ENABLING LEARNERS' EXPLORATIONS IN BUSINESS STUDIES & ACCOUNTANCY

MODULE - 1

2016-17

MANUAL FOR
LECTURERS IN COMMERCE

WORLD OF BUSINESS - ONE REALITY SEVERAL FACETS

SCERT

STATE COUNCIL OF EDUCATIONAL RESEARCH AND TRAINING
Varun Marg, Defence Colony, New Delhi – 110024

ENABLING LEANERS' EXPLORATIONS IN BUSINESS STUDIES & ACCOUNTANCY

MODULE - 3

INCORPORATED BUSINESSES

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STATE COUNCIL OF EDUCATIONal RESEARCH & TRAINING

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Foreword

The world of business is witnessing development and changes coming too fast and thereby demanding our attention for commerce curriculum at the senior secondary stage. Every learner in a dynamic learning society has to be familiarized with such areas of knowledge in the global context. Commerce education is directly linked with such changes. The recent times has brought changes in the ways of doing business and has moved beyond the buyers and sellers' market. The advent of globalization of ers rethinking about the selection and delivery of instructional content and new sources of information in order to integrate Skills with knowledge. This requires the students to take an active role in the learning process that consequently results in better student retention and performance. The Information and Communication technology has come in a massive way enabling the occurrence of business transductions digitally on the electronic platform.

The apex organizations like NCERT and CBSE have been incorporating these changes by introducing Project work, VBQs, HOTS, and Case Studies etc., to bring children close to the real world of work. SCERT organises Capacity Building Programs to enable the teachers of commerce for effective classroom transaction and teaching-learning processes. This time SCERT has re-designed its training by developing six modules based on critical components identified across the XI & XI syllabus at Senior Secondary stage and a Supplementary handbook containing enrichment material. Module based training wil be organised for all teachers. However, all the modules wil be made available to the teachers for reference purposes.

I, hereby, extend a sincere word of appreciation for the entire team of contributors who have brought these modules in present shape. It was a tremendous task that would not have been possible without the vision and passion of the people who have incorporated interactive activities, recent changes in syllabus, innovative methodology of teaching- learning processes and enriching reading material for teachers.

I extend a deep sense of reverence and gratitude to all concerned authorities; DOE, NCERT and CBSE for extending all academic support for incorporating required content in the Modules for capacity building of Lecturers in Commerce.

We look forward for your continued support and academic associations for quality education and capacity building of teachers.

I sincerely wish and hope teachers wil also take it enthusiastical y with same zeal and passion to their classrooms.

Your observations and suggestions are welcome on the modules.

Anita Satia

Director, SCERT

Editorial

Today is the age of commerce. It has brought about revolutionary and radical changes in all walks of life. Doing business has taken a new shift which has broken the traditional confines of buyers and sellers' market and the way goods and services are bought and sold. Modes of payment and emerging modes of E-business have encouraged buyers to use technology in day to day life. The gap between domestic and International markets has narrowed down due to the technology. Consumer awareness has also taken a paradigm shift. Competition has become tough. ***It is in this backdrop, all teachers teaching Commerce at Senior Secondary level have to keep pace with fast changing world of business to relate the content of textbooks to the changing business scenario***. It is a chal enge and at the same time exciting, as the subject is not static.

The NCERT and CBSE keep updating the methodology and assessment to make the subject pragmatic and giving teachers and students' scope to think beyond textbooks. Moreover it's the teachers' responsibility to introduce the subject in an interesting manner as Commerce as a subject is introduced at senior secondary level. SCERT organises orientation every year for teachers to update you on the same including hard spots and changes in syllabus and assessment.

This time it has been re-designed by developing six modules based on critical components identified across the XI & XII syllabus at Senior Secondary stage and a Supplementary Handbook containing enrichment material. Questioning based on Blooms Taxonomy and Question Paper Design, Case Studies, Project Work, HOTS, are major areas that wil be addressed during Training Program for Teachers along with hard spots and reading material from class XI syllabus also.

These Modules address the significant changes in Curriculum, Assessment Practices. The useful reading material wil help you in your classroom Teaching–Learning processes. As Teachers play an important role in implementing all new changes taking place in the curriculum and also the new technologies in the field of education. It wil provide an insight on all aspects and stages of project work. A list of suggestive Projects is also given to improve the quality of Projects corresponding to the learning objectives stated by CBSE.

NCERT and CBSE have brought in the desirable changes in the textbooks and examination pattern to connect the text with real world of work in true sense. NCF 2005 also strongly emphasizes on the departure from rote learning to child cantered- processes which is the core of Constructivist approach. The support material developed by SCERT / DIET is an initiative in this direction for capacity building of teachers.

I appreciate team of Contributors who have worked tirelessly and brought these Modules in the present shape. Special thanks are extended to the core committee members comprising of Dr. Anand Saxena, Prof. Shipra Vaidya and Mr. Vijay Kumar who have extended me their invaluable inputs for final vet ing and editing of Modules.

A tribute goes for the noted Educationist, Minoo Nandrajog, who co-authored NCERT books for school children passed away on Wednesday (23 December, 2015 after brief illness. Nandrajog was working as a Professor of Commerce with the NCERT. During her stint, she helped author books in Business Studies and Finance for school students studying commerce. She was associated with SCERT/DIETs for the last two decade in designing Training Curriculum and Orientation Programs of Teachers of DOE in Commerce. Her vibrancy and involvement in our Programs as Resource Person wil be intensely missed as teachers used to relate to her very spontaneously and affectionately. We wil miss her intel ectual associations in Commerce Education.

I take this opportunity to express a deep sense of reverence and gratitude to Ms. Anita Satia, Director, SCERT, Dr. Nahar Singh, Joint Director, SCERT and Late Dr. Pratibha, Former Joint Director, SCERT for their continuous support and encouragement. I owe special thanks to Dr. Dushyant Kaur, Principal DIET Moti Bagh and all my col eagues; Academic and Administrative Staf for facilitating and extending unconditional support at all stages of completing this assignment. My sincere thanks are extended to Ms. Sunita Rani, Lecturer, DIET, Moti Bagh who has provided her valuable inputs and has been a constant support at all stages of development of these Modules. Special thanks are extended to the team of Contributors, Subject Experts, and their concerned authorities, Faculty of various Col eges /Institutes, DDEs and Officials of Directorate, Principals and Teachers of Government Schools, Aided / Public Schools for providing valuable suggestions and support at all stages of development of this Modules. I wish all Stakeholders an insightful reading.

The observations, suggestions and comments related to the Manual are welcome.

*The brief of all Modules are given in the following pages.

Dr. Seema Srivastava

ABOUT THE MODULES

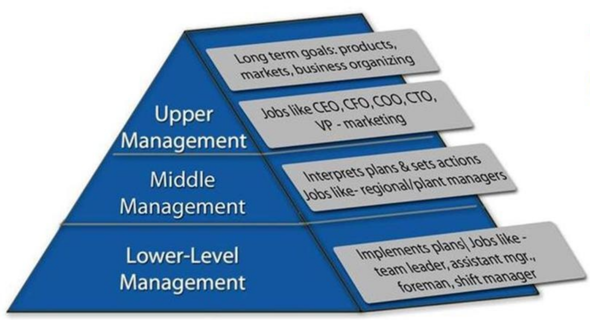
-An Introductory Note

The present enrichment material is integrative in nature and contains 6 Modules and Supplementary handbook for teachers. Each module deals with a different set of selected topics from the senior secondary CBSE syllabus of Commerce, applicable from session 2016-17 onwards. Every Module covers syllabus topics from both Class XI and Xii. The topics have been included after a thorough brainstorming with experts and feedback received from in-service teachers of Commerce, especially those recently promoted into teaching of Commerce. Commerce stream draws heavily on subjects like Geography, Civics, History, Mathematics, Languages and so. The principles of Scientific Management by Fredrick Winslow Tailor are based on organisation and Decision Theory. An in depth look wil reveal mathematics and statistics are employed in many different areas of Industry, Commerce and Accounting Procedures.

The objective is very clear: to enable the teachers to upgrade their knowledge and develop their capacity to become better facilitators in teaching-learning Commerce. To this end many current related news/ happenings, links to websites, topic wise key terms, photographs / pictures /images, Case Studies, games and projects, guide notes for teachers, Value Based Questions, Life Skills and Higher Order Thinking Skills (HOTS) have been included in every module. Use of these wil surely make every class of commerce abuzz with discussion, debate and activity. Difficult topics have also been explained. Without going overboard, it can be stated to serve as a quick reckoner and repository of related material for teachers.

A brief description of the Modules, divided into topical units, is as follows so teachers can decide to go through these as per their individual requirement and choice. all modules wil be uploaded on SCERT website for reference.

Module - I Foundations of Commerce – One Reality, Several Facets



This contains four units. Unit-1 deals with spectrum of different activities i.e. Industry, Trade and Commerce. For class XI students this is an altogether new experience of understanding business, trade and auxiliaries to trade, various types of activities in which we all keep ourselves busy to satisfy our wants. You will learn in detail about 'Business' as a human activity. Business plays a vital role in our lives, not only by providing us various goods and services but also by of ering many opportunities to earn our livelihood. This unit has been designed to help the learner to identify the scope of business activities and to understand the various business activities viz., Industry, Trade & Commerce. Various activities and exhibits are given to make it interesting and it will enable you to relate the text with world of work.

Unit – II of Module intends to familiarize the readers with the concept and theory of Management. It also acquaints the reader about the various Principles of Management that have been applied over the years, along with the techniques of Scientific Management. This unit will help readers understand how management enables organization to be successful in achieving their goals. Co-ordination as an essence of Management, Principles of Management and Levels of Management has been discussed with examples. It gives you lot of insights on classroom processes and how to deal Case Studies given in textbook.

In **Unit - III** we sail through the Business aim to earn profit by providing goods and services to the people through using various resources, material resources and non- material. Material resources include Assets like Land & Building, Plant & Machinery, Investments and Funds available with the business etc. The body of knowledge which helps in providing information about the resources available to the business and how efficiently and effectively the available resources have been used by the business is known as accounting. Accounting is considered as the language of the business as it helps in communicating the results of its activities to the various stakeholders interested in such information. The unit elaborates on the meaning and process of preparing the Accounting Equation based on the different transactions.

Unit - IV is on Reconstitution of Partnership Firms- on Admission of a New Partner. When firm requires additional capital or managerial help or both for the expansion of its business a new partner may be admitted to supplement its existing resources. The unit exposes you with various accounting treatment on account of this and how to deal with it. Hard spots and illustrations are also taken up.

Module- I - Unincorporated Businesses

Unit-I deals with the Smal / Unincorporated Business - Choice of Forms of Business Organisation. Incorporated businesses are formed by following a process of incorporation or registration. We are aware that it is not mandatory to register a firm. Then why include partnership in this module? There are two broad reasons. One is the benefits of registration, secondly and introduction of Limited Liability Partnership (LLP). The unit wil enable you to explore here salient aspects of incorporated businesses and accounting issues linked with these ownership forms. Many recent case studies like Amul, Lizzat Papad etc. have been included to relate the various forms for better comprehension of concepts in real business scenario.

Unit- II elaborates on Risks, Rewards of Business & Insurance. Business is ful of uncertainties. Uncertainties can be of different forms like loss due to change in fashion; fal in market price; goods produced may be destroyed by fire, storm, cyclone, theft etc. Thus, while running a business enterprise, there is an element of risk. Business risk means chance of loss due to uncertain events in future.

Businesspersons are ready to bear these risks because they want to earn profit. In view of the above we can say that in expectation of profit they bear business risks.

In this unit learners wil explore about the role of profit in business, various types of business risks and their causes.

All of us have seen shops in the market. In these shops goods are stored for sale. We have seen factories where machines are installed to manufacture products. We know about modes of transportation viz: land water and air which carry goods from one place to another. Alll these involve lot of money and there is always a risk of loss in transit. The damage may be due to accidents like fire, natural calamities or even riot or theft. Can these risks be avoided or minimized? Is there anything to take care of these risks? The unit exposes you the various types of Insurance including real case studies on settled / disputed to get the clarity of clauses that are practiced. These are exemplar for classroom discussions. You may explore more on your own.

Unit - III – Accounting for Unincorporated Businesses, Partnership Firms, Companies & Co-operatives and Limited Liability

Unit exposes readers to the accounting for Unincorporated Businesses (Accounting for Partnership-Reconstitution, Change in PSR & Admission (Special Focus on Cases of Capital Adjustments)

Unit - IV covers the details of financing the Business- Sources of Business Finance. Finance is the life blood of any organization. The existence, survival and growth of the business depend on finance. The requirement of the finance in the form of fixed capital and working capital is dependent on its size and scale of operations.

The business can acquire its finance for short-term and long-term through various sources. A careful and effective financial planning wil ensure adequate availability of funds at lowest cost and all ocation & utilization of these funds for maximum benefits.

One needs to know about the various options available to them to arrange the required amount of funds (also called capital). In this unit, you wil find out the answer to such questions. Having learnt about the need, importance and types of financial requirements, now we must know from where the businessmen get the required amount of funds to meet the short-term, medium term and long term requirements. Who provides them the required amount? You wil learn about the various sources from which the businessmen generally arrange money for business purposes.

Module - III


MAKEOVER STRATEGY

Good news
- Solution in sight to the spat between the finance ministry and the postal department over converting post offices under India Post into a bank
- India Post may apply for payment bank licence
- RBI and postal department were keen on universal bank licence but finance ministry opposed the move

What's a payment bank?
- Payment banks can provide deposit and remittance services but not give loans

The strengths
- Huge network of post offices will help to bring rural and semi-rural areas within bank ambit
- India has around 1.54 lakh post offices with around 150 million savings accounts, who are seen as potential customers for Jan Dhan

The weakness
- Post offices have a long way to go to catch up with the professionalism of modern day banks

Unit-1 – Partnership, Company and Cooperative forms of Business Organisations, Limited Liability Partnership-Various forms with their merits and demerits are discussed in this unit along with examples and exhibits. History of Companies Act legislated in India and Impact of Companies Act -2013 is included in this unit with ample examples. Cooperative Form of Business -groups of individuals around the world and throughout time have worked together in pursuit of common goals. Examples of cooperation, or collective action, can be traced back to our prehistoric predecessors who recognized the advantages of hunting, gathering, and living in groups rather than on their own are also covered.

Unit – II is on the Concept of Corporate Governance-Its Philosophy and Practice.

The concept of corporate governance is not new to India. Many corporations/ companies are known for following the concept of good governance affecting various stakeholders, particularly the vulnerable one in a positive manner. However, corporate governance as a concept in India got prominence in the wake of liberalisation, privatisation and globalisation (L.P.G) policies adopted by the government during 1990s and was introduced by industry representative associations like Confederation of Indian Industries (CII) as a voluntary measure to be adopted by the Indian companies. Soon it acquired a legal status in early 2000s through the introduction of clause 49 of the listing agreement as all companies, with a particular share capital, listed on stock exchanges were required to comply with these norms of corporate governance.

Good corporate governance standards are essential for the integrity of corporations, financial institutions and markets and have a bearing on the growth and stability of the economy. Over the past decade and a half, India has made significant strides in the areas of corporate governance reforms, which have improved public trust in the market. These reforms have been wel received by the investors, including the Foreign Institutional Investors (FIIs). Corporate Governance by Narayana Murthy Committee, Corporate Governance by Narayana Murthy Committee, Excerpts from Corporate Governance at Tata Group, Excerpts from Corporate Governance at Reliance Industries wil really enrich you on how these renowned companies philosophise, think, follow and practice Corporate Governance. Various contemporary case studies are also suggested for classroom discussions to build a sound understanding of Corporate Governance.

Unit - III deals with Private and Public Enterprises; Change in the role of Public Sector Enterprises in an economy, Public-Private Partnership

India, after independence, has followed the concept of Mixed Economy. Mixed economy consists of Public sector as wel as Private Sector. Public Sector in India has been an integral part of growth and development process of its economy. Some public sector enterprises/undertakings (PSUs) have been the backbone of Indian economy. PSUs like Indian Oil, ONGC, BHEL, NTPC etc. have done wel for the welfare of the people in an economically efficient and effective manner. Private Sector Enterprises flourished after new economic policy was adopted following principles of LPG i.e. Liberalization, Privatization and Globalization. New business houses emerged after 1990s new economic policy include, Dhiru Bhai Ambani's Reliance Group, Sunil Bharti Mit al's Bharti Group, Narayan Murti's Infosys, Azim Premji's Wipro etc. Some companies are also following the Public-Private Partnership Model which offers benefits of both sectors. The different case studies and changing role of public sector wil catch your attention as to how the sectors are evolving in economy. Public Private Partnership (PPP) is gaining at ention to improve upon the quality of infrastructure and services.

Unit – IV covers **Accounting** for Partnership Firms – Retirement, Death of a Partner and Dissolution of Partnership.

Accounting for partnership firms is based on the concepts learned in the previous modules related with Partnership Accounting. In this unit, accounting procedures in case of Retirement of the partner/partners from the firm, Death of Partner/partners and in case of dissolution of Partnership firms has been given along with illustrations.

Module - IV Banking and Finance

Unit - I Banking, Banking Transactions: Types of Bank Accounts (Focus on RD & MODS, NEFT)*, E-Banking, Bank Draft, Bankers' Cheque

Banking: Concepts and Its Emerging Modes elaborate on various activities performed\ by a businessman while carrying out the business operations are taken up in this unit. Thus, to carry out any business activity successfully, various support services are required. The unit gives you an idea about those services and their operations. In this unit we shall learn about banking which is a main support service for any business.

