Mrs. Prasanthi (as on 31.03.2021)

Liabilities	₹	₹	Assets	₹	₹
Capital	100000		Plant & Machinery		50000
Add: Net Profit	27500		Furniture		25000
Add: Interest on Capital	1000		Goodwill		13000
	128500		Bills Receivables		9500
Less: Drawings	10000	118500	Debtors		34500
Bills Payable		6500	Closing Stock		22000
Bank Overdraft		25000	Prepaid Insurance		1200
Creditors		10000	Accrued Rent		1800
Loan from Anitha		5500	Cash in Hand		5000
Outstanding salaries		2500	Cash at Bank		6000
		168000			168000

Short Answer Questions (2 Marks)

1. What is Revenue Expenditure?
2. What is Capital Expenditure?

Exercises (6 Marks)

Trading Account Exercises

1. From the following ledger balances, prepare Trading Account of Sri Charan for the year ended 31.12.2020.

Stock as on 01.01.2020	₹ 24,000
Purchases	₹ 12,000
Sales	₹ 25,000
Purchase Returns	₹ 500
Sales Returns	₹ 1,000
Fuel	₹ 500
Import Duty	₹ 750
Wages	₹ 900
Stock as on 31.12.2020	₹ 15,000.

(A: Gross Profit ₹1,350)

2. Prepare Trading Account from the following.

Stock as on 01.04.2020	₹ 2,000
Purchases	₹ 5,000
Carriage on purchase	₹ 100
Power	₹ 200
Returns(debit)	₹ 750
Returns (credit)	₹ 500
Sales	₹ 7,750
Factory Rent	₹ 1,500
Freight	₹ 150
Closing Stock	₹ 1,500.

(A: Gross Profit ₹ 200)

Profit & Loss Account Exercises

3. Prepare Profit & Loss Account of Sudha for the year ended 31.03.2021 from the following particulars.

Gross Profit	₹ 8,450
Salaries	₹ 2,300
Rent	₹ 1,800
Stationery	₹ 150
Travelling Expenses	₹ 250
Bad debts	₹ 500
Depreciation on furniture	₹ 600
Commission received	₹ 200
Interest paid	₹ 300
interest on drawings	₹ 500

(A: Net Profit ₹ 3,250)

4. Prepare Profit & Loss Account for the year ended 31.12.2020 of Raviteja.

Gross Loss	₹ 1,250
Interest received	₹ 450
Repairs	₹ 330
Interest on capital	₹ 275
Printing & Stationery	₹ 100
Commission paid	₹ 436
Loss on sale of asset	₹ 125
Salaries	₹ 450

(A: Net Loss ₹ 2,516)

Trading, Profit & Loss Account Exercises

5. Prepare Trading, Profit & Loss a/c in the books of Sridhar from the following particulars.

Stock as on 01.01.2020	₹ 1,800
Purchases	₹ 2,300
Sales	₹ 3,600
Wages	₹ 550
Salaries	₹ 550
Stationery	₹ 100
Freight	₹ 150
Returns (debit)	₹ 300
Returns (credit)	₹ 150
Carriages inwards	₹ 220
Carriages outwards	₹ 125
Interest received	₹ 550
Stock as on 31.12.2020	₹ 2,200

(A: Gross Profit ₹ 330; Net Profit ₹ 105)

6. Prepare Trading, Profit & Loss a/c from the following particulars for the year ended 31.03.2021.

Opening Stock	₹ 5,450
Sales	₹ 12,650
Return inwards	₹ 250
Return outwards	₹ 150
Salaries	₹ 2,400
Wages	₹ 1,200
Import duty	₹ 175
Carriage on sales	₹ 500
Carriage on purchase	₹ 250
Dividend received	₹ 800
Interest on capital	₹ 150
Bad debts	₹ 750

Purchases	₹ 8,000
Closing Stock	₹ 6,800.

(A: Gross Profit ₹ 4,275; Net Profit ₹ 2,025)

7. Prepare Trading, Profit & Loss a/c of Naveen for the year ended 31.03.2021, from the following particulars.

Stock as on 01.04.2020	₹ 15,000
Stock as on 31.03.2021	₹ 18,000
Interest on drawings	₹ 1,500
Purchases	₹ 22,000
Sales	₹ 48,000
Carriage	₹ 1,250
Travelling Expenses	₹ 550
Depreciation	₹ 900
Rent received	₹ 1,600
Rent paid	₹ 1,200
Motive power	₹ 500
Returns (dr)	₹ 1,500
Returns (cr)	₹ 1,000
Insurance	₹ 750
Coal, water	₹ 400

(A: Gross Profit ₹ 26,350; Net Profit ₹ 26,050)

8. Prepare Trading, Profit & Loss a/c from the following particulars of Sohan, for the year ended 31.03.2021.

Opening stock	₹ 8,800
Printing & Stationery	₹ 750
Commission Received	₹ 600
Wages	₹ 1,600
Factory Rent	₹ 4,500
Purchases	₹ 12,500
Sales	₹ 15,400
Returns inwards	₹ 400
Returns outwards	₹ 500
Fuel	₹ 900
Interest on capital	₹ 650
Drawings	₹ 5,000
Rent paid	₹ 1,000
Salaries	₹ 2,000
Closing stock	₹ 1,800

(A: Gross Loss ₹ 11,000; Net Loss ₹ 13,800)

9. Prepare Trading, Profit & Loss a/c from the following particulars for the year ended 31.03.2021.

Opening Stock	₹ 3,400
Sales	₹ 10,000
Return inwards	₹ 500
Return outwards	₹ 200
Salaries	₹ 2,000
Wages	₹ 1,000
Customs Duty	₹ 200
Carriage	₹ 700
Stationery	₹ 550

Commission received	₹ 1,000
Interest on Drawings	₹ 300
Depreciation	₹ 500
Purchases	₹ 8,000
Closing Stock	₹ 4,000

(A: Gross Profit ₹ 400; Net Loss ₹ 1,350)

<u>Balance Sheet Exercises</u>

10. Prepare Balance Sheet from the following particulars.

Capital	₹ 100,000
Drawings	₹ 5,000
Debtors	₹ 4,000
Creditors	₹ 6,000
Cash in Hand	₹ 5,500
Cash at Bank	₹ 10,000
Outstanding salaries	₹ 1,250
Bank loan	₹ 8,000
Land & Buildings	₹ 75,000
Goodwill	₹ 6,000
Prepaid insurance	₹ 750
Closing Stock	₹ 10,000
Bill's receivable	₹ 5,000
Bills payable	₹ 6,000

(A: ₹ 116,250)

11. Prepare Balance Sheet as on 31.12.2020 from the following particulars.

Capital	₹ 30,000
Drawings	₹ 2,000
Investments	₹ 5,000
Creditors	₹ 2,000
Cash in Hand	₹ 1,050
Cash at Bank	₹ 2,000
Rent received in advance	₹ 800
Bank Overdraft	₹ 8,000
Furniture	₹ 10,000
Trademarks	₹ 6,000
Accrued commission	₹ 550
Closing Stock	₹ 7,000
Bill's receivable	₹ 15,000
Bills payable	₹ 6,000
Net Profit	₹ 1,800

(A: ₹ 46,600)

12. Prepare Balance Sheet as on 31.03.2021 from the following particulars.

Capital	₹ 50,000
Bills payable	₹ 5,000
Cash in Hand	₹ 2,300
Creditors	₹ 2,000
Debtors	₹ 5,500
Cash at Bank	₹ 7,400
Outstanding rent	₹ 1,000
Bank overdraft	₹ 7,000
Furniture	₹ 25,000
Trademarks	₹ 6,000
Accrued commission	₹ 500
Closing Stock	₹ 8,600
Bill's receivable	₹7,000

Drawings	₹ 1,500
Net Loss	₹ 1,200

(A: ₹ 62,300)

13. Prepare Balance Sheet as on 31.12.2021 from the following particulars.

Drawings	₹ 2,000
Investments	₹ 9,000
Capital	₹ 40,000
Accrued rent	₹ 2,00
Debtors	₹ 6,000
Cash	₹ 1,000
Bills Payable	₹ 3,000
Loan from Rao	₹ 5,000
Plant & Machinery	₹ 15,000
Copyrights	₹ 5,000
Interest received in advance	₹ 400
Closing Stock	₹ 8,000
Bill's receivable	₹4,000
Net Profit	₹ 1,800

(A: ₹ 48,200)

14. Prepare Balance Sheet as on 31.12.2020 from the following particulars.

Capital	₹ 45,000
Net Loss	₹ 750
Debtors	₹ 8,000
Creditors	₹ 4,000
Cash in Hand	₹ 2,500
Cash at Bank	₹ 5,000
Outstanding interest	₹ 500
Loan	₹ 5,000
Buildings	₹ 25,000
Goodwill	₹ 5,000
Prepaid insurance	₹ 250
Closing Stock	₹ 6,000

Bill's receivable	₹ 4,000
Bills payable	₹ 2,000

(A: ₹ 55,750)

1.4. Final Accounts – Adjustments: The aim of adjustments is to include all the expenses and incomes related to the trading period and exclude all the final accounts. All adjustments are unrecorded items and they do not appear in the trial balance. So, before final accounts are prepared these items should be adjusted and recorded, each in two different accounts. The adjustments are made through journal entries 'Adjusting entries. The following are the usual adjustments.

a. Adjustments relating to Expenses
b. Adjustments relating to Incomes
c. Adjustments relating to Assets
d. Adjustments relating to Owners
e. Adjustments relating to Debtors
f. Adjustments relating to Creditors
g. Adjustments relating to Stock

a. Adjustments relating to Expenses: Adjustments relating to expenses are: -

i. Outstanding Expenses: Outstanding Expenses are the expenses relating to current year but unpaid during the year and are to be paid in the next year. Hence are to be debited to concerned account and are to be shown as a liability.

Entry:

Expense's a/c ………………………. Dr
  To Outstanding Expenses a/c

Outstanding Expenses are to be added to concerned expenses in the Trading, Profit & Loss a/c (on the Debit side) Outstanding Expenses are to be shown as a liability in the Balance Sheet (on the liability side)

Note: when the outstanding expenses are given in trial balance they are to be shown in the balance sheet only as a liability (liability side) and need not be shown in Trading, Profit & Loss a/c.

ii. Prepaid Expenses: Prepaid Expenses are the expenses relating to next year but paid during the current year. Hence are to be credited to concerned expenses account and are to be shown as an asset.

Entry:

Prepaid Expenses a/c………………… Dr

To Expenses a/c

Prepaid Expenses are to be deducted from the concerned expenses in the Trading, Profit & Loss a/c (on debit side) Prepaid Expenses are to be shown as an asset in the Balance Sheet (on the assets side)

Note: when the prepaid expenses are given in trial balance they are to be shown in the balance sheet only as an asset (assets side) and need not be shown in Trading, Profit & Loss a/c.

b. Adjustments relating to Incomes:

i. Accrued Incomes: Accrued income is the income relating to current year which is not received during the current year but to be received in the next year. Hence is to be credited to income account and is to be shown as an asset.

Entry:

Accrued Income a/c …………………… Dr

To Income a/c

Accrued incomes is to be added to the concerned income in the Profit & Loss a/c (on the credit side) Accrued Income is to be shown as an asset in the Balance Sheet (on the asset side)

Note: when the accrued incomes are given in trial balance they are to be shown in the balance sheet only as an asset (assets side) and need not be shown in Trading, Profit & Loss a/c.

ii. Incomes received in advance: It is the income relating to next year but received in advance during the current year. Hence is to be debited to Income Account and is to be shown as a liability.

Entry:

Income a/c ………………………………... Dr

To Income received in advance

Income received in advance is to be deducted from the concerned income in the Profit & Loss a/c (on the credit side) Income received in advance is to be shown as a liability in the Balance Sheet (on the liability side)

Note: when the income received in advance is given in trial balance it is to be shown in the balance sheet only as a liability (liabilities side) and need not be shown in Trading, Profit & Loss a/c.

c. **Adjustments relating to Assets**: In preparing final accounts the following adjustment relating to assets is to be made.

i. **Depreciation**: It is the decrease in the value of fixed assets which are used in the business such depreciation is to be considered as an expense and decrease in the value of asset. Such depreciation is to be debited to Profit & Loss a/c and to be deducted from the value of asset in the Balance sheet.

Entry:

Depreciation a/c ………………….. Dr

To Asset a/c

Depreciation is to be debited to Profit & Loss a/c Depreciation is to be deducted from the concern asset in the Balance Sheet (on the Assets side)

Note: when the depreciation is given in trial balance, it should be shown in the Profit & Loss a/c only as a loss (debit side) and need not be deducted from the concerned asset in the Balance Sheet.

d. **Adjustments relating to Owners**: In preparing final accounts the following two adjustments relating to owners are to be made.

i. **Interest on Capital**: It is the interest payable to owner on his capital.

Entry:

Interest on Capital a/c ……………………………...Dr

To Capital a/c

Interest on Capital is to be debited to Profit & Loss a/c Interest on Capital is to be added to the capital in the Balance Sheet (on the Liabilities side)

Note: when the interest on capital is given in trial balance, it should be shown in the Profit & Loss a/c only as an expense (debit side) and need not be added to the capital in the Balance Sheet.

ii. Interest on Drawings: The interest payable by the owner to the business on his drawings / withdrawals for personal use. The interest on drawings is an income and hence to be credited to Profit & Loss a/c and to be deducted from the capital along with the drawings in the Balance Sheet (liabilities side).

Entry:

Drawing's a/c ……………………………………... Dr

To Interest on Drawings a/c

Interest on Drawings is to be credited to Profit & Loss a/c Interest on Drawings is to be added to the drawings for deducting from the capital in the Balance Sheet (on the liabilities side)

Note: when the interest on drawings is given in trial balance, it should be shown in the Profit & Loss a/c only as an income (credit side) and need not be deducted from the capital in the Balance Sheet.

e. Adjustments relating to Debtors: In preparing the Final Accounts, the following adjustments are given relating to debtors.

i. Bad Debts: The debtors which are not collected and become irrecoverable are called as Bad Debts and are to be debited to Bad Debts a/c and credited to the debtors a/c.

Entry:

Bad Debts a/c ……………………………. Dr

To Debtors a/c

When Bad Debts are given in adjustments	it should be debited to Profit & Loss a/c
	To be deducted from the debtors in the Balance Sheet
When Bad Debts are given in both Trial Balance and adjustments	In Profit & Loss Account both the bad debts (given in trial balance + given in adjustments) are to be debited
	In Balance Sheet, bad debts given in adjustments only are to be deducted

	from the debtors
When Bad Debts are given in Trial Balance only	It should be shown in the Profit & Loss a/c only as loss (debit side) and need not to be shown in Balance Sheet.

iii. Provision for Bad Debts: The provision created against the Debtors of current year (to be collected in the next year) which are doubtful i.e., may be collected or may not be collected. Hence it should be debited to Profit & Loss a/c and credited to Provision for doubtful debts a/c.

Entry:

Profit & Loss a/c ……………………………………Dr

To Provision for Doubtful Debts a/c

When Provision for Doubtful Debts is given in adjustments	it should be debited (added to bad debts if any) to Profit & Loss a/c
	To be deducted from the debtors (after bad debts if any) in the Balance Sheet
When Provision for Doubtful Debts is given in Trial Balance only	In Profit & Loss Account, its to be deducted from bad debts if any.
	In Balance Sheet, need not be shown
When Provision for Doubtful Debts is given in Trial Balance and adjustments	In Profit & Loss a/c, new PDD it is to be added to bad debts, whereas the old PDD is to be deducted from bad debts.
	In Balance Sheet, new PDD is to be deducted for the debtors (after deducting the further bad debts adjustment if any)

iv. Discount on Debtors: It is the provision created during the year to meet the discount on debtors. Since it is a provision hence to be debited to Profit & Loss a/c and to be deducted from the debtors in the Balance Sheet (assets side).

Entry:

Profit & Loss a/c …………………………………...Dr

To Provision for discount on debtor's a/c

Provision for discount on debtors is to be debited to Profit & Loss a/c

Provision for discount on debtors is to be deducted (after bad debts and provision for bad debts if any) from the debtors in the Balance Sheet (on the assets side)

f. Adjustment relating to Creditors: It is the provision made towards the discount to be received from creditors. Since, it is a provision hence to be credited to Profit & Loss a/c and to be deducted from the creditors in the balance sheet (liabilities side).

Entry:

Provision for discount on creditors a/c …………………………Dr

To Profit & Loss a/c

Provision for discount on creditors is to be credited to Profit & Loss a/c Provision for discount on creditors is to be deducted from the creditors in the balance sheet (on the liabilities side)

g. Adjustments relating to Stock: In preparing final accounts, adjustments relating to stock are:

i. Closing Stock: It is the stock of goods purchased / manufactured during the current year and left unsold which will be sold in the next year. Hence to be credited to trading account and is to be shown as asset in the balance sheet (assets side)

Entry**:**

Closing Stock a/c…………………………Dr

To Trading a/c

Closing Stock is to be shown on the credit side of trading a/c Closing Stock is to be shown as an asset in the Balance Sheet (on the assets side)

Note: When closing stock is given in trial balance, it should be shown in the balance sheet as an asset (assets side) need not be shown in trading a/c.

ii. Stock withdrawn for private: Stock withdrawn by the owner from the business for his private / domestic use are to be treated to drawings. Hence to be debited to drawings account and to be credited to Purchase account.

Entry:

Drawings a/c……………………………...Dr

To Purchases a/c

Goods / Stock withdrawn for private use are to be deducted from purchases in the trading account (on the debit side) Goods / Stock withdrawn for private use are to be deducted from the capital along with drawings if any in the balance sheet (on the liabilities side)

Note: When Goods / Stock withdrawn for private use is given in trial balance only, are to be deducted from the capital along with drawings if any in the balance sheet (on the liabilities side) need not be shown in Profit & Loss a/c.

iii. Stock destroyed in fire accident: It is the stock destroyed / damaged due to fire accident is the loss to the business it is of two types i.e., when the stock is not insured and when the stock is insured.

It is loss to the business. Hence, to be debited abnormal loss a/c and to be credited to trading a/c. insurance claim if any due from insurance company is to be debited to insurance claim a/c and to be credited abnormal loss a/c. the balance of abnormal loss a/c (uncovered insurance claim) is to be transferred to profit & loss a/c.

Entry:

i) Stock destroyed by fire accident a/c……...……Dr

To Trading a/c

ii) Insurance claim a/c ……………..…...…………Dr

To Abnormal loss a/c

To Stock destroyed by fire accident

iii) Profit & Loss a/c ……………………………...Dr

To Abnormal loss a/c

Stock destroyed by fire accident is to be credited to trading account

Abnormal Loss / Uncovered Insurance claim is to be debited to Profit & Loss a/c

Insurance claim if any is to be shown as an asset in the balance sheet

Final Accounts (with Adjustments)

Note: The given below exercises only for practice purpose. Not for exams.

15. From the following Trial Balance of Mr. Virat, prepare Trading, Profit & Loss Account for the year ended 31.12.2020.

Trial Balance

Particulars	L.F. No	Debit ₹	Credit ₹
Purchases		16,000	
Furniture		16,800	
Wages		2,000	
Machinery		20,000	
Sales			30,000
Capital			50,000
Purchase returns			1,000
Sales returns		4,000	
Opening stock		15,000	
Debtors		9,000	
Creditors			5,000
Carriage on purchase		600	
Salaries		9,000	
Bank overdraft			8,000
Carriage on sales		1,000	
Rent & Taxes		1,500	
Cash at bank		4,100	
Drawings		1,000	
Bills payable			6,000
		100,000	100,000

Adjustments:

1. Closing Stock ₹ 25,000.
2. Outstanding Salaries ₹ 250.
3. Prepaid Rent ₹ 500
4. Write-off ₹ 400 as bad debts.
5. Depreciate on Machinery 10%.
6. Interest on Capital ₹ 5%.
7. Interest on drawings ₹ 10%.
8. Provide 2% as discount on creditors.

(A: Gross Profit ₹ 18,400; Net Profit ₹ 2,450; Balance Sheet ₹ 73,000)

16. From the following particulars of Mr. Zaheer. Prepare Trading, Profit & Loss a/c and Balance Sheet.

Adjustments:

1. Closing stock ₹ 16,800
2. Write off ₹ 2,000 as bad debts and provide 5% reserve for doubtful debts
3. Outstanding wages ₹ 1,000
4. Depreciation on Machinery by 10%
5. Interest on capital 5% is to be provided
6. Commission to be received ₹ 200.

Trial Balance as on 31.03.2021

Particulars	L.F. NO.	Debit ₹	Credit ₹
Cash		6,000	
Goodwill		12,000	
Capital			60,000
Factory insurance		1,000	
Audit charges		800	
Commission received			900
Sales			49,000
Debtors		10,000	
Wages		1,500	
Opening stock		8,000	
Returns outwards			1,000

Carriage inwards		650	
Interest received			550
Outstanding salaries			500
Salaries		2,000	
Office rent		1,800	
Bills payable			9,000
Machinery		20,000	
Creditors			12,000
Bank loan			10,000
Returns (debit)		600	
Purchases		23,600	
Land & Buildings		55,000	
		1,42,650	1,42,950

(A: Gross Profit ₹ 18,400; Net Profit ₹ 2,450; Balance Sheet ₹ 73,000)

17. From the following particulars of Mrs. Hema. Prepare Trading, Profit & Loss a/c and Balance Sheet.

Trial Balance as on 31.12.2021

Particulars	L.F. NO.	Debit ₹	Credit ₹
Purchases		36,000	
Returns		1,500	1,800
Sales			66,800
Rent & Taxes		1,950	
Debtors		12,500	
Creditors			11,500
Mortgage loan			10,000
Capital			80,000
Salaries		8,600	
Carriage		1,800	
Wages		2,500	
Stock as on 01.01.2021		24,000	
Machinery		60,000	
Bills payable			5,000

Interest received			1,000
Bill's receivable		4,000	
Drawings		4,000	
Insurance		900	
Motive power		850	
Cash in hand		1,100	
Cash at bank		2,000	
Furniture		14,400	
		1,76,100	1,76,100

Adjustments:

1. Stock as on 31.12.2021 ₹ 42,000.
2. Bad debts ₹ 500; Reserve for bad debts ₹ 2%.
3. Outstanding salaries ₹ 400.
4. Accrued interest ₹ 100.
5. Prepaid insurance ₹ 200.
6. Depreciation on machinery 5%.
7. Outstanding rent ₹ 150.

(A: Gross Profit ₹ 43,950; Net Profit ₹ 29,510; Balance Sheet ₹ 1,32,560)

18. From the following particulars of Mrs. Hema, prepare Trading, Profit & Loss a/c and Balance Sheet.

Trial Balance as on 31.03.2021

Particulars	L.F. NO.	Debit ₹	Credit ₹
Stock as on 01.04.2020		13,300	
Debtors		10,000	
Creditors			25,000
Returns		1,000	800
Carriage on sales		500	
Stationery		1,200	
Wages		2,400	
Salaries		4,400	
Postage		200	
Furniture		17,000	
Bills receivable		4,000	
Bills payable			5,000
Bank loan			20,000
Machinery		18,000	
Investments		5,000	
Dividend			1,200
Interest		250	
Goodwill		5,000	
Land & Buildings		50,000	
Import duty		750	
Purchases		25,000	
Sales			25,000
Capital			85,000
Drawings		2,000	
Cash		2,000	
		1,62,000	1,62,000

Adjustments:

1. Stock as on 31.03.2021 ₹ 16,000.
2. Discount on creditors ₹ 2%.
3. Outstanding wages ₹ 500.

4. Prepaid interest ₹ 100.
5. Dividend received in advance ₹ 100.
6. Depreciation on furniture 10%.
7. Appreciation on Land & Buildings ₹ 10%.

