



ACADEMIC YEAR 2023-2024, SEMESTER – I  
STUDY MATERIAL FOR B.COM  
FUNDAMENTALS OF BUSINESS STUDIES



**STUDY MATERIAL FOR B.COM.,  
FUNDAMENTALS OF BUSINESS STUDIES  
SEMESTER – I**



**ACADEMIC YEAR 2023-24**

**PREPARED BY**

**COMMERCE DEPARTMENT**



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## UNIT I

### COMMERCE

#### DEFINITION OF COMMERCE

Commerce as a medium of instruction can be interpreted as a study of business and marketing activities such as the exchange of commodities and services from the manufacturer to the final customer.

#### IMPORTANCE OF COMMERCE STREAM

1. Commerce tries to satisfy increasing human wants
2. Commerce links Manufacturers and customers
3. Commerce increases wealth and national income
4. Commerce encourages international trade
5. Commerce helps during emergencies

Commerce and its education have become the backbone of every nation. The level of growth and the standard of living of the citizens are associated with the state of commerce in every distinct country. No nation can grow without the growth of commerce. The demands of the people are not confined to the goods manufactured in their countries only. They demand goods produced in other nations also.

#### MEANING OF BARTER SYSTEM

Barter is an alternative method of trading where goods and services are exchanged directly for one another without using money as an intermediary. It is an old method of exchange. People exchanged services and goods for other services and goods in return.

##### Barter System – Difficulties

In a large economy, Barter exchanges are not feasible.

In a search for a person to exchange their surplus, in a barter system, a person would end up incurring very high costs.

Under the barter system, it is not feasible to carry forward one's wealth.

For example, if a person is looking to barter surplus rice, then a lot of resources and time would be spent on finding the person who would be willing to exchange goods that you need.

Moreover storing rice also would require a lot of space, if there are space constraints then it would be a problem.



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Taking into consideration the same example of rice, these are perishable goods, one cannot save it like money, moreover money is not perishable.

### **Demand for Money**

Money is universally accepted.

Any commodity can be exchanged at any point of time using money.

There are no constraints like shortage of space, while storing money.

If money is invested in some financial instruments, you can earn more money, which is not possible in barter exchange.

If you save money in a bank, you can earn interest on the same, whereas in barter system there is no such.

People hold on to money with 2 main objectives – that is transaction motive and speculative motive.

## **BUSINESS- INDUSTRY- TRADE**

### **1. Meaning**

**Industry:** It involves manufacturing activities such as extraction, construction and production of goods.

**Commerce:** It involves distribution of products produced by industries,

**Trade:** It involves transfer or exchange of products distributed by commerce.

### **2. Capital Requirement**

**Industry:** Requires huge amount of capital to establish industry.

**Commerce:** Requires less amount of capital than industry but larger amount than trade to operate its activities

### **3. Level of Risk**

**Industry:** Riskier than commerce and trade.

**Commerce:** Less riskier than industry but involves high risk than trade.

### **4. Side**

**Industry:** Supply side of the product.

**Commerce:** Demand side of the product.

**Trade:** Both side (demand and supply) of the product.



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### **5. Creation of Utility**

Industry: It creates form utility.

Commerce: It creates time utility and place utility.

Trade: It creates processing utility

### **6. Place of Operation**

Industry: It is operated in workshop or factory.

Commerce: It is operated from production center to distribution center.

Trade: It is operated in the market

### **HINDRANCE OF TRADE**

**Hindrance of Persons:** Hindrance of persons (resources) can be overcome by hiring more manpower.

**Hindrance of Place:** Hindrance of place is generally overcome by taking goods physically from one place to another which through transportation.

**Hindrance of Time:** Hindrance of time is overcome through systematic storage of goods, also known as warehousing.

**Hindrance of risk:** Insurance is commonly used to overcome the hindrance of risk (damage/loss of goods in transit or in warehouse).

**Hindrance of exchange:** Trade helps overcome hindrance of exchange by making available goods and services to the consumer through selling and buying.

**Hindrance of information/knowledge:** This hindrance can be overcome through communication – by using postal and telecom services.

**Hindrance of financing:** This is overcome by arranging for money (for payments) through banks and other sources.

**Hindrance of promotion:** This can be overcome by advertising in different media (traditional as well as digital) and adopting different marketing strategies.

### **BRANCHES OF COMMERCE**

**Trade:** The channel through which goods are passed from the producer to the consumer is termed as trade. It is the agency which facilitates proper flow of goods. Trade involves buying and selling of goods.



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**Transport:** Goods produced at the end of the producer are passed to the consumer with the help of transport facilities. The goods are transported from the place of low demand to the place of greater demand. Transport helps in the creation of place utility for the products. The growth of commerce largely vest on proper modes of transport like road, rail, sea and air.

**Distribution:** It is not possible on part of the producers to make direct contact with the consumers which are millions in numbers. A chain of middlemen like wholesalers, retailers, brokers and other agents help in the process of distribution of goods. The hindrances of persons is being removed with the help of different middlemen.

**Insurance:** A great deal of risks are involved during the course of transportation of goods. The risks in connection with goods are risks of fire or theft. These risks develop a state of fear of losses and these losses are covered by the help of insurance.

**Advertisement:** Since the consumers are scattered over distant places, they may not be aware of the availability of goods. Absence of knowledge of product puts a lot of hindrances on purchase of goods and this hindrance of knowledge is removed by advertisement and publicity.

**Banking:** There is a time lag between the production and sale of goods and during this period, the need of finance exert a great deal of influences. The commercial banks and the other schedule banks play a vital role in mitigating these financial crises. Banks also facilitate in international trade by providing long-term financial assistances.

**Warehousing:** The production of goods takes place in the anticipation of demand and goods are produced during the period of less demand. There is a growing need to store the goods in a warehouse so that those can be utilized during the period of more demand. The facility of warehouse removes the hindrances of time. The need for warehouse is greater in foreign trade because there is more time gap between production and consumption.

**Communication:** The buyers and sellers are intimated through various communicating agencies. The producer intimate the buyer about the production of goods, and the buyer sends orders for supply of goods. The post office, telephone, telex and fax helps in communication between the producer and consumers.



## UNIT II

### ACCOUNTING

#### BOOK KEEPING MEANING

Bookkeeping means recording the financial transactions and information concerning the business of a company regularly. It is a systematic recording of financial transactions in a company. It ensures that the records of each financial transaction are up-to-date, correct and comprehensive.

The bookkeepers are individuals or entities who maintain the books of account of a company. They manage all the financial data of a company. The companies can track all their financial transactions on their books with accurate bookkeeping. Bookkeeping helps companies to make important investing, operating and financing decisions.

#### OBJECTIVES OF BOOK KEEPING

##### To record the transactions

The first objective of bookkeeping is to maintain accurate and complete records of all financial transactions in an orderly manner. It systematically records all transactions and ensures that all financial transactions recorded are reflected in the books of accounts. These transactions can be used for future references.

##### To show the correct position

Bookkeeping helps to ascertain the overall impact of all financial transactions of a company. It reflects the financial effect of all business transactions that have taken place in a financial year. It provides financial information to the shareholders and management of the company, thus helping them formulate future policies and plans.

##### To detect errors and frauds

Bookkeeping helps to identify the transactions and summarise them chronologically in a systematic manner. It ensures that the books of accounts are correct, up-to-date, chronological and complete. Thus, it helps to detect any errors or frauds in the business.

#### Types of Bookkeeping System

There are two types of bookkeeping systems. The business entities can choose any one of the types of bookkeeping system. Some entities use a combination of both types. The following are the two types of bookkeeping system:

##### Single-entry system of bookkeeping

The single-entry system of bookkeeping is a basic system to record daily receipts or generate a weekly or daily report of a company's cash flow. In the single-entry system of bookkeeping, the bookkeeper records one entry for each financial transaction or activity.





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The single-entry system of bookkeeping involves recording only one side of the transaction or activity. It maintains only the purchases, cash receipts and payments and sales. It is used mainly by small businesses, which have minimal transactions.

### **Double-entry system of bookkeeping**

The double-entry system of bookkeeping records a double entry for each financial activity or transaction. The double entry system provides balances and checks as it records the corresponding credit entry for every debit entry. It is not cash-based, and the transactions are entered when revenue is earned, or debt is incurred.

The double-entry system of bookkeeping is based on the duality concept, i.e. every financial transaction affects two accounts. It means that every debit entry to an account has a corresponding credit entry in another account and vice versa. This system is universally adopted and is considered accurate for recording business/financial transactions.

### **Importance of Bookkeeping**

Bookkeeping is necessary for all businesses, irrespective of the size, nature, business transactions, or any specific industry. Upon the commencement of a business, maintaining proper records is essential. The following points state the importance of bookkeeping:

#### **Records the source of transactions**

Bookkeeping acts as a source of all the financial transactions of a business since it records all the financial transactions from the source of the transaction, like receipts, invoices, payment notes, etc.

Bookkeeping keeps track of payments, receipts, purchases, sales and records every transaction made from and by the business. The financial statements or other accounting reports of a business are summarised from their books of accounts. Thus, all businesses irrespective of their size, need to have proper bookkeeping in place.

#### **Helps in decision making**

A correct and proper bookkeeping process provides companies with an accurate measure of their performance. It also provides information for making general strategic decisions and a benchmark for its income and revenue goals. Bookkeeping is a reliable source for companies to measure their financial performance.

One of the main reasons for bookkeeping is maintaining all financial records of a business that shows the financial position of every head or account of income and expenditure. The companies can obtain detailed information about each income or expense instantaneously through bookkeeping.





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**Gives information to prepare financial statements**

Bookkeeping summarises the expenditures, income and other ledger records periodically. Since bookkeeping records and tracks all financial transactions, it becomes the starting point of accounting. If the bookkeeping of a company is not proper, the accounting of the company will not be accurate.

Bookkeeping provides information to prepare financial reports, which states the specific information about the business on how much profits it has made or the worth of the business at a specific point in time.

**Legal requirement**

The maintenance of financial statements and books of accounts is a legal requirement under many acts. In the case of banks or companies or insurance companies, the acts that regulate them require such firms to maintain and keep financial records. Thus, bookkeeping becomes necessary for such companies.

**ACCOUNTING**

**ACCOUNTING** is the art of recording, classifying, summarising and analyzing business transactions and interpreting the results thereof. In accounting, only those transactions and events are recorded which can be measured in terms of money.

The basic objective of accounting is to provide the desired information to the owner as well as to all other interested parties i.e. investors, creditors, employees, financial institutions, government etc.

In short, we can say that accounting is the language of business by which all the financial and other information are communicated to various interested parties.

**Characteristics of Accounting**

- Accounting is an art which it helps us in attaining our aim of ascertaining the financial results that is, operating profit and financial position. Analysis and interpretation of financial data require special knowledge, experience and judgement.
- In accounting the financial transactions are recorded in the Journal. With the help of Journal, the recorded data are classified into ledger under appropriate heads. Then with the help of ledger the trial balance and financial statements are prepared.
- It records only those transactions and events which are of financial character: If a transaction has no financial character then it will not be measured in terms of money and



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not

recorded.

- It records transactions in terms of money. All transactions are recorded in terms of common measure i.e. money.
- On account of recording of business transactions in a systematic manner, it is also called a science. First the business transactions are recorded in the primary books i.e. Journal, for classification the ledger is prepared.

With the help of ledger the Trial Balance, Profit and Loss account and Balance Sheet is prepared. Profit and Loss account is prepared after a period to find the result of the business and Balance Sheet to know the financial position of the business

### **Divisions of Accounting**

Accountants tend to specialize in various types of accounting work and this has resulted in the development of different branches of accounting. Some of the divisions of accounting are given as:

- Financial Accounting
- Management Accounting
- Cost Accounting
- Tax Accounting
- Social Accounting
- Human Resource Accounting
- National Accounting
- Green Accounting
- Creative Accounting
- Forensic Accounting



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## **Objectives of Accounting**

### **Maintaining systematic records**

Business transactions are properly recorded, classified under appropriate accounts and summarized into financial statement.

### **Communicating the financial results**

Accounting is used to communicate financial information in respect of net profits (or loss), assets, liabilities etc., to the interested parties.

### **Meeting legal needs**

The provisions of various laws such as Companies Act, Income Tax and GST Acts require the submission of various statements, i.e., annual account, income tax returns and so on.

Accounting assists the management in the task of planning, control and coordination of business activities.

### **Stewardship**

In the case of limited companies, the management is entrusted with the resources of the enterprise. The managers are expected to act true trustees of the funds and the accounting helps them to achieve the same.

### **Fixing responsibility**

Accounting helps in the computation of the profits of different departments of an enterprise which help in fixing the responsibility of departmental heads.

## **Advantages of Accounting**

### **Helpful in the Determination of Financial Results**

Accounting is very useful in the determination of the profit and loss of a business and showing the financial position of the business.

### **Comparison of Results**

Accounting information when properly recorded can be used to compare the results of one year with those of earlier years so that the significant changes can be analysed.

### **Assistance to Management**

The accounting information helps the management to plan its future activities by preparing budgets in respect of sales, production, expenses, cash, etc. Accounting helps in the coordination of various activities in different departments by providing financial details of each department.



