

Material for 12th Commerce

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Sub: *Organization of Commerce & Management*

Chapter: 1 (Nature and significance of management)



Chapter 1

“Nature and significance of management”

Head points of the chapter

Management :

Meaning : "Management is the art of getting things done through others.

- Koontz and O'Donnel

"Management is such a process which plans and controls men, machinery, material, method, money and market. It provides leadership, co-ordination and direction to human efforts which help to achieve the business objectives."

- George R. Terry

Nature of Management :

- Universal process
- Goal oriented activity
- Group activity
- Continuous process
- Human process
- Decision process
- Science, Art and Profession.

Importance of Management:

- Necessary in every field
- Optimum utilisation of resources
- Accomplishment of objectives
- Useful for the success of business
- Increase in job opportunities
- Increase in profit
- Social benefit
- National motive

Management as a science, an art and a profession :



Management is a science : "Science means systematic and specialised knowledge. Science is a subject from which rules and principles can be concluded and cause and effect relationship can be established."

Management is an art :

Art means personal skill an expatriation. But to implement the skill, one should also have theoretical knowledge. During practical application of management rules and principles, personal skill and insight play an important role. Therefore management is an art.

Management is a profession :

Business is an activity where specialised knowledge in specific field is acquired and used it for the welfare of the entire society, fees is charged from the society for it.

Characteristics :

- Requirement of specialised knowledge
- Increase in knowledge and research
- Professional association
- Implementation of code of conduct
- Moral responsibility

Levels of Management :

(A) Top level management : The top level of management is the supreme authority for the management of an enterprise.

Functions :

- Defining objectives
- Act as a trustee of business
- To select Chief Executive officer and higher officers and to assign them authority and responsibility
- Sanctions various departmental budgets
- Abide by labour law. Take care of interest of different stakeholders
- To take strategic decisions
- To solve complex problems of the business
- Implementation and supervision of different activities
- Distribution of profit, dividend, reserve fund, re-investment of profit, etc. functions are to be performed

(10) To analyse reports of different activities and give instruction accordingly.

(B) Middle level management : Middle level management is a mediator between top level and bottom level of management. This level includes departmental officers, divisional officers and experts.

• **Functions :**

- To implement the orders and instructions given by top level of management
- (2) To prepare departmental budgets
- To formulate policies, rules and structure for the accomplishment of business objectives
- To take necessary steps to increase efficiency and effectiveness of departmental activities
- To boost enthusiasm of the employees
- To remain in touch with other departmental officers
- To take care of activities of sub-divisions.
- To supervise the working of the departments to get the information's, analyse it and to direct.
- To help the top level management in taking policy decisions

(C) Bottom level management : Implementation of decisions and policy decided by top level management is done by this level. Supervisors, jobbers and foremen are included at this level.

Functions :

- To supervise activities of the workers
- To put the efforts to raise discipline and zeal
- To plan for routine work
- To perform work related activities.
- To get orders, instructions and programme from departmental officers
- To perform the functions like machinery lay-out, repairing, maintenance, etc.
- To provide equipment's and raw material to the workers
- To solve the problem of workers.
- To implement decisions and policies decided by top level management
- To forward reports, instructions, and complains of workers to the top level management.



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Difference between top level, middle level and bottom level of management :

Points of difference :

- Management and administration
- People includes
- Authority and responsibility
- Number of members
- Competency
- Formation of objectives and policies
- Accountability
- Decisions

Functions of Management :

- Planning:
- Organising
- Staffing :
- Directing
- Controlling :

Co-ordination:

Meaning : To bring co-ordination and harmony among the different functions done by different departments in the business unit is called co-ordination.

Characteristics :

- Management process is not possible without co-ordination
- Required at every level of management
- Communication system must be efficient for success
- Co-ordination is not possible without co-operation
- Due to co-ordination, maximum utilisation of resources become possible

Importance :

- Co-ordination makes other managerial function effective
- All business activities are done in a case manner
- No work remain incomplete or duplicated
- Maintains harmony among various departments
- Maintains balance between order and time of business activities
- Predetermined business objectives can be accomplished.

Functional Areas of Management :

(A) Marketing Management :

Meaning : In a broad sense, marketing management is the activity of providing goods or services from producers to customers.

Functions : (1) Product (2) Price (3) Distribution (4) Promotion

Human Resource Management :

Human resource management is the process, which takes into consideration, proficiency, knowledge, intelligence, likes-dislikes, personal development, necessity, etc. of employees integrate it with business objectives and channelized the business towards success and profitability.

Characteristics :

- It includes recruitment, training, promotion, direction, etc. of employees
- It integrates individual objectives with the accomplishment of business objectives
- Employees are considered in valuable assets of the business
- Proper training is given to employees for their development
- Evaluates performance of employees and place them at right position
- To maintain the employees in business by reducing their labour turn over rate
- To provide conducive environment to boost their zest and efficiency to accomplish business objectives.



Importance :

- Increase in efficiency
- Increase in profitability
- Maintains reputation
- Maintains quality of goods or services
- Develops feeling of oneness
- Maximum utilisation of resources
- Reduction in labour turn over rates
- Job satisfaction
- Environment of industrial peace

Financial Management :

Meaning : Financial management deals with the finance function of management. Financial function means, function of acquisition and utilisation of capital along with function of allocation of capital,

Functions :

- Estimation of need of finance
- To plan for finance
- To prepare budget
- Distribution of income
- To decide capital structure and to select sources of acquisition
- To do the procedure for acquiring the finance
- Efforts are made to utilise and control the finance properly
- To decide financial policy
- To plan for taxes
- To make arrangement of assets

Production Management :

Meaning : Production management is the process which includes production planning, deciding programmes, maintain co-ordination, providing direction and keeping controlling.