E-Banking - **Range of services offered by e-banking are: like** Electronic Funds Transfer (EFT), Automated Tel er Machines (ATM), Point of Sales (POS), Electronic Data Interchange (EDI), Digital Cash etc. are taken up with specimens/exhibits/ procedures are covered to make it easy to understand. RTGS, NEFT etc. are also explained. FAQs are given in almost each unit along with HOTS and Board questions.

Unit - II deals with Sources of Business Finance. Various sources are explained with its merits and demerits.

Unit – III deals with Bank Reconciliation Statement. It is necessary for every business organisations to keep a record of their cash and bank transactions in a cash book. The cash book also serves the purpose of both the cash account and the bank account as it shows the balance of both cash and bank at the end of the period.

After the balancing of cash book, it is usual to check its details with the records of the recent bank statement (or a bank passbook) obtained from the bank. A bank statement or a bank passbook is a copy of a bank account as shown by the bank records. This enables the business enterprises to check their funds in the bank regularly and update their own records of transactions that have occurred. The amount of balance shown in the passbook or the bank statement must tally with the balance as shown in the cash book of the business. But in practice, these are generally found to be different. Hence, we have to ascertain the causes for such difference. The unit elaborates on the meaning, need and process of preparing the Bank Reconciliation Statement based on the different transactions causing the differences between two balances. ***An exemplar Project on BRS is also given in unit -6 for practice.***

Unit - IV is on Accounting for Companies, Shares and Debentures. In class XI the students have already read about the company as a form of organisation, its features, merits and limitation along with types of companies and formation of a company. In this unit some hard spot in accounting for Share Capital and Debentures are discussed. In current academic session CBSE re-introduced topic redemption of debentures by conversion method and in share capital **"Accounting treatment of ESOP"** is also explained in the unit. Stock market is different from a stock exchange which is an entity (a company or Corporation) in the business of bringing buyers and sellers of stock together. i.e., the stock market in the United States includes the trading of stocks listed on the NYSE, NASDAQ and Amex etc. In India, stock market includes the trading of stocks listed on the BSE, NSE etc. The unit has reading material on Stock Market and Financial Statement Analysis.

Module - V International Business and E-Business

Unit - I is based on **International Business and Global Enterprises: MNCs and Joint Venture**

With the development of human society and progress in science and technology, the scope of trade has also widened. It has now crossed the geographical boundaries of each country. Today, we can buy goods of our need from other countries and also sel our surplus goods abroad without facing much difficulty. When the business firms of two different countries participate in the process of buying and sel ing of goods it is termed as External Trade. Meaning and Features of Multi National Corporation (MNCs), Features of Global Enterprises and Joint Ventures are also explained.

UNIT- II is on E-Commerce-Emerging Modes of Business, App-Based Businesses.

In the last two decades the whole business scenario has changed drastically majorly due to technology revolution. The methods of the business are not the same. Most of the traditional business houses have changed their strategy to cope up with the changing business scenario. Even a large number of customers in the market are not going to the markets for satisfying their needs. Now –a - days we can see a number of business houses which are not manufacturing even a single unit themselves but generating a large volume of businesses in the market. Mode of payment has also been changed and now customers in the market have number of options. Present module wil discuss the emergence of new modes of business in the market, uses of smart cards and the concept of outsourcing. All this is elaborated in detail with specimen, details and examples /exhibits.

Unit - III provides a deeper understanding of New Initiatives and Policies of Government.

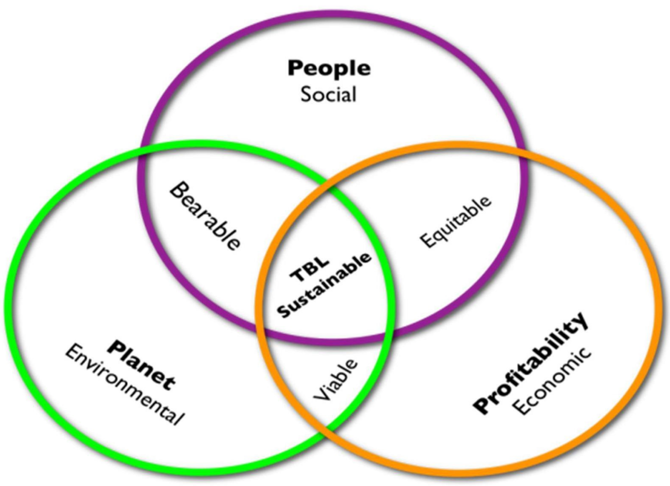
Globalisation is defined as the integration between countries through foreign trade and foreign investments by multinational corporations (MNCs). Integration of production and integration of markets is a key idea behind understanding the process of globalisation and its impact. MNCs have been a major force in the globalisation process connecting distant regions of the world. More and more goods and services, investments and technology are moving between countries. Various Government policies are aimed at addressing the economic problems faced by the Indian economy. They are framed so as to prepare the economy to face the challenges and prepare the same for the new opportunities emerging out of integration of the Indian economy with the world. The unit exposes you with various Government policies and Schemes. Steps to at ract foreign investment and benefits of globalisation throw light on Government interest and intent. Make in India , Skil Development, Start Ups and Swacch Bharat, Jan-Dhan Yojna etc. are explained for classroom discussion and debate.

Unit - IV is on E-Accounting (tally Software)

The aim of this chapter is not to teach an accounting package, but to focus on how thefeatures of accounting software are implemented in cycle can be incorporated in the flow. It also co-relates the manual phases of accounting cycle with each of these modules and describes how different reports can be generated at the end of each of these modules.**Features of accounting software** are explained in this unit.

Tally is an accounts and inventory management software which has many other features too. With the latest version of this software tally 9 you can- do all basic accounting functions.

Module - VI Business Environment and Sustainable Businesses



Unit-1 explains Ethical and Environmental Responsibilities of Business-

Understanding Business Environment and Social, Accounting for Sustainable Businesses

This module is integrative in nature. It is integrative in many ways. One, we look at business and business studies in the context of the set ings in which they operate. Two, we emphasize that the only in economic terms but also how it contributes toward the development of the society and the conservation of the environment. The opening unit therefore explores the salient aspects of the symbiotic relation environment. Three, it emphasizes that the conventional dichotomy of the economic and social activities is get ing blurred. Today we talk of social entrepreneurship and social businesses. In any case, even the Government focuses on efficiency and effectiveness. That is why we have included a unit on Not for Profit Organizations in this module. Fourth, the module contains our suggestions on Students' Project Work to be integrative even as it may emphasize a particular business functionality or environmental issue. The figure on the cover of the module says it all . We zoom it in here to put the module in a better perspective.

It would be too inappropriate to say that the purpose of the business is to earn profits. Business is a social institution and the purpose of business is to help the society in raising its living standards by providing job opportunities, goods and services, technology, expert guidance to the government in making plans and policies.

Unit - III Accounting for Not-for-Profit Organisations

Every organisation in the society is not set up with the objective of earning profits but with the objective of providing service to its members and the public in general. Such organisations include clubs, charitable institutions, schools, religious organisations, sports club, trade unions, welfare societies and societies for the promotion of art and culture. These organisations have service as the main objective and not the profit as is the case of business organisations. These organisations are managed by trustees who are fully accountable to their members and the society for the utilization of the funds raised. Hence, they also have to maintain proper accounts and prepare the financial statement which take the form of Receipt and Payment Account; Income and Expenditure Account; and Balance Sheet at the end of every accounting year. The unit contains the illustrations on the same to expose you with accounting procedures for such organisations.

Unit - III Explains the Functional Aspects of Business (Marketing, Finance and Human Resource- An overview)

Every organisation has to perform various functions in order to achieve its aims. Similarly business output i.e. goods and services, are the result of a complex mixture of activities. The success and failure of a business are heavily dependent on the effectiveness and efficiency of these functions. ***Finance, Human Resources, Production and Marketing*** of the products are some of the most important functions which business organisations have to keep in mind. The unit contains the cases based on these three aspect for an intensive classroom activity based on the analysis of each case by students in group activity followed by presentations .The deliberations wil develop analytical ability among students and it wil enable them to understand the case studies better from boards point of view as per the changed pattern of Paper. ***The unit further establishes the interconnectedness of the three - Marketing, Finance and Human Resource.*** Your role as teacher is most crucial to channelize and consolidate the presentations by students for clarity and comprehension of the three major functions. In the end the Exemplar SWOT method of Skoda is given to orient students to use this as analyzing the other case studies .You should encourage students to look for such cases and bring to classroom for debate and discussions.

Unit - IV provides the essentials and process of initiating authentic and original Project Work in Commerce.

NCF 2005 focuses on bringing the textbooks closer to the world of work. With the objective to impart application based insights the Project Work was introduced by CBSE in the Commerce Curriculum at the Senior Secondary Level.

The present unit also deals with the QUESTIONING SKILLS which wil expose you to interesting content and examples. It wil enable you to polish your own Skills to practice effective teacher–learning processes. In the course of various stages of developing the project, students have to be oriented to gather data and conduct interviews etc. The students should be encouraged to develop scientific temper as wel as the confidence and communication Skills to interact with various parties in the course of field research.

Data collected by the students should be subject to objective analysis and interpretation, for inferring unbiased conclusions. At every stage, teachers should help students to hone correct at itude and values for the task. In class XI, project work involves **field visits, case studies, import export procedures** and so for class XII , the projects include topics related to **Principles of Management, Business Environment, Stock Exchange and Marketing Management.**

Later in the unit Questioning Skills, Bloom's Taxonomy and Higher Order Thinking Skills are also explained with ample Examples.

The 6 Modules as briefly described above are support material and teachers wil gain by making use of these in their class. It should be clear that in no way at all this is an exhaustive material. It is meant to complement and not substitute the text books. This is a teacher's teaching aid. Using this wil surely make your students look forward to their Commerce class!

Supplementary Handbook for Teachers of Commerce

This contains the syllabus for the year 2016-17, CBSE Board Papers including Marking Scheme of CBSE Papers. Sample Paper of CBSE for the year 2016-17 is also included. Common Errors committed by the students are also detailed out to provide you an insight to prepare students to score better. The genuineness and authenticity of the project work largely depend on teachers' guidance and monitoring. As far as possible, project work should be executed in school, under the teacher's guidance and facilitation. The different aspects of Project formulation and different stages of project have been addressed in form of Frequently Asked questions (FAQs). You wil be amazed to find out what you teach in theory wil enable students to find meaningful application in daily newspapers. This wil also develop the habit of reading newspapers among students and sharpen their analytical ability too.

It would be our endeavour to bring back the glory to this noble task of teaching and meaningfully contribute to effective teaching- learning processes to make the students globally competitive. Alll the best and hope that creativity of users of these modules gets inspired to take flight beyond this resource. Take this with the same zeal andcompassion to make the teaching of Commerce joyful and meaningful. Your observations, comments and suggestions on the Modules are welcome.

Dr. Seema Srivastava

Welcome

On board!

The picture above depicts paper planes flying all over. Imagine being greeted by the students on the First day. As a commerce teacher in the class room what would you cal it?**A disaster or the commencement of a great innings ?** A teacher chooses later option by greeting back the learner with praise. Yes, plain paper does not fly: it is only when they are folded in specific angles, following the principles of aerodynamics that makes them fly. It is great to know that your learners are aware of this. The issue is how to leverage the learners' awareness and lead them to an exciting journey of exploring the subject they have chosen. Let us begin with study of-

- Principles of learning facilitation;
- Learners are more aware than we presume them to be;
- Every bit of learning needs to be celebrated with a reward;
- Learning is cumulative. What we learn in kindergarten adds up to what we learn in primary classes and so on;
- All learners are blessed with six able servants- what, Why, When, How, Where and Who;
- One may embark upon one's explorations in any subject from starting point.

One just has to let go!

ENABLING LEARNERS' EXPLORATIONS IN

BUSINESS STUDIES AND ACCOUNTING

MODULE - 3

INCORPORATED BUSINESSES

UNIT- I

Incorporated Businesses

Abstract

Incorporated businesses are formed by following a process of incorporation or registration. We are aware that it is not mandatory to register a firm. Then why include partnership in this module? There are two broad reasons. One, the benefits of registration. Two, introduction of Limited Liability Partnership (LLP). We shall explore here salient aspects of incorporated businesses and accounting issues linked with these ownership forms. For example in partnership there may be a need to reconstitute the firm and revalue the business I a new partner is admitted or an existing partner retires or dies.

KEY TERMS

- Business Organisation
- Forms of Business Organisation
- Partnership Firms
- Company form of business
- Cooperatives form of business
- Corporate Governance
- Accounting for Partnership Firms

LEARNING OUTCOMES

After studying this Unit, learners wil be able to :

- Define the various forms of business organisations i.e. partnership firms, companies & cooperatives
- Explain the partnership firms, companies & cooperatives forms of business organisation
- Differentiate among various kinds of business organisation i.e. partnership firms, companies &

cooperatives

- Explain the concept of Corporate Governance
- Discuss the importance of Corporate Governance
- Explain the concept of accounting for partnership firms
- Apply the learning of accounting for partnership firms in practice.

Scope of the Module

- Partnership, Company and Cooperative forms of Business Organisation
- Corporate Governance (Concept & Importance)
- Accounting for Partnership Firms
- FAQs

EXPLANATION OF THE KEY TERMS

Key terms used in this module have been described below:

(i) Business Organisation

Organisation is a group of people who collectively work to achieve some predetermined aims and objectives. This aim can be many like to earn profit, to serve the needy etc. A business organisation is one such form of organisations which aims at earning profit by providing goods and services to the customers/consumers.

(ii) Forms of Business Organisation

There are various forms of the business organisations to suit the needs and aspirations of the entrepreneurs or businessmen. For example, partnership form of business organisations offers different features, merits and demerits to the entrepreneur. Registration of partnership form of business organisation is not required.

(iii) Partnership Firm

Partnership firms are a form of business organisation which requires partnership between two or more partners who agree to share profits and losses as decided among them. It is governed by the provisions of the Indian Partnership Act, 1932. However, nowadays, limited liability partnership (LLP) is also in vogue.

(iv) Companies

A company is a legal body incorporated or formed under Indian Companies Act. The liability of the shareholders is limited to the share capital held by them. Company form of business organisation is governed under Indian Companies Act 2013. An Act to consolidate and amend the law relating to companies in India received the assent of the President on the 29th August, 2013. This is known as the Companies Act, 2013.

(v) Cooperatives

A cooperative form of business organisation is based on the concept of cooperation of the members for which it has been established.

(vi) Corporate Governance

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled.

(vii) Accounting for Partnership Firms

Accounting for partnership firms involves sharing of profits as well as losses as per the predetermined ratios, determining goodwil of the partnership firms, formation, reconstitution and dissolution of the partnership firms etc.

INTRODUCTION

One of the many decisions you have to make as an entrepreneur or owner of a new business is how the business should be structured. all businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. This decision wil have long-term implications, so you may want to consult with a chartered accountant and/or lawyers to help you select the form of ownership that is best for you. In making a choice, you wil have to take into account the following points given in Figure 1.

Figure 1: Factors affecting choice of a Business Organisation

On the basis of the factors discussed above, one has to take decisions regarding which form of business organisation one wants. There is a dilemma for the entrepreneur as not all every form of business organisations of er all the features and have different merits and demerits.

This dilemma has been shown with the help of an image as follows:

Exhibit 1: Choosing Business Entity

So, one has to take decisions regarding choice of business in a very cautious manner. In this module, we wil discuss the following forms of business organisation

- Partnership, Company and Cooperative forms of Business Organisation
- Corporate Governance (Concept & Importance)
- Accounting for Partnership Firms

TYPES OF BUSINESS ORGANISATION

There are various forms of Business Organisations which we can choose to start their business operations. following types of business organisation are famously established to run business activities in India.

1. PARTNERSHIP

Partnership is an association of two or more persons who agree to combine their financial resources and managerial abilities to run a business and share profits in an agreed ratio. Since the resources of a sole proprietor to finance, and his/her capacity to manage a growing business are limited, he/she feels the need for a partnership firm. Partnership business, therefore, usually grows out of the need for expansion of business with more capital, better supervision and control, division of work and spreading of risks.

Partnership form of a business organisation in India is governed by the Indian Partnership Act of 1932. Section 4 of this Act defines partnership. As per section 4 of this Act "Partnership is an agreement between two or more persons who have agreed to share profits of the business carried on by all or any one of them acting upon all . Persons who have entered into partnership with one another are called individual y, "partners" and collectively "a firm", and the name under which their business is carried on is called the "firm-name".

Features of Partnership: The features of partnership form of business organisation have been given through figure 2 as follows:

Figure 2 : Features of a Partnership Firm

Merits of the Partnership form of Business organisation

Figure 3 : Merits of a Partnership Firm

Demerits of the Partnership form of Business organisation

Figure 4 : Demerits of a Partnership Firm

2. COMPANY FORM OF BUSINESS

Prior to the year 2013, company form of business organisations used to be governed under Companies Act 2013. The 2013 Act had been in need of a substantial revamp for quite some time now, particularly after India opened up its economy and more so, after part two of economic reforms of India, to make it more contemporary and relevant to corporates, regulators and other stakeholders in India. Keeping this requirement in view, the Companies Bil was considered and approved by the Lok Sabha on 18 December 2012 and then by the Rajya Sabha too on 8 August 2013. It received the President's assent on 29 August 2013 and has now become the Companies Act, 2013i.

The changes in the 2013 Act have far-reaching implications that are set to significantly change the manner in which corporates operate in India. Let's first discussed some key points

History of Companies Act legislated in India

1. Joint Stock Companies Act 1850- First time in India, registration of companies with unlimited liability possible through High Courts of Bombay, Madras or Calcutta.

2. Joint Stock Companies Act 1857- company registration with limited liability

3. Joint Stock Companies Act 1860- insurance & banking companies with limited liability permit ed

4. Joint Stock Companies Act 1866- Cancel ed all previous laws and defined laws governing incorporation, regulation and winding up of the company

5. Joint Stock Companies Act 1882- Elaborated the provisions of companies act 1866 and supporting acts were made: Companies MoA Act 1895, Companies Branch Register Act 1900 and Companies

Act 1910 to fil ed the loopholes.