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The managerial control is achieved by analyzing in money terms the departures from the planned activities and by taking corrective measures to improve the situation in future.

**Helpful in Assessing the Tax Liability**

Generally, a businessman has to pay corporate tax, VAT and excise duty, etc. Therefore, it is necessary that proper accounts should be maintained to compute the tax liability of the business.

**Helpful in the Case of Insolvency**

Sometimes the businessman becomes insolvent. If he has properly maintained the accounts, he will not face the problems in explaining few things in court.

**Provides Information to Interested Parties**

Interested parties like owners, creditors, management, employees, customers, government, etc. are interested in accounting information.

**Raising of Funds Become Easy**

It helps in raising funds from investors or financial institutions by promising investors a fixed claim (interest payments) on the cash flows generated by the assets, with a limited or no role in the day-to-day running of the business.

**Limitation of Accounting**

**Recording of Monetary Items Only**

In accounting, only those transactions, which have monetary value, are recorded. And those transactions which do not have financial value whether those are important in business are not recorded in the accounting.

**Effect of Inflation**

In accounting, the transactions are recorded at the historical cost. Accordingly, the assets of the business are shown at cost in the balance sheet. Thus the balance sheet prepared on the basis of historical cost ignores the price-level changes (inflation). In this way, the balance sheet of the business does not present the true and fair picture of the business.

**Accounting Information May be Biased**

Accounting information is not without personal influence or bias of the accountant. In measuring income, accountant has a choice between different methods of inventory valuation, depreciation methods, treatment of capital and revenue items etc. Hence, due to the lack of objectivity income arrived at may not be correct in certain cases.



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### **Conflict between Accounting Principles**

In accounting, one accounting principle conflicts another. For instance, inventory should be valued on the basis of 'least of the cost and market price' as per the principle of conservatism.

### **MEANING OF DEBIT CREDIT**

Both of the terms debit and credit have Latin roots. The term debit comes from the word debitum, meaning "what is due," and credit comes from creditum, defined as "something entrusted to another or a loan."

When you increase assets, the change in the account is a debit, because something must be due for that increase (the price of the asset). Conversely, an increase in liabilities is a credit because it signifies an amount that someone else has loaned to you and which you used to purchase something (the cause of the corresponding debit in the assets account).

The terms debit and credit signify actual accounting functions, both of which cause increases and decreases in accounts, depending on the type of account. That's why simply using "increase" and "decrease" to signify changes to accounts wouldn't work.

When it comes to the DR and CR abbreviations for debit and credit, a few theories exist. One theory asserts that the DR and CR come from the Latin present active infinitives of debitum and creditum, which are debere and credere, respectively. Another theory is that DR stands for "debit record" and CR stands for "credit record." Finally, some believe the DR notation is short for "debtor" and CR is short for "creditor."

### **TYPES OF ACCOUNTS AND ITS USES**

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

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

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

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

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



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

### **Classification of Accounts in Accounting**

- Personal Account
- Real Account
  - Tangible Real Account
  - Intangible Real Account
- Nominal Account

### **Personal Account**

These accounts types are related to persons. These persons may be natural persons like Raj's account, Rajesh's account, Ramesh's account, Suresh's account, etc.

These persons can also be artificial persons like partnership firms, companies, bodies corporate, an association of persons, etc.

**For example** – Rajesh and Suresh trading Co., Charitable trusts, XYZ Bank Ltd, C company Ltd, etc.

There can be personal representative accounts as well.

**For example** – In the case of Salary, when it is payable to employees, it is known how much amount is payable to each of the employee. But collectively it is called as 'Salary payable A/c'.

Rule for this Account

Debit the receiver.

Credit the Giver.

**For Example** – Goods sold to Suresh. In this transaction, Suresh is a personal account as being a natural person. His account will be debited in the entry as the receiver.

Learn more about accounting here in detail

### **Real Accounts**

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

Learn more about Accounting Cycle here in detail.



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### **Tangible Real Accounts**

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

### **Intangible Real Accounts**

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

### **Real Account Rules**

Debit what comes into the business.

Credit what goes out of business.

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

Learn more about Classification of Accounting here in detail

### **Nominal Account**

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

Rules

Debit all the expenses and losses of the business.

Credit the incomes and gains of business.

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

There are some other accounts in accounting as well:

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





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- **Equities** – If there is an investment of the account owner or common stocks, retained earnings then these will fall under equities.

**Examples on Types of Accounts**

**Write the accounts affected and applicable rule in the below-mentioned transactions.**

1. Goods purchased for cash.
2. Cash Sales.
3. Sale of fixed assets
4. Payment of expenses.

**Answer –**

1. Debit Purchase account and credit cash account.

Rule Applicable: – Debit increase in expense or an asset. Credit decrease in assets.

2. Debit Cash account and credit sales account.

Rule Applicable: – Debit Increase in assets. Credit Decrease in revenue or assets.

3. Debit Expenses account and credit cash/bank account.

Rule Applicable: -Debit Increase in expense. Credit Decrease in assets.



## UNIT III

### MARKETING AND ADVERTISING

#### MEANING OF MARKETING

Marketing definition includes activities undertaken by a business establishment or an individual to promote their services and products. Marketing includes promotion, advertisement and selling products and services to the consumers. Marketing is the key component of any venture and includes aspects like writing product descriptions, designing website pages, improving customer services, establishing business & market segments and conducting market research. Marketing involves strategies that aid in the growth of a business venture.

#### FUNCTIONS AND BENEFITS OF MARKETING

**Generating brand awareness:** Marketing helps increase the consumers' acquaintance with brands' motives and products. Marketing helps in bridging a loyal customer base.

**Generation of traffic:** Different methods of online marketing helps in the generation of traffic and leads, which increases the brand's sales in the long run.

**Increases revenue:** Through website optimization, creating email campaigns and regulating marketing strategies, brands increase revenue and sales.

**Developing Trust:** It has been observed that brands with strong marketing campaigns and internet presence aids in building trust, which leads to increased purchases and loyal consumers.

**Tracks metrics:** Studying the market and business of a brand, in general, is important when developing marketing campaigns. Therefore, tracking metrics helps check the brand's progress and adapt marketing strategies accordingly to optimize sales.

#### MEANING OF CONSUMER

The consumer is the one who is the end-user of any goods or services. Any person, other than the buyer who buys the product or services, and consumes the product by taking his/her permission is categorized as a consumer. Any single or group of people, other than the buyer who buys the product or services, consumes the product by seeking his/her permission falls under the category of a consumer. In simpler words, the consumer can be termed as the end-user of the goods or services.

#### STANDARDIZATION AND GRADING



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**Standardisation** : The term 'standardisation ' is derived from the word 'standard' which means the presence of certain desirable qualities like durability, safety, purity and other features like design, weight, colour, etc. in a product.

Standardisation refers to the process of setting certain standards for a commodity on the basis of its desired qualities. It implies that the different units of the commodity are of a specified and uniform quality. It facilitates sale of goods through description and increases the confidence of consumers.

**Grading**: It refers to the process of dividing products into classes made up of units possessing similar characteristics. It involves division of products into classes, lots or groups in accordance with predetermined grades of quality. Grading helps in fixing and securing remunerative prices for the products.

### **PRICING AND KINDS OF PRICING**

#### **Meaning of Pricing:**

Pricing is a process of fixing the value that a manufacturer will receive in the exchange of services and goods. Pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer. The pricing depends on the company's average prices, and the buyer's perceived value of an item, as compared to the perceived value of competitor's product.

Every businessperson starts a business with a motive and intention of earning profits. This ambition can be acquired by the pricing method of a firm. While fixing the cost of a product and services the following point should be considered:

- The identity of the goods and services
- The cost of similar goods and services in the market
- The target audience for whom the goods and services are produces
- The total cost of production (raw material, labour cost, machinery cost, transit, inventory cost etc).
- External elements like government rules and regulations, policies, economy, etc.,

#### **Objectives of Pricing:**

- **Survival**- The objective of pricing for any company is to fix a price that is reasonable for the consumers and also for the producer to survive in the market. Every company is in danger of getting ruled out from the market because of rigorous competition, change in customer's preferences and taste. Therefore, while determining the cost of a product all the variables and fixed cost should be taken into consideration. Once the survival phase is over the company can strive for extra profits.



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- **Expansion of current profits**-Most of the company tries to enlarge their profit margin by evaluating the demand and supply of services and goods in the market. So the pricing is fixed according to the product's demand and the substitute for that product. If the demand is high, the price will also be high.
- **Ruling the market**- Firm's impose low figure for the goods and services to get hold of large market size. The technique helps to increase the sale by increasing the demand and leading to low production cost.
- **A market for an innovative idea**- Here, the company charge a high price for their product and services that are highly innovative and use cutting-edge technology. The price is high because of high production cost. Mobile phone, electronic gadgets are a few examples.

### **Pricing Method**

Pricing method is a technique that a company apply to evaluate the cost of their products. This process is the most challenging challenge encountered by a company, as the price should match the current market structure and also compliment the expenses of a company and gain profits. Also, it has to take the competitor's product pricing into consideration so, choosing the correct pricing method is essential.

#### **Types of Pricing Method:**

The pricing method is divided into two parts:

- **Cost Oriented Pricing Method**– It is the base for evaluating the price of the finished goods, and most of the company apply this method to calculate the cost of the product. This method is divided further into the following ways.
  - Cost-Plus Pricing- In this pricing, the manufacturer calculates the cost of production sustained and includes a fixed percentage (also known as mark up) to obtain the selling price. The mark up of profit is evaluated on the total cost (fixed and variable cost).
  - Markup Pricing- Here, the fixed number or a percentage of the total cost of a product is added to the product's end price to get the selling price of a product.
  - Target-Returning Pricing- The company or a firm fix the cost of the product to achieve the Rate of Return on Investment.
- **Market-Oriented Pricing Method**- Under this category, the is determined on the base of market research
  - Perceived-Value Pricing- In this method, the producer establish the cost taking into consideration the customer's approach towards the goods and services, including other



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elements such as product quality, advertisement, promotion, distribution, etc. that impacts the customer's point of view.

- Value pricing- Here, the company produces a product that is high in quality but low in price.
- Going-Rate Pricing- In this method, the company reviews the competitor's rate as a foundation in deciding the rate of their product. Usually, the cost of the product will be more or less the same as the competitors.
- Auction Type Pricing- With more usage of internet, this contemporary pricing method is blooming day by day. Many online platforms like OLX, Quickr, eBay, etc. use online sites to buy and sell the product to the customer.
- Differential Pricing- This method is applied when the pricing has to be different for different groups or customers. Here, the pricing might differ according to the region, area, product, time etc.

#### **AGMARK**

The full form of AGMARK is **Agriculture marketing**.

It stands for a certification mark on an agricultural product stating that it satisfies the standards prescribed by the Directorate of Marketing and Inspection, Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture & Farmers Welfare under the Agricultural Produce Act, 1937.

Agricultural products including fruits, vegetables, cereals, pulses, oilseeds, vegetable oils, ghee, spices, honey, creamery butter, wheat, atta, besan, etc. have been notified with grade standards. The current AGMARK covers 222 agricultural commodities.

There are 11 Regional offices, 26 Sub offices, 11 Regional laboratories, and Central Agmark Laboratory to implement the certification.

AGMARK acts as a third-party authorization for agricultural products that are produced and consumed in India.

It is legally enforced in India by the Agricultural Produce (Grading and Marking) Act of 1937.

The headquarters of AGMARK is in Haryana.

The standards to certify the products are laid down according to the Food Safety and Standards Act, 2006. It is mandatory for edible oils and fat spread.



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## **ADVERTISING**

The world has become a global market. Modern market is more dynamic, competitive, and consumer-oriented. Entire marketing process is aimed at satisfying consumers more effectively than competitors. Consumer satisfaction can be achieved by receiving information from market and sending information to the market.

In order to inform, attract, and convince the valued customers, a marketer undertakes a number of promotional means. Advertising is one of the powerful means to inform about company's total offers. Advertising is a dominant element of market promotion. Many times, the entire promotional efforts are replaced by advertising alone.

Major portion of promotion budget is consumed by advertising alone. Advertising is so powerful and popular that it is taken as equal to marketing!! Mass media are used intensively to advertise various products. Marketing without advertising seems to be impossible. Advertising works like a magic stick to actualize marketing goals!

## **CHARACTERISTICS OF ADVERTISING**

### **Characteristics of Advertising**

The salient features of advertising are discussed here in the points given below:

1. **Paid Announcement:** In advertising, the advertiser pays to the advertising company for drafting the advertisement message and also for purchasing the advertising media slot or space and to assess the efforts thereon.
2. **One-way communication:** There is only one-way communication in advertising, in the sense that the brands communicate their message to the customers, through various platforms, channels or media.
3. **Personal or Nonpersonal:** In earlier days when traditional methods (TV, radio, newspaper) of advertising is used, the advertising is highly non-personal. However, with the introduction of digital advertising, advertising has become personal since social media, content-based or cookie-based advertisement came into vogue.
4. **Promotional Tool:** Advertising is one of the elements of the promotion mix. Indeed, it is the highly used element, for boosting the sales of the company.
5. **Wide applicability:** Advertising is one of the highly used methods of mass communication. Not just businesses, but advertising is also used for serving other purposes by political parties for the campaign, charitable trusts for donations, an educational institution for admissions, states for tourism, government agencies for creating awareness etc.
6. **Use of Media:** One of the biggest challenges which the company encounters is the selection of the right media to communicate the message. Most commonly used media are



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television, radio, newspaper magazine, pamphlets, hoardings, wall printing, banners, internet, etc.

