4. Auditor Rotation and Independence

This Act calls for auditor rotation so as not to indulge in conflict of interest and better audit quality. The size of an audit firm dictates whether they change auditors every 5 or 10 years. This has helped to ensure that the independence of the auditor is unbiased.

5. Financial Reporting and Disclosure

With greater concern for financial reporting and disclosure, the Corporation Accounts and Companies Act 2013 mandates accurate financial record-keeping and timely disclosure that increases transparency. This act safeguards the interests of investors as well as other stakeholders.

6. Harsh Penalties for Non-Compliance

The Companies Act, 2013 has infused fiercer punishment for non-compliance, which would help curb corporate fraud and adherence to the legal framework. This includes board members, auditors, and senior management being punished for any kind of contravention under the Act.

7. Protection of Minority Shareholders

The Act introduces specific provisions that offer protection to the interests of minority shareholders in terms of fair treatment and protection from the powers of major shareholders.

Company Means

In the words of Professor Haney, "A company is an incorporated association, which is an artificial person created by law, having a separate entity, with a perpetual succession and a common seal."

This definition sums up the meaning as well as the features of a company succinctly. However, the Act defines the term company a bit differently. Section 2(20) of the Companies Act, 2013 defines the term 'company' "Company means a company incorporated under this Act or under any previous company law".

Features Of Companies Act

1. Separate Legal Entity

- A company is a legal entity distinct from its owners (shareholders) or managers.
- This means the company can:
  - Own property.
  - Enter into contracts.
  - Sue or be sued in its own name.
    - Example: If a company owes money to someone, the liability is on the company itself, not on the personal assets of its owners.

2. Perpetual Succession

- A company continues to exist indefinitely, irrespective of changes in its ownership or management.

- This means:
  - The death, insolvency, or departure of any shareholder or director does not affect the company's existence.
- Example: Even if all the original shareholders of a company pass away, the company will still exist and carry on its business.

3. Limited Liability

- Shareholders' liability is limited to the amount unpaid on their shares.
- This means:
  - If the company faces financial trouble or goes into debt, shareholders are not personally responsible for paying off the debts beyond what they invested.
- Example: If you own shares worth ₹10,000 in a company, your liability is limited to that ₹10,000. Your personal property, like your house or car, cannot be used to pay the company's debts.

4. Artificial Judicial Person

- A company is an entity created by law and recognized as a "person" in the eyes of the law.
- This means:
  - It can act through its representatives (like directors) and conduct business.
  - It has rights and responsibilities, just like a natural person.
- Example: A company can sign contracts, file lawsuits, and own assets, but it cannot physically "act" as a human would.

Types of Companies

1. Types of Companies Based on Liability

A. Company Limited by Shares

- The liability of shareholders is limited to the unpaid amount on the shares they hold.
- Example: If a shareholder has 100 shares worth ₹10 each and has paid ₹5 per share, they are liable only for the remaining ₹5 per share.
- This is the most common type of company, e.g., most private and public companies.

B. Company Limited by Guarantee

- The liability of members is limited to the amount they agree to contribute in case the company is wound up.
- Common in non-profit organizations, educational institutions, or charitable organizations.
- Example: If members guarantee ₹1,000 each, their liability is restricted to that amount, regardless of the company's debts.

C. Unlimited Company

- There is no limit to the liability of its members.

Importance of Prospectus

- **Investor Protection**: Provides detailed information to help investors make informed decisions.
- **Transparency**: Discloses all material facts about the company and its financial health.
- **Legal Safeguard**: Ensures compliance with statutory provisions to prevent fraud.

Deemed Prospectus (Section 25)

A **Deemed Prospectus** refers to a document that is not formally labelled as a prospectus but is treated as one under the law. This occurs when securities are offered to the public indirectly, such as through an intermediary.

Key Features

1. **Offer for Sale by Intermediary**:
    - If a company allots or agrees to allot securities to an intermediary (such as brokers or underwriters), and they in turn offer these securities to the public, the document used for this purpose is deemed to be a prospectus.
2. **Legal Requirements**:
    - All provisions of the Companies Act, 2013, applicable to a prospectus (e.g., registration and disclosure) apply to a deemed prospectus.