Functions :

- To decide production plan
- Production research
- To select the product development and product mix

- To select technology as well as machinery
- To decide location and layout for business
- To estimate the need of material and other necessary things.
- Production control
- Quality control
- Control over expenses or cost
- Introduce variation and simplification in production.

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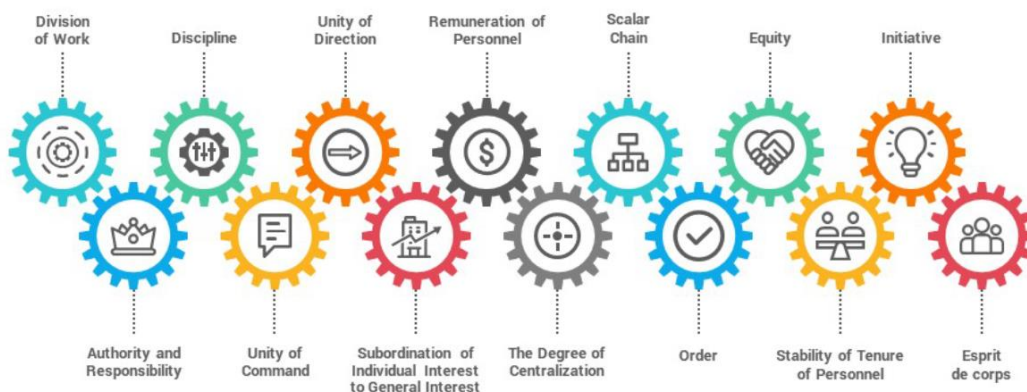
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Sub: *Organization of Commerce & Management*

Chapter: 2 (Principle of Management)

Fayol's 14 Principles of Management

14 Principles of Management (Fayol)



Chapter 2

“Principle of management”

Principles of Management :

Meaning : If we say in simple words, it means some rules, principles are required for making comfortable men behavior in business unit. These principles are called management principles.

Concept : Management principles have direct relation with human behavior. Hence, there is space for addition of new principles with the changes from time to time. Management Principles are detailed and particular guide for decision making and its implementation.

Nature :

- Universal acceptance
- Flexible
- General Guidelines
- Based on Human behaviour
- Contingency.

Importance :

- Increase in managerial efficiency
- Maximum usage and effective administration of resources
- Helpful for scientific and logical decisions
- To cope up with changing business Environment
- To fulfil Social responsibility
- Useful for Research

Training and Development

Management Thoughts : Management thought is a presentation of unique thought presented time to time. Many management Gurus' have provided different principles by expressing different views in these thoughts, which is called management thought.

Thoughts of Classical Theory : Thoughts presented till the end of 19th century is called classical thoughts, Frederick Taylor and Henry Fayol contributed in these thoughts through scientific management principles and management principles respectively.

Thoughts of Neo Classical Theory : In the start of 20 century, Australian Industrial Psychologist Alten Mayo Horthon created this thought. Neo classical thought emphasized on behaviour oriented approach and group behaviour for management.

Behaviour Related Thoughts : Behaviour related thought emphasizes on job satisfaction and increases the efficiency of employees through psychological findings. Behaviour related thought includes inter human relations, inducement, leadership, disposal of industrial disputes, information, communication, etc.

Modern Thought : A unique professional class was arisen with management not confining to only business unit, where advocacy was made for psychology, social studies, statistics, Mathematics and computer information technology.

Frederick Taylor's Principle of Scientific Management :

Definition : As said by Frederick Taylor, "Knowing exactly what you want your men to do and see to it they do it in the best and the cheapest way." workers and to see they do it certainly and least expense is Scientific Management.

Principles of Scientific Management :

- Scientific Method
- Planning and Implementation
- Job analysis
- Standardisation
- Scientific Selection and Training
- Economical
- Mental Revolution.

Techniques of Principles Scientific Management :

Time Study : Time Study means scientific study being done for the time required for completion of certain part of task.

Motion Study : Motion Study means method of removing wastage of resources due to unnecessary and unproductive movement of men and material waste generated from unproductive movements unnecessary,

Differential Wage Rate Study : Differential wage rate study means method of encouragement related wages on the basis of time of workers' work.

Management principles of Henry Fayol are as under :

- (1) Division of Work
- (2) Authority and Responsibility
- (3) Discipline
- (4) Unity of Command
- (5) Unity of Direction
- (6) Subordination of Individual Interest to the General Interest
- (7) Remuneration of Personnel
- (8) Centralization
- (9) Scalar chain
- (10) Order
- (11) Equality
- (12) Stability of Personnel Tenure
- (13) Initiative
- (14) Esprit de Corps (Feeling of Oneness)

Peter F. Ducker's Contribution in the Field of Management :

He has mainly contributed to human resources management, marketing management and stress management. Hence, Peter F. Ducker is called father of modern management.

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Sub: *Organization of Commerce & Management*

Chapter: 3 (Planning)





Chapter 3

“Planning”

Concept of Planning:

Planning is to collect information's for the activities to be undertaken in business, consider them in advance and plan out how to do these activities.

Definition: According to Bill Goetz, "Task of planning is choosing."