(A: Gross Loss ₹ 1,150; Net Loss ₹ 2,700; Balance Sheet ₹ 1,30,400)

19. From the following particulars of Mr. Salmon, prepare Trading, Profit & Loss a/c and Balance Sheet.

Trial Balance as on 31.03.2021

Particulars	L.F. NO.	Debit ₹	Credit ₹
Capital			75,000
Opening Stock		9,000	
Drawings		1,200	
Purchases		28,000	
Sales			40,000
Purchase returns			1,000
Sales returns		2,000	
Carriage inwards		500	
Stationery		250	
Salaries & Wages		6,600	
Cash in hand		1,350	
Bills receivable		12,000	
Bills payable			15,000
Plant & Machinery		20,000	
Office Premises		50,000	
Patents		5,000	
Commission received			1,150
Rent		3,000	2,500
Octroi		1,000	
Coal, gas		750	
Debtors		6,000	
Creditors			12,000

		1,46,650	1,46,650

Adjustments:

1. Stock as on 31.03.2021 ₹ 20,000.
2. Bad debts ₹ 1,000; Discount on debtors ₹ 2%.
3. Outstanding Salaries ₹ 1,000.
4. Prepaid rent ₹ 1,000; accrued rent ₹ 500
5. Outstanding stationery ₹ 100.
6. Depreciation on Machinery 10%.
7. Commission to be received ₹ 250.

(A: Gross Profit ₹ 19,750; Net Profit ₹ 11,100; Balance Sheet ₹ 1,13,000)

UNIT -VIII

COMPUTERISED ACCOUNTING - I

Introduction – Computerised Accounting Process – Differences between Manual Accounting and Computerised Accounting – Advantages – Limitations – Sources of Accounting software – Accounting Packages.

Learning Objectives: After studying this unit, the student will be able to

- ➢ Understand the need of Computerised Accounting System
- ➢ Computerised Accounting Process
- ➢ Differences between Manual Accounting and Computerised Accounting

1.0. Introduction: Computerised Accounting is an accounting system that uses accounting software, for recording financial transactions electronically. Recording is possible through book of original entry. Data content is recorded in customised database. All the calculation is performed manually.

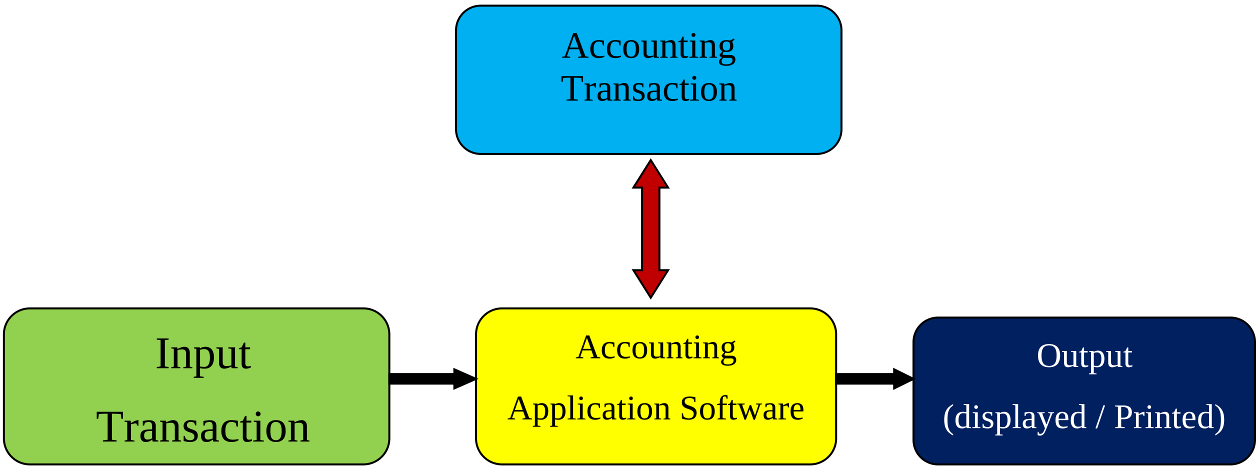
In modern business accounting, transactions are processed through computers. Usage of computers and Information Technology (IT) enables a business to access quickly, accurately and timely the information that helps in decision-making. This sharpens the competitive edge and enhances profitability. The computer systems work with the data which is processed by the hardware commanded by the user through software.

1.1. The Computerised Accounting System (CAS) has the following components:

- **Procedure**: A logical sequence of actions to perform a task: -
  Business transaction → Source document → Journal Entry → Ledger → Trial Balance → Adjustments → Final Accounts.
- **Data**: The raw fact (as input) for any business application. (E.g., date, Ledger heads to debit and credit, Amount).
- **People**: Users of computer system. (E.g., Accountant, Data entry operator etc.)
- **Hardware**: Computer, associated peripherals, and their network. (E.g., CPU, Display Unit, Printer, Network etc.)
- **Software**: System software (E.g., Windows, Linux etc.) and Application software (E.g., Tally, Peachtree, MS Excel, GNU Khata etc.)

1.2. Computerised Accounting Process: Computerised Accounting System refers to the processing of accounting transaction through the use of hardware and software in order to produce accounting records and reports. CAS takes accounting transactions as inputs that are processed through Accounting Software to generate the following reports:

- Day books/Journals
- Ledger
- Trial Balance
- Position Statement (Balance Sheet)
- Statement of Profit and Loss (Profit and Loss Account)



1.3. Features of Computerised Accounting:

- It leads to quick preparation of accounts and makes available the accounting statements and records on time.
- It ensures control over accounting work and records.
- Errors and mistakes would be at minimum in computerised accounting.
- Maintenance of uniform accounting statements and records is possible.
- Easy access and reference of accounting information is possible.
- Flexibility in maintaining accounts is possible.
- It involves less clerical work and is very neat and more accurate.
- It adapts to the current and future needs of the business.
- It generates real-time comprehensive MIS reports and ensures access to complete and critical information instantly.

1.4. Differences Between Manual and Computerised Accounting: In accounting, the financial transactions are recorded, processed and presented to generate financial statements, that is useful to the readers, in making decisions. Traditionally, accounting is done manually, by a trained accountant, with the use of registers, account books, vouchers etc. But with the emerging technology, nowadays, computerized accounting is in vogue, due to its accuracy, convenience and speed.

Both manual and computerized system is based on the same principles, conventions and concept of accounting. However, they differ only in their mechanism, in the sense that manual accounting uses pen and paper, to record transactions, whereas computerized accounting makes use of computers and internet, to enter transactions electronically.

Differences between Manual Accounting and Computerised Accounting

Comparison	Manual Accounting	Computerised Accounting
Meaning	Manual Accounting is a system of accounting that uses physical registers and account books, for keeping financial records.	Computerized Accounting is an accounting system that uses accounting software, for recording financial transactions electronically.
Recording	Recording is possible through book of original entry.	Data content is recorded in customised database.
Calculation	All the calculations are performed manually.	Only data input is required, the calculations are performed by computer system.
Speed	Slow	Comparatively faster.
Adjusting Entries	It is made for rectification of errors.	It cannot be made for rectification of errors.
Backup	Not possible	Entries of transactions can be saved and backed up
Trial Balance	Prepared when necessary.	Instant trial balance is provided on daily basis.
Financial Statement	It is prepared at the end of the period, or quarter.	It is provided at the click of button.

1.5. Advantages of Computerized Accounting: -

1. **Better Quality Work**: The accounts prepared with the use of computers are usually uniform, neat, accurate, and more legible than manual job.

2. **Lower Operating Costs**: Computer is a labour and time saving device. Hence, the volume of job handled with the help of computers results in economy and lower operating costs.
3. **Improved Efficiency**: Computer brings speed and accuracy in preparing the records and accounts and thus, increases the efficiency of employees.
4. **Facilitates Better Control**: From the management point of view, greater control is possible and more information may be available with the use of computer in accounting. It ensures efficient performance in accounting work.
5. **Greater Accuracy**: Computerised accounting ensures accuracy in accounting records and statements. It prevents clerical errors and omissions.
6. **Relieves Monotony**: Computerised accounting reduces the monotony of doing repetitive accounting jobs, which are tiresome and time consuming.
7. **Facilitates Standardisation**: Computerised accounting facilitates standardisation of accounting routines and procedures. Therefore, standardisation in accounting is ensured.
8. **Minimising Mathematical Errors**: While doing mathematics with computers, errors are virtually eliminated unless the data is entered improperly in the first instance.

Limitations of Computerised Accounting:

1. **Reduction of Manpower:** The introduction of computers in accounting work reduces the number of employees in an organization. Thus, it leads to greater amount of unemployment.
2. **High Cost:** A small firm cannot install a computer accounting system because of its high installation and maintenance cost. To be more economical there should be large volume of work. If the system is not used to its full capacity, then it would be highly uneconomical.
3. **Requires Special Skills:** Computer system calls for highly specialized operators. The availability of such skilled personnel is very scarce and very costly.
4. **Other Problems:** Frequent repairs and power failure may affect the accounting work very much. Computers are prone to viruses. Often time's people will assume the computer is doing things correctly and problems will go unchecked for long period of time.

1.6. Accounting Packages:

Sources of Accounting Software:

- **Odoo Accounting Software**: From agriculture and construction to real estate and telecommunication, Odoo accounting caters to businesses of all sizes, regardless of industry. It offers both on-premises and cloud deployment and is available as an app for Android and IOS devices.
- **ERP Next:** ERP Next is an extendable ERP that consists of various programmes such as HR and payroll, accounting, manufacturing, sales and purchase, CRM, asset management and others. It is designed for businesses of all sizes and also employs cloud and on-premises deployment. It is available as an app for IOS and Android devices.
- **GNU Cash:** GNU Cash is an open-source accounting software intended for small businesses with an on-premises deployment. It is specialised for the finance and software industries. It is also available as an app for Android devices.
- **Turbo CASH:** Another small business solution, Turbo CASH, is deployed on-premises and is suitable for accountants, resellers, developers, consultants and more. Its primary industries include government, university and corporate amongst others.
- **Front Accounting**: Last but certainly not the least, Front Accounting is an open-source program dedicated to small and medium-sized companies. It has on-premises deployment and is suitable for all industries.
- **Tally Prime Gold**: One software for all your business needs - Accounting, GST, Invoice, Inventory, MIS
- **Innoventry**: GST Ready Billing, Accounting & Inventory Management for Small Business: GST Billing, Accounting and Inventory Management software for Small, Medium & retailer Business. Easy to use. No technical and accounting knowledge required.

  Cash/Credit Sales via various payment modes like Cash, Credit Card, Paytm, UPI. Receipt Printer, Inkjet/Laser Printer Support. GST Reports, Financial Reports and lot more.
- **BUSY Accounting Software**: Simplify your business from GST Billing to GST Return Filing. Manage your working capital efficiently Integrate your payroll processes, control and optimise costs.

- **BILL SMART**: Billing & Accounting Software For Small Business (NON - GST): SMART BILLING - BILL SMART is simple and easy to use NON-GST, Cost effective billing software for Sale & Purchase & Accounting management. Customer & Supplier, Stock & inventory, Payment management is easy to handle.
- **Book Keeper App**: GST Accounting Software: Works on Windows desktop, Android/IOS devices
- **Web-foot SMART RETAIL**: PoS, NON-GST Billing, Accounting & Stock Management Software for Vegetable/Fruits store, Kirana Store, Garment Store, Hardware Store, SuperMart, Grocery Store & Restaurants:

Short Answer Questions (2 Marks)

1. What are the components of computerised accounting system?
2. What are the reports generated by computerised accounting system?
3. Write any two names of accounting packages?

Essay Answer Questions (6 Marks)

1. What are features of computerised accounting system?
2. What are the advantages of computerised accounting system?
3. What are the differences between Manual Accounting and Computerised Accounting?
4. What are the sources of Accounting Software?

References:

1) Advanced Accountancy – R.L. Guptha. M. Radha Swamy
2) Telugu Academy – AP Inter (General) Accountancy
3) Telugu Academy – AP Inter (Vocational) Accountancy & Computers

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BANKING AND RETAIL MANAGEMENT
1st YEAR PAPER – II
BUSINESS ACCOUNTANCY - I (THEORY)
MODEL QUESTION PAPER

Time: 3Hrs **Max Marks: 50**

SECTION – A

Answer **All** the Questions Each Question Carries **Two** Marks. 10×2=20

1. Define Business?
2. What is Accountancy?
3. What is Double Entry System?
4. What is Journal?
5. What Ledger?
6. How many types of Subsidiary Books? What are they?
7. What is Debit Note?
8. What is Contra Entry?
9. What BRS?
10. What are the components of computerised accounting system?

SECTION – B

Answer any **Five** of the following. Each Question Carries **Six** Marks. 5×6=30

11. Classify and Explain Various types of Industry?
12. What are the advantages of Double Entry System?
13. Write the Journal Entries from the following:

2020 Jan 1 Business Commenced with Cash	₹ 100000.
Jan 2 Cash Sales	₹ 50000.
Jan 4 Cash Purchases	₹ 25000.
Jan 6 Rent Paid	₹ 15000.
Jan 9 Interest Received	₹ 1000.
Jan 10 Machinery Purchased	₹ 20000.

14. Prepare Raama a/c from the following:

2020 Feb 1 purchases from Raama	₹ 100000.
Jan 2 sales to Raama	₹ 50000.
Jan 4 bought goods from Raama	₹ 25000.
Jan 6 cash paid to Raama	₹ 15000.
Jan 9 sold goods to Raama	₹ 1000.
Jan 10 Returns to Raama	₹ 20000.

15. Explain briefly various types of Subsidiary Books?

16. Prepare Simple Cash Book from the following:

2020	Jan1 cash balance	₹ 15000.
	Jan 2 sales	₹ 50000.
	Jan 4 bought goods for cash	₹ 25000.
	Jan 6 cash paid to Manoj	₹ 1500.
	Jan 9 sold goods for cash	₹ 1000.
	Jan 10 salaries paid	₹ 2000.

17. Prepare Bank Reconciliation Statement from the following:

a) Balance as per Pass Book ₹ 9000.
b) Cheques deposited but not collected ₹ 1500
c) Cheques issued but not presented for payment ₹ 1000
d) One our customer directly deposited into our account ₹ 500.
e) Bank charges debited only in Pass book ₹ 100.
f) Interest credited only in Pass book ₹ 50.

18. Prepare Trading a/c from the following:

Stock as on 1.1.2020	₹ 12000
Purchases	₹ 5000
Sales	₹ 25000
Purchase returns	₹ 500
Sales returns	₹ 1000
Wages	₹ 1000
Factory rent	₹ 1500
Import duty	₹ 200
Stock as on 31.12.2020	₹ 5000.

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Paper – III

RETAIL MARKETING

INDEX

Unit - I

INTRODUCTION

Structure

- Meaning of Marketing
- Nature and Scope of Marketing
- Objectives & Functions of Marketing
- Importance of Marketing
- Marketing Environment
- Marketing Mix
- Marketing Segmentation
- Digital Marketing
- Retailing

1.Meaning of Marketing:

Marketing has come to mean many things. We observe that house-wives, who return home after buying vegetables and provisions, state that they have just finished marketing activity.

Salesman, who sell the products of their employers by booking orders from the different merchants also refer to their work as marketing. Thus, buying and looking for order are both referred to as marketing. To understand the meaning of the term Marketing, let us consider a few definitions.

According to American Marketing Association:

Marketing is the "Performance of business activities that direct the flow of goods and services from producer to consumer or user".

The business activities that enable the producer to get in touch with the user, cover a host of things. The products have to be developed, transported, stored, and distributed to the traders or retailers before the user/consumer is contacted. Human needs and wants give rise to the concept of goods and services as products. Hence, marketing activities include the collection of information about the consumer's wants, desires, incomes, and sources of influences over him.

According to William J. Stanton,

Marketing is “a total system of business activities designated to plan, price, promote and distribute want satisfying goods and services to the present and potential customers”.

According to Philip Kotler,

Marketing is “a human activity directed to satisfying process”.

The above definitions provide us an idea of the nature of marketing. The features in the above definitions are that marketing --

a) Is an exchange process

b) Covers a variety of functions to be carried out in an integrated manner, and

c) Is directed to satisfy the needs/desires / wants of the consumer.

1.1. Nature and Scope of Marketing:

Marketing is human activity directed at satisfying wants and needs through exchange processes. Marketing includes such activities as market research, product development, communication, pricing, promotion, and services apart from selling. Marketing originates with the recognition of a need on the part of a consumer and terminates with the satisfaction of that need by the delivery of a usable product at the right time, at the right place, and at an acceptable price.

Marketing is so basic that it cannot be considered a separate function. It is really the entire business seen from the point of view of the final result, i.e., from the point of view of the customer.

Marketing may be a viewpoint that appears at the complete business process as a highly integrated effort to discover, create, arouse and satisfy consumer’s needs.

Marketing is a delivery of a standard of living to society.

Evolution of Marketing:

Era	Prevailing attitude and approach
Production	• Consumers favour products that are available and highly affordable. • Improve production and distribution • Availability and affordability is what the customer wants.
Product	• Consumers favour products that offer the most quality, performance and innovative features. • A good product will sell itself’.

Sales	• Consumers will buy products only if the company promotes/sells these products • Creative advertising and selling will overcome consumer's resistance and convince them to buy.
Marketing	• Focuses on needs/wants of target markets and delivering satisfaction better than competitors • The consumer is king! Find a need and fill it.
Relationship marketing	• Focuses on needs / wants of target markets and delivering superior value. • Long term relationship with customers and other partners lead to success.

Distinction between Selling and Marketing: Though both 'selling' and 'marketing' appear to sound the same meaning, there is difference. The following are the distinctive features.

Selling	Marketing
1. In selling, the emphasis is more on the product.	In Marketing, the emphasis is on customer's wants.
2. Company first makes the product and then plans how to sell it.	Customer's wants are determined first and plans are made how to make an deliver a product to satisfy those wants.
3. The sales-volume oriented thinking dominates the management	Management is profit oriented.
4. Planning is short-run-oriented in terms of today's products and markets.	Planning is long-term oriented in terms of new products, tomorrow markets and future growth.
5. Stresses needs of seller	Stresses wants of buyers.

1.2. Objectives of Marketing:

A company must be clear with its marketing objectives and these objectives must fit in with the overall business objectives for the formulation of proper business strategy. The objectives of marketing the company must take care of are --

1. Creation of Demand: The marketing management's first objective is to create demand through various methods. A conscious attempt is made to find out the preferences and tastes of the consumers by the company. Demand for the products and services is created by informing the customers of their utility. According to the demand, products and services are produced to satisfy the needs/wants of the customers.

2. Customer Satisfaction: The first and foremost aspect which a marketing manager must study is the demands of customers before offering any product or service. Marketing begins and ends with the customer. The satisfaction of the customers is the outcome of the understanding of needs and meeting them successfully.

3.Market Share: Every business aims at increasing its market share. It is the ratio of its sales to the total sales in the economy. For instance, both Pepsi and Coke compete with each other to increase their market share. For this, they have adopted innovative strategies. These strategies can be adopted in marketing, advertising, sales promotion activities, and even through innovative packaging, etc.

4.Generation of Profits: The marketing department is chief department that generates revenue for the business. Sufficient profits must be earned as a result of the sale of want-satisfying products. If the firm is not earning profits, it will not be able to survive in the market. Moreover, profits are also needed for the growth and diversification of the firm.

5. Public Image: To build up the public image of a firm over a period is another objective of marketing. Goodwill of the company is created over a period of time with a regular emphasis on customer satisfaction through continuous improvement in products and services. The marketing department provides quality products to customers at reasonable prices and thus creates its impact on the customers.

1.3. Functions of Marketing:

Marketing activities focus on the consumer. Therefore, a market driven organisation begins its overall strategy with a detailed description of its target market; the group of people towards whom the firm decides to direct is marketing efforts. After marketers select a target market, they direct their activities towards profitably satisfying that target segment.

1. Concentration: Marketing has to concentrate on the "consumers' needs", before its production.

2. Dispersion: Marketing which helps to reach the products from the manufacturer to the consumers.

3. Equalisation: Marketing aims at equalising the production with that of the demand of the consumers.

4. Selling: It is one function of the equation of exchange. Selling creates demand for a product. Selling function involves i. Product planning and development, ii. Finding out or Locating buyers, iii. Negotiation of terms of sale, such as price, quantity, quality, etc. iv. Sale contract leading to transfer of title and possession of goods.

5. Buying: It is the second function of the equation of exchange. It requires planning of purchases, intelligent search for probable sellers, selection of goods to be sold, assembling of goods in the right quantity and quality, at the right place and time, at the right prices. In a formal exchange, the buyer has to negotiate terms of purchase and enter into a contract of purchase.

6. Standardisation and Grading: In agricultural marketing, standardization and grading play a very important role. Standardization makes a sale by description possible. It assumes quality. It promotes the uniformity of products. It widens the market for commodities. Standardization means setting standards of quality. Grading means separating or inspecting products according to established standards. Each grade has uniformity in all attributes. Grading enhances marketing efficiency.

7. Financing: Finance is the life-blood of commerce. We have a monetary exchange. The value of goods is expressed in money and it is denoted by the price to be paid by a buyer to a seller. Credit is necessary for marketing. It plays an important role in retail trade particularly in the sale of costly consumer goods.

8. Marketing Information: Marketing decisions are no better than the facts and figures upon which they are based. Information flow is a vital resource in business. The information has to be collected, processed, and interpreted. Decisions are based on facts and figures.

9. Risk Management and Insurance: One of the important functions of marketing management is risk bearing. In any marketing activity uncertainty is bound to exist. This uncertainty may result in the form of either loss of profit or business. The unpredictable nature of the consumers, changing fashions, increasing competition and increasing costs of production have all led to the concept, “Risk-Bearing”.

10. Transportation and Storage: Transportation is the physical means whereby goods are moved from point of production to the place where they are required for consumption. A good system of transportation increases the value of goods by creating place utility. Different modes of transportation like trucks, bus, train, airplane, ships, etc.,

Storage function provides time utility by holding and preserving products and delivering them according to the requirements of the market. If the product is seasonal and demand is stable, storage becomes essential. Storage is provided by the manufacture, middlemen, or public agencies. The period of storage and mode of storage varies according to the nature of the product.

1.4. Importance of Marketing:

Marketing has become a very significant aspect of the business since a firm's financial success largely depends on marketing. Most facets of business depend upon successful marketing. Therefore, no firm today can afford to ignore the significance of marketing. Marketers have now come to appreciate the importance of their prudent marketing efforts and have understood that the success of a product will depend on how well the product is introduced and promoted into the market. A firm might be offering the best products or services in the industry but without marketing, it would be impossible for the firm to inform its potential customers about the product. If no one knows about a company's product, there will be no demand, the company will make no sales and hence there will be no profits. This highlights the significance of marketing i.e. **to create awareness about the products and make loyal customers and retain them.** Marketing enables the customers to know what marketers are offering to them and at the same time, it enables the marketers to convince their customers to buy their offerings. Successful marketing strategies help in not only understanding the customer and his needs but also in the following ways:

1. It promotes awareness among the public: Marketing enables the customers to become aware of the various products that are available in the market. A firm's product must be known to the potential buyers for it to succeed. If there were no marketing or advertising, the customers would not know about the products. A company must capitalise on marketing activities so as not to miss the opportunity of being discovered. Attempts should be made to reach as many customers as possible and tell them what the company has to offer with the help of effective marketing strategies.

2. It helps in boosting sales: Once the prospects become aware of the company's products or services it boosts up the chances that customers will make a purchase. New customers also start to spread the word, informing their friends and family about the company's product, and consequently, the company's sales start to increase rapidly. No matter what a company is selling, it will generate sales once the people come to know about it through TV advertisements, commercials, newspaper advertisements, etc. The more the people see and hear about a new product, the more inclined they will be to buy it.