6. Indian Companies Act 1913- Consolidated Act, all owed private companies for the first time.

7. Indian Companies A ct 1936-many amendments were made in between 1913 to 1936 as per the need of the situation and final y accepted as 1936 Act.

8. Indian Companies Act 1956- based on the Company Law Commit ee

9. Companies Act, 2013- Latest one

Definition of Company

Companies Act 2013 does not define a company. Companies Act 2013, however defines a company. Therefore, the 2013 Act an d the 1956 Act now co-exist with several situations where the two Acts wil need to be read together and applied. “Company” means a company incorporated under this Act or under any previous company law.

Indian Companies Act 1956

“A company is a person, artificial, invisible, intangible and existing only in the contemplation of the law. Being a mere creature of law, it possesses only those properties which the character of its creation confers upon it either expressly or as incidental to its very existence”.

Justice Marshall , (USA)

”an association of many persons, who contribute money or, money's worth to a common stock and employs it in some trade or business and who share the profit and loss, arising there from. The most important consequence of incorporation is that a company is regarded as being a legal person in its own right. This means that a company has a legal identity of its own which is quite separate from the legal identity of its owners. If a wrong is done to a company, it is the company, and not its owners, which has the right to sue. Conversely, if a company injures a person that person can sue the company but cannot sue the owners. '

Lord Justice Lindley

Characteristics of a Company

From the definitions given above, it is clear that a company is an artificial person created by through the process of law, which carries on business for profit with the funds contributed by its owners known as shareholders. This has been given under figure 5.

Figure 5: Characteristics of Company

Act and Year	Parts	Chapters	Sections	Schedule
Companies Act 1956	XIII	XXVI	700+	XV
Companies Act 2013	-	XXIX	470	VII

Merits of a Company: This can be given in the following points

Figure 6: Merits of a Company

Patanjali: A Game Changer?

Patanjali Ayurveda led by Swami Ram Dev, has a staunch supporter of Swadeshi products in India, has posed serious threats to the FMCG Companies operating in India. As per company targets, it wil achieve Rs. 20, 000 Crore rupees turnover by year 2020.

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COOPERATIVE FORM OF BUSINESS

Groups of individuals around the world and throughout time have worked together in pursuit of common goals. Examples of cooperation, or collective action, can be traced back to our prehistoric predecessors who recognized the advantages of hunting, gathering, and living in groups rather than on their own.

Have you seen any of the brands shown above? Yes, many of you must have. These are some of the popular brands based on the concept of cooperative movements. For example, IFFCO (Indian Federation of Fertiliser Cooperative Organisation) is a cooperative organisation which works for the benefits of the farmers. Let's know what the meaning of cooperative business organisation is?

As the name suggest, cooperative form of business organisation is based on the concept of cooperation of the members for which it has been established. A co- operative (also known as co-op, cooperative or coop) is an autonomous association of people united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled business. A jointly owned commercial enterprise (usually organized by farmers or consumers) that produces and distributes goods and services and is run for the benefit of its owners.

Exhibit 2: Cooperative aims at benefit of its members

Definition

1. A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

International Co-operative all iance (ICA)

2. Cooperative is a user-owned, user-controlled business that distributes benefits on the basis of use

States Department of Agriculture (USDA)

Features of Cooperative

Features of a cooperative can be drawn from the definitions given above. These has been depicted below by figure 8.

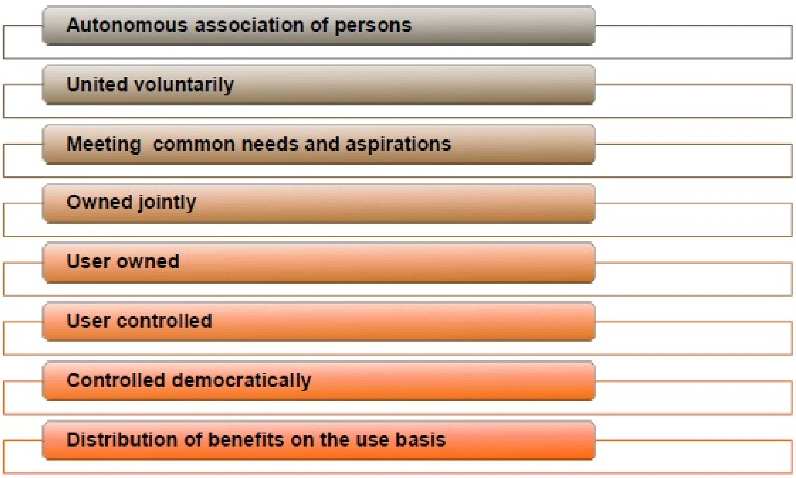


Figure 7: Features of Co-operatives

Merits

Merits of a cooperative can be drawn from the definitions given above. These has been depicted below by figure 9.

Figure 8: Merits of Co-operatives

Demerits

Merits of a cooperative can be drawn from the definitions given above. These has been depicted below by figure 10.

Figure 9: Merits of Co-operatives

Need and Importance of Cooperatives

Cooperatives, as economic enterprises and as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members and their local communities. Over the years, cooperative enterprises have successful y operated local y owned people-centred businesses while also serving as catalysts for social organization and cohesion. With their concern for their members and communities, they represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment. As the world today faces unstable financial systems, increased insecurity of food supply, growing inequality worldwide, rapid climate change and increased environmental degradation, it is increasingly compel ing to consider the model of economic enterprise that cooperatives offer. The cooperative sector, especial y in developing countries, also presents itself as an important element that could contribute to the realization of the Mil ennium Development Goals (MDGs) by 2015.

- The cooperative sector worldwide has about 800 mil ion members in over 100 countries through the membership organizations of the International Cooperatives all iance.
- There are some 49,000 credit unions serving 177 mil ion members in 96 countries, under the umbrel a of the World Council of Credit Unions that continue to operate despite the current financial crisis.
- Even the larger cooperative banks, such as Rabobank which is the largest agricultural bank in the

world1, continue to demonstrate the value of the cooperative banking model.

- Farmer cooperatives are growing in most developing countries. For example, India's 100,000 dairy cooperatives col ect 16.5 mil ion litres of milk from 12 mil ion farmer members every day, making a significant contribution to India's food supply.
- Across different countries, the proportion of the cooperative membership to population varies, but can be as high as 1 in two people as in Finland and Singapore, one in three in Canada, New Zealand, Honduras, and Norway, one in four in the USA, Malaysia and Germany.
- Viewed in terms of households, cooperative membership represents as much as 1 in 2 households in Finland, and 1 in 3 in Japan. ¬^ In terms of percentage of a country's GDP at ributable to cooperatives, the proportion is highest in Kenya at 45 per cent, New Zealand with 22 per cent.
- Cooperatives account for 80 to 99 per cent of milk production in Norway, New Zealand and USA. They account for 71 per cent of fishery production in Korea, 40 per cent of agriculture in Brazil; 25 per cent of savings in Bolivia; 24 per cent of the health sector in Colombia; 55 per cent of the retail market in Singapore, 36 per cent in Denmark and 14 per cent in Hungary.
- It is estimated that cooperatives account for more than 100 mil ion jobs around the world.

Indian Cooperative Movement

- Cooperation in a vast country like India is of great significance because :

  o It is an organization for the poor , il iterate and unskil ed people

  o It is an institution of mutual help and sharing

  o It softens the class conflicts and reduces the social cleavages

  o It reduces the bureaucratic evils and fol ies of political factions

  o It overcomes the constraints of agricultural development

  o It creates conducive environment for smal and cottage industries

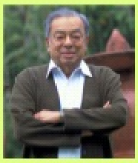
Bussiness by AMUL Cooperative

Managed and run by the Gujarat Cooperative Milk Marketing Federation (GCMMF), the AMUL brand is owned by 18,536 vil age dairy cooperatives like the one in Sandesar and 3.6 mil ion farmers from Gujarat. Coined in 1955 as an acronym for Anand Milk Union Limited, AMUL is now the umbrel a brand of over 50 different milk products, from the best-sel ing but er and cheese, to ice creams, chocolates, milk powder, yoghurt and sweets such as shrikhand and gulab jamun. These products find a place on every retailer's shelf; moreover, GCMMF has also established around 9,000 AMUL parlours (dedicated stores). GCMMF, which is headquartered in the nation's milk city of Anand in Gujarat, had an annual turnover of Rs 20,733 crore in FY15, a remarkable 159 percent growth from just five years ago when it clocked Rs 8,005 crore.

Who was Varghese Kurien(26-11- 1921 to9 -9-2012) ?

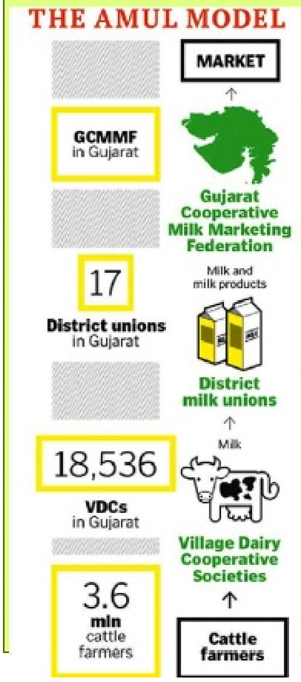
Dr. Varghese Kurien is known as Father of White Revolution in India. He was an Of icer of Dairy Division wherein he found that the farmers were being exploited by the distributors of milk. Dr. Kurien left his government job and joined forces with Tribhuvandas Patel and the farmers to start the Milk Cooperative movement in the region registered under the name of Kaira District Cooperative Milk Producers Union Ltd (KDCMPUL), which was later renamed to now popular brand "Amul". Dr. Kurien was the man responsible for turning India from a milk deficient country to the largest producer of milk in the world today.

Source: http:/ www.drkurien.com/biography



Varghese Kurien

(26-11- 1921 to 9 -9-2012)



Innovative way of Advertising

Even when it comes to advertising spends, GCMMF is prudent. On an average, an FMCG company spends 814 percent of its sales turnover on advertising. Dr Kurien realised early that brand building is vital to establish the Amul brand, but he wanted to adopt an innovative and low cost approach. He opted for the billboard campaign for Amul butter that began in 1966 and it continues to date with witty remarks on current affairs. Since then, as a principle, the company spends less than 1 percent of its sales on advertising; last year it spent 0.8 percent. But consistency has been the key and it has always chosen to amplify the Amul brand name than advertise its product lines. It has bought 80 billboard sites nationally, but the moment a new campaign hits, it goes viral on digital media.

The “Lijjat Experiment”

Strengthening Women empowerment and promoting rural economy

Shri Mahila Griha Udyog Lij at Papad is a women's organisation of the women, by the women and for the women. It was started in 1959 with 7 lady members with a borrowed sum of Rs. 80/- at Girgaum in Mumbai The turning point of the Institution was in 1966 when it was registered under the Bombay Public Trust Act 1950 and also registered under Societies Registration Act, 1860 and got recognition from Khadi & Vil age Industries Commission as a vil age industry.

This organisation symbolises the strength of a woman. The vision is clear – an exclusive women’s organisation run and managed by them, a quality product that these women have the expertise to make, and, final y, a work environment which is not competition-driven and mechanised but based on pure labour and love for the organisation and its people. Shri Mahila Griha Udyog Lij at Papad is synthesis of three intertwined core values:

(1) The concept of Business

(2) The concept of family

(3) The concept of Devotio

These entire concept are completely and uniformly fol owed in this institution. As a result of this synthesis, a peculiar Lij at way of thinking has developed therein. The institution has adopted the concept of business from the very beginning. all its dealings are carried out on a sound and pragmatic footing - Production of quality goods and at reasonable prices. It has never and nor wil it in the future, accept any charity, donation, gift or grant from any quarter. On the contrary, the member sisters donate collectively for good causes from time to time according to their capacity.

The objective of the Institution is to provide employment to the ladies to enable them to earn decent and dignified livelihood. Any women who can render physical work in this Institution without distinction of caste, creed and colour and agrees to abide by the objective of the Institution can become a member of the Institution from the date on which she starts working. Papad production work starts at early hours in the morning i.e. 4.30 a.m. We have mini bus which picks the members from the closest point of residence to the branch and back home.

Every branch is headed by a Sanchalika to see the production of the branch. It has a Central Managing Commit ee, which consist of 21 members out of, 6 (Six) are elected Of ice Bearers i.e. President, Vice - President, 2 (Two) Secretaries and 2 (Two) Treasurers. all the branches are autonomous units and the income or loss as the case may be of such unit is borne by the owner sister members of that branch by increasing or decreasing their rol ing charges accordingly. The credit for rapid progress goes to the constant vigilance on the part of sister members maintaining the quality of Lij at Papad with their hard work.

Besides the concept of business, the institution along with all its member sisters has adopted the concept of mutual family affection, concern and trust. all af airs of the institution are dealt in a manner similar to that of a family carrying out its own daily household chores.

But the most important concept adopted by the institution is the concept of devotion. For the member sisters, employees and wel -wishers, the institution is never merely a place to earn one's livelihood - It is a place of worship to devote one's energy not for his or her own benefits but for the benefit of all . In this institution work is worship. The institution is open for everybody who has faith in its basis concepts.

Shri Mahila Griha Udyog Lij at Papad is a Women's organisation manufacturing various products from 1Papad, Appalam, Masala, Gehu At a, Chapati, SASA Detergent Powder, SASA Detergent Cake (Tikia), SASA Liquid Detergent. The organisation is wide-spread, with it's Central Of ice at Mumbai and it's 81 Branches and 27 Divisions in different states all over India. Membership has also expanded from an initial number of 7 sisters from one building to over 43,000 sisters throughout India. The success of the organisation stems from the ef orts of it's member sisters who have withstood several hardships with unshakable belief in 'the strength of a woman'.

UNIT-I

Corporate Governance

The concept of corporate governance is not new to India. Many corporations/companies are known for following the concept of good governance af ecting various stakeholders, particularly the vulnerable one in a positive manner. However, corporate governance as a concept in India got prominence in the wake of liberalisation, privatisation and globalisation (L.P.G.) policies adopted by the government during 1990s and was introduced by industry representative associations like Confederation of Indian Industries (CI) as a voluntary measure to be adopted by the Indian companies. Soon it acquired a legal status in early 2000s through the introduction of clause 49 of the listing agreement as all companies, with a particular share capital, listed on stock exchanges were required to comply with these norms of corporate governance.

Good corporate governance standards are essential for the integrity of corporations, financial institutions and markets and have a bearing on the growth and stability of the economy. Over the past decade and a half, India has made significant strides in the areas of corporate governance reforms, which have improved public trust in the market. These reforms have been wel received by the investors, including the foreign institutional investors (FI s).

Corporate Governance by Narayana Murthy Committee

"…Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company."

Report of Narayana Murthy Committee on Corporate Governance, 2003

(As submit ed to SEBI)

OECD Principles on Corporate Governance

1. Ensuring the Basis for an Ef ective Corporate Governance Framework

    The corporate governance framework

    o should promote transparent and efficient markets,

    o be consistent with the rule of law and

    o clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

2. The Rights of Shareholders and Key Ownership Functions protected and facilitated

    o protect and facilitate the exercise of shareholders' rights

3. The Equitable Treatment of Shareholders

    o Should ensure the equitable treatment of all shareholders

    o opportunity to obtain ef ective redress for violation of their right

4. The Role of Stakeholders in Corporate Governance- recognized

    o should recognise the rights of stakeholders

    o encourage co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of enterprises

5. Disclosure and Transparency

  o Timely and accurate disclosure is made on all material matters including the financial situation, performance, ownership, and governance of the company.

6. The Responsibilities of the Board-Monitoring Management and Accountability to Shareholders

  o should ensure the strategic guidance of the company,

  o the effective monitoring of management by the board, and

  o the board's accountability to the company and the shareholders

Excerpts from Corporate Governance at Tata Group

COMPANY'S CORPORATE GOVERNANCE PHILOSOPHY

Corporate governance is creation and enhancing long-term sustainable value for the stakeholders through ethically driven business process. At Tata Steel, it is imperative that our Company affairs are managed in a fair and transparent manner.

We, at Tata Steel, ensure that we evolve and follow the corporate governance guidelines and best practices. We consider it our inherent responsibility to disclose timely and accurate information regarding our financials and performance as well as the leadership and governance of the Company.

In accordance with the Tata Steel Group Vision, Tata Steel Group ('the Group') aspires to be the global steel industry benchmark

Excerpts from Corporate Governance at Reliance Industries[iv]

In accordance with Clause 49 of the Listing Agreement with BSE Limited (BSE) and the National Stock Exchange of India Limited (NSE), the report containing the details of Corporate Governance systems and processes at Reliance Industries Limited is as follows:

At Reliance Industries Limited (RIL), Corporate Governance is all about maintaining a valuable relationship and trust with all stakeholders. We consider stakeholders as partners in our success, and we remain committed to maximising stakeholders' value, be it shareholders, employees, suppliers, customers, investors, communities or policy makers. This approach to value creation emanates from our belief that sound governance system, based on relationship and trust, is integral to creating enduring value for all. We have a defined policy framework for ethical conduct of businesses. We believe that any business conduct can be ethical only when it rests on the six core values of Customer Value, Ownership Mindset, Respect, Integrity, One Team and Excellence.

STATEMENT ON COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Corporate Governance encompasses a set of systems and practices to ensure that the Company's affairs are being managed in a manner which ensures accountability, transparency and fairness in all transactions in the widest sense. The objective is to meet stakeholders' aspirations and societal expectations. Good governance practices stem from the dynamic culture and positive mindset of the organisation. We are committed to meet the aspirations of all our stakeholders. This is demonstrated in shareholder returns, high credit ratings, governance processes and an entrepreneurial performance focused work environment. Additionally, our customers have benefited from high quality products delivered at extremely competitive prices.

