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COMMERCE




UNIT-I

BUSINESS ORGANISATION AND MANAGEMENT


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COMMERCE

BUSINESS ORGANISATION AND MANAGEMENT

PG TRB (2025-2026)

UNIT - 1

FIRST EDITION



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38/23, Vaigundaperumal Koil Street, Kancheepuram- 631502

Mobile : 95665 35080, 9786269980 Land Line : 044-2723 5080

Branch Office : 65C, Thillai Ngr(West), 4th Cross St, Trichy (76399 67359)

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INDEX

S. No	CHAPTER	Page No
PART I	ORGANISATION	
1.1.	BUSINESS: MEANING AND CHARACTERISTICS	1
	1.1.1. Business Meaning	1
	1.1.2. Business Characteristics	2
	Multiple choose Questions	3
1.2.	DIVISIONS OF BUSINESS: INDUSTRY, COMMERCE AND TRADE	4
	1.2.1 Industry	4
	1.2.2. Commerce	7
	1.2.3. Trade	7
	1.2.4. Comparison Between Industry, Commerce and Trade	8
	Multiple Choose Questions	9
1.3.	OBJECTIVE OF BUSINESS	10
	1.3.1. Types of Economic Activities	11
	1.3.2. Objectives of Business	14
	1.3.3. Comparison of Business, Profession and Employment	15
	Multiple Choose Questions	15
1.4.	SOCIAL RESPONSIBILITY OF BUSINESS	16
	1.4.1. Concept of Social Responsibility of Business	17
	1.4.2. Need for Social Responsibility	17
	1.4.3. Argument for and Against Social Responsibility	19
	1.4.4. Argument Against Social Responsibility	20
	1.4.5. Kinds of Social Responsibility	22
	1.4.6. Social Responsibility Towards Different Interest Groups	22
	Multiple Choose Questions	25
1.5.	BUSINESS ETHICS AND CORPORATE GOVERNANCE	26
	1.5.1 Concept of Business Ethics	26

	1.5.2 Key Elements of Business Ethics	28
	1.5.3 Code of Business Ethics	29
	1.5.4 Corporate Governance	30
	1.5.5 Multinational Corporations in India	31
	Multiple Choose Questions	33
1.6.	EVOLUTION OF BUSINESS	34
	1.6.1 Barter System	38
	1.6.2 Hindrances of Commerce	39
	1.6.3 Elimination of Hindrances of Commerce	40
	Multiple Choose Questions	40
1.7.	Forms of Business Organization	41
	1.7.1 Sole Proprietorship	42
	Multiple Choose Questions	46
	1.7.2 Hindu Undivided Family	47
	Multiple Choose Questions	48
	1.7.3. Partnership	50
	Multiple Choose Questions	57
	1.7.4 Limited Liability Partnership (llp)	59
	Multiple Choose Questions	65
	1.7.5 Joint Stock Company	66
	Multiple Choose Questions	78
	1.7.6 Cooperative Organisation	79
	Multiple Choose Questions	89
	1.7.7 Government Organisation	91
	Multiple Choose Questions	103
1.8.	LOCATIONS OF A PLANT	104
	1.8.1. What is a Plant Location	104
	1.8.2. Factors Influencing Plant Location	104
	1.8.3. Location Analysis	106
	1.8.4. Significance of Plant Location	107
	1.8.5. Plant Location Selection Criteria	107
	Multiple Choose Questions	108

1.9.	BUSINESS COMBINATIONS	110
	1.9.1 What is Business Combination?	110
	1.9.2. Concept of Business Combination	110
	1.9.3 Causes of Business Combinations	111
	1.9.4 Objectives of a Business Combination	112
	1.9.5 Elements and Terms of Business Combinations	113
	1.9.6 Types of Business Combinations	114
	1.9.7 Forms of Business Combinations	115
	1.9.8 Advantages of Business Combinations	119
	1.9.9 Disadvantages	119
	1.9.10 Emerging Service Business in India	120
	Multiple Choose Questions	134
1.10.	MICRO, SMALL AND ENTERPRISES	135
	1.10.1 Micro, Small and Medium Enterprises (MSME)	135
	1.10.2 Role and Significance of MSMEs	136
	1.10.3 MSME Sector in Tamil Nadu	137
	Multiple Choose Questions	139
1.11.	SELF HELP GROUPS	140
	1.11.1 Self Help Groups	140
	1.11.2 Objectives of Self Help Groups	140
	1.11.3 Features of Self Help Groups	141
	1.11.4 functions of self help groups	141
	1.11.5 Self Help Groups in India	142
	1.11.6 SHGS In Tamil Nadu	142
	Multiple Choose Questions	143
PART II	MANAGEMENT	
1.12	MANAGEMENT: MEANING, NATURE AND LEVELS	144
	1.12.1 Characteristics/nature/features	145
	1.12.2 Importance of management	146
	1.12.3 Objectives of management	147
	1.12.4 Functional areas / Scope of management	148
	1.12.5 Various functions of management	149

	1.12.6 Levels of Management	150
	1.12.7 Meaning of Administration	151
	1.12.8 Who is a Manager?	152
	1.12.9 Management is a Science and Arts	153
	1.12.10 how can Management be recognized as a Profession?	155
	1.12.11 Difference between Entrepreneur and Manager	156
	Multiple Choose Questions	156
1.13.	EVOLUTIONS OF MANAGEMENT THOUGHT	157
	1.13.1 Scientific Management	157
	1.13.2 Elements/features of scientific management	158
	1.13.4 Taylor's Differential Piece Rate System	160
	1.13.5 Criticisms / limitations of scientific management	161
	1.13.6 Fayols contribution to management:	162
	1.13.7 Principles of Management	163
	Multiple Choose Questions	165
1.14.	PLANNING	166
	1.14.1 Objectives of planning	166
	1.14.2 Nature / features of planning	167
	1.14.3 Importance, Objectives and Advantages of Planning	168
	1.14.4 Limitations of planning	170
	1.14.5 Requisites for making planning effective (or) guidelines to make planning effective	171
	1.14.6 Process / Steps involved in Planning / Stages in the Planning Process.	172
	1.14.7 Various Kinds / Types of Planning	173
	1.14.8 Methods of Planning	174
	1.14.9 Forecasting	176
	1.14.10 Features / Characteristics of Forecasting	176
	1.14.11 Process / Essential Elements of Forecasting	176
	1.14.12 Importance's of Forecasting	177
	1.14.13 Areas / Scope of Forecasting	178

	1.14.14 Techniques / Types of Forecasting	179
	1.14.15 Advantages of Forecasting	180
	1.14.16 Limitations of Forecasting	181
	Multiple Choose Questions	182
1.15.	DECISIONS MAKEING	183
	1.15.1. Introduction	183
	1.15.2. Characteristics of Decision Making	184
	1.15.3 Guidelines of Effective Decision Making	184
	1.15.4 Process /Steps Involved in the Decision Making	185
	1.15.5 Types of Decisions	186
	1.15.6 Merits and demerits of decision making	188
	1.15.7 Methods / Techniques of Decision making	189
	Multiple Choose Questions	190
1.16.	ORGANISATION	191
	1.16.1 Nature/ Characteristics of Organization	192
	1.16.2 Importance / advantages of organization	193
	1.16.3 Process of Organization	194
	1.16.4 Functions of Organization	194
	1.16.5. Principles of good organization:	195
	1.16.6. Organizational Structure:	196
	1.16.7 Features of a Good Organization Structure	197
	1.16.8 Organization Chart - Meaning	197
	1.16.9 Merits and Demerits of Organization Chart	197
	1.16.10 Characteristics of Formal Organization	198
	1.16.11 Meaning of Informal Organization	198
	Multiple Choose Questions	203
1.17.	POWERS AND AUTHORITY	204
	1.17.1 Sources of Power in Management	204
	1.17.2 How Managers Use Power	206
	1.17.3 Meaning of delegation of authority	209
	1.17.4 Elements of delegation/ delegation of authority	210
	1.17.5 Principles of delegation	210

	1.17.6 Process of delegation	211
	1.17.7 Types of delegation	211
	1.17.8 Advantages of Delegation	212
	1.17.9 Disadvantages of Delegation	213
	1.17.10 Pre-requisites of effective delegation	215
	1.17.11 Meaning of Decentralization	216
	1.17.12 Advantages of Decentralization:	217
	1.17.13 Disadvantages of decentralization:	217
	Multiple Choose Questions	218
1.18.	CO-ORDINATIONS	218
	1.18.1 Nature and features of co-ordination	220
	1.18.2 Problems faced in securing effective co-ordination	220
	1.18.3 Principles / Essentials of Effective Co-ordination	221
	1.18.4 Techniques of Co-ordination	221
	1.18.5 Determinants of co-ordination:	222
	1.18.5 Methods/Types of securing co-ordination	223
	Multiple Choose Questions	223
1.19.	STAFFING	224
	1.19.1 Functions of Staffing	225
	1.19.2 Importance of Staffing	226
	1.19.3 Characteristics of Staffing	226
	Multiple Choose Questions	227
1.20.	DIRECTING	228
	1.20.1 Characteristics of Directing	229
	1.20.2 Importance of Directing	229
	1.20.3 Principles of Directing	230
	Multiple Choose Questions	231
1.21.	MOTIVATION	232
	1.21.1 Nature/ Features/ Characteristics of Motivation	233
	1.21.2 Benefits / Importance of Motivation	233
	1.21.3 Types of Motivation	234
	1.21.4 Theories of Motivation	235

	1.21.5 Herzberg's Motivation Hygiene Theory	236
	1.21.5.1. Mc gregor's 'X' and 'Y' Theories	236
	1.21.6 MCCLELLAND'S NEED	238
	Multiple Choose Questions	239
1.22.	LEADERSHIP	240
	1.22.1 Nature / Features/ Characteristics of Leadership	241
	1.22.2 Need / Importance of Leadership:	242
	1.22.3 Functions of a Leadership	242
	1.22.4 Different kinds of leadership styles:	243
	1.22.5 Types of Leaders	244
	1.22.6 Qualities of a Leader	245
	1.22.7 Different Leadership Theories	247
	Multiple Choose Questions	247
1.23.	COMMUNICATION	249
	1.23.1 Process / elements of communication	249
	1.23.2 Objectives/ importance of communication	250
	1.23.3. Barriers to communication	253
	1.23.4. Overcome communication barriers and guidelines for effective communication	254
	Multiple Choose Questions	255
1.24.	CONTROLLING	256
	1.24.1 Nature of control	257
	1.24.2 Benefits / importance of control	257
	1.24.3 Limitations / problems of control	258
	1.24.4 Steps in control process	258
	1.24.5 Essentials of effective control system	259
	1.24.6 Meaning of span of control	259
	1.24.7 Graicunas' Theory	260
	1.24.8 Factors influencing span of supervision	261
	Multiple Choose Questions	262
	Multiple Choose Questions	264

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HEAD OFFICE

**NO. 38/23, Vaigunda Perumal Koil,
Sannathi Street, Kanchipuram – 1. Cell: 9566535080**

**B.Off 2: 65C, Thillai Ngr(West), 4th Cross St, Trichy– 620018, Cell : 76399 67359
B.Off 3: 266-C - Advaita Ashram Road, New Bus Stand, Salem– 4, Cell : 93602 68118**

UNIT- I

BUSINESS ORGANISATION AND MANAGEMENT

SYLLABUS

**Business: Meaning and Characteristics – Divisions of business:
Industry, Commerce and Trade – Objectives of business Social
responsibilities of a business – Business ethics and Corporate
governance – Evolution of business – Forms of business organization:
Sole proprietorship, Hindu undivided family, Partnership, Limited
liability partnership, Joint stock company, Co-operative
organization, Government organization Location of a plant –
Business combinations: Meaning, types, forms, advantages and
limitations – Micro, Small and Medium Enterprises – Self Help Groups.
Management: Meaning, Nature and Levels – Evolution of Management
Thought – Planning Decision making – Organizing – Power and
authority Coordination – Staffing –Directing – Motivation –
Leadership –Communication – Controlling**

REFERENCE BOOK:

BUSINESS ORGANIZATION

- 1) **Business Organization – C.D.Balaji & Dr.G.Prasad**
- 2) **Business Organization - Dr. Padmakar Asthana &Dr.I.M.Sahal**
- 3) **Business Organization And Management – Dr.Shveta Kalra & Dr.Neha Sindhal**
- 4) **Business Organization And Management – C.B.Gupta**
- 5) **Business Organization – R.K.Singla**
- 6) **Higher Secondary First Year Commerce**
- 7) **Tamil Nadu Textbook and Educational Services Corporation**

BUSINESS MANAGEMENT

- 1) **Business Management – L.M.Prasad**
- 2) **Business Management – T.Ramasamy.**
- 3) **Business Management- Dr. C.B.Gupta**
- 4) **Business Management – Dr. R.Radha Kathiresan**
- 5) **Higher Secondary First Year Commerce**
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MORE REFERENCE:

- **PGTRB Previous Year Question Papers**
- **UGC NET Previous Year Question Papers**

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B.Off 3:266-C, Advaita Ashram Road,(Opp to New Bus Stand), Salem-636 004.

Trichy: 76399 67359

Salem: 93602 68118

PG -TRB COMMERCE

UNIT – 01

BUSINESS ORGANISATION AND MANAGEMENT

1.1 BUSINESS: MEANING AND CHARACTERISTICS

BUSINESS – INTRODUCTION

- ❖ Business is an organization comprising people who strive together to achieve common objectives and goals. It is important for a business organization to have a vision that implies what it intends to achieve in the future and values that represent the organization's integrity.
- ❖ Organizations need to create an environment where people want to work and concurrently develop themselves through coaching, feedback, and information sharing. A business house should work in partnership with its employees, customer, suppliers, community, and the media. In order to enhance the image, it should communicate the key messages, both internally and externally, and gain commitment to its principal goals.

1.1.1 BUSINESS – MEANING

- ❖ A business can be described as an organization or enterprising entity that engages in professional, commercial or industrial activities. There can be different types of businesses depending on various factors.
- ❖ Some are for-profit, while some are non-profit. Similarly, their ownership also makes them different from each other.
- ❖ For instance, there are sole proprietorships, partnerships, corporations, and more. Business is also the efforts and activities of a person who is producing goods or offering services with the intent to sell them for profit.

BUSINESS - DEFINITION

- ❖ A Business may be defined as; an activity organised and operated to make available goods and services to the society under the profit motive.
- ❖ **Prof. Owen** defines, “A Business is an enterprise engaged in the production and distribution of goods for sale in the market or rendering of services for a price”
- ❖ **R. L. Dicksee** has rightly defined business as, “A form of activity pursued, primarily, with the object of earning profit for the benefit of those on whose behalf, the activity is conducted.”
- ❖ According to **F. C. Hooper**, “The whole complex field of commerce and industry, the basic industries, processing and manufacturing industries, the network of ancillary services, distribution, banking, insurance, transport and so on, which serve and interpenetrate the work of business as a whole, are business activities.”
- ❖ **Prof. Hancy** efficiently summed up the meaning of business activities in the following words – “On one hand business rests on the technical processes of trade and manufacture. On the other, it looks to the market. At the junction stands the businessman, either directing the technical process of production or gauging the market or doing both but always engaged in buying and selling for the purpose of gain.”
- ❖ According to **Melvin Anshen**, it is the way, men make their living, in short, the term, and “Business refers to the activity which is pursued by a human being of the acquisition of wealth”. Literally, “Business” means the state of being busy. It is associated with any activity that one can be busy about.
- ❖ So, an individual remains busy in some work he is said to be doing some business in the broadest sense all activities which a man performs since morning till evening for the better living may be described as business activities and subject matter of economics.

1.1.2 CHARACTERISTICS OF BUSINESS

The essential characteristics of business are as follows:

i. Production or Procurement of Goods

- ❖ Goods must be produced or procured in order to satisfy human wants.

ii. Sale, Transfer or Exchange

- ❖ There must be sale or exchange of goods or services. When a person weaves cloth for his personal consumption, it is not business because there is no transfer or sale.



iii. Dealing in Goods and Services

- ❖ Goods produced or procured may be consumer goods like cloth, pen, brush, bag etc., or producer-goods like plant and machinery. Services refer to activities like supply of electricity, gas or water, transportation, banking, insurance etc.

iv. Regularity of Dealings

- ❖ An isolated dealing in buying and selling does not constitute business. The transactions must be regular. For example, if a person buys a scooter for his use and later on disposes it of at a profit, he cannot be said to have been engaged in business. The buying and selling must be recurrent to constitute business.

v. Profit Motive

- ❖ An important feature of business is profit motive. Business is an economic activity by which human beings make their living. It is, in fact, the attraction of profit which spurs people to do business.

vi. Element of Risk

- ❖ The profit that is expected in a business is always uncertain because it depends upon a number of factors beyond the control of the businessman. For example, change in consumer preference, shortage of raw materials, transport bottlenecks, power-crisis etc., may upset business calculations and result in loss. That is why profit is said to be reward for risk-taking. Thus any business activity includes an element of risk too.