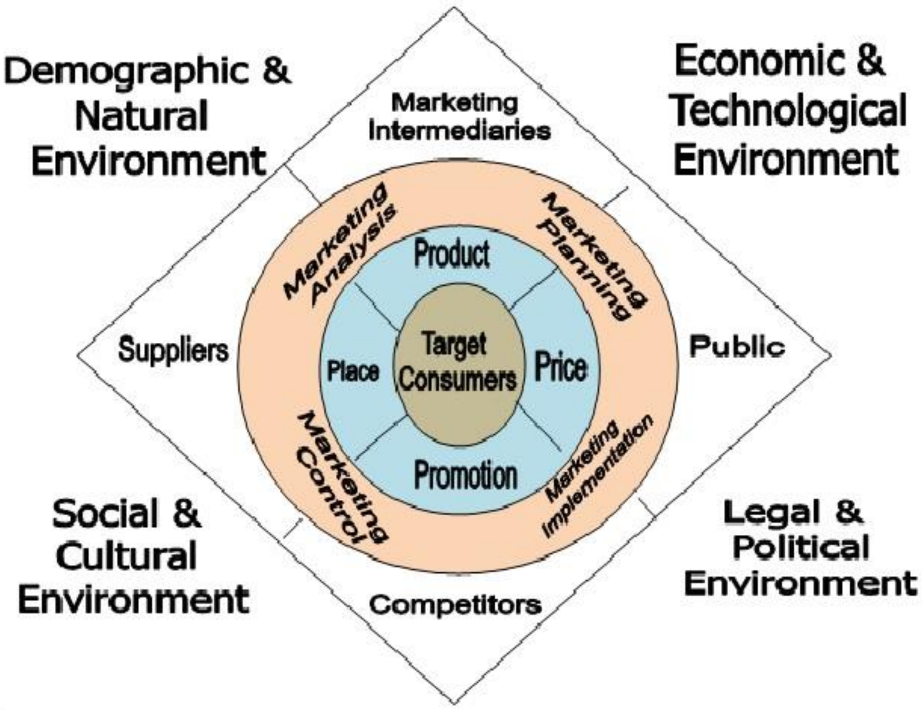
3. It builds company reputation: Marketing helps to build brand name recognition or product recall and hence enables the customers to relate the brand name with the images, logos, and captions that they see or hear in advertisements. When the company can satisfy the expectation of its customers, its reputation stands on a concrete ground. And once a company succeeds in establishing its name, its business grows and expands and more and more customers will start purchasing its products and services.

4. It helps in fostering healthy competition: Marketing promotes a climate of healthy competition in the marketplace. It helps to position the company as being superior to its rivals so that the customers will prefer its products rather than buying from other firms that sell similar products and services. Competition drives the firms to invest in research and development to produce better quality and innovative products and services. Thus marketing also helps to foster innovation. To sum up, an attempt should be made to develop integrated marketing in the firm to serve the customers better.

1.5. Marketing Environment:

1. Meaning: The marketing environment refers to all internal and external factors, which directly or indirectly influence the organization's decisions related to marketing activities. Internal factors are within the control of an organization; whereas, external factors do not fall within its control. The external factors include government, technological, economic, social and competitive forces; whereas, the organization's strengths, weaknesses, and competencies form the part of internal factors. Marketers try to predict the changes, which might take place in the future, by monitoring the marketing environment. These changes may create threats and opportunities for the business. With these changes, marketers continue to modify their strategies and plans. Definition of Marketing Environment: According to Philip Kotler: "A company's marketing environment consists of the internal factors and forces, which affect the company's ability to develop and maintain successful transactions and relationships with the company's target customers."

The following figure illustrates the marketing strategy and its environmental framework.



1.5.1. Types of Marketing Environment:

A marketing environment mostly comprises of the following types of environment:

1. Micro Environment 2. Macro Environment.

1.Micro Environment: Micro Environment refers to the environment, which is closely linked to the organization, and directly affects organizational activities. It can be divided into a supply-side and demand-side environment. The supply-side environment includes the suppliers, marketing intermediaries, and competitors who offer raw materials or supply products. On the other hand, the demand-side environment includes customers who consume products.

Following are the factors of Micro Environment:

i. Suppliers: It provides raw material to produce goods and services. Suppliers can influence the profit of an organization because the price of raw material determines the final price of the product. Organizations need to monitor suppliers on a regular basis to know the supply shortages and change in the price of inputs.

ii. Marketing Intermediaries: It helps organizations in establishing a link with customers. They help in promoting, selling, and distributing products.

2. Macro Environment: The macro-environment involves a set of environmental factors that is beyond the control of an organization. These factors influence organizational activities to a significant extent. The macro-environment is subject to constant change. The changes in the macro-environment bring opportunities and threats to an organization.

Following are the factors of Macro Environment:

i. Demographic and Natural Environment: Demographic environment is the scientific study of the human population in terms of elements, such as age, gender, education, occupation, income, and location. It also includes the increasing role of women and technology. These elements are also called demographic variables. Before marketing a product, a marketer collects the information to find a suitable market for the product. The demographic environment is responsible for the variation in the tastes and preferences and buying patterns of individuals. The changes in the demographic environment persuade an organization to modify marketing strategies to address the altering needs of customers.

ii. Economic & Technological Environment: Economic environment affects the organization's cost structure and customers' purchasing power. The purchasing power of a customer depends on the current income, prices of the product, savings, and credit availability. Further, the fast changing technological innovations force the change in marketing strategies of an organisation.

iii. Social and Cultural Environment: The people and the society witness changes in their fashions and desires very rapidly. These changes affect the marketing plans of any organisation. This is specially associated with clothing and personal accessories.

iv. Legal and Political Environment: The policies of the Government as well as the legal provisions influence the organisations to frequently change their marketing techniques.

1.6. Marketing Mix:

Definition: The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion, and Place. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People, and even Politics as vital mix elements.

The four Ps of the marketing mix:

1. Product: This word expresses what the organization introduces to that audience who is dealing with it. It may be services, goods, or utilities, the customer accepts to have a complete production not only just tangible goods or services but also other things that are connected to it. For example, the essential product for Oman National Transport Company is the service of transportations, but the complete service here is connected by the exact time and other elements such as transportation lines inside Oman and provides nice and safe vehicles. So, the development of product strategy requires making sure that the product which is introduced to the customer satisfies him. It includes also the right choice for the brand, packing, grantee services, etc.

2. Price: Price is the amount of money that intended customers are willing to pay to get a product or a kind of service. There are some prices that are changed daily like shares, gold prices, currency prices, etc. To change the price there are strategic or technical reasons. Pricing decisions are supposed to make a profit margin and the right or probable price to take care of competitors' prices. Pricing includes not only the price list but also, discount, financing, and other options such as leasing.

3. Place: Place strategy involves what the channels distributions have been used to deliver the products to the customers at the right time and the right place and the way to store and the sellers. In general, there is no organization that has all strategies of place and market, therefore each organization focuses on strategic elements that they have strength than others.

4. Promotion: It is the communication process between the customer and the product or service. It is what the promotions try to tell target customers about the product, and it is the way to make customers aware of the product. Promotion includes advertising, selling, sales promotions, Public Relations, etc.

1.7. Market Segmentation:

Market segmentation is a method for achieving maximum market response from limited marketing resources by recognising difference in the response characteristics of various parts of the market. In a sense, market segmentation is the strategy of “divide and conquer’, i.e., dividing markets in order to conquer them. Its philosophy is something for everybody, within practicable limits. Marketing strategy is adjusted to inherent differences in buyer behaviour. For different groups of customers i.e., market segments, we have different sets of marketing strategies. Segmentation strategy is an answer to the question, “To whom should we sell our products, and what should we sell them?” It is a strategic choice concerned with “doing the right things” as opposed to tactical choice, “doing things right.

Market segmentation enables the marketers to give better attention to the selection of customers and offer an appropriate marketing mix for each chosen segment, or a group of buyers having homogeneous demand. Each subdivision or segment can be selected as a market target to be reached with a distinct marketing mix.

1.7.1. Benefits of Market Segmentation:

Marketing segmentation offers the following specific benefits:

1. Marketers are in a better position to locate and compare marketing opportunities. Market can be defined more precisely in terms of customer needs.
2. When customer needs are fully understood, markets can effectively formulate and implement marketing programmes which will be turned with the demands of the market.
3. Marketers can make finer adjustments in their products and marketing communications. They can use rifle approach instead of shotgun approach.
4. Competitive strengths and weaknesses can be assessed effectively and marketers can avoid fierce competition and use resources more profitably by catering to customer's demands which are not met by rivals.
5. Segmentation leads to a more effective utilisation of marketing resources because customer is the focus of marketing effort and only target markets are served.

1.8. Digital Marketing:

Digital marketing is the marketing of products or services using digital technologies, mostly on the internet, mobile phones, display advertising, and any other digital medium.

Digital marketing, the promotion of products or brands over one or more forms of electronic media, differs from traditional marketing in that it uses channels and methods that enable an organization to analyse marketing campaigns and understand what is working and what is not – typically in real-time.

Digital marketers monitor things like what is being viewed, how often and for how long, sales conversions, what content works and doesn't work, etc. While the internet is, perhaps, the channel most closely associated with digital marketing, others include wireless text messaging, mobile instant messaging, mobile apps, podcasts, electronic billboards, digital television and radio channels, etc.

1.9. Features of Digital Marketing:

1. Direct and Non-Intrusive Audience Reach out: Through Digital Marketing, marketers can reach out to customers any time without bothering them with unnecessary and incessant phone calls and other such intrusive and outdated methods. For example, marketers could send an email newsletter inviting customers to make a purchase and learn more about the offering and the brand behind it.

2. Interactive Communication: Feedback is what has made Interactive Marketing possible. Now, customers can communicate with the companies about their products through digital platforms in the form of feedback. This feedback contributes to making brand offerings better. Today, easy-to-use tools make it easier for companies to solicit feedback and also track customer's behaviours or reactions to the products/services. Hence companies can tailor marketing communication and product offerings as per consumer satisfaction and requirement.

3. Result Oriented Approach: There are advanced strategies incorporated in Digital Marketing to improve a website's search engine ranking which will help sites to come on top of the Search Engine Results Page (SERP). These strategies provide businesses with an edge over their competitors, such as SEO (Search Engine Optimization), which is a strategy to drive high-quality intent-based traffic to your page.

4. Focussed Audience Targeting: Digital Marketing is not limited to only targeting a small group of audience. Digital Marketing has enabled brands to reach out to people and communicate about their products using social media, emails, websites, etc. Targeting internet users and converting incoming traffic into leads or subscribers, is what this feature accurately states. Digital platforms give a plethora of targeting options.

2. Retailing:

The term retailing is derived from an old French word "retailer" which means 'to cut again'. This is evident from the functions carried out by the retailers. They acquire a whole stock of goods and divide into smaller chunks and sell to individual consumers according to their needs. Thus, retailer is the first face which a consumer gets into contact in the process of marketing.

In the complex world of today, the consumer is the king of the market, and retailers are keener on consumer satisfaction. Considering the busy lifestyles of present consumers, the retailers also provide services apart from products. Retailing occupies a very important place in the economics of any country in the world. It is the final stage of the distribution of products or services. It not only contributes to the country's GDP but also empowers many people by providing employment. Retail Management starts with understanding the term 'Retail '.

According to Philip Kotler "Retailing represents a large part of the service sector and includes all the activities involved in selling goods or services directly to final consumers for their personal or family use"

2.1. Nature of Retailing:

Retail business can be divided into certain categories on the basis of margin-turnover retail operations. This framework is useful in planning and development of retailing strategy. Margin and turn over are the key parameters of retailing. The success of retail outlet depends on these two parameters. Margin is defined as “the percentage mark-up at which the inventory in the retail store is sold” and turnover is defined as “the number of times the average inventory sold in a year”.

1. Low Margin High Turnover: Retailing may be low margin and high turnovers like in Big Bazaar, Wal-Mart, D-Mart etc. where they have wide variety of FMCG (Fast-Moving Consumer Goods) in several merchandise lines. These stores are located nearer to the consumers.

2. High Margin and Low Turnover: These stores are having distinctive merchandise and sales approach. The stores in this category price their products above the market price. These store provide many specific services and sell special category of products. These stores are located in prime place. Examples are Lifestyle Chain, Armani, DLF, Omega etc.

3. High Margin-High Turnover: Stores which have narrow line of items but high turnover is located in a non-commercial location. Overhead costs may be high, but high prices can ensure profitability such as convenience food outlets.

4. Low Margin Low Turnover Retail: These stores are having competitive low price, at the same time sales volume is also low. their location is also poor, and they face difficulty to survive in market.

2.2. Classification of Retailing:

The retailing can be classified into the following types:

1. Ownership Based Retailing:

i. Independent Retailers: They own and run a single shop, and determine their policies independently. Their family members can help in business and the ownership of the unit can be passed from one generation to the next. The biggest advantage is that they build a personal rapport with consumers very easily. For example, stand-alone grocery shops, stationery shops, etc.

ii. Chain Stores: When multiple outlets are under common ownership it is called a chain of stores. Chain stores offer and keep similar merchandise. They are spread over cities and regions. The advantage is, the stores can keep selected merchandise according to the consumers’ preferences in a particular area. For example, Bata, D Mart, Walmart, etc.

iii. Consumers Co-Operative Stores: These are businesses owned and run by consumers with the aim of providing essentials at reasonable cost as compared to market rates. They have to be contemporary with the current business and political policies to keep the business healthy.

2. Merchandise Based Retailing:

i. Convenience Stores: They are small stores generally located near residential premises, and are kept open till late night or 24x7. These stores offer basic essentials such as food, eggs, milk, toiletries, and groceries. They target consumers who want to make quick and easy purchases. For example, mom-and-pop stores, stores located near petrol pumps, etc.

ii. Supermarkets: These are large stores with high volume and low-profit margin. They target mass consumers. They offer fresh as well as preserved food items, toiletries, groceries, and basic household items. For example, Food Bazar.

iii. Hypermarkets: These are one-stop shopping retail stores with at least 3000 sq. ft. selling space, out of which 35% space is dedicated to non-grocery products. They target consumers over a large area and often share space with restaurants and coffee shops. They offer exercise equipment, cycles, Electrical and Electronics equipment, etc. For example, Big Bazar from India, Walmart from the US.

3. Non-Store Based (Direct) Retailing: It is the form of retailing where the retailer is in direct contact with the consumer at the workplace or at home. The consumer becomes aware of the product via email or phone call from the retailer or through an advertisement on the television, or Internet. The seller hosts a party for interacting with people, introduces and demonstrates the products, their utility, and benefits. Buying and selling happen at the same place. The consumer itself is a distributor.

Non-Store based retailing includes non-personal contact-based retailing such as:

i. Mail Orders/Postal Orders/E-Shopping: The consumer can refer to a product catalogue on the internet and place an order for purchasing the product via email/post.

ii. Telemarketing: The products are advertised on television. The price, warranty, return policies, buying schemes, contact numbers, etc. are described at the end of the advertisement/caller. The consumers can place orders by calling the retailer's number. The retailer then delivers the product at the consumer's doorstep.

iii. Automated Vending/Kiosks: It is most convenient to the consumers and offers frequently purchased items round the clock, such as drinks, candies, chips, newspapers, etc. The success of non-store based retailing hugely lies in the timely delivery of the appropriate product.

2.3. Growing Importance of Retailing in India:

India is supposed to be the retailing hub for various goods and products with the highest density of a variety of shops. The Indian retail industry is and continues to be highly fragmented due to its organized and unorganized retailing. Retailing activity is fast-growing and changing in India in the recent past, which is started with economic reforms, liberalization, and globalization. Owing to economic reforms from 1991, India may not be able to stop the entry of foreign retailers or foreign direct investment (FDI) in the retail sector. Organised retailing is a recent development in India; it refers to corporate-backed and retail chains and hypermarket and privately owned large retail shops. Corporate players in organized retailing are few in India.

Retailing plays a crucial role in the process of economic development by value addition, employment generation, equitable distribution of national income, mobilization of capital and entrepreneurial skills. The retail sector is expanding and modernizing rapidly in line with India's economic growth.

2.3.1. Benefits of Retailing to Consumers:

1. **Employment Generation**: Retailers involve in high annual sales and generation of employment. The important source of employment in retailing offers a large range of career opportunities such as store management, merchandising and owning a retail business.
2. **Supply of Variety of Products**: Retailers can perform marketing functions that make it possible for the customers to have access to a large range and variety of products and their services. Retailing also helps to create the utilities of place, time, and possession. A retailer's service also helps to increase a product's image.
3. Retailers participate in the sorting process by collecting different types of goods and services from a large range of suppliers and offering them for sale.
4. Retailers provide information to consumers through media like television, radio, newspapers, hoardings, and sales personnel.
5. Retailers store merchandise, mark prices on it, place products on the selling floor, and otherwise they handle products safely. Generally, they pay suppliers for items before selling them to final customers. Retailers complete their transactions by using appropriate locations, timings, credit policies, and other services like delivery.
6. Usually, retailers act as the vital link between manufacturers/producers and ultimate consumers.

2.4. Factors Influencing Retailing:

The factors known to influence consumers buying decision includes cultural factors, social factors, personal and psychological factors.

1. Cultural factors: Cultural factors include consumers' culture, sub-culture and social class. Consumers' culture refers to a set of basic values, wants and behaviour learned by a member of society from the family and other important institutions. Each culture contains a smaller sub-culture. Sub-cultures include nationalities, regions, racial groups and geographic regions. Social class refers to society's relatively permanent and ordered divisions, members sharing similar values, interests and behaviours. Social class can be determined by a combination of education, income, occupation, wealth, etc.

2. Social factors: The sub-factors for social factor are family, roles and status, and age and lifecycle stage. Family members have a strong impact on consumers' behaviour. Marketers are interested in the roles and influences of the wife, husband and children who usually influence the purchasing decisions in a family. Age and life cycle stage affects buyers' behaviour because peoples' purchasing style changes with times.

3. Personal factors: Personal factors include occupation, economic status and motivation. A motivated person is ready to act. The occupation of a person and economic situation have an influence on the goods and services purchased.

4. Psychological factors: Psychological factors include perception, leaning and the brand. Perception is the process by which consumer selects, organises and interprets information to form a meaningful picture of the world. The categories of consumers' perceptions are perceived price, perceived quality, perceived value and perceived risk.

2.5. Functions of Retailing:

Retail trade performs many valuable functions for the trade and commerce as a whole. Some of them are as follows:

1) Delivery of the Goods to the End Consumer: This makes shopping for all requirements quite comfortable for the consumers. This also facilitates consumption and maximizes consumer satisfaction. Because the company cannot take responsibility of delivery to every single customer, it is performed by the retailers. One of the functions of retailing is immediate delivery.

2) Is an Essential Part of the Distribution Chain: Because the retailer takes over the cumbersome task of distribution of goods manufactured to the target market, the manufacturer is relieved of this responsibility and can divert his resources to manufacturing activities.

3) Finances the Wholesaler: While booking his order of goods with the wholesaler, the retailer pays some percentage or the whole of the order price in advance. This helps the wholesaler to carry on with his operations seamlessly. In some industries, it is the retailer who pays cash to maintain stock and in others the wholesaler has to carry the stock as paid capital. Nonetheless, financing is one of the major functions of retailing. A retailer who does not contribute to financing will bring down the effectiveness of the supply chain.

4) Stores the goods according to market requirement: The retailer invests his working capital in building a gamut of inventory reflecting market requirements. He also sells the requisite quantity, however small or big, to the final consumers satisfying their needs. The retailers know the complete demand and supply potential due to their years of experience. Hence it is one of the functions of retailing to balance the demand and supply as per external market conditions.

5) Lends a hand in manufacturer's marketing initiative: Retailer plans and executes many advertising and promotion activities at the point of purchase i.e. right in his store. This leads to gain in popularity of and favourable market conditions for the product of the manufacturer.

6) Assumes storage and credit risks: When the retailer orders and stores a large quantity of goods from the manufacturer, he makes sufficient provisions to store it safely for some days. This involves costs. Also, there is also a risk of loss of these goods on account of destruction, theft, spoilage etc. The retailer assumes these risks while storing goods.

7) Extends credit facilities to the consumers and assumes credit risk: The retailer does so to encourage shopping. This adds to the vigour of commercial activities in the economy. But there is also a risk that the customers won't pay for the goods bought or may return damaged goods to the retailer. This inherent risk in trade is assumed by the retailer.

8) Offers wide variety of customers and enticing price range in a product line: In order to attract more customers, a retailer offers a wide range of merchandise at attractive prices. This results in higher consumer satisfaction and higher standards of living in any economy.

9) Provides convenience in shopping: Retailers try to set up their shops nearby housing areas or near parks, schools – the areas where the customer finds it very convenient to shop. This enhances the consumer welfare.

10) Offers after-sale-services, differentiated packaging, giving more information about the use of the product: All these activities add value to the retail transaction and cater to various requirements of the consumers suitably.

11) Hears the voice of the market: Since he is the first contact person for the consumer, the retailer measures the pulse of the market by listening to the consumer feedback, expectations, complaints, and by observing a shift in the tastes and preferences of the consumers. This arms him with very critical market intelligence enabling the entire commercial fraternity to gear up for the changing economic scenario.

12) Generating employment for masses: Retail trade, especially the brick-and-mortar models, are human resource-centric establishments. They require many employees for numerous functions such as stock taking, over the counter selling, packaging, after sales services, floor management etc. Thus, retail sector thrives with lots of lucrative employment opportunities for all the talented job aspirants.

Short Answer Questions

1. Define Marketing.
2. Define Marketing Mix.
3. What is Market Segmentation?
4. What is Digital Marketing?
5. What is the Meaning of Retailing?

Long Answer Questions

1. Explain the importance of Marketing.
2. Discuss the types of Marketing Environment.
3. Narrate the functions of Retailing.
4. Explain the features of Digital Marketing?

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Unit - II

RETAIL MARKETING MIX

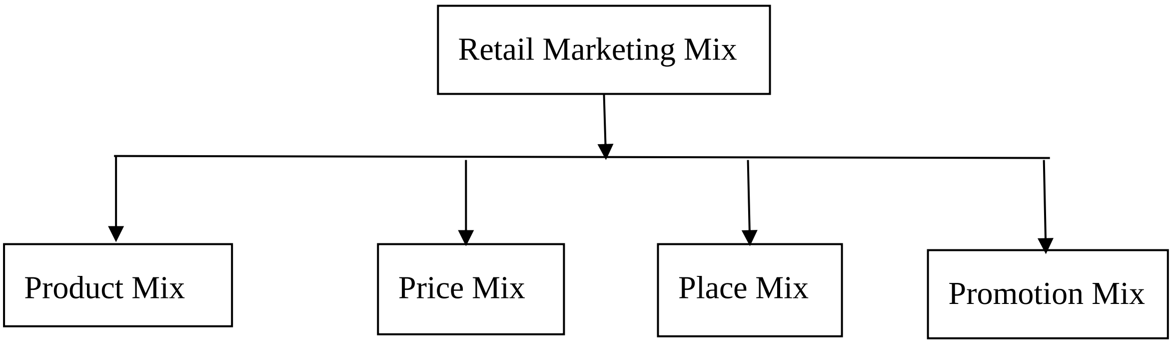
Structure:

- Meaning and Concept of Retail Marketing Mix
- Advertisings and Features
- Elements of Retail Marketing Mix
- Retail Communication
- Emerging Trends in Retailing
- Modern Retail Formats
- Visual Merchandising
- Sales Promotion
- Promotional Pricing
- Customer Relationship Management

1. Meaning of Retail Marketing Mix:

The retail marketing mix can best be described as "an array of elements as well as the methods that retailers use in the formulation and implementation of the desired retail marketing strategy". It is always important that the retailer adopts the most favourable retail activity mix and manages them in a manner that will ensure that they complement each other.