3. **Transparency**:
    - Ensures that the public is provided with all relevant information about the securities, even if the offering is indirect.

Example:

- A company allots shares to a broker with the intention of the broker selling those shares to the public. The document used by the broker for this sale becomes a deemed prospectus.

Shelf Prospectus (Section 31)

A **Shelf Prospectus** is a single prospectus issued by a company that allows it to make multiple offers of securities over a specified period without issuing a separate prospectus for each offer.

Key Features

1. **Validity**:
    - A shelf prospectus is valid for **one year** from the date of its first issue.
2. **Who Can Issue**:
    - Financial institutions, banks, and certain companies authorized by the **Securities and Exchange Board of India (SEBI)** are allowed to issue a shelf prospectus.

Civil Vs. Criminal Liability

Aspect	Civil Liability	Criminal Liability
Purpose	Compensation for losses incurred.	Punishment for fraudulent actions.
Nature of Liability	Monetary (compensation to investors).	Penal (fine and/or imprisonment).
Burden of Proof	Proving the loss suffered due to reliance on the prospectus.	Proving fraudulent intent or knowledge of misstatement.

Various Modes of Raising Capital

1. Equity Share Capital

Equity shares represent ownership in the company. Shareholders benefit through dividends and voting rights.

- Public Issue: Shares are offered to the public through an Initial Public Offering (IPO) or Follow-on Public Offer (FPO).
- Private Placement: Shares are issued to a select group of investors, such as private equity investors or venture capitalists.
- Preferential Allotment: Shares are issued to a specific group (e.g., promoters, financial institutions) at a pre-determined price.
- Rights Issue: Existing shareholders are offered additional shares in proportion to their current holdings.
- Bonus Issue: Shares are issued free of cost to existing shareholders from the company's reserves.

2. Preference Share Capital

Preference shares provide fixed dividends and preferential rights during the distribution of dividends and repayment of capital. These can be:

- Cumulative or Non-Cumulative
- Redeemable or Non-Redeemable
- Convertible or Non-Convertible

3. Debentures

Debentures are long-term debt instruments used to raise funds.

- Secured Debentures: Backed by the company's assets as collateral.
- Unsecured Debentures: No collateral; depend on the company's creditworthiness.
- Convertible Debentures: Can be converted into equity shares after a specified period.
- Non-Convertible Debentures (NCDs): Cannot be converted into equity shares.

4. Deposits

Companies (except public companies eligible under Section 73) can accept deposits from members or the public subject to conditions prescribed under Sections 73 to 76 of the Companies Act.

- Public deposits are regulated by the Reserve Bank of India (RBI) and the Ministry of Corporate Affairs (MCA).

5. Loans

Companies can borrow funds through loans from:

- Banks and Financial Institutions: Secured or unsecured loans.
- Directors: Directors can provide loans to the company as long as they comply with Section 73.
- Inter-Corporate Loans: Loans from other companies as per Section 186.

6. Issue of Commercial Papers

Commercial papers are short-term unsecured promissory notes issued by companies with high credit ratings to meet working capital requirements.

7. External Commercial Borrowings (ECBs)

Indian companies can raise debt in foreign currency from non-resident lenders under the ECB framework set by the RBI.

8. Venture Capital and Private Equity

Startups and growing businesses often raise funds through:

- Venture Capital: Investments made by venture capital funds in exchange for equity.
- Private Equity: Larger, more established companies may raise capital through private equity funds.

9. Employee Stock Option Plan (ESOP)

Shares are offered to employees as part of their compensation or as an incentive for their performance.

10. Crowdfunding

Companies can raise smaller amounts of money from a large number of investors through platforms approved by SEBI.

11. Qualified Institutional Placement (QIP)

A listed company can issue equity shares or convertible securities to Qualified Institutional Buyers (QIBs) without undergoing standard regulatory compliance for a public issue.

12. Foreign Direct Investment (FDI)

Companies can raise funds from foreign investors under the automatic or government approval route, based on sectoral caps prescribed by the government.

13. Convertible Instruments

- Compulsorily Convertible Debentures (CCDs): Mandatorily convert into equity.
- Optionally Convertible Debentures (OCDs): Conversion is optional.

14. Warrants

Warrants give the holder the right to buy shares at a specific price on or before a certain date.