Characteristics:

- Universal process
- Primary function
- Conscious and mental process
- Flexibility
- Precise
- Forecasting is essential
- List of alternatives
- Concerned with future
- Continuous process
- Objective oriented activity
- Requires decision process

Importance:

- Activities in systematic manner
- Avoids wastage
- Reduces uncertainties
- Leads to precision
- Useful for achievement of objectives
- Smoothness in other managerial functions
- Employees' co-operation.
- Effective control
- Co- ordinates various activities

Limitations:

- Uncertain future
- Expensive process
- Time consuming



- Planning is irrelevant
- Tends towards rigidity
- Uncertainty of external factors
- Incomplete information
- Restriction on employees' creativity
- Use of faulty methods

Process of Planning:

- Determination of objectives
- Clarifying planning premises.
- Collection and analysis of information
- Preparation of alternative plan
- Evaluation of alternatives
- Selection of the best alternative
- Formulation and evaluation of subsidiary plan.
- Evaluation of plan

Types of Plan:

- Standing plan
- Strategic plan
- Tactical plan
- Operational plan
- Single use plan
- Contingency plan

Component / Elements of Planning:

- Objectives
- Strategy
- Policy
- Method / Procedure
- Rules
- Budget
- Programme

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Sub: *Organization of Commerce & Management*

Chapter: 4 (Organizing)



Chapter 4

“Organizing”

Meaning of Organizing: In general words..... the structure formed in order to enable delegation of authority and responsibility towards the people actively engaged for a common goal is organizing.

Definition: As per Chester I. Bernard... The activity conducted by two or more people and their co-operation is called Organization.

Concept: Where two or more people work together, the structure for the work accomplishment in an effective manner is called Organizing. In which delegation of authority and responsibility is distributed to attain common goal.

Characteristics :

- Goal oriented Activity
- Planning based
- The delegation of authority and responsibility
- Importance to human element
- Flexibility
- Establishment of inter relationships
- Monitoring and Control
- Group activities
- Controlled Administrative structure

Steps for the Process of Organising :

- Clarification of objectives
- List of functions
- Departmentation of function
- To determine departmental position and abilities
- The delegation of power and responsibility
- Establishment of inter relationship
- To prepare organizational chart

Structure of an organization:

- Linear organization
- Functional organization
- Formal organization
- Informal organization
- Matrix organization

Linear Organization

Meaning: The distribution of power and responsibilities is done in straight line from top to bottom levels. As the distribution of power is in straight line from upper to lower level, it is called Linear organization.

Formation : In this structure whole organisation is divided into various division/segment.

Divisional officer is appointed for each segment. This divisional officer is responsible to higher officer for their functions. Divisional officer is assigned all powers for his segment. In this form, formation of organization is done according to division not as per function. So it is known as linear organization.

Functional Organisation:

Meaning : A structure is formed in which, the special knowledge based expert are given special responsibilities in the particular unit, which is called Functional organization.

Formal Organisation:

Meaning : In order to achieve the predefined goals, the formal structure of relations among persons and work is established which is known as Formal Organization.

Characteristics :

- Formal Structure
- Lacking flexibility
- Delegation of power from upper to lower level
- Large size
- Particular relations
- Communication.

Informal Organisation:

Meaning : Informal organization is that formation of internal relations automatically formed on its own, in order to provide contribution to some result achievements, formed without any conscious objective. The relations are inevitably developed among the people working together. Such relations are not formally formed. Hence no formal or proper chart can be prepared for the same. It can be considered as a shadow of formal structure of organization.

Characteristics :

- Informal structure
- Based on human relations:
- Ever Changing

- Universal
- Informal communication
- Small size
- Lack of control

Matrix organization:

Meaning: Matrix organization is a modern kind of organization, which has two different type of structures. One is the simple kind of structure, which is a part of decision-making process and the other is a structure solving technical problems and is called Project structure.

Decentralisation:

Meaning : The delegation of power from top to bottom level in orderly manner is known as decentralization of power.

Definition : According to Henry Fayol, "To assign powers to the subordinates, to enable distribution of work, and to include them in decision making process is called decentralization"

Importance :

- Quick decisions
- Less work load on top level
- Increase in motivation
- Increase in managerial abilities
- Effective control
- Harmony is created.

Delegation of Authority:

Meaning : According to legal view, authority means to take legal action. But in business units, authority is to give orders and also to see to it that the orders are followed.

Definition : "According to Louis Allen, "Delegation of authority is such a process in which the manager gives his authority to his subordinates along with duties, and the subordinates with the help of others, for the purpose of work performance, accepts such authority consciously."

Importance:

- Efficient Management
- Development of Employees
- Motivation
- Benefit of Specialization

- Coordination
- Scope for Expansion

Elements of Delegation:

Entrustment of responsibility:

- Entrustment of Responsibility is the duty assigned by the top level officer to the subordinates for a specific work.
- The responsibility is given to accomplish a particular task- person in authority and the person or people who follow is pre-determined, as the followers have to follow all the orders of the authority.
- Hence the flow of responsibility is from upper to lower level.

Conferment of Authority:

- The administrators should provide enough power to the helpers or sub ordinates so that they can allot the work to the lower levels and get the work done.

Creation of Accountability :

- The delegated authority holder has to provide proper explanation and follow reporting process to the top-level management.
- This is known as Accountability.
- This accountability cannot be passed on.
- This accountability flows from lower to upper level.

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Sub: *Organization of Commerce & Management*

Chapter: 5 (Staffing)





Chapter 5

“Staffing”

Staffing :

Concept : In a wider sense staffing includes/means recruitment, selection, training, promotion, transfer and post retirement functions.

Characteristics:

- Important function of management
- Perennial/continuous process
- Concerned with human relations
- Dynamic process
- Related with other managerial functions
- Wide scope
- Capital Expenditure.

Importance :

- Driving force
- Dynamic activity
- Important for other functions of management
- Limbs of the business
- Job satisfaction among staff
- Harmony in relations
- Increases the prestige of the organization
- Continuous process

Staffing as a part of Human Resource Management :

Function of Human Resource Management.

- Concerned with man power planning
- Concerned with compensation and development

Process of Staffing :

(1) Meaning of Recruitment : In broader sense, "Recruitment is the process of acquiring at the right time, in the right number, in the right place, persons with the right qualifications."