The main purpose of such coordination is to ensure that each retail store has its own image in the mind of the consumer. The mix adopted is mainly influenced by the type of products or services that a retailer is dealing with as well as the market type the retailer is in. The main elements that should be considered while developing a retail marketing mix are; product, price, place, promotion, and people.



1.1 Concept of Retail Marketing Mix:

Marketing Mix is one of the most fundamental concepts in marketing management. For gaining clients and for revenue promotion, every business owner has to concentrate on four primary and three prolonged elements/components. The primary components of the selling mix include product, pricing, distributive programmes (place), and revenue promotion techniques while the prolonged components are actual proof, individuals, and procedure. A fair combination of these marketing components is called Marketing Mix.

1.2. Retail Advertising:

The word advertising comes from the Latin word "advertere” meaning “to turn the minds of towards". Some of the definitions given by various authors are:

According to American Marketing Association "advertising is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor"

According to William J. Stanton, "Advertising consists of all the activities involved in presenting to an audience a non-personal, sponsor-identified, paid-for message about a product or organization."

1.2.1. Features of Advertising:

1. Communication: Advertising is “means of communication reaching the masses”. It is non-personal communication because it is addressed to the masses and not to a particular individual.

2. Information: Advertising informs the buyers about the benefits they would get when they purchase a particular product. However, the information given should be complete and true.

3. Persuasion: The advertiser expects to create a favourable attitude that will lead to a favourable action. Any advertising process attempts at converting the prospects into customers. It is, thus, indirect salesmanship and essentially a persuasive technique.

4. Profit Maximisation: True advertising does not attempt at maximising profits by increasing the cost but by promoting the sales. This way it does not lead to an increase in the price of the product. Thus, it has a higher sales approach rather than the higher-cost approach.

5. Non-Personal Presentation: Salesmanship is personal selling whereas advertising is non-personal in character. Advertising is not meant for any one individual but for all. There is the absence of personal appeal in advertising.

6. Identified Sponsor: A sponsor may be an individual or a firm who pays for the advertisement. The name of a reputed company may increase sales or products. The product gets a good market because of its identity with the reputed corporate body.

7. Consumer Choice: Advertising facilitates consumer choice. It enables consumers to purchase goods as per their budget requirements and choice. The right choice makes consumers happy and satisfied.

1.2.2. Importance of Advertising:

Advertising has become an essential marketing activity in the modern era of large scale production and serve competition in the market. It performs the following functions:

1. Promotion of Sales: It promotes the sale of goods and services by informing and persuading people to buy them. A good advertising campaign helps in winning new customers both in the national as well as the international markets.

2. Introduction of New Product: It helps the introduction of new products in the market. A business enterprise can introduce itself and its product to the public through advertising. A new enterprise can't make an impact on prospective customers without the help of advertising. Advertising enables quick publicity in the market.

3. Creation of Good Public Image: It builds up the reputation of the advertiser. Advertising enables a business firm to communicate its achievements in an effort to satisfy the customers' needs. This increases the goodwill and reputation of the firm which is necessary to fight against the competition in the market.

4. Mass Production: Advertising facilitates large-scale production. Advertising encourages the production of goods on a large-scale because the business firm knows that it will be able to sell on a large-scale with the help of advertising. Mass production reduces the cost of production per unit by the economical use of various factors of production.

5. Research: Advertising stimulates research and development activities. Advertising has become a competitive marketing activity. Every firm tries to differentiate its product from the substitutes available in the market through advertising. This compels every business firm to do more and more research to find new products and their new uses.

6. Education of People: Advertising educates people about new products and their uses. Advertising message about the utility of a product enables people to widen their knowledge. It is advertising which has helped people in adopting new ways of life and giving-up old habits. It has contributed a lot towards the betterment of the standard of living of the society.

7. Support to Press: Advertising provides an important source of revenue to the publishers and magazines. It enables to increase the circulation of their publication by selling them at lower rates. People are also benefited because they get publications at cheaper rates. Advertising is also a source of revenue for TV networks. For instance, Doordarshan and Zee TV insert advertisements before, in between, and after various programmes and earn millions of rupees through them. Such income could be used for increasing the quality of programmes and extending coverage.

1.3. Elements of Retail Marketing Mix (7Ps):

The marketing manager concentrates on seven major decision areas while planning the Marketing activities, viz:

1)Products
2)Price
3)Place (distribution)
4)Promotion
5)People
6)Process
7)Physical Evidence

1. Product: Product is a good (such as music players, shoes, etc.) or service (such as hotels, airlines, etc.) that is offered as a solution to satisfy the needs of the customer.

When developing the product, a manufacturer needs to consider its life cycle and plan for different challenges that may arise during its various stages. Once the product reaches its final stage, it is time to reinvent the item to win the demand of the customers again.

2.Price: The next element of the marketing mix is the price customer is willing to pay for the product. This helps to determine the profit that will be able to generate.

When setting a price for the product, consider how much amount of money has been spent on producing it, the price ranges with competitors, and the perceived product value.

3. Place: This is about the distribution centre of the product and the methods used in distributing it to the customer.

Wherever is the market place, it should be easily accessible to the customer. For example, if the manufacturer has a physical store, it should be located in a place that can be easily discovered by the customer. If the manufacturer owns a website to market his product, make sure it is easily navigable.

4. Promotion: Promotion refers to the methods a business uses to gain the attention of the customers to their product. These include sales promotions, customer service, public relations, advertising, etc.

When a manufacturer is creating a new promotion strategy, he considers the tactics used by the competitors, the channels that are most effective in reaching the customers and whether they match the perceived value of the product.

5. People: This refers to the people both your customers and employees who are directly related to the product or service.

While the manufacturer needs to study his target market to understand whether they are in need of the type of product he is offering, he needs to hire the right people who are capable of giving their best to build it.

6. Process: Systems and processes play an important role in building and delivering quality service to the customer.

Manufacturers make sure that the process is free of bottlenecks and blockers in order to reduce the unnecessary expenses associated with executing the service.

He can use process maps to map process steps and analyse them to identify where he needs to make improvements.

7. Physical Evidence: Physical evidence refers to what the customers see when consuming the product or service. This could include branding, packaging, the physical environment where the retailer is selling the product, etc.

Make sure that all physical aspects associated with the product or service adheres to its values.

1.4. Retail Communication:

"Retail communication refers to the programmes or schemes conducted by the retailers to inform the customers about their product, services and also about their Retail store." The main motive of Retail communication is to increase the customer base and to increase the sales volume of the company. It also serves as a tool for building the store image. Retail communication has moved on from the time when the retailer alone communicated with the consumers. Examples of this include toll-free numbers, which retailers provide for customer complaints and queries.

1.4.1. Key Functions of Retail Communication:

i. Information: Providing information is a primary function of retail communication. Information should be relevant and it should be given timely. Retailers provide information about themselves and the products or services offered by them. For e.g., Retail stores like Big Bazaar, Reliance fresh advertise their stores and schemes through newspapers and pamphlets.

ii. Persuading: Persuading involves asking people to visit the store and purchase the products. For e.g., distributing discount coupons through newspapers and motivate them to buy products.

iii. Reminding: It involves reminding its customers frequently about its products and services so that customer loyalty increases. This can help in retaining the customers for a long time. For e.g., Introducing new promotional strategies and conducting loyalty programs are a part of this function.

1.4.2. Retail communication Methods:

1.4.2.1. Paid Impersonal Communication:

i. Advertising: Newspapers, Visual Media, Radio etc.,

ii. Sales promotions: Special events, In-store demonstrations.

iii. Store atmosphere: The combination of the store's physical characteristics (architecture, layout, signs and displays, colours, lighting, temperature, sounds, smells) together create an image in the customers' mind.

iv. Website: Retail store website should provide all the information about various products and services offered by them.

v. Community Building: It offers opportunities for customers with similar interests to learn about products and services that support their hobbies and share information with others.

1.4.2.2. Paid Personal Communication:

Retail sales people are the primary vehicle for providing paid personal communication to customers.

i. Personal selling: Sales people satisfy needs through the face-to-face exchange of information.

ii. Email: Retailers inform customers of new merchandise, receipt of order, or when the order has been shipped

iii. Direct Mail

iv. M-Commerce (mobile commerce)

1.4.2.3. Unpaid Impersonal Communication:

i. Publicity: Publicity is the act of attracting the media attention and gaining visibility with the public.

1.4.2.4. Paid Impersonal Communication:

i. Word of Mouth: Word of mouth can be positive as well as negative.

ii. Social Shopping: A communication strategy in which consumers use the internet to engage in the shopping process by exchanging preferences, thoughts, and opinions – Product/service reviews – For e.g., www.plobal.com

1.5. Emerging Trends in Retail:

The emerging trends in retailing in India are as follows:

1. Shift from Unorganized to Organized Retailing: Retailing in India is thoroughly unorganized. There is no supply chain management perspective. The key factors that drive the growth of organized retailing in India are higher disposable incomes, rising urbanization, growing consumerism, nuclear family structure, a growing number of educated and employed women population.

2. Store Design: Irrespective of the format, the biggest challenge for organized retailing is to create an environment that pulls in people and makes them spend more time on shopping, and also increases the amount of impulse shopping.

3. Competition: Competition is increasing between different types of retailers. Discount stores, departmental stores, supermarkets, etc. all compete for the same customers. The small independent retailers survive by providing personal services to the customers.

4. Technology: Technology today has become a competitive tool. It is the technology that helps the organized retailer to score over the unorganized players, giving both cost and service advantages. Technology has also made possible the growth of non-store retailing.

5. Consumer Buying Behaviour: In India, there are no uniform trends with respect to consumer buying behaviour. There are visible differences within the shopping pattern of consumers across income segments. Organized retailing has definitely made headway in the upper class. Organized retail outlets seem to be associated with branded items/special purchases.

6. Entertainment: Modem retail formats provide a place for people to assemble, and a means of entertainment, by providing facilities such as food courts, mini theatre, children's play spaces and, coffee shops. These facilities help the customers enjoy shopping.

1.6. Changing Nature of Retailing:

Retailers are changing their business formats, store designs, modes of communication with customers, and ways of handling commercial dealings.

i. Modern retailers are adapting new technology for marketing, retail operations, and business transactions.
ii. Forward-thinking retailers are using social media to communicate with consumers.
iii. With the space crunch, modern retailers have learned how to use every inch of the floor constructively.
iv. Apart from opening an online retail store, the retailers take the help of Augmented Reality (AR) such as 3D mock-ups to let the customer try the products on themselves.
v. Retailers are working progressively on the delivery of orders that customers placed through online shopping.
vi. Retailers are bringing something new now and then to charm the customers. In those places where the internet is still not accessible, retailers are exploiting the power of mobile phones to advertise their products.

1.7. Modern Retail Formats:

Modern retail formats and store-based formats are one and the same. Each of these stores has an entity of its own to cater to. Let us, now, briefly discuss the following modem retail formats.

1. Department Stores: These are the oldest form of large store concept. It is a multi-level store format usually between 2-5 stories which are segmented into clearly defined areas according to a product category.

2. Variety Stores: This format offers a large variety of goods under one roof, including both food and non-food items. A variety store differs from a departmental store in the product range, store environment, and prices.

3. Supermarkets/Hypermarkets: The success of supermarkets is attributed to the advantage of offering self-service, and therefore the much faster method of shopping and saving time. In addition, space and labour-saving factors allow retailers to offer a wide choice of products at lower prices.

4. Convenience store: A convenience store is a retail outlet that sells a limited range of prepared and ready-to-eat foods, bottled and fountain beverages, household staples etc. Convenience stores are typically small in size, are open for extended hours, and, in most cases, are staffed by a relatively small team of cashiers, stock workers, and managers.

5. Discount Stores: As the name suggests, this retail format's main character is the price of merchandise offered by the store, which is subject to individual customer perception. By and the large discount store is a retailer that sells merchandise at a price level that is lower than the "typical high-street stores". It is customary that the retailer uses the everyday low pricing policy.

6. Catalogue Shops: The basic design is that very less product is displayed in the outlet in comparison to the range as a whole, but informative catalogues are available for customers to browse through if they wish to. Having decided on the product, the payment is made and the customer waits for a while till the desired product is retrieved from the warehouse which is attached to the showroom.

7. Factory Outlet: This type of outlet offers the customer a range of seconds-quality or previous season's stock. The main advantage to the retailer is to push off the unwanted merchandise without damaging the image of the main product or retail brand, which otherwise occupies a large storage space with funds locked in for a long time. On the other hand, the consumer is benefited to access certain brands which might not be affordable to him.

8. Company Owned and Company Operated: These are the type of retail outlets that are run by the manufacturer only. These retail outlets are scattered across the length and breadth of the country. e.g., Bata, Petrol Outlets.

1.8. E-Tailing:

Electronic Retailing(e-tailing): It is a retailing format in which retailers communicate with the customers and offer the products and services for sale through the internet. In this format, Electronic links to suppliers create a virtual inventory and a website creates a virtual storefront. When internet transcripts are light, integrated with a back-end office system, the retailer can provide better services to customers while reducing the cost of operations.

1.8.1. Benefits of E-Tailing:

i. It reduces the space occupied by retail outlets in the real world.

ii. It gives quick and easy access to a shopping space at any time and from any place where there is access to the internet.

iii. It saves time for the customer that is spent on travelling to a shopping place in the real world.

iv. It creates a new platform for goods from different parts of the world which could be imported by placing an order.

2.1. Visual Merchandising:

Visual merchandising is the activity of promoting the sale of goods, especially by their presentation in retail outlets. It is the traditional approach of product display and demonstration.

This includes combining products, environments, and spaces into a stimulating and engaging display to encourage the sale of a product or service. It has become such an important element in retailing that a team effort involving the senior management, architects, merchandising managers, buyers, the visual merchandising director, industrial designers, and staff is needed. Visual merchandising includes window displays, signs, interior displays, cosmetic promotions, and any other special sales promotions taking place.

2.1.1. Definition and Meaning of Visual Merchandising:

"Visual Merchandising is the means to communicate a store's fashion, value, products, and quality message to prospective customers so as to entice them to buy from the store on a sustainable basis." —Gini Frings

2.1.2. Functions of Visual Merchandising:

Following are the major functions of visual merchandising:

1.It is a tool that helps in getting sales and targets.

2.It is a tool that enhances merchandise on the floor.

3.It is a mechanism to communicate to customers and influence customer desires to buy.

4.It uses season based display to introduce new arrivals to customers.

5.It educates them about products/services in an efficient and effective way.

6.It increases conversion through a planned and systematic approach by display available stands.

7.It establishes a creative medium to present merchandise in a 3D environment, thereby enabling long-lasting impacts and recall value.

8.It establishes the organisation in an exclusive mode.

9.It establishes a link between fashion, product design and keeps the product in prime focus.

10.It associates the creative, technical, and operational aspects of a product as well as business.

3. Sales Promotion:

Sales promotion is a direct and instant inducement aimed at an immediate increase in sales. It is also a handy tool for the marketer for unloading accumulated inventory and overcoming seasonal slumps. It is also used to generate trials for new products. In short, it is a direct and immediate incentive for purchase. It involves temporary encouragements to increase the sale of a product/service. It depends on a number of promotional tools intended to motivate a prior customer response. Sales promotion comprises customer promotion (i.e. samples, coupons, rebates, price-off, premiums, contests, demonstrations), trade promotion-buying allowances (free goods, cooperative advertising, and push money), and sales force promotion (bonuses and contests). A well-planned sales promotion can result in publicity.

3.1. Point of Purchase (POP) Displays:

Point-of-purchase is the place where a customer is about to buy a product. Point-of-purchase display refers to how a retailer should display various brands, so that they are most likely to be noticed and purchased by the customers. It is a well-recognized fact that many Indian customers make their final decision with respect to the purchase of a product/brand at the last minute. The point-of-purchase display derives its power out of this phenomenon. The point-of-purchase display not only presents the last-minute reminder but also invites the customers to buy it. Effective display backed by the recommendation of the retailer can do wonders for a brand.

3.2. Point of Sales (POS) Displays:

A Point of Sale display (POS display) is a form of sales promotion in which products are displayed near, next to, or on a transactional purchase area. Point of sale displays is most effective when used to display or promote convenience goods. The rationale behind such displays is to draw consumer's attention to products and encourage them to make an impulse purchase.

Point of sale displays can take many forms, such as:

i. Counter displays
ii. Floor displays
iii. Shelf talkers
iv. Light boxes

Point of sale displays is used to trigger what marketers refer to as "problem recognition response" in consumers. Products on a point of sale display are usually things that are not on a consumer's top-of-mind. Point of sale displays provide a visual exposure to products and helps make consumers realize that they may need that particular product to solve a problem. Point of sale displays capture the consumer's attention and create impulse purchases.

4. Promotional Pricing:

Promotional pricing is a marketing and sales strategy that involves retailers temporarily reducing product prices to catch the attention and interest of customers and to attract them to the store. The essence of promotional pricing is that consumers pay less than the usual price when they buy. When prices are reduced, consumers save money and this makes the promoted products attractive. Reduced prices also increase a consumer's perceived value of a product.

Value is the relationship between the perceived benefits to be derived from using the products and the price of the products, and it can be expressed as:

$$\text{Value} = \frac{\text{Perceived benefits}}{\text{Price}}$$

When the price of a product is reduced, the perceived value increases, making the product more attractive. Therefore, price promotions offer savings and increased value to consumers; they make products more attractive and in turn, entice consumers to make purchases.

4.2. Loyalty Programs:

A loyalty programme is a promoting framework initiated by a business that rewards acquiring conduct and accordingly expanding the client's inclination to remain faithful to the organisation. A customer who regularly shops from an organisation will be rewarded with loyalty points. These points can be redeemed for discount/other prizes when he makes further purchases. As such, it not only retains the customers but also improves the sales. A loyalty programme may offer accommodation store credit prizes or some other advantage that would attract the faithfulness of a client. Customer engagement Organisations all through the country are presently using loyalty programs more regularly than any other time in recent memory. These associations comprehend the significance of holding existing clients and execute a framework coordinated particularly at building client loyalty.

4.2.1. Benefits of Customer Loyalty Programme:

i. Increase in Customer Retention.
ii. Increase in Customer Lifetime Value
iii. Improved client Relation.
iv. Improved company reputation.
v. Great 'Customer Win back' strategy to bring back lost customers.
vi. Great way to encourage customers to move up from their current spend level to a higher spend level.
vii. Allows the flexibility to decide which segment of your client base you wish to spend your marketing budget on.
viii. Loyalty Programmes give you the opportunity to acquire new customers Value Rewards.
ix. Allows laser-targeted marketing based on the valuable segmentation of a loyalty database.

5. Customer Relationship Management (CRM):

Customer relationship management means managing and fulfilling the expectations of the customers via delivering them the best product and services than its competitors in that industry. Effective CRM brings profits to the company and helps in improvements of the overall financial position of the business via continuous profits. Customer relationship management can be measured as to how much a company has brand loyal customers and is it retaining its customers or not. Customer relationship management always demands from the companies to create the values for the customers by delivering them the products and should expect profitable returns in exchange. Customer relationship management is mainly focusing on how the business can retain its existing customers in this competitive environment. The performance of the business will automatically improve if the company does well in customer relationship management.

5.1. Objectives of CRM:

The objectives of CRM are as follows

1. Improves Customer Satisfaction: CRM helps in improving customer satisfaction as the satisfied customers remain loyal to the business and spread good word-of-mouth. This can be accomplished by fostering customer engagement via social networking sites, surveys, and various mobile platforms.

2. Expands the Customer Base: CRM not only manages the existing customers but also creates knowledge for prospective customers who are yet to convert. It helps to create and manage a huge customer base that fosters profit continuity, even for a seasonal business.

3. Enhances Business Sales: CRM methods can be used to strike more deals, increase sales, improve forecast accuracy and suggestive selling. CRM creates new sales opportunities and thus helps in increasing business revenue.

4. Improves Workforce Productivity: An effective CRM system can create organized manners of working for the sales and sales management staff of a business. The sales staff can view customer's contact information, follow up via email or social media, manage tasks, and track the sales person's performance. The sales persons can address the customer inquiries speedily and resolve their problems.

Short Answer Questions

1. What is Advertising?
2. What is Retail Communication?

3. What is Visual Merchandising?
4. What is CRM?
5. What is POP?
6. What is POS?

Long Answer Questions

1. Write the importance of Advertising?
2. Explain the Elements of Marketing Mix (7Ps)?
3. Write about the Modern Retail Formats?
4. Explain the objectives of CRM?

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Unit - III

STORE LAYOUT AND DESIGN

Structure

- Introduction
- Store Layout
- Types of Retail Location
- Types of Retail Layouts
- Design Decision
- Functions of Retail Store Associate
- Purpose of Store Layout
- Objectives of Store Design
- Process of Store Design

1. Introduction:

Store layout and design serve the most primary level of communication needs with the customer. The stores are the place where all retailing activities come together. It is the first level of physical contact with the customer, before the customer makes an actual purchase decision whether to buy from the retail firm or the retailers' private brand or other known brands. The store represents the best opportunity for the retail firm for developing a meaningful dialogue with its customers. This is the place where sales happen or fail to happen. The store has two primary roles viz. i) to create a proper store image and ii) to increase the productivity of the sales space. These two basic roles provide a clear path to the retail firm and the way it should go about planning the store layout and design.

2. Store Layout:

A store layout is a design in which a store's interior is set up. The store layout is well thought out to provide the best exposure possible. It is designed to create an attractive image for consumers. It describes the overall look and feel of the interior of a retail store, including the placement of fixtures and products within the store. Effective layouts are designed to utilise the maximum space to expose most products to the customers.

Store layouts generally show the size and location of each department, any permanent structures, fixture locations and customer traffic patterns. Each floor plan and store layout will depend on the type of products sold, the building location and, how much the business can afford to put into the overall store design.

3. Types of Retail Locations:

Retail locations are available in many different forms, and each one has its advantage and disadvantages. There are many factors that impact choosing a retail location, and selecting the right one will depend on the retailer's business, budget, and community.

1. Mall Space: A mall has many retailers competing with each other under one roof. In a mall, there are generally three to five large chain stores and dozens of smaller retail shops.

The advantages of the mall are less advertising needed for customers to find the store and anchor of community shopping. Disadvantages are immediate competition from other stores and higher rent than other retail locations.

2. Shopping Centres: Strip malls and other attached or adjoining retail locations may have as few as three units or as many as 20. The types of retailers and the goods or services they offer will also vary.

Advantages of shopping centres are high visibility from the street and lower rent than malls. Disadvantages are less foot traffic and lack of modern facilities and updates

3. Downtown Area: Many communities are hard at work to revitalize their downtown areas, and retailers can benefit from this effort. Customers often find many older, well-established retailers in a downtown area. Because space is usually limited, these locations are often good choices for smaller or specialty stores.

The advantages of these locations are - attractive to younger customers who prefer urban living and more freedom/fewer rules for business owners. Disadvantages are - limited customer parking, high rent, and limited ability to expand/adapt space.

4. Free Standing Retail Locations: This type of retail location is any stand-alone building. It can be tucked away in a neighbourhood or right off a busy highway. Free-standing locations come in many sizes and can be appropriate for any type of retail business.

The advantages of these locations are few or no restrictions from landlords and limited immediate competition. Disadvantages of these locations are lack of foot traffic and require regular marketing to attract customers.

5. Business Parks: An office building, or a business park where many office buildings are grouped together, is similar to a strip mall or outdoor retail centre. These are often good options for a retailer whose customers are other businesses.

