Lakshya

Revision Digest

PUC Commerce Board Exam **Master Guide**

Indian Institute of Commerce

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India's No.1 Commerce Institute

PUC
Accounts Study Companion

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Chapter - 1

Accounting for partnership–Basic concepts

1 WHY PARTNERSHIP?

In today's dynamic and highly competitive business environment, a single individual may find it challenging to meet the growing financial, managerial, and operational demands alone. A partnership offers a practical solution by allowing two or more individuals to combine their financial capital, skills, experience, and expertise. By pooling both financial and non-financial resources, partners can share responsibilities, reduce individual risk, and enhance decision-making, thereby increasing the overall efficiency and potential for business success. financial capital, skills, experience, and expertise. By pooling both financial and non-financial resources, partners can share responsibilities, reduce individual risk, and enhance decision-making, thereby increasing the overall efficiency and potential for business success.

2 DEFINITION OF PARTNERSHIP

"Partnership is the relation between persons who have agreed to share the profit of a business carried on by all or any of them acting for all."

3 FEATURES OF PARTNERSHIP

a) **Existence of an agreement -** A formal or written agreement is not necessary to create a partnership.

b) **Business -** A partnership can exist only in business. Business includes every trade, occupation and profession.

c) Sharing of profit - The persons concerned must agree to share the profits of the business.

d) Mutual agency - business is to be carried on by all or any of them acting for all. Thus, if the person carrying on the business acts not only for himself but for others also so that they stand in the positions of principals and agents, they are partners.

4 PARTNERSHIP DEED

Written documents containing the terms and conditions of partnership as agreed by partners.

5 RULES APPLICABLE IN THE ABSENCE OF DEED

a) No partner has the right to a salary

b) No interest is to be allowed on capital,

c) No interest is to be charged on the drawings

d) Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and

e) Profits and losses are to be shared equally.

6 MAINTENANCE OF CAPITAL ACCOUNT

There are two methods of accounting

i) Fixed capital method

ii) Fluctuating capital method

In Fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, unless a decision is taken to change it, initial capital account balance is not changed.

In Fluctuating capital method, no current account is maintained. All such transactions and events are passed through capital accounts. Naturally, capital account balance of the partners fluctuates every time. So in fixed capital method a fixed capital balance is maintained over a period of time while in fluctuating capital method capital account balances fluctuate all the time.

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Chapter - 1

Nature and Science of management

1 MEANING OF MANAGEMENT

- According to Marrie and Douglas, management is the process through which a group of people guide and direct the efforts of others to achieve common objectives.

  In simple words, management is the activity of planning work, organising resources, and controlling operations so that organisational goals are achieved efficiently (with minimum waste) and effectively (on time and correctly). Management is necessary for every type of organisation.

2 CONCEPTS OF MANAGEMENT

- **Traditional Concept:** Under the traditional view, management is considered as the skill of getting work done through other people. The manager does not perform the work alone but ensures others complete it.

- **Modern Concept:** The modern concept defines management as a systematic process involving planning, organising, staffing, directing, and controlling activities to achieve goals.
  - → **Effectiveness means completing the work successfully.**
  - → **Efficiency means using resources in the best possible manner.**

3 CHARACTERISTICS OF MANAGEMENT

i) Goal-Oriented Process

Every organisation is formed to achieve certain objectives. Management brings together the efforts of individuals to achieve these common goals.

ii) All-Pervasive

Management is required everywhere business organisations, hospitals, schools, government offices, and NGOs, irrespective of size or purpose.

iii) Multidimensional

Management is not a single activity. It includes:

- → Management of work (tasks and operations)
- → Management of people (employees)
- → Management of activities (processes)

iv) Continuous Process

Management is an ongoing activity. The functions of management are performed continuously as long as the organisation exists.

v) Group Activity

Management involves coordination among people working in groups. Organisational success depends on collective effort.

vi) Intangible Force

Management cannot be physically seen, but its presence can be felt through smooth functioning and disciplined behaviour in the organisation.

4 OBJECTIVES OF MANAGEMENT

Management objectives can be divided into three categories:

i) Organisational Objectives

- → Survival: Ability to exist in a competitive environment.
- → Profit: Necessary for growth and sustainability.
- → Growth: Expansion of business activities and improvement in performance.

ii) Social Objectives

Management should work for the benefit of society by providing quality goods, services, and employment opportunities.

iii) Personal Objectives

These include fulfilling employee needs such as fair wages, promotion, recognition, and good working conditions.