7. **Difference in objectives:** Not every organization advertises the product/service with the same intent. The reason for using advertising differs from one organization to another. Advertising can be used for increasing sales, improving brand image, build good relation with the public, creating a ready market for a new product, surviving competition or to educate people.

## **KINDS OF ADVERTISING**

### **1. Display Advertising**

Display advertising, which is also often referred to as “banner” advertising, is a type of advertising that is composed of small digital billboards or banners that are placed in and around blog posts, keyword search pages, websites, etc. Display ads can be both unmoving images or animated. They usually tend to take on the form of horizontal banners at the top of a page or as a vertical banner in the side margins of a page.

Display ads are great for telling a fast visual story while showing off brand identity. They’re usually very visual with very little text, and are ideal for health and wellness products that don’t require an in-depth disclaimer in the ad.

### **2. Video Advertising**

Video ads are quite popular advertising types in today’s digital marketing environment, and it makes sense why. Video advertisements are eye-catching, entertaining, and great for telling a complex story that a display ad simply can’t do. In stream video ads and out stream video ads are the primary ways that advertisers will utilize video ads. In stream video involves placing video ads mid-roll, pre-roll, or post-roll in a video that a consumer is already watching. The ad itself will be relevant to the content that the consumer is already watching. An out stream video ad is a video ad that is integrated into an article or blog post. If you’re a medical or pharmaceutical brand, video ads are an excellent choice for sharing your mission or product with full disclaimers.

### **3. Mobile Advertising**

Mobile advertising is quickly becoming the new norm as more people are consuming online content through their mobile devices than ever before. Mobile advertising is, simply, ads that are optimized for mobile consumption. Mobile ads are quite broad and can include video, app, display, search, or social ads. For most brands, video-based social media mobile ads are a great place to start. Health and wellness brands could definitely benefit from these types of ads on platforms like Instagram.





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#### **4. Native Advertising**

This form of advertising is simple ad content that is integrated into a piece of content. They are considered “non-disruptive” ads and usually come in the form of sponsored content. These ads will match the style and flow of the content it appears in without being pushy or disruptive. For example, pop-up ads and auto play videos are considered disruptive and can often have a negative impact on one’s potential customer base. Native ads, on the other hand, are “slipped” into content in a way that is not disruptive and more attractive to consumers. They can come in the form of blog posts, videos, photos, etc.

#### **ADVERTISING MEDIA**

Advertising media is the group of various media channels through which advertising message is delivered to the target audience. Advertising media is used for showcasing promotional content which communicated in various forms such as text, speech, images, videos using TV, radio, online, outdoor etc. Basically they are channels through which companies can advertise their products and services to reach to customers.

#### **KINDS OF MEDIA**

- Print Media
- Newspaper

Newspaper is a major source of information for a large number of readers. It may be National or local, daily or weekly newspaper. Newspapers allow presentation of detailed messages which can be read at reader's conveyance. It allows prompt delivery of detailed coverage of news and other information with interesting features for readers. It is a high involvement media as readers are required to devote some effort in reading the message. It is available to masses at a very low cost.

#### **Classification of Newspapers**

- National Newspapers
- Daily newspapers (Local/Regional)
- Special Audience newspapers

#### **Magazines**

A Magazine is a specialized advertising media that serves educational, informational, entertainment and other specialized needs of consumers, businesses, and industries. A Magazine allows presentation of a detailed ad message along with photos, illustrations, colours etc. It is a high involvement media as readers pay a premium price for it and



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magazines are not dumped after reading. Magazines can be classified into Local/Regional/National or Weekly/Monthly/Quarterly Magazines.

### **Types of Magazines**

Consumer magazines: Magazines bought by general public for information and entertainment. It can be used to reach a specific target audience. It may be a:

General Interest Magazine

Glamour Magazine

Film Magazine

Special Interest Magazine

Women Lifestyle Magazine

### **Business Publications:**

Business magazines includes publications such as trade journals for businesses, industries or occupations. It may be published weekly monthly or quarterly. Generally, readership includes business managers and executives, businessmen, business students etc. It may be categorized into:

Business Publications

Professional Publications

Trade Journals

Industrial and Institutional Publications

### **Broadcast Media**

#### **Television Advertising**

TV is a principal source of information and entertainment for people exposed to mass media. It is believed to be the most authoritative, influential, exciting medium for reaching very large audience. It combines visual images, sound, motion and colour to achieve viewer's empathy. It allows development of creative and imaginative ad messages in a unique way. It is considered intrusive in nature as the audience have no control over the nature and pace of advertisements.

#### **Radio**

Radio is a premier mass medium for users and advertisers. It has a wide spread reach. It delivers the ad message to a large number of people across the length and breadth of a country. Commercial broadcasting is undertaken in major cities even rural areas. Radio time in India is usually sold in slots of 7, 10, 15, 20 or 30 seconds. It is one of the most personal medium and offers selectivity, cost efficiency and flexibility advantages over other media. Efficiency of a radio



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ad depends upon the precision of script, accompanying sounds and level of distortion Support Media

### **Outdoor advertising**

It is usually used as a supportive medium by advertisers. It includes bill boards, boarding, neon signs posters etc. It can generate considerable reach and frequency level at low cost. Useful when introducing a new product. Helps to remind the customers. Helps to generate sales at point of purchase/point of sale.

### **Transit Advertising**

Uses billboards, neon signs and electronic messages. It is targeted at users of various modes of transportation. Advertising rates depend on the amount of traffic which passes every day.

### **Cinema and Video Advertising**

Cinema is a popular source of entertainment comprising of audience from all classes and socio-economic groups of society. Films are watched by a significant number of people every day. It involves use of cinema halls and video tapes to deliver the ad message. Commercials are shown before films and previews carrying ad message. Advertisers may prepare a presentation for projection or 35mm ad films based on a script. Similar to TV, it also combines sight, sound, colour and movement to deliver a creative message. Video rentals include messages by local advertisers. Advertisement can also be displayed by cable operators.

### **Internet**

Internet is a worldwide medium that provides means of exchanging information through a series of interconnected computers. It is a rapidly growing medium of advertising. It is a future medium which offers limitless advertising opportunities. It involves use of World Wide Web to showcase a website or e-commerce portal to the world.

Advertising through internet involves email marketing, social media marketing, online ads and mobile marketing. It provides a sophisticated graphic user interface to users. It is accessible to anyone with a computer and broadband connection.



## UNIT IV

### AUDITING AND ENTREPRENEURIAL DEVELOPMENT

#### INTRODUCTION TO AUDITING

Economic decisions in every society must be based upon the information available at the time the decision is made. For example, the decision of a bank to make a loan to a business is based upon previous financial relationships with that business, the financial condition of the company as reflected by its financial statements and other factors.

If decisions are to be consistent with the intention of the decision makers, the information used in the decision process must be reliable. Unreliable information can cause inefficient use of resources to the detriment of the society and to the decision makers themselves. In the lending decision example, assume that the bank makes the loan on the basis of misleading financial statements and the borrower Company is ultimately unable to repay. As a result the bank has lost both the principal and the interest. In addition, another company that could have used the funds effectively was deprived of the money. As society become more complex, there is an increased likelihood that unreliable information will be provided to decision makers. There are several reasons for this: remoteness of information, voluminous data and the existence of complex exchange transactions unbiased.

#### ORIGIN AND EVALUATION

The term audit is derived from the Latin term 'audire,' which means to hear. In early days an auditor used to listen to the accounts read over by an accountant in order to check them. Auditing is as old as accounting. It was in use in all ancient countries such as Mesopotamia, Greece, Egypt, Rome, U.K. and India. The Vedas contain reference to accounts and auditing. Arthasashthra by Kautilya detailed rules for accounting and auditing of public finances.

The original objective of auditing was to detect and prevent errors and frauds.

Auditing evolved and grew rapidly after the industrial revolution in the 18th century With the growth of the joint stock companies the ownership and management became separate. The shareholders who were the owners needed a report from an independent expert on the accounts of the company managed by the board of directors who were the employees.

The objective of audit shifted and audit was expected to ascertain whether the accounts were true and fair rather than detection of errors and frauds.

#### FEATURES OF AUDITING

Audit is a systematic and scientific examination of the books of accounts of a business;

Audit is undertaken by an independent person or body of persons who are duly qualified for the job.



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Audit is a verification of the results shown by the profit and loss account and the state of affairs as shown by the balance sheet.

Audit is a critical review of the system of accounting and internal control.

Audit is done with the help of vouchers, documents, information and explanations received from the authorities.

### **OBJECTIVES OF AUDITING**

1. Primary objectives of the audit,
2. Subsidiary objectives of the audit.

#### **Primary Objectives of Audit**

The main objectives of the audit are known as the primary objectives of the audit.

**They are as follows:**

1. Examining the system of internal checks.
2. Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing, etc.
3. Verifying the authenticity and validity of transactions.
4. Checking the proper distinction between capital and revenue nature of transactions.
5. Confirming the existence and value of assets and liabilities.

#### **Subsidiary Objectives of Audit**

These are such objectives that are set up to help in attaining primary objectives.

**They are as follows:**

1. Detection and prevention of errors.
2. Detection and prevention of fraud.
3. Under-or over-valuation of stock.



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### **ADVANTAGES AND DISADVANTAGES OF AUDITING**

- **Ensures compliance** – The significance of auditing is this process ensures that policies and procedures are in place to protect the public interest. Also, by conducting an audit, the management can ensure that their practices are compliant with best practices and effective for the organisation. Furthermore, auditing helps to identify trends and whether or not there have been any changes or issues with management or other company processes.
- **Auditing helps with business or system improvements** – Audit is a way to test the system and identify opportunities that can be used to improve business performance. Auditing helps with implementing changes in the system and detecting improvement opportunities. By auditing, we can see if any specific processes are not performing as expected or not being followed.
- **Provides credibility** – Auditing is a process in which an independent party makes sure that there are no financial losses or problems with the company that the company has not disclosed. This can be done through the use of third-party auditors, financial statements, and internal audit processes. In today's day and age, it is important to have credibility in your business. Auditing offers credibility because it allows you to run your business without fear of being discovered for some kind of fraud.
- **Prevent fraud** – Auditing is the best way to reduce fraud and corruption. Financial audits are undertaken to monitor a company's financial health. Embezzlement and other fraudulent activities can occur within companies, contractors, agencies and institutions that receive government funding. Audits can also be conducted on individuals and it is usually an annual requirement for them to carry out this process. Auditors should be able to detect cheating in any of the following areas: accounting, employee management, inventory control, logistics, procurement, risk management, sales records and more.
- **Useful for Planning and Budgeting** – Audit planning and budgeting is part of the auditing process. It plays a significant role in finding hidden risks or opportunities within the planned activities. For example, auditors can plan to perform an internal audit once every three years during the full cycle because this provides enough time for corrective actions to be implemented before any major problems arise.

### **Disadvantages of Auditing**

Following are a few advantages of Auditing:

- **Auditing is Costly** – Auditing can be a costly process that may require the implementation of many different measures to ensure compliance. These measures could include hiring an external auditing firm, or subcontracting specific areas and continually monitoring their



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results. The costs associated with auditing could reach a point where it might be not feasible to implement the process every often.

- **Auditing requires experts** – Auditing in general can be a very difficult process and requires considerable knowledge and experience. Moreover, auditing for large companies is both cost and time-intensive. Accounting firms tend to charge high prices because they have access to unprotected client data. This is a huge problem because it means company employees can use this information to commit fraud or theft in the workplace.
- **Impossible to check all transactions** – The key disadvantage of performing an audit is that it is impossible to check all transactions that are taking place in the company. This makes constant monitoring a challenge for audits in business settings.
- **Unsuitable for small businesses** – Auditing is a highly intensive process that requires substantial time and resources. Most small businesses do not have the in-house expertise or the resources to conduct audits. Instead, these companies should invest their efforts in improving their processes and decision-making so that audits are unnecessary.
- **Bribes and threats:** It's easy for an auditor to be tempted by bribes and other incentives that can significantly raise the value of their audits. Similarly, threats posed to an auditor can also impact an audit's end result.