MULTIPLE CHOICE QUESTIONS -1

1. Ram wants to start a business of his own; he thinks that starting a business would give him profits for sure. Which characteristic do you think Ram is lacking to understand in order to start a business:

- A) Uncertainty of returns
- B) Profit earning
- C) Production and procurement of goods and services
- D) Element of risk



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2. Which of the following situations could arise a risk for the business:

- A) Change in taste and preferences
- B) Change in production method
- C) Increased competition
- D) All of these

3. Can business activity be carried on without occurring risks:

- A) True
- B) False
- C) Partially true
- D) Partially false

4. Vipin is working in a company as an assistant manager. What reward/return will he receive for his services?

- A) Profit
- B) Salary
- C) Fees
- D) Interest

5. Subhash's son is not well educated and hence cannot find a good job. Subhash is now thinking of starting a business for his son so that he can earn his living. Is Subash's son eligible to carry on a business activity?

- A) Yes
 B) No
 C) Yes, but after having certain qualifications
 D) None of these

6. Capital investment is required in _____ & _____ and not in _____:

- A) Business & employment; profession
 B) Business & profession; employment
 C) Employment & profession; business
 D) Business & trade; employment

7. Business activities can be classified into:

- A) Trade and commerce
 B) Auxiliary to trade and trade
 C) Business and manufacturing
 D) Industry and commerce

8. Conversion of resources into useful goods comes under:

- A) Industry
 B) Commerce
 C) Trade
 D) None

9. Those industries which are concerned with the extraction and production of natural resources and reproduction and development of living organisms and plants are:

- A) Primary
 B) Secondary
 C) Tertiary
 D) Productive

10. The industry which supplies raw materials out of the natural resources is:

- A) Extractive industry
 B) Manufacturing industry
 C) Raw material industry
 D) Tertiary industry



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1.2 DIVISIONS OF BUSINESS: INDUSTRY, COMMERCE AND TRADE

INTRODUCTION

- ❖ The manufacturer produces the goods for the consumers at one point of location. They distribute the goods to final consumer through intermediaries like wholesaler, retailers, distributors and the like. All this process taking place from the point of production to the points of consumption are collectively called as business activities. All business activities can be classified into two broad categories i.e., Industry and Commerce.

1.2.1 INDUSTRY

- ❖ Industry refers to economic activities, which are connected with conversion of resources into useful goods. The production side of business activity is referred as industry.
- ❖ Generally, the term industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods as well as breeding and rising of animals.

- ❖ The term industry is also used to mean group of firms producing similar or related goods. For example, cotton textile industry refers to all manufacturing units producing textile goods from cotton.
- ❖ Similarly, electronic industry would include all firms producing electronic goods, and so on. Further, in common parlance, certain services like banking and insurance are also referred to as industry, say banking industry, insurance industry etc.

KINDS OF INDUSTRIES

Industries may be classified into two broad categories,

A) On the Basis of Activities and

B) On the Basis of Size



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A) On the Basis of Activities

Industries may be divided into three wide categories namely

1. Primary industries,
2. Secondary industries and
3. tertiary industries.

1. Primary Industries

- ❖ Primary industry is concerned with production of goods with the help of nature. It is a nature-oriented industry, which requires very little human effort, for example Agriculture, farming, forestry, fishing, horticulture, etc. These industries may be further sub divided as follows:

(i) Extractive Industries

These industries extract or draw out products from natural sources. Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, oil drilling, hunting and fishing operations.

(ii) Genetic Industries

These industries remain engaged in breeding plants and animals for their use in further reproduction. The seeds, nursery companies, poultry, dairy, piggery, hatcheries, nursery, fisheries, apiary etc. are classic examples of genetic industries.

2. Secondary Industries

- ❖ These are concerned with using the materials which have already been extracted at the primary stage. These industries process such materials to produce goods for final consumption or for further processing by other industrial units.
- ❖ For example mining of an iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry. Secondary industries may be further divided as follows:

(i) Manufacturing Industries

❖ These industries are engaged in producing goods through processing of raw materials and thus creating form utilities. They bring out diverse finished products, which we consume or use, through the conversion of raw materials or partly finished materials in their manufacturing operations. Manufacturing industries may be further divided into four categories on the basis of method of operation for production.

a. **Analytical Industry** which analyses and separates different elements from the same materials, as in the case of oil refinery.

b. **Synthetic Industry** which combines various ingredients into a new product, as in the case of cement.

c. **Processing Industry** which involves successive stages for manufacturing finished products, as in the case of sugar and paper.

d. **Assembling Industry** which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

(ii) Construction Industries

These industries are involved in the construction of building, dams, bridges, roads, as well as tunnels and canals.



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3. Tertiary industries or Service industries

❖ They do not produce goods. These industries produce utility services and sell them at a profit. They help trade, industry and commerce. This term also includes auxiliaries to trade like banking, insurance, warehouse, advertisement etc.

CLASSIFICATION OF TERTIARY INDUSTRIES

i. **Personalised service:** Individuals and private institutions selling their services to others. E.g. plumber, servant maid, etc.

ii. **Public Service:** Government hospitals, schools, police, Government offices, etc. provide services to the people on behalf of the Government without profit motive.

iii. **Distributive Service:** Transportation, warehousing, logistics, salesmanship, etc. come under this type of service.

iv. **Financial Service:** Banking, factoring, accounting, and insurance, etc. are grouped under this type of service.

v. **Quaternary Service:** Professional or specialised skills and high technology are used to provide this type of service.

E.g. Software development, Auditing, Research and Development, etc.

vi. **Quinary Service:** New ideas are generated, new technologies are evolved, new policies are implemented by selected individual experts. Their decisions influence nations, international institutions, etc. i.e., Inventors.

B) On the basis of Size

On the basis of size or scale of operations industries may be classified as follows

- | | |
|---------------------|--------------------------|
| 1. Micro Industries | 3. Medium Industries and |
| 2. Small Industries | 4. Large Industries |

1.2.2 COMMERCE

- ❖ Commerce refers to all those activities which are necessary for bringing goods from the place of production to the place of their consumption. According to Evelyn Thomas, “Commercial operations deal with the buying and selling of goods, the exchange of commodities and the contribution of finished products”.
- ❖ Commerce includes not only trade but also services such as transport, warehousing, packaging, insurance, banking and sales promotion which are incidental or auxiliaries to trade. Refer to chapter 2. Commerce includes the following activities as briefly explained below



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1.2.3 TRADE

i) Trade

- ❖ Trade is an essential part of commerce. The term ‘trade’ is used to denote buying and selling. It helps in making the goods produced available to ultimate consumers or users. Therefore, one who buys and sells is a trader. A trader is a middleman between the producer and the consumer. Trade may be classified into internal trade and external trade, wholesale trade or retail trade.

ii. Transportation

- ❖ Selling all the goods produced at or near the production place is not possible. Hence, goods are to be sent to different places where they are demanded. The medium which moves men and materials from one place to another is called transport.

iii. Banking

- ❖ Now-days we cannot think of business without bank. To start the business or to run it smoothly we require money. Banks supply money. Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from bank. Thus, banking helps business activities to overcome the problem of finance.

iv. Insurance

- ❖ Business involves various types of risks. Factory building, machinery, furniture etc., must be protected against fire, theft and other risks. Materials and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be

protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury if any, can be recovered from the insurance company.

v. Warehousing

- ❖ Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed. Prices are thereby maintained at a reasonable level through continuous supply of goods.

vi. Communication

- ❖ Communication means transmitting or exchange of information from one person to another. It can be oral or in writing. It is necessary to communicate information from one to another to finalize and settle the terms of sales such as price of goods, discount allowed, the facility of credit and so on. Internet, telephone, teleconference, email play an important role in establishing contact between businessman producers and consumers.

vii. Advertising and salesmanship

- ❖ Advertising frisks knowledge cap and it solves the difficulty of information. Advertising helps consumers to know about the various brands manufactured by several manufacturers. The media used to advertise products for Radio, Newspapers, Magazines, Television, Internet, Billboard and so on. Salesmanship is a skilful art of selling commercial goods. It facilitates personal selling. Many times the sales force is required to book orders directly from dealer or customers. It is very much required in the sales of services and industrial goods.



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1.2.4 COMPARISON BETWEEN INDUSTRY, COMMERCE AND TRADE

INDUSTRY	COMMERCE	TRADE
1. Meaning: Extraction, reproduction, conversion, processing and construction of useful products	Activities involving distribution of goods and services	Purchase and sale of goods and services
2. Scope: Consists of all activities involving conversion of materials and semi-finished products into finished goods.	Comprises trade auxiliaries to trade	Comprises exchange of goods and services

8. Tertiary industries are also called as:

- A) Primary industry B) Trade C) Auxiliaries to trade D) Business

9. An example of tertiary industry is:

- A) Sugar industry B) Steel industry C) Banking industry D) Mineral industry

10. Trade and auxiliaries to trade are a part of:

- A) Business B) Commerce C) Both D) None



TCA

1.3 OBJECTIVES OF BUSINESS

INTRODUCTION**Human Activities**

- ❖ Human activity is an activity performed by a human being to meet his/her needs and wants or may be for personal satisfaction. Human activities can be categorised into economic and non-economic activities. The chart below gives a snapshot of human activities.

I. Economic Activities

- ❖ Activities undertaken with the object of earning money are called economic activities.

Examples:

- | | |
|--|---|
| i. Production of goods by manufacturers | iv. Medical advice rendered by physicians |
| ii. Distribution of goods by wholesalers | v. Accounting practice by chartered accountants |
| iii. Selling by retailers | |

II. Non-Economic Activities

- ❖ Activities undertaken to satisfy social and psychological needs are called non-economic activities.

Examples:

- | | |
|----------------------------|-----------------------------------|
| i. Cooking food for family | iii. Watching movies in a theatre |
| ii. Celebrating festivals | iv. Doing meditation |

ECONOMIC ACTIVITY vs. NON-ECONOMIC ACTIVITY

ECONOMIC ACTIVITIES	NON-ECONOMIC ACTIVITIES
<p>1. Definition: Economic activities are those activities which are undertaken to earn money or financial gain for livelihood.</p>	<p>Non-economic activities are those activities which are undertaken for the sake of pleasure, performed out of love, sympathy, sentiments etc.</p>

e.g., Fruit seller selling fruits	e.g., Mother cooks for her family
2. Motive: Sole motive is to earn money or financial gain. e.g., Working as a lawyer.	Undertaken for satisfaction of social, psychological or emotional needs. e.g., Visit to a temple
3. Money Measurement: All economic activities can be valued in monetary terms. e.g., Doctor charges ₹500 as consultation fee.	Non-economic activities cannot be valued in monetary terms. These are an expression of a thought, feeling or a gesture. e.g., An NGO distributes free clothes to poor children
4. Relationship: Economic activities are related to creation of wealth. e.g., Ram saved part of his salary to purchase a house of his own.	Non-economic activities do not create wealth. e.g., Money received as donation is spent on charity work.
5. Outcome: All economic activities result in production, procurement, distribution and consumption of goods and services. e.g., Nokia produces cell phones and sells across India through its distributors.	The end result of a non-economic activity is the mental, emotional or psychological satisfaction of the person doing the activity. e.g., Sona enjoys teaching orphans in an orphanage.
6. Duration: Economic activities are repetitive. They are done on a regular basis to earn a living. e.g., Kulfi ice cream seller sells ice creams every evening.	Non-economic activities may not be undertaken regularly. Usually they are done during free time. e.g., Sankar visits orphanage in his free time.
7. Source of Initiation: Economic activities are initiated to satisfy human needs and wants.	Non-economic activities are initiated to satisfy emotional or sentimental pleasures.

1.3.1 TYPES OF ECONOMIC ACTIVITIES

❖ Economic activities are undertaken to earn money. Generally, people engage themselves in such activities on a regular basis and are said to be engaged in their occupation. Occupations may be classified into three categories based on the following:

A. Employment

B. Profession

C. Business

A. EMPLOYMENT

❖ It refers to the occupation in which people work for others and get remuneration in the form of wages or salaries. The one who is employed by others are called employees and the one who employs others is called employer.



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INDEX

S. No	CHAPTER	Page No
2.1.	MARKETING - INTRODUCTION	1
	2.1.1. Meaning of Market	4
	2.1.2. Types of Markets	9
	2.1.3. Meaning and Definition of Marketing	13
	2.1.4. Marketing Concepts	19
	2.1.5. Terms in Marketing	21
	2.1.6. Modern Concept of Marketing	25
	2.1.7. Problems of Marketing in India	34
	2.1.8. Buying Meaning	44
	2.1.9. Assembling - Meaning	49
	2.1.10. Function of Marketing	62
	2.1.11. Marketing Environment	64
	2.1.12. Marketing Mix - Introduction	79
	2.1.13. Elements of Marketing Mix	80
	2.1.14. Market Segmentation – Market Targeting and Positioning	87
	2.1.15. Basis of Market Segmentation	95
	2.1.16. Market Targeting and Positioning	106
	2.1.17. Exercise	118
2.2	PRODUCT - INTRODUCTION	119
	2.2.1. Product – Meaning and Definition	120
	2.2.2. Features of Product	121

	2.2.3. Attributes - Meaning	124
	2.2.4. Product Mix	129
	2.2.5. Importance of Product Mix	130
	2.2.6. Four P'S of Marketing	130
	2.2.7. Product Life Cycle	144
	2.2.8. Different Stages of Product Life Cycle	149
	2.2.9. New Product Planning and Development	155
	2.2.10. Pricing Policies And Strategies	163
	2.2.11. Pricing Strategies - Meaning	179
	2.2.12. Different – Pricing Strategies	183
	2.2.13. Exercise	189
2.3.	PROMOTIONAL METHODS - INTRODUCTION	190
	2.3.1. Purpose And Importance of Promotional	191
	2.3.2. Characteristics of Promotional	191
	2.3.3. Characteristics of Promotional	192
	2.3.4. Promotion Strategies	193
	2.3.5. Methods of Promotional Methods	196
	2.3.6. Difference Between Promotion And Marketing	197
	2.3.7. Personal Selling	198
	2.3.8. Characteristics of Personal Selling	204
	2.3.9. Need of Personal Selling	206
	2.3.10. Advantages and Disadvantages of personal selling	207

	2.3.11. Advertising	222
	2.3.12. Characteristics of Advertising	226
	2.3.13. Basic Principles of Advertising	228
	2.3.14. Models of Advertising	231
	2.3.15. Types of Advertisement	233
	2.3.16. Publicity - Introduction	240
	2.3.17. Characteristics of Publicity	241
	2.3.18. Importance of Publicity	242
	2.3.19. Advantages And Disadvantages of Publicity	247
	2.3.20. Sales Promotion	252
	2.3.21. Types of Sales Promotions	256
	2.3.22. Exercises	267
2.4.	CHANNELS OF DISTRIBUTION - INTRODUCTION	268
	2.4.1. Concept of Distribution Channels	269
	2.4.2. Levels of Distribution Channels	271
	2.4.3. Role of Distribution Channel	271
	2.4.4. Features of Channels of Distribution	272
	2.4.5. Objectives of Channels of Distribution	273
	2.4.6. Importance of Distribution Channel	274
	2.4.7. Process of Distribution Channel	276
	2.4.8. Nature and Functions of Distribution Channels	278
	2.4.9. Functions of Distribution Channels	279

	2.4.10. Components of Distribution Channels	280
	2.4.11. Types of Distribution	281
	2.4.12. Types of Distribution Channels	284
	2.4.13. Exercise	291
2.5.	RETAIL MANAGEMENT - INTRODUCTION	292
	2.5.1. Meaning And Definition Retail Marketing	294
	2.5.2. Importance of Retail Marketing	295
	2.5.3. Types of Retail Marketing	296
	2.5.4. Objectives of Retail Management	297
	2.5.5. Types of Retail Management	299
	2.5.6. Importance of Retail Management	300
	2.5.7. Functions of Retail Management	301
	2.5.8. Retail Management Process	302
	2.5.9. Scope of Retail Management	302
	2.5.10. Importance of Effective Retail Management	303
	2.5.11. Responsibilities And Duties of a Retail Manager	304
	2.5.12. Exercises	305