Sources of Recruitment :

(A) Internal Sources :

- Promotion
- Transfer
- References of friends and relatives of employees
- Recalling retrenched employees
- Promotion with transfer
- Waiting list

(B) External Sources :

- Through advertisements
- Through employment exchanges
- Through educational institutions
- Through trade unions
- Through contractors
- At the gate
- By modern methods

(2) Selection : It means checking the applications received and appointing the suitable candidate.

Selection Process :

- Preliminary meeting to welcome
- Receiving and screening of applications
- To take necessary tests like IQ test, aptitude test, trade test and psychological tests
- Personal interview
- Checking past references
- Preliminary selection
- Physical examination
- Appointment letter
- Induction into the organization and allotment of duties

Training and Development :

Training : Concept : It is the process of imparting theoretical and practical knowledge with the objective of acquiring proficiency in work.



Importance :

- Modern information
- Safety
- Increase in satisfaction
- Reduction in rate of labour turnover
- Increase in profit
- Reduction in expenses
- Growth and development of employees
- Other benefits

Development : Concept : Development is imparting theoretical and practical knowledge to top level officers and departmental heads.

Importance :

- Increase in technical knowledge
- Research and new ideology
- Development of the organization
- Optimum use of resources
- Solution to problems
- Effective supervision
- Reduce stress
- Development programs

Difference between Training and Development :

Main Points :

- Meaning
- Objectives
- Centre point
- Time and expense
- Who imparts ?
- To whom ?

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Sub: *Organization of Commerce & Management*

Chapter: 6 (Directing)





Chapter 6

“Directing”

Direction:

Meaning : Direction means to guide the workers, make them aware of the work, supervise them and to maintain their enthusiasm for the work.

Characteristics :

- Goal oriented activity
- Functions at every level of management
- Continuous process
- Observation of function
- Wider scope
- Communication
- Motivation
- Flow of direction
- Managerial function

Importance :

- Increase in efficiency
- Assessment of efficiency
- Motivation to employees
- Effective planning
- Effective organisation
- Coordination and Co-operation
- Function of control
- Increase in enthusiasm
- Finding out deviation

Elements of Direction:

Supervision :

Meaning : "Supervision is the function of assuring that the work is being done in accordance with the plan and instructions."

- R. C. Davis

Functions :

- To plan the functions and removes the hurdle
- To complete the work on time and provide guidance and direction
- To supervise the employees constantly
- Integrates employees interest with business interest
- Provides motivation and guidance
- Maintains the feeling of oneness/harmony
- Communication must be faster
- To give guidance regarding new technology
- Maintains discipline
- Do not provide control but provides training
- Like a friend, philosopher and guide

Motivation:

Meaning : Motivation means the process of stimulating people to perform action and to make it possible to have maximum work satisfaction.

Characteristics :

- Internal feeling
- Psychological concept
- Increase in efficiency of employee
- Continuous process
- Reduction in labour turn-over rate
- Achievement of goal
- Wider scope
- Adapting changes in organisation
- Tool to get co-operation
- Positive attitude
- One of the function of management

Maslow's Hierarchy of Needs :

- Physical or primary need
- Safety needs
- Social needs
- Esteem and status needs
- Self-esteem and self-actualisation needs

Financial and Non-Financial Incentives :

Incentives: Business inspires their workers to maintain their work aptitude and increase their efficiency continuously, such inspiration is called incentives.

Financial Incentives :

- Share in profit
- Co-partnership
- Promotion
- Bonus
- Commission
- Prizes
- Suggestion and advices

Non-Financial Incentives :

- Security of employment
- Appreciation of work and reward
- Assignment of responsibility
- Adviser
- Welfare activities and amenities
- Other incentives

Leadership :

Meaning : Leadership is the quality which influences the people to do efforts willingly in achieving goals.

"Leadership is the art and skill of creating the desire in others for achieving goals."

Characteristics :

- Existence of followers
- Continuous process
- Acceptance of leadership
- Creates formal and effective relationship
- Ideal personality
- Motivation
- Harmony of interest
- Effect of situations



Qualities of a Good Leader :

- Physical Qualities
- Intellectual Qualities
- Psychological Qualities

Communication:

Meaning : One person passes clear information to another person so that, the latter understands the objective of the communicator and act on it.

"Communication is the process exchange of words, letters, instructions and opinions."

Characteristics :

- Goal oriented activity
- Words and language should be clear
- Two-way process
- Continuous process
- Many equipment's
- Many types and methods
- Motivation
- Related with administration
- Human process

Formal Communication :

Meaning : Any communication that depends on the structure of an organization and its rules and regulations and is implemented for the accomplishment of business objective is Formal communication.

Characteristics :

- Superior and subordinate are formally linked
- Objective is control and co-ordination
- Generally in written form
- It is accepted as policy of organization
- Based on organisation structure
- Formed for the accomplishment of business objectives
- Easy and clear to understand



Informal Organisation:

Meaning: Communication which depends on human relations and friendship among employees of an organisation is known as Informal Communication

Characteristics :

- Depends on human relations
- No need of control-order
- Use of oral or symbolic language
- Depends on human or friendly relations
- Flexible and easy
- No importance of method/procedure
- Gives more co-ordination and credibility
- Its complementary to formal communication

Difference between Formal and Informal Communication :

- Meaning
- Purpose
- Base
- Control and supervision
- Flexibility
- Time
- Information in advance

Barriers to Effective Communication :

- Lack of planning
- Faulty translation
- Unclear messages
- Unclarified assumptions
- Shortage of time
- Overburden of communication
- Ignorance of messages
- Selection of improper medium
- Distrust and fear

Measures to Overcome the Barriers of Communication :

- It should be arranged as per organisation structure
- Message should be clear to understand

- Proper selection of medium of communication
- As it is a two-way process so messages should flow in both the direction easily
- Feeling of mutual trust and co-operation is must between two parties
- Communication channel will not stop and delayed
- Communication should be fast
- It should be goal oriented
- Proper broad-casting of information
- Time to time evaluation of communication should be done
- During the process of communication, sender should not have any personal interest in it.