#### **DISTINCTION BETWEEN AUDITING AND INVESTIGATION**

##### **Summary of differences**

BASIS	AUDITING	INVESTIGATION
Meaning	Examination of the financial records of a company for verification	Enquiry of the financial activities of a company for a special purpose
Objectives	Check accuracy and find errors	Find the cause of errors
Nature	Mandatory routine	Only for special purposes, occasionally
Subject matter	Examination of all the financial records of a company	Examination of only relevant records
Scope	Wide coverage of records	Narrow coverage of records
True position	Ascertains the true financial position of the company	Does not give the true financial position of the company
Conducting Authority	Only by Chartered Accountants	Any inspector appointed





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Period	One financial year	No fixed period
Predetermined findings	Conducted without any predetermined findings	Based on some preconceived notion
Evidence	Gathers only persuasive evidence	Gathers conclusive evidence
Guiding Standards	Guided by standards set by the Institute of Chartered Accountants	No set of standards

### **DISTINGUISH BETWEEN ACCOUNTING AND AUDITING**

1. Accounting is an art of orderly, keeping the records of the monetary transactions and preparation of the financial statements of the company. Auditing is an analytical task which involves the independent evaluation of the financial information to express an opinion on true and fair view.
2. Accounting is governed by Accounting Standards, whereas Standards on Auditing governs Auditing.
3. Accounting is a simplified task, which is performed by the Accountants but Auditing is a complex task, so Auditors are required for performing it.
4. The main purpose of accounting is to reveal the profitability position, financial position and performance of the organization. Conversely, auditing is to check the correctness of the financial statement.
5. Accounting is a continuous activity. Unlike Auditing, which is a periodic activity.
6. End of Accounting is the start of Auditing.

### **BASIC PRINCIPLES OF AUDIT**

#### **A] Integrity, Independence, and Objectivity:**

The inspector must be candid while during the audit process; he can't be inclining toward the association. He should stay objective all through the entire cycle, and his trustworthiness should not permit any negligence.

Another significant rule is autonomy or independence, and the examiner can't have any interest in the association he is inspecting, which permits him to be autonomous and fair-minded consistently.



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**B] Confidentiality:**

The auditor comes across a great deal of sensitive monetary data of the association. It is significant that he regards the classified genre of such data and archives.

He can't uncover any delicate data to any outsider except if it is a necessity by law. What's more, he should likewise be extremely cautious with archives, authentications, and so forth that the association shares with him.

**C] Skill and Competence:**

The examiner should be capable and prepared in the strategies of auditing, for example, he should be qualified as an examiner. Furthermore, as an expert, he should be aware and upgrade on the latest changes, declarations, rules, and so forth.

In the event that is important, he can go through preparing and prepare to keep up to date with the new accounting and auditing methodology. For instance, after GST was presented, auditors needed to refresh their insight.

**D] Work Performed by Others:**

The extent of an audit on occasion can be extremely immense. So an auditor can utilise his representatives, delegates, and others who work under him.

Be that as it may, the reviewer will keep on being completely liable for the work done by these individuals working for him. So the evaluator should cautiously oversee and audit such work and be sensibly certain of the precision of such work.

**E] Documentation:**

Much of the time, the examiner keeps a review notepad, a review or audit plan, and an evaluating document or an audit file. It is significant the auditor tracks significant reports for his review work, as it is proof of the work the evaluator has completed. Also, the customer is leaned to these reports and records, assuming he wishes to examine the work.

**F] Planning:**

A review plan permits the inspector to arrange his work and empowers him to be more proficient and ideal. Each review plan is distinctive as it must be redone as indicated by the type of association, the sort of business they lead, the extent of the review, the productivity of the inside controls, and so forth.

**G] Audit Evidence:**

The auditor should gather sufficient proof to help him in his last assessment. This assortment of such proof is finished by substantive and consistency systems. There are two origins of this proof – inward or internal and outer or external. Likewise, external resources of proof are, in every case, more dependable.



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#### **H] Accounting Systems and Internal Controls:**

The inspector needs to guarantee that the records of the association are exact and address a valid and reasonable image of the monetary status of the organisation. Likewise, the examiner should guarantee that all material data has been recorded in the accounting records. Testing the inside controls framework is likewise significant as it decides something very similar.

#### **CLASSIFICATION OF AUDIT**

##### **Audit of Individuals**

Sources of income of any individual may be from his investments, property, shares, commission as agent, interest income, etc.

Following are the purposes and benefits if anyone opts for an audit –

- To know the correct income from all of his sources.
- Assurance of accuracy.
- Prevention and detection of any fraud or misappropriation
- Helpful and useful in Income Tax Assessment.
- To keep moral check on accountant and agent.

##### **Audit of Sole-Trader's Books of Accounts**

The scope of audit will depend on the instructions and agreement between Auditor and sole proprietor, the latter being an individual owner of the business; the sole proprietor decides himself the scope of audit.

The purpose and benefit of audit in a sole trader's business are almost the same as for an individual. Following are some additional benefits –

- Assurance about proper vouchers of his expenditure and preparation of his accounts with accuracy and correctness.
- Assurance about true and fair picture of his business income and expenditure.
- His accounts can be compared with the previous years'.



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### **Audit of Partnership Firm**

An Auditor for a partnership firm may be appointed by the partners with mutual consent. Mutual agreement between partners and Auditor is based on the latter's rights, liabilities & the scope of his audit. Reference to the partnership deed is must for an Auditor and he should refer to the Partnership Act, 1932 in case where partnership deed is silent. Certificate of an Auditor will contain points related to the following –

- Reliability of accounts depending upon the nature of business.
- If any restrictions and limitations imposed by the partners on his audit scope.
- Whether the auditor got all the required information and explanations or not.

### **Government Audit**

Government of India maintains a separate department known as the Account and Audit Department and this department is headed by the Comptroller and Auditor General of India, which works only for government offices.

#### **Important Features of the Government Audit**

- In almost every government department, prior sanction is must before any payment of expenditure.
- Before making any payment, a preliminary examination of bills is done by the Treasury officer.
- Nature of Government audit is always continuous due to large number of transactions and huge amount of expenditure.
- Major portion of the accounts is prepared by the Accounts and Audit department which work independently.

### **Objectives**

The following are the main objectives of Government audit –

- To check and ensure that prescribed rules and regulations have been followed while making payments.
- To ensure that expenditure should not be excessive.
- To check and verify physical stock, stores and spares along with their proper valuation. Stock-taking should be done at regular intervals and the recording of stock in the stock register should be done correctly and up-to-date.



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- To check whether every payment is sanctioned by proper authority or not.
- To ensure that expenditure should be done in public interest only by the right person and should be paid to the right person.
- To ensure that no expenditure should be incurred for any personal benefit of any authority.
- To give suggestion for any kind of improvement in efficiency and economy.
- To verify that the amount due from others are properly recorded in the books and also to verify that such amount is regularly recovered.

### **Statutory Audit**

Where the appointment of a qualified Auditor is compulsory as per the law is called as a statutory audit. The following are the essential characteristics of statutory audit –

- An Auditor must be a qualified accountant.
- Norms of the appointment of Auditor are provided by the law. Rights, duties and liabilities of an Auditor are as defined by the statute; management cannot make any changes in it.
- Organization cannot restrict the scope of statutory audit.
- Statutory audit provides true and fair view of financial position to shareholders and members of an organization. It helps the shareholders to keep themselves protected from any fraud and misrepresentation.
- Statutory audit is a compulsory audit. Auditor is an independent person and management doesn't have any control over his work.

Following stakeholders are covered under the statutory or compulsory audit.

### **Audit of Companies**

First time in India, the Indian Companies Act, 1913 made it compulsory for joint stock companies to get their accounts audited by a qualified person (chartered accountant). Appointments, duties, qualifications, powers and liabilities are amended through the Companies Act, 1956 and 2013.

### **Audit of Trust**

The Public Trust Act provides compulsory audit of accounts by a qualified Auditor. Conditions and terms as laid down in Trust deed are the basis on which accounts of trusts are maintained. Any Beneficiary of trust does not have control or access over accounts of trust, therefore, there are more chances of fraud and misappropriations.



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### **Audit of Co-operative Societies**

The Companies Act is not applicable to societies; co-operative societies are established under the Co-operative Societies Act, 1912. It is a must for a qualified accountant to have the required expertise and he should be updated with various amendment of the Act. An Auditor should also have knowledge of the by-laws of this act.

### **Audit of other Institutions**

Banks, Insurance companies and Electricity companies are audited as per the provisions of special Act of the Parliament.

### **Cost Audit**

Services of qualified cost accountants are necessary to have full control on the records of costs and cost variations. Big business houses and manufacturing units do understand the importance of cost accounting. Cost Auditors check the work done by Cost Accountants to ensure correctness of the accounting.

### **Objectives of Cost Audit**

- To verify arithmetical accuracy of cost accounting.
- To help management to take decision about production and cost variations.
- To detect error and frauds.
- To have control over cost accounting department.
- To give suggestions about efficiency of material, labour and machine.

### **Tax Audit**

Under the provision of section 44AB of the Income Tax Act, 1961, every person carrying a business/Profession is required to get his accounts audited, if the total turnover or gross receipts during the previous year exceed Rs. 100 lacs in case of business and Rs. 25 lacs in case of profession.

Profit and Loss account of a business or profession is adjusted according to the provision of the Income Tax Act, therefore accounting profit and tax profit differ. The reason behind the difference in profit or loss may be because of the following –

### **Amount of depreciation**

Under the Income Tax Act, certain expenses are allowed only on the basis of actual payment and those should be within the prescribed time as provided by law, like the payment of Provident



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Fund, ESI, Interest to financial institutions, VAT/Central Sales Tax, Employees related payments, etc.

### **Balance Sheet Audit**

Balance sheet audit is very popular in the United States of America. Balance sheet audit is an annual audit and it covers each and every item of nominal accounts as appeared in profit and loss account, assets, liabilities, reserves, provisions, stocks and surplus. Balance sheet audit is also done by highly-skilled accountants.

### **Continuous Audit**

Under continuous audit each and every transaction of the business is checked by the Auditor regularly. Continuous audit is required in large organizations where number of transactions is very high, internal control system is not effective, periodicals statements are required and final accounts are prepared immediately after the close of financial years like banks.

**Advantages** – Complete checking of records, up-to-date accounts, moral-check on staff and early finalization of financial statements are the main advantages of continuous audit.

**Disadvantages** – High cost of continuous audit, mechanical work of Auditor, chances of unhealthy relations with staff due to frequent visits, etc., are main disadvantages of continuous audit.

### **Annual Audit**

In an organization where the number of transactions is not large, an Auditor usually comes after the close of financial year and completes his audit work in continuous session. In case of small business houses, annual audit gives satisfactory results.

**Advantages** – The work that is done by an Auditor in Annual Auditing does not affect the everyday routine of the organization and its people; the Auditor has full control over financial statements and records. Among other advantages, Annual Audit is cost-effective.

**Disadvantages** – There might come instances where the unavailability of Auditor may cause unnecessary delay in audit work; due to complete audit in one sitting, chances of undetected errors and frauds are high. This is not recommended for big business houses and the delay in annual general meeting is sometimes due to delay in audit which turns out to be a major disadvantage of annual audit.





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### **Partial Audit**

Partial audit is done only for a specific purpose; for example, to check the receipt side or the payment side of the cash book, to check cash sale, to check purchases or expenses only. The reason for calling out for a Partial Audit largely depends on the Management of the organization.

### **Internal Audit**

Internal audit may be done by an independent person or by the employees of the company; internal Auditor may or may not be qualified person for audit. Internal audit is continuous in nature. As per section 144 of the Companies Act, an internal Auditor cannot render his services as Statutory Auditor for the same company.

As per the new section 138 of the Companies Act, internal audit has been made compulsory for certain categories of companies;

- Certain class of companies or may be prescribed shall be required to appoint an internal Auditor, who shall either be a chartered accountant or cost accountant or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.
- The central Government, may, by rules, prescribed the manner and intervals in which the internal audit shall be conducted and reported to the Board.

## **ENTREPRENEURIAL DEVELOPMENT**

### **CHARACTERISTICS OF AN ENTREPRENEUR**

#### **1. Curiosity**

Successful entrepreneurs have a distinct personality trait that sets them apart from other organizational leaders: a sense of curiosity. An entrepreneur's ability to remain curious allows them to continuously seek new opportunities. Rather than settling for what they think they know, entrepreneurs ask challenging questions and explore different avenues.

This is validated in the online course Entrepreneurship Essentials, where entrepreneurship is described as a "process of discovery." Without curiosity, entrepreneurs can't achieve their main objective: discovering new opportunities.

The drive they have to continuously ask questions and challenge the status quo can lead them to valuable discoveries easily overlooked by other business professionals.

#### **2. Structured Experimentation**

Along with curiosity, entrepreneurs require an understanding of structured experimentation. With each new opportunity, an entrepreneur must run tests to determine if it's worthwhile to pursue.



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For example, if you have an idea for a new product or service that fulfils an underserved demand, you'll have to ensure customers are willing to pay for it. To do so, you'll need to conduct thorough market research and run meaningful tests to validate your idea and determine its potential.

### **3. Adaptability**

The nature of business is ever-changing. Entrepreneurship is an iterative process, and new challenges and opportunities present themselves at every turn. It's nearly impossible to be prepared for every scenario, but successful business leaders must be adaptable. This is especially true for entrepreneurs who need to evaluate situations and remain flexible to ensure their business keeps moving forward, no matter what unexpected changes occur.

### **4. Decisiveness**

To be successful, an entrepreneur has to make difficult decisions and stand by them. As a leader, they're responsible for guiding the trajectory of their business, including every aspect from funding and strategy to resource allocation.

Being decisive doesn't always mean being correct. If you want to be an entrepreneur, it means having the confidence to make challenging decisions and see them through to the end. If the outcome turns out to be less than favourable, the decision to take corrective action is just as important.