The essence of Corporate Governance lies in promoting and maintaining integrity, transparency and accountability in the management's higher echelons. The demands of Corporate Governance require professionals to raise their competence and capability levels to meet the expectations in managing the enterprise and its resources effectively with the highest standards of ethics. It has thus become crucial to foster and sustain a culture that integrates all components of good governance by carefully balancing the complex inter-relationship among the Board of Directors, Audit Committee, Finance, Compliance and Assurance teams, Auditors and the senior management. Our employee satisfaction is reflected in the stability of our senior management, low attrition across various levels and substantially higher productivity. Above all, we feel honoured to be integral to India's social development. Details of several such initiatives are available in the Report on Corporate Social Responsibility.

Need and Importance of Corporate Governance

The need and importance of corporate governance lies in its contribution both to business prosperity and to accountability. These two terms' prosperity and to accountability' must go hand in hand in a company. These two terms are not conflicting but complementary terms. Companies get most of its resources, material, financial, human or otherwise, from the society. Their primary business is to earn profit by serving the community or the society. They should not indulge in any activity which is il egal and prohibited by law. Good companies earn profits by fulfil ing their responsibilities and accountability towards the stakeholders.

Companies in India are basical y governed by the Indian Companies Act, 2013. This Act provides for basic framework for regulation of all the companies. Certain provisions were incorporated in the Act itself to provide for checks and balance over the powers of board and safeguard the interest of the stakeholders. In Companies Act, 2013, Securities and Exchange Board of India (SEBI) has been given power only to administer provisions pertaining to issue and transfer of securities and non-payment of dividend. Apart from the basic provisions of the Companies Act, every listed company needs to comply with the provisions of the listing agreement as per Section 21 of Securities Contract Regulations Act, 2013. Non-compliance with the same, would lead to delisting under Section 22A or monetary penalties under Section 23 E of the said Act.

Further, SEBI is empowered under Section 11 and Section 11A of SEBI Act to prescribe conditions for listing. However, Section 32 of the SEBI Act, 1992 states that the provisions of the SEBI Act, 1992 shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

Considering the emergence of code of best Corporate Governance practices all over the world (like Cadbury Greenbury and Hampel Committee reports), in 1999, SEBI constituted a Commit ee on Corporate Governance under the Chairmanship of Kumar Mangalam Birla, to promote and raise the standard of Corporate Governance in respect of listed companies. Subsequently, after Enron, WorldCom, and other corporate governance catastrophes, SEBI felt that there was a need to improve further the level of corporate governance standards in India and constituted a second corporate governance commit ee chaired by Narayana Murthy, of Infosys Technologies Limited. Based on the recommendations of the aforesaid Commit ee, SEBI issued a circular on August 26, 2003 revising Clause 49 of the Listing Agreement. Based on the public comments received thereon and the revised recommendations of the Commit ee, certain provisions of the regulatory framework for corporate governance were modified and relevant amendments were made to Clause 49 of the Listing Agreement.

The multi-crore Satyam Computers corporate scam was a jolt to the market, especially to Satyam stock-holders. A look at all the aspects of one of the biggest corporate frauds that raised eyebrows and highlighted the need for better goveernment regulations among corporates. Source: www.thehindu.com

CLAUSE 49 OF THE LISTING AGREEMENT

The revised clause 49 superseded all the earlier circulars on the subject and became ef ective for listed comp anies from January 01, 2006. It is applicable to the entities seeking listing for the first time and for existing listed entities having a paid up share capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company. What is clause 49 of the Listing Agreement and why it is so important for corporate governance? Let's see.

Mandatory provisions comprises of the following:

o Composition of Board and its procedure - frequency of meeting, number of independent directors, code of conduct for Board of directors and senior management;

o Audit Commit ee, its composition, and role

o Provision relating to Subsidiary Companies

o Disclosure to Audit commit ee, Board and the Shareholders

o Chief Executive Of icer/Chief Finance Officer certification

o Quarterly report on corporate governance

o Annual compliance certificate

Non-mandatory provisions consist of the following:

o Constitution of Remuneration Commit ee

o Despatch of Half-yearly results

o Training of Board members

o Peer evaluation of Board members

o Whistle Blower policy

Apart from Clause 49 of the Equity Listing Agreement, there are certain other clauses in the listing agreement, which are protecting the minority share-holders and ensuring proper disclosures o Disclosure of Shareholding Pat ern

o Maintenance of minimum public shareholding (25%)

o Disclosure and publication of periodical results

o Disclosure of Price Sensitive Information

o Disclosure and open offer requirements under SAST

As per Clause 49 of the Listing Agreement, there should be a separate section on Corporate Governance in the Annual Reports of listed companies, with detailed compliance report on Corporate Governance. The companies should also submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the prescribed format. The report shall be signed either by the Compliance Of icer or the Chief Executive Officer of the company.

India among worst in corporate fraud, shows survey

According to a news report by Business Today, India has one of the highest percentages of companies where fraud, in particular corruption and bribery, was detected, according to a new survey of large local and multinational companies across industries worldwide.

Conducted by the Economist Intel igence Unit and commissioned by New York-based risk consultancy firm Krol Inc., the survey asked around 770 senior executives if they had discovered any fraud in their companies in 2014. Around three-quarters of the executives surveyed said they encountered fraud, including corruption, bribery and stealing of proprietary information among other things, according to the Wal Street Journal.

The problem is even worse in emerging countries like India, where 80 per cent of the respondents said they'd come across fraud in their firm. India was more prone to some types of fraud than any other country. For instance, the survey found that Indian respondents were most likely to report encountering corruption and bribery, regulatory breaches, money laundering and theft of intel ectual property. Global y, 11 per cent of all executives surveyed said they discovered cases of in-house corruption and bribery, while 25 per cent of respondents from India said they came across such types of fraud in the past year, according to the report.

In comparison, only around 18 per cent of Chinese executives and 20 per cent of Russians said they encountered corruption and bribery. One reason India's numbers appear higher than some of its emerging market peers might be because more and more Indian companies have in recent years started reporting and confronting corrupt practices, the Wal Street Journal said. Even so, fraud in India remains a growing problem, both for Indian companies and investors, the Journal said, citing Reshmi Khurana, head of South Asia for Krol . Part of the problem is that accounting standards and financial regulations are not strictly implemented.

Auditing of firm balance sheets, for instance, is supposed to be independent but is sometimes carried out by auditors who are too close to the company's management. In addition, the standards for corporate governance within Indian companies are broadly low, according to Khurana as cited by the Journal. Besides bribery to government of icials, one key issue for companies in India is executives taking bribes to give a big order to a vendor, or to hire someone, Khurana was quoted as saying.

According to the fraud report, India's record on lack of compliance with regulations is also the worst among the countries surveyed. A fifth of respondents from India said they had found instances of regulatory or compliance breach, compared to a global average of 12 per cent. India, though, appears slightly better compared to the global average on a handful of matrices, including the theft of physical assets.

While 22 per cent of respondents global y reported such theft, only 17.5 per cent of respondents from India said they had come across it. (IANS)

(http:/ www.businesstoday.in/current/corporate/india-among-worst-in-corporate-fraud- bribery-corruption-shows-survey/story/226408.html) accessed on June 16, 2016

CMC (subsidiary of Tata Consultancy Services) recognised by ICSI for excellence in corporate governance for the fifth time in a row. CMC received the award from Arun Jaitley, Hon'ble Minister of Finance, D efence and Corporate Af airs, Govt. of India

ACTIVITIES

1. Prepare a list of reputed partnership firms operating in India. What business, Trade or Services they are engaged in? Why? Prepare an analysis of these firms giving suitable examples.

2. What is the process of formation of a company in India? What changes has been made in the companies' law as per the latest Companies Act and how it is different from Indian Companies Act 2013? Analyse the latest companies act taking main points.

3. Why Limited Liability Partnership (LLP) form of business organisations is becoming selective choice of entrepreneurs in India?

4. CMC original y known as the Computer Maintenance Corporation was established in 1975 by the Indian government to take over the maintenance of 800 IBM instal ations across India after the American company decided to wind up its operations in the country. Find out why CMC has been recognised for excel ence in corporate governance for the fifth time in a row?

CASE STUDIES

1. Take the case of CMC which has been consistently adjudged as a company with best corporate governance by SEBI. O

2. Discuss the case of Satyam Computers which was in news due to biggest corporate fraud.

3. Why Vijay Mal ya, the famous liquor baron, was in news recently? Find out the reasons and critical y analyse the businesses of United Breweries Group or UB Group.

4. Which is the biggest Multi-National Company working in India? Analyse the area of operations, financial position of this MNC. What are the different constraints faced by a MNC?

5. Analyse any one of these cooperatives

a. Krishak Bharati Cooperative i.e. KRIBHCO;

b. Indian Farmers Fertiliser Cooperative Limited i.e. IFFCO;

c. Gujarat Cooperative Milk Marketing Federation Ltd. i.e. AMUL

UNIT-III

Public & Private Enterprises: Changing Role of PSEs in Indian Economy &Public-Private Partnership

ABSTRACT

India, after independence, has fol owed the concept of Mixed Economy. Mixed economy consists of Public sector as wel as Private Sector. Public Sector in India has been an integral part of growth and development process of its economy. Some public sector enterprises/undertakings (PSUs) have been the backbone of Indian economy. PSUs like Indian Oil, ONGC, BHEL, NTPC etc. has done wel for the welfare of the people in an economical y ef icient and effective manner. Private Sector Enterprises flourished after new economic policy was adopted following principles of LPG i.e. Liberalization, Privatization and Globalization. New business houses emerged after 1990s new economic policy include, Dhiru Bhai Ambani's Reliance Group, Sunil Bharti Mit al's Bharti Group, Narayan Murti's Infosys, Azim Premji's Wipro etc. Some companies are also following the Public-Private partnership model which offers benefits of both sectors.

Key Terms

- Private Enterprises
- Public Enterprises
- Public-Private Partnership
- Disinvestment

Learning Outcomes

After studying this Unit, learners wil be able to :

- Explain the concept of private & public enterprises
- Identify the key characteristics of public & private sector organisations;
- Distinguish between public sector and private sector;
- Describe different forms of organisation of public sector enterprises;
- State the features, merits and limitations of departmental undertakings, public
- Corporations and government companies;
- Discuss and appreciate the changing role of public sector enterprises in India
- Explain the concept of disinvestment
- Criticize the role of an enterprises in an economy like India
- Explain the concept of public-private partnership PPT
- Discuss the role of public-private partnership in the development of India

- Critical y analyse the role of public-private partnership in economy like India

Introduction

Economies can be divided into three parts as given by Figure 1 below. India, after independence chose to fol ow the philosophy of Mixed Economy. Mixed economy is the mixture of features of capitalist economy and socialist economy. In any country following Socialist Economy Model, the demand and supply of goods and services are decided by the government whereas in Capitalist Economy Model, the demand and supply of goods and services are decided by the Market forces on the basis of profitability of such goods and services.

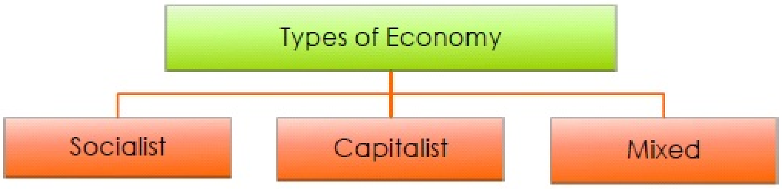


Figure 1: Types of Economy

In the Mixed Economy Model, the demand and supply of goods and services are decided by the government as wel as by the Market forces. Government of the country decide the goods and services which can be produced, provided, sold by the private sector and goods and services which can exclusively be produced, provided, sold by the private sector. For example, India opened its economy for private sector during 1990s. Many industries which were exclusively reserved for the public (read government) sector were opened up for the private companies. For example, Banking, Insurance, Civil Aviation, Petroleum and Natural Gas Exploration, Electricity supply etc. Government need funds to finance welfare and development programmes and policies and therefore government, from time to time, disinvest their shares in the many public sector undertakings (companies) in the open market to the highest bidders.

PUBLIC SECTOR AND PRIVATE SECTOR

There are all kinds of business organisations — smal or large, industrial or trading, privately owned or government owned existing in our country. These organisations affect our daily economic life and therefore become part of the Indian economy. Since the Indian economy consists of both privately owned and government owned business enterprises, it is known as a mixed economy. The Government of India has opted for a mixed economy where both private and government enterprises are all owed to operate. The economy, therefore, may be classified into two sectors viz., public sector and private sector.

The public sector consists of various organisations owned and managed by the government. These organisations may either be partly or whol y owned by the central or state government. They may also be a part of the ministry or come into existence by a Special Act of the Parliament. The government, through these enterprises participates in the economic activities of the country. The government in its industrial policy resolutions, from time-to-time, defines the area of activities in which the private sector and public sector are all owed to operate. In the Industrial Policy Resolution 1948, the Government of India had specified the approach towards development of the industrial sector. The roles of the private and public sector were clearly defined and the government through various Acts and Regulations was overseeing the economic activities of both the private and public sector. The Industrial Policy Resolution, 2013 had also laid down certain objectives for the public sector to fol ow so as to accelerate the rate of growth and industrialisation.

The public sector was given a lot of importance but at the same time mutual dependency of public and private sectors was emphasised. The 1991 industrial policy was radical y different from all the earlier policies where the government was deliberating disinvestment of public sector and all owing greater freedom to the private sector. At the same time, foreign direct investment was invited from business houses outside India. Thus, multinational corporations or global enterprises which operate in more than one country gained entry into the Indian economy. Thus, we have public sector units, private sector enterprises and global enterprises coexisting in the Indian economy. Examples of Public Sector Undertakings have been given below through their logos in the exhibit 1:

Exhibit 1: Image of Public Sector Corporations

The private sector consists of business owned by individuals or a group of individuals, as you have learnt in the previous pages. The various forms of organisation are sole proprietorship, partnership, joint Hindu family, cooperative and company. These have been discussed already. Examples of some leading private companies have been given through their logos in the exhibit 2:

Exhibit 2: Private Sector's Leading Companies

Organising Public Sector Enterprises

Government's participation in business and economic sectors of the country needs some kind of organisational framework to function. You have studied about the forms of business organisation in the private sector viz., sole proprietorship, partnership, Hindu undivided family, cooperative and company. This has been described in the figure 2. This figure shows that Indian Economy, being a mixed economy, basical y has been divided into private and government sectors. Both these sectors have to abide by the rules and regulations and laws pertinent to them and as provided by the government and amendment thereof, from time to time.

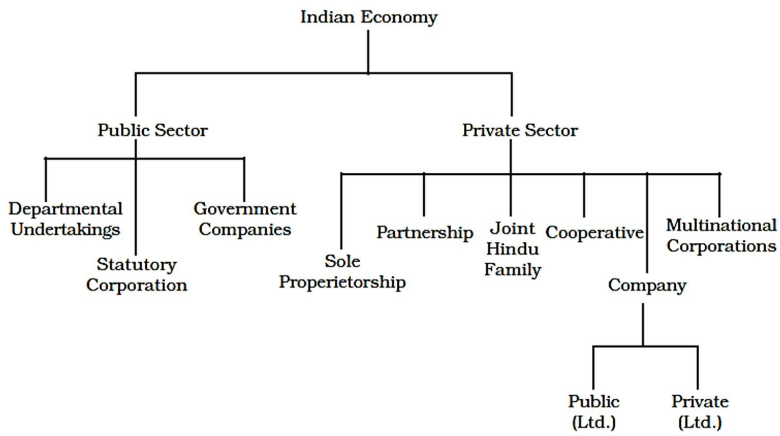


Figure 2: Classification of Business Organisation in India

As per the Figure 2, in the public sector, as it grows, an important question arises in respect of how it is to be organised or what form of organisation it should take. The government has a major role to play in the formation of the public sector. But the government acts through its people, its offices, employees and they take decisions on behalf of the government. For this purpose, public enterprises were formed by the government to participate in the economic activities of the country. They are expected to contribute to the economic development of the country in today's liberalised, competitive world. These public enterprises are owned by the public and are accountable to the public through the Parliament. They are characterised by public ownership, public funds being used for its activities and public accountability. A public enterprise may take any particular form of organisation depending upon the nature of its operations and their relationship with the government. The suitability of a particular form of organisation would depend upon its requirements. At the same time, in accordance with general principles, any organisation in the public sector should ensure organisational performance productivity and quality standards. The forms of organisation which a public enterprise may take are as follows:

(i) Departmental Undertaking

(ii) Statutory Corporation

(iii) Government Company

DEPARTMENTAL UNDERTAKINGS

This is the oldest and most traditional form of organising public sector enterprises. These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. The Government functions through these departments and the activities performed by them are an integral part of the functioning of the government. They have not been constituted as autonomous or independent institutions and as such are not independent legal entities. They act through the of icers of the Government and its employees are Government employees. These undertakings may be under the central or the state government and the rules of central/state government are applicable. Examples of these undertakings are railways and postal department. Logos of these two important departmental undertakings have been given below:

Exhibit 3: Departmental Undertaking form of Business Organisation

As per exhibit 3 given, railways and postal department are the two leading departmental form of business organisation the government have in India. Features of these business forms have been given below:

Features

The main characteristics of Departmental undertakings are as follows:

(i) Income and Expenditure: The funding of these enterprises come directly from the Government Treasury and is an annual appropriation from the budget of the Government. The revenue earned by these is also paid into the treasury;

(ii) CAG Audits: They are subject to accounting and audit controls applicable to other Government activities;

(iii) Government Employees: The employees of the enterprise are Government servants and their recruitment and conditions of service are the same as that of other employees directly under the Government.