5 IMPORTANCE OF MANAGEMENT

i) Achievement of Group Goals

Management aligns individual goals with organisational objectives.

ii) Improvement in Efficiency

Through proper planning and organisation, management increases productivity and reduces

iii) Creation of a Dynamic Organisation

Management helps organisations adapt to changes in the business environment.

iv) Fulfilment of Personal Goals

Managers motivate and guide employees to achieve personal and professional satisfaction.

v) Development of Society

Management contributes to social development by generating employment and encouraging innovation.

6 MANAGEMENT AS AN ART

Management is considered an art because:

- → It requires practical knowledge and personal skills.
- → Creativity and experience play an important role.
- → Managers improve with practice.

7 MANAGEMENT AS A SCIENCE

Management is also treated as a science because:

- → It has an organised body of knowledge.
- → Its principles are developed through observation and experimentation.

8 MANAGEMENT AS A PROFESSION

Although management does not fully meet all conditions of a profession, it possesses several professional characteristics such as specialised knowledge, training, and ethical standards.

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Chapter - 1

National Income Accounting

• MEANING OF NATIONAL INCOME

National Income is the total value of final goods and services produced by the normal residents of a country during an accounting year.

It shows the overall economic performance of a country.

2. BASIC CONCEPTS

National Income is the total value of final goods and services produced by the normal residents of a country during an accounting year.

It shows the overall economic performance of a country.

a Final Goods

Final goods are those goods which are used for consumption or investment and not for resale.

Example:
Bread bought by a household, machine bought by a firm for its own use.

b Intermediate Goods

Intermediate goods are goods used for resale or further production.

Example:
Milk used by a tea shop.
Intermediate goods are excluded from national income to avoid double counting.

c Capital Goods

Capital goods are man-made goods used in the production of other goods.

Example:
Machinery, tools, buildings.

d Stock and Flow

- Stock: Measured at a point of time (wealth, capital).
- Flow: Measured over a period of time (income, investment).

e Investment and Depreciation

- Investment: Addition to capital stock.
- Depreciation: Loss in value of fixed assets due to wear and tear.

3. CIRCULAR FLOW OF INCOME (TWO-SECTOR ECONOMY)

- Households supply factors of production to firms.
- Firms pay wages, rent, interest, and profit to households.
- Households spend income on goods and services produced by firms.
  Thus, income flows in a circular manner.

4. DOMESTIC TERRITORY AND NORMAL RESIDENTS

Domestic Territory
Domestic territory includes:

- Political boundaries of the country
- Embassies abroad
- Ships and aircraft operated by residents

Normal Resident
A person or institution whose centre of economic interest lies in the country.

5. NET FACTOR INCOME FROM ABROAD (NFIA)

NFIA = Factor income earned by residents from abroad − Factor income paid to non-residents

6. IMPORTANT NATIONAL INCOME AGGREGATES

a GDP at Market Price (GDPMP)

Value of final goods and services produced within domestic territory.

b GNP at Market Price (GNPMP)

GDPMP + Net Factor Income from Abroad

c Net Domestic Product (NDP)

GDP − Depreciation

d Net National Product at Factor Cost (NNPFC)

Also called National Income

NNPFC = GDPMP − Depreciation + NFIA − Net Indirect Taxes

e National Disposable Income

Income available to the nation for consumption and saving.

7. METHODS OF MEASURING NATIONAL INCOME

a Product Method (Value Added Method)

National income is measured by calculating value added by each production unit.

Value Added = Value of Output − Intermediate Consumption

b Income Method

National income is measured by summing:

- Compensation of employees
- Operating surplus
- Mixed income of self-employed

C Expenditure Method

National income is calculated by adding:

- Private final consumption expenditure
- Government final consumption expenditure
- Investment expenditure
- Net exports

8. PRIVATE INCOME, PERSONAL INCOME & DISPOSABLE INCOME

Private Income

Income received by private individuals including factor income and transfer income.

Personal Income

Income actually received by individuals.

Personal Income = Private Income − Corporate Tax − Corporate Savings

Personal Disposable Income (PDI)

Income available for consumption and saving.

PDI = Personal Income − Direct Taxes

9. NOMINAL GDP AND REAL GDP

- Nominal GDP: Measured at current prices
- Real GDP: Measured at constant (base year) prices

Real GDP is a better indicator of economic growth.