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Chapter: 7 (Controlling)





Chapter 7

“Controlling”

Introduction:

Meaning of Control : In general control, means to find out which functions are carried out and evaluate them and if required to take necessary corrective measures so that work can be done according to the plan.

According to Peter F. Ducker controlling is to maintain a balance between efforts and results and between resources and objectives.

Characteristics :

- Related to planning
- Functions at every level of management
- Continuous process
- End activity of management
- Related to future
- Constructive activity
- Internal process
- Dynamic process
- Person-oriented
- Can be formal or informal

Importance :

- Helpful in achievement of objectives
- Controlling on activities
- Makes planning effective
- Co-ordination between various activities
- Evaluation of activities
- Removes deviations
- Necessary for delegation of authority
- Finds out errors
- Long term planning
- Helpful in directing
- Barometer of efficiency

Relation between Planning and Controlling :

- Planning and controlling are two sides of the same coin
- Protection against changes
- Planning is the precondition for control
- Planning is the father of controlling

Stages of Controlling Mechanism :

- Setting standards
- Gathering of information
- Measuring performance
- Comparing work done with set standards
- Corrective measures - (A) No change in condition (B) Change the condition to remove deviation (C) Change the condition and establish new standards.

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Sub: *Organization of Commerce & Management*

Chapter: 8 (Financial Management)



Chapter 8

“Financial Management”

Concept and Definition of Financial Management:

Management of finance function, means to take decisions related to financial matter, executes it acquire acquisition funds and make its optimum utilization.

Characteristics :

- Branch of management
- Wide scope
- Base of managerial decisions
- Relation with financial decisions
- Goal of maximisation of owner's economic welfare
- Key position
- Relation with other areas of management
- Division in to two parts

Objectives of Financial Management :

(a) Objective of Profit Maximisation : According to this approach company should earn maximum profit out of its available resources, Company can increase earning per share through the objective of maximisation of profit.

(b) Objective of Wealth Maximisation : The objective of wealth maximisation is also known as 'Net Present Value'. Decisions resulting in net present value should be accepted by the company. Prof. Solomon has also favoured this approach.

Importance of Financial Management :

- Estimation of financial needs
- Acquiring finance
- Planning and controlling
- Distribution of finance
- Maintaining liquidity
- Distribution of income
- Management of current assets
- Financial decisions
- Raising credit of business



Financial Decisions :

(1) Decisions Related to Investment : Investment decision is called capital budgeting. To take the decisions regarding the selection of those assets in which capital is to be invested in future. Various methods of capital budgeting are being used in investment decisions,

(2) Decisions Related to Financing : Financing decisions are connected with the capital structure. Financial manager has to take the decision regarding the portion to be maintained equity capital and debt. Optimum capital structure is less risky and ensures maximum return.

Factors Affecting Financing Decisions :

(1) Internal factors and (2) External factors

(3) Decisions Related to Dividend : Dividend is a part of profit of the company. Dividend is a return to shareholders on their investment. Financial manager has to decide what part of profit should be distributed as dividend among the shareholders and what part of profit should be retained in business. Payment of dividend affects the market value of share.

Capital Structure :

Concept and Definition : Company procures capital by issuing various type of securities. Decisions regarding type of securities are reflected in the capital structure of the company. In what proportion will be the various type of securities to be issued is determined by financial manager.

Definitions: Capital structure means the combination of different sources of capital.

Characteristics of Ideal Capital Structure :

- Simplicity
- Profitability
- Adequate finance
- Flexibility
- Economy
- Balancing
- Liquidity
- Attractiveness
- Solvency



Types of Capital Structure :

- (A) Capital structure of only equity shares
- (B) Capital structure of preference shares with equity shares
- (C) Capital structure of debenture with equity shares
- (D) Capital structure of preference shares and debentures with equity shares

Factors Affecting Capital Structure :

(A) Internal Factors :

- Type of business
- Size of business
- Estimation of business income
- Nature and requirement of assets
- Attitude of directors
- Financial requirements
- Duration of capital requirement.

(B) External Factors :

- Condition of boom-depression in capital market
- Present rate of interest in capital market
- Capital cost-expenses of security issue
- Legal restrictions
- Taxation policy
- Institutional investors
- Foreign institutional investors.

Working Capital :

Meaning and Definition: Working capital is used to pay day-today expenses. It constantly circulates in business.

Concept of Working Capital :

Definition : Working capital means the excess of current assets over current liabilities,

(1) Gross Working Capital : Sum of total investment in current assets of business means working capital.

(2) Net Working Capital : Net working capital means current assets minus current liabilities,



Difference between Gross Working Capital and Net Working Capital

- Meaning
- Liquidity Position
- Financial position and measurement
- Increase in Current liabilities

Characteristics of Working Capital :

- Short term capital
- Investment in current assets
- Liquidity
- Less risk
- Changing form
- To pay day-to-day expenses
- No depreciation
- Requirement according to type and form of business

Factors Affecting Working Capital:

- Type of nature of business
- Size of business
- Production cycle
- Production policy and type of demand
- Stockpile of raw materials
- Credit policy
- Conversion of current assets into cash
- Stock turn over ratio
- Operating efficiency
- Distribution of profit

Fixed Capital :

Meaning and Concept : Fixed capital means a long term capital which is generally invested for 5 years or above in business.