(iv) Civil Servants as the Head: They are headed by Indian Administrative Service (IAS) of icers and civil servants who are transferable from one ministry to another;

(v) Major subdivision of the Government: It is general y considered to be a major subdivision of the Government department and is subject to direct control of the ministry;

(vi) Accountability to Parliament: They are accountable to the ministry since their management is directly under the concerned ministry.

Merits

Departmental undertakings have certain advantages which are as follows:

(i) Parliamentary Control: These undertakings facilitate the Parliament to exercise effective control over their operations;

(ii) Public Accountability : These ensure a high degree of public accountability;

(iii) Source of income for the Government: The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government;

(iv) National Security Ensured: Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned Ministry.

Limitations

This form of organisation suf ers from serious drawbacks, some of which are as follows:

(i) Fail to provide Flexibility : Departmental undertakings fail to provide flexibility, which is essential for the smooth operation of business;

(ii) Political Interference: The employees or heads of departments of such undertakings are not all owed to take independent decisions, without the approval of the ministry concerned. This leads to delays, in matters where prompt decisions are required;

(iii) Bureaucratic Control: These enterprises are unable to take advantage of business opportunities. The bureaucrat's over-cautious and conservative approval does not all ow them to take risky ventures;

(iv) Red-Tapism: There is red tapism in day-to-day operations and no action can be taken unless it goes through the proper channels of authority;

(v) Political Interference: There is a lot of political interference through the ministry;

(vi) Insensitive to Consumer Needs: These organisations are usually insensitive to consumer needs an do not provide adequate services to them.

STATUTORY CORPORATIONS

Statutory corporations as depicted by exhibit 4 are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.

This is a corporate body created by the legislatue with defined powers and functions and is financial y independent with a clear control over a specified area or a particular type of commercial activity. It is a corporate person and has the capacity of acting in its own name. Statutory corporations therefore have the power of the government and considerable amount of operating flexibility of private enterprises.

Exhibit 4: Statutory Corporations

Features

Statutory corporations have certain distinct features, which are discussed as below:

(i) Setup under Act of Parliament/Assembly

(ii) Whol y owned by the State/Government

(iii) Body Corporate

(iv) Usually Independently Financed. Funds by borrowings from the government or from the public through revenues, from sale of goods and services also

(v) Authority to Use its Revenues

(vi) Not Subject to same Accounting & Audit Procedures Applicable to Government Departments

(vii) not concerned with the central budget of the Government

(vi i) Employees not Government or Civil servants:

(ix) Service Conditions of the Employees are Governed by the Provisions of the Act

Merits

This form of organisation enjoys certain advantages in its working, which are as follows:

(i) Independence in functioning and a high degree of operational flexibility.

(ii) Free from Undesirable Government Regulation & Control

(iii) Autonomous Organisations: funds do not come from the central budget, the government general y does not interfere in their financial mat ers, including their income and receipts, it frames its own policies and procedures within the powers assigned to them by the Act. The Act may, however, provide few issues/mat ers which require prior approval of a particular ministry;

(iv) Best of Both Worlds: A statutory corporation is a valuable instrument for economic development. It has the power of the government, combined with the initiative of private enterprises.

Limitations

This type of organisation suffers from several limitations, which are as follows:

(i) In reality, not much Operational Flexibility as stated above. all actions are subject to many rules and regulations;

(ii) Government and Political Interference in major decisions or where huge funds are involved;

(iii) Rampant Corruption exists, where there is dealing with public, rampant corruption exists;

(iv) Government Advisors to the Corporation Board. This curbs the freedom of the corporation in entering into contracts and other decisions. If there is any disagreement, the mat er is referred to the government for final decisions. This further delays action.

Government Company

A Government company is defined under section 2(45) of the Companies Act, 2013 as “any company in which not less than 51% of the paid-up share capital is held by the Central Government, or partly by Central Government and partly by one or more State Governments, and includes a Company which is a subsidiary company of such a Govt. Company”.

Thus the cardinal feature of a Govt. Company is not less than 51% ownership by Central/State Govt. either individual y or jointly.

Where a subsidiary company or “Subsidiary of a Govt. company would also be categorised as a Govt. Company provided the Govt. company

(i) controls the composition of the board of directors.

(ii) exercise or controls more than one half of the total share capital either at its own or together with one or more of its subsidiary companies.

The joint venture company if formed by various Govt. Companies of public sector undertakings are also considered as Govt. Companies.

Exhibit 5: Government Companies

Features

Government companies have certain characteristics which makes them distinct from other forms of organisations. These are discussed as follows:

(i) Created under the Indian Companies Act 2013

- The company can file a suit in a court of law against any third party and be sued;
- The company can enter into a contract and can acquire property in its own name;
- The management of the company is regulated by the provisions of the Companies Act, like any other public limited company;

(ii) Company appointed Employees: according to their own rules and regulations as contained in the Memorandum and Articles of Association of the company.

(iii) Exempted from the Accounting and Audit Rules & Procedures. An auditor is appointed by the Central Government and the Annual Report is to be presented in the parliament or the state legislature;

(iv) Funds from Government Shareholdings and other Private Shareholders. It is also permit ed to raise funds from the capital market.

Merits

Government companies enjoy several advantages, which are as follows:

(i) A separate Act in the Parliament is not required: A government company can be established by fulfil ing the requirements of the Indian Companies Act

(ii) Separate Legal Entity, apart from the Government

(iii) Autonomy in all Management Decisions and takes actions according to business prudence;

(iv) These companies by providing goods and services at reasonable prices, are able to control the market and curb unhealthy business practices.

Limitations

Despite the autonomy given to these companies, they have certain disadvantages:

(i) Since the Government is the only shareholder in some of the Companies, the provision of the Companies Act does not have much relevance;

(ii) It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the Parliament;

(iii) The government being the sole shareholder, the management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated.

Changing Role of Public Sector Enterprises

At the time of Independence, it was expected that the public sector enterprises would play an important role in achieving certain objectives of the economy either by direct participation in business or by acting as a catalyst. The public sector would build up infrastructure for other sectors of the economy and invest in key areas. The private sector was unwil ing to invest in projects which required heavy investment and had long gestation periods. The government then took it upon itself to develop infrastructural facilities and provide for goods and services essential for the economy. The Indian economy is in a stage of transition. The Five Year Plans in the initial stages of development gave lot of importance to the public sector.

In the post 90's period, the new economic policies, emphasised liberalisation, privatisation and globalisation. The role of public sector was redefined. It was not supposed to play a passive role but to actively participate and compete in the market with other private sector companies in the same industry. They were also held accountable for losses and return on investment. If a public sector was making losses continuously, it was referred to the Board for Industrial and Financial Reconstruction (BIFR) for complete overhauling or shut down. Various commit ees were set up to study the working of inef icient public sector units with reports on how to improve their managerial efficiency and profitability. The role of public sector is definitely not what was envisaged in the early 60's or 70's.

(i) Development of infrastructure:

The development of infrastructure is a prerequisite for industrialisation in any country. In the pre-Independence period, basic infrastructure was not developed and therefore, industrialisation progressed at a very slow pace. The process of industrialisation cannot be sustained without adequate transportation and communication facilities, fuel and energy, and basic and heavy industries. The private sector did not show any initiative to invest in heavy industries or develop it in any manner.

They did not have trained personnel or finances to immediately establish heavy industries which were the requirement of the economy. It was only the government which could mobilise huge capital, coordinate industrial construction and train technicians and workforce. Rail, road, sea and air transport was the responsibility of the government, and their expansion has contributed to the pace of industrialisation and ensured future economic growth. The public sector enterprises were to operate in certain spheres. Investments were to be made to:

Exhibit 6: Infrastructure Devlped by PSUs in India

(a) Give infrastructure to the core sector, which requires huge capital investment, complex and upgraded technology, big and ef ective organisation structures like steel plants, power generation plants, civil aviation, railways, petroleum, state trading, coal, etc;

(b) Give a lead in investment to the core sector where private sector enterprises are not functioning in the desired direction, like fertilizers, pharmaceuticals, petro-chemicals, newsprint, medium and heavy engineering;

(c) Give direction to future investments like hotels, project management, consultancies, textiles, automobiles, etc.

(ii) Regional balance: The government is responsible for developing all regions and states in a balanced way and removing regional disparities. Most of the industrial progress was limited to a few areas like the port towns in the pre-Independence period. After 1951, the government laid down in its Five Year Plans, that particular at ention would be paid to those regions which were lagging behind and public sector industries were deliberately set up. Four major steel plants were set up in the backward areas to accelerate economic development, provide Employment to the workforce and develop ancil ary industries. This was achieved to some extent but there is scope for a lot more. Development of backward regions so as to ensure a regional balance in the country is one of the major objectives of planned development. Therefore, the government had to locate new enterprises in backward areas and at the same time prevent the mushrooming growth of private sector units in already advanced areas.

(iii) Economies of scale: Where large scale industries are required to be setup with huge capital outlay, the public sector had to step in to take advantage of economies of scale. Electric power plants, natural gas, petroleum and telephone industries are some examples of the public sector setting up large scale units. These units required a larger base to function economical y which was only possible with government resources and mass scale production.

(iv) Check over concentration of economic power: The public sector acts as a check over the private sector. In the private sector there are very few industrial houses which would be wil ing to invest in heavy industries with the result that wealth gets concentrated in a few hands and monopolistic practices are encouraged. This gives rise to inequalities in income, which is detrimental to society. The public sector is able to set large industries which require heavy investment and thus the income and benefits that accrue are shared by a large of number of employees and workers. This prevents concentration of wealth and economic power in the private sector.

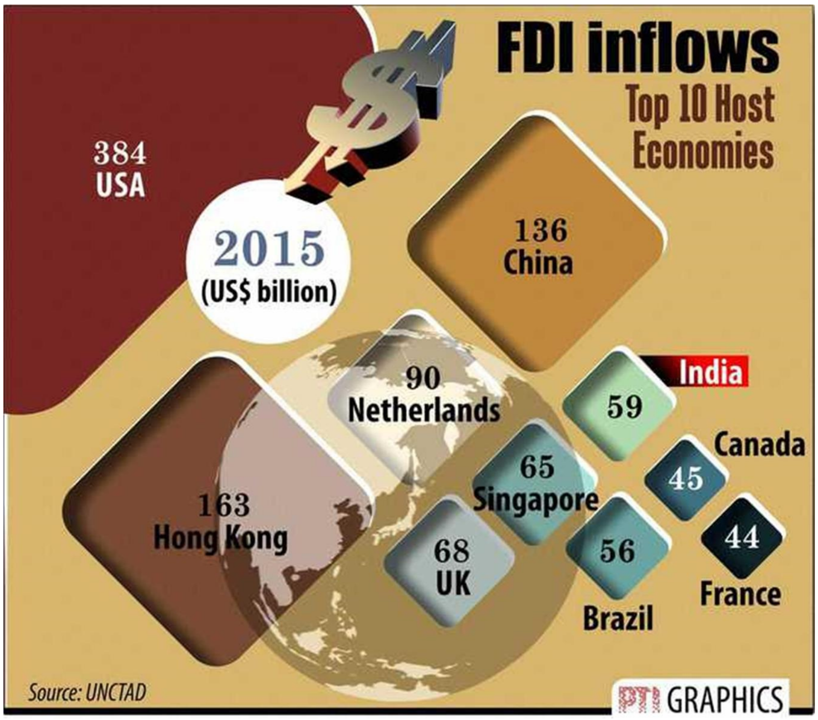


Exhibit 7: Latest on Foreign Direct Investment (FDI)

(v)Import substitution: During the second and third Five Year Plan period, India was aiming to be self-reliant in many spheres. Obtaining foreign exchange was also a problem and it was difficult to import heavy machinery required for a strong industrial base. At that time, public sector companies involved in heavy engineering which would help in import substitution were established. Simultaneously, several public sector companies like STC and MMTC have played an important role in expanding exports of the country.

(vi) Government policy towards the public sector since 1991: The Government of India had introduced four major reforms in the public sector in its new industrial policy in 1991. The main elements of the Government policy are as follows:

- Restructure and revive potential y viable PSUs
- Close down PSUs, which cannot be revived
- Bring down governments equity in all non-strategic PSUs to 26 percent or lower, if necessary; and
- Ful y protect the interest of workers.

(a) Reduction in the number of industries reserved for the public sector from 17 to 8 (and then to 3):

In the 2013 resolution on Industrial policy, 17 industries were reserved for the public sector. In 1991, only 8 industries were reserved for the public sector, they were restricted to atomic energy, arms and communication, mining, and railways. In 2001, only three industries were reserved exclusively for the public sector. These are atomic energy, arms and rail transport. This meant that the private sector could enter all areas (except the three) and the public sector would have to compete with them. The public sector has played a vital role in the development of this also quite capable of contributing substantial y to the nation building process. Therefore, both the public sector and the private sector need to be viewed as mutual y complementary parts of the national sector. Private sector units also have to assume greater public responsibilities. Simultaneously, the public sector needs to focus on achieving more in a highly competitive market.

(b) Disinvestment of shares of a select set of public sector enterprises: Disinvestment involves the sale of the equity shares to the private sector and the public. The objective was to raise resources and encourage wider participation of the general public and workers in the ownership of these enterprises. The government had taken a decision to withdraw from the industrial sector and reduce its equity in all undertakings. It was expected that this would lead to improving managerial performance and ensuring financial discipline. But there remains a lot to be done in this area.

S.No.	Name of the Privatised PSU
1	Lagan Jute Machinery Company Limited (LJMC)
2	Modern Food Industries Limited (MFIL)
3	Bharat Aluminium Company Limited (BALCO)
4	CMC Ltd. (CMC)
5	HTL Ltd. (HTL)
6	IBP Co. Ltd. (IBP)
7	Videsh Sanchar Nigam Limited (VSNL)
8	Indian Tourism Development Corporation (ITDC)
9	Hotel Corporation of India Limited (HCI)
10	Paradeep Phosphates Limited (PPL)
11	Jessop and Company Limited
12	Hindustan Zinc Limited(HZL)
13	Maruti Udyog Limited (MUL)
14	Indian Petrochemicals Corporation Ltd.(IPCL)

Exhibit 8: Cases of Privatization In India

FY15 DISINVESTMENT LINE-UP

	Offer size (cr shares)	% stake	Amount (₹ cr)	CMP (₹)
NMDC	39.64	10.00	5,510.96	139.00
IOC	24.27	10.00	7,973.40	328.40
Nalco	25.77	10.00	1,248.67	48.45
DCIL	0.14	5.00	57.15	408.20
BHEL	12.23	5.00	3,438.88	281.00
SAIL*	20.65	5.00	1,719.20	78.10
ONGC	42.78	5.00	15,089.75	352.75
CIL	31.58	5.00	12,414.81	393.10
NHPC	125.76	11.36	2,496.39	19.85
HAL (IPO)	1.21	10.00	NA	IPO
SJVN	41.37	10.00	1,030.02	24.90
RINL (IPO)	0.49	10.00	NA	IPO
MOIL	1.68	10.00	503.16	299.50
REC	4.94	5.00	1,574.01	318.80
PFC	6.60	5.00	1,852.68	280.70

*SAIL disinvestment was completed on December 5, 2014
Source: DoD, stock exchanges

Exhibit 9: Disinvestment Planned for FY 2015

DISINVESTMENT PLANS FOR 2015-16

Company	Centre's stake (in %)	Stake expected to be sold (in %)
Rural Electrification Corp	65.64	5*
Power Finance Corp	72.80	5**
ONGC	69.00	5
Coal India	79.65	5
NMDC	80.00	10
NALCO	81.00	10
Dredging Corp	78.56	5
BHEL	63.00	5
Indian Oil	68.57	10
Hindustan Copper	90.00	15
MMTC Ltd	90.00	15
Rashtriya Chemicals & Fertilizers	80.00	5
National Fertilizers	90.00	15
State Trading Corp	90.00	15
India Tourism Development Corp	87.00	15
Engineers India	69.00	10
NTPC	75.00	5

*Sold on April 8 **Expected by April-end
Sources: Govt sources, BSE, media reports

Exhibit 10: Disinvestment Plans (2015-16) of the GoI

YEAR	ACTUAL DISINVESTMENT	TARGET (BUDGET ESTIMATE) (₹ IN CRORE)
2012-13	23,956.81	30,000
2013-14	15,819.46	40,000
2014-15	24,277.17	36,925
2015-16	1,610	41,000

Exhibit 11: Year Wise Comparisons of Disinvestment

The primary objectives of privatising public sector enterprises are:

- Releasing the large amount of public resources locked up in nonstrategic Public Sector Enterprises

(PSEs), so that they may be utilised on other social priority areas such as basic health, family welfare and primary education.

- Reducing the huge amount of public debt and interest burden;
- Transferring the commercial risk to the private sector so that the funds are invested in able projects;
- Freeing these enterprises from government control and introduction of corporate governance; and
- In many areas where the public economy. However, the private sector had a monopoly, for example, telecom sector the consumers have benefit ed by more choices, lower prices and better quality of products and services.

(c) Policy regarding sick units to be the same as that for the private sector: all public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was tobe restructured or closed down. The Board has reconsidered revival and rehabilitation schemes for some cases and winding up for a number of units. There is a lot of resentment amongst workers of the units which are to be closed down. A National Renewal Fund was set up by the government to retrain or redeploy retrenched labour and to provide compensation to public sector employees seeking voluntary retirement.

There are many enterprises which are sick and not capable of being revived as they have accumulated huge losses. With public finances under intense pressure, both central and state government are just not able to sustain them much longer. The only option available to the government in such cases is to close down these undertakings after providing a safety net for the employees and workers. Resources under the National Renewal Fund have not been suf icient to meet the cost of Voluntary Separation Scheme or Voluntary Retirement Scheme.