Advantages of business parks are - tenants share maintenance costs, buildings have an classy and professional appearance. Disadvantages are - lack of foot traffic and corporate feel less suited to B2C businesses.

6. Home-based Retail Stores: Millions of retail businesses start in their owners' homes. Some may eventually move to a commercial store location, while many remain in the business owner's spare room, especially if the business primarily operates online or works with distributors.

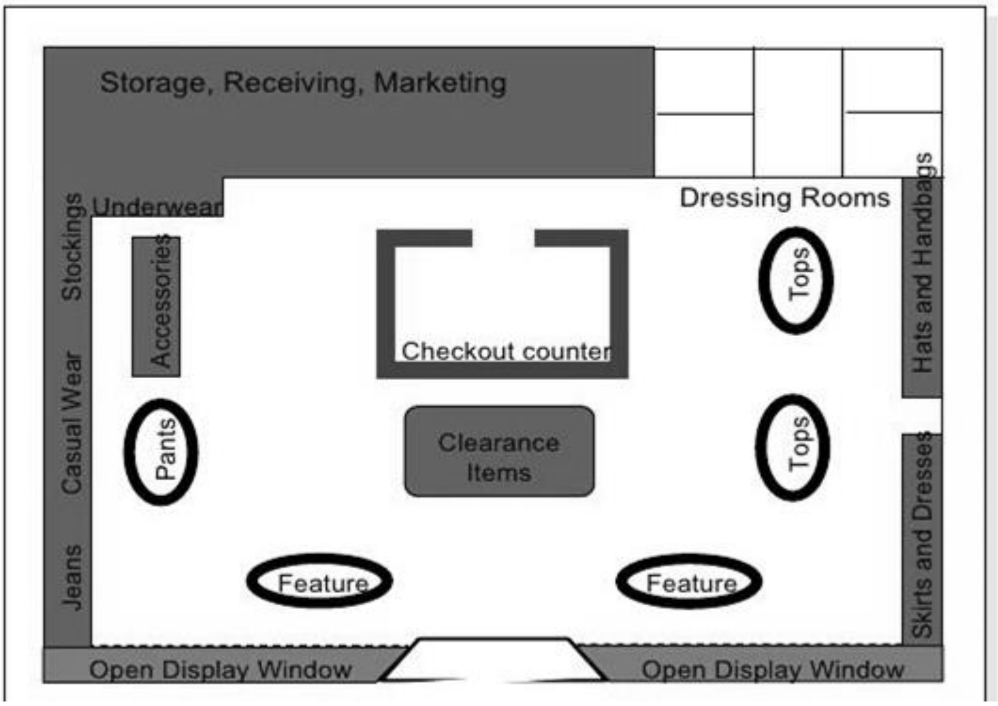
The advantages of these stores are inexpensive to start and flexibility/ balancing work and family life. Disadvantages are - regulations can restrict the use of space, accessory structures and lack of parking, etc.,

3.1. Types of Retail Layouts:

There are four basic types of layout –the free flow, grid, loop, and spine. Let us learn them in detail.

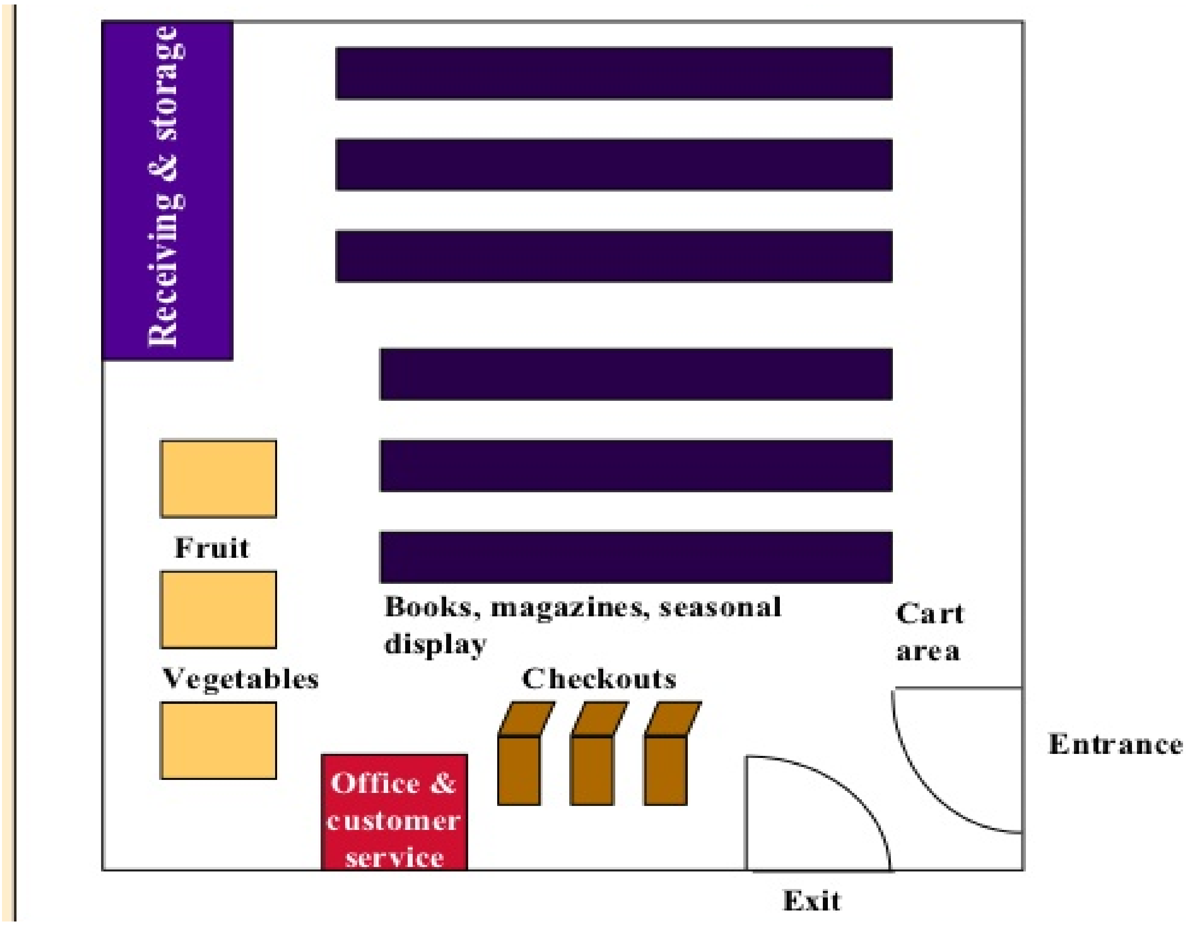
1. Free Flow Layout: This is a very common type of layout used by small stores which sell a single product category like ladies wear or men's wear or kid's wear or furniture or purses etc. In this kind of layout, the fixtures and merchandise are grouped into free-flowing patterns. Since, it being a single product category store, the customers are encouraged to move freely from one part of the store to another browsing through different merchandise and trying to spend time understanding the product details. If there is more than one product category of merchandise on display, then this type of layout is not the right one.

1.FREE FLOW LAY OUT



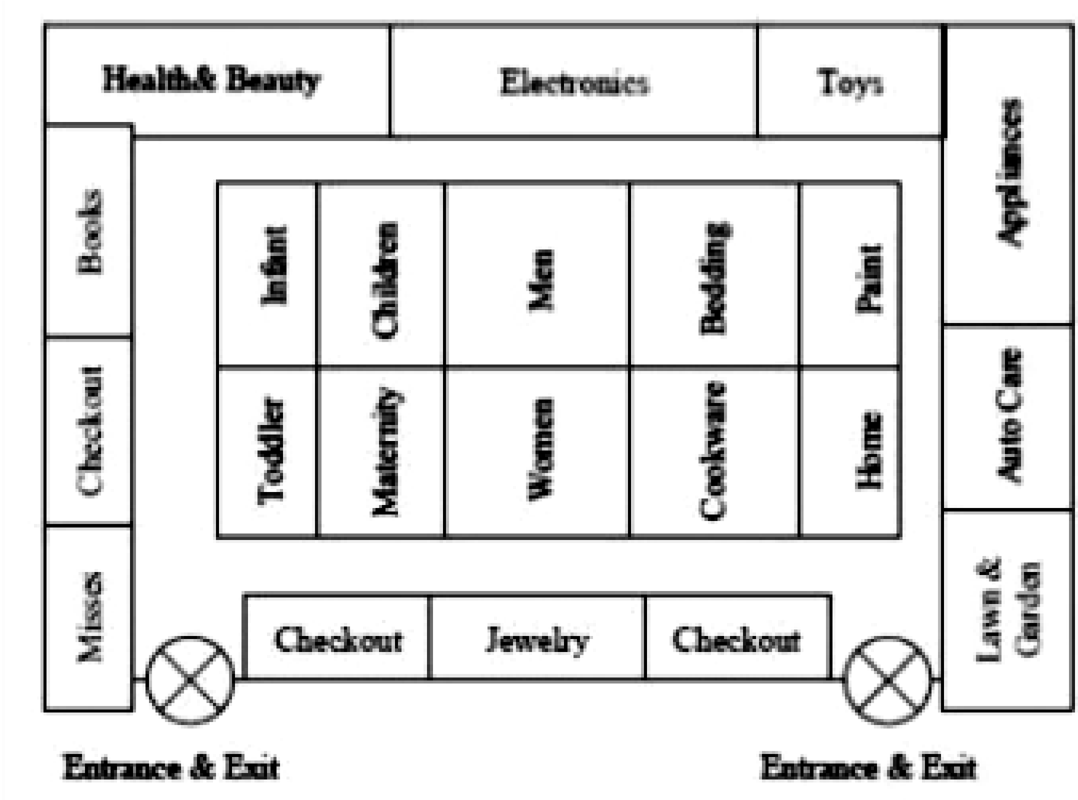
2. Grid Layout: This type of layout is common in supermarkets, drug stores and, convenience stores. In this layout, the fixtures and counters are laid in long rows. Customers move through one row of fixtures and counters and enter into another row of counters/fixtures from the adjacent point. The customer is expected to move in one direction when moving between the rows of counters/fixtures and understandably not to turn back. 1There are other customers either moving downward from the opposite point or queuing behind for moving upward in the front direction. Thus, customers enter from one point and move out from the opposite point and enter into the next row of merchandise from the adjacent entry point.

GRID LAYOUT



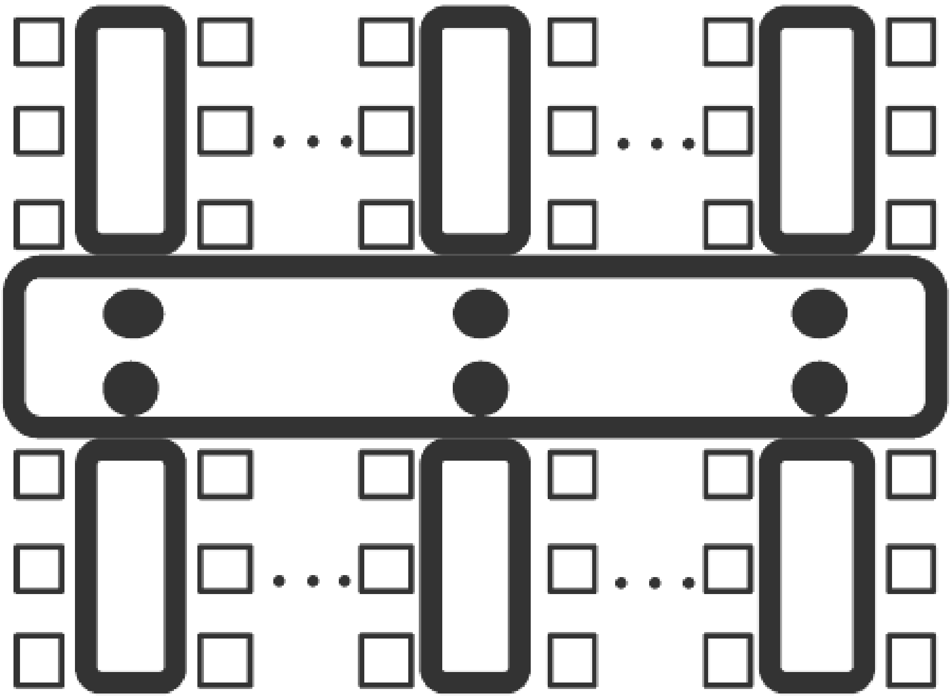
3. Loop-line Layout: This type of layout is very popular among departmental stores. It is also called a race track as it circles or covers the whole store's perimeter. The loop layout is considered a very effective layout for increasing the productivity of the space. It starts from the front door or entrance of the store which is the main aisle then loops through the entire internal perimeter of the store which is either in the form of a circle or rectangle or square and then ends at the front of the store (that is the exit door next to the entrance door). The important benefit of this layout system is that it exposes the customers to the largest possible amount of merchandise.

RACE TRACK / LOOP LINE LAYOUT



4. Spine Layout: The spine layout tries to combine the advantages of the free flow layout, the grid layout and the loop layout in a certain way. In this layout there is a single aisle which takes the customers from the main entrance to the back of the store and the same aisle, is used to bring back customers to the front. On the left and right side of the main aisle there are other departments and sections that branch off toward the backside or sidewalls. And, within each of these departments, the merchandise is laid out in the free flow or grid or loop layout depending upon the type of merchandise and the fixtures used.

SPINE LAYOUT



3.2. Purpose of Store Layout:

1. Customer flow: One of the main purposes of the layout is undoubtedly to create smooth customer flow through the store. Creating smooth (customer) flow is necessary for stores that have a high frequency of customer visits. Well-organised routing and sufficiently wide aisles can achieve this.

2. Prevention: The layout also has a preventive task. The more poorly organised a store, the more opportunities for shoplifters to take advantage of the unclear situation. When developing the layout, precautions can be taken that make it more difficult for shoplifters to steal goods.

3. Logistics: The merchandiser wants to keep logistics under control. Studies show that the so-called 'final 50 yards' are the highest cost item of the logistics chain. This is where the turnover rate is highest and so are the proportionally increasing staffing costs. A good layout cannot completely reduce these costs, but it can make them more controllable. Short supply routes, wide aisles where necessary, and adjusting the warehouse build-up to the store are important factors that can result in an improvement of the cost structure.

4. Other functions: Naturally, a good layout has other purposes as well. In accordance with the principle that 'first impressions count', the layout can either attract customers or put them off. A layout can provide solutions or it can complicate matters. A logical product layout will help customers make a decision to purchase, whereas an illogical order creates confusion and dissatisfaction.

3.3. Functions of Retail Store Associate:

Retail Store Associates are responsible for providing an exceptional shopping experience for each and every customer and in assisting the Store Manager with the daily operations:

1. Follow standard operating procedures and complete all tasks as assigned by the Store Manager.
2. Maintain cleanliness of the store and replenish merchandise as it is sold.
3. Educate self on new product features and benefits if not part of sales training.
4. Acknowledge all customers and be attentive.
5. Interact with customers by assisting them in locating products, demonstrating product features and benefits where applicable, and offering suggestions and alternatives.
6. Strategies with Store Manager to meet sales targets.
7. Assist Associates and Customers with checkout to ensure fast and accurate service with a high-touch factor.
8. Maintain the proper display of products ensuring their compliance with the store's image and quality standards.
9. Report pricing discrepancies and loss and/or damage of products to the Store Manager.
10. Provide ongoing updates to the Store Manager regarding customer feedback and complaints.
11. Attend sales training meetings.

4. Store Design:

The store design is an important element as it helps in creating a distinctive and memorable store image. It includes both the interior and exterior of the store. The interior of the store design will include store wall, ceiling, and flooring along with the surface finishing on these structural elements. The exterior includes the store signage, storefront, and entrance to the store. These are the first visible images that will help to attract the passing shoppers and induce them to enter the store. Thus, these factors are very important in a store design.

4.1. Objectives of Store Design:

Objectives of store design are as follows:

1. Implement the retailer’s strategy
2. Influence the customer buying behaviour
3. Provide flexibility
4. Control design and maintenance costs
5. Meet legal requirements

4.2. Process of Store Design:

Attractiveness is an important factor in the retail business; how the store space looks and feels can maximize or reduce sales. A store should be designed and decorated with the customer experience at the forefront. Large retail chains that adhere to consistent branding throughout each store often have an easier time with the interior-design process than independent retailers because the design carries from store to store without much variation.

1. Initial Concept and Design Development: The interior-design process for retail has two distinct elements viz., store design and store layout. Design deals with the atmosphere, image, and look of the store including the storefront or exterior. The concept of the store must be fleshed out in this phase of the design, when colour schemes, materials, sources, and trends factor into the overall look. The issue of the layout is concerned with the actual placement and arrangement of goods to maximize the shopping experience and use space wisely. A free-form pattern of space permits flexibility and frequent changes and this use of space does not compel shoppers to follow predetermined paths.

2. Budgeting: The retail chain's finance department must draw up a budget for the interior design of all its stores, after which the purchasing agent authorizes the funds for the design project. During this phase, the design team or buyer will purchase materials, fabrics, lighting fixtures, flooring, carpeting, and any other textile necessary to complete the new look. Once the details are finalised, a pilot store is typically chosen in a specific test market.

3. Construction: Any modification of the retail store's space, such as new shelving, counters, or displays must be constructed and installed. This process may involve demolition or widening of aisles to improve the flow of store traffic. Ceilings may be painted or dropped, depending on the design. If glass, mirrors, chrome, or wood are to be affixed to the walls, it is done in this phase. New floors are laid as desired and should ideally be done prior to the installation of fabrics or soft materials.

4. Accessories, Fixtures, and Fabric Installation: When the dust has settled, the design team will install fabrics, trim, lighting, or other accessories as dictated by the design brief. All the fabric and colour choices come together in this phase. A high-end women's retail chain might have thick, luxurious carpeting and chandeliers to illuminate the selling area; whereas, a hardware store may opt for a rugged, more utilitarian look for its retail chain.

5. Test Pilot Implementation and Rollout: After the initial test store is completed, the rollout and testing phase begins. The store is opened to the public and the layout and design are tested for consumer response. Market research may be implemented to measure consumer behaviour and reaction to space, lighting, and furniture. If any changes are made, they are made in this stage, prior to implementing the new interior design to the other stores in the retail chain.

Short answer questions

1. What is the store layout?
2. What is store design?
3. What are business parks?
4. What are the objectives of store layout?
5. Mention the types of retail layouts.

Long answer questions

1. Explain the types of retail locations?
2. Explain the different types of retail layout?
3. Narrate the purpose of the store layout.
4. Describe the functions of a retail store associate.
5. Elucidate the process of store design.

Unit - IV

BUYER BEHAVIOUR

Structure:

- Concept
- Classification of Buyers
- Buying Motives
- Factors Influencing Purchase of a Product
- Buyer Shopping Behaviour

1. Concept:

Buyer's behaviour is a comparatively new field of study. It is the attempt to understand and predict human actions in the buying role. It has assumed growing importance under market-oriented or customer-oriented marketing planning and management.

Buyers behaviour is defined as "all psychological, social and physical behaviour of potential customer as they become aware of, evaluate, purchase, consume, and tell others about products and services". Buyer behaviour is the driving force behind any marketing process. Understanding why and how people decide to purchase this or that product or why they are so loyal to one particular brand is the number one task for companies that strive for improving their business model and acquiring more customers. Each element of this definition is important:

1. Buyer's behaviour involves both individual (psychological) processes and group (social) processes.
2. Buyer behaviour is reflected from awareness right through post-purchase evaluation indicating satisfaction or non-satisfaction, from purchases.
3. Buyer's behaviour includes communication, purchasing and consumption.
4. Consumer behaviour is basically social in nature. Hence, the social environment plays an important role in shaping buyer behaviour.
5. Buyer behaviour includes both consumer and industrial buyer behaviour.

2. Classification of Buyers:

Buyers are classified into different categories depending on where they are present within the distribution chain. Different buyers are given different prices and discounts based on this fact. There are five types of buying behaviour. Each group's reasons for buying are different hence the strategy must be accordingly modified to suit their needs. The five types are as under:

1. Innovators: The smallest group of buyers. They love experimenting and buying anything new within the market place. They are very much exposed to new ideas and technology and are guided by a high level of self-confidence. If the product manages to tempt the innovators, they are sold. They inspire others to buy if they like the product.

2. Adopters: Adopters are the trend-setters and they set trends and examples by their decision of product. They are not risk-taking like the innovators and try the new products only if it brings a significant change in their life or improves their business. Hence they try out the products only after proper consultation and understanding the benefits related to it.

3. Early Majority: An early majority could be a group of individuals who are slower to undertake new things than the innovators and adopters and are inspired by them. They are not very technology-driven and are more practical in their approach to purchasing new things. They are very careful of the continuation and reputation of the company which manufactures the product.

4. Late Majority: This group makes its purchases very late within the buying process. By then, mostly the early adopters and the innovators already move to other products. The late majority of people wait for the product to be universally accepted. They are mostly price-sensitive people who wait for the prices to fall. They depend on mass media for purchasing.

5. Laggards or Excessive Traditionalists: Laggards wait for the products to become an absolute need. They purchase the products when the other groups consider the similar product obsolete. They are the zero risk-takers. The laggards do not need a marketing campaign.

3. Buying Motives:

Buying motive is the motive to persuade the desires of people so that they buy a particular good or service. Buying motive relates to the feelings and emotions of people which generates an impulse to purchase. Any person does not buy a product or service just because of an excellent salesman campaign but also due to the desire generated within him towards the product or service.

3.1. Importance of buying motive:

Understanding the buying motive of a customer is essential for a company as it helps the company to target the customer better. It means that the customer requires a particular product to fulfil a certain need. No matter how good a product is or how good the marketing is, unless the customer has a need, it would not matter. This makes buying motive extremely important in business.

Motives and instincts are completely different keywords. Motives are voluntary acts such that a particular stimulus will take place whereas instincts are the involuntary and generally inborn quality of a person. Ex: Thirst is an instinct but aspiration to buy a bottle of mineral water to quench thirst is a motive.

3.2. Types of buying motives:

They can be categorized as follows:

1) Product Buying Motives

2) Patronage Buying Motives

1. Product Buying Motives: These are the factors or characteristics of a product that persuade a person to purchase only that product instead of other products available in the market. The factors can be physical appearance like design, size, colour, price, shape, etc. or can be psychological features like status, desire to reduce danger, etc. They are divided into two categories viz., Emotional product and Rational product.

i. Emotional Product: If a person purchases a product without thinking much rationally (i.e. with less reasoning) then he or she is said to be persuaded by emotional product buying motives. There are around ten kinds of this type: prestige, imitation, affection, comfort, ambition, distinctiveness, pleasure, hunger and thirst, habit.

ii. Rational Product: If a person purchases a product after thinking rationally (i.e. logically deciding) then he or she is said to be persuaded by rational product buying motives. There are around eight kinds of this type: security, economy, low price, suitability, utility, durability, convenience.

2. Patronage Buying Motives: These are the factors or characteristics that influence a person to purchase a product from a particular shop instead of purchasing from other shops selling the same product. It can be divided into two categories. They are Emotional patronage and Rational patronage

i. Emotional Patronage: If a person purchases a product from a particular shop without thinking much about other shops, then he or she is said to have persuaded by emotional patronage buying motives. There are around six kinds of emotional patronage buying motives they are - ambiance of shop, a showcase of products, recommendations by others, prestige, habit, imitation.

ii. Rational Patronage: If a person purchases a product from a shop after complete analysis and reasoning then he or she is said to be persuaded by rational patronage buying motives. There are around eight rational patronage buying motives they are convenient, low price, credit availability, more services, the efficiency of the seller, wide variety, treatment, reputation.