### **5. Team Building**

A great entrepreneur is aware of their strengths and weaknesses. Rather than letting shortcomings hold them back, they build well-rounded teams that complement their abilities.

In many cases, it's the entrepreneurial team, rather than an individual, that drives a venture toward success. When starting your own business, it's critical to surround yourself with teammates who have complementary talents and contribute to a common goal.

### **6. Risk Tolerance**

Entrepreneurship is often associated with risk. While it's true that launching a venture requires an entrepreneur to take risks, they also need to take steps to minimize it.

While many things can go wrong when launching a new venture, many things can go right. According to Entrepreneurship Essentials, entrepreneurs who actively manage the relationship between risk and reward position their companies to "benefit from the upside."

Successful entrepreneurs are comfortable with encountering some level of risk to reap the rewards of their efforts; however, their risk tolerance is tightly related to their efforts to mitigate it.

### **7. Comfortable with Failure**

In addition to managing risk and making calculated decisions, entrepreneurship requires a certain level of comfort with failure.



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It's estimated that nearly 75 percent of new start-ups fail. The reasons for failure are vast and encompass everything from a flawed business model to a lack of focus or motivation. While many of these risks can be avoided, some are inevitable.

Despite this, successful entrepreneurs must prepare themselves for, and be comfortable with, failure. Rather than let fear hold them back, they allow the possibility of success to propel them forward.

### **8. Persistence**

While many successful entrepreneurs are comfortable with the possibility of failing, it doesn't mean they give up easily. Rather, they see failure as an opportunity to learn and grow.

Throughout the entrepreneurial process, many hypotheses turn out to be wrong, and some ventures fail altogether. Part of what makes an entrepreneur successful is their willingness to learn from mistakes, continue to ask questions, and persist until they reach their goal.

### **9. Innovation**

Many ascribe to the idea that innovation goes hand-in-hand with entrepreneurship. This notion is often true. Some of the most successful start-ups have taken existing products or services and drastically improved them to meet the changing needs of the market.

Innovation is a characteristic some, but not all, entrepreneurs possess. Fortunately, it's a type of strategic mind-set that can be cultivated. By developing your strategic thinking skills, you can be well-equipped to spot innovative opportunities and position your venture for success.

### **10. Long-Term Focus**

Finally, most people think of entrepreneurship as the process of starting a business. While the early stages of launching a venture are critical to its success, the process doesn't end once the business is operational.

According to Entrepreneurship Essentials, "it's easy to start a business, but hard to grow a sustainable and substantial one. Some of the greatest opportunities in history were discovered well after a venture launched."

## **FUNCTIONS OF AN ENTREPRENEUR**

### **1. Decision Making:**

The primary task of an entrepreneur is to decide the policy of production. An entrepreneur is to determine what to produce, how much to produce, how to produce, where to produce, how to sell and so forth. Moreover, he is to decide the scale of production and the proportion in which he combines the different factors he employs. In brief, he is to make vital business decisions relating to the purchase of productive factors and to the sale of the finished goods or services.



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## **2. Management Control:**

Earlier writers used to consider the management control one of the chief functions of the entrepreneur. Management and control of the business are conducted by the entrepreneur himself. So, the latter must possess a high degree of management ability to select the right type of persons to work with him. But, the importance of this function has declined, as business nowadays is managed more and more by paid managers.

## **3. Division of Income:**

The next major function of the entrepreneur is to make necessary arrangement for the division of total income among the different factors of production employed by him. Even if there is a loss in the business, he is to pay rent, interest, wages and other contractual incomes out of the realised sale proceeds.

## **4. Risk-Taking and Uncertainty-Bearing:**

Risk-taking is perhaps the most important function of an entrepreneur. Modern production is very risky as an entrepreneur is required to produce goods or services in anticipation of their future demand.

Broadly, there are two kinds of risk which he has to face. Firstly, there are some risks, such as risks of fire, loss of goods in transit, theft, etc., which can be insured against. These are known as measurable and insurable risks. Secondly, some risks, however, cannot be insured against because their probability cannot be calculated accurately. These constitute what is called uncertainty (e.g., competitive risk, technical risk, etc.). The entrepreneur undertakes both these risks in production.

## **5. Innovation:**

Another distinguishing function of the entrepreneur, as emphasised by Schumpeter, is to make frequent inventions — invention of new products, new techniques and discovering new markets — to improve his competitive position, and to increase earnings.

## **TYPES OF ENTREPRENEUR**

### **1. Innovators**

Innovators are the types of entrepreneurs who come up with completely new ideas and turn them into viable businesses.

In most cases, these entrepreneurs change the way people think about and do things. Such entrepreneurs tend to be extremely passionate and obsessive, deriving their motivation from the unique nature of their business idea.



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Innovative entrepreneurs also find new ways to market their products by choosing product differentiation strategies that make their company stand out from the crowd. And sometimes it is not just standing out from the crowd but actually creating a new crowd.

To say that innovators like Steve Jobs, Larry Page of Google and Microsoft founder Bill Gates were obsessed with their business would be an understatement.

**Advantages of Being an Innovate Entrepreneur:**

- Get all the glory for the success of the business (and take all the arrows)
- Create the rules
- Face minimal competition during the initial days

**Disadvantages of Being an Innovate Entrepreneur:**

- You will need a lot of capital to bring a new idea to life
- Often face resistance from shareholders
- The timeframe for success is longer

The ability of an innovative entrepreneur to envision a new way of thinking makes them stand out from the crowd and wildly successful in many cases however it takes significant capital, patience and commitment to bring true innovation to life.

**2. The Hustler Entrepreneur**

Unlike innovators whose vision is the gas in their engine, hustlers just work harder and are willing to get their hands dirty. Hustlers often start small and think about effort – as opposed to raising capital to grow their businesses. These types of entrepreneurs focus on starting small with the goal of becoming bigger in the future.

Hustlers are motivated by their dreams and will work extremely hard to achieve them. They tend to be very focused and will get rid of all forms of distractions, favoring risks over short-term comfort.

A perfect example of a hustler is Mark Cuban. He started in business very young selling trash bags, newspapers and even postage stamps and this hustle later created a goldmine which was acquired by internet giant Yahoo!

**Advantages of Being A Hustler**

- They will outwork most
- Tend to have thick skin – they don't give up easily
- See disappointment and rejection as just a step in the process



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### **Disadvantages of Being A Hustler**

- Usually prone to burn out
- Wear out their team members who don't have the same work ethic
- Often don't see the value of raising capital as opposed to just working harder

Even though many hustlers never give up, a lot of them are willing to try anything to succeed which unfortunately means that they have a lot of hits and misses. Achieving their dreams takes a lot longer than most other types of entrepreneurs.

### **3. Imitators**

Imitators are the types of entrepreneurs who copy certain business ideas and improve upon them. They are always looking for ways to make a particular product better so as to gain an upper hand in the market.

Imitators are part innovators and part hustlers who don't stick to the terms set by other people and have a lot of self-confidence.

#### **Advantages of Imitators**

- Refining a business idea is easier and less stressful
- You can easily benchmark your performance with the original idea
- Can learn and avoid mistakes that were made by the originator

#### **Disadvantages of Imitators**

- Their ideas are always compared to the original idea
- Always have to play catch-up

Taking an existing idea and refining and improving it can be a great way to develop a business. It certainly does not have as much risk as the innovator but it might just not be as sexy.

### **4. Researcher**

Even after having an idea, researchers will take their time to gather all the relevant information about it. To them, failure is not an option because they have analysed the idea from all angles.

Researcher entrepreneurs usually believe in starting a business that has high chances of succeeding because they have put in detailed work to understand all aspects.



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As a result, these types of entrepreneurs usually take a lot of time to launch products to make decisions because they need the foundation of deep understanding. These entrepreneurs rely much more on data and facts than instincts and intuition.

For a researcher, there should be no room for making mistakes.

#### **Advantages of Being a Researcher Entrepreneur**

- Plan for as many contingencies as possible
- Write detailed, well-thought-out business and financial plans
- Focus on data and information rather than gut feeling
- Won't start unless they feel like they know the market
- Will minimize the chances of failing in the business

#### **Disadvantages of Being a Researcher Entrepreneur**

- Typically moves slow
- Doesn't like risk and that can hamper progress in a new venture

Even though these types of entrepreneurs spend a lot of time researching and digging into the data to ensure the success of their business, they can fall into the habit of obsessing over the numbers and focusing less on the running of the business.

Jeff Bezos has spoken against this in a recent letter to shareholders where he asserted that "Most decisions should probably be made with somewhere around 70% of the information you wish you had".

### **5. Buyers**

One thing that defines buyers is their wealth. These types of entrepreneurs have the money and specialize in buying promising businesses.

Buyer entrepreneurs will identify a business and assess its viability, proceed to acquire it and find the most suitable person to run and grow it.

#### **Advantages of being a Buyer**

- Buying an already established venture is less risky
- Doesn't have to worry so much about innovation
- Can focus on building on something that has already gone through building a foundation
- Already has a market for your products





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**Disadvantages of being a Buyer**

- Usually pays a high price for good businesses
- Will face the risk of buying businesses that have problems that you think you can turn around

**CONCEPT OF WOMEN ENTREPRENEUR AND PROBLEMS OF WOMEN ENTREPRENEUR**

Women entrepreneurs face a challenge regarding knowledge of business and finance. It is because women are typically less likely than men to have a background in business or finance. Additionally, women often have less exposure to these topics than men due to their traditionally feminine roles. As a result, many female entrepreneurs need more knowledge to start and run their businesses successfully.

A lack of understanding can lead to missed opportunities, inadequate financial planning, and even failure. To overcome this challenge, female entrepreneurs should develop an understanding of business and finance concepts early in their ventures. In addition, they should seek out mentors and advisors who can provide them with the skills they need for success. We are living in a male dominated society where women are treated as 'abalas'. They have to face several economic and social problems. Usually they will not get any support or co-operation from various financial institutions, male entrepreneurs or even from their families.

They have to face resistance not only from men but also from elderly women who are ingrained with this attitude of inequality.

Women entrepreneurs have to face two types of problems viz., general problems of entrepreneurs and problems specific to women entrepreneurs.

**The following are the important problems faced by women entrepreneurs:**

**1. Financial Constraints:**

Finance is the life blood of every business. Both long term and short term funds are required for business. For obtaining loans and advances from financial institutions, they have to provide collateral securities. But, usually women do not have property in their names and this hinders them from obtaining external sources of funds.

The banks also consider women as less credit worthy and discourage women borrowers on the belief that they can at any time leave their business and become housewives again. Under these circumstances, women entrepreneurs are bound to rely on their savings and loans from friends and relatives. The quantity of such funds are often negligible leading to the failure of women enterprises.

**2. Over Dependence on Intermediaries:**

Women entrepreneurs have to depend largely on intermediaries for the distribution of their products. These intermediaries take a major portion of their profits. It may be possible for the



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women entrepreneurs to eliminate the middlemen, but it requires additional investment of capital and a lot of travel. Women entrepreneurs find it difficult to capture market and popularise their products.

### **3. Stiff Competition:**

Women entrepreneurs have to face stiff competition for the products from the organised industries and male entrepreneurs. They do not have organisational set up to spend a lot of money for canvassing and advertisement. The society has a feeling that the products manufactured by women are inferior in quality on account of the fact that they are manufactured by women themselves. These factors will lead to the liquidation of women enterprises.

### **4. Scarcity of Raw Materials:**

Scarcity of raw materials is yet another important problem faced by the women entrepreneurs. The price of raw materials is very high and women entrepreneurs usually get the raw materials at minimum discount. The failure of many women co-operatives engaged in basket making in 1971 is an example of how the scarcity of raw materials affects entrepreneurship.

### **5. High Cost of Production:**

Another problem faced by women entrepreneurs is the high cost of production. The government grants and subsidies help them tide over this difficulty, but these grants and subsidies are available only at the initial stages of its setting up. For expansion and diversification activities these assistances will be negligible.

### **6. Limited Mobility:**

Unlike men, women mobility in India is highly limited due to various reasons. Physically they are not fit enough to travel a lot. A woman running an enterprise independently and alone is often looked upon with suspicion. The humiliating attitude of officials towards women compels them to give up the idea of starting an enterprise.

### **7. Family Ties:**

The family responsibilities also hinder the development of women entrepreneurship. In India, it is mainly a woman's duty to look after the children and other members of the family. Man plays a secondary role in these matters. In the case of married women, they have to make a fine balance between their business and family.

Their success greatly depends on the support given by the family. Occupational backgrounds of families and educational level of husbands have a direct bearing on the development of women entrepreneurship.

### **8. Lack of Education:**

In India around 60% of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to lack of education, women are ignorant of business technology and market. It



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also reduces the achievement motivation among women. Thus, lack of education creates problems for women in the setting up and running of business enterprises.

### **9. Social Attitudes:**

This is one of the most important stumbling block in the path of women entrepreneurship. The constitution provides equality for both men and women, but there is widespread discrimination against women. In a male dominated society, women are not treated as equals to men. Women have the potential but they lack adequate training.

There is a common belief that skill imparted to a girl is lost when she gets married. Therefore, girls continue to be helpers in agriculture and handicrafts and the rigid social attitudes prevent them from becoming successful and independent entrepreneurs.