15. Rights and Offer to Members

Companies can raise funds by offering existing members securities or inviting applications for securities under Section 62.

Global Depository Receipts (GDR)

Global Depository Receipts (GDRs) are financial instruments used by Indian companies to raise funds in international markets. They represent shares of the issuing company and are traded on foreign stock exchanges. GDRs enable companies to access global capital while providing international investors a mechanism to invest in Indian businesses.

Prevention and Oppression of Mis-Management

OPPRESSION: Involves conduct that is burdensome, harsh, or wrongful, adversely affecting the rights or interests of shareholders, particularly minority shareholders. This includes unjust decisions that compromise their interests.

MISMANAGEMENT: Refers to actions or omissions by the company's management that lead to financial loss or prejudice the company's affairs. This encompasses gross mismanagement, fraud, or actions detrimental to the company's interests.

Application to the Tribunal (Section 241)

Members of a company can approach the National Company Law Tribunal (NCLT) if they believe:

- The company's affairs are being conducted in a manner prejudicial to public interest, the company's interest, or oppressive to any member.
- Material changes in the management or control of the company are likely to result in conduct prejudicial to its interests or its members.

Who Can Apply? (Section 244)

The right to apply is granted to:

- **For Companies with Share Capital**:
    - At least 100 members or 10% of the total number of members, whichever is less.
    - Any member(s) holding not less than 10% of the company's issued share capital.
- **For Companies without Share Capital**:
    - At least one-fifth of the total number of members.

The Tribunal may waive these requirements if deemed just and equitable.

Powers of the Tribunal (Section 242)

Upon receiving an application, the NCLT can:

- Regulate the conduct of the company's affairs in the future.
- Order the purchase of shares or interests of any members by other members or by the company itself.
- Restrict the transfer or allotment of the company's shares.
- Terminate, set aside, or modify any agreement between the company and its directors or managerial personnel.
- Appoint new directors or remove existing ones.
- Set aside any fraudulent transfer, delivery of goods, payment, or other act relating to property made within three months before the application date.

Consequences of Non-Compliance

If a company fails to comply with the Tribunal's orders:

- The company may face fines ranging from ₹1 lakh to ₹25 lakhs.

Impact of the New Industrial Policy

1. **Economic Growth:**
   - Boosted GDP growth rates by promoting industrial and economic activities.
2. **Foreign Investment:**
   - India became an attractive destination for FDI, especially in IT, manufacturing, and services.
3. **Technological Advancements:**
   - Indian industries adopted modern technologies, enhancing productivity.
4. **Global Integration:**
   - The policy enabled India to integrate with the global economy through trade and investment.
5. **Rise of Private Sector:**
   - Significant growth of private enterprises and reduced dominance of the public sector.

Criticism of the New Industrial Policy

1. **Regional Imbalances:**
   - Benefits were largely concentrated in developed states, leaving backward regions behind.
2. **Jobless Growth:**
   - Focus on technology and capital-intensive industries led to limited job creation.
3. **Dependence on Foreign Capital:**
   - Increased reliance on foreign investments raised concerns about economic sovereignty.
4. **Inequality:**
   - Widened the gap between rich and poor due to uneven benefits of liberalization.

International Investment in India

International investment refers to the inflow of capital, resources, and expertise from foreign countries into India's economy. It plays a vital role in fostering economic growth, generating employment, enhancing infrastructure, and bridging the savings-investment gap.

India's economic reforms since 1991 have been instrumental in attracting international investment, particularly in the form of **Foreign Direct Investment (FDI)** and **Foreign Portfolio Investment (FPI)**. While FDI focuses on long-term investments in assets and businesses, FPI typically involves short-term investments in financial instruments like stocks and bonds.

3. **Mineral-Based Industries:**
    - Small-scale industries using local minerals like clay, stone, and sand for manufacturing bricks, tiles, and cement.
4. **Handicrafts and Handloom:**
    - Traditional crafts like pottery, weaving, embroidery, and wood carving.
5. **Cottage Industries:**
    - Small-scale industries operating from homes, producing goods like candles, pickles, toys, and artisanal products.
6. **Village Industries:**
    - Industries promoted by the **Khadi and Village Industries Commission (KVIC)**, focusing on products like khadi, soaps, and handicrafts.