Rushing to achieve disinvestment target

Likely PSU candidates for strategic sale	Sale of 5-10% stake likely in...
Scooters India	NMDC
Tyre Corporation of India	National Aluminium Co
HMT Bearings	Indian Oil Corp
Richardson & Cruddas	Bharat Heavy Electricals
	Rashtriya Ispat Nigam
	Hindustan Aeronautics
	NHPC
	Rural Electrification Corp
	Dredging Corporation of India
	MOIL

Exhibit 12: Disinvestmet Target for the PSUs in India

(d) Memorandum of Understanding:

Improvement of performance through a MoU (Memorandum of Understanding) system by which managements are to be granted greater autonomy but held accountable for specified results. Under this system, public sector units were given clear targets and operational autonomy for achieving those targets. The MoU was between the particular public sector unit and their administrative ministries defining their relationship and…..

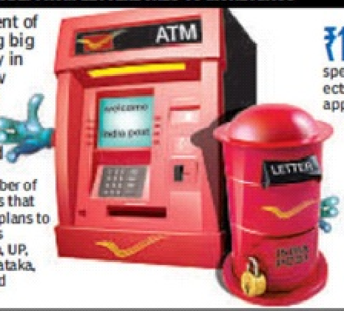
Indian Postal Department: Fortunes Regained

INDIA POST

Ministry of Communication & Information Technology

MAKEOVER MODE: FROM LETTERBOXES TO MONEYBAGS

The department of post is betting big on technology in its bid to draw footfalls as it takes banking to the hinterland



1,000 Number of ATMs that DoP plans to set up in 6 states including Assam, UP, Rajasthan, Karnataka, Maharashtra and Tamil Nadu

₹1,877 cr Amount that the department plans to spend initially for these projects. It has already received approval for the same

1.6 lakh Totoal number of post offices. The DoP plans to computerise all of them by 2013

24,000 Number of post offices to be computerised by March

ILLUSTRATION: ABHIMANYU

POSTING GROWTH WITH E-COMMERCE

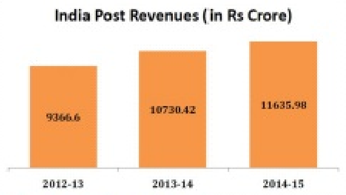
COD SEGMENT
(In Rupees Crore)

2013-14	100
2014-15	500
2015-16*	1,000

CONSIGNMENTS
(Major e-comm players, average numbers per month)

	2014-15	2015-16*
Amazon	50,000	300,000
Snapdeal	35,000	80,000
Flipkart	–	30,000
Myntra	–	50,000
Yepme	–	60,000

*2015-16 figures till December 2015. COD: Cash on Delivery.
Source: Department of Posts



MAKEOVER STRATEGY

Good news

- Solution in sight to the spat between the finance ministry and the postal department over converting post offices under India Post into a bank
- India Post may apply for payment bank licence
- RBI and postal department were keen on universal bank licence but finance ministry opposed the move

What's a payment bank?

- Payment banks can provide deposit and remittance services but not give loans

The strengths

- Huge network of post offices will help to bring rural and semi-rural areas within bank ambit
- India has around 1.54 lakh post offices with around 150 million savings accounts, who are seen as potential customers for Jan Dhan

The weakness

- Post offices have a long way to go to catch up with the professionalism of modern day banks

THE BEST IN BUSINESS Gold standards set by public-sector enterprises CATEGORIES	MAHARATNA PSUs with an average annual net profit of over Rs 2,500 crore for three years or average annual net worth of Rs 10,000 crore for three years or average annual turnover of Rs 20,000 crore for three years.	NAVRATNA PSUs with a score of 60 (out of 100), based on six parameters such as net profit, net worth and total manpower cost. It must first be a Miniratna and have four independent directors before it can be made a Navratna.	MINIRATNA PSUs which have made profits continuously for the last three years or earned a net profit of Rs 30 crore or more in one of the three years. It should have a positive net worth for last three years.	OTHER PSUs PSUs which are not included in any of the previous three categories.
BEST PERFORMING	Indian Oil Corporation Ltd.	Power Grid Corporation of India Ltd.	RITES Ltd.	Power System Operation Corporation Ltd.
MOST VALUABLE	Oil & Natural Gas Corporation Ltd.	Power Grid Corporation of India Ltd.	National Hydroelectric Power Corporation Ltd.	Balmer Lawrie Investments Ltd.
FASTEST GROWING	Coal India Ltd.	Rural Electrification Corporation Ltd.	Kamarajar Port Ltd.	REC Transmission Projects Company Ltd.
HR EXCELLENCE	Steel Authority of India Ltd.	Bharat Petroleum Corporation Ltd.	Indian Renewable Energy Development Agency Ltd.	National Handloom Development Corporation Ltd.
BEST R&D INNOVATION	Bharat Heavy Electricals Ltd.	Bharat Electronics Ltd.	Rajasthan Electronics & Instruments Ltd.	Power System Operation Corporation Ltd.
BEST CSR & SUSTAINABILITY	Indian Oil Corporation Ltd.	Oil India Ltd.	Cochin Shipyard Ltd.	Uranium Corporation of India Ltd.
MOST ECO-FRIENDLY	Oil & Natural Gas Corporation Ltd.	Bharat Electronics Ltd.	NHPC Ltd.	Uranium Corporation of India Ltd.
BEST IN GLOBAL PRESENCE	Indian Oil Corporation Ltd.	Bharat Electronics Ltd.	RITES Ltd.	India Infrastructure Finance Company Ltd.

Exhiibit 13: Some government owend business organisations

Exhi bit 13: Some government owend business organisations

Difference between Public and Private Sector Enterprises

The basic dif erence between public and private enterprises is that public enterprises are administered by government whereas private enterprises are managed by the private individuals. Government run these public enterprises just for the public welfare and not to earn profits. On the other hand, private enterprises are profit oriented. They operate only when they are sure that they wil and can earn profits in some business activities. If they are not sure to earn profits, they wil not enter into that field. This has been further shown below:

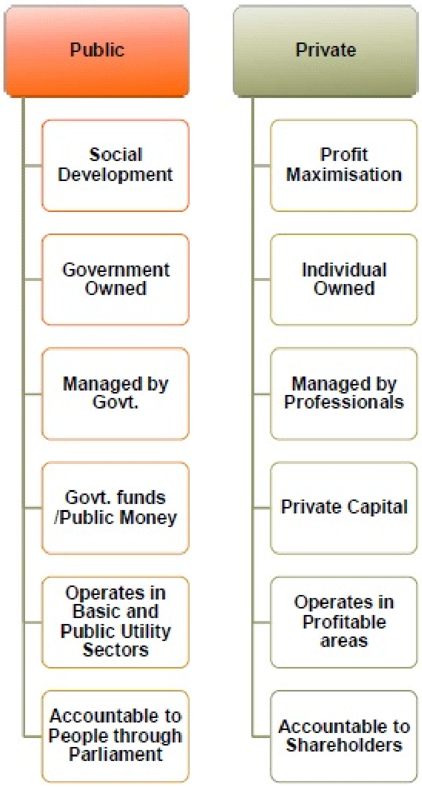


Figure 3: Difference between Public and Private Sector Enterprises

Public Private Partnership

Recent years have seen a marked increase in cooperation between the public and private sectors for the development and operation of infrastructure for a wide range of economic activities. Such Public-Private Partnerships (PPP or P3) arrangements were driven by limitations in public funds to cover investments needs but also by efforts to increase the quality and efficiency of public services.

The term "public–private partnership" describes a range of possible relationships among public and private entities in the context of infrastructure and other services. Other terms used for this type of activity include private sector participation (PSP) and privatization. While the three terms have often been used interchangeably, there are dif erences:

• PPPs present a framework that—while engaging the private sector—acknowledge and structure the role for government in ensuring that social obligations are met and successful sector reforms and public investments achieved.

A strong PPP all ocates the tasks, obligations, and risks among the public and private partners in an optimal way. The public partners in a PPP are government entities, including ministries, departments, municipalities, or state-owned enterprises. The private partners can be local or international and may include businesses or investors with technical or financial expertise relevant to the project. Increasingly, PPPs may also include nongovernment organizations (NGOs) and/or community-based organizations (CBOs) who represent stakeholders directly affected by the project.

Effective PPPs recognize that the public and the private sectors each have certain advantages, relative to the other, in performing specific tasks. The government's contribution to a PPP may take the form of capital for investment (available through tax revenue), a transfer of assets, or other commitments or in-kind contributions that support the partnership. The government also provides social responsibility, environmental awareness, local knowledge, and an ability to mobilize political support. The private sector's role in the partnership is to make use of its expertise in commerce, management, operations, and innovation to run the business ef iciently. The private partner may also contribute investment capital depending on the form of contract.

PSP is a term often used interchangeably with PPPs. However, PSP contracts transfer obligations to the private sector rather than emphasizing the opportunity for partnership. In the mid to the late 1990s, there was a slowdown in public–private contracting in infrastructure sectors, which was largely precipitated by a social backlash against the perceived preference for the private sector over the public sector in delivering infrastructure services in developing countries. To some degree, the social backlash was rooted in confusion between PSP and privatization. Some PSP schemes were overly ambitious and the social agenda was overlooked, leading to legitimate public 48 PGT Commerce In-service Training Module - 3 2016 - 17 concerns. The critical analysis of PSP experience has led to the design of a new generation of transactions, which are now more commonly known as PPPs.

• Privatization involves the sale of shares or ownership in a company or the sale of operating assets or services owned by the public sector. Privatization is most common and more widely accepted in sectors that are not traditionally considered public services, such as manufacturing, construction, etc. When privatization occurs in the infrastructure or utilities sectors, it is usually accompanied by sector-specific regulatory arrangements to take account of social and policy concerns related to the sale, and continuing operation of assets used for public services.

There is no one widely accepted definition of public-private partnerships (PPP). The PPP Knowledge Lab defines a PPP as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance". PPPs typical y do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects, or the privatization of utilities where there is a limited ongoing role for the public sector. An increasing number of countries are enshrining a definition of PPPs in their laws, each tailoring the definition to their institutional and legal particularities.

Sectors in which PPPs have been completed worldwide include:

• power generation and distribution,

• water and sanitation,

• refuse disposal,

• pipelines,

• hospitals,

• school buildings and teaching facilities,

• stadiums,

• air traf ic control,

• prisons,

• railways,

• roads,

• bil ing and other information technology systems, and

• housing.

Exhibit 15: Public Private Partership

The partners in a PPP, usually through a legal y binding contract or some other mechanism, agree to share responsibilities related to implementation and/or operation and management of an infrastructure project. This col aboration or partnership is built on the expertise of each partner that meets clearly defined public needs through the appropriate all ocation of:

1. Resources

2. Risks

3. Responsibilities, and

4. Rewards

It is important to emphasize here that a PPP is not a solution option to an infrastructure service problem but it is a viable project implementation mechanism for preferred solution option.

A public private partnership is a legal y-binding contract between government and business for the provision of assets and the delivery of services that all ocates responsibilities and business risks among the various partners. In a P3 arrangement, government remains actively involved throughout the project's life cycle. The private sector is responsible for the more commercial functions such as project design, construction, finance and operations.

For example, if a private company assumes responsibility for financing and building a highway, it also assumes responsibility for related risks: interest rates could rise; construction could be delayed; labour costs could increase; and so on. If the company also takes responsibility for highway operation and maintenance, it assumes even more 50 PGT Commerce In-service Training Module - 3 2016 - 17 risks. For example, traf ic volumes might not be as high as anticipated, and unforeseen circumstances such as mudslides, snowstorms or an earthquake could add significantly to maintenance costs.

Why would the private sector be wil ing to assume these risks? Because where risk exists, so does opportunity. The private sector partner gains a relatively stable, long- term investment opportunity. Revenues are in the form of either a fee for service, paid by government, or fees col ected from users, as in the case of highway tolls.

Motivation for Engaging in PPPs

The three main needs that motivate governments to enter into PPPs for infrastructure are:

1. to at ract private capital investment (often to either supplement public resources or release them for other public needs);

2. to increase ef iciency and use available resources more effectively; and

3. to reform sectors through a real ocation of roles, incentives, and accountability.

Types of PPPs (P3s)

P3s take a variety of forms, with varying degrees of public and private sector involvement – and varying levels of public and private sector risk. In fact, risk transfer from the public to the private sector is a critical element of all P3s. The goal is to combine the best capabilities of the public and private sectors for mutual benefit.

In public- private partnership literature, following abbreviated terms are in use:

- BOT – Build Operate Transfer
- BOO – Build Own Operate
- BOOT – Build Own Operate Transfer
- DBF – Design Build Finance
- DBFO – Design Build Finance Operate
- DBO – Design Build Operate
- BLT – Build Lease Transfer
- BTO - Build Transfer Operate
- DBFOM – Design Build Finance Operate Manage
- LROT – Lease Renovate Operate Transfer
- DCMF –Design Construct Manage Finance
- BOOR - Build Own Operate Remove

Merits of PPP

Governments worldwide have increasingly turned to the private sector to provide infrastructure services in energy and power, communication, transport and water sectors that were once delivered by the public sector. There are several reasons for the growing col aboration with the private sector in developing and providing infrastructure services, which include:

- Increased ef iciency in project delivery, and operation and management;
- Availability of additional resources to meet the growing needs of investment in the sector; and
- Access to advanced technology (both hardware and software).

Properly executed planning and development of a project also all ows better screening of options, and helps in deciding appropriate project structure and choice of technology considering cost over the whole life cycle of the project.

P3s provide an opportunity to:

Improve service delivery by all owing both sectors to do what they do best. Government's core business is to set policy and serve the public. It is better positioned to do that when the private sector takes responsibility for non-core functions such as operating and maintaining buildings.

Improve cost-effectiveness. By taking advantage of private sector innovation, experience and flexibility, P3s can often deliver services more cost-effectively than traditional approaches. The resulting savings can then be used to fund other needed services.

Increase investment in public infrastructure. Investments in hospitals, schools, highways and other provincial assets have traditional y been funded by the Province and, in many cases, have added to levels of overal debt. P3s can reduce government's capital costs, helping to bridge the gap between the need for infrastructure and the Province's financial capacity.

Reduce public sector risk by transferring to the private partner those risks that can be better managed by the private partner. For example, a company that specializes in operating buildings may be better positioned than the government to manage risks associated with the changing demands of commercial real estate.

Deliver capital projects faster, making use of the private partner's increased flexibility and access to resources.

Improve budget certainty. Transferring risk to the private sector can reduce the potential for government cost overruns from unforeseen circumstances during project development or service delivery. Services are provided at a predictable cost, as set out in contract agreements.

Make better use of assets. Private sector partners are motivated to use facilities ful y, and to make the most of commercial opportunities to maximize returns on their investments. This can result in higher levels of service, greater accessibility, and reduced occupancy costs for the public sector.

Demerits of PPPs

There are many important economic, social, political, legal, and administrative aspects, which need to be careful y assessed before approvals of PPPs are considered by the government. PPPs have various limitations which should also be taken into account while they are being considered. The major limitations include:

- **Not all projects are feasible** (for various reasons: political, legal, commercial viability, etc.).
- **Perceived High Risks**: The private sector may not take interest in a project due to perceived high risks or may lack technical, financial or managerial capacity to implement the project.
- **Project may be more Costly:** A PPP project may be more costly unless additional costs (due to higher transaction and financing costs) can be of -set through ef iciency gains.
- Change in operation and management control of an infrastructure asset through a PPP may not be sufficient to improve its economic performance unless other necessary conditions are met. These conditions may include appropriate sector and market reform, and change in operational and management practices of infrastructure operation.
- Often, the success of PPPs depends on regulatory ef iciency.

Let's Sum up

Business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.

Characteristics of Public Enterprises

- Owned, managed and controlled by Government.
- Funded by Government
- Welfare oriented
- Concentrate on public utility services
- Responsible to parliament
- Observance of Government formality is necessary

• There are three different forms of organisation used for the public sector enterprises.

These are

(1) Departmental Undertaking

(2) Statutory (or Public) Corporation and

(3) Government Company

Departmental undertakings are organised, managed and financed by the Government. It is a part of the government and is managed like any other government department. It is financed through the government funds. It is subject to budgetary, accounting and audit control. So the possibility of misuse of funds is reduced. It fulfils the social and economic objectives of the government and is responsible to the legislature. It helps the government to exercise control over the specialised economic activities. Departmental undertakings suf er from limitations of bureaucratic functioning. Excessive parliamentary control, lack of flexibility, inef icient functioning are the other limitations of Departmental Undertakings.

The Statutory Corporations are the organisations, which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. These are autonomous bodies and are free from government control in respect of their internal management. However, they are accountable to parliament and state legislature. The capital is whol y provided by the government. They are managed by Board of Directors, which is composed of individuals who are trained and experienced in business management.

The members of the board of Directors are nominated by the government.

• It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the mat ers. The amendments to their activities and rights can be made only by the Parliament. Since all these organisations face lit le competition, sometimes they ignore the commercial approach in managing their affairs.

The government company is a company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company. These companies are registered under Companies Act 2013 and fol ow all those rules and regulations as are applicable to any other registered company. The capital is whol y or partial y provided by the government. The Government Companies are formed simply by following the procedure laid down by the Companies Act. These companies are managed by the Board of Directors consisting of professionals and independent persons of repute.

The government company can be run on business principles and it provides a healthy competition to private sector. In spite of all these advantages, these companies suf er from the limitations like lack of initiative in taking right decisions at the right time, lack of expertise in business management, frequent change of policies and management due to change in Government, etc.