Characteristics :

- Long term
- Different ratio in different types of business
- Components
- Less liquidity

- Risk
- Depreciation
- Sources

Factors Affecting the Needs of Fixed Capital :

- Type and nature of business
- Size of the unit
- Use of ownership/lease
- Research expense
- Modern technology
- Government assistance and taxation policy
- Establishment expense

Difference between Fixed Capital and Working Capital :

- Meaning
- Period
- Liquidity
- Risk
- Requirement
- Sources
- Depreciation.

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Chapter: 9 (Financial Market)





Chapter 9

“Financial Market”

Concept of Financial Market: Financial market is an important component of financial structure. Financial market includes mainly Capital market and Money market.

Money Market: Money market is a market of borrowing money and lending money for a short term. It is a market for securities having a maturity period of one year or less than it.

Characteristics : Two parts, maturity period, credit worthiness, physical location, convertible into cash, sub-branches, debt instruments, base of success.

Organised Money Market and Unorganised Money Market : Divided into two parts :

(1) Organised money market and (2) Unorganised money market

(1) Organised Money Market : Regulated by Reserve Bank of India. Includes financial instruments like treasury bills, certificate of deposits, call money.

(2) Unorganised Money Market : No regulation of centralised institution as it is a informal, consists of landlord, shroffs.

Instruments of Money Market :

(1) Treasury Bills : It is short term government security. Issues at discount, possesses cash liquidity.

(2) Commercial Paper : It is short term document like promissory note. Issued by corporate body. Issued at discount.

(3) Certificate of Deposits : This is unsecured negotiable and short term financial instrument.

(4) Commercial Bills : It arises out of business transaction. It is drawn by seller of goods on the purchaser. Bank provides credit to its customer discounting the bill.

(5) Call and Notice Money : Call money is a transaction for one day. Call money means loan of one day. When money is borrowed or lend for 2 to 14 days, it is called Notice money.

Capital Market : It includes two markets :

(1) Primary market and (2) Secondary market

Meaning of Capital Market: It is a source of long-term capital fund for industrial enterprises. Capital market becomes helpful in the economic growth through mobilizing the savings of community.

Characteristics of Capital Market:

- Long term market
- Instruments are securities
- Investment in securities
- Regulation of SEBI
- Transfer of ownership of securities
- Provides liquidity
- Two parts

Primary Capital Market: Primary market is called market of new securities. It is market for selling new securities in order to raise capital fund.

Characteristics :

- Market for newly issued securities
- Purchasing by investors and direct selling of securities
- Intermediaries
- Issues through prospectus.

Secondary Market (Stock Exchange) : Oldest and first stock exchange of India is Bombay Stock Exchange. It is a market for trading of listed securities,

Characteristics :

- Registered corporate body
- Approval of government
- Organised market
- Membership
- Market of securities
- Listing of securities
- Management
- Strict control over the members
- Organisational structure
- Regulation of stock exchange.

Functions :

- Liquidity
- Valuation of securities
- Conversion of savings into capital
- Intermediary in creation of capital
- Safety in transactions
- Growth of capital market
- Facilities to perform activities
- Necessary facility for speculation
- Information provider
- Listing of securities
- Guidance to investors

Concept of De mat Account : Dematerialisation means conversion of physical securities into electronic data through computer.

Depository : It is a company registered under Companies Act. It has to obtain certificate of registration from SEBI.

Two Depositories in India : (1) NSDL and (2) CDSL.

National Securities Depository Limited-NSDL :

- Public company formed under the Companies Act.
- It was registered with SEBI in 1996.
- NSDL performs its function through the depository participant appointed by it.
- All services provided by NSDL are as provided by depository.

Central Depository Services (India) Limited-CDSL :

- Incorporated in 1999.
- It publishes time to time on its website the list of participants registered with it.
- The centralised system of CDSL and NSDL keeps an eye on every transaction.
- Provides all the services as provided by depository.

Depository Services :

- Dematerialisation and rematerialisation
- Easy transfer of securities at less expense

- Prompt settlement of transaction
- Record in customers account
- Facility to mortgage
- Facility to freeze or close account
- Record and storage of information
- Link between investor and clearing house
- Services through internet

Trading Procedure of Securities : End of old traditional system of transaction on the floor by outcry. Online trading system in all the stock exchanges. Investors can buy and sell their securities online.

Procedure of Purchase and Sale :

- To open Demat account
- Order to buy and sale
- Execution of order
- Contract note
- Settlement of transaction
- Payment of amount and delivery of security
- Inform to customer of settlement of transaction

Objective of SEBI :

- To protect the interest of investor
- To encourage the development of securities market
- To regulate the securities market

Functions :

- To regulate the business in stock exchange
- Protection of the interests of the investors
- Registration and regulation of intermediaries
- Registration and regulation of mutual funds
- To prevent fraudulent trade
- To cancel registration of brokers
- To regulate the merger and take over of the companies
- Guidelines with reference to public issues
- Self regulation
- Maintaining stock exchanges as an efficient market
- Inspection of books

- Monitoring and inspection of stock exchange
- Guidelines
- To obtain annual and periodical reports
- Research work.

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Chapter: 10 (Marketing Management)





Chapter 10

“Marketing Management”

Marketing Process : Marketing is a process through which the goods or services are moved from producers to the customers.

Functions of Marketing Process :

- Marketing research
- Collection of Goods
- Transformation of raw material into consumable Goods
- Standardisation and gradation
- Labelling
- Pricing
- Packing
- Storage of goods
- Transportation
- Insurance
- Financial Arrangement
- Advertisement
- Arrangement of Sales and Distribution
- Sales
- After sales services

Difference between Selling and Marketing :

- Meaning
- Scope
- Objectives
- Parties
- Beginning and end
- Capital requirements
- Direction of efforts

Concepts of Marketing Management : Different concepts to understand and implement the marketing management.