Government Initiatives for Rural Industrialization

1. **Khadi and Village Industries Commission (KVIC):**
    - Established to promote and develop khadi and village industries.
    - Provides financial assistance, skill training, and marketing support.
2. **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):**
    - Although primarily aimed at employment generation, it indirectly supports rural industrialization by increasing rural purchasing power.
3. **Startup Village Entrepreneurship Programme (SVEP):**
    - Part of the **National Rural Livelihood Mission (NRLM)**, this program promotes rural entrepreneurship by providing financial and technical support.
4. **Cluster Development Programs:**
    - Government supports the formation of **clusters** of rural industries to promote collective growth and competitiveness, such as the **SFURTI (Scheme of Fund for Regeneration of Traditional Industries)**.
5. **Skill India Initiative:**
    - Provides skill development and training to rural youth to make them employable in small industries.
6. **Credit and Financial Support:**
    - NABARD (National Bank for Agriculture and Rural Development) and other institutions provide credit and subsidies to rural entrepreneurs.
7. **Industrial Training Institutes (ITIs):**
    - Set up in rural areas to train individuals in various trades and crafts.
8. **Rural Development Schemes:**
    - Programs like **Pradhan Mantri Gram Sadak Yojana (PMGSY)** and **Rural Infrastructure Development Fund (RIDF)** indirectly support rural industrialization by improving infrastructure.

Types of Fiscal Policy:

1. **Expansionary Fiscal Policy:**
   - Increases government spending and reduces taxes to boost the economy (used during slowdowns).
2. **Contractionary Fiscal Policy:**
   - Reduces government spending and increases taxes to control inflation (used when the economy overheats).

Key Fiscal Policy Tools:

- **Taxes:** Corporate tax, income tax, GST.
- **Public Expenditure:** Infrastructure, health, education.
- **Fiscal Deficit Management:** Keeping the deficit under **4.5% of GDP** (2025 target).

Challenges:

- **High fiscal deficit due to excessive borrowing.**
- **Tax evasion and revenue leakages.**
- **Balancing welfare spending with economic growth.**

Business-to-Consumer (B2C)

Business-to-Consumer (B2C) E-Commerce refers to online transactions where businesses sell products or services directly to individual customers through digital platforms. It is the most common form of e-commerce, used by online retailers, service providers, and digital platforms.

Key Features of B2C:

- Businesses sell directly to consumers.
- Transactions occur via websites, mobile apps, or social media platforms.
- Uses digital marketing to attract customers.
- Payments are processed through online payment gateways.
- Examples: **Amazon, Flipkart, Myntra, Swiggy, Netflix, Nykaa.**

Advantages of B2C

For Consumers:

1. **Convenience** – Shop from anywhere, anytime.
2. **Wide Product Variety** – Access to a large selection of products.
3. **Easy Price Comparison** – Compare prices and read reviews before purchasing.
4. **Better Deals & Discounts** – Frequent sales, discounts, and loyalty programs.
5. **Doorstep Delivery** – Home delivery eliminates the need to visit stores.

For Businesses:

1. **Lower Operational Costs** – No need for physical stores, reducing expenses.
2. **Global Reach** – Ability to sell to customers worldwide.
3. **Data-Driven Marketing** – Businesses can personalize promotions based on customer behavior.
4. **Faster Transactions** – Orders are placed and processed instantly.
5. **Scalability** – Easier to expand the business without physical limitations.

Order Online Catalogue in B2C

An **Online Catalogue** is a digital representation of a business's products/services available for customers to browse and purchase.

Key Features of an Online Catalogue:

- Detailed product descriptions, images, and specifications.
- Real-time stock availability.
- Customer ratings and reviews.
- Search and filter options for easy navigation.
- Examples: **Amazon product pages, Flipkart listings, Nykaa beauty catalogue.**

Advantages of an Online Catalogue:

- Reduces the cost of printing traditional catalogues.
- Allows instant updates to prices and product availability.
- Enhances customer experience with interactive elements like videos and 360° views.