Importance of Public Sector Enterprises

- Balanced regional development
- Boost the basic industries of an economy
- Concentrate on public welfare activities
- Promote export
- Price control of essential goods
- Limit the influence of private monopoly
- Ensure security of the country
- Minimise economic inequalities

Frequently Asked Questions (FAQ)

1. What do you mean by Mixed Economy?

Economy in which features of both socialist and capitalist economies exist side by side is known as mixed economy.

2. What are the characteristics of a Mixed Economy?

- Existence of Central Level body which plans the goals and objectives as wel as market forces of demand and supply are also present.
- Private as wel as public sector both are working in the areas of business, industry and services.
- Some strategic industries are kept reserved for the public sector.

3. What do you mean by PSUs?

PSU means Public Sector Undertaking or Enterprises. A PSU is administered and managed by the government directly or indirectly.

4. What do you mean by Private Enterprises?

Private Enterprises are those businesses who are owned and managed by the private individuals or groups of individuals.

5. What do you mean by Disinvestment?

Disinvestment means the withdrawal of capital from a company or corporation. It is done usually by the government to arrange funds for the development purposes.

6. What do you mean by 'Public-Private Partnership'?

Public–private partnership (**PPP**, 3P or P3) is a government service and **private** business venture that is funded and operated through a **partnership** of government and one or more **private** sector companies.

The P3 approach also encourages a "life cycle" approach to planning and budgeting, through the use of long-term contracts. For example, a company that agrees to operate and maintain a building for 50 years wil have to ensure that the asset remains in a certain condition and, therefore, must include maintenance costs in its budget for the life of the agreement. By contrast, public sector planning is based on three-year cycles in British Columbia. Maintenance costs can sometimes be deferred in response to budget pressures, which can reduce the value of an asset over time.

Check your Progress

1. Define Public Sector Enterprise.

2. What is meant by Public Corporation?

3. State the meaning of Departmental Undertaking.

4. What is a Government Company?

Short Answer Type Questions

1. Give any four features of Departmental Undertakings.

2. Distinguish between private sector and public sector enterprises (by giving any two points of distinction).

3. Explain (a) Fulfilment of social objectives and (b) Control over economic activities as merits of Departmental Undertakings.

4. How do public enterprises help in reducing the economic inequalities in the country?

5. Explain any two limitations of Statutory Corporations.

Long Answer Type Questions

6. What is meant by public sector enterprises? State in brief its features?

7. How are the public sector enterprises helping in the balanced development of the Indian Economy and promoting public welfare in the country?

8. What is a Government Company? How is it different from Statutory Corporation? Give any five such distinctions.

9. Explain the merits of a Statutory Corporation over a Departmental Undertaking.

10. In a democracy like India can we eliminate the public sector and total y give the rights to the private sector? Give suitable arguments.

Attempt the following

1. Name any two important goals to be achieved through public enterprises. List any three services that are being provided to people by Departmental Undertakings of Government

(a) ___________________________________

(b) ___________________________________

(c) ___________________________________

2. Identify the following and categorise them into Departmental Undertakings, Statutory Corporations and Government Companies.

(a) Business Organisation established by the government and controlled by the Ministry concerned. …………………………………….

(b) Organisations incorporated under a special Act of Parliament or state legislature. …………………………………….

(c) It is managed by the government and is subject to budgetary, accounting and audit control. ………………………………………

(d) Organisation established by the government and registered under the companies. ………………………………………

3. State the features of statutory corporation.

4. Explain the merits and demerits of Government Companies.

5. Explain the importance of the Public Sector Enterprises with suitable examples.

6. Expand the following:

- BHEL…………………………………………………………………..
- BPCL…………………………………………………………………..
- GAIL…………………………………………………………………..
- HPCL…………………………………………………………………..
- IOC…………………………………………………………………..
- MTNL …………………………………………………………………..
- NTPC…………………………………………………………………..
- ONGC…………………………………………………………………..
- SAIL…………………………………………………………………..

7. Under which category are the above public sector enterprises are placed by the Central Government ?

Unit-IV

Accounting for Partnership Firms - Retirement, Death of Partner and Dissolution of Partnership

Abstract

Accounting for partnership firms is based on the concepts learned in the previous modules related with Partnership Accounting. In this unit accounting procedures in case of Retirement of the partner/partners from the firm, Death of Partner/partners and in case of dissolution of Partnership firms has been given.

Key Terms

- Retirement of the Partner
- Death of Partner
- Dissolution of Partnership

Learning Outcomes

After studying this Unit, learners would be able to:

- Explain the process of Accounting for Partnership Firms- Retirement, Death of Partner and Dissolution of Partnership
- Prepare accounting for Partnership Firms in case of Retirement
- Prepare accounting for Partnership Firms in case Death of Partner
- Prepare accounting for Partnership Firms in case of Dissolution of Partnership firm

Introduction- Like admission and change in profit sharing ratio, in case of retirement or death also the existing partnership deed comes to an end and the new one comes into existence among the remaining partners. There is not much dif erence in the accounting treatment at the time of retirement or in the event of death.

<u>Amount due to retiring deceased Partner</u> (To be credited to is capital account)

1.Credit Balance of his capital.

2.Credit Balance of his current account (if any)

3.Share of Goodwil .

4.Share of Reserves or Undistributed profits.

5.His share in the profit revaluation of assets and liabilities.

6.Share in profits upto the date of Retirement/Death.

7.Interest on capital if involved.

8.Salary if any

Treatment of Goodwil

Hidden goodwil

Sometimes goodwil is not given in the question directly. But if af irm agrees to pay a sum which is more than his balance in capital a/c after making all adjustment with respect to reserves, revaluation of assets and liabilities etc. then excess amount is treated as his share of goodwil (known as hidden goodwil)

Illustration 10: Let R, S &T are partners in a firm sharing profit & loss in the ratio of 2:2:1. T Retires and his balance in capital a/c after adjustment for reserve & revaluation of assets & liabilities comes out to be Rs. 50000. R & S agree to pay him Rs. 60000. Give journal entry for the adjustment for the goodwil .

Solution

New ratio between R & S = gaining ratio=2:2 or 1:1

T's share of goodwil (hidden) =Rs. 60000 - 50000=10000

Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
(i)	R's Capital A/c	Dr.		5,000	
	R's Capital A/c	Dr		5,000	
	To T's Capital A/c				10,000
	(T's share of goodwill adjusted in gaining ratio i.e. 1:1)				

Settlement of Loan of the Retiring Partner

Loan of the retiring partner is disposed-off according to the pre decided terms and conditions among the partners. Normal y the Principal amount is paid in few equal instalments. In such cases interest is credited to the Loan A/c on the basis of the amount outstanding at the beginning of each year and the amount paid is debited to loan A/c. The following Journal entries are done

a) For interest on Loan.

Interest A/c Dr

To Retiring partner's Loan A/c

b) For the payment of instalment.

Retiring Partner's Loan A/c Dr

To Cash/ Bank A/c

Illustration: 11. A, B, and C are partners in a firm. B retires from the firm on 1st Jan 2008. On the date of his retirement Rs. 66, 000 were due to him. It was decided that the payment wil be done in 3 equal yearly instalments together with interest @ 10% p.a. on the unpaid balance. Prepare B's Loan A/c.

Solution:

B's Loan A/c

Dr.							Cr.
Date	Particulars		Amt.(₹)	Date	Particulars	L	Amt(₹)
2008				2008	B's Cap A/c	F	66,000
Dec31	Bank A/c			Jan 1			
	(22,000+6600)		28,600	Dec31	Interest A/c		
	Balance c/d		44,000				6,600
2009			72,600		(10% of 66,000)		(72,600)
Dec31	Bank A/c		26,400	2009	Balance b/d		44,000
	Balance c/d		22,000	Jan 1			
				Dec31	Interest A/c(10%		4,400
			48,400		of 44,000)		48,400
2010				2010			
Dec 31	Bank A/c		24,200	Jan 1	Balance b/d		22,000
	(Final Payment)			Dec 31	Interest A/c (10% of 22,000)		2,200
			24,200				24,200

Adjustment of Capitals

At the time of retirement /death, the remaining partners may decide to **adjust their capitals** in their **new profit sharing Ratio.** Then

- The sum of their capitals wil be treated as the total capital of the new firm which wil be divided in their New Profit Sharing Ratio.

- Excess or Deficiency of capital in the individual capital A/c is calculated.

- Such excess or shortage is adjusted by withdrawal or contribution in cash or transferring to their current A/cs.

JOURNAL ENTRIES

a) For excess Capital withdrawn by the Partners

Partner's capital A/c Dr

To Cash/Bank A/c

b) For deficiency, cash will be brought in by the partner

Cash/Bank A/c Dr

To Partner's Cap A/c

Illustration: 12. X, Y and Z are partners in a firm sharing profits in the ratio of 2:2:1. X retires and after all adjustments the Capital A/cs of the Y and Z have a balance of 70,000 and 50, 000 respectively. They decided to adjust their capitals in new profit sharing ratio by withdrawing or bringing cash. Give necessary Journal entries and show your working clearly.

Solution:

The capital of the new firm

= Total capital of Y and Z after adjustments = 70, 000+50, 000 = **1,20,000**

	Y	Z
New Capital based on New Ratio i.e. 2:1 (total being 1,20,000)	80,000	40,000
Existing capital after adjustments	70,000	50,000
Cash is being brought in or paid off	**10,000** **(brought in)**	**10,000** **(to be paid)**

Journal Entries

	Dr. (₹)	Cr. (₹)
1. Bank A/c Dr To Y's Capital A/c	10,000	10,000
(Amount to be brought in by Y) 2. Z's Cap A/c To Bank A/c (Amount to be withdrawn by Z)	10,000	10,000

Death of a Partner

Accounting treatment in the case of death is same as in the case of retirement except the following:-

1. The deceased partners claim is transferred to his executer's account.

2. Normal y the retirement takes place at the end of the Accounting Period but the death may occur at any time. Hence the claim of deceased partner shall also include his share of profit or loss, interest on capital and drawings if any from the date of the last balance sheet to the date of his death.

The treatment of profits and JLP wil be taken up one by one as fol ows-

I. Calculation of Profits/Loss for the Intervening Period

It is calculated by any one of the two methods given below:-

a) On Time Basis: - in this method **proportionally profit** for the time period is calculated either on the **basis of last year's profit or on the basis of average profits of last few years** and then deceased partner's share is calculated based on his share of profits.

Illustration: 13.- A, B and C are partners sharing profits in the ratio of 3:2:1. A dies on 31st July 2011. The profits of the firm for the year ending 31st March 2011 were 42000. Calculate A's share for the period from 1st April to 31st July 2011 on the basis of last year's profits. Pass necessary journal entry also.

Solution – A's profit = Preceding year's profit x Proportionate Period x Share of A

= 42,000 x 4/12 x3/6 = 7, 000

Journal

Particulars		Dr. (Rs.)	Cr. (Rs.)
P&L Suspense A/c To A's Capital A/c (Share of Profit trf to A's Capital A/c)	Dr	7,000	7,000

b) On Turnover or Sales Basis- In this method the profits upto the date of death for the current year are calculated on the basis of current year's sales upto the dateof death by using the formula.

Profits for the current year upto the date of death = (Sales of the current year upto the date of death/total sales of last year)x Profit for the last year.

Then from this **profit the deceased partner's share of profit is calculated.**

Il ustration: 14 If in the example- 1 given above the sales for the last year are 2,10,000 and for the current year up to 31st July are say 90, 000 then Profits from 1st April to 31st July 2011

= (90, 000/2,10,000) x 42,000 = 18, 000 = A’s share = Rs.18, 000 x 3/6=Rs. 9, 000

Il ustration: 15. (Death of a partner) M, N and O were partners in a firm sharing profits and losses equal y. Their Balance Sheet on 31-12-2009 was as fol ows Liailities

Liabilities			Amount (₹)	Assets	Amount (₹)
Capitals:	M	70,000		Plant and machinery	60,000
	N	70,000		Stock	30,000
	O	70,000		Sundry Debtors	95,000
General Reserve			2,10,000	Cash at Bank	40,000
Creditors			30,000	Cash in Hand	35,000
			20,000		
			2,60,000		**2,60,000**

N died on 14th March, 2010. According to the Partnership Deed, executers of the deceased partner are entitle to:

(i) Balance of partner’s capital A/c.

(ii) Interest on capital @ 5% p.a.

(iii) Share of goodwil calculated on the basis of twice the average of past three years profits.

(iv) Share of profits from the closure of the last accounting year til the date of death on the basis of twice the average of three completed year’s profits before death. Profits for 2007, 2008 and 2009 were Rs. 80,000, Rs. 90,000, Rs 1,00,000 respectively. Show the working for deceased partner’s share of goodwil and profits til the date of his death. Pass the necessary journal entries and prepare N’s Capital A/c to be renderer to his executers. (CBSE 2011, Delhi)

Solution

Date	Particulars		L.F.	Debit ₹	Credit ₹
2010 14th March	General Reserve A/c	Dr		10,000	
	To N's Capital A/c				10,000
	(Being transfer of N's share of general reserve of his Capital A/c)				
	Interest on Capital A/c	Dr		700	
	To N's Capital A/c				700
	(Being interest 5% p. a. credited to N's Capital A/c upto 14/03/2010)				
	M's Capital A/c	Dr		30,000	
	O's Capital A/c	Dr		30,000	
	To N's Capital A/c				60,000
	(Being goodwill adjusted in gaining ratio i.e. 1:1)				
	Profit and Loss Suspense A/c	Dr		12,000	
	To N's Capital A/c				12,000
	(Being the transfer to N's share of profit to his capital A/c)				
	N's Capital A/c	Dr		1,52,700	
	To N's Executor A/c				1,52,700
	(Being the transfer of amount due to N's executor A/c)				

DISSOLUTION OF A PARTNERSHIP FIRM

Dissolution of a firm: As per Indian Partnership Act, 1932:"**Dissolution of firm means termination of partnership among all the partners of the firm**". When a firm is dissolved, the business of the firm terminates. all the assets of the firm are disposed- of and all outsiders' liabilities and partners' loan and partners' capitals are paid.

Dissolution of Partnership: Dissolution of Partnership refers to termination of old partnership agreement (i.e., Partnership Deed) and a reconstruction of the firm. It may take place on

- Change In profit sharing ratio among the existing partner;
- Admission of a partner; and
- Retirement or Death of a partner.

It mayor may not result into closing down of the business as the remaining partners' may decide to carry on the business under an new agreement.

Types of dissolution of firms: A partnership firm can be dissolved in any of the following ways:

(A) Without the intervention of the court

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(1) When all partners agree to dissolve the firm(Sec. 40);

(2) Compulsory Dissolution (Sec. 41)

(i) When all or all but one partner of the firm becomes insolvent.

(ii) When business of the firm become unlawful.

(3) On the happening of any of the following events: (Sec. 42)

(i) On the insolvency of a partner.

(ii)On the fulfilment of the objective of the firm for which the firm was formed

(iii) On the expiry of the term (period) for which the firm was formed.

(4) By Notice (Sec. 43)

When the duration of the partnership firm is not fixed and it is at wil of the partners. Any partner by giving notice to other partners can dissolve the firm.

(B) Dissolution by order of the court (Sec 44):

A court on application by a partner may order the dissolution of the firm under the following circumstances:

(1) When a partner has become of unsound mind.

(2) When partner has become permanently incapable of performing his duties as a

partner.

(3) When a partner is found guilty of misconduct that may harm the partnership.

(4) When a partner consistently and deliberately commits breach of partnership agreement.

(5) When a partner transfer whole of his interest in the business firm to a third party, without the consent of existing partners.

(6) When the court is satisfied that the partnership firm cannot be carried on except at a loss.

(7) When the court find is that the dissolution of firm is justified and equitable.

ACCOUNTING TREATMENT ON DISSOLUTION

On dissolution of a firm, the following accounts are opened to close the books of the firm:

– Realisation Account;

– Partner’s Loan Account;

– Partners’ Capital Accounts; and

– Cash or Bank Account.

Realisation Account: It is ***nominal account*** opened on the dissolution of a firm ***to ascertain the profit or loss on realisation of assets and payments of outsiders’ liabilities***. This account is closed by transferring the balance (i.e., profit or loss on realisation) to partner’s capital accounts. all Assets (Except Cash & Fictitious assets) shown in the Balance Sheet are to be transferred to the debit side of Realisation A/c. Al third party liabilities shown in the Balance Sheet are to be transferred to the credit side of Realisation A/c.

Note:

1. Cash and Bank balance are not transferred to Realisation Account.

2. Assets (tangible and intangible) are transferred to Realisation Account at their **Gross Value**

3. Fictitious Assets such as Debit balance of Profit and Loss Account or Advertisement Suspense Account etc. are not transferred to Realisation Account. These are directly debited to partners’ capital accounts in their profit sharing ratio by passing the following entry:

Partner’s capital A/c Dr.

To Profit and Loss A/c

To Advertisement Suspense A/c

(Being Balance of losses transferred to capital accounts)

4. Provisions against assets such as Provision for Depreciation or Provision for Bad & Doubtfu ldebts etc. are transferred to Realisation Account.

Provisions for Bad Debts A/c Dr.

Provision's for Depreciation A/c Dr.

Joint Life Policy Reserve A/c Dr.

Investment Fluctuation Fund A/c Dr.

Machinery Replacement Reserve A/c Dr.

To Realisation A/c

(Being Provisions & Reserves Against Assets

transferred to Realisation Account)

To transferring the liabilities to Realisation A/c

Sundry Liabilities A/c's Dr.

To Realisation A/c

(Being sundry liabilities transferred to Realisation A/c)

Note:

1. Only third parties liabilities/outsiders' liabilities are transferred to Realisation A/c.

2. Balance of Partner's Loan Accounts are not transferred to Realisation Account. Separate accounts are opened to settle such liabilities.