(1) Production Concept : It focuses on offering the product to consumer at the lowest cost.

(2) Product Concept : Producing better quality product and selling it at a high price, assuming that customer is quality conscious.

(3) Selling Concept : It focuses on an aggressive selling and promotion technique to raise stock turnover rate.

(4) Marketing Concept : The customer is in the centre and product is made from the view point of customer satisfaction.

(5) Social Marketing Concept : The concept of social responsibility - There should be protection of the social interest which means maintaining a balance between the satisfaction of customer and the interest of the society.

Marketing Mix : There are four components of marketing management that can achieve goal of the business unit by achieving customer satisfaction. They are product, price, place and promotion. They are also known as 4 Ps also.

(A) Product : That can satisfy the customer's need.

Branding : Branding means any type of sign, symbol or design which is intended to differentiate the product from competitor's product.

Characteristics :

- Quality
- Use of colours in symbols
- Sign/symbol on packing
- Name of brand emphasizing the basic features or benefits or usages of the product
- Identification of the product
- Verbal & visual identity
- Sale on high price
- Easy for the salesman

Labelling : Display of information such as product size or weight, price, date of manufacturing, ingredients, Expiry date, Method to use the product, etc.

Functions :

- Easy identification of the product
- Sufficient information about type and quality of the product
- Information about product
- Method of usage
- Create Attractiveness

- Satisfy legal and ethical needs.

Packaging : Covering of a product to protect, it is known as packaging.

(B) Price : Value paid by a customer for a product or service for his physical, economical, social or psychological satisfaction.

Factors Affecting Price :

- Cost of product
- Demand of product
- Competition in the market
- Government and legal restrictions
- Objective oriented pricing
- Economic conditions
- Buyers' behaviour

(C) Distribution : It refers to an arrangement of making the final product available at place where it is required, when it is required and in whatever quantity it is required.

Types of Distribution :

(1) Direct sales (2) Sales through middlemen

(1) Direct Sales or Selling to the Customer : The manufacturer or seller directly sells to the customers.

(2) Indirect Sales/Sales Through Middlemen : Using indirect means with intermediaries.

(A) One Level: Only one mediator between a buyer and a seller.

(B) Two Level : Two mediator between a buyer and a seller.

(C) Three Level : Three mediator between a buyer and a seller.

(D) Promotion : It is an important marketing mix that creates attraction toward the product among the customers and converts potential customers into actual customers. In promotion advertisement, sales promotion, publicity and personal selling are included.

Advertisement : Producers use different mediums to advertise goods or services and they pay for that

Functions :

- Creates demand
- Advantages of large scale production
- Information about product
- Helps in job creation
- Raises living standard
- Maintains sales

Objections Against Advertisements :

- Unnecessary purchasing-a social evil
- Inferiority to poor
- Expensive activity
- To beat the competitors
- Inferior quality product
- Unimpressive presentation / obscenity
- Information regarding unwanted goods
- Forces to advertise others
- Exaggeration.

Personal Selling : The job of presenting the product before the potential customers solving their doubts and converting them into actual buyers by a salesmen.

Characteristics of a Good Salesman :

- Smart, efficient, interactive, physically fit
- Efficient in communication
- Style of presentation of new product
- Technical information
- Honesty
- Politeness
- Enthusiasm.

Sales Promotion: Short-term benefits offered to the customers that inspire the customer to buy the product.

Sales Promotion Techniques :

- Sale
- Discount
- Advertisement coupon
- Gift

- Additional gifts
- Lucky draw
- Interest free loan
- Distribution of samples
- Organising competitions.

Publicity : Impersonal communication about the product of the company with help of mass media without paying any charges for it.

Role:

- Most reliable
- Free of cost
- Includes public relations
- Effective use of mass media
- Helps the salesman and the middlemen.

Public Relations: Maintaining good relationship with all the parties involved with the company and creating good image of the company among them.

Role :

- Good relationships with newspaper editors
- Information about new products
- Achievements of the company and its employees
- Director's speech
- Organizing social and cultural programmes
- Public interest activities

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Chapter: 11 (Consumer Protection)



Chapter 11

“Consumer Protection”

Meaning of Consumer Protection : Providing shield to consumer from the unethical, exploitative and unlawful practices of sellers or manufacturers.

The Exploitation of consumers can be categorised under three heads :

- Physical and Mental Exploitation
- Economic Exploitation
- Against Public Interest.

Meaning of Consumer : According to the Consumer Protection Act a consumer is "a person who receives goods or services against an exchange the pays or agrees to compensate partly or fully or promises to compensate on a future date or has participated in some future payment plan. Any user of the product or service who uses it on the basis of the permission of the purchaser is a consumer. But the one who purchases on a resale basis or for further production is not included under the definition of a consumer."

Importance of Consumer Protection :

Importance of consumer protection from the view point of business :

- Use of Public Resources and Wealth
- Social Responsibility
- Part of the Society
- Impression on the Society
- Consumers ‘protection is good for business
- Principle of Trusteeship and consumer protection

Consumer protection from the view point of consumer :

- Extensive Exploitation of Consumers
- Ignorance of Consumers
- Lack of Unity among Consumers.

Consumer Protection Act - 1986 :

Rights of the Consumers :

- Safety
- Information

- Choice
- Representation
- Redressal
- Consumer Education.

Additional Rights of Consumers through United Nations Organization

Directive : (i) Basic Needs (ii) Hygienic Environment.