2. **Easy Returns & Refunds**
   - Flexible return policies increase customer confidence.
   - Quick refunds and hassle-free exchanges improve brand reputation.
3. **Customer Support & Helpdesk**
   - 24/7 customer service via chatbots, emails, and calls enhances satisfaction.
   - FAQs, video tutorials, and community forums help resolve issues.
4. **Product Warranty & Repairs**
   - Electronic and luxury brands provide warranty coverage and service centers.
   - Extended warranty options boost sales and customer trust.
5. **Loyalty Programs & Re-engagement**
   - Reward points, discounts, and personalized offers encourage repeat purchases.
   - Follow-up emails and feedback requests build long-term relationships.
6. **Handling Complaints & Feedback**
   - Addressing negative reviews and complaints professionally enhances credibility.
   - Feedback helps improve products and services.

Website Design in E-Commerce

Website design plays a crucial role in e-commerce as it directly impacts user experience, conversion rates, and customer retention. A well-structured and user-friendly website enhances trust, improves navigation, and facilitates smooth transactions.

ROLE OF WEBSITE DESIGN

A website serves as a **digital storefront** for an e-commerce business. Its design influences how customers interact with the brand and affects overall business performance.

Key Roles of Website Design:

1. **Enhances User Experience (UX)** – A well-designed website ensures smooth navigation, fast loading speed, and easy product discovery.
2. **Builds Brand Credibility** – A professional, aesthetically pleasing website increases customer trust.
3. **Improves Conversion Rates** – A clean layout, clear CTAs (Call-to-Action), and an easy checkout process boost sales.
4. **Supports SEO (Search Engine Optimization)** – Good design with proper structure improves search engine rankings.
5. **Optimized for Mobile Users** – A responsive design ensures compatibility with mobile devices, increasing sales through mobile commerce.

Website Design Models

A **Website Design Model** refers to the structure and layout used to build an e-commerce website. Different models cater to different business needs.

Common Website Design Models:

1. **Static Website Model**
   - Displays fixed content with minimal updates.
   - Suitable for small businesses with a limited product range.
   - Example: A small business showcasing a catalogue of jewellery without online sales.
2. **Dynamic Website Model**
   - Uses databases to generate real-time content updates.
   - Allows customers to browse, filter, and purchase products.
   - Example: Amazon, Flipkart, Myntra.
3. **Single-Page Website Model**
   - Entire content is loaded on one page, enhancing user engagement.
   - Suitable for startups and product launches.
   - Example: A landing page for a subscription-based service.
4. **Marketplace Model**
   - A multi-vendor platform where different sellers list their products.
   - Example: Amazon, eBay, Meesho.
5. **Hybrid Model**
   - Combines multiple models, such as an e-commerce store with blog content.
   - Example: Shopify stores with integrated blogs and video content.

Principles of Website Design

A well-designed e-commerce website follows specific **design principles** to enhance user experience and sales.

Key Principles:

1. **Simplicity & Clarity** – Avoid clutter; keep navigation simple and intuitive.
2. **Mobile-Friendliness** – Ensure responsiveness for different screen sizes.
3. **Fast Loading Speed** – Optimize images and use caching to reduce page load time.
4. **Consistent Branding** – Use uniform fonts, colors, and logos to maintain brand identity.
5. **Easy Navigation** – Clear categories, filters, and search functionality improve usability.
6. **Strong Call-to-Action (CTA)** – Buttons like "Buy Now" or "Add to Cart" should be prominent.
7. **Trust Elements** – Secure payment gateways, customer reviews, and SSL certificates build trust.
8. **SEO Optimization** – Use relevant keywords, alt text, and meta descriptions for better visibility.

8. **Reporting & Analytics**
    - Provide detailed transaction reports and insights.
    - Integrate with accounting and financial management systems.

Bank Transfer in E-Commerce

Bank Transfer is a traditional yet widely used electronic payment method, enabling direct transfer of funds from one bank account to another.

Types of Bank Transfers:

1. **NEFT (National Electronic Funds Transfer):**
    - Suitable for large transfers, processed in batches.
    - Settlement occurs within hours.
2. **RTGS (Real-Time Gross Settlement):**
    - Real-time, high-value transactions.
    - Immediate settlement with no waiting period.
3. **IMPS (Immediate Payment Service):**
    - Real-time, 24/7 fund transfer.
    - Suitable for small to medium transactions.
4. **SWIFT (Society for Worldwide Interbank Financial Telecommunication):**
    - International bank transfers.
    - Secure and used for cross-border payments.