4. Factors Influencing Purchase of a Product:

Consumer buying behaviour refers to the selection, purchase and consumption of goods and services for the satisfaction of their wants. There are different processes involved in consumer behaviour. Many factors, specificities and characteristics influence the individual in what he is and the consumer in his decision-making process, shopping habits, purchasing behaviour, the brands he buys or the retailers he goes to.

Important factors that influence the buying decision

1. Economic Factor: The most important and first on this list is the Economic Factor. This one is the main foundation of any purchasing decision. The reason is simple people cannot buy what they cannot afford. The need for a product also doesn't play a role here, but the most important thing is affordability.

2. Functional Factor: The factor is totally about needs, backed by a logic that creates sense and also fits in the best interest of the customer. This factor also plays a very important role in the buying decision.

3. Marketing Mix Factors: There are four components in the marketing mix, i.e. product, pricing, promotion and place of distribution and each of these components have a direct or indirect impact on the buying process of the consumers. Consumers consider various things just like the characteristics of the product, the price charged, availability of the product at the required location and much more.

4. Personal Factors: The personal factors include age, occupation, lifestyle, social and economic status and the gender of the consumer. These factors can individually or collectively affect the buying decisions of the consumers.

5. Psychological Factor: When it comes to psychological factors there are four important things affecting the consumer buying behaviour, i.e. perception, motivation, learning, beliefs and attitudes.

6. Social Factors: Social factors include reference groups, family, and social status. These factors too affect the buying behaviour of the consumer. These factors in turn reflect an endless and vigorous inflow through which people learn different values of consumption.

7. Cultural Factors: Cultural factors have a subtle influence on a consumer's purchasing decision process. Since each individual lives in a complex social and cultural environment, the different kinds of products or services they intend to use can be directly or indirectly be influenced by the overall cultural context in which they live and grow. These Cultural factors include race and religion, tradition, caste and moral values.

5. Buyer Shopping Behaviour:

Customer buying behaviour patterns are not permanently fixed, and certainly not sacred, even though some habits tenaciously resist change, many factors are operating in combination to change customer food-buying behaviour patterns. Among these are the automobile, the supermarket and self-service, the progress in the development and merchandising or frozen foods, prepared flour mixes, brown-and-serve baked goods, and concentrated fresh milk; the increasing availability of suitable facilities in the customer's home for preserving these and other highly perishable raw and prepared foods; and the public's receptive disposition to easier and less time-consuming ways of living. Similar and perhaps even more pronounced changes are affecting customer buying behaviour patterns of non-food commodities. Customer buying behaviour patterns can be grouped into:

1. Place of purchase
2. Items purchased
3. Time and frequency of purchase
4. Method of purchase
5. Response to sales promotion devices

1. Place of Purchase: In general, customers divide their purchases among a number of stores. They shop in more them one department store and in many specialty stores. Even in buying food, there is a division of purchases. Many customers do not buy their meat or fresh fruits and vegetables where they buy their dry groceries, although all these goods may be available in the same store. The specialty food store, the milkman, the produce huckster, and the 'hole-in-the-wall' are getting a share of the total food business.

2. Items Purchased: Every customer purchases and every store sale consists of a transfer of one or more specific commodities. No one customer purchases all the different items for sale in a store. Over a period of time, a customer will purchase a substantial selection of the total items available in the store. But that selection will vary somewhat with each customer. Therefore, in studying customer buying behaviour patterns it is necessary to ascertain -

i. what items

ii. How much of each item customer purchases.

3. Time and Frequency of Purchase: Store operations must be geared to match with the customers' time of purchase pattern. Merchandisers must keep up a schedule with it. Merchandise must be available in the store. Inadequate supply and non-availability when required should be avoided if maximum sales are to be achieved.

4. Method of Purchase: Whether a customer buys on a cash and carry or on a charge and delivery basis, whether a customer shops alone or is accompanied by someone else, and whether a customer walks or rides to the store are some of the elements in the method of purchase.

5. Response to Sales Promotion Devices: Those who have goods to sell use many devices to induce consumption and to promote the purchase of these goods. The sales promotional devices used in stores can be grouped under the following headings:

i. Displays

ii. Pricing

iii. Demonstration

iv. Sales talks.

Short answer questions

1. Define buyers behaviour?
2. What are the importance of buying motive?
3. What is buying motive?
4. What is consumer buying behaviour?

Long answer questions?

1. Write the classifications of buyers?
2. Write the types of buying motives?
3. Write the important factors that influence the buying decision?
4. Write the buyer shopping behaviour?

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Unit - V

BUSINESS COMMUNICATION

Structure:

- Introduction
- Importance of Communication
- Communication Cycle
- Principles of Communication
- Forms of Communication
- Communication Equipment
- Barriers in Communication
- Methods Overcoming Barriers
- Essential Skills for Communication

1. Introduction:

Business communication skills are very important for the success of any organisation despite its size, geographical location, and its mission. Business communication is interlinked with the internal culture and external image of any organisation. So, it is the determining factor inside the organisation. Good Business communication practices assist the organisation in achieving its goal of informing, persuading, favourable relationships, and organisational goodwill. The success of any business, to a large extent, depends on efficient and effective communication. It takes place among business entities, in market and market places, within organisations, and between various groups of employees, owners and employees, buyers and sellers, service providers and customers, salespersons and prospects, and also between people within the organisation and the press persons. In any organisation, the main problem is of maintaining an effective communication process. The management problem generally results in poor communication. Serious mistakes are made because orders are misunderstood.

Definition of Business Communication: "Administrative communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting actions which will accomplish organisational goals." - William G. Scott

2. Importance of Business Communication:

Business communication occurs between two or more parties to exchange business-related information. The importance of business communication is discussed below:

1. Exchanging information: Communication is mainly the exchange of information between two or more parties. Through proper communication, organisations exchange information with internal and external parties. Communication also brings energy to organisational activities and helps in achieving goals.

2. Preparing plans and policies: Communication helps in preparing organisational plans and policies. Realistic plans and policies require adequate and relevant information. The managers collect the required information from reliable sources through communication.

3. Execution of plans and policies: For the timely implementation of plans and policies, managers must circulate those in the whole organisation. In order to circulate the plans and policies to the internal and external parties, managers depend on communication.

4. Increasing employee efficiency: Communication also helps in increasing the efficiency of employees. With the help of communication, organisational objectives, plans, policies, rules, and other complex matters explain to the employees that expand their knowledge and thus help them to be efficient.

5. Achieving goals: Effective communication helps the employees at all levels to be conscious and attentive. It ensures the timely accomplishment of jobs and easy achievement of goals.

6. Solving problems: Through various communication channels, the managers can be informed of various routine and non-time problems of the organisation and accordingly they take the necessary actions of steps to solve the problems.

7. Making decisions: Well-timed decisions require updated information. Through effective communication, managers can collect information from different corners and make the right decisions.

8. Improving industrial relation: Industrial relation is the relation between workers and management in the work place. Good industrial relation is always desired for business success. Communication plays an important role in creating and maintaining good industrial relations.

9. Publicity of goods and services: In the modern age, business is becoming highly competitive. Almost every competing manufacturer produces products of common consumption. However, all of them cannot sell equally well. The organisation that can communicate better, can also sell better.

10. Removing controversies: Effective communication allows the smooth flow of information among various parties involved in the negotiation or transaction. As a result, conflicts, controversies, and disagreements can be resolved easily.

11. Enhancing employee satisfaction: If there is a free and fair flow of information in the organisation, it will certainly bring mutual understanding between management and workers. Such understanding enhances the satisfaction of employees.

3. Communication Cycle:

Communication is understood and acted upon at different degrees of effectiveness. Communication is effective when the experience of both the communicator and receiver is satisfying and the goal of the interaction is achieved and vice-versa. Therefore, communication should be simple, clear, accurate, and precise. To understand the communication process better we need to familiarize ourselves with the communication cycle.

The communication cycle in essence is the process of communication. The "sender" "encodes" the message into words and sends the coded message as he/she speaks or writes the "message" out. Messages are conveyed through channels including telephone, videoconferencing, letters, emails, meetings, memos, records, and reports. It is then "decoded" by the "receiver" by hearing or reading the message in order to understand what the sender wants to convey.

Communication has three important parts. They are transmitting, listening and feedback. The sender is transmitting the messages through one medium or another. The receiver listens to the messages and then conveys his understanding of the message to the sender in the form of feedback to complete the communication cycle.

4. Principles of Communication:

There are 7 C's of effective communication which is applicable to both written as well as oral communication.

1. Clarity: The writing should be correctly planned and expressed in a logical way and the writer should make sure that the ideas flow smoothly from beginning to end. The message must be so clear that even the dullest man in the world should readily understand it. The communicator must be very clear about all the aspects of the idea in his mind and about the purpose for which it is to be communicated. Clarity of written language is the first and foremost emphasis one should seek in writing. So clarity of language is a form of courtesy.

Clarity, therefore, can be achieved in writing by taking pains by writing to serve the purpose rather than to impress readers.

2. Completeness: Completeness is an essential factor for effective communication. A message must be organized appropriately in the sense that it must include all the important ideas and details. The contents of the message must be checked in order to verify that there is no omission of the relevant details. An incomplete message can do little to convey the information and persuade the receiver. All the aspects of the message must be grouped and brought together in a logical sequence to prepare meaningful thought-units. The communicator’s effort can be more fruitful and effective if the receiver easily reacts to the sender’s message. The incomplete messages may create doubts in the receiver’s mind.

3. Coherence: Coherency is equally essential for good written communication. Clear communication in simple sentences helps the reader to understand. Facts and figures must be stated plainly and in an intelligent manner. Relation and clarity are the two important aspects of coherence. Coherence means, tying together several ideas, under one main topic in any paragraph. Smooth flow, clarity, and transition aspects should be given effect to and there should not be any scope for the reader to misinterpret, misread or misspell the message.

4. Conciseness: Conciseness means saying all that needs to be said and no more. The aimless verbiage, unnecessary details, and heavy paragraphs make the communication ridiculous and ineffective. The communicator must omit those words and sentences from his/her message, which are not likely to bring about results. The message, which can be expressed in fewer words, is more impressive and effective than the same message expressed in a number of words. The communicator must organise his message in such a way that every word in it is meaningful and of interest to the receiver. Conciseness refers to thoughts expressed in the fewest words consistent with writing.

5. Credibility: A good writing is always forceful and direct and has the power and capacity to produce a reaction or desired effect. The clarity in writing brings about credibility because it ensures that others understand the message easily and quickly. A clear and direct approach in writing makes it possible to achieve the principle of credibility in the communicator’s writing. Other essentials of writing like correctness and completeness add to the strength of credibility in the writing.

6. Correctness: Without correctness, readers may refuse the communicator’s write-up. Communication must be correct in tone and style of expression, spelling, grammar, format, contents, statistical information; stress-unstressed, etc. there should not be any inaccurate statements in the message. Efforts must be made to avoid errors in spellings, punctuations, etc. the incorrectly written documents lower the readers' confidence in the writer. In the same way, the incorrect statements and other miscellaneous errors of the speaker lower the listeners' confidence in him and it may tarnish his image and reliability too.

7. Continuity: As far as possible the writer should avoid jargon. Jargon is a language that is special to science, commerce, technology, trade, and profession. In writing, the jargon should not be incorporated as this could make the writing confusing and unclear. Conciseness or the use of fewer words brings about continuity and grace in the communicator's writing. The effect of good writing depends on its style and continuity of subject till the conclusion. If one takes care to be precise, correct, and clear in writing and if the continuity is maintained throughout the writing, the desired effect from the reader is achieved.

5. Forms of Communication:

The method or way of conveying and exchanging one's ideas, opinions, and emotions is known as communication. Keeping in view the objects and utility of the messages, different modes are used in conveying the message. The different media used in communication may be classified as follows.

1. Verbal Communication: Communication through spoken and written words is known as verbal communication. In other words, when a message is transmitted by the sender to the receiver with the help of words spoken or written, it is called verbal communication. The process of communication involves the use of a common set of symbols between the sender and the recipient. Words are the most accurate and powerful set of symbols. Therefore, most of the communication takes place through words. Verbal communication can be of two types

i. Oral Communication ii. Written Communication

i. Oral Communication: When communication is done by words spoken, it is called oral communication. In this type of communication, the exchange of opinions is done through a face-to-face communication or through some mechanical device. Oral communication takes place in different ways such as personal talks, speeches, interviews, seminars, telephone talks, etc. In oral communication, the receiver also comes to know the body language of the sender. If the receiver cannot understand the messages, he can also get clarified at once from the sender. Oral communication is speedy, saves time, provides immediate feedback, and provides better understanding by removing doubts and fears.

ii. Written Communication: Exchange of messages in written or printed form is known as written communication. This type of communication takes place in different ways such as letters, memos, reports, notices, magazines, etc. It needs utmost care while preparing the written message. The choice of words should be done carefully. Written communication and the words should be such so as to convey a specific meaning. In the modern age, the need and importance of written communication are increasing day by day.

2. Non-Verbal Communication: Any communication without the use of words is known as non-verbal communication. It is a process of communication in which the transmission of messages is done through facial expressions, body posture, eye contact, appearance, silence. By using non-verbal communication, a person can express his feeling to other quickly and economically. Shaking the head, smiling, clapping, raising hands, etc. communicate much more than words. While communicating it should be remembered that the way of speaking is as important as what the communicator speaks.

Non-verbal communication can be classified as follows:

i. Body language or kinesics: The study of messages conveyed by body movements is known as body language. Just as language uses symbols to convey messages, our body movements convey messages such as rubbing the nose for feeling tense, putting the hand on the forehead for distress, raising hand by traffic policeman to stop the traffic etc., are the examples of body language. Body language helps to complete verbal communication. A man may pay with words but his body movements speak the truth.

ii. Sign Language: It is a method in which different signs, pictures, signals, colours are used to convey the message. Signs can be of two types: audio signs and visual signs.

Audio signs include buzzers, electric bells, sirens, hooters, etc. which produce different sounds to convey the messages. Visual signs such as posters, cartoons, pictures, colours, etc. are used to convey messages for general information and education. People all over the world recognise the traffic lights red, yellow and green. The symbols of two crossed bones below a skull mean danger.

iii. Paralanguage: In the paralanguage, tone of voice, pitch, rhythm, volume, break a sentence, etc. are used to convey the messages. In paralanguage, we examine the sound of someone’s speaking. Voice tells us so much about the speaker’s sex, background, education, and temperament. Clearer the voice the more effective will be the communication. In the same way, stress on different words changes the meaning of messages every time. For example, in the sentence ‘you may go’ if stress is laid on the word go then it shows anger. With the help of paralanguage mental situation of a person can be studied easily.

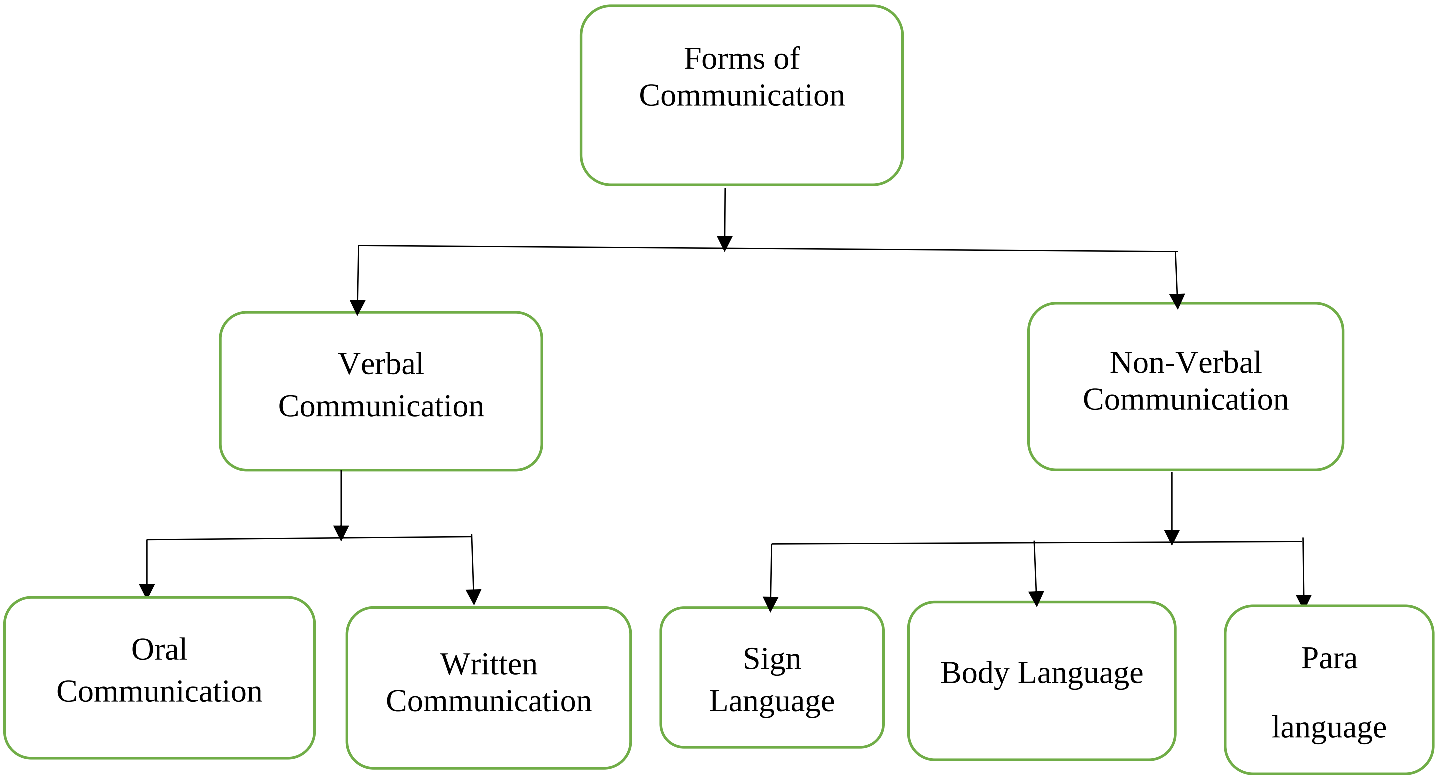

Figure: Forms of communication

6. Communication Equipment:

Communication equipment is a device that aids in the communication process between individuals. They have shot up in recent decades to the extent that society is spoilt with choices in the way that send and receive information. These days, communications are mainly run by software. However, the hardware still remains relatively important. Communication equipment exists in various forms, each with its own operational way and usage. The following are the different types of communication equipment.

1. Automated Voice Answering Systems: They are basically answering machines that receive messages and provide the requested information. They are largely used by large companies who receive large volumes of customer calls regarding their service. Answering systems also help to prevent human error and decrease the workload of call centre employees. In this way, the employees can also utilise the time used to answer calls more and perform more important tasks.

2. Intercom: Intercom is another type of communication equipment. It has fixed microphone units that are connected to a centrally located control device. The device provides the aid for an individual to communicate the message to a large audience in a large area. For example, a supervisor making an organisational-wide announcement can use the intercom to do so for convenience and transmission of the message to his subordinates. It can either be wireless or hand-wired; some even use transmission via radiofrequency. Some examples of intercom users are television stations, communication facilities, and power plants.

3. Telephone: A telephone is a machine that converts sound signals into a type that other telephone devices can convert into perceptible sound. This permits two individuals to converse with one another from a distance. Similar to intercoms, telephones can be wireless or wired, digital or analog. There are varieties of accessories like the answering machine and headsets. They are to augment the capabilities of the telephone.

4. Radio: In the radio communication system the information flows with the help of a radio. A radio communication system works with the aid of a transmitter and a receiver both equipped with an antenna. The transmitter with the help of an antenna produces signals which are carried through a radio carrier wave. The receiver also with the help of an antenna receives the signal. Some information is unwanted and must be discarded and hence the electronic filters help in the separation of radio signals from other unwanted signals which are further amplified to an optimum level. Finally, the signals are decoded in the information that can be easily understood by the individuals and respond accordingly.

5. Computers: Computer has now become an important and rapidly expanding medium of communication, as it offers the possibility of faster communication, and e-commerce through e-mail, e-forums, searchable databases, commercial educational websites, etc.

6. Mobile phone: The mobile phone also known as a cell phone is a device that can make and receive telephone calls over a radio link whilst moving around a wide geographic area. It does so by connecting to a cellular network provided by a mobile phone operator, allowing access to the public telephone network. Mobile phones also support a wide variety of other services which include text messaging, popularly known as Short Message Service (SMS), E-mail, Internet access, short-range wireless communications (infrared, blue tooth), business applications, gaming, and photography.

7. GPS navigation device: It is any device that receives Global Positioning System (GPS) signals for the purpose of determining the device's current location of earth. GPS devices are used in military, aviation, marine, and consumer product applications.

7. Barriers in Communication:

No matter how good the communication system in an organisation is, unfortunately barriers can often occur. This may be caused by a number of factors, which can usually be summarised as being due to physical organisational attitudinal, emotional barriers and physiological barriers.

(a) Physical Barriers: These are often due to the nature of environment. Thus, the natural barriers, which exist, are located in different buildings or different sites. They are --:

- Poor outdated equipment
- Failure of management
- Lack of new technology
- Staff shortages

(b) Organisational Barriers: It refers to the faulty system design. These include:

- Complexity in organisational structure
- Ineffective organisational supervision or training
- Unclear organisational rules, policies and regulations

(c) Attitudinal Barriers:

(i) Attitude of superiors:

- Lack of consultation with employees (ignoring communication)
- Lack of time
- Lack of awareness
- Lack of trust in subordinates

(ii) Attitudinal of Sub-ordinates:

- Unwillingness to communicate
- Lack of proper incentive

(iii) Physiological Barriers: Physiological barriers may result from individual's discomfort caused by ill health, poor eyesight or difficulties.

We have studied several barriers that affect the flow of communication in an organisation. These barriers interrupt the flow of communication from the sender to the receiver, thus making communication ineffective. It is essential for managers to overcome these barriers.

8. Methods Overcoming Barriers:

There are different methods for overcoming barriers. They are --

1. It is imperative that organisational policy must be clear and explicit and encourage the communication flow in order that people at all levels realise the full significance of communication.

2. This policy should also specify the subject matter to be communicated which is determined by the needs of the organisation.

3. The system of communication through proper channels serves the purpose adequately so far as routine types of information warrant. This has to be overlooked and persons concerned need to be told explicitly.

4. A successful communication system will only be achieved if top management shares the responsibility of good communication and check from time to time that there are no bottlenecks.

5. Organisations should have these adequate facilities for promoting communication. This needs to be carefully looked into and the responsibility of superior managers in encouraging utilization of these facilities through the adoption of support and behaviour needs to be emphasized.

6. Communication being an inter-personal process, the development of interpersonal relationships based on mutual respect, trust, and confidence are essential for its promotion.

7. There should be a continuous programme of evaluating the flow of communication in different directions.

9. Essential Skills for Communication:

'Being able to communicate effectively is an essential skill. Whether it is in our life or our personal relationships, effective communication is the key to our success.'

The following skills are required for effective communication.

1. Listening: One of the most important aspects of effective communication is being a good listener. Effective communication requires active listening. So, practise listening until it becomes second nature.

Active listening involves hearing and understanding what a person is saying to the communicator. Unless the communicator understands clearly what a person is telling, the communicator cannot respond appropriately.

2. Non-Verbal Communication: This type of communication is subtler, yet far more powerful. It includes the entire gamut of physical postures and gestures, tone and pace of voice, and the attitude with which you communicate.

3. Be Clear and Be Concise: Convey the message using as few words as possible. Whether in person via telephone, or email, convey the message clearly, concisely, and direct. If the communicator is excessive with his words, the listener will either lose focus or just be unsure as to what it is that he wants. Before speaking, give some thought as to the message the communicator wants to convey.