Responsibilities of Consumers :

- Conscious use of rights
- Beware of misleading advertisements
- Care during purchase
- Solicit for a bill
- Solicit a high quality
- Registering of genuine complaints
- Spread of consumerism
- Environmental protection
- No involvement in unethical activities.

Dispute Settlement Institutions According to Consumer Protection Act :

(1) District Level Forum:

- When the price and compensation demanded for the disputed product or service equals to or is less than Rs 20 lakhs, it will be dealt by District Level Forum for its listening and settlement.
- In District Level Forum, at least 3 members are appointed by state government, out of whom one is the President and one should be a woman member.
- If either of the parties is not satisfied by the judgement of the District Level Forum, then within 30 days, it can appeal to the State Level Commission for reconsideration.

(2) State Level Commission:

- If the price and compensation demanded for the disputed product or service is more than Rs 20 lakhs but equals to or less than Rs 1 crore, the State Level Commission listens the dispute and settles it.
- If any party is dissatisfied by the judgement of the District Level Forum and if it is brought to the State Level Commission, it will be heard by them.

- The State Government appoints atleast 3 members out of which one will be the President and one should be a woman member.
- If any party is not satisfied with the judgement of the State Level Commission, then within 30 days, it can appeal to the National Level Commission for reconsideration.

(3) National Level Commission :

- If the price and compensation amount demanded for the disputed product or service exceeds Rs 1 Crore, the National Level Commission listens to the dispute and settles it.
- If either party is not satisfied by the judgement of the State Level Commission, it will be handled by the National Level Commission.
- At least five members are appointed by the Central Government out of which one is the President and one should be a women member.
- Any party can appeal to the Supreme Court in reasonable time if they are not satisfied by the judgement of National Level Commission.

Institutions Working in the Field of Spreading Consumer Awareness

- Consumer Education and Research Centre-(CERC), Ahmedabad
- Consumer Protection Council-(CPC), Ahmedabad
- Voluntary Organization in the Interest of Consumer Education-VOICE, Delhi
- Consumer Guidance Society of India-(CGSD). Mumbai
- Consumer Unity and Trust Society-(CUTS), Jaipur etc. Consumer Co-ordination Council (CCC), Delhi compiles and co-ordinates the activities of all other institutions working on consumer protection.

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Chapter: 12 (Business Environment)



Chapter 12

“Business Environment”

Meaning : Business environment includes economic, social, cultural, technological, political, legal factors. Apart from these, various groups like consumers, labourer, competitors, suppliers of raw materials etc. are also included in this business environment.

Importance :

- Advantage of early entry
- Sensitivity of management
- Grab opportunities
- Identifying dangers
- Helpful in policy decisions
- Continuous study

Factors affecting business environment :

(1) Internal factors (2) External factors

(1) Internal factors :

- Business objectives
- Employees
- Managerial system, etc.

(2) External factors :

(1) Economic Factors :

- Economic System
- Degree of Economic Development
- Regional Development and International Integration
- National Income and Per Capita Income
- Distribution of National Income
- Monetary Policy
- Fiscal Policy
- Other Factors

(2) Social Factors

(3) Cultural Factors



(4) Technological Factors

(5) Political Factors

(6) Legal Factors

Liberalization: An effort to quit the path of control and try to achieve progress through the path of liberation is known as liberalization.

Effects of liberalization :

- Acceptance of foreign capital investment in Indian industry and business
- Transparency in the purchase and sale and delivery, payment system in the share market
- Simple tax structure
- New sign of Indian currency 'Rs' and subject to certain conditions, Indian rupee is free against the foreign currency
- Elimination of licence raj
- Integrated effort to increase exports
- Widespread changes in the laws relating to foreign exchange
- Changes in the Monopolies and Restrictive Trade Practices Act
- Conditional freedom to banks for fixing rate of interest
- Ease to import goods and services

Privatization : Transferring of ownership and management from the control of public sector to private companies or private industrial units is known as privatization.

Positive Effects of Privatization :

- Rise in productive efficiency
- Absence of political interference
- Quality goods and services
- Systematic marketing
- Use of modern technology
- Hierarchical set up for accountability
- Creation of competitive environment
- Advantage of research and development
- Advantage of modernization and innovation
- Maximum utilization of factors of production
- Availability of infrastructural facilities.

Negative Effects of Privatization :

- Exploitation of employees
- Misuse of power by top management
- Unequal distribution of income and wealth
- Absence of job security
- Priority to profit
- Consumer exploitation, etc.

Globalization: When any country allows foreign companies to do business in their domestic economy and domestic companies allow to do business globally, it is known as globalization.

Positive Effects of Globalization :

- Large scale production
- Increased competition leads to greater consumer protection
- Consumers get improvised, technically upgraded product at an economical price
- Opportunities of employment generation
- Consumers will be able to use quality products and service at a low price
- Speedier generation of infrastructural facilities in the country
- Increased importance of education has led to increase in spread of education
- Easier to set up new industries
- The whole world is becoming a global village
- Freedom from political bureaucracy and red tapism

Negative Effects of Globalization :

- Arrangement for market set up becomes difficult and costly
- Rise in the production of luxurious goods and services at the cost of necessities
- New problems arises because of the change in human mentality
- Rise in inequalities of income and wealth distribution
- Spread of economic situation of one country or continent to other countries quickly
- Competition is at the cost of destruction of ethical values
- Larger units get more profit and small scale units experience difficulty to survive

- When the spread of education is relatively lesser than the spread of development, the competitive ability of employees become weak
- Multinational companies show more loyalty to their home country rather than to the host country
- Internationally renowned companies influence the monetary policy of the country which is suitable to them by collaborating with the political parties.

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*I wish you a very good luck for all your life.
May you get all your desire and may you get
success on every single step.
I wish you best of luck.*