Advantages of Bank Transfer:

- Secure and reliable.
- Suitable for large transactions and international payments.
- Direct transfer to the recipient's bank account.

Challenges of Bank Transfer:

- May involve processing fees for international transactions.
- Requires accurate beneficiary details to avoid errors.
- Less convenient than digital wallets or cards for small, frequent transactions.

Electronic Data Interchange (EDI)

Electronic Data Interchange (EDI) is a technology that enables businesses to exchange documents electronically in a standardized format. It replaces paper-based transactions, reducing processing time and errors.

Features of EDI:

- Automates business transactions like invoices, purchase orders, and shipping details.
- Uses **structured document formats** (e.g., ANSI X12, EDIFACT).
- Enhances speed and efficiency in supply chain management.

Example:

A retailer automatically sends a purchase order to a supplier via EDI, eliminating manual paperwork.

Credit Card

A credit card allows users to borrow money from a financial institution to make payments, which they repay later with or without interest.

How It Works in E-Commerce:

- Customers enter credit card details on a payment gateway.
- The transaction is authorized by the card network (Visa, MasterCard, RuPay).
- Funds are transferred from the bank to the merchant's account.

Advantages:

✓ Widely accepted for online transactions.

✓ Enables **Buy Now, Pay Later** flexibility.

✓ Provides fraud protection and chargeback options.

Challenges:

✗ Risk of card fraud and data breaches.

✗ Interest charges on outstanding balances.

ATM (Automated Teller Machine)

An ATM is a self-service banking terminal that allows customers to withdraw cash, transfer funds, and check account balances.

Role in E-Commerce:

- **Cardless ATM withdrawals:** Some banks allow customers to withdraw money via UPI or mobile apps.
- **Deposits for online transactions:** Customers can deposit cash into their bank accounts for online purchases.
- **E-commerce purchases using ATM cards:** Debit cards linked to ATMs are used for online shopping.

Bank Transactions in E-Commerce

Banks play a critical role in digital payments by facilitating online banking, fund transfers, and payment processing.

Key Online Banking Services:

1. **Net Banking:** Customers log in to their bank accounts to transfer money, pay bills, or shop online.
2. **Mobile Banking:** Allows fund transfers and bill payments via banking apps.
3. **UPI (Unified Payments Interface):** A real-time interbank fund transfer system.

E-Cash (Electronic Cash)

E-Cash is a **digital equivalent of physical money** that enables anonymous, instant transactions. It is stored electronically and used for secure online payments.

Examples:

- Cryptocurrencies like **Bitcoin, Ethereum.**
- Prepaid digital currencies issued by banks.

4. **Operating Costing (Service Costing)** – Used in service industries, such as transport, hospitals, and hotels.
5. **Contract Costing** – Applied in long-term construction projects, where costs are accumulated per contract.
6. **Unit Costing (Output Costing)** – Used when a single product is manufactured in large quantities, such as in cement or steel industries.
7. **Multiple Costing** – A combination of different costing methods, used in industries like automobiles and engineering.

B. Based on Costing Techniques

1. **Marginal Costing** – Focuses on variable costs for decision-making, ignoring fixed costs.
2. **Absorption Costing** – Considers both fixed and variable costs in cost calculation.
3. **Activity-Based Costing (ABC)** – Allocates costs based on activities involved in production.
4. **Standard Costing** – Uses pre-determined costs for performance evaluation.
5. **Target Costing** – Determines the cost based on the target selling price and desired profit margin.
6. **Life Cycle Costing** – Considers the total cost of a product over its entire life cycle.

Installation of Costing System

Installing a costing system requires careful planning and execution. The steps involved include:

Steps in Installing a Costing System

1. **Understanding Business Needs** – Analysing the company's operations, product types, and cost behaviour.
2. **Determining Cost Centres & Cost Units** – Identifying departments, machines, or individuals responsible for costs.
3. **Choosing the Right Costing Method** – Selecting job costing, process costing, or any other suitable method.
4. **Developing a Cost Classification System** – Categorizing costs into direct, indirect, fixed, and variable.
5. **Implementing a Cost Recording System** – Establishing cost sheets, ledgers, and software for data recording.
6. **Training Employees** – Educating employees on cost control and cost data management.
7. **Regular Review and Improvement** – Periodically reviewing the system to ensure effectiveness.