4. Be pleasant: When communicating face-to-face with someone, use a friendly tone with a simple smile, and ask a personal question. These things encourage the other person to engage in honest and open communication. When using written communication (e.g. e-mail), communicators can achieve this by adding simple personal messages.

5. Be Confident: Confidence underpins all effective communication. Other people will believe that the communicator will do as he says if he sounds confident. Making eye contact, using a firm but friendly tone (never aggressive) etc., always exude confidence. Remember to always be listening to the other person and looking out for those non-verbal clues, will improve your relations with customers.

6. Always have an Open Mind: Being an effective communicator requires that every conversation is approached with a flexible and open mind. This is not always easy to achieve but is very important to communicating effectively. Always engage in active listening, and be sure to demonstrate empathy by understanding the other person's point of view and acknowledging it.

7. Give and Receive Feedback: Giving and receiving appropriate feedback is an essential communication skill, particularly for those of us whose roles include managing other people. Providing constructive feedback, as well as giving some praise, can greatly increase motivation and build morale.

Short answer questions

1. Define business communication.
2. What is the communication cycle?
3. What is communication equipment?
4. What are the methods for overcoming barriers?
5. What are the barriers to communication?

Long answer questions

1. Write the importance of business communication.
2. Write the principles of communication,
3. Write the forms of communication.
4. Write the different communication equipment.
5. Write the essential skills for communication.

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Unit - VI

INTRODUCTION TO SALESMANSHIP

Structure:

- The Modern Concept of Salesmanship
- Salesmanship is Art or Science or Profession
- Importance of Salesmanship
- Role and Functions of Salesman
- Features of Salesmanship
- Personal Selling
- Types of Selling

1. Introduction:

Salesmanship has become very important and indispensable in modern times. The development of salesmanship has taken place along with the development of modern business. Since the advent of commerce, the selling function of marketing in its elementary form is being performed. But salesmanship as a vehicle of selling is the later development. Before the Industrial revolution, goods were sold by the producers to the consumers directly. The producer believes that the sellers had full knowledge of the product and the consumers also knew and recognised this fact. Most of the goods were produced to order or for sale to the consumers nearby.

Some important definitions of salesmanship are given below:

According to **Ripley** "Salesmanship is the power to persuade plenty of people pleasurably and permanently to purchase your product at profit".

According to **T.S. Knox** "Salesmanship is the ability to change needs into human wants".

According to **W.M. Scott** "It is a part of salesman's business to create demand by demonstrating that the need does exist although before his visit there was no consciousness of that need".

2. The Modern Concept of Salesmanship:

The modern concept of salesmanship is very much different from the earlier concept. In the olden days, a salesman was merely an order taker. He did more or less a mechanical job of showing the goods, waiting for an order and receiving the payment. He made little or no attempt to guide, help or persuade the customer.

The modern concept of salesmanship, on the other hand, is based on the ideas of service. Modern salesmanship is creative in approach. Modern salesmanship creates a need, awareness of these needs, and uses resourcefulness and imagination to persuade customers. It uses a problem-solving approach to ensure customer satisfaction.

3. Salesmanship is Art or Science or Profession:

Art is a “skill in performance acquired by study, observation, and experience”. It is generally accepted that success in art requires a certain inborn talent or aptitude, the development of a skill-based on this talent by careful study or experience. Viewed in this manner, salesmanship an art. Salesmanship requires a certain aptitude or talent, a certain type of personality. A salesman must possess a certain skill and this skill can be acquired and developed.

Science has been defining as “systematised knowledge”. Science is based on certain principles and the accumulation of facts. It conforms to certain laws, theories and techniques. Salesmanship can be considered a science. It is based on certain standard principles and theories. It has accumulated a sufficient body of systematised knowledge. However, salesmanship is not an exact science comparable to physics or mathematics. It is a science-based on human psychology and it can be considered a “social Science” akin to sociology or economics.

A profession is ‘employment’ requiring a certain degree of skill or specialisation. It is usually controlled by a public body. It requires a certain degree of proficiency, examination by the professional body, and the setting up of a code of conduct. A profession is bound by professional ethics and considers service as its primary motto. Salesmanship today cannot be unhesitatingly called a profession. It has, however, the making of a profession and is capable of growing into a profession. In the near future salesmanship may achieve regular professional status and recognition.

4. Importance of Salesmanship:

The importance of good salesmanship is immeasurable.

(i) To Manufacturers: An efficient sales force can alone ensure high profits to industrialists and agriculturists. Good salesmanship is an incentive to higher production.

(ii) To Society: Salesmanship increases production, enhances profits, the shareholders get higher dividends, middlemen also get more profits, and employees get higher emoluments. Thus, the whole society reaps advantage by salesmanship.

(iii) To the State: When industries make high profits, the government also focuses in the form high quantum of taxation. The government gets income by way of excise duty on production, sales tax on sales, freights on account of transport.

(iv) To Consumers: Higher production brings in the competition which in its turn lowers prices. Consumers are able to purchase a better quality of goods in the market and enjoy a number of services from salesman and companies.

Thus, 'Salesmanship' helps various sections of Society and Government.

4.1. Some of the salient features can be summarized as follows:

1. Salesmanship helps to create demand for new products or new brands. It influences to change in patronage from one source of supply to another which results in the concentration of purchases of the specific product.
2. As it wins the buyer's confidence, it helps to create regular and permanent customers.
3. The person who is engaged in convincing the public about the desirability of a specific product is called a salesman. He informs the customers about the usefulness of the commodity with a view to inducing them to buy the goods.
4. He establishes the goodwill of the firm in the market. So the sales volume may easily be increased.
5. He constantly observes the fashion, taste, like and dislike of customers and informs the producer about their choice.
6. He helps to establish a close relationship between the manufacturer and consumer.

5. Role and Functions of Salesman:

A salesman's job is to beget an order. But while getting an order a good salesman serves the buyers. A good sale must benefit both the parties - the buyer and the seller. This is possible if the attitude of service dominates all the activities of the salesman.

Role and Functions of a salesman depend upon the type of selling job but a list of duties and responsibilities almost common to all salesmen may be given as below.

1. Selling: It includes meeting the prospect, taking orders, demonstrating products, increasing sales to the existing customers, sincerely quoting prices and terms of sales, and consistently following the approved policies and methods of his firm.

2. Travelling: A salesman has to undertake the journey to cover the territory assigned.

3. Collecting: A salesman may be required to make collections of the bills relating to products sold by him.

4. Reporting: A **s**alesman has to prepare and send daily, weekly and monthly reports to his firm. These reports contain the expenses incurred, calls and sales made, service rendered, customers lost to the firm, competition if any, business conditions, mileage of the journey made, and route schedules followed.

5. Handling Complaints: He is expected to attend to the complaints of the customers. He may settle the claims himself or recommend terms on which the head office should finalise the settlement.

6. Collection of Credit Information: Some firms depend upon their salesmen for information about the creditworthiness of their customers.

7. Advising and Counselling: Salesmen give advice to the customers on matters relating to the products and marketing problem.

8. Organising: Salesmen are expected to take an active interest in preparing the route and time schedules for their sales journey with a view to putting in systematised sales efforts.

9. Attending Sales Meetings: Salesmen have to attend the meeting which is held at periodic intervals to keep the salesmen well informed about the new products, new sales policies etc.,

10. Promotion of Goodwill of the Firm: It is the duty of the salesperson to cultivate customers, keep them satisfied and thus maintain and further increase the goodwill of the firm by enhancing its prestige in the eyes of the customers.

6. Features of Salesmanship:

The fundamental features of salesmanship can have enumerated as follows:

1. Salesmanship is Persuasion: Salesmanship involves the ability to influence or persuade people. It is the skill in handling people which makes for a successful salesman. The customer has to be led to a favourable buying decision and the salesman has to use all his skill to create a favourable impression in the customer's mind. Modern salesmanship does not rely on pressure tactics or compulsion to force a sale. It is only by the power of suggestion and imaginative handling that the customer has to be guided to a favourable decision.

2. Salesmanship is Winning the Buyer's Confidence: Modern salesmanship does not use doubtful methods of influencing buyer. Misrepresentation, cheating, dishonesty have no place in modern salesmanship. There is no attempt to take undue advantage of the ignorance or credulousness of buyers. On the contrary modern salesmanship aims at winning the confidence of the buyer by providing a solution to the buyer's problem, by persuading him and educating him.

3. Salesmanship Aims at Providing Service to the Buyer: Modern salesmanship is based on the ideal of service. Salesmen endeavour to find out the wants of their customer and to provide products which will satisfy these wants. Every buyer has a problem and the solution to this problem lies in the use of a certain product or service. Salesmanship aims to discovering the problem and providing a solution to the problem. Thus, salesmanship aims at serving the customer, by using the knowledge and ability to provide the best available solution to the buyer's problem.

4. Salesmanship Aims at Mutual Benefit: Salesmanship is not the art of making a profit at the cost of the buyer. On the contrary, salesmanship should benefit both the buyer and the seller. The buyer obtains a solution to his problem, and satisfaction of his want. Salesmanship helps him in obtaining the maximum return for the money he spends. At the same time, it provides a reasonable profit to the seller. it enables the producer to produce more, to increase his sales and his profits.

5. Salesmanship is an Educative Process: Salesmanship educates people about their needs. Very often people are not aware of their needs or the way in which they could best satisfy them. Salesmanship performs the function of educating the customers about their needs and their satisfaction. They also provide information about the products available, their special features, and their utility in satisfying the specific needs of customers.

6. Salesmanship is a Creative Process: Salesmanship is responsible for creating demand (not through persuasion amounting to coercion) through a problem-solving approach. It starts with customer knowledge. It involves studying the customer needs and problems through the customer's viewpoint. In this process, first, the salesman learns the buyer's problems, motives and habits. Then he suggests a solution to the buyer's problems and his needs. The salesman further demonstrates how the product or service can fulfil the buyer's needs or solve their problem. Such an approach needs a lot of creativity, initiative and empathy.

7. Personal Selling:

Personal selling is the act of convincing prospects to buy a given product or service. It is the most effective and costly promotional method. It is effective because there is a face-to-face conversation between the buyer and seller and the seller can change its promotional techniques according to the needs of the situation. It is basically the science and art of understanding human desires and showing the ways through which these desires could be fulfilled.

According to American Marketing Association, “Personal selling is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making a sale; it is the ability to persuade the people to buy goods and services at a profit to the seller and benefit to the buyer”.

7.1. Importance of Personal Selling:

Personal selling is extremely important because it helps in increasing sales. But there are other features as well which make it important. Let us discuss the importance of personal selling from the point of view of manufacturers as well as customers.

(a). From the manufacturer’s point of view:

i. It creates demand for products both new as well as existing ones.

ii. It creates new customers and, thus helps in expanding the market for the product.

iii. It leads to product improvement. While selling personally the seller gets acquainted with the choice and demands for customers and makes suggestions accordingly to the manufacturer.

(b). From the customer’s point of view:

i. Personal selling provides an opportunity to the customers to know about new products introduced in the market. Thus, it informs and educates the consumer about a new product.

ii. It is because of personal selling that customers come to know about the use of new products in the market. The sellers demonstrate the product before the prospective buyers and explain the use and utility of the products.

iii. Personal selling also guides customers in selecting goods best suited to their requirements and tastes as it involves face-to-face communication.

iv. Personal selling gives a chance to the customers to put forward their complaints and difficulties in using the product and get the solution immediately.

7.2. Types of Selling:

Different types of selling are discussed below

1. Transactional selling: Transactional selling is a simple, short-term sales strategy that focuses on making quick sales. In this type of sales model, neither the buyer nor the seller has much interest in developing a long-term relationship. Transactional sales are most common in B2C (Business to Customer) situations. Think e-commerce brands or selling movie or concert tickets. In this case, sales and marketing teams can work together to create a comprehensive self-serve knowledge base, product demos, articles, guides, and other content.

2. Solution selling: Solution selling moves away from the transactional approach and instead, focuses on selling outcomes over products and features. In this sales model, sales representatives lead with a problem and use various tactics to draw a picture of how the buyer's life will be better once they solve that problem. Over the years, many experts have pointed out some of the drawbacks associated with this type of sales strategy particularly the fact that few representatives have the skills and technology stack to present out-of-the-box solutions that buyers cannot find on their own.

3. Consultative selling: Consultative selling and solution selling appear to be the same strategy. However, despite some similarities, there is an important distinction. Solution selling avoids talking about features and benefits, opting to focus conversations exclusively on presenting a solution to the buyer's problem. Consultative selling takes it a step further and incorporates solution selling into a broader strategy that caters to buyers capable of identifying potential solutions to their problems on their own. Here, representatives apply a consultative approach to the sales process, using a combination of user data, market research, and insights from conversations with the buyer. This approach requires a skilled sales team that understands how to interpret data, ask questions, and unearth important insights during conversations.

4. Provocative selling: Provocative selling is the best way for sellers to get buyers to move past a "buy nothing" mentality by helping customers see competitive challenges in a new light, bringing a sense of urgency to solving specific pains/problems. Similar to consultative selling, provocation-based sales aim to uncover needs and pain points through market research, data analysis, and buyer interactions. Both types focus on guiding customers to the right solution. However, provocative selling adds a little antagonism into the mix.

5. Collaborative selling: Collaborative selling is similar to consultative selling in that the core focus is on developing relationships and understanding buyer needs, challenges, and goals, but this approach takes things to the next level and places the customer at the center of their own narrative. The goal of collaborative selling is setting the stage for lasting relationships that look more like strategic alliances than traditional one-and-done transactions.

Short answer questions

1. Define salesmanship?
2. What is modern concept of salesmanship?
3. What is personal selling?
4. What is transactional selling?

Long Answer questions

1. Write the importance of salesmanship?
2. Explain the role and functions of a salesman?
3. Describe the importance of personal selling?
4. Narrate the types of selling?

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Unit - VII

SALESMAN CAREER

Structure:

- Concept
- Types of Salesman
- Duties and Responsibilities of a Salesman
- Qualities of a Salesman
- Sources of Recruitment of a Salesman
- Training of a Salesman
- Remuneration to the Salesman

1. Concept:

The modern concept of salesmanship is very much different from the earlier concept. In the olden days a salesman was merely an order taker. He did more or less a mechanical job of showing the goods, waiting for an order and receiving the payment. He made little or no attempt to guide, help or persuade the customer.

The modern concept of salesmanship, on the other hand, is based on the ideas of service. Modern salesmanship is creative in approach. The modern salesmanship tries to create need, awareness of these needs and uses resourcefulness and imagination to persuade customers. It uses the problem-solving approach to ensure customer satisfaction.

2. Types of Salesman:

There are mainly five types of salesmen. They are --

i. Manufacturer's salesman

ii. Wholesaler's salesman

iii. Retailer's salesman

iv. Speciality salesman

v. Exporter's Salesman

i. Manufacturer's Salesman: Manufacturer's salesmen sell either directly to consumers (or users) or to the middlemen. Such selling, directly to consumers, is similar to speciality salesmen. Manufacturer's salesmen selling to middlemen (dealers or distributors) may be grouped into three following classes:

(a) Pioneer salesmen

(b) Dealer servicing salesmen, and

(c) Merchandising salesmen

(a) Pioneer Salesmen: Manufacturer's salesmen engaged in creating a market for new products unknown to wholesalers, distributors and dealers are called pioneer salesman. He has to convince the wholesalers and retailers about the usefulness and suitability of the new products. He has to persuade them to believe that the product possesses the necessary quality and features to find favour of the ultimate consumer.

(b) Dealer Servicing Salesmen: He sells products to wholesalers, retailers or distributors. Products sold by dealer servicing salesmen have already been established the market. His job is to retain and expand the market already created. He calls on the middlemen traders at regular intervals and books orders. Thus, his main job is to keep the established group of wholesalers and dealers well served.

(c) Merchandising Salesmen: These salesmen carry on the activities of sales promotion of the firm rather than for collecting or directly securing orders, their main job is to collect information and give advice on the various problems connected with selling. Thus visit the middlemen, make enquiries about their stock position, discuss their marketing problems and advise them on matters relating to sales. Merchandising salesmen are helpful in creating and enhancing the reputation of the product.

(ii). Wholesalers Salesman: Many wholesalers appoint their own salesmen to call on the retail dealers at regular intervals and book their order. They are expected to visit the retail dealers promptly, take down orders accurately and thus ensure the constantly smooth flow of goods from the stocks of the wholesalers to the retailer's shop. They advise retailers regarding their sales. They must be friendly in their attitude and punctual in action. The effectiveness of this type of salesmen is measured in terms of repeat sales over a long period of time. The wholesaler's salesmen need not be aggressive. He should be friendly, dependable, reliable and should make regular calls.

(iii). Retailer's Salesmen: Retailer's salesmen are divided into two categories. They are --

(a) Counter Salesmen

(b) Outdoor Salesmen

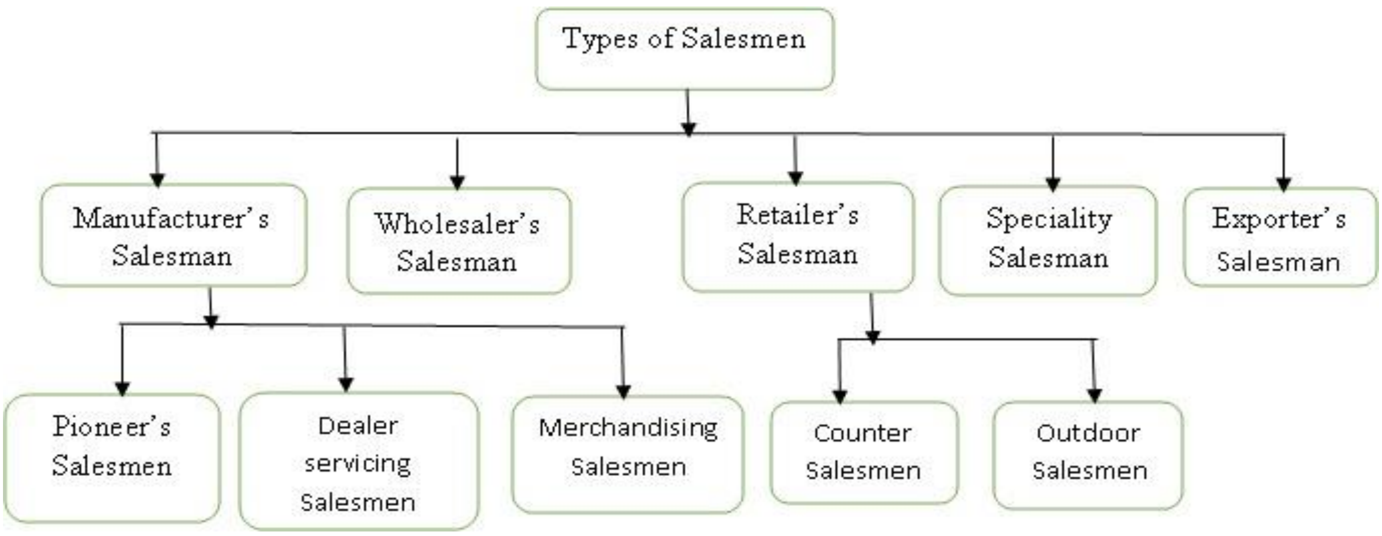
(a) Counter Salesmen: The counter salesman works in the retailer's shop and sells to the customers who come to the shop to buy products they need. He should have adequate knowledge of the stock, prices and products and selling points. He must be courteous, considerate and convincing in persuading the visiting customers to buy particular products.

(b) Outdoor Salesmen: Go to the prospective customer rather than the customer coming to them is the case with the Outdoor salesmen. They carry samples of goods with them, persuade customers to buy the goods of the firm represented by them. Only retail houses operating on a very large scale can afford to employ outdoor salesmen.

iv. Speciality Salesmen: Salesmen employed to sell speciality items are called speciality salesmen. Speciality goods have higher unit cost, are relatively durable and are not purchased regularly. Buyers of speciality goods prefer to make a careful selection. This requires the speciality salesmen to have a considerable amount of initiative, drive, product knowledge etc. He should have extensive training in the art of salesmanship. His job is the most difficult. Usually, salesmen are helped by proper advertising and marketing research.

v. Exporter's Salesman: He works for an exporter, who specializes in the export of his goods to the foreign countries. He has to supply the needs of the foreign market by selecting and appointing distributors. He, thus, has a buffer between the export firm and the distributors. He must know export duties, licences, foreign exchange regulations, freight, shipping tariffs and foreign commercial laws.

Exporter's salesmen must clearly know to understand the firm's or company's export trade policy. He should be able to speak and read at least one foreign language. Often he is required to visit foreign countries. So, he gets higher compensation than that of other types of salesmen.



3. Duties and Responsibilities of a Salesman:

A salesman's job is to get an order. But while getting an order a good salesman serves the buyers. A good sale must benefit both the parties - the buyer and the seller. This is possible when the attitude of service dominates all the activities of a salesman.

Duties and responsibilities of a salesman depend upon the type of selling job but a list of duties and responsibilities almost common to all salesmen may be given as below.

1. Selling: It includes meeting the prospects, taking orders, demonstrating products, increasing sales to the existing customers, sincerely quoting prices and terms of sales and consistently following the approved policies and methods of his firm.

2. Travelling: A salesman has to undertake a journey to cover the territory assigned.

3. Collecting Bills: A salesman may be required to make collections of the bills relating to products sold by him.

4. Reporting: Salesman has to prepare and send daily, weekly, and monthly report to his firm. These reports contain the expenses incurred, calls and sales made, service rendered, customers lost to the firm, competition if any, business conditions, mileage of journey made and route schedules followed.

5. Handling Complaints: The salesman is expected to attend to the complaints of the customers. He may settle the claims himself or recommend terms on which the head office should finalise the settlement.

6. Collection of Credit Information: Some firms depend upon their salesmen for the information about the creditworthiness of their customers.

7. Advising and Counselling: Salesmen give advice to the customers on matters relating to the products and marketing problem.

8. Organising: The salesman is expected to take an active interest in preparing the route and time schedules for his sales journey with a view to putting in systematised sales efforts.

9. Attending Sales Meetings: Salesman has to attend the meeting which is held at periodical intervals to keep themselves well informed about the new products, new sales policies etc.

10. Promotion of Goodwill of the Firm: It is the duty of the salesman to nurture customers, keep them satisfied and thus maintain and further increase the goodwill of the firm by enhancing its prestige in the eyes of the customers.

4. Qualities of a Salesman:

A successful salesman develops a sales personality by developing certain qualities. Some of the qualities of a good salesperson are as follows:

1. Physical Quality: A salesperson should have a good appearance and an impressive personality. He should also have sound health as he might be required to travel long distances.

2. Mental Quality: A good salesperson should possess certain mental qualities like imagination, initiative, self-confidence, sharp memory; alertness, etc. He should be able to understand the need and preferences of the customer.

3. Integrity of Character: He should possess the qualities of honesty and integrity. He is to gain the confidence of the customer. He should be loyal to the employer as well as to the customer.

4. Knowledge of the product and the company: He should be able to explain each and every aspect of the product i.e. its qualities, how to use it, what precautions to be taken, etc., and the company he is representing.

5. Good behaviour: A salesman should be cooperative and courteous. Good behaviour enables one to win the confidence of the customers.

6. Ability to Persuade: A good salesperson should be good in conversation so that he can engage the person he is attending. He should be able to convince him and create the desire in mind to possess the commodity. Salespersons must have the ability to get people to agree.

7. Ability to estimate customer's needs and desires: He or she is alert and quickly determines what the customer wants and the best way to sell.

8. Appearance: Appearance means a lot today and the successful salesperson is neat and organised. He or she presents himself or herself well in person. Also, he or she keeps his or her desk, books and, manuals neat and ready for use.

9. Business Sense: He or she understands that you are in business to make a profit and quickly learns the ins-and-outs of the organisation.