### **10. Male Dominated Society:**

Male chauvinism is still the order of the day in India. The constitution of India speaks of equality between sexes. But, in practice women are treated as 'abalas'. Women suffer from male reservations about their roles, abilities and capacities. In short, women are not treated as equal to men. This is the main barrier to women's entry into business.

### **11. Low Need for Achievement:**

The pre-requisites for success in entrepreneurship are the need for achievement, independence and autonomy. But in India the common Indian woman is happy to bask in the glory of their parents, husband, children etc. They have preconceived notions about their role in life. This inhibits them from achievements and independence.

In addition to the above difficulties, lack of infrastructural facilities, shortage of power, and difficulty in obtaining licenses from various control boards and a number of other socio-economic problems stand as hurdles to the women entrepreneurs.

Solutions to the Problems of Women Entrepreneurs:

From the above discussion, it is clear that women entrepreneurs have to face a number of problems.



## UNIT V

### INCOME TAX LAW AND PRACTICE

#### TAX HISTORY

Taxation is, by and large, the most important source of government revenue in nearly all countries. According to the most recent estimates from the International Centre for Tax and Development, total tax revenues account for more than 80% of total government revenue in about half of the countries in the world – and more than 50% in almost every country.

We begin this entry by providing an overview of historical changes in taxation patterns, and then move on to an analysis of available data from the last couple of decades, discussing recent trends and patterns in taxation around the world.

From a historical perspective, the growth of governments and the extent to which they are able to collect revenues from their citizens, is a striking economic feature of the last two centuries. The available long-run data shows that in the process of development, states have increased the levels of taxation, while at the same time changing the patterns of taxation, mainly by providing an increasing emphasis on broader tax bases.

Taxation patterns around the world today reveal large cross-country differences, especially between developed and developing countries. In particular, developed countries today collect a much larger share of their national output in taxes than do developing countries; and they tend to rely more on income taxation to do so. Developing countries, in contrast, rely more heavily on trade taxes, as well as taxes on consumption.

Moreover, the data shows that developed countries actually collect much higher tax revenue than developing countries despite comparable statutory taxation rates, even after controlling for underlying differences in economic activity. This suggests that cross-country heterogeneity in fiscal capacity is largely determined by differences in compliance and efficiency of tax collection mechanisms. Both of these factors seem to be affected by the strength of political institutions.

In the last part of this entry we provide an overview of empirical evidence regarding the equity and efficiency implications of taxation. In particular, we show that taxation does have a powerful redistributive effect, but it is important to consider how taxation also affects behavior of individuals, by changing economic incentives. For example, recent studies have found that taxation may lead to efficiency losses by inducing migration of 'super stars'. These potential efficiency losses highlight the importance of designing taxation systems that achieve redistributive objectives at the smallest possible cost.



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### **Types of Direct Tax and Indirect Tax in India**

There are several types of these taxes, which further accentuate the difference between direct tax and indirect tax. These types are as follows –

#### **Types of Direct Tax**

The following are some common types of direct taxes imposed in India –

- **Income Tax**

An individual pays an annual income tax based on their income in a particular fiscal year. Under the ITA, the term 'individual' also encompasses Co-operative Societies, Trusts, HUFs or Hindu Undivided Families, and any artificial juridical person.

- **Wealth Tax**

Wealth tax is levied on individuals, HUFs, or companies on the value of their assets in a financial year. It applies to a variety of asset types such as cash, shares, real estate, fixed assets, bank deposits, pension plans, etc.

- **Corporation Tax**

It is paid by businesses or companies that operate in India based on their earned income in a financial year. The rate of taxation varies based on whether an enterprise is incorporated in the country or anywhere abroad.

- **Capital Gains Tax**

The profits generated on the property sale are taxed under the purview of Capital Gains Tax. The term 'property' includes residential property, stocks, bonds, precious metals, etc.

#### **Types of Indirect Tax**

Prior to the introduction of GST in India, there existed the following types of indirect taxes –

- **Sales Tax**

The government levied sales tax on the sale of movable goods.

- **Service Tax**

All service providers are required to pay this tax to the government except those covered under the negative list of services.

- **Value Added Tax**

It was a consumption tax placed on a product, which was added at each stage of its manufacture or distribution.



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The government introduced the GST regime intending to streamline the taxation proceedings in India.

**Income Exempt from Tax as per Section 10**

Mentioned below is the list of income exempt from tax specific to Section 10:

Agriculture Income [Section 10(1)]

Amount received out of family income, Hindu Undivided Family (H.U.F.) [Section 10(2)]

Share of profit, [Section 10(2A)]

Interest paid to Non-Resident [Section 10(4)(i)]

Interest to Non-Resident on Non-Resident (External) Account [Section 10(4)(ii)]

Interest paid to a person of Indian Origin and who is Non-Resident [Section 10(4 B)]

Leave Travel Concession or Assistance [Section 10(5)]

Remuneration or Salary received by an individual who is not a citizen of India [Section 10(6)] a. Remuneration [U/s 10(6)(ii)] b. Remuneration received as an employee of foreign enterprise [U/s 10(6)(vi)] c. Employment on a foreign ship [U/s 10(6)(viii)] d. Remuneration received by an employee of foreign government [U/s 10(6)(xi)]

Tax paid by Government or Indian concern on Income of a Foreign Company [Section 10(6A), (6B), (6BB) and (6C)]

Perquisites/Allowances paid by Government to its Employees serving outside India [Section 10(7)]

Employees of Foreign Countries working in India under Cooperative Technical Assistance Programme [Section 10(8)]

Income of a Consultant [Section 10(8A)]

Income of Employees of Consultant [Section 10(8B)]

Income of any member of the family of individuals working in India under cooperative technical assistance programmes [Section 10(9)]

Gratuity [Section 10(10)] a. Gratuity received by Government servants [Section 10(10)(i)] b. Gratuity Received by a Non-Government Employee covered by Payment of Gratuity Act, 1972 [Section 10(10)(ii)]

Commuted value of Pension Received [Section 10(10A)]

Amount received as Leave Encashment on Retirement [Section 10(10AA)]

Retrenchment Compensation received by Workmen [Section 10(10B)]





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Payment received under Bhopal Gas Leak Disaster (Processing of Claims) Act 1985 [Section 10(10BB)]

Compensation received in case of any disaster [Section 10(10BC) ]

Retirement Compensation from a Public Sector Company or any other Company [Section 10(10C)]

Tax on Non-monetary Perquisites paid by Employer [Section 10(10CC)]

Amount received under a Life Insurance Policy [Section 10(10D)]

Statutory Provident Fund [Section 10(11)]

Recognized Provident Fund [Section 10(12)]

Superannuation Fund [Section 10(13)]

House Rent Allowance-HRA [Section 10(13A)]

Business Expenditure Allowance [Section 10(14)]

Interest Incomes [Section 10(15)]

Scholarship [Section 10(16)]

Allowance of M.P./M.L.A.I or M.L.C. [Section 10(17)]

Awards Instituted by Government [Section 10(17A)]

Pension received by certain winners of gallantry awards [Section 10(18)]

Family pension received by family members of armed forces including para military forces [Section 10(19)]

Income of a Local Authority [Section 10(20)]

Income of Scientific Research Association [Section 10(21)]

Income of a News Agency [Section 10(22B)]

Income of some Professional Institutions [Section 10(23A)]

Exemption of Income Received by Regimental Fund [Section 23AA] a. Income of a Fund set-up for the welfare of employees or their dependents [Section 10(23AAA)] b. Income of a pension fund set up by LIC or other insurer [Section 10(23AAB)]

Income of State Level Khadi and Village Industries Board [Section 10(23BB)] a. Income of certain Authorities set up to manage Religious and Charitable Institutions [Section 10(23BBA)] b. Income of European Economic Community [Section 10(23BBB)] c. Income of a SAARC Fund for regional projects [Section 10(23BBC)] d. Any income of Insurance Regulatory and Development Authority [Section 10(23BBE)] e. Income of Prasar Bharti [Section 10(23BBH)] [Inserted by the Finance Act 2012, w.e.f. 2013-14]





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Any income received by a person on behalf of following Funds [Section 10(23C)]

Income of Mutual Fund [Section 10(23D)]

Exemption of income of a securitization trust [Section 10(23DA)] [w.e.f. A.Y. 2014-15]

Income of Investor Protection Fund [Section 10(23EA)]

Exemption of income of investor protection fund of depository [Section 10(23ED)] [w.e.f. A.Y. 2014-15]

Exemption for Certain Incomes of a Venture Capital Company or Venture Capital Fund from Certain Specified Business or Industries [Section 10 (23FB)]

Income of Registered Trade Unions [Section 10(24)]

Income of Provident and Superannuation Funds [Section 10(25)]

Income of Employee's State Insurance Fund [Section 10 (25A)]

Income of Schedule Tribe Members [Section 10(26) and 10(26A)]

Income of Sikkimese individual [Section 10(26AAN)] (With retrospective effect from 1-4-1990)

Regulating the marketing of agricultural produce [Section 10(26AAB)]

Income of a corporation set-up for promoting the interests of Scheduled Castes, Scheduled Tribes or Backward Classes [Section 10(26B)]

Income of a corporation set-up to protect the interests of Minorities [Section 10(26BB)]

Any income of a Corporation established for Ex-Servicemen [Section 10(26BBB)]

Income of cooperative society looking after the interests of Scheduled Castes or Scheduled Tribes or Both [Section 10(27)]

Any income accruing or arising to Commodity Boards etc. [Section 10(29A)]

Amount received as subsidy from or through the Tea Board [Section 10(30)]

Amount received as subsidy from or through the concerned Board [Section 10(31)]

Income of Child Clubbed U/s 64 (IA) [Section 10(32)]

Income by way of dividend from Indian company [Section 10(34)]

Exemption of income to a shareholder on buyback of shares of unlisted company [Section 10 (34A)] [w.e.f. A.Y. 2014-15]

Exemption of income from Units [Section 10(35)]

Exemption of income from Securitization Trust [Section 10(35A)] [w.e.f. A.Y. 2014-15]



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### **1. Agriculture Income [Section 10(1)]**

As per section 10(1), agricultural income earned by the taxpayer in India is exempt from tax. Agricultural income is defined under section 2(1A) of the Income-tax Act. As per section 2(1A), agricultural income generally means:

Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.

Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A). Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

### **2. Any sum received by a member from Hindu Undivided Family (H.U.F.) [Section 10(2)]**

As per section 10(2), amount received out of family income, or in case of impartible estate, amount received out of income of family estate by any member of such HUF is exempt from tax. Example-1. HUF earned ₹. 5,00,000 during the previous year and paid tax on its income. Mr. A, a co-parcener is an employee and earns a salary of ₹.20,000 p.m. During the previous year Mr. A also received ₹.1,00,000 from HUF. Mr. A will pay tax on his salary income but any sum of money received from his HUF is not chargeable to tax in Mr. A's hands.

Example-2. HUF earned ₹.90,000 during the previous year 2016-17 and it is not chargeable to tax. Mr. A, a co-parcener is earning individual income of ₹. 20,000 p.m. Besides his individual income, Mr. A receives ₹.30,000 from his HUF.

Mr. A will pay tax on his individual income but any sum of money received by him from his HUF is not chargeable to tax in the hands of co-parcener whether the HUF has paid tax or not on that income.

### **3. Share of Income from the Firm [Section 10(2A)]**

As per section 10(2A), share of profit received by a partner from a firm is exempt from tax in the hands of the partner. Further, share of profit received by a partner of LLP from the LLP will be exempt from tax in the hands of such partner. This exemption is limited only to share of profit and does not apply to interest on capital and remuneration received by the partner from the firm/LLP.

### **4. Interest on Non-resident (External) Account [Section 10(4)]**

In the case of an individual assessee any income by way of interest on money standing to his credit in a Non-Resident (External) Account in any bank in India shall also be exempt if certain conditions are satisfied.

4A. A Exemption of certain income received by a specified fund [Section 10(4D) inserted] [W.e.f. A.Y.2020-21]



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The following incomes received by a specified fund shall be exempt. –

(i) Any income accrued or arisen to, or received by a specified fund as a result of transfer of capital asset referred to in section 47(viib), on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in 'convertible foreign exchange or as a result of transfer of securities (other than shares in a company resident in India) or

(ii) any income from securities issued by a non-resident (not being a permanent establishment of a non-resident in India) and where such income otherwise does not accrue or arise in India or

(iii) any income from a securitisation trust which is chargeable under the head "profits and gains of business or profession", to the extent such income accrued or arisen to, or is received is attributable to units held by non-resident (not being the permanent establishment of a nonresident in India) 'or is attributable to the investment division of offshore banking unit, as the case ,nav he computed in the prescribed manner'.(see rule 21A1 inserted by Notification No. 90/2021, dated 9.8.2021)

**5. Exemption of income** of a non-resident as a result of transfer of non-deliverable forward contracts entered into with an offshore banking unit of International Financial Services Centre (IFSC) [Section 10(4E)] [Inserted W.e.f. A.Y. 2022-23]

Any income accrued or arisen to, or received by a non-resident as a result of transfer of non-deliverable forward contracts entered into with an offshore banking unit of International Financial Services Centre which commenced operations on or before 31.3.2024 and fulfils prescribed conditions shall be exempt.