3. Undistributed profits and reserves are also not transferred to Realisation A/c. These are directly credited to partners' capital accounts in their profit – sharing ratio by passing the following entry:

Profit and Loss A/c Dr.

General Reserves A/c Dr.

Reserve Fund A/c Dr.

Contingency Reserve A/c Dr.

To Partners' Capital A/cs

(Being balance of undistributed profits transferred to capital accounts)

4. Provident Fund is a liability on the firm towards employees and hence it is transferred to Realisation A/c

5. If any liability is expected to arise against any fund or reserve e.g., Workmen's Compensation Fund, then an amount equal to such liability is transferred to Realisation A/c and balance ,if any, is distributed among the partners in their profit-sharing ratio by passing the following entry:

Workmen's Compensation Fund A/c Dr.

To Realisation A/c (Liability)

To Partners' Capital A/c's (Balance, if any)

(Being liability against workmen's compensation fund transferred to Realisation A/c and balance distributed among partners)

Example. Workmen's Compensation Fund shown in the liability side of Balance Sheet is Rs. 50,000. At the time of dissolution liability against this fund is estimated at Rs. 30,000. Pass necessary Journal Entry.

Workmen's Compensation Fund A/c Dr. 50,000

To Realisation A/c 30,000

To A's Capital A/cs 10,000

To B's Capital A/cs 10,000

(Being liability against workmen's compensation fund transferred to Realisation A/c and balance distributed among partners)

A. <u>For Realisation of Assets (whether recorded or unrecorded</u>

a. When assets are sold for cash

Cash/Bank A/c Dr.

To Realisation A/c

(Being assets sold for cash)

b. When assets are taken over by any partner

Partner's Capital A/c Dr.

To Realisation A/c

(Being assets taken over by any partner)

c. When assets are taken over by any creditor in part or ful payment of his dues :

I. In case of Ful Settlement :

i. NO ENTRY is passed for the transfer of assets to the creditor

ii . NO ENTRY is passed for the payment to creditor

II. In case of Part Settlement :

i.NO ENTRY is passed for the transfer of assets to the creditor.

ii.The agreed amount of asset is deducted from the claims of the creditor and the balance is paid to him.

Note:

1. If nothing is stated regarding the realisation of any tangible assets then such assets should be assumed to be realized at book value

2. If nothing is stated regarding the realisation of any intangible assets like goodwil , patents,

trademarks etc. then it is assumed that such assets have not realized any amount.

B. <u>For Payments of Liabilities</u>

a. When liabilities are paid in cash

Realisation A/c Dr.

To Cash/Bank A/c

(Being liabilities paid in cash)

b. When liabilities are taken over by any partner

Realisation A/c Dr.

To Partner's Capital A/c

(Being liabilities taken over by a partner)

c. When assets are taken over by any creditor in part or ful payment of his dues :

I. In case of Full Settlement:

i. NO ENTRY is passed for the transfer of assets to the creditor

i . NO ENTRY is passed for the payment to creditor

II . In case of Part Payment:

i. NO ENTRY is passed for the transfer of assets to the creditor

ii. The agreed amount of asset is deducted from the claims of the creditor and the balance is paid to him.

Note:

If nothing is stated regarding the set lement of any outside liability, then it should be assumed that the amount equal to book value is paid.

C. For Realisation Expenses

a. When expenses are paid by firm and borne by firm:

Realisation A/c Dr.

To Cash/Bank A/c

(Being realisation expenses paid in cash)

b. When expenses are paid by any partner and borne by firm:

Realisation A/c Dr.

To Partner's Capital A/c

(Being realisation expenses paid by a partner)

c. When expenses are paid by firm (on behalf of any partner) and borne by any partner :

Partner's Capital A/c Dr.

To Cash/Bank A/c

(Being realisation expenses paid on behalf of a partner)

d. When expenses are paid by any partner and borne by same partner :

NO ENTRY

e. When a partner is paid a fixed amount for bearing realisation expenses then :

i. Actual expenses are not to be considered; and

ii. Realisation A/c Dr. [With Fixed Amount]

To Partner's Capital A/c

(Being realisation expenses paid by a partner)

f. When expenses are paid by one partner and borne by another partner:

Partner's Capital A/c Dr. (Who borne the expenses)

To Partner's Capital A/c (Who pays the expenses)

(Being realisation expenses paid by one partner and borne by another partner)

D. <u>For Closing Realisation Account</u>

a. When Realisation A/c discloses profit (in case total of credit side is more than the total of debit side)

Realisation A/c Dr.

To Partners' Capital A/cs

(Being profit on realisation transferred to partners' capital A/cs)

b. When Realisation A/c discloses loss (in case total of debit side is more than the total of credit side)

Partners' Capital A/cs Dr.

To Realisation A/c

(Being loss on realisation transferred to partners' capital A/cs)

FORMAT OF REALISATION ACCOUNT

Dr.	Realisation Account		Cr.
Particulars	**Rs.**	**Particulars**	**Rs.**
To Sundry Assets A/c (Excluding cash or bank balance, fictitious assets, Dr. balance of P&L A/c, Dr. balance of partners' capital/ current A/cs, Loans to partners) **To Cash/Bank A/c** (Amount paid for discharging liabilities- recorded and unrecorded) **To Cash/Bank A/c** (Expenses on Realisation) **To Partners' Capital A/cs** (Liabilities taken over by a partner or remuneration/ commission payable to him or any expenses borne by him) **To Partners' Capital A/cs** (For transferring profit on Realisation)	----	**By Sundry Liabilities A/c** (Excluding Cr. Balance of P&L A/c, Reserves, Partners' capital/ current A/cs, Loan from Partner and Bank Overdraft) **By Provision on any Assets A/c** (Such as Provision for Depreciation, Provision for Doubtful Debts, Joint Life Policy Reserve etc.) **By Cash/Bank A/c** (Amount received on realisation of assets-recorded and unrecorded) **By Partners' Capital A/cs** (Assets taken over by a partner – recorded or unrecorded) **By Partners' Capital A/cs** (For transferring loss on Realisation)	----

Preparation of Partners' Loan Account

If a partner has given any loan to firm, his loan wil be paid

- After payment of all the outside liabilities: but
- Before making any payment to partners on account of capital

Partner's Loan A/c Dr.

To Cash/Bank A/c

(Being loan of a partner paid.)

Dr.	Partner's Loan A/c		Cr.
Particulars	Rs.	Particulars	Rs.
To Cash/Bank A/c		By Balance b/d	=======

Note:

If the firm has given a loan to any partner then such loan account wil show a debit balance and wil appear on the asset side of Balance Sheet of the firm. Such loan accounts are set led through partner's capital accounts by passing the following entry:

Partner's Capital A/c Dr.

To Partner's Loan A/c

(Being loan to partner transferred to his Capital A/c)

Preparation of Partners' Capital Accounts

After the transfer of :

- Undistributed profits and reserves
- Profit on Realisation
- Any liability taken over by any partner

And

- Undistributed losses and fictitious assets
- Loss on realisation
- Any assets taken over by any partner

The balance of partners' capital A/cs are closed in the following manner

a. For making final payment to a partner (if total of credit side is more than the total of debit side)

Partner's Capital A/c Dr.

To Cash/Bank A/c

(Being excess paid to partner in cash)

b. For any amount received from a partner against debit balance in his capital account

Cash/Bank A/c Dr.

To Partners' Capital A/c

(Being cash brought in by any partner)

Dr. Partner's Capital A/cs Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Balance b/d			**By balance b/d**		
(Dr. Balance)			(Cr. Balance)		
To Profit and Loss A/c			**By General Reserve A/c**		
To Advertisement Suspense A/c			**By Profit and Loss A/c**		
To Realisation A/c			**By Workmen's Compensation Fund**		
(Assets taken)			**By Realisation A/c**		
To Realisation A/c			(Liabilities taken)		
(Loss on Realisation)			**By Realisation A/c**		
To Cash/Bank A/c			(Profit on Realisation)		
(Excess cash paid)			**By Cash/Bank A/c**		
			(Cash brought in)		

Preparation of Cash or Bank Account

This account is prepared at the end and closed last of all . This account helps in verification of the arithmetical accuracy of accounts as both the sides of this account must be equal. **There should be no balance left in Cash or Bank A/c.**

Note:

If cash and bank balance (or Bank Overdraft) both are given in the Balance Sheet, only one A/c is prepared, either a Cash A/c or a Bank A/c. If Cash A/c is opened, an entry for withdrawing the bank balance is made :

Cash A/c **Dr.**

To Bank A/c

(Being cash withdrawn from Bank)

If Bank A/c is opened, an entry for depositing the cash into bank is passed:

Bank A/c **Dr.**

To Cash A/c

(Being cash deposited into Bank)

Dr. Cash/Bank A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d (Cash in Hand or Cash at Bank) **To Realisation A/c** (Assets Realised) **To Partners' Capital A/cs** (Cash brought in by partner)		**By Balance b/d** (Bank Overdraft) **By Realisation A/c** (Liabilities Paid) **By Realisation A/c** (Realisation Expenses Paid) By Partner's Loan A/c (Partner's Loan Paid) **By Partners' Capital A/cs** (Excess cash paid to partner)	

Distinction between Revaluation Account and Realisation Account

Basis of Difference	Revaluation Account	Realisation Account
Purpose	*It is prepared to show assets and liabilities in the books at their revised values.*	*It is prepared to ascertain the profit or loss on sale of assets and repayment of liabilities.*
When to be prepared	*It is prepared at the time of change in profit sharing ratio among the existing partner, admission, retirement and death of a partner.*	*It is prepared at the time of dissolution of a firm.*
Preparation of Account	*This account may be prepared at a number of times during the life of a firm.*	*This account is prepared only once during the life of a firm*
Contents	*This account records only those assets and liabilities whose book values have been changed.*	*This account records all assets (except cash, fictitious assets etc.) and all outside liabilities.*
Result	*A firm continues its business even after the preparation of revaluation account.*	*A firm comes to an end after preparation of realisation account.*

Preparation of Memorandum Balance Sheet

If a balance sheet on the date of dissolution is not given in the question, then it is always advisable to prepare Memorandum Balance Sheet on the date of dissolution to ascertain the amount of balancing figure

Note:

- In the absence of any other information "Sundry Assets" should be treated as balancing figure on the assets side of Balance Sheet
- If the balances of Partners' Capital A/cs are not given as on the date of dissolution, first we wil find the balance of partners' capital accounts as on the date of dissolution by recasting the capital accounts.
- When "Sundry Assets" are given in the question and nothing is specified about the dif erence on the asset side of Balance Sheet, the dif erence should be treated as Dr. balance of Profit and Loss A/c.

Some common mistakes committed by the students in Examination

- Entries for Assets or liabilities taken by partners
- Dissolution Expenses
- Realisation of unrecorded assets
- Payments of Unrecorded Liabilities
- Treatment of Fictitious Assets

*** Due care should be taken while showing the effect of above mentioned items.**

CHECK YOUR PROGRESS

Q.1 following is the Balance Sheet of X and Y, who share profits and losses in the ratio of 4:1, as at 31st March, 2011:

Balance Sheet

As on 31st March, 2011

Liabilities	Rs.	Assets		Rs.
Sundry Creditors	8,000	Bank		20,000
Bank Overdraft	6,000	Debtors	17,000	
X's Wife Loan	8,000	Less : Provision	(2,000)	15,000
Y's Loan	3,000	Stock		15,000
Investment Fluctuation Fund	5,000	Investments		25,000
		Buildings		25,000
Capital		Goodwill		10,000
X	50,000	Profit and Loss A/c		10,000
Y	40,000			
	1,20,000			1,20,000

The firm was dissolved on the above date and the following arrangements were decided upon:

(i) X agreed to pay off his wife's loan.

(ii) Debtors of Rs. 5,000 proved bad.

(iii) Others assets realised – Investments 20% less; and Goodwil at 60%.

(iv) One of the creditors for Rs. 5,000 was paid only Rs. 3,000.

(v) Buildings were auctioned for Rs. 30,000 and the auctioneer's commission amounted to Rs. 1,000.

(vi) Y took over part of Stock at Rs. 4,000 (being 20% less that the book valve). Balance stock realised 50%.

(vii) Realisation expenses amounted to Rs. 2,000. Prepare Realisation A/c, Partners' Capital A/cs and Bank A/c.

Solution:

Dr. **Realisation Account** Cr.

Particulars	Rs.	Particulars	Rs.
To Goodwill	10,000	By Investment Fluctuation Fund	
To Buildings	25,000		5,000
To Investments	25,000	By Provision for Doubtful Debts	
To Stock	15,000		2,000
To Debtors	17,000	By Creditors	8,000
To X's Capital A/c		By X's Wife Loan	6,000
(X's brother loan)	8,000	By Bank A/c:	8,000
To Bank A/c:		(Assets realised	
		Debtors 12,000	
(Creditors)	6,000	Investments 20,000	
To Bank A/c		Goodwill 6,000	
(Expenses on Realisation)	6,000	Buildings 29,000	
		Stock 5,000)	
		--------	72,000
		By Y's Capital A/c	
		(Stock)	4,000
		By Loss transferred to:	
		X's Capital A/cs 7,200	
		Y's Capital A/cs 1,800	
		---------	9,000
	1,08,000		1,08,000

Dr.		Partner's Capital A/cs			Cr.
Particulars	X Rs.	Y Rs.	Particulars	X Rs.	Y Rs.
To Profit and Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c			(Cr. Balance)		
(Assets taken)	----	4,000	By Realisation A/c		
To Realisation A/c			(Liabilities taken)	8,000	
(Loss on Realisation)	7,200	1,800			
To Bank A/c					
(Excess cash paid)	42,800	32,200			
	58,000	58,000		58,000	40,000

Dr.	Cash/Bank A/c		Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d		By Balance b/d	6,000
(Cash at Bank)	20,000	(Bank Overdraft)	
To Realisation A/c		By Realisation A/c	
(Assets Realised)	72,000	(Liabilities Paid)	6,000
To Partners' Capital A/cs		By Realisation A/c	
(Cash brought in by partner)		(Realisation Expenses Paid)	2,000
		By Y's Loan A/c	3,000
		(Partner's Loan Paid)	
		By X' Capital A/c	42,800
		By Y' Capital A/c	32,200
		(Excess cash paid to partner)	
	92,000		92,000

Q.2 A and B were partners in a firm from 1-4-2008 with capitals of Rs. 60,000 and Rs. 40,000 respectively. They shared profits and losses in the ratio of 3:2. They carried on business for 2 years. In the first year, they made a profit of Rs. 50,000 and in the 2nd year ending on 31st March, 2010, they incurred a loss of Rs. 20,000. As the business was no longer profitable, they decided to wind up. Creditors on that date were Rs. 20,000. The partners withdrew Rs. 8,000 each per year for their personal expenses. The assets realised Rs. 1, 00,000. The expenses on realisation were Rs. 3,000. Prepare Realisation A/c and show your workings clearly.

Solution:

Books of A and B

REALISATION ACCOUNT

Particulars	**Rs.**	**Particulars**		**Rs.**
To Sundry Assets	1,18,000	By Creditors		20,000
To Bank A/c		By Bank A/c		
(Creditors)	20,000	(Assets realised)		1,00,000
To Bank A/c		By Loss transferred to:		
(Expenses on Realisation)	3,000	A's Capital A/cs	12,600	
		B's Capital A/cs	8,400	21,000
	1,41,000			1,41,000

Working Notes:

(i) Dr. **Partner's Capital A/cs** Cr.

Date	Particulars	A (Rs.)	B (Rs.)	Date	Particulars	A (Rs.)	B (Rs.)
2008 ?	To Bank A/c (Drawings)	8,000	8,000	1.4.08	By Cash A/c	60,000	40,000
31.3.09	To Balance c/d	82,000	52,000	31.3.09	By Profit and Loss A/c	30,000	20,000
		90,000	60,000			90,000	60,000
2009 ?	To Bank A/c (Drawings)	8,000	8,000	1.4.09	By Balance b/d	82,000	52,000
31.3.09	To Profit and Loss A/c	12,000	8,000				
31.3.09	To Balance c/d	62,000	36,000				
		82,000	52,000			82,000	52,000
				1.4.10	By Balance b/d	62.000	32,000

(ii)

Memorandum Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capitals: Rs.		Sundry Assets (Balancing Figure)	1,18,000
A 62,000			
B 36,000	98,000		
Creditors	20,000		
	1,18,000		1,18,000

Q.3 A and B share profits and losses in the ratio of 5:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to Realisation A/c. Pass the Journal Entries to af ect the following:

(a) Bank Loan of Rs. 12,000 is paid off.

(b) A was to bear all expenses of Realisation for which he is given a commission of Rs.400.

(c) Deferred Advertisement Expenditure A/c appeared in the books at Rs. 28,000.

(d) Stock worth Rs. 1,600 was taken over by B at Rs. 1,200.

(e) An unrecorded Computer realized Rs. 7,000.

(f) There was an outstanding bil for repairs for Rs. 2,000, which was paid of .

Solution:

JOURNAL

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
a	Realisation A/c Dr.		12,000	
	To Bank A/c			12,000
	(Being bank loan discharged)			
b	Realisation A/c Dr.		400	
	To A's Capital A/c			400
	(Being commission credited to A)			
c	A's Capital A/c Dr.			
	B's Capital A/c Dr.		20,000	
	To Deferred Advertisement Expenditure A/c		8,000	
	(Being the deferred advertisement expenditure			28,000
	Written off)			
d	B's Capital A/c Dr.		1,200	
	To Realisation A/c			1,200
	(Being Stock taken over by B at Rs. 1,2000			
e	Bank A/c Dr.		7,000	
	To Realisation A/c			7,000
	(Being unrecorded computer sold for Rs. 7,000)			
f	Realisation A/c Dr.		2,000	
	To Bank A/c			2,000
	(Being bank loan discharged)			

Images

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Notes