B. Techniques of Labour Cost Control

1. **Workforce Planning** – Proper scheduling of workers to avoid overstaffing or understaffing.
2. **Time Keeping & Time Booking** – Recording worker attendance and job performance accurately.
3. **Incentive Schemes** – Using methods like **Halsey Plan**, **Rowan Plan**, and **Piece-Rate System** to increase productivity.
4. **Training & Development** – Enhancing worker skills to improve efficiency.
5. **Reducing Idle Time** – Ensuring machines and materials are available to avoid work stoppages.

Methods of Overhead Absorption

Method	Formula	Suitable for
Direct Labour Hour Rate	Total Overheads ÷ Total Labour Hours	Labour-intensive industries
Machine Hour Rate	Total Overheads ÷ Total Machine Hours	Machine-based industries
Percentage on Direct Labour Cost	(Overheads ÷ Direct Labour Cost) × 100	Service-based industries
Percentage on Direct Material Cost	(Overheads ÷ Direct Material Cost) × 100	Manufacturing units
Rate per Unit of Output	Total Overheads ÷ Total Units Produced	Simple production processes

Example:

- If total overheads for a factory are **₹1,00,000** and total machine hours are **10,000**, then:
  - Machine Hour Rate = **₹10 per machine hour**
  - If a product takes **5 machine hours**, the absorbed overhead cost per unit = **₹50**

Unit Costing aka Output Costing

- Used for industries producing a **single, uniform product** in large quantities.
- Cost is computed per unit by dividing the total cost by the number of units produced.

  Formula:

$$Cost\ Per\ Unit = \frac{Total\ Cost}{Total\ Units\ Produced}$$

Industries Using Unit Costing:

- Cement industry
- Steel manufacturing
- Electricity production
- Oil refining

Job Costing

- Used when products are **custom-made as per specific customer requirements**.
- Costs are accumulated for each job separately.

Features:

- Every job is unique.
- Direct costs (materials, labour) are assigned to each job.
- Overheads are allocated based on labour or machine hours.

Industries Using Job Costing:

- Interior designing
- Shipbuilding
- Customized jewellery manufacturing

Cost Accounting vs. Management Accounting

Basis	Cost Accounting	Management Accounting
Purpose	Determines the cost of products/services.	Assists in decision-making using cost and financial data.
Focus	Cost control and cost reduction.	Business growth, profitability, and performance evaluation.
Scope	Deals with product costing and cost analysis.	Covers broader areas, including finance, strategy, and planning.
Users	Cost accountants and production managers.	Top-level management.

Analysis and Interpretation of Financial Statements

Financial statement analysis is the process of **examining financial data** to assess a company's financial position, profitability, and overall performance. It helps stakeholders make informed decisions by interpreting key financial statements such as:

- **Balance Sheet** → Shows assets, liabilities, and equity.
- **Profit & Loss Account (Income Statement)** → Displays revenue, expenses, and net profit.
- **Cash Flow Statement** → Tracks cash inflows and outflows.

Objectives of Financial Statement Analysis:

- Evaluate **profitability, liquidity,** and **solvency**.
- Identify **trends** in financial performance.
- Assist in **decision-making** for management, investors, and lenders.
- Compare financial performance over time or with competitors.

Methods of Financial Statement Analysis:

Method	Description
Comparative Statement Analysis	Compares financial data over different periods to identify trends.
Common-Size Statement Analysis	Expresses each financial item as a percentage of a base value for better comparison.
Trend Analysis	Analyses financial data over multiple years to identify patterns.
Ratio Analysis	Uses financial ratios to evaluate performance (liquidity, profitability, solvency, etc.).
Fund Flow and Cash Flow Analysis	Examines movement of funds and cash to assess financial stability.