**6. Exemption of income** of a non-resident by way of royalty or interest on account of lease of an aircraft paid by a unit of an International Financial Services Centre (IFSC) [section 10(4F)] [Inserted W.e.f. A.Y. 2022-23]

Any income of a non-resident by way of royalty or interest on account of lease of an aircraft in a previous year paid by a unit of an International Financial Services Centre as referred to in section 80LA(1A) shall be exempt, if the unit

(a) is eligible for deduction under section 80LA for that previous year and

(b) has commenced operation on or before 31.3.2024.

Explanation. —For the purposes of this clause, "aircraft" means an aircraft or a helicopter, or an engine of an aircraft or a helicopter, or any part thereof;



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**7. Leave Travel Concession or Assistance (LTC/LTA) to an Indian Citizen Employee [Section 10(5)]**

The employee is entitled to exemption under section 10(5) in respect of the value of travel concession or assistance received by or due to him from his employer or former employer for himself and his family, in connection with his proceeding—

- a. on leave to any place in India.
- b. to any place in India after retirement from service or after the termination of his service.

**The exemption shall be allowed subject to the following:**

- I. where journey is performed by air — Maximum exemption shall be an amount not exceeding the air economy fare of the National Carrier by the shortest route to the place of destination;
- II. where places of origin of journey and destination are connected by rail and the journey is performed by any mode of transport other than by air — Maximum exemption shall be an amount not exceeding the air-conditioned first class rail fare by the shortest route to the place of destination; and
- III. where the places of origin of journey and destination or part thereof are not connected by rail and the journey is performed between such places — The amount eligible for exemption shall be:
  - A. where a recognised public transport system exists, an amount not exceeding the 1st class or deluxe class fare, as the case may be, on such transport by the shortest route to the place of destination; and
  - B. where no recognised public transport system exists, an amount equivalent to the airconditioned first class rail fare, for the distance of the journey by the shortest route, as if the journey had been performed by rail.

**Exemption will, however, in no case exceed, actual expenditure incurred on the performance of journey.**

**HOW MANY TIMES CAN EXEMPTION BE CLAIMED**

- The assessee can claim exemption in respect of any two journeys in a block of 4 years. For this purpose, the first block of 4 years was calendar years 1986-89, second block was 1990-93, third block was 1994-97, fourth block was 1998-2001, fifth block was 2002-05 sixth block was 2006-09, seventh block is 2010 to 2013, eight block is 2014-2017 and ninth block will be 2018-2021.
- If the assessee has not availed of the exemption of LTC in a particular block, whether for both the journeys or for one journey, he can claim the exemption of first journey in the calendar year immediately succeeding the end of the block of four calendar years. In other words, maximum one journey can be carried forward and that too only for the first



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journey in the following calendar year unless the period is otherwise extended. Such journey undertaken during the extended period will not be taken into account for determining the tax exemption of two journeys for the succeeding block.

**Exemption available only in respect of two children**

The exemption relating to LTC shall not be available to more than two surviving children of an individual after 1.10.1998.

Exception: The above rule will not apply in respect of children born before 1.10.1998 and also in case of multiple birth after one child.

**8. Remuneration or Salary received by an individual who is not a citizen of India [Section 10(6)]**

In case of an individual who is not a citizen of India, the following income shall be exempt:

- (i) Remuneration received by diplomats, etc. [Section 10(6)(ii)];
- (ii) Remuneration received by a foreign national as employee of a foreign enterprise [Section 10(6)(vi)];
- (iii) Non-resident employed on a foreign ship [Section 10(6)(viii)];
- (iv) Remuneration of employee of foreign Government during his training in India [Section 10(6)(xi)];

**9. Perquisites and Allowances paid by Government to its Employees serving outside India [Section 10(7)]**

Any allowances or perquisites paid or allowed, as such, outside India by the Government to a citizen of India, for rendering services outside India, are exempt.

The following conditions have to be satisfied before such income is treated as deemed to accrue or arise in India:

- I. Income should be chargeable under the head 'Salaries';
- II. The payer should be Government of India;
- III. The recipient should be an Indian citizen — whether Resident or Non-Resident;
- IV. The services should be rendered outside India.

While salary of Indian citizen in the above case shall be deemed to accrue or arise in India but all allowances or perquisites paid outside India by the Government to the above Indian citizens for their rendering services outside India are exempt under section 10(7).

**10. Death-cum-Retirement Gratuity received by an employee [Section 10(10)]**

Gratuity is a payment made by the employer to an employee in appreciation of the past services rendered by the employee. Gratuity can either be received by:

- (a) the employee himself at the time of his retirement; or
- (b) the legal heir on the event of the death of the employee.



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Gratuity received by an employee on his retirement is taxable under the head “Salary” whereas gratuity received by the legal heir of the deceased employee shall be taxable under the head “Income from other sources”.

However, in both the above cases, according to section 10(10), gratuity is exempt upto a certain limit. Therefore, in case gratuity is received by employee, salary would include only that part of the gratuity which is not exempt under section 10(10).

**Exemption of Gratuity under Section 10(10)**

**Government Employees & employees of local authority-** Fully exempt

**Employees covered under Gratuity Act-** Minimum of the following 3 limits:  
(1) Actual gratuity received, or

(2) 15 days’ salary for every completed year, or part thereof exceeding six months 7 days’ salary for each season in case of employee in seasonal establishment; or

(3) Rs. 20,00,000

**Meaning of Salary:**

i) Basic Salary plus dearness allowance.

(ii) Last drawn salary. Average salary for preceding 3 months in case of piece rates employees

(iii) No. of days in a month to be taken as 26

**Any other employee- Minimum of the following 3 limits:**

(1) Actual gratuity received

(2) Half months’ average salary of each completed year of service.

(3) Rs. 20,00,000

**Meaning of Salary:**

(i) Basic salary plus D.A. to the extent the terms of employment so provide Commission, if fixed percentage of turnover.

(ii) Average salary of last 10 months preceding the month in which event occurs.

(iii) Only completed year of service is to be taken.

(i) Where an assessed receives gratuity and part of it is taxable because it is not fully exempt under section 10(10), the employee can claim relief under section 89 on account of such gratuity.

(ii) Where an employee had received gratuity in any earlier year(s) and had claimed exemptions under section 10(10) in respect of the gratuity received earlier also, he will still be entitled to this





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exemption but the limit which at present is Rs. 20,00,000 shall be reduced by the amount of exemption(s) availed in the earlier year(s). There will be no change in the other two limits.

(iii) If gratuity is received from more than one employer in the same previous year, by an employee, the limit of Rs. 20,00,000 would apply to the aggregate of gratuity received from one or more employers.

(iv) Gratuity is exempt. if the relationship of employer and employee exists between the payer and the payee. If such relationship does not exist, the exemption shall not be available, e.g., gratuity payable by the LIC of India to its Insurance Agents does not qualify for exemption as agents are not employees of the Corporation.

(v) The words “completed service” occurring in section 10(10) should be interpreted to mean an employee’s total service under different employers including the employer other than the one from whose service he retired, for the purpose of calculation of period of years of his completed service, provided he was not paid gratuity by the former employer.

(vi) Any gratuity paid to an employee, while he continues to remain in service with the same employer is taxable under the head “Salaries” because gratuity is exempt only on retirement or on his becoming incapacitated or on termination of his employment or death of the employee. In this case, however the assessee can claim relief under section 89.

(vii) The CBDT vide its instruction in F. No. 194/0/73-IT, dated 19.6.1973 has clarified that the expression “termination of employment” would cover an employee who has resigned from the service.

#### **11. Commuted value of Pension Received [Section 10(10A)]**

Govt. employees, employees of local authorities and employees of statutory corporations- FULLY EXEMPT

Any other employee- a) If gratuity is not received Commuted value of half of pension which he is normally entitled to receive.

(b) If gratuity is also received Commuted value of 1/3rd of pension which he is normally entitled to receive

#### **12. Amount received as Leave Encashment on Retirement [Section 10(10AA)]**

Exemption of leave encashment at the time of retirement u/s 10(10AA)

Govt. employee i.e. Central and State Govt. employees- Fully exempt





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**Any other Employee- Minimum of the following four limits:**

- (i) Leave encashment actually received; or
  - (ii) 10 month's average salary; or
  - (iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days leave for every year of actual service rendered
- or
- (iv) Rs. 3,00,000

**Meaning of salary**

- (i) Basic salary plus D.A. to the extent the terms of employment so provide plus Commission, if fixed percentage of turnover.
- (ii) Average salary of last 10 months immediately preceding the date of retirement.

**13. Retrenchment Compensation received by Workmen [Section 10(10B)]**

Any compensation received by a workman at the time of his retrenchment, under the Industrial Disputes Act, 1947 or under:

1. any other Act or rules or any order or notification issued there under; or
2. any standing order; or
3. any award, contract of service or otherwise,

Shall be exempt to the extent of minimum of the following limits:

1. Actual amount received;
2. 15 days' average pay for every completed year of service or part thereof in excess of 6 months;
3. Amount specified by the Central Government, i.e. ₹. 5,00,000.

Compensation received in excess of the aforesaid limit is taxable and would, therefore, form part of Gross Salary. However, the assessee shall be eligible for relief under section 89 read with rule 21A.

**14. Payment received under Bhopal Gas Leak Disaster (Processing of Claims) Act 1985 [Section 10(10BB)]**

Any amount received under the provision of such Act or any scheme framed there under shall be fully exempted but in case payment is received against a loss or damage, for which deduction has been claimed earlier, it shall be taxable.



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**15. Compensation received in case of any disaster [Section 10(10BC)]**

Any amount received or receivable from the Central Government or a State Government or a local authority by an individual or his legal heir by way of compensation on account of any disaster shall be exempt.

However, the exemption is not allowable in respect of amount received or receivable to the extent such individual or his legal heir has been allowed a deduction under the Income-tax Act, on account of any loss or damage caused by such disaster.

**16. Amount received on Voluntary Retirement [Section 10(10C)]**

The compensation received or receivable by the employee of the following, on voluntary retirement, under the Golden Hand Shake Scheme, is exempt under section 10(10C)

- (i) a public sector company; or
- (ii) any other company; or
- (iii) an authority established under a Central, State or Provincial Act; or
- (iv) a local authority; or
- (v) a co-operative society; or
- (vi) a University established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a University under section 3 of the University Grants Commission Act, 1956; or
- (vii) an Indian Institute of Technology within the meaning of clause (g) of section 3 of the Institutes of Technology Act, 1961; or
- (viii) such institute of management as the Central Government may, by notification in the Official Gazette, specify in this behalf;
- (ix) State Government;
- (x) Central Government;
- (xi) Institutions having importance throughout India or in any State or States as may be notified.



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Exemption shall be available, subject to the following conditions:

- (a) The compensation is received only at the time of voluntary retirement or termination of his services in accordance with any scheme or schemes of voluntary retirement or in the case of public sector company, a scheme of voluntary separation. Even if the compensation is received in instalments, the exemption shall be allowed.
- (b) Further, the scheme of the said companies or authorities or societies or universities or the institutes referred to in clauses (vii) and (viii) above, as the case may be, governing the payment of such amount, are framed in accordance with such guidelines (including inter alia criteria of economic viability) as may be prescribed. In the case of public sector companies, if there is a scheme of voluntary separation, it shall also be according to the said prescribed guidelines.

Quantum of Exemption:

The amount of exemption is

- the actual amount of compensation received or
- Rs. 5,00,000,

whichever is less.

**17. Tax on Non-monetary Perquisites paid by Employer [Section 10(10CC)]**

The income-tax actually paid by the employer himself on a non-monetary perquisite provided to the employee shall be exempt in the hands of the employee.

**18. Any sum received under a Life Insurance Policy [Section 10(10D)]**

Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy, is wholly exempt from tax. However, the following sum received are not exempt under this section:

- (a) any sum received from a policy under section 80DD (3) or section 80DDA (3); or
- (b) any sum received under a Keyman insurance Policy; or
- (c) any sum received, under an insurance policy issued on or after 1.4.2003 but on or before 31.3.2012 in respect of which the premium payable for any of the years during the terms of the policy exceeds 20% of the actual capital sum assured.

However, such sum received on the death of a person shall be exempt: or

- (d) any sum received, under an insurance policy issued on or after 1.4.2012 in respect of which the premium payable for any of the years during the terms of the policy exceeds 10% of the actual capital sum assured.



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However, the above provision of sub-clauses (c) and (d) shall not apply to any sum received on the death of a person. [First proviso]

Further, any sum received under an insurance policy issued on or after 01.04.2013 for the insurance on the life of any person who is—

- (i) a person with disability or a person with severe disability as referred to in section 80U, or
- (ii) suffering from disease or ailment as specified in the rules made under section 80DDB, the figures '10%' mentioned in the sub-clause (d) shall be substituted by '15%'. [Third Proviso]

In other words, if the premium payable during any previous year for a policy issued on or after 1.4.2012 exceeds 10% / 15%, of the actual capital sum assured, the entire amount received under such policy shall be taxable.

No exemption in respect of ULIP if the annual premium exceeds Rs. 2,50,000.