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UNIT II

MARKETING AND HUMAN RESOURCE MANAGEMENT

SYLLABUS

**Marketing – Concepts, Approaches, Functions and Environment
– Marketing mix – Market Segmentation – Market Targeting and
Positioning – Product: Meaning, Features, Attributes, Mix,
Product life cycle, New product planning and development–
Pricing Policies and Strategies – Promotional methods: Personal
selling, Advertising, Publicity, Sales promotion – Channels of
distribution: Functions, Types – Retail management: Agent
middlemen, Wholesaler, Retailer, Consumer Behavior – Need for
consumer protection – Consumer grievance redressal
mechanism under Consumer Protection Act – Services
marketing – Rural and Agricultural Marketing – Recent Trends in
Marketing: Digital Marketing, Social marketing, Green
marketing. Human Resource Management: Objectives and
Importance – Human resource planning – Functions of
Trade Unions Forms of Collective Bargaining – Workers'
Participation in Management – Grievance Management –
Employee Welfare: Types of Employee Welfare Measures –
Remuneration.**

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- 6) Service Marketing - Srinivasan. R**
- 7) Human Resource Development - Dr. V. Balu**
- 8) 11th And 12th School Books**

MORE REFERENCE:

- **PGTRB Previous Year Question Papers**
- **UGC NET Previous Year Question Papers**



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PG TRB – COMMERCE

UNIT - 2 (Vol 1)

MARKETING AND HUMAN RESOURCE MANAGEMENT

2.1. MARKETING – INTRODUCTION

- ❖ The success of any business depends not only on the quality of goods produced by it, but also on the policies pursued by it pertaining to the sale of commodities.
- ❖ In other words, marketing policy also forms the basis of business success along with its production policy.
- ❖ Most of the experts in business line consider "Marketing" as the lifeline of a business. They feel that "Sale" is the ultimate objective of any enterprise. If the sale is not appropriate, the objective of enterprise is hard to achieve.
- ❖ Many expenditures are incurred to run a business and these expenses are recovered only when sale-process is working in right direction.
- ❖ The sale of any commodity becomes a source of income because the enterprise is able to cover its varied expenses viz. production expenses, administrative costs and expenditure associated with "Sale" itself.
- ❖ When the sale is of right amount, the enterprise gets enough profit to enlarge and expand its business to great heights.
- ❖ Right, fast and regular sales of goods of any enterprise helps the enterprise in meeting all the business challenges and problems.
- ❖ **Marketing is a social process and economic process – (PGTRB-2005 to 2006).** Marketing efforts of a business enterprise enhance its sale to a great extent. It is rightly remarked that consumption is not possible without marketing.

- ❖ That is why marketing becomes more important in comparison to production. This is a great challenge of modern era because all the producers are trying their best to make marketing management more scientific, just to capture consumers and markets effectively.
- ❖ Marketing efforts enhance the goodwill of the business apart from increasing the income of the business. Marketing activities create an understanding among consumers regarding the business enterprise.
- ❖ When the marketing personnel are enlightened enough about the nature of markets and behaviour of their customers and they present goods and services as per their wishes and requirements, at prices which suit them well, "Sale" is sure to touch new heights because more and more buyers will flock the markets to buy those goods.
- ❖ **Mass marketing offering the same products and marketing mix to all consumers – (UGC NET – 2012.)** This will encourage the business enterprise to march ahead with confidence. Marketing management is thus the planning, organisation and control of all such marketing efforts initiated by the enterprise.
- ❖ Marketing is important from the management point of view. The main objective of marketing management is to increase the sale of the commodities.
- ❖ In order to enhance "Sales" many steps are taken such as adopting varied methods to advertise, offering gifts, presenting goods in attractive packings and providing after sale facilities to the consumers. This shows that today's marketer is trying to reach consumer in every possible way.
- ❖ Marketing also contributes in economic development of the country.
- ❖ **According to Peter F. Drucker**, "Marketing can bring a great change in whole economic structure of the present ongoing system without bringing any change in production systems and even in distribution patterns of population and income in the country."
- ❖ Therefore, marketing system must develop along with changes in production systems so that no problem or obstacle is created in the works pertaining to production and marketing in future.
- ❖ Marketing plays a prominent role in raising the standard of living of people in any country.
- ❖ Marketing has remained the basis of employment. Large scale production can be resorted to by any enterprise so as to meet the rising demand for goods.
- ❖ The pace of development gets a boost as production starts increasing and, in this process, more specialized personnel in the fields of production and marketing are needed by the enterprise. **Functional approach starts and ends with consumer – (PG TRB- 2015)**



- ❖ More and more people get employment to perform different marketing activities such as purchase- sale, transportation, storing the goods, advertisement and research.
- ❖ Financial and expert marketing institutions are also involved in this process. The success of any product depends not only on its inherent qualities, but also on marketing efforts associated with increasing its sale.
- ❖ It is a wrong assumption in today's world that any commodity will find a ready market for itself without any difficulty.
- ❖ **In broader sense, marketing communication includes product, price, place – UGC NET – 2012, 2020, 2022.** At present, Marketing Research is undertaken before doing any production.
- ❖ Goods are produced keeping in mind the tastes, fashion trends and behaviour patterns of the consumers. Marketing is developing as an art as well as science in the present age.
- ❖ Human wants are satisfied through the medium of marketing activities. More and more persons get employment in marketing-oriented activities.
- ❖ New commodities and ever-changing quality products and different utility services come within easy reach of the consumers. These help in raising their standard of living and the country also benefits, as a whole, due to these changes.
- ❖ In the olden times, human wants were limited and so were the means. Man used to fulfil his needs with the help of limited means at his disposal. With the passage of time, human needs started increasing along with more means to fulfil them.
- ❖ Initially barter exchange worked well, but with the introduction of monetary system started the production of goods on mass-scale and this helped in the creation of markets, where goods were purchased and sold by the people. **Marketing is a social process – (PGTRB 2006 to 2007)**
- ❖ At present, these markets have become wide because consumers' number has increased a lot. Commercial enterprises try to capture big chunks of markets so as to have more customers for their products because this is the basis of success of their business.
- ❖ More and more goods are produced to cater to the requirements of more and more consumers. The function of making goods available to consumers from producers is called marketing. Purchase and sale of goods and services is known as business.
- ❖ Marketing includes all those activities, which are related to purchase and sale of goods and services. Business activities are not complete without marketing.
- ❖ Many functions are associated with management and marketing is the most important amongst them. **Which terms are often used interchangeably in marketing literature orientation, concept, philosophy_– (UGC NET – 2012)**



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Type	Description	Examples	Responsible function
Form	Conversion of raw materials and components into finished goods and services	Pizza made from several ingredients	Production
Time	Availability of goods and services when consumers want them	Dial – a - Pizza; Delivery guaranteed in 30 min.	Marketing
Place	Availability of goods and services where consumers want them	Delivery at your doorstep	Marketing
Ownership (possession)	Ability to transfer title to goods or services from marketer to buyer.	Pizza sales (in exchange for rupees or credit card payment)	Marketing

2.1.1. MEANING OF MARKET

- ❖ The word market is derived from the Latin word ‘Marcatus’ which means trade, commerce, merchandise, a place where business is transacted. The common usage of market means a place where goods are bought or sold. It is a medium or place to interact and exchange goods and services. In simple words, the meeting place of buyers and sellers in an area is called Market.
- ❖ **Functional approach to the study of marketing was designed by A.H. Shaw and L.D.H. Weld. – PGTRB- 2015 AND UGC NET - 2023.** The term market defined by different authors in different ways among them the most important are given below.
- ❖ The term ‘**Market**’ originates from the Latin noun ‘**Marcatus**’ which means ‘a place where business is conducted’. It is not merely a place of exchange but an arrangement that provide an opportunity of exchanging goods and services for money.
- ❖ In this context, **Philip Kotler has defined** the term market as “**an arena for potential exchange.**”- **UGC NET - 2022.** The common usage of market means a place where goods are bought or sold. A market need not necessarily mean a place of exchange.

The word market is commonly used and may even mean or aim in any of the following:

- Market may mean a Place; where buying and selling take place.
- Buyers and sellers come together for transactions.
- An organisation through which exchange of goods takes place.

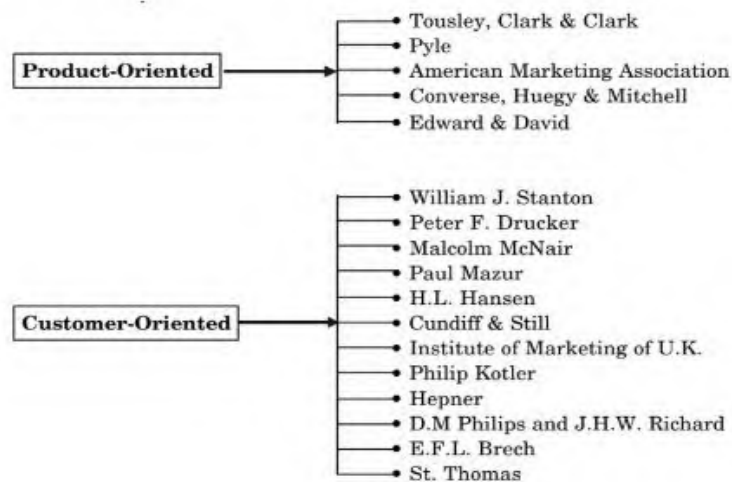


- The act of buying and selling of goods (to satisfy human wants).
- An area of operation of commercial demand for commodities

DEFINITION OF MARKET

The definition of the term 'marketing' is classified in two categories for convenience of study. These are:

- 1) Definition in old, narrow sense or Product oriented definition.
- 2) Definition in new broad sense or Customer oriented definition.



- ❖ Old, narrow or product-oriented definitions include production and physical distribution of goods, while new concept of marketing lays more emphasis upon customers than production. This new concept is known as customer-oriented concept. This concept emphasizes upon the demand and choice of customer.

Old, Narrow or Product-oriented Definitions:

1) According to Tousley, Clark and Clark, "Marketing consists of those efforts which effect transfers in the ownership of goods and services and which provide for physical distribution." This definition includes all the physical and mental activities. This definition makes it clear that ownership of goods and services is changed in the course of marketing. The physical distribution work also comes under the purview of marketing. Physical distribution means collection and transferring goods from one place to another. "A market is a centre about which or an area in which the forces leading to exchange of title to a particular product operate and towards which the actual goods tend to travel".

2) According to Pyle, "Marketing comprises both buying and selling activities." This definition of marketing consists only of the purchase and sale. It ignores the functions of physical distribution and other auxiliary functions of marketing. "Market includes both place and region in which buyers and sellers are in free competition with one another"

3) According to American Marketing Association's Definitions Committee, "Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or users." This definition is an improvement over the earlier definitions. It includes all the business activities relating to the production and distribution of goods and services to the consumer.

4) According to Converse, Huegy and Mitchell, "Marketing includes activities involved in the flow of goods and services from production to consumption." This definition of marketing consists of the flow of goods and services from production to consumption only. It also ignores other functions of marketing.

5) According to Edward and David, "Marketing is the economic process by means of which goods and services are exchanged and their values determined in terms of money price." According to this definition, marketing is a method by which goods and services are transformed and later on prices are determined for these new goods and services.

Characteristics of Old Concept of Marketing:

1. **Purchase and Sale of Product:** The old concept of marketing is concerned with the production, purchase and sale of product.
2. **Product-oriented:** Old concept of marketing lays emphasis on production and, therefore, these definitions are product-oriented.
3. **After Sale Services:** In the old concept of marketing there is no place for after sale services.
4. **Social Responsibility:** In the old concept of marketing social responsibility is neglected.

New Broad or Customer-oriented Concept of Marketing:

1. **According to William J. Stanton,** "Marketing is a total system of interacting business activities designed to plan, promote and distribute want-satisfying products and services to present and potential customers." This definition of marketing includes all the activities performed by the producers to satisfy the needs of their customers in the field of marketing. Thus, marketing functions start well before production and continue till the wants of customers are satisfied.
2. **According to Peter F. Drucker,** "Marketing is a process which converts a resource, distinct knowledge into a contribution of economic value in the market place." This definition recognizes marketing as a process in which the goods and services having economic value are manufactured and distributed. This presents the social approach of marketing.
3. **According to Prof. Malcolm McNair,** "Marketing is the creation and delivery of standard of living." According to this definition, the function of marketing is to produce

new and improved goods and services so that the standard of living of the society may be improved.

4. **According to Paul Mazur**, ""Marketing is the delivery of standard of living." This definition of marketing is quite simple and social. This definition recognizes function of marketing. This is consumer oriented.
5. **According to H. L. Hansen**, "Marketing is the process of discovering and translating consumer needs and wants into product and service specifications, creating demand for these products and services and then in turn expanding this demand." **According to this definition**, the process of marketing starts even before the actual production of the goods. Here research regarding consumers' desires and wants is undertaken. This research makes it clear as to what type of goods and services consumers want and goods and services are produced accordingly.
6. **According to Cundiff and Still**, "Marketing is the managerial process by which products are matched with markets and through which transfers of ownership are affected." This definition clears that production is made according to the market and ownership of goods and services are transferred in marketing.
7. **According to Institute of Marketing of U.K.**, "Marketing is the creative management which promotes direct employment by assessing consumer needs and initiating research to develop them. It co-ordinates the resources of production and distribution of goods and services. It determines and directs the nature and scale of the total efforts required to sell at maximum point of availability the production to the ultimate users." This definition explains activities of marketing in detail and stresses upon the satisfaction of consumers.
8. **According to Philip Kotler**, "Marketing is the analyzing, organizing, planning and controlling of the firm's customer impinging resources, policies and activities with a view to satisfying the needs and wants of chosen customer groups at a profit." This definition lays more emphasis on customer satisfaction.
9. **According to Hapner**, "The term marketing includes every activity that has to do with movement of goods from the point where they are produced to the point where they are consumed. It includes the study of advertising, sales policies, pricing, product planning and analysis of the market in terms of its present and potential customers. It seeks to discover where and how do the customers live, their habits and motivations and their responsiveness to varying forms of marketing stimuli." This definition of marketing is concerned with marketing policy, sale policy, price policy and market analysis. It also includes the study of consumer behaviour.

10. According to D.M. Philips and J.H.W. Richard, "The new image or modern concept of marketing is the one which starts with an interpretation of consumer needs and desires, both qualitative and quantitatively, follows through with all the business activities involved in the flow of goods and services from producer to consumer, and ends with those services necessary to aid the consumer, in getting the expected utility from the products he has purchased." This definition lays emphasis on consumers' wants along with improvement in the quality of the product. This makes it clear that marketing is important in the process of transferring the goods and services to the consumer.

11. According to E.F.L. Brech, "Marketing is the process of determining consumers demand for a product or service, motivating for increasing its sale and distributing it to ultimate consumers for profit." This definition pinpoints all the marketing activities which are undertaken while transferring the goods from producer to the consumer.

12. According to St. Thomas, "Marketing is a way of managing a business so that each critical business decision is made with full knowledge of the impact of the decision on the customer." This definition is consumer-oriented. **The above definitions of marketing conclude that:** These definitions are consumer-oriented because production is done according to the wants of the consumer. **Dividing a market into distinct groups of buyers is known as market segmentation – (PGTRB- 2006 to 2007) and UGC NET - 2018**

- Marketing is a business activity.
- The programme of marketing starts from the time when the concept of any product takes its birth and it does not finish till consumers' wants are satisfied.
- Creation of standard of living for society and promoting it, is considered a part of marketing.
- These definitions are not statutory.
- These definitions are based on consumer satisfaction.
- These definitions make it clear that marketing is not an activity in itself but is the result of interaction of different activities.
- These definitions point out that profit is the result of consumers' satisfaction.
- These definitions lay emphasis on the point that profitable sale should be undertaken for the long period through marketing.
- It is practical in present era of competition.