2. **Actual Variable Cost:**

$$Actual\ Variable\ Cost = 65\% \times 550{,}000 = 0.65 \times 550{,}000 = \$357{,}500$$

3. **Sales Variance:**

$$Sales\ Variance = Actual\ Sales - Budgeted\ Sales$$
$$= 550{,}000 - 500{,}000 =$$
$$\$50{,}000(Favorable,\ as\ actual\ sales\ exceed\ budget)$$

4. **Variable Cost Variance:**

$$Variable\ Cost\ Variance =$$
$$Actual\ Variable\ Cost - Budgeted\ Variable\ Cost\ (applied\ to\ actual\ sales)$$

First, determine the **expected variable cost on actual sales** if the budgeted ratio were maintained:

$$Expected\ Variable\ Cost\ on\ Actual\ Sales = 60\% \times 550{,}000$$
$$= 0.60 \times 550{,}000 = \$330{,}000$$

Then,

$$Variable\ Cost\ Variance = 357{,}500 - 330{,}000$$
$$= \$27{,}500(Unfavorable,\ as\ actual\ variable\ costs\ are\ higher)$$

Answer Summary for Problem 4:

- $Budgeted\ Variable\ Cost$: $\$\mathbf{300,000}$ $(based\ on\ \$500{,}000\ budget)$
- $Expected\ Variable\ Cost\ on\ Actual\ Sales$: $\$\mathbf{330,000}$
- $Actual\ Variable\ Cost$: $\$\mathbf{357,500}$
- $Sales\ Variance$: $\$\mathbf{50,000}\ \boldsymbol{Favorable}$
- $Variable\ Cost\ Variance$: $\$\mathbf{27,500}\ \boldsymbol{Unfavorable}$

Managerial Reports and MIS

Problem 5:

XYZ Company prepares monthly MIS reports to monitor cost control. In one month, the following information is recorded:

- $\boldsymbol{Standard\ (Budgeted)\ Production\ Cost}$: \$180,000
- $\boldsymbol{Actual\ Production\ Cost}$: \$200,000

  This adverse variance of \$20,000 is further analysed, and the following sub-variances are identified:
- $\boldsymbol{Direct\ Material\ Price\ Variance}$: \$5,000 $(Unfavourable)$
- $\boldsymbol{Direct\ Labor\ Efficiency\ Variance}$: \$3,000 $(Unfavourable)$
- $\boldsymbol{Overhead\ Spending\ Variance}$: \$2,000 $(Unfavourable)$
- The remaining variance is attributed to an unfavourable mix or inefficiencies in production processes.

Required:

a) Calculate the **Total Unfavourable Variance**.

b) Explain how the breakdown of variances helps management in decision making and cost control.

Solution:

a) **Total Unfavourable Variance:**

$$Total\,Variance = Actual\ Cost - Standard\ Cost$$
$$= 200{,}000 - 180{,}000$$
$$= \$20{,}000\ (Unfavorable)$$

The identified sub-variances sum up to:

$$5{,}000 + 3{,}000 + 2{,}000 = \$10{,}000\ (Unfavorable)$$

The remaining variance (attributable to production mix, inefficiencies, etc.) is:

$$20{,}000 - 10{,}000 = \$10{,}000\ (Unfavorable)$$

b) **Analysis for Managerial Decision Making:**

- **Direct Material Price Variance ($5,000 Unfavourable):** Indicates that the company paid more per unit of material than planned. Management may review supplier contracts or negotiate better prices.
- **Direct Labor Efficiency Variance ($3,000 Unfavourable):** Suggests that labour hours exceeded standard expectations. This could point to issues in workforce productivity or the need for additional training.
- **Overhead Spending Variance ($2,000 Unfavourable):** Implies that overhead costs (utilities, maintenance, etc.) were higher than budgeted. This calls for a review of cost control measures in overhead spending.
- **Remaining Variance ($10,000 Unfavourable):** May be due to inefficiencies in production, unfavourable mix, or unanticipated operational issues. Detailed investigation into production processes, machine utilization, or wastage may help in identifying corrective actions.

The detailed breakdown enables management to pinpoint the areas causing cost overruns and take targeted corrective measures.

Answer Summary for Problem 5:

a) Total unfavourable variance is **$20,000**, with identified sub-variances of $5,000 (materials), $3,000 (labour), $2,000 (overhead), and an additional **$10,000** due to other inefficiencies.

b) The variance breakdown helps management in:

- Identifying specific areas of cost overruns.
- Reviewing supplier contracts, labour efficiency, and overhead controls.
- Implementing corrective actions to improve production efficiency and cost control.