Nothing contained in this clause shall apply with respect to any unit linked insurance policy, issued on or after 1.2.2021, if the amount of premium payable for any of the previous year during the term of such policy/policies exceeds Rs. 2,50,000. [Fourth Proviso]. In other words, amount received on maturity of such policy shall be taxable.

Provided also that if the premium is payable, by a person, for more than one unit linked insurance policies, issued on or after the 1.2.2021, the exemption of this clause shall apply only with respect to those unit linked insurance policies, where the aggregate amount of premium does not exceed the amount referred to in fourth proviso (i.e. Rs. 2,50,000) in any of the previous year during the term of any of those policies. [Fifth Proviso]. In other words, if the aggregate amount of premium exceeds Rs. 2,50,000, the amount received on maturity of each policy shall be taxable.

However, the above fourth and fifth provisos shall not apply to any sum received on the death of a person. [Sixth Proviso]

## **CANONS OF TAXATION**

By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. In fact, canons of taxation are related to the administrative part of a tax. Adam Smith first devised the principles or canons of taxation in 1776.

### **1. Canon of Equity or Equality**

According to the Canon of Equality, the burden of taxation must be distributed equally or evenly among taxpayers. This type of equality; however, deprives justice because not all taxpayers have the same ability to pay taxes. Rich individuals can afford to pay more taxes than impoverished ones. As a result, justice requires that a person with greater financial ability pay higher taxes.



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If everyone is expected to pay taxes based on his or her abilities, then all taxpayers' sacrifices become equal. This is the core of the equality canon (of sacrifice). To ensure equity in sacrifice, taxes will be imposed based on the principle of ability to pay. In this context, the canons of equality and ability are two sides of the same coin.

## **2. Canon of Certainty**

The tax that an individual must pay should be certain and not arbitrary. According to Adam Smith, the time of payment, the method of payment, and the amount to be paid; i.e., tax liability, should all be apparent to the contributor and everyone. As a result, the canon of certainty encompasses a wide range of concepts. It must be certain for both the taxpayer and the taxing authority.

The taxpayers should be aware of when, where, and how much taxes are due. In other words, the certainty of liability must be anticipated ahead of time. Similarly, there must be certainty about the amount of income that the government wants to collect throughout the specified time period. Any bit of uncertainty in these areas could lead to disaster.

## **3. Canon of Convenience**

Taxes should be imposed and collected in such a way that it is most convenient for both the taxpayer and the government. As a result, it should be as painless and trouble-free as possible. "Every tax," Adam Smith emphasises, "should be levied at the time or in the manner most likely to be convenient for the contributor to pay it." That is why agricultural income tax is collected after the harvest. Salaried people are taxed at the point of receipt of their salaries.

## **4. Canon of Economy**

This canon suggests that the cost of collecting a tax should be kept to a minimum. Any tax that has a large administrative cost, extraordinary delays in assessment, and a high collection rate should be avoided at all costs.

According to Adam Smith, "Every tax should be designed to take as little money as possible out of people's pockets while yet contributing to the public treasury of the state."

Other Canons:

## **5. Canon of Elasticity**

The canon of elasticity is very important to modern economists. This canon indicates that a tax's yield should be flexible or elastic. It should be levied in such a way that the tax rate can be adjusted in response to changing circumstances. When the government requires funds, it must be able to extract as much revenue as possible without causing any negative repercussions by raising tax rates. This canon is satisfied by income tax.

## **6. Canon of Productivity**

According to Charles F. Bastable, a well-known classical economist on the subject of public finance, taxes must be productive or cost-effective. This indicates that the revenue generated by



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any tax must be substantial. Furthermore, this canon states that only taxes that do not impede the productive work of society should be imposed. Only when a tax functions as an incentive to produce, it is considered productive.

### **7. Canon of Variety**

Taxation must be dynamic. This indicates that rather than having single or two taxes, a country's tax structure should be dynamic or diversified. Diversification of a tax structure will necessitate the participation of the majority of the people. If a single tax system is implemented, only a certain sector will be required to pay to the national exchequer, leaving a big number of people out. Obviously, the impact of such a tax structure will be greatest on particular taxpayers. A dynamic or varied tax system will result in the distribution of tax burdens throughout a large population, resulting in a low degree of incidence of a tax in aggregate.

### **8. Canon of Simplicity**

Every tax must be straightforward and understandable to the public so that the taxpayer can calculate it without the assistance of tax professionals. A complex and complicated tax is certain to have unfavourable side effects. If the tax system is determined to be difficult, it may encourage taxpayers to evade taxes.

A complicated tax system is costly in the sense that even the most honest and informed taxpayers must seek the guidance of tax professionals. In the end, such a tax structure has the potential for breeding corruption in society.

### **9. Canon of Expediency**

A tax should be expedient or beneficial so that the government may defend itself against public criticism by arguing for its need. Taxpayers will be outraged if there is no justification for the levy. Every new tax must have a reason to generate a feeling of acceptability in the minds of the taxpayers. An unfair tax will always confront acute refusal on the part of the taxpayers to pay and they will try to avoid them.

### **10. Canon of Flexibility**

The canon of flexibility states that the entire tax system should be flexible enough to allow taxes to be readily increased or decreased in response to government requirements. This flexibility guarantees that anytime the government wants more money, it can generate it quickly and easily. Similarly, decreasing taxes should not be an issue when the economy is not thriving.

## **INCOME TAX AUTHORITY AND ADMINISTRATION**

### **(i) Administrative [ Income Tax Authorities ][ Sec. 116 ]**

- a. the Central Board of Direct Taxes constituted under the Central Boards of Revenue Act, 1963 (54 of 1963),
- b. Directors-General of Income-tax or Chief Commissioners of Income-tax,





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- c. Directors of Income-tax or Commissioners of Income-tax or Commissioners of Income-tax (Appeals),
  - 1. (cc) Additional Directors of Income-tax or Additional Commissioners of Income-tax or Additional Commissioners of Income-tax (Appeals),
  - 2. (cca) Joint Directors of Income-tax or Joint Commissioners of Income-tax.
- d. Deputy Directors of Income-tax or Deputy Commissioners of Income-tax or Deputy Commissioners of Income-tax (Appeals),
- e. Assistant Directors of Income-tax or Assistant Commissioners of Income-tax,
- f. Income-tax Officers,
- g. Tax Recovery Officers,
- h. Inspectors of Income-tax.

**(ii) Assessing Officer [ Sec. 2(7A) ]**

"Assessing Officer" means the Assistant Commissioner or Deputy Commissioner or Assistant Director or Deputy Director or the Income-tax Officer who is vested with the relevant jurisdiction by virtue of directions or orders issued under sub-section (1) or sub-section (2) of section 120 or any other provision of this Act, and the Joint Commissioner or Joint Director who is directed under clause (b) of sub-section (4) of that section to exercise or perform all or any of the powers and functions conferred on, or assigned to, an Assessing Officer under this Act;

**Importance of Assessing Officer:**

In the organizational setup of the income tax department Assessing Officer plays a very vital role. He is the primary authority who initiates the proceedings and is directly connected with the public. From the time of filing of return till the assessment is completed he plays a pivotal role. He can start proceedings for non filing of return, imposition of penalties etc. Orders passed by him can be challenged only on appeal. The department can revise his orders only if it is proved that there are prejudicial to the revenue and that too only by the Commissioner of Income Tax.

**(iii) Appointment of Income-Tax Authorities [ Sec. 117 ]**

- 1. **Power of Central Government:** The Central Government may appoint such persons as it thinks fit to be income-tax authorities. It kept with itself the powers to appoint authorities upto and above rank of an Assistant Commissioner of Income-Tax [ Sec. 117 (1) ]
- 2. **Power of the Board and Other Higher Authorities:** Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, the Central Government may authorize the Board, or a Director-General, a Chief Commissioner or a Director or a Commissioner to appoint income-tax authorities below the rank of an Assistant Commissioner or Deputy Commissioner. [ Sec. 117 (2) ]





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3. Power to appoint Executive and Ministerial Staff: Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, an income-tax authority authorized in this behalf by the Board may appoint such executive or ministerial staff as may be necessary to assist it in the execution of its functions.

**(iv) Control of Income-Tax Authorities [ Sec. 118 ]**

The Board may, by notification in the Official Gazette, direct that any income-tax authority or authorities specified in the notification shall be subordinate to such other income-tax authority or authorities as may be specified in such notification.

**SLAB RATE**

In India, the Income Tax applies to individuals based on a slab system, where different tax rates are assigned to different income ranges. As the person's income increases, the tax rates also increase. This type of taxation allows for a fair and progressive tax system in the country. The income tax slabs are revised periodically, typically during each budget. These slab rates vary for different groups of taxpayers. Let us take a look at all the slab rates applicable for FY 2022-23 (AY 2023-24) and FY 2023-24 (AY 2024-25).

**New Tax regime**

Income Slabs	New Tax Regime FY 2022-23 (AY 2023-24)
Rs0 - Rs.2,50,000	–
Rs.2,50,000 - Rs.5,00,000	5% (tax rebate u/s 87A is available)
Rs.5,00,000 - Rs.7,50,000	10%
Rs.7,50,000 - Rs.10,00,000	15%
Rs.10,00,000 - Rs.12,50,000	20%
Rs.12,50,000 - Rs.15,00,000	25%
>Rs.15,00,000	30%



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**b. Old Tax regime**

Income tax slabs for individual aged below 60 years & HUF

Income Slabs	Individuals Below The Age Of 60 Years and NRIs
Up to Rs 2.5 lakh	NIL
Rs 2.5 lakh - Rs 5 lakh	5%
Rs 5 lakh - Rs 10 lakh	20%
> Rs 10 lakh	30%

**NOTE:**

Income tax exemption limit is up to Rs 2,50,000 for Individuals, HUF below 60 years aged and NRIs.

Surcharge and cess will be applicable as discussed above

**RESIDENTIAL STATUS**

A resident taxpayer is an individual who satisfies any one of the following conditions:

Resides in India for a minimum of 182 days in a year, or

Resided in India for atleast 365 days in the immediately preceding four years and for a minimum of 60 days in the current financial year.

**For example,** consider the case of Mr. D, who is business head for Asia Pacific regions for a private firm.

Mr. D was born and brought up in India. He has to travel to various locations of the continent for business purposes. He has spent 200 days travelling in the current financial year. Also, he has been travelling abroad from the past two years and has stayed out of India for about 400 days in this period.

Let us evaluate whether Mr. D was resident in India for the current financial year.

Condition I (Resides in India for a minimum of 182 days in a year) – Not satisfied

To figure out the resident status of Mr. D, you will understand that he has only spent 165 days in India during the current financial year. Hence, he does not satisfy the first condition.

Condition II (Resides in India for a minimum of 365 days in the immediately preceding four years and for a minimum of 60 days in the current financial year) – Satisfied



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However, It is given that Mr. D has been travelling only from the past two years. Also, it is said that he has travelled for 400 days in the past two years. That means, in the past four years, Mr. D has stayed in India for more than 365 days (1061 days). Hence, Mr. D has resided for atleast 60 days in the current financial year and for more than 365 days in the immediately preceding four financial years. Therefore, Mr. D satisfies the second condition.

Hence, if any one of the above two condition is satisfied he is a resident taxpayer.

Resident and Ordinarily Resident (ROR) and Resident but Not Ordinarily Resident (RNOR)

There is a further classification under the resident status – Resident and Ordinarily Resident (ROR) and Resident but Not Ordinarily Resident (RNOR). In addition to the basic conditions, if both the below conditions are met, he will be a ROR:

He has resided in India for at least 2 out of 10 immediate previous years.

He has resided in India for at least 730 days in 7 immediately previous years.

In above example Mr. D will be considered as resident of India. Let us further classify whether Mr. D is ROR or RNOR

If both the additional conditions are satisfied then Mr. D is ROR. Considering the example, Mr. D was travelling out of India since past 2 years only. Hence, the first condition is satisfied as he resided in India for atleast 2 years out of the last 10 years. Also, he has fulfilled the criteria of residing for at least 730 days in the last seven years. Therefore, he can be considered as Resident Ordinarily Resident.

If any one of the additional conditions is satisfied then Mr. D is RNOR. Alternatively, consider that he had to work from the headquarters of his firm, located in Kota Kinabalu, Malaysia for the past six years. He has only visited his parents for a week, twice a year during this time. That means, he has resided in India for 449 days in the past six years and the same applies for the current financial year too. In this case, first condition is satisfied but not the second. Therefore, Mr. D is Resident Not Ordinarily Resident.

### **Non-Resident**

An individual who does not satisfy the basic conditions of resident can be considered as a non-resident.

For example, Ms. G went to London to join a reputed university for a graduation course (three years). While studying there, her professor suggested her to join a post-graduate course at the same university (two years). She had to get an internship certificate to complete the course. Upon completion, the firm offered her a permanent position. She has been an employee there for the past four years. That is, Ms G has stayed out of India for nine years now. She receives rental income from the property that she inherited from her parents. Both the basic condition are not



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satisfied. That makes Ms. G a non-resident.

**Note:**

The condition of minimum 60 days stay in the current financial year will get extended to 182 days in all the cases if:

A person is a citizen of India and he leaves India for the purpose of employment during the current financial year.

A person who stays outside India, but is a citizen of India or a Person of Indian Origin (PIO), and comes on a visit to India during the year.

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