❖ Thus, it is clear that the main and final objectives of all marketing activities is the satisfaction of the consumer. **The recent innovation which combines the features of a supermarket and a general merchandise store is Hyper market – (PGTRB – 2011 to 2012).** Therefore, it is essential that consumers' satisfaction should be kept in mind

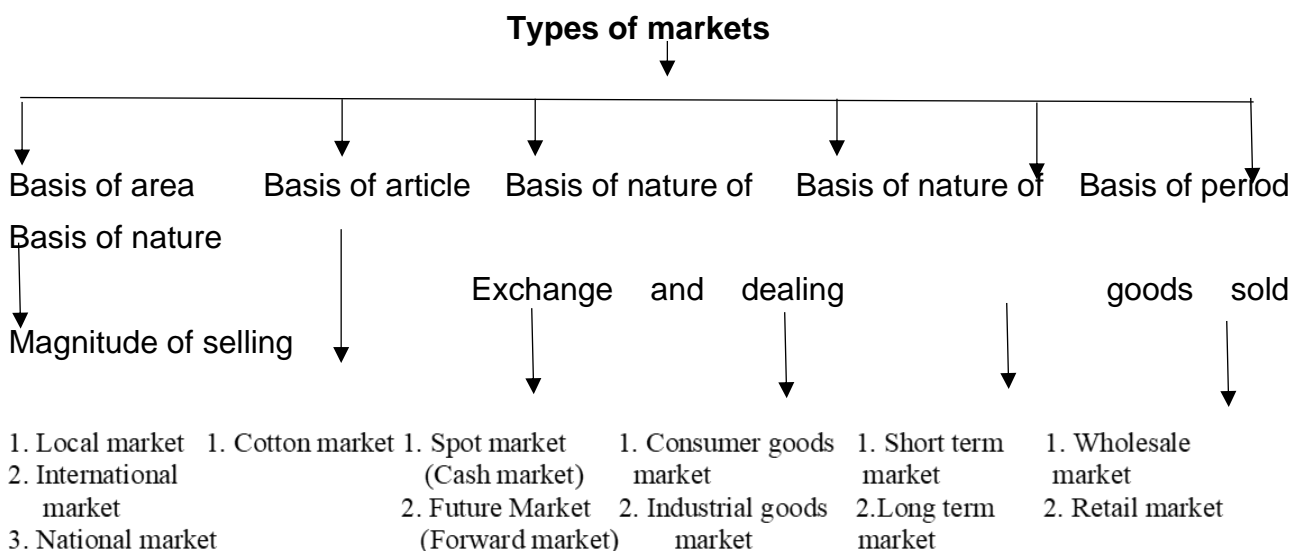
by the producers to achieve the objectives of marketing. Although profit is the main source of inspiration for all commercial activities yet the profit emerges itself if all the activities are undertaken with a view to satisfy the consumers' wants.

NEED FOR MARKET:

1. To exchange (barter) goods and services.
2. To adjust demand and supply by price mechanism.
3. To improve the quality of life of the society
4. To introduce new modes of life.
5. To develop product by enhancing market segment.



2.1.2. TYPES OF MARKETS



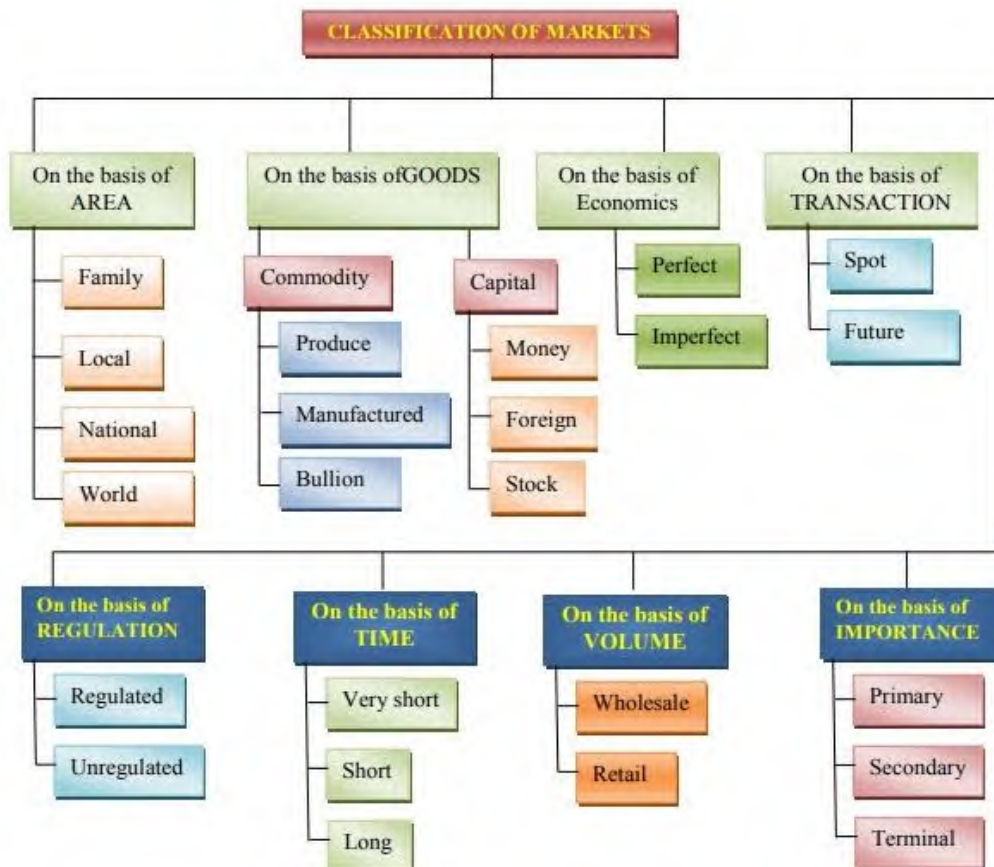
- On the basis of selling area, we have local, national and international market.
- On the basis of article of trade, we have product markets e.g., cotton market.
- On the basis of nature of exchange dealings, we have spot or cash market and future or forward market.
- On the basis of nature of goods sold, we have consumer goods market and industrial goods market and industrial goods market.
- On the basis of period, we have short-term and long-term market e.g., money market for short-term funds and capital market for long-term funds.
- On the basis nature and magnitude of selling, we have wholesale and retail market.

CLASSIFICATION OF MARKET:

- ❖ **Markets can be classified in many ways. Generally, the classification made on:** On the basis of different approaches markets have been classified on the basis of Area, Nature of Goods, and Economic view, Transaction, Regulation, Time, Volume and importance. **The global marketing concept refers to universal market – (PGTRB – 2006 to 2007).** The detailed classification is presented in the following chart

I. On the Basis of Geographical Area:

- a) **Family Market:** When exchange of goods or services are confined within a family or close member of the family, such a market can be called as family market.
- b) **Local Market:** Participation of both the buyers and sellers belonging to a local area or areas, may be a town or village, is called as local market. The demands are limited in this type of market. For example, perishable goods like fruits, fish, vegetables etc. But strictly speaking such markets are disappearing because of the efficient system of transportation and communication. Even, then, in many villages such markets exist even today.
- c) **National Market:** Certain type of commodities has demand throughout the country. Hence it is called as a national market. Today the goods from one corner can reach another corner with ease as the communication and transportation facilities are developed well in India. This creates national markets for almost all the products.
- d) **International Market or World Market:** World or international market is one where the buyers and sellers of goods are from different countries i.e., involvement of buyers and sellers beyond the boundaries of a nation



II. On the Basis of Commodities/Goods:

- a) **Commodity Market:** A commodity market is a place where produced goods or consumption goods are bought and sold. Commodity markets are sub divided into:

1. **Produce Exchange Market:** It is an organised market where commodities or agricultural produce are bought and sold on wholesale basis. Generally, it deals with a single commodity. It is regulated and controlled by certain rules. e.g. Wheat Exchange Market of Hapur, the Cotton Exchange Market of Bombay etc.
 2. **Manufactured Goods Market:** This market deals with manufactured goods. e.g., Leather goods, Manufactured machinery etc. The Leather Exchange Market at Kanpur is an example of the same.
 3. **Bullion Market:** This type of market deals with the purchase or sale of gold and silver. Bullion markets of Mumbai, Kolkata, Kanpur etc., are examples of such markets.
- b. Capital Markets:** New or going concerns need finance at every stage. Their financial needs are met by capital markets. They are of three types:
1. **Money Market:** It is a type of market where **short-term securities are exchanged – UGC NET – 2019**. It provides short term and very short-term finance to industries, banks, governments agencies and financial intermediates.
 2. **Foreign Exchange Market:** It is an international market. This type of markets helps exporters and importers, in converting their currencies into foreign currencies and vice versa.
 3. **The Stock Market:** This is a market where sales and purchases of shares, debentures, bonds etc., of companies are dealt with. It is also known as Securities market. Stock Exchanges of Mumbai, Kolkata, Chennai etc., are examples for this type of market,

III. On the Basis of Economics

a. Perfect Market: A market is said to be a perfect market, if it satisfies the following conditions:

1. Large number of buyers and sellers are there.
2. Prices should be uniform throughout the market.
3. Buyers and sellers have a perfect knowledge of market.
4. Goods can be moved from one place to another without restrictions.
5. The goods are identical or homogenous. It should be remembered that such types of markets are rarely found.



b. Imperfect Market: A market is said to be imperfect when

1. Products are similar but not identical.
2. Prices are not uniform.
3. There is lack of communication.
4. There are restrictions on the movement of goods.



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INDEX

S. No	CHAPTER	Page No
2.6.	AGENT MIDDLEMEN, WHOLESALER, RETAILER	306
	2.6.1. Meaning and Definition of Agent Middlemen, Wholesaler, Retailer	306
	2.6.2. Function of Middleman, Wholesaler, Retailer	308
	2.6.3. Types of Middlemen	312
	2.6.4. Wholesaler – Benefits for Suppliers and Retailers	321
	2.6.5. Types of Wholesalers	323
	2.6.6. Types of Retailers	324
	2.6.7. Difference Between Wholesaler and Retailer	331
	2.6.8. Exercise	332
2.7.	CONSUMER BEHAVIOUR - INTRODUCTION	333
	2.7.1. History of Consumer Research	336
	2.7.2. Positivism Research and Interpretivism Research	338
	2.7.3. Consumer Research Process	340
	2.7.4. Nature of Consumer Behaviour	341
	2.7.5. Concept and Need for Studying Consumer Behaviour	343
	2.7.6. Approaches to Consumer Behavior	346
	2.7.7. Trends in Consumer Behaviour	351
	2.7.8. Application of Consumer Behaviour in Marketing	354
	2.7.9. Consumer Exploitation	356

	2.7.10. Consumerism and Need for Consumerism	359
	2.7.11. Origin, Evolution, And Growth of Consumerism	360
	2.7.12. Role of Business in Consumer Protection	363
	2.7.13. Importance of Consumer Protection	370
	2.7.14. Need for Consumer Protection	370
	2.7.15. Grievance and Need for Redressal Mechanism	377
	2.7.16. Exercise	391
2.8.	SERVICES MARKETING	392
	2.8.1. Service – Meaning & Definition	394
	2.8.2. The Service Marketing Triangle	397
	2.8.3. The Evolving Environment of Services	399
	2.8.4. Meaning of Service Marketing	410
	2.8.5. Characteristics of Service Marketing	412
	2.8.6. Importance of Service Marketing	413
	2.8.7. Classification of Service Marketing	414
	2.8.8. Types of Service Marketing	420
	2.8.9. Rural Marketing - Introduction	424
	2.8.10. Recent Trends in Marketing	443
	2.8.11. Digital Marketing	446
	2.8.12. Elements of Digital Marketing	448
	2.8.13. Social Marketing	453
	2.8.14. Green Marketing	459
	2.8.15. Exercise	471

2.9.	HUMAN RESOURCE MANAGEMENT	472
	2.9.1. Meaning And Definition of Human Resource	475
	2.9.2. Characteristics of Human Resources	476
	2.9.3. Significance of Human Resources	476
	2.9.4. Qualities of a HR Manager	477
	2.9.5. Difference Between Personnel Management And Resource Management	480
	2.9.6. Objectives of HRM	487
	2.9.7. Importance of HRM	487
	2.9.8. Functions of Trade union	490
	2.9.9. Human Resource Planning - Introduction	507
	2.9.10. Functions of Trade Union	529
	2.9.11. Forms of Collective Bargaining	536
	2.9.12. Workers Participation in Management	536
	2.9.13. Grievance Management – Meaning And Definitions	542
	2.9.14. Employee Welfare - Introduction	550
	2.9.15. Types of Employee Welfare Measures	552
	2.9.16. Remuneration	557
	2.9.17. Exercise	570
	IMPORTANT MULTIPLE CHOICE QUESTIONS	571

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UNIT II

MARKETING AND HUMAN RESOURCE MANAGEMENT

SYLLABUS

**Marketing – Concepts, Approaches, Functions and Environment
– Marketing mix – Market Segmentation – Market Targeting and
Positioning – Product: Meaning, Features, Attributes, Mix,
Product life cycle, New product planning and development–
Pricing Policies and Strategies – Promotional methods: Personal
selling, Advertising, Publicity, Sales promotion – Channels of
distribution: Functions, Types – Retail management: Agent
middlemen, Wholesaler, Retailer, Consumer Behavior – Need for
consumer protection – Consumer grievance redressal
mechanism under Consumer Protection Act – Services
marketing – Rural and Agricultural Marketing – Recent Trends in
Marketing: Digital Marketing, Social marketing, Green
marketing. Human Resource Management: Objectives and
Importance – Human resource planning – Functions of
Trade Unions Forms of Collective Bargaining – Workers'
Participation in Management – Grievance Management –
Employee Welfare: Types of Employee Welfare Measures –
Remuneration.**

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- 7) Human Resource Development - Dr. V. Balu**
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MORE REFERENCE:

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- **UGC NET Previous Year Question Papers**



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MARKETING & HUMAN RESOURCE MANAGEMEN

2.6. AGENT MIDDLEMEN, WHOLESALER, RETAILER

INTRODUCTION:

- ❖ A middleman acts as an intermediary in a supply or transaction chain, promoting communication between the parties concerned. **Breaking the bulk is possible when there is middle man_ – (PGTRB – 2005 to 2006).**
- ❖ Middlemen are experts in carrying out critical tasks related to purchasing and selling goods as they move from producers to final consumers.
- ❖ Typically, they don't produce anything but have considerable market expertise; therefore, they charge a commission or a fee for their services.
- ❖ The marketing tasks that middlemen perform allow them to play a part in the distribution of commodities. Because they are specialist individuals with the necessary knowledge and skills, they carry out numerous marketing functions effectively and at a lesser cost.
- ❖ As a result, they are regarded as the key players in the distribution system. **Elimination of middlemen is practically possible –(PGTRB- 2015).**
- ❖ If they are not involved in the distribution process, it would be expensive and take more time to deliver the items to the consumers. If several middlemen are engaged, the distribution channel lengthens.
- ❖ In finance, a middleman is often a broker who keeps shares for their customers. For instance, a broker serving as a middleman typically holds the unit shares of a widely held fixed investment trust. The broker or middleman may charge a fee to maintain the account and receive a commission when the shares are sold as payment for this service.

2.6.1. MEANING AND DEFINITION OF AGENT MIDDLEMEN, WHOLESALER, RETAILER

AGENT MIDDLEMEN – MEANING

- ❖ All agent middlemen of marketing don't own what they handle i.e. not take title to the goods. Are agents/representatives of owners of goods? Are basically hired by their principals or clients e.g. Kenya Planters Cooperative Union does not own the coffee it handles.
- ❖ They derive their income from the fees they are paid by their clients or commissions given. Agent middlemen in reality sell services to their principals, not physical goods to customers.

There are three categories of agent middlemen:

☆ Brokers ☆ Auctioneers

☆ Commission agents



- ❖ Their main stock in trade is their knowledge of market in which they participate. They use the knowledge in bringing together potential sellers and buyers. Their services will be retained either by buyers or the seller who feels that he / she does not have knowledge or opportunity to bargain effectively for him / herself.

MERCHANT MIDDLEMEN – WHOLESALER AND RETAILER

- ❖ Merchant middlemen normally take title to, and therefore own, the product they handle. They buy and sell for their own gain and derive their income from the margins arising from the sales (i.e. difference between buying price and selling price). Unlike other classes of middlemen, they hold uncertainty to a minimum i.e. know what the buying and selling price is going to be. They are not risk takers.
- ❖ **Wholesalers:** Any merchant who does not sell to ultimate consumer in any significant amount. He therefore can sell to other wholesalers or to industrial users or retailers. Wholesalers make a highly heterogeneous group of varying sizes and characteristics.
- ❖ One of the more numerous groups of wholesalers are the local buyers or country assemblers who buy goods in producing areas directly from farmers and ship the products to the larger cities where they are sold to other wholesalers and processors.
- ❖ In this group are grain elevators, poultry and egg buyers, and local livestock buyers. Another group of wholesalers is located in the large urban centres. This may be full-line wholesalers who handle many different products or those who specialise in handling a limited number of products.
- ❖ They may be cash-and-carry wholesalers or service wholesalers who will extend credit and offer delivery and other services.
- ❖ **Retailers:** Any merchant middlemen who buys goods / services for resale directly to ultimate consumers. Represent the most numerous types of agencies involved in the marketing process.
- ❖ In terms of undertaking marketing functions their role is no easier compared to wholesalers. In fact, a retailer may have to do all the functions of marketing i.e. his job is complex. Retailer is the producers' representative to the consumer.

DEFINITION

- 1) **Middlemen:** According to American Marketing Association, "A middlemen is one who specializes in performing operations or rendering services that are directly involved in the purchase and sale of goods in the process of their flow from the producer to the final consumer."

- 2) **Wholesaler:** Wholesale trader is one who sales to other middlemen, institutions and individuals a fairly large quantity. **According to American Management Association, wholesalers sells to retailers or other merchants and/or individual, institutional and casual users but they do not sell in significant amounts to ultimate consumers – UGC NET 2012.** Wholesale trade is to do with marketing and selling merchandise to retailers, wholesalers or to individuals commercial and professional or other institutional contrast to household consumers, to individuals for personal use.
- 3) **Retailer:** Retailer is one whose business is to sell to consumers a wide variety of goods that are assembled at his premises as per the needs of final users. The term retail signifies sale for final consumption rather than for resale or for further processing. A retailer is the last link between the final user and the wholesaler or the manufacturers.
- ❖ In the **words of Professor William Staton**, "Retailing includes all activities directly related to the sale of goods and services to the ultimate consumers for personal or non-business use". Thus, retailer is that merchant intermediary who buys goods from preceding channel members in small assorted lots and sells them in the lot requirements of final users.

2.6.2. FUNCTION OF MIDDLEMAN, WHOLESALER, RETAILER

MIDDLEMAN AND ITS FUNCTION



- ❖ A middleman plays the role of an intermediary in a distribution or transaction chain who facilitates interaction between the involved parties. Middlemen can be classified into two categories, namely, merchants and agents.
- ❖ **The market that enables traders involved in foreign trade to get their currencies converted into foreign currencies is foreign exchange market_– (PGTRB- 2011 to 2012).** While merchants buy and re-sell their goods, agents specialize in negotiations of selling or buying transactions.
- ❖ **The approaches that considered all the middlemen and institutions in distribution channel is institutional approach- (PGTRB – 2011 to 2012.)** They provide manufacturers with valuable market feedback and let them concentrate on production by providing the ancillary services of warehousing, distribution, advertising, insurance, finance, etc.
- ❖ They make goods and services easily available to consumers in the desired quantity. They provide valuable information and feedback to producers about consumer behavior, changing tastes and fashions, upcoming rival businesses, etc.
- ❖ They enable manufacturers to concentrate on the primary function of production by handling the ancillary functions of warehousing, distribution, advertising, insurance, etc. They promote the goods to the consumers on behalf of the producers.

- ❖ Middlemen like banks and other financial institutions render financial services to manufacturers. They make the goods and services available to consumers at the right place, at the right time, and in the right quantity.
- ❖ Buyers and sellers are often unwilling to assume the market risk for fear of a possible loss. It is the middlemen in the process chain who assume the risks of theft, perishability, and other potential hazards.

FUNCTIONS OF WHOLESALERS

Wholesale traders perform a number of functions in the process of selling the goods. Of them the most important ones are:



- 1) **Assembling and Buying:** Assembling implies the collection of small lot of agricultural production for economic bulk buying; it also means bringing together different manufacturers producing same line of goods. Buying comprises of selection of manufacturers and placing orders on them and making purchases in cases of seasonal products.
- 2) **Warehousing:** Warehousing or storing is closely related to the function of storing. As there is always a gap between the time periods of production and consumption, the goods are to be held and preserved. This involves capital lock-up. This ware housing by wholesalers relieves both the producers and the retailer's problems of storage.
- 3) **Transporting:** In the processes of assembling and warehousing and resale, do undertake transportation of goods from producers to their warehouses to the retailers. What is important is that this transportation is done on economic lines, either through their own fleet or through hired common carriers.
- 4) **Financing:** Wholesalers undertake marketing financing. They grant credit terms to retailers on one hand and reduce the financial burden of the by taking early delivery of stocks from them. The very fact that the creditors grant credit is as good as reducing the credit quota of manufacturers to wholesalers.
- 5) **Risk Bearing:** Risks are inherent in business which are to be borne and wholesalers bear the risks of loss of change in prices, of damage, deterioration, pilferage, theft, fire and the like of the goods held in storage. They also of non or under payment by the retailers. Risk shouldering is the part done.
- 6) **Grading, packing and packaging:** Grading is another function of wholesalers they sort-out the stocks in terms of differing sizes, qualities, moisture contents bulk-breaking is done with a view to meet the small lot requirements of manufacturers. In fact, they repack for the consumers as per the orders of the retailers.
- 7) **Dispersing and selling:** The goods assembled and held in stock are meant pricing and selling. It is the retailers who buy from the wholesalers. Similarly, do have their own sales-army moving to retailers for collection order.

8) Providing market information: Wholesalers are the vital link between producers and manufacturers. They provide relevant and up-to-date information to retailers affecting their trade interests; so also, they reciprocate the same to manufacturers as to whatever retailers feed them on changing market conditions useful wholesalers.

SERVICES OF WHOLESALER

❖ The wholesaler renders a number of services to trade, industries and commerce. The services rendered by the wholesaler may be classified as

To Producers:

- ❖ The wholesaler provides valuable information to the producers regarding the needs and the requirement of the consumer.
- ❖ As the wholesaler takes the responsibility of collecting order from retailers, he relieves the producers from this task and thereby encourage producers to concentrate on production.
- ❖ The wholesaler provides finance to the producers at the time of need.
- ❖ The wholesaler helps the producers in determining the quality and quantity of goods to be produced as he is in direct contact with the retailers. The producers are helped to maintain steady prices for the product because wholesaler buys when prices are low and sell when prices are high.



To Consumer:

- ❖ He enables the consumer to purchase required quantities of goods at the desired time because he supplies goods regularly to the retailers.
- ❖ He provides goods at a cheaper rate because he facilitates in large scale production.
- ❖ The wholesaler is in a better position to stabilize prices of the products by adjusting demand and supply. The consumers are benefited a lot on account of stabilization of prices.
- ❖ There is no shortage of goods as the wholesaler goes on large purchasing.
- ❖ The wholesalers are wealth of information and as such this information are shared by the consumers.

FUNCTIONS OF RETAILERS:

❖ Retailers as the last link in the chain of distribution, performs good many functions of marketing. Of all these following are the most significant ones.

1) **Buying and assembling:** Retailer has to assemble products from different manufacturers and wholesalers as he has to keep wide variety of stock of products market the varied and small requirements of large number of customers. This assembling possible through the prices of buying. Buying is a continuous process involving selection and the most economical and dependable sources of supply.

- 2) **Warehousing:** Retailer is a safety valve releasing the goods in quantities different varieties and price ranges according to the consumer needs. Warehousing has possible holding the stocks to match between the consumer demand and the wholesalers or manufacturer supply conditions. It is possible to have adequate and interrupted supply of goods.
- 3) **Selling:** The final aim is to sell products so bought and held by him. Retailer is rightly called as the buying agent of consumers. He is the means to dispose the goods to the consumers for producers and wholesalers and collect the sales revenue for them. Successful retailing needs good deal of salesmanship tactics.
- 4) **Risk-Shouldering:** Risk shouldering is the basic responsibility of a retailer arising out of physical deteriorations and changes in prices. These are unavoidable as he holds sufficient and variety of inventories from the time they are bought till they are sold to the consumers. The risk of loss is seen in the number of forms such as natural calamities - fire, flood, cyclone, earthquake, spoilage and Deterioration due to changes in the weather and fashion and so on.
- 5) **Grading and Packing:** Retailers undertake secondary or second round grading and packing activities left by the manufacturers and wholesalers. Classification of goods into different graders and lots is common. As he sells in loose packs and very odd lots, packing assumes a particular importance. Such packing can be highly standardised or can be as per the individual requirements.
- 6) **Financing:** In the whole scheme of marketing, the contribution of retailers is really worth emphasizing in so far as consumer financing is concerned. His financing consists of credit granted on liberal terms to the consumers, investment made in large variety of stocks, the expenses of holding stock, salaries and wages of watch and ward staff and other trade expenses.
- 7) **Advertising:** Retailers are the best agents to advertise the products, services and ideas. In collaboration with wholesalers and manufacturers retailers do undertake shop display, distribution of sales literature, introduction of new products in a convincing way as he recommends what is 'right' or 'wrong' to a particular customer.
- 8) **Supply of market information:** Retailers really enjoy enviable position so far collecting information from the horse's mouth. As being in close and constant touch with consumers, he clearly keenly observes, studies the consumer's behaviour, changes in the tastes and fashions and therefore, demands. This collected information was passed on to the wholesalers and the manufacturers for their perusal and necessary prediction for future adjustment and success.

SERVICES OF RETAILER

Services to Wholesalers and Manufacturers: Retailers give manufacturers or producers access to markets by offering them the opportunity to present their products to consumers.

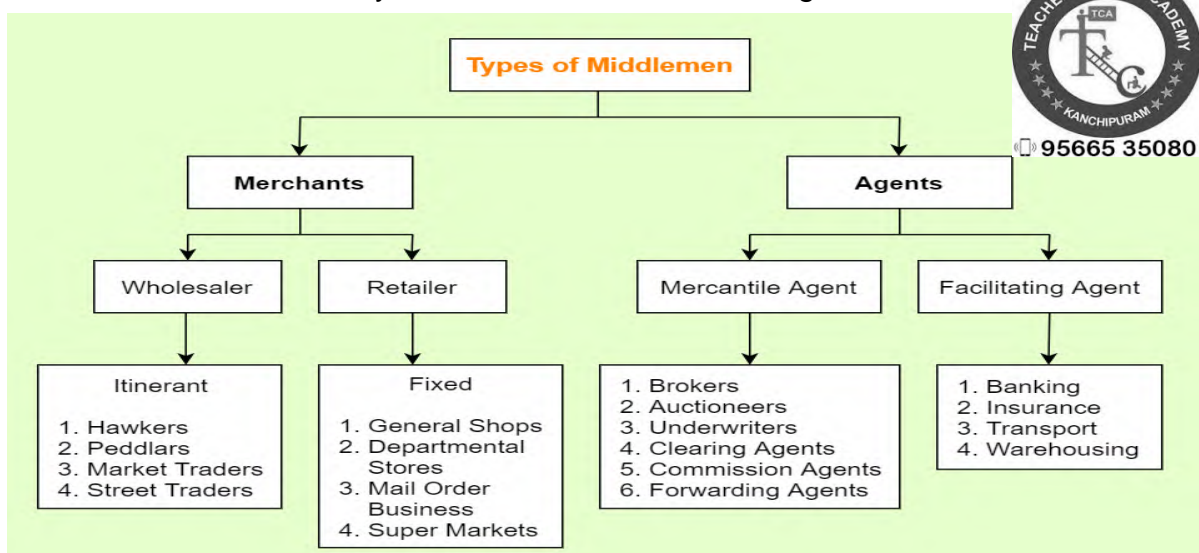
- ❖ The manufacturer and the wholesaler are relieved of making individual sales to consumers in small quantities. Retailers supply valuable and reliable information to wholesalers and manufacturers about the consumers' demands and the changes occurring in their likes and dislikes.
- ❖ Information about the consumers' likes and dislikes received from the retailers through the wholesalers enable the manufactures to make suitable adjustments in the design, size and contents of their products. Thus, they can manufacture right types of goods at right time.

SERVICES TO CONSUMERS

- ❖ As retailer holds stocks of goods ready for immediate use and he is prepared to sell in small quantities, the individual or household consumer is relieved of the burden of storing large quantities of every article of daily use.
- ❖ Retailer provides consumers with a wide variety of choice. Retailers, by assembling products of different variety from different manufactures, enable consumers to make choice from a large variety of goods displayed in their stores.
- ❖ Retailers buy and stock goods suitable to the consumers.
- ❖ Retail shops are situated in convenient localities, usually very near to the consumers' residence. Retailers stock fresh goods to meet daily demands of their customers.
- ❖ They sell to consumers in quantities, which suit the pockets of different individuals. Retailers make available to their customers goods of the sizes, styles, types, qualities and prices they prefer.

2.6.3. TYPES OF MIDDLEMEN

- ❖ The term 'Middlemen' refers to all those who are in the link between the primary producer and the ultimate consumer in the exchange of goods or service. The various intermediaries can be broadly classified into two main categories.



1) Mercantile Agents: Mercantile Agents are also called functional middlemen. A businessman appoints a person to buy and sell goods on his behalf and gives him the right to borrow money on the security of goods. He is known as mercantile agent. He is not given ownership title of the goods. He is paid commission on his turnover.

2) Merchant Middlemen: Merchant middlemen are those who take title to the goods and channelize the goods from previous step to the next step with a view to making profit. They buy and sell goods in their own risk and the price for their effort is profit. They act as an intermediary between producers and consumers. These merchant middlemen are broadly classified into wholesalers and retailers.

Kinds of Mercantile Agents or Agent Middlemen:

- Brokers
- Factors
- Commission Agents
- Del-credere Agents
- Auctioneers
- Warehouse keepers



Brokers:

- ❖ A Broker is one who bargains for another and receives commission for his service. He is paid 'brokerage' for his services.
- ❖ He brings buyer and the seller to the negotiating process and arranges for finalising contracts between them.
- ❖ The principal businessman does not pass on either possession of goods or the ownership of goods to the broker.
- ❖ The broker is not personally liable for the contracts concluded clothing, furniture, food, and commodities such as timber and steel are often sold by brokers.
- ❖ They are assigned to different geographical territories by the producers with whom they work as they have excellent industry contacts.
- ❖ The most common form of agent and broker encountered by the consumers are functioning in real estate sector. A real estate agent acts for both the buyer and the seller.

Factors:

- ❖ A factor is a mercantile agent to whom goods are entrusted for sale by a principal. He takes physical possession of the goods, though he does not obtain ownership of the goods. A factor sells goods in his own name without revealing the name of his principal.
- ❖ He may even sell them on credit and other usual terms. He is entitled to receive payment for the goods sold and he gives valid receipts.
- ❖ He is liable for his action. He can sue or be sued for his contracts. He has a right of lien on goods in his possession for his unpaid charges.

Commission Agent or Consignees:



- ❖ A commission agent buys and sells goods on behalf of the principal for a fixed rate of commission for all his transactions.
- ❖ All risks connected with his transactions are borne by the principal.
- ❖ His functions are more varied than a broker and he takes decision over the prices and terms of the sale. He has expert knowledge of the goods and trends in the market.
- ❖ He takes possession of the goods without title over them and sells in his own name.
- ❖ **Del-credere Agents:** The agent who guarantees to the principal the collection of cash from credit sales is called 'del-credere agent'. If they do not pay, the agent would bear the loss himself. He is given an additional commission known as del-credere commission for bearing the risk. He carefully selects the buyers to whom credit can be extended based on their honesty and reliability.
- ❖ **Auctioneers:** Auctioneers are agents who sell goods by auction on behalf of their principals. Auction sale is made through a notification to the public. The notice clearly mentions the date, time, place and details of goods which will be widely published through newspapers, posters, leaflets and announcements etc., Auction sale may be "WITH RESERVE" and "WITHOUT RESERVE".
- ❖ In case of auction "WITH RESERVE" no sale can take place below the minimum price fixed by the seller, which is known as "Reserve Price". In case of auction "WITHOUT RESERVE" the auctioneer is bound to sell the product to the highest bidder. The price for which the bid is accepted is called "knocked down price".
- ❖ Striking a hammer on the desk indicates the acceptance of a bid by auctioneer. After the highest bid is accepted, the auctioneer becomes the agent for both the seller and the buyer. For his services, the auctioneer is entitled to receive a commission, which is a certain percentage of the sale proceeds.
- ❖ **Warehouse-keeper:** A Warehouse keeper accepts goods for the purpose of storage in his warehouse. He should exercise reasonable care and diligence in the storage of goods. He is entitled to payment for his services.
- ❖ He will have lien on the goods in case the payments for his services remain unpaid. The warehouse keeper delivers to the owner of the goods a receipt known as warehouse keeper's receipt or certificate.
- ❖ It is an acknowledgement issued by warehouse keeper for the receipt of goods by him for the purpose of storage. It is not a document of title to goods. He may issue a 'Warehouse warrant', which is a document of title to goods.

(2) Merchant Middlemen: Merchant Middlemen are the intermediaries who buy and sell the goods in their own name, and in return earn a profit out of it. They take ownership as

well as possession of the goods they sell. They operate in their own name and bear all the risks.

Merchant middleman can be further sub- divided into:

- ❖ Wholesaler,
- ❖ Retailer



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1. Merchant Wholesalers: Merchant wholesalers are wholesalers who take title to the goods. They are also sometimes referred to as distributors, dealers, and jobbers. This category includes both full service wholesalers and limited-service wholesalers. Full-service wholesalers perform a broad range of services for their customers, such as stocking inventories, operating warehouses, supplying credit to buyers, employing salespeople to assist customers, and delivering goods to customers.

a) Limited- Service Wholesalers: Offer fewer services to their customers but lower prices. They might not offer delivery services, extend their customers' credit, or have sales forces that actively call sellers. Small retailers often buy from cash-and-carry wholesalers to keep their prices as low as big retailers that get large discounts because of the huge volumes of goods they buy.

b) Drop Shippers: Are another type of limited-service wholesaler. Although drop shippers take title to the goods, they don't actually take possession of them or handle them. They deal with goods that are large or bulky. Instead, they earn a commission by finding sellers and passing their orders over to the producers, who then ship them directly to the sellers. Mail-order wholesalers sell their products using catalogues instead of sales forces and then ship the products over to buyers.

❖ **Truck jobbers (or truck wholesalers):** Actually, store products, which are often highly perishable (e.g., fresh fish), on their trucks.

❖ The trucks make the rounds to customers, who inspect and select the products they want straight off the trucks. Rack Jobbers sell specialty products, such as books, hosiery, and magazines that they display on their own racks in stores.

❖ **Rack jobbers** retain the title to the goods while the merchandise remain physically in the stores for sale. Periodically, they take count of what's been sold off their racks and then bill the stores for those items.

WHOLESALER:

❖ Wholesale Trade means buying and selling goods in relatively large quantities or in bulk. The traders who are engaged in wholesale trade are called wholesalers.

❖ A wholesaler buys goods in bulk directly from manufacturers and sells them in small lots to customers or industrial users. A wholesaler is the first intermediary and serves as a link between producers and retailers. Wholesalers place large orders with producers and supply in small quantities to retailers. In this way wholesaler serve both manufacturers and retailers.

Definition:

- 1) **According to Cundiff and still** “wholesaler buys from the producer and sell merchandise to the retailers and other merchants and not to the consumers”.
- 2) **According to Evelyn Thomas** “A true wholesaler is himself neither a manufacturer nor a retailer but act as a link between the two”.

WHOLESALE – EVOLUTION OF WHOLESALING

- ❖ Wholesaling is one of the basic business functions and hence it originated in ancient times. It was a natural extension of commerce. As trade expanded between regions, ships bearing cargo brought goods to different shores.
- ❖ Wholesaling was generally international, since goods arrived in ships in large quantities and were sold and offloaded at ports. Consequently, wholesaling was largely associated with importing and exporting. The shipping companies and owners of stock needed a trader who could take delivery of the entire load at the docks. It is here that wholesalers helped. They would take the ship’s cargo and then sell in smaller lots to local traders.
- ❖ Sometimes the ship owners took over this task themselves. We find a reference to wholesale in the Middle Ages (500-1500 AD), when markets and fairs in Europe made a distinction between wholesale and retail trade.
- ❖ Dealers Sold both en gros (at wholesale) and en detail (at retail) as per the opportunity available. Later, wholesalers made a powerful guild and determined who could enter the trade.
- ❖ Such a system was portrayed in the movie Guru, where the protagonist finds it difficult to enter the trade initially. Trade was conducted in markets or mandis, or transacted at fairs. The wholesaler was a large-scale dealer who sold goods to retailers, and sometimes directly to consumers.
- ❖ Mercantilism followed the Commercial Era (1500-1800 AD). The importance of wholesalers grew, as it suited the then existing system of trade. The wholesaler organized and controlled the selling functions.
- ❖ Wholesaling institutions evolved, including brokers, who made bargains between merchants and traders. Financing evolved too, as trade was financed through bills of exchange. Auctions were held when the goods arrived and became an important method of wholesale trade.
- ❖ The Industrial Revolution ushered in mass production of goods, and with it, changes in the wholesaling business.
- ❖ Modern wholesale trade emerged as factories were setup, along with other changes such as the faster modes of transport, improvements in communication technology, and development of organized banking. Wholesalers linked manufacturers to retailers and



then on to customers. The marketing concept encouraged the fulfilment of consumer needs.

- ❖ Wholesaling is the back end of marketing, but it is also its backbone—since without wholesaling, factories would find it difficult to move goods. However, even as the trade evolved into building of supply chains, the basic functions of wholesale remained the same.

NEED OF WHOLESALER:

- ❖ Position of the Retailer in the Absence of the Wholesaler- We may realise the indispensability of a person much more when he is absent rather than when he is present and serving us in different ways. This is true in the case of the wholesaler, who is acting as a connecting link between the manufacturer and the retailer.

In the absence of wholesaler, the retailer will suffer from the following inconveniences:

1. He will have to hold large stocks of varied articles, and for this he must have adequate space and ample capital. Very few retailers can command both space and capital.
2. He will have to assemble stocks from different manufacturers.
3. He will have to arrange for their carriage, packing, warehousing, etc.
4. He will have to bear the risk of fluctuations in prices, changes in public taste and demand. Very few retailers are capable of bearing such risk of loss.

Goods are supplied for distribution within the country by manufacturers, producers and importers.

These suppliers of goods may employ any one of the following channels distribution:

1. Sale to wholesalers.
 2. Sale to wholesale selling agents who may be appointed as sole agents or who may work simply as commission agents.
 3. Direct sale to the retailers employing travelling salesmen or establishing contact with department stores.
 4. Direct sale to consumers through — (a) house-to-house canvassing, (b) mail order selling, (c) multiple shop system.
 5. Sale to cooperative wholesale society.
- ❖ Recently consumers' wholesale co-operative societies in many countries have established direct relations with the manufactures and producers. Growth of departmental stores, multiple shop system and co-operative stores have brought about tendencies towards the elimination of the wholesaler from the normal channel of distribution.

- ❖ The multiple shop system and co-operative organisations are trying to eliminate all middlemen between the producer and the consumer. Any party, desiring to eliminate middlemen in the machinery of distribution, can secure independence and saving of middleman's profit. The shorter the chain of middlemen, the smaller will be the gap between the producer's price and consumer's price.
- ❖ However, elimination of middleman does not mean elimination of his functions and service. There is an old and popular concept in marketing that "you can eliminate the middlemen but you cannot eliminate their functions or activities". We may eliminate the wholesaler but not his functions.
- ❖ The manufacturer or the retailer will have to perform his functions and services. In the absence of the wholesaler neither the manufacturer nor the retailer can exclusively concentrate his attention on the manufacturing or retailing side respectively. The party trying to avoid the wholesaler will have to devote sometime and energy in looking after specialised functions of the wholesaler.

There are two important disadvantages of the elimination of wholesaler:

- 1) The wholesaler specialises in wholesale trade. There will be a loss of his expert services which he renders to the manufacturers or retailers.
- 2) Risk-bearing due to change in the prices or change in the demand is impossible for small retailers. Majority of the retailers are small traders.



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IMPORTANT OF WHOLESALERS

A wholesaler occupies a very important place in the chain of distribution and also performs several important functions as follows:

- 1) **Linking:** Large scale manufacturers on the one hand and retailers on the other cannot deal with each other directly. Therefore, the wholesaler acts in between them by purchasing the goods from the manufacturer and selling them to the retailers.
- 2) **Communication:** A wholesaler acts as a two-way communication channel-from the manufacturer to retailer and from the retailer to the manufacturer. He communicates information about new products, production trends etc. from wholesaler to the retailer. He also communicates information about the market, the market trends, consumer preferences and tastes etc. from the retailer to the manufacturer.
- 3) **Assembling:** Certain types of goods (agricultural goods, goods manufactured by small and cottage industries etc.) are available only in small lots over widely scattered sources. A wholesaler buys goods in small quantities from all these sources, assembles them into large quantity and offers them to the retailers.
- 4) **Warehousing:** A wholesaler buys the goods from the manufacturers at the time of their availability, warehouses them and sells them to the retailers as and when the retailers want the goods.

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Branch Office: Advaita Ashram Road, New Bus Stand, Salem (93602 68118)

INDEX

S. No	Chapter	Page No
4.1	THE INDIAN CONTRACT ACT, 1872 - INTRODUCTION	1
	4.1.1 Introduction To Law	1
	4.1.2 Objectives Of Law	2
	4.1.3 Commercial Law / Mercantile Law - Introduction	2
	4.1.4 Sources of Commercial law	3
	4.1.5 Indian Contract Act, 1872- Introduction	4
	4.1.6 Distinction between agreement and contract	7
	4.1.7 Types/Classification of contract	7
	1. Multiple Choice Questions	9
4.2	ELEMENTS OF A VALID CONTRACT	11
	4.2.1 Stages in formation of contract	12
	2. Multiple Choice Questions	14
4.3	OFFER AND ACCEPTANCE	15
	4.3.1 Offer - Meaning	15
	4.3.2 Types of Offer	16
	4.3.3 Essentials and legal rules relating to offer	17
	4.3.4 Acceptance - Meaning	18
	4.3.5 Types of acceptance	18
	4.3.6 Legal rules relating to acceptance	18
	4.3.7 Communication and Revocation	19
	4.3.8 Revocation of an offer and acceptance	20
	4.3.9 Lapse of offer	21
	3. Multiple Choice Questions	22
4.4	CONSIDERATION	23
	4.4.1 Consideration: Meaning	23

	4.4.2 Essential Part of a Consideration	23
	4.4.3 Essentials and legal rules for a valid consideration	23
	4.4.4 Exceptions to consideration	25
	4. Multiple Choice Questions	26
4.5	CAPACITY TO CONTRACT, FREE CONSENT, LEGALITY OF OBJECT,	27
	4.5.1 Capacity to contract	27
	4.5.2 Consent	27
	5. Multiple Choice Questions	28
4.6	CONTINGENT CONTRACT	30
	4.6.1 Characteristics of contingent contract	30
	4.6.2 Rules regarding performance of contingent contract	30
	4.6.3 Wagering Agreement	31
	6. Multiple Choice Questions	31
4.7	PERFORMANCE OF CONTRACT	32
	4.7.1 Types of Performance of Contract	32
	4.7.2 Essentials of a Valid Tender of Performance (Section 38)	33
	4.7.3 Who can Demand Performance?	33
	4.7.4 Who will perform the Contract?	33
	4.7.5 Legal provisions regarding the time, place and manner of performance of a contract	35
	4.7.6 Reciprocal Promises (Section 2 (f))	36
	4.7.7 Appropriation of Payments [Section 59 – 61]	36
	7. Multiple Choice Questions	37
4.8	QUASI CONTRACT	38
	4.8.1 Features of Quasi contract	39

	4.8.2 Provisions regarding quasi contract / Kinds of quasi contract	39
	4.8.3 Meaning of Quantum meruit	40
	4.8.4 Claims on Quantum Merits	40
	4.8.5 Kinds / Types of Quantum merit	41
	8. Multiple Choice Questions	41
4.9	DISCHARGE OF CONTRACT	42
	4.9.1 Modes of Discharge of contract	42
	9. Multiple Choice Questions	46
4.10	REMEDIES FOR BREACH OF CONTRACT	47
	4.10.1 Types of Breach of Contract	48
	4.10.2 Remedies for Breach of contract	48
	4.10.3 Kinds of Damages (June 2021 NET)	49
	10. Multiple Choice Questions	50
4.11	THE SALE OF GOODS ACT, 1930	51
	4.11.1 Contract of Sale	51
	4.11.2 Formalities of a Contract of Sale	52
	11. Multiple Choice Questions	52
4.12	CONDITIONS AND WARRANTIES	53
	12. Multiple Choice Questions	54
4.13	TRANSFER OF PROPERTY AND EXCEPTION	55
	4.13.1 Exception rules relating to transfer of property	55
	4.13.2 Rules relating to the transfer of ownership of specific goods or ascertained goods	55
	4.13.3 Rules relating to the transfer of ownership of unascertained goods and future goods	55
	4.13.4 Rules relating to the transfer of ownership of goods sent on approval or on sale or returns basis	55

	4.13.5 Transfer of Title - Meaning	56
	13. Multiple Choice Questions	57
4.14	PERFORMANCE OF CONTRACT OF SALE	59
	4.14.1 Distinction between Sale and Hire Purchase Agreement	59
	4.14.2 Distinction between Sale and Agreement to Sell	60
	4.14.3 Sale of Goods	61
	4.14.4 Effects of Destruction of Goods	62
	4.14.5 Auction Sale - Meaning	62
	4.14.6 Delivery of Goods - Meaning	62
	14. Multiple Choice Questions	64
4.15	RIGHTS OF AN UNPAID SELLER	65
	4.15.1 Rights of a buyer	66
	4.15.2 Rights of a seller	67
	4.15.3 Duties of the buyer	68
	4.15.4 Duties of a seller	68
	4.15.5 Caveat Emptor	69
	15. Multiple Choice Questions	70
4.16	COMPANIES ACT, 2013 - CHARACTERISTICS OF COMPANY	72
	4.16.1 Company - Introduction	72
	4.16.2 Merits and Demerits of the Company	73
	4.16.3 Characteristics or features of the company	75
	16. Multiple Choice Questions	76
4.17	LIFTING OR PIERCING THE CORPORATE VEIL	77
	4.17.1 Lifting or Piercing the Corporate Veil	78
	17. Multiple Choice Questions	79
4.18	CLASSIFICATION OF COMPANIES	80

	4.18.1 Privileges and Exemptions Available to a Private Limited Company	84
	4.18.2 Special Privileges of a Private Company	85
	4.18.3 Additional Privileges Enjoyed by Independent Private Limited Companies	86
	4.18.4 Differences between Private Company and Public Company	86
	18. Multiple Choice Questions	89
4.19	FORMATION OF COMPANY	90
	4.19.1 Various stages in the formation of a company	91
	19. Multiple Choice Questions	92
4.20	PROMOTERS	94
	4.20.1 Duties and Liabilities of a Promoter	95
	4.20.2 Functions of a Promoter (Role of Promoter)	96
	4.20.3 Types of Promoters	97
	4.20.4 Rights of Promoter	98
	20. Multiple Choice Questions	99
4.21	PROSPECTUS	100
	4.21.1 Contents	101
	4.21.2 Conditions or Requirements or Need of a prospectus	101
	4.21.3 Statutory provisions or legal rules relating to the issue of prospectus	102
	4.21.4 Statement In Lieu of Prospectus	103
	4.21.5 Consequences or Liabilities for Misstatement of prospectus:	104
	21. Multiple Choice Questions	106
4.22	MEMORANDUM OF ASSOCIATION	108
	4.22.1 Requisites	108

	4.22.2 Contents of Memorandum	109
	4.22.3 Alteration of Memorandum	110
	4.22.4 Doctrine of Ultra Vires Requisites	112
	22. Multiple Choice Questions	112
4.23	ARTICLES OF ASSOCIATION	113
	4.23.1 Contents	114
	4.23.2 Importance of articles of association:	114
	4.23.3 Alteration of Articles of Association	115
	4.23.4 Doctrine of Constructive Notice	116
	4.23.5 Forms of Articles of Association (AOA)	116
	4.23.6 Difference between Memorandum and articles of Association	117
	23. Multiple Choice Questions	118
4.24	INCORPORATION	119
	4.24.1 Advantages and Disadvantages of Incorporation of a company	120
	24. Multiple Choice Questions	121
4.25	COMMENCEMENT OF BUSINESS	123
	4.25.1 Restrictions on the Commencement of Business	124
	25. Multiple Choice Questions	125
4.26	SHARE CAPITAL	126
	4.26.1 Kinds or Types of shares	127
	4.26.2 Features of a share	129
	4.26.3 Procedure for issue of shares	129
	4.26.4 Advantages and Disadvantages	130
	4.26.5 Advantages and Disadvantages of Preference Shares	132
	4.26.6 Difference between equity shares and prefers share	134

	4.26.7 Transfer of shares	135
	26. Multiple Choice Questions	135
4.27	DEBENTURES	136
	4.27.1 Kinds of debenture	137
	4.27.2 Advantages and Disadvantage of Debentures	138
	4.27.3 Stock – Meaning	140
	4.27.4 Difference between share and stock	140
	4.27.5 Differentiate shareholder and debenture holder.	141
	27. Multiple Choice Questions With Answers	141
4.28	DIRECTORS	143
	4.28.1 Directors of a Company	143
	4.28.2 Not eligible to become a director	143
	4.28.3 Duties and Powers of the Directors [Sec 166]	143
	4.28.4 Position of the Directors	144
	4.28.5 Appointment of Directors	145
	28. Multiple Choice Questions	149
4.29	COMPANY MEETINGS	150
	4.29.1 Requisites of a valid meeting	151
	4.29.2 Resolutions and Minutes	152
	4.29.3 Voting and Poll	153
	4.29.4 Minutes	154
	4.29.5 Kinds of Company Meetings	155
	29. Multiple Choice Questions	158
4.30	COMPANY SECRETARY (APPOINTMENT, RIGHTS, DUTIES AND LIABILITIES)	161
	4.30.1 Features of Secretary	161
	4.30.2 Qualifications of a Secretary	161

4.30.3 Appointment and Dismissal of a Secretary	162
4.30.4 Duties of the secretary	162
4.30.5 Legal position of a Secretary	163
4.30.6 Liabilities of a Secretary	164
4.30.7 The Secretary's Role at Meetings	165
4.30.8 Company Secretary helps manage the Board Meeting	166
4.30.9 Duty of Secretary at Statutory and Annual General Meeting	167
4.30.10 How a Company Secretary should prepare for a Board Meeting	169
4.30.11 Company Secretary Responsibilities during the Board Meeting	171
4.30.12 Difference between the Old and New Companies Act Regarding the Roles of Company Secretary	174
4.30.13 Powers and Duties of the Secretary	177
30. Multiple Choice Questions	180
31. Multiple Choice Questions	182
32. Multiple Choice Questions	196



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UNIT- IV

BUSINESS LAW AND COMPANY LAW

SYLLABUS

Business Law and Company Law the Indian Contract Act, 1872:
Introduction – Elements of a valid contract – Offer and Acceptance –
Consideration – Capacity to contract – Free consent – Legality of
object – Void agreements – Contingent contract – Performance of
contract – Quasi contract – Discharge of contracts – Remedies for
breach of contract. The Sale of Goods Act, 1930: Sale of goods –
Conditions and warranties – Transfer of property – Performance of
contract of sale – Rights of an unpaid seller. Companies Act, 2013:
Characteristics of Company – Lifting or Piercing the Corporate Veil –
Classification of Companies – Formation of a Company (Promoter,
Prospectus, Memorandum of Association and Articles of Association,
Incorporation, Commencement of business) – Share capital and
Debentures – Directors – Meetings – Company Secretary
(Appointment, Rights, Duties and Liabilities)

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- 9) **Tamil Nadu Textbook and Educational Services Corporation**

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- 1) **Company Law as Per Companies Act, 2013 – Pms Abdul Gaffoor & S Thothadri**
- 2) **Company Law: S.Kathireasan Dr.V.Radha**
- 3) **Company Law: N.D.Kapoor**
- 4) **Company Law: B.N.Tandon**
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UNIT - 4

4.1 THE INDIAN CONTRACT ACT, 1872 - INTRODUCTION

4.1.1 Introduction To Law

- Law and society are very closely related .Law aims at bringing about and maintaining peace and order in the society. Law is the body of precepts in accordance with justice is administered by the authority of the state. Justice is one of the noblest of ideals and is never fully realized. The primary purpose of the law is to keep peace in society.

Law- Meaning

- Law means a 'set of rules' which governs our behaviour and relating in a civilized society. So there is no need of Law in an uncivilized society. One to should know the law to which he is subjected to because ignorance of law is no excuse.
- Generally life in a civilized society is regulated by a welfare state. The existence and growth of civilized society requires peace, harmony, justice, social security and order which is possible only through laws.
- Every country has a regulatory framework comprised by a plethora of laws such as constitutional law, civil law, criminal law, tax law, labour law, business law etc. Every law has a particular field of activity to regulate and govern.

Definition of law

According to Blackstone defines, “Law is a rule of civil conduct, prescribed by the supreme power of a state, commanding what is right and prohibiting what is wrong”.

According to Holland defines, “Law is rule of external human action enforced by the sovereign political authority”.

4.1.2 Objectives Of Law

1. Keeping peace in society:

This necessary for maintaining of peace and order in the society. In the absence of law, no person will recognize the rights of others.

2. Shaping moral standards:

Enacting law that discourages the social evils and encourage every individual in the society to promote social value.

3. Promoting social Justice:

Enacting statutes that prohibit discrimination in society. In the eyes of law every individual is equal and mutually respect.

4. Maintaining the status quo:

Passing law preventing the forceful overthrow of the government, to protect their property and their rights.

5. Ignorance of law is no excuse:

There is well-known maxim known as “Ignorantia juris non excusat” which means that “ignorance of law is no excuse”. So, knowledge of law is necessary for every individual and business people.

4.1.3 Commercial Law / Mercantile Law - Introduction

- Mercantile law governs and regulates the trade and commerce in the country. The first efforts to pass an Act constituting mercantile law in India were made in 1872 by the passing of the Indian contract act.
- From that time a large number of statute have been enacted concerning matters coming within the purview of mercantile law. For example, the sale of goods Act 1930, the partnership Act 1932, the companies Act 1956.

Meaning of Commercial law/ mercantile law

- Mercantile law is not a separate branch of law. It is a part of civil law, which deals with the rights and obligations of mercantile persons arising out of mercantile transactions in respect of mercantile property.

Scope of Commercial law

- With the increasing complexities of modern business, the scope of mercantile law has enormously widened.
- It includes the law relating to

Contracts,
Sale of goods,
Partnership,
Companies,



Negotiable instruments,
Insurance,
Insolvency,
Carriage of goods, Arbitration etc.

Branches of Law:

In the civilized societies, there are several branches of law exists in India such as,

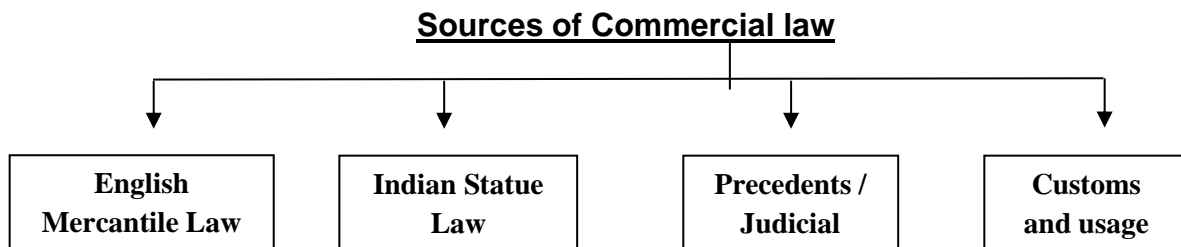
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|-----------------------|-------------------|
| 1. Civil law | 5. Industrial law |
| 2. Criminal law | 6. Mercantile law |
| 3. Constitutional law | 7. Company law. |
| 4. International law | |



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4.1.4 Sources of Commercial law:

- Indian mercantile law is largely based on English mercantile laws. In the absence of any specific law, usage or customs on a particular point, the rules of English common law are applied by the courts in India. The important sources of Indian mercantile law are as follows:



1. English mercantile law:

It is the primary sources of Indian mercantile law. English laws are based on customs and usages of merchants in England

2. Indian statute law:

The various acts passed by the Indian legislature are the main sources of mercantile law in India. **Example:** Indian contract act 1872, the sale of Goods act 1930, the Negotiable Instruments act 1881, and the company's act 1956 (New Companies Act 2013) are some of the Acts passed by the Indian legislature.

3. Judicial decisions:

The past judicial decisions of England courts and Indian courts are also one of the sources of law. Whenever the law is silent on a point, the judge has to decide the case according to the principle of equity, justice and good conscience. The past judicial decisions are followed by the courts while deciding similar cases before them.

4. Customs and Usages:

The customs and usages of a trade are also one of the sources of mercantile law in India. These customs and usages govern the merchants of a trade in their dealings with each other. Some Acts passed by the Indian legislature recognizes the importance of such customs and usages.

4.1.5 Indian Contract Act, 1872- Introduction

- The Indian Contract Act occupies the most important place in the Commercial Law. Without Contract Act, it would have been difficult to carry on trade or any other business activity. It is not only the business community which is concerned with the Contract Act, but it also influences the entire society. The main object of contract act is to assure that the rights and obligations which arise out of the contract are carried out and in case of failure to do so, the remedies are made available to the affected party
- The law relating to contracts is contained in the Indian contract Act, 1872. The act deals with the general principles of the law of contract and some special contracts only. It came into force on 1st September 1872. There are separate act which deals with contract only. There are separate act which deals with contract relating to negotiable instruments.
- The Indian Contract Act is so much infused in the daily lives that it affects all. For every purchase that one does, or a loan taken from a banker, or a ride one takes in a bus and many other transactions of daily life has its impact by Contract Act.
- The English common law is the base for the development of Indian Contract Act 1872. The Act came into force on 1st September 1872, and applies to the whole of India except the state of Jammu and Kashmir. This Act applies to the usage of trade and lays down the general principles.

There are two parts of Indian Contract Act namely

- A) General Contracts
- b. Special Contracts



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Nature of Indian Contract Act, 1872:

The basic features of the Indian Contracts Act 1872 may be discussed, in brief, under the following heads:

1. Enforcement of the Act:

- The Act came into force on 1st September 1872. The act is not retrospective in operation and does not apply to contracts entered into before it came into force. The Act applies to the whole of India except the state of Jammu and Kashmir.

2. It lays down the principles , not the rights and duties of the parties:

- The sections 1 to 75 of the contract Act lay down general principles relating to the formation, novation, alteration, performance, performance and discharge of contracts. It does not lay down the rights and duties of the parties to a contract.

3. The Act is not complete and exhaustive:

- The contract Act does not profess to be a complete and exhaustive code dealing with the law of contracts. It does not incorporate law relating to all kinds of contracts. For example, the laws relating to sale of goods, Partnerships, negotiable instruments, insurance etc. have not been incorporated in it.



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4. It creates right in personam:

There are two types of rights available to a person:

- Right in personam or jus in personam; It means a right against a particular person or persons.
- Right in rem or jus in rem: It means a right available to a person against the whole world

Meaning of Contract

- As per the Indian Contract Act, 1872, a “contract” is an agreement enforceable by law. The agreements not enforceable by law are not contracts. An “agreement” means ‘a promise or a set of promises’ forming consideration for each other. A promise arises when a proposal is accepted. By implication, an agreement is an accepted proposal. In other words, an agreement consists of an ‘offer’ and its ‘acceptance’.

AGREEMENT = OFFER / PROPOSAL + ACCEPTANCE

CONTRACT = AGREEMENT + ENFORCEABILITY BY LAW

Definition

- **Offer (i.e. Proposal) [section 2(A)]** When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other person either to such act or abstinence, he is said to make a proposal.
- **Acceptance 2(b)** When the person to whom the proposal is made, signifies his assent thereto, the proposal is said to be accepted.
- **Agreement 2(e) Every promise and set of promises forming consideration for each other is an agreement. (June 2023 NET)** In short, Agreement = Offer + Acceptance.
- **Consideration 2(d)** When at the desire of the promisor, the promisee or any other person has done or abstained from doing something or does or abstains from doing

something or promises to do or abstain from doing something, such act or abstinence or promise is called a consideration for the promise.

- **Contract 2(h)** An agreement enforceable by Law is a Contract



Meaning of Contract:

- The word contract derived from the Latin word “contractum” which mean drawn together. An agreement which creates legal obligations is a contract. It is legally binding both the persons to fulfill their obligations.

Definition of Contract:

- Section 2 (h) of the Indian Contract Act 1872 defines contract as “an agreement enforceable by law is a contract”.
- Salmond defines a contract as “an agreement creating and defining obligations between the parties”.

Agreement:

- The term agreement is defined in Section 2 (e) of the Indian Contract Act which reads as “every promise and every set of promises, forming consideration for each other, is an agreement”.

Meaning of Consensus ad idem:

Consensus ad idem means identity of mind (i,e) understanding the subject matter of the contract in the same sense. (June 2023 NET)

Promise:

Section 2 (b) of Indian Contract Act 1872 defines promise as “a proposal when accepted, becomes a promise”.

Obligation:

- A contract gives rise to a certain obligations that the parties to it are expected to fulfill.
- Ex. X agrees to sell his two-wheeler for Rs. 20,000. The agreement gives rises to an obligation on the part of X to deliver the two-wheeler and on the part of Y to pay X the agreed sum.

4.1.6 Distinction between agreement and contract

Basis of distinction	An agreement	Contract
1. constitute	Offer and its acceptance constitute an agreement	Agreement and its enforceable constitute a contract.
2. creation of legal obligation	An agreement may or may not create legal obligation	A contract necessarily creates a legal obligation.
3. one in other	Every agreement need not necessarily be a contract	All contracts are necessarily agreements.
4. binding	Agreement is not concluded or a binding contract	Contract is concluded and binding on the concerned parties.

Nature of contract:

- The law of contract does not lay down a number of rights and duties which the law will enforce. It consists rather of a number of limiting principles, subject to which the parties may create rights and duties for themselves which the law will uphold.
- The parties to a contract make the law for themselves. So may can enjoy freedom of contract and enforce the rights and liabilities created by them.

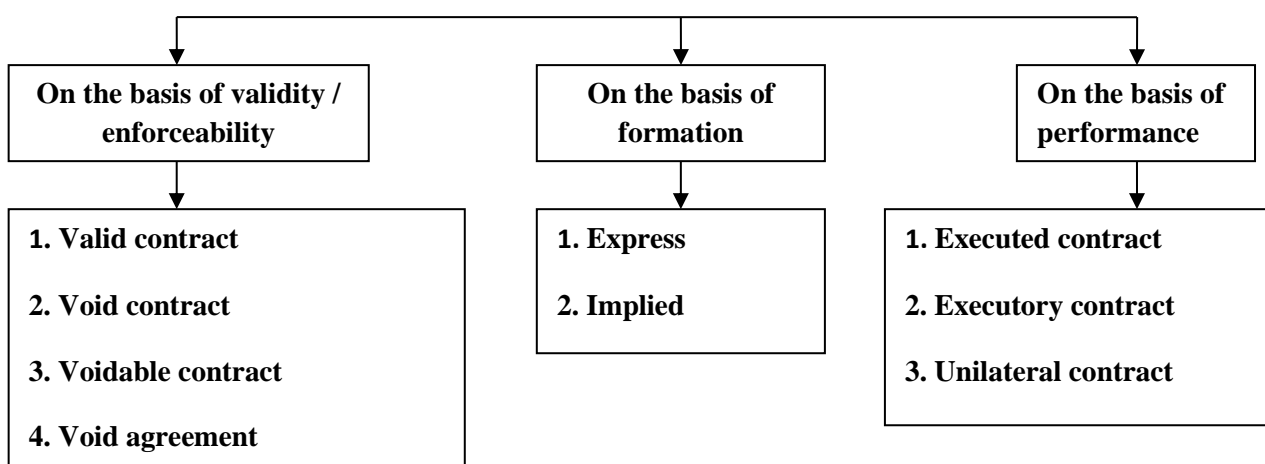
4.1.7 Types/Classification of contract

The contracts may be classified into the following three categories



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Types/Classification of contract



On the basis of Validity / Enforceability:

1. Valid contract:

- A contract which satisfies all the legal requirements laid down in Sec.10 of the Act is known as a valid contract. A valid contract is an agreement which is binding and enforceable at law. (June 2023 NET)

2. Void contract:

- A void contract is that which is not enforceable by law. Sec. 2 (j) of the Act lays down that “a contract which ceases to be enforceable by law becomes void when it ceases to be enforceable”. ***A contract which is enforceable by law at the time it was made. But later on if it becomes legally unenforceable due to some reasons it is called void contract. (Dec 2019 NET)***

3. Voidable contract:

- According to Sec 2 (i) of the Indian Contract Act 1872, “an agreement which is enforceable by law at the option of one or more of the parties thereon, but not at the option of the other or others, is a voidable contract”.

4. Void agreement:

- “An agreement not enforceable by law is said to be void” [Sec. 2 (g)]. A void agreement has no legal effect. It confers no rights on any person and creates no obligations. Such an agreement is without any legal effect abinitio (from the very beginning)

5. Unenforceable contract:

- The unenforceable contracts are those which cannot be enforced in a court of law because of some technical defect. In certain cases, there are special provisions of law which require some formalities to be fulfilled. If such formalities are not properly observed, the contract cannot be enforced in the court of law.
- Such contracts can be enforced if the technical defect is removed.

6. Illegal contract:

An agreement is illegal and void if its object or consideration is

- Forbidden by law; or
- Is of such a nature that, if permitted, it would defeat the provisions of any law; or
- Is fraudulent; or
- Involves or implies injury to the person or property of another; or
- The court regards it as immoral, or opposed to public policy (sec.23).



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On the basis of formation:

1. Express contract:

- Sec. 9 provides that “in so far as the proposal or acceptance of any promise is made in words the promise is said to be express”. An express promise will result in an express contract. When such contract is formed, there is no difficulty in understanding the rights and obligations of the parties.

2. Implied contract:

- Sec.9 states that “in so far as such proposal or acceptance is made otherwise than in words, the promise is said to be implied”. It is inferred from the conduct of person or the circumstances of a particular case.

3. Quasi contract:

- There are certain dealings which are not contracts strictly, though the parties act as if there is a contract. In fact, it is an obligation which the law creates in the absence of any agreement. It rests on the ground of equity that “a person shall not be allowed to enrich himself unjustly at the expenses of another”.

On the basis of performance:

1. Executed contract:

When both the parties have completely performed their respective obligations, under the contract, the contract is said to be executed. That is, it is a contract where under the terms of a contract nothing remains to be done by either the party. For instance, in case of cash sales, the contract is executed at once.

2. Executory contract:

In this contract the obligations of the parties are to be performed at a later time. When both the parties have not performed their respective obligations under the contract, the contract is said to be executory.



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3. Unilateral contract: In certain contract one party has to fulfill his obligations, whereas the other party has already performed his obligations. Such a contract is called “unilateral” or “one sided contract”. Thus in case of unilateral contract the obligation is outstanding only against one of the parties at the time of formation of contract.

4. Bilateral contract: It is on in which the obligation on the part of both the parties to the contract are outstanding at the time of formation of the contract.

1. MULTIPLE CHOICE QUESTIONS

1. An agreement enforceable by law is a

- | | |
|----------------------------|--------------------|
| (A) Enforceable acceptance | (B) Accepted offer |
| (C) Approved promise | (D) Contract |

2. Every promise and every set of promises, forming the consideration for each other, is an

- | | | | |
|---------------|--------------|-----------|----------------|
| (A) Agreement | (B) Contract | (C) Offer | (D) Acceptance |
|---------------|--------------|-----------|----------------|

3. Void agreement signifies

- (A) Agreement illegal in nature (B) Agreement not enforceable by law
 (C) Agreement violating legal procedure (D) Agreement against public policy.

4. Acceptance to be valid must

- (A) Be absolute (B) Be unqualified
 (C) Both are absolute & unqualified (D) Be conditional.

5. A contract with or by a minor is a

- (A) Valid contract (B) Void contract
 (C) Voidable contract (D) Voidable at the option of either party.

6. Law of contract in India is contained in

- (A) The Indian Contract Act 1872 (B) The Indian Contract Act 1972
 (C) The Indian Contract Act 1930 (D) the Indian Contract Act 1932

7. The Indian Contract Act applies to:

- (A) Whole of Indian except the State of Jammu and Kashmir
 (B) Whole of India including the State of Jammu and Kashmir.
 (C) Whole of India except Goa, Daman, Diu
 (D) Whole of India including Goa, Daman, Diu



8. The Indian Contract Act came into force on

- (A) 1st September 1972 (B) 1st July 1932
 (C) 1st September 1872 (D) 1st July 1930

9. A jus in personam means a right against

- (A) A specific person (B) The public at large
 (C) A specific thing (D) none of these

10. An offer is

- (A) A suggestion by one person to another
 (B) Expression of willingness by a person to another to do something in
 Order to obtain assent of the other person
 (C) Communication of willingness of a person to another person
 (D) An intention of a person to do or to abstain from doing an act



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4.2 ELEMENTS OF A VALID CONTRACT

Essentials of a Valid Contract

- “All agreements are contracts, if they are made among parties – by free consent of the parties, competent to contract, for a lawful consideration and with a lawful object, and not hereby expressly declared to be void.” Sec.10

1. Offer and Acceptance

- There must be two parties to an agreement namely one party making the offer and the other party accepting it.

2. Legal Relationship

- The parties must have the intention to create legal relationship between them. An agreement of Social or domestic nature is not at all a contract.

3. Lawful Consideration (quid pro quo)

- As per Contract Act under Sec.2 (d) Consideration means something in return. A contract without consideration becomes invalid. It may be in cash or kind or in any form as specified in the act. Consideration must not be unlawful, immoral or opposed to the public policy.

4. Lawful Object (Section 23)

- The object of agreement should be lawful and legal. It must not be immoral, illegal or opposed to public policy. Two persons cannot enter into an agreement to do a criminal act.



5. Free Consent (Section 13 & 14)

- Consent of the parties must be free and genuine. Consent means agreeing upon same thing in the same sense at the same time i.e. there should be consensus – ad – idem. Consent is said to be free when it is not caused by coercion, undue influence, fraud, misrepresentation or mistake.

6. Capacity of Parties (Section 11)

- The parties to a contract must have capacity (legal ability) to make valid contract. The Indian contract Act specifies that every person is competent to contract provided he
 - (i) Is of the age of majority according to the Law which he is subject to, and
 - (ii) Who is of sound mind and
 - (iii) Is not disqualified from contracting by any law to which he is subject to, an alien enemy, foreign sovereigns and accredited representative of a foreign state, insolvents and convicts are not competent to contract.

7. Certainty of Terms (Section 29)

- The agreement should be clear to the parties of the agreement. The agreement must be precise. For example X informs Y “I agree to sell my car”. X has four cars. Here nothing is stated about which car he is going to sell. There is no clarity of terms.

8. Possibility of Performance (Section 56)

- The terms of the agreement should be capable of performance. An agreement to do an act, impossible in itself cannot be enforced. For example A agrees to B to discover a new planet. The agreement is void because the act in itself is impossible to be performed from the very beginning

9. Not declared Void

- The agreement should be such that it should be capable of being enforced by law. Certain agreements have been expressly declared illegal or void by the law.

10. Necessary Legal Formalities

- A contract may be oral or in writing. Where a particular type of contract is required by law to be in writing and registered, it must comply with necessary formalities as to writing, registration and attestation. If legal formalities are not carried out then the contract is not enforceable by law.

For example: A promise to pay a time barred debt must be in writing.

All Contracts are Agreements, but all Agreements are not Contracts

The agreements may be classified into two categories:

Agreement not enforceable by law - Any essential of a valid contract is not available.

Agreement enforceable by law - All essentials of a valid contract are available

4.2.1 Stages in formation of contract:

The formation of contract consist of

1. Offer (or) Proposal:

- **According to Section 2 (A)**, “when one person signifies to another his willingness to do or abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal”.

Offer is nothing but conveyance of an idea by one person to another for obtaining the consent of the latter in respect of doing or not doing an act or acts.

E.g.: E wants to sell his scooter to F for Rs.20, 000. The willingness of E to sell becomes an offer.

2. Acceptance:

- An offer without acceptance will not give room for formation of a contract. An offer has to be communicated and the acceptance must also be communicated. Acceptance is a vital requirement for a valid contract. It represents the mental concurrence of the offeree,





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INDEX

S. No	Chapter	Page No
5.1	Entrepreneurial Development Introduction	1
	5.1.1. Entrepreneurship – Introduction	2
	5.1.2. Entrepreneurship – Meaning And Definition	4
	5.1.3. Entrepreneurship – Concept	6
	5.1.4. Importance Of Entrepreneurship	10
	5.1.5. Features Of Entrepreneurship	17
	5.1.6. Characteristics Of Entrepreneurship	19
	5.1.7. Growth Of Entrepreneurship In Pre-Independence Period	20
	5.1.8. Theories Of Entrepreneurship	23
	5.1.9. Problems In The Growth Of Entrepreneurship	31
	5.1.10. Types Of Entrepreneurship	35
	5.1.11. Entrepreneurial traits or competencies	42
	5.1.12. Exercise	45
5.2	Entrepreneur - Introduction	46
	5.2.1. Evolution of the word entrepreneur:	47
	5.2.2. Meaning and definition of entrepreneur:	48
	5.2.3. Concept Of Entrepreneur	51
	5.2.4. Internal And External Factors Of Entrepreneur	52
	5.2.5. Traits Of An Entrepreneur	54
	5.2.6. Manager versus leaders	63
	5.2.7. Classification / Types Of Entrepreneur	66
	5.2.8. Functions Of An Entrepreneur	72
	5.2.9. Entrepreneurial Culture And Development Of Entrepreneurial Culture	79
	5.2.10. Business Ideas - Introduction	84

	5.2.11. Features of sound business ideas	85
	5.2.12. Idea Generation – Meaning	88
	5.2.13. Importance Of Idea Generation	88
	5.2.14. Process To Generate Ideas	89
	5.2.15. Project Identification	91
	5.2.16. Identification Of Business Opportunities	92
	5.2.17. Identification Of Business Opportunities	95
	5.2.18. Purpose And Need For Project Identification	96
	5.2.19. Design Thinking – Meaning	103
	5.2.20. The Design Thinking Process In Entrepreneurship	104
	5.2.21. Benefits Of Integrating Design Thinking Into Entrepreneurship	105
	5.2.22. Exercise	109
5.3	Msme - Introduction	110
	5.3.1. Msme: Meaning And Definition	111
	5.3.2. Importance Of Msme For Economic Growth	115
	5.3.3. Role Of Banks In Edp	121
	5.3.4. Role Of Sidco	143
	5.3.5. Sipcot In Tamil Nadu (Sipcot)	152
	5.3.6. Government Schemes For Entrepreneurs	161
	5.3.7. Prime Minister Employment Generation Programme	172
	5.3.8. Problems Of Small Entrepreneurs	185
	5.3.9. women entrepreneurship in india: incentives and subsidies	189
	5.3.10. Exercise	208
5.4	International Business - Introduction	210
	5.4.1. Meaning And Definition Of International Business	211

	5.4.2. Nature Of International Business	213
	5.4.3. Scope Of International Business	214
	5.4.4. Importance Of International Business	215
	5.4.5. Drivers Of International Business	216
	5.4.6. International Business - Benefits	218
	5.4.7. Reason For International Business	221
	5.4.8. Features Of International Business	222
	5.4.9. Significance Of International Business	223
	5.4.10. Role Of International Business In Economic Development	224
	5.4.11. Types Of International Business	226
	5.4.12. Difference Between International Business And Domestic Business	227
	5.4.13. Exercise	227
5.5	Stages Of Internationalisation of Business	229
	5.5.2. Meaning And Definition Of Globalisation	229
	5.5.3. Benefits Of Globalisation	231
	5.5.4. Criticisms Of Globalisation	232
	5.5.5. Myths About Globalization	232
	5.5.6. Stages Of Globalisation	234
	5.5.7. Methods Of Entry Into Foreign MarketS	244
	5.5.8. Exercise	262
5.6	Balance Of Payment - Introduction	264
	5.6.1. Balance Of Payments (Bop) - Meaning	264
	5.6.2. Purpose Of Preparing	265
	5.6.3. Features Of Balance Of Payments	266

	5.6.4. Components Of Balance Of Payments	269
	5.6.5. Balance Of Trade (Bot)	278
	5.6.6. Tariffs - Quotas And Licenses	287
	5.6.7. Multi-Lateral Agreements And Institutions	313
	5.6.8. Exercise	323
5.7	Economic Integration forms - Introduction	324
	5.7.1. Economic Integration – Meaning And Definition	325
	5.7.2. Objectives Of Economic Integration	328
	5.7.3. Contents Of Economic Integration	328
	5.7.4. Benefits Of Economic Integration	329
	5.7.5. Advantages And Disadvantages Of Economic Integration	330
	5.7.6. Economic Integration Forms: Free Trade Area, Customs Union, Common Market And Economic	331
	5.7.7. Exercise	337
5.8	Regional Blocks - Introduction	338
	5.8.1. Regional Trade Blocs – Meaning	340
	5.8.2. Benefits Of Trade Blocs	342
	5.8.3. Effects Of Trade Blocs	343
	5.8.4. Regional Trading Blocs And Trade Creation	344
	5.8.5. Types Of Regional Trading Blocs	347
	5.8.6. Advantages And Disadvantages Of Regional Trading Blocs	350
	5.8.7. Developed And Developing Countries - Introduction	355
	5.8.8. North American Free Trade Agreement – (Nafta)	363
	5.8.9. European Union – (Eu)	367
	5.8.10. South Asian Association For Regional Cooperation (Saarc)	376

5.8.11. Association Of Southeast Asian Nations (Asean)	383
5.8.12. Brazil, Russia, India, China And South Africa (Brics)	390
5.8.13. Organisation Of The Petroleum Exporting Countries (Opec)	399
5.8.14. Promotional Role Played By Imf	404
5.8.15. World Bank And Its Affiliates	414
5.8.16. Exercise	480
Model One Mark	482


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Entrepreneurship: Meaning, Characteristics and types – Entrepreneur: Traits, Classification and Functions – Idea Generation – Identification of Business Opportunities – Design Thinking: Meaning and Process – MSME: Definition, Importance of MSME for Economic Growth – Role of banks in EDP – Role of SIDCO – SIPCOT in Tamil Nadu – Government Schemes – Prime Minister Employment Generation Programme – Problems of small Entrepreneurs – Women Entrepreneurship in India: Incentives and Subsidies. International Business – Meaning – Nature – Scope and Importance – Stages of Internationalization of business – Methods of entry into foreign markets: Licensing – Franchising – Joint Ventures – Strategic Alliances – Subsidiaries and Acquisitions – Balance of Payment – Balance of Trade – Tariffs, Quotas and Licenses – Multi-Lateral Agreements and Institutions: Economic Integration – Forms: Free Trade Area, Customs Union, Common Market and Economic Union-Regional Blocks: Developed and Developing Countries – NAFTA – EU – SAARC, ASEAN-BRICS – OPEC – Promotional role played by IMF-World Bank and its affiliates – IFC, MIGA and ICSID – ADB-Regulatory role played by WTO and UNCTAD

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UNIT - 5

ENTREPRENEURIAL DEVELOPMENT AND INTERNATIONAL BUSINESS

5.1. ENTREPRENEURIAL DEVELOPMENT – INTRODUCTION

Entrepreneurship development is a process that helps people develop the skills and knowledge they need to start and manage a business. It includes training programs, coaching sessions, and other educational initiatives. The goal of entrepreneurship development is to help people become successful entrepreneurs and to strengthen the economy.

Here are some key aspects of entrepreneurship development:

⌘ **Learning:** Entrepreneurship development programs help people learn how to think like entrepreneurs, analyze problems, and find solutions. They also teach people how to manage a business and deal with problems that may arise.

⌘ **Building networks:** Entrepreneurship development programs can help people build networks and find support to launch their businesses.

⌘ **Encouraging innovation:** Entrepreneurship development programs encourage innovation and help people evaluate the growth potential of their businesses.



Improving the economy: Entrepreneurship development can help improve the economy by increasing the number of entrepreneurs, which can create more jobs and increase competition in the market

5.1.1. Entrepreneurship – Introduction

- ⌘ The term entrepreneurship denotes the process of setting up one's own business venture as distinct from pursuing any other economic activity or any employment or practicing some profession. The person who establishes business is termed as entrepreneur. The output of an entrepreneurial process ends up in establishing an enterprise. **A entrepreneur who is conceptualizing and persevering is called Nascent – (PGTRB-2019)**
- ⌘ The term 'entrepreneurship' (derived