10. Courtesy: He or she reveals a sincere desire to help customers and treats them as guests even when he or she visits their places of business.

11. Creativeness: Imagination, vision and, the ability to create new ideas make a salesperson dynamic.

12. Friendliness: A salesperson should be able to make people like him or her and he or she must like to meet people.

13. Health: Good health generates energy and energy is needed to sell. Poor health prevents many salespersons from fulfilling their potentials.

5. Sources of Recruitment of a Salesman:

After the job analysis and personal specification, choice of sources of recruitment has to be made. Every possible source should be tapped for this purpose. Various sources are own staff, competing firm, other firms, customers and their employees, school, and colleges, situations wanted columns, casual candidates, etc.

(a) From Company's Own Staff: This is a common method followed in most organisations. The employees working in other departments should be considered if they are promising and have innate talents.

(b) From Competing Firm: The practice of enticing away a man from the competing company is certainly bad on ethical grounds. But for a new firm producing an existing product such a salesman would be of great assistance for he would be having sufficient background in the sales of the same product. No training is needed for him. But the cost involved could be greater as the enticing could be done only by offering a higher remuneration.

(c) Employment Agencies: There are employment exchanges sponsored by the government which form a major source of recruitment. But applicants generally available through them are untrained and inexperienced. For them, proper training might be necessary.

(d) From Educational Institutions: Fresh graduates from colleges and institutes could be called for the job and a person with real aptitude be selected.

(e) Through Press Advertisements: This is the most usual and commonly employed form for recruiting the salesman.

(f) From Casual Applicants: Large firms usually keep on getting a number of applications for different jobs. Such applications can also be considered.

(g) Recommended Candidates: Sometimes the wholesalers and retailers etc. may recommend eligible candidates. On the basis of necessity, the firm may select suitable persons.

5. Training of a Salesman:

Sales training is a process of providing the business department with specific skills for performing their task better and helping them to correct deficiencies in their sales performance. When a new product is introduced into the market, the market situation undergoes a change with the entry of a new competitor or a new technology.

5.1. Importance of Training:

The need for training of salesmen arises from the fact that newly appointed salesmen do not have knowledge about the product he has to sell. Nor does he know the customers. He may not know how to sell the product or how to present them to prospective buyers. Even old salesmen need the training to acquaint them with the new products of the firm or those of the competitors, to explain to them improved sales technique or supply as a refresher course. Training must be considered a continuous process. Each time a new product comes into the sales department, something may have to be imparted to the selling persons about the special qualities and usefulness.

5.2. The Objectives of Training:

The objectives of sales training are --

i. To teach salesman the principles of the art of salesmanship.

ii. To acquaint salesmen with the policies of the house in respect of credit distribution and prices.

iii. Teach the sales force all facts relating to the qualities of the goods, the manufacturing process, the history of the company, etc.

iv. To acquaint the sales staff with rules and government notices to the extent they have a bearing on the marketing of the company goods.

v. To enable the sales staff to be on par with the salesmen of the competing companies in the techniques of selling.

vi. To keep a reserve force always ready to take the place of those who retire, resign or remain absent so that the sales routine will not be disturbed.

vii. To find out, in the course of training, the inefficient persons and weed them out.

5.3. Methods of Training:

According to their financial resources, companies may fund one or some of the following methods useful for training the salesmen employed by them.

(a) Arranging for Apprenticeship: The Salesman is entrusted to the charge of a senior salesman of the company and is asked to learn what little he can. The apprentice observes the work of his senior, asks questions and, gets the difficult points explained. He travels with his senior to understand the spot techniques of his sales. Then he is given independent work. The senior watches his work and rectifies the defects. Gradually he attains perfection by observation and practice, by imitation and learning.

(b) Admitting in Institution Offering Instruction in Salesmanship: The employer may pay tuition fees and instruct the salesman to attend classes in batches.

(c) Arranging for Institution by Correspondence: In some cities, there are private tutorial colleges that post papers containing lot of lectures for the week on the subject every week to the students that join them. Sometimes guides on the subject also supplied either free or against a deposit by the tutorial colleges.

(d) Instruction through Sales Conferences and Sales Conventions: Sales conferences are business meetings of salesmen held as and when necessary for discussing problems relating to sales. Sales conventions are annual gatherings where business is carried on with some pageantry in addition. A number of educative programmes are arranged. There are also some entertainment items consisting of sales dramas, demonstrations, window dressing, and so on. In conferences, they listen to many speeches and a shrewd salesman can acquire something from everything.

(e) Supplying Sales Manuals: Sales manual is a guide prepared by the company itself. It is an exhaustive book describing the procedure for performing efficiently the work connected with sales. It is compiled by experts who know all aspects of the sales administration.

(f) Arranging for Training in the Company Itself: This is the most effective method of training. The salesman is given an opportunity to receive both extensive and intensive training. Such training is essential for those companies which deal with specialty goods.

6. Remuneration to the Salesman:

Remuneration is the pay or other financial compensation provided in exchange for an employee's services performed. A number of complementary benefits in addition to paying are increasingly popular remuneration mechanisms. Remuneration is one component of reward management.

6.1. Importance of Equitable Remuneration:

Salesmen are mainly responsible for the income an organisation makes. The amount of pay and the way it is received and earned is of vital importance to the employees. There is a direct and close relationship between methods of remunerating salesmen and efficient distribution of goods and services. The success of a firm using salesmen to increase sales volume at minimum selling cost depends upon a contented, efficient and loyal sales force. Contentment, efficiency and loyalty of a sales force are closely related to the method by which sales efforts of the salesmen are compensated for. The methods of remuneration will differ from firm to firm but general principles can be of interest while preparing or developing any method of remuneration for salesmen.

6.2. Methods of Compensating Salesman:

Most compensation plans fall under any of the following types:

(a) Straight Salary Method: This is the simplest compensation plan in which a salesman receives a fixed salary at a regular interval of time. Generally, salary is paid to the sales force according to salary grade approved at the time of appointment.

Under this grade, generally, the sales force continues to get annual increments and is paid other allowances like dearness allowance, meals allowance, travelling allowance, medical allowance.

Merits:

1. Provides maximum security and stability of earning to the salesman.
2. Easy to understand and it involves less calculation.

Demerits:

1. This method provides incentives to sales personnel. It lacks motivational effects.
2. It does not distinguish between efficient and inefficient salesman as both get fixed salary.

(b) Commission Method: In this remuneration plan, the sales force is paid according to their performance, efficiency and productivity. This plan pays a fixed floating rate of commission on the sales volume achieved by the salesman.

Commission can be paid on the basis of sales volume, sales value, profits, collection, order size, etc. If the sales level achieved by a salesman is high, then he will have paid more commission; and if the sales level achieved is low, then he will be paid less.

Merits:

1. Compensation is linked with productivity and efficiency; hence it is motivation in nature
2. It requires less supervision of sales force.

Demerits:

1. There is no secured income for the salesman.
2. From the various bases for computing commission such as sales volume, sales value, net profits, etc., it is difficult to decide the basis for calculating commission.

(c) Salary and Commission Method: Some firms combine salary and commission plans. This plan is designed to avail the advantages and removes the disadvantages of both salary plan and commission plan. Salary plus commission method may take any of the following two forms:

i. Salary and commission on total sales: In this method, the commission is paid on total sales affected by the salesman

ii. Salary and commission on sales over and above quota: In this, a minimum quota is fixed for each salesman. No commission is paid until the salesman crosses this sales quota. So the salesman will be entitled to a commission only on sales over and above the sales quota fixed for him.

(d) Bonus: Bonus is an additional financial reward to the sales force for achieving results beyond a predetermined level. A bonus plan can be attached either with salary and commission plan. It is paid in addition to normal remuneration as a reward for better performance. Bonus is never used alone. Bonus is not a continuing liability to the management. It is given for achieving sales quota, performing extra selling activities, reducing selling expenses, attracting new customers, selling particular products above a specific level, etc.

Merits:

1. It motivates the sales force to do extra work.
2. It is not a regular or continuing burden on the organisation.

Demerits:

1. When the bonus is given to the team, it does not differentiate between efficient and inefficient performers.
2. The method of calculating bonuses is complex and every salesman cannot understand it.

(e) Fringe Benefits: Fringe benefits include retirement benefits, pension plans, paid leave, study leave, maternity leave, car facility, medical facilities, etc. Fringe benefits are given to all employees working at the same level, and these do not vary with their job performance. Fringe benefits help to increase job satisfaction and prevent job dissatisfaction.

Types of fringe benefits

i. Statutory Payment: It refers to compulsory payment under central or state government laws such as provident fund, pension plans, etc.

ii. Labour Welfare Schemes: It includes group insurance, reimbursement of medical expenses, facility of free transportation, free education to children, canteen facilities.

(f) Additional Task Method: Under this method, if some additional task is assigned to salespersons which are different from his routine task, then some additional remuneration is given to salespersons as they feel honoured when the firm assigns them some additional task. They feel that the company has recognised their skills and thus given them and an additional task.

Short answer questions

1. What is the modern concept of salesmanship?
2. Mention the types of a salesmen?
3. What is sales training?
4. Write any four objectives of training?
5. What is remuneration?

Long answer questions

1. Explain the types of salesmen?
2. Write the sources of recruitment of a salesman.
3. Write the methods of training for a salesman.
4. Write the methods of compensating a salesman.

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Unit - VIII

PRODUCT KNOWLEDGE

Structure

- Product Concept
- Major Areas of Product Knowledge
- Importance of Product Knowledge
- Sources of Product Information
- Packaging and its Types

1. Product Concept:

The product is the most tangible and important single component of the marketing programme. The product policy and strategy is cornerstone of a marketing mix. Without a product, there is nothing to distribute, nothing to promote, nothing to price. If the product fails to satisfy consumer demand, no additional cost on any of the other ingredients of the marketing mix will improve the product performance in the market place.

Products fill in the needs of society. They represent a bundle of expectations to consumers and society. The product concept has three dimensions:

1. Managerial Dimension
2. Consumer Dimension
3. Social Dimension

1.1. What is a Product

The product is a bundle of all kinds of satisfaction of both a material and non-material kinds, ranging from economic utilities to satisfaction of a social-psychological nature.

A product supplies two kinds of utility

1. Economic utility
2. Supplementary utility in the form of social-psychological benefits.

The product may be a good, a service, a good plus service, or just an idea. A product is all things offered to a market. Those things include physical objects, design, brand, package, label, price, services, supportive literature, amenities and satisfaction not only from physical product and services offered but also from ideas, personalities and organisations. In short, a product is the sum total of physical, economic, social and psychological benefits.

2. Major Areas of Product Knowledge:

The most important areas to be included the sales training program are --

1) Product Knowledge: Sales representative training should highly focus on delivering comprehensive product knowledge. The representative who fumbles while providing product information to the customers is more likely to lose a chance of striking a deal or create a relationship. Adequate product training can help them sell better to their B2B customers. They can explain the features better; they can convince empathetically as to why they should prefer your product over your competitor's brand.

2) Rapport Building Over The Phone: Rapport building is a major integral part of building customer relationships. The sales representatives have to go through the training process to power up their skills and abilities. Because, they perform everything on a phone. They have to work harder especially when they come across clients who are hostile and reluctant to purchase.

3) Prospect Qualification: Train the sales representative what best questions they can ask their prospects. They need to understand first what the prospect's requirements are. Customers will not be interested in the product unless they have their own benefits in it. Ask the related qualifying questions to know their needs, budget, time-limit and what difficulties they are facing with their current product.

4) Demo training: Demo skill is a must for every sales representative, in order to pitch to a B2B customer. Providing product features will not be enough for a sales lead, a demo has to be tagged along with it. Demos are challenging, throwing too many features on your sales representative in one single training session will confuse them. Practising the demo presentation gradually would enhance their skills and the representatives will be able to flaunt the product to the client.

5) Closing The Deal Technique: It is one major field to focus on. Prospects might get totally convinced and agree to buy the product. But they might ditch you at the end. So, training the sales representatives on this part is badly needed. They must push the clients to purchase immediately. Clients might ask the representative few months or weeks to research in order to find something better than you are offering. But very cautiously your representatives need to create a sense of urgency in the prospect's minds that they are missing out a great deal which will later help them generate huge profits and revenues. But at the same time the representatives cannot be too pushy as they will look desperate.

2.1. Product Knowledge in Manufacturing:

The manufacturing industry undergoes significant changes. Heightening competition, reducing margins and business growth shifting on emerging economies put pressures to develop new skills and capabilities for future production; the importance of agile production methods, need for collaboration and co-development, as well as more efficient management tools grow.

Business focus shifts on services; service business constitutes a significant part of annual revenue in a large number of manufacturing companies. Service concepts evolve from being technology-based to customer-oriented; solution providers take a new position in a value chain and integrate deeper into customer business and production processes.

The networked operating model expands product definition into the network. Due to the increasing role and importance of manufacturing and supply network suppliers need to be taken into account as external stakeholders; the information needs of actors in manufacturing and supply network need to be considered as a part of product knowledge definition. Equipment and services integrate into complex solutions, and there is, therefore, a growing need for common product definition and management structures. Lifecycle information gathered from the installed base constitutes a basis for future services.

2.2. Uses of Product Knowledge:

Product knowledge helps the salesman in the following ways:

1. Product knowledge builds enthusiasm.
2. Product knowledge gives courage.
3. Product knowledge gives the satisfaction of being experts.
4. Product knowledge allows the salesman to speak with confidence around other experts.
5. Product knowledge helps the salesman respond to any objections properly.
6. Product knowledge allows the salesman to keep learning and to discover additional advantages to offer the prospects.
7. Product knowledge lets the salesman understand the competition better.
8. Product knowledge gives the salesman self-assurance.
9. Product knowledge is power. The power that helps them close more sales.

3. Importance of Product Knowledge:

Product knowledge is essential in customer service. It plays a crucial role in both outbound and inbound customer interactions. Having good product knowledge will not only help customer service associates to provide excellent customer service, but it will also improve customer satisfaction, increase sales, build brand image, and boost employee confidence. In short, when it comes to customer service, knowledge is definitely power.

1. Sales, a Pleasant Task: A salesman should have up-to-date information relating to the products he deals with the customers. When one possesses thorough knowledge, complete and useful knowledge of goods is a fundamental requirement of a salesman. These will increase sales and render better service to buyers. Correct ideas create self-confidence, which generate potential buyers through satisfactory dealings.

2. Technical Knowledge: There are certain products, which need complete information regarding their function. Generally, customers ask questions to clarify doubts or some may have thirst for increasing their knowledge. In such cases, the salesman will be in trouble to face such prospects who feel that a particular salesman adopts a deceitful attitude. To overcome all these, the salesman should have complete technical information about the products, which he deals with.

3. Deep Self-confidence: If a salesman lacks full knowledge of the products, it is a shame. The confidence grows when he can explain the products' capacities, performance, merits, and limitations to the prospective. His perfect knowledge of the product will naturally increase the confidence in himself All types of queries can be satisfactorily met by such a salesman. If a single question is unanswered or wrongly answered, there arises a doubt in the mind of the consumers.

4. Winning Customers from Competitors: At present, the products are of various types and the market increases. Competition is the order of the day. The success in selling solely depends upon the ability of the salesman. The merits and demerits of the rival products must be understood by the buyers, possibly with facts and figures. All these aid to win customers from the fold of competitors.

5. Selling Points: A proper understanding of a product has many advantages or selling points. Customers are highly concerned with the selling points, such as durability, the attractiveness of the product, its package, discount sales, selling terms, designs, price decrease, convertibleness, easy operation, etc. All these favour a sale and are related to buying motives. A salesman must know all these to boost the sale at the counter.

4. Sources of Product Information:

A salesman is usually expected to sell a variety of products and services. Therefore, it becomes quite difficult to know every detail of the product from a particular source. Rather, he has to gather the required information about the products he is dealing with from various sources.

(a) Personal Experience: The most important source of acquiring product knowledge is the personal experience of the salesman. As the salesman becomes more and more familiar with his work, he becomes increasingly aware of the possible questions that buyers raise most often and also the convincing answer for the same.

(b) Libraries: Product information can also be gathered by going through some related books in libraries. In recent years, there are many business and trade journals that conduct consumer surveys at regular intervals. Such surveys cover different aspects of consumer behaviour and provide valuable information.

(c) Trade Journals: Every trade or industry publishes its own journal at regular intervals. These journals usually provide detailed information about new products, improvements of old products, new innovation, etc. The salesman has to through these journals in order to gather knowledge of the product category. He can also gather information about innovations and new products from these trade journals.

(d) Senior and Fellow Salesman: A great deal of product knowledge can be acquired by consulting the employer, senior salesman and, fellow salesman. Regular discussion with them provides valuable product knowledge for the salesman. During the probation period and training sessions, the senior salesman and sales manager provide all information about the products to the juniors.

(e) Manufacturer's Literature and Assistance: Nowadays, manufacturers and dealers also attempt to assist the salesperson in acquiring product knowledge through a number of means. The following are some of the important ones.

i. Sales Manuals: Sales manuals are generally published by the manufacturers for the purpose of reference by the sales force. They contain information about the products, the procedure to be followed in selling the products, selling reports, credit facilities, discounts delivery facilities, etc.

ii. Sales Bulletins: In order to provide additional and up-to-date information about the products, sales bulletins are published by the manufacturers. Such sales bulletins are published at regular intervals to provide information over and above those provided in the sales manuals.

(f) Visit Factories: Most often, manufacturers arrange the visit of the sales force to the factories to gain first-hand product knowledge. Such a visit to the factories enables the salesman to obtain a great deal of information about the products. Through such a visit, the salesman comes to know in detail about the manufacturing process, raw material used, the standard of quality control, packing, etc.

(g) Meetings and Conferences: Manufacturers arrange meetings and conferences of the salesman at regular intervals. These periodic meetings and conferences also help the sales department in enhancing their product knowledge through interactions, discussions and deliberations. In such meetings and conferences, senior salesmen and sales officers deliver lectures and demonstrate important features of the products.

(h) Questionnaire System: Often manufacturers attempt to brush up and test the product knowledge of their sales force. They prepare a questionnaire about the various aspects of their products and the salesmen are required to answer these question. The best answer giving salesman is given a prize and such events are provided wide publicity. In order to prove their efficiency and competency for such occasions, the salesmen keep their product knowledge up-to-date.

5. Packaging and its Types:

Packaging is the activity of designing and producing the container or wrapper for the product. It is an important and effective sales tool for encouraging the consumers for buying. It is powerful medium for sales promotion. It must perform all the basic function such as protection, ease of handling and storage, convenience in usage, etc. and should not be deceptive and convey any deceptive message. It is the best method for attracting the consumers for buying the products.

According to W.J. Stanton, “Packaging may be defined as the general group of activities in product planning which helps in value designing and producing the container or wrapper for a product.”

According to Pride and Farell, “Packaging involves the development of container and a graphic design for a product”.

5.1. Types of Packaging:

There are various types of packaging some of them as follow:

1. Consumer Packaging: Consumer packaging is one that holds the required volume of a product for ultimate consumption. It is the means of buying a household. In other words, the consumer has the option to purchase the pack size which he/she consider adequate for the consumption of his/her family over a length of time.

2. Transit Packaging: Transit packaging is another type of packaging. It is for the industrial consumer's use. The consumer package itself very often requires an outside package in which is sometimes referred as a bulk package or an outer container.

3. Industrial Packaging: An industrial packaging can either describe a bulk package or the package for durable consumer goods. These are the basic package types although many subdivisions can be listed which can be broadly listed under these basic headings.

4. Dual-Use Packaging: A dual packaging is one that has secondary usefulness after its contents have been consumed. Examples of dual-use packaging are drinking glasses, boxes of jewellery, wastebaskets, refrigerator dishes, etc.

5.2. Importance of Packaging:

The importance of packaging is as follows:

1. Creating of Demand: Packaging plays an important role in the creation of demand by attracting consumers. The customers become known with the product through advertising. It helps to increase the demand of the customers.

2. Protection of the Product: Packaging helps to protect the product from heat, light, moisture, evaporation, dust, etc. during its long passage from the factory to the target customers. It protects the products from breakage, leakage, spoilage, etc.

3. Transportation: Packaging facilitates the transportation of products from one place to another. It ensures easy transportation and better handling of products in transit.

4. Guidelines to Customers: Packaging helps as some guidelines are offered for the customers. From the informative literature regarding the quality and use of the product, the customers get the guidance. The customers are ensured about the quality of the products.

5. Better Storage: Packaging acts as better storage of the products. Goods with good packages can be stored in the retail shop also at a lesser price.

6. Facilitates for Carrying: Packaging plays an important role in carrying the goods in transit and from one place to another. It is made in different sizes and it facilitates provisions for easy and open carrying.

7. Identification of Product Differentiation: Packaging helps to identify product differentiation easily. It ensures the individuality of the products and one product can be easily differentiated from every other product in the market. The customers can easily identify their product of choice at the time of purchase. This helps the customers to prevent substitution of goods by other customers.

8. Economy: Packaging helps to reduce the cost of marketing the goods by reducing losses from damages. As packaging is helpful for sales promotion, it helps to attain economy in the cost structure of the producers and marketers.

5.3. Types of Packaging Materials:

1. Plastic: The most common packaging method in industries is plastic, mainly resin. Resin is extremely beneficial to packaging companies as it can be created to be rigid or flexible depending on what is going to be placed inside the package. Resin is mainly used with items such as soda and egg trays. Although there are numerous types of plastic that can be used for packaging methods, the resin is the most commonly used amongst industries.

2. Aluminium: Aluminium is widely used for products such as sodas, beer, canned goods and animal foods. Because of the high cost of using aluminium to package products, most industries take donations of recycled canned goods to help save money in their business.

3. Cardboard: Most products that are packaged in cardboard boxes are first wrapped in another type of packaging such as bubble wrap or foam. If your industry is planning on cardboard becoming the main packaging method, it is ideal to invest in a taping machine to ensure you and the customer that the package is sealed tightly with no chance of it falling out during the delivery.

4. Glass: Glass jars and bottles are highly used for numerous food and beverage products including jam, honey, alcoholic beverages and food items such as pickles and peppers. Although glass is extremely fragile, it makes for an excellent, well-sealed packaged for any perishable products. It is a good idea to label any plain glass jars or use glass transfers to help you identify the contents.

5. Foam: Foam is not as common as other packaging methods, but is used for a variety of household items like furniture, TV's, glass or anything else that may have sharp edges that could puncture cardboard and plastic. Even though the foam is the main part of the packaging, cardboard is normally used to encase the product and foam so it all stays compact.

Short answer questions

1. What is a product?
2. What are the uses of product knowledge?
3. What are trade journals?
4. What is packaging?
5. What are the types of packaging?

Long answer questions

1. Write the sources of product information.
2. Write the importance of product knowledge.
3. Write the importance of packaging.
4. Write the types of packaging.

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MODEL QUESTION PAPER

RETAIL MARKETING

QUESTION PAPER (THEORY)

RETAIL MARKETING (FIRST YEAR)

PAPER – III

Time:3 Hours Maximum Marks:50

SECTION – A

Note: (i) Answer all the questions

(ii) Each question carries two marks 10x2=20

1. Define Marketing.
2. What is Digital Marketing?
3. What is CRM?
4. Mention the Types of Retail Layouts?
5. Define Buyers Behaviour?
6. What is Buying Motives?
7. What are Barriers to Communication?
8. What is Personal Selling?
9. What is Sales Training?
10. What is a Product?

SECTION – B

Note: (i) Answer any five questions

(ii) Each question carries six marks 5x6=30

11. Explain the Importance of Marketing?
12. Write about the Modern Retail Formats?
13. Elucidate the Process of Store Design?

14. Write the Buyers Shopping Behaviour?

15. Write the Importance of Salesmanship?

17. Write the Sources of Recruitment of a Salesman?

18. Write the Importance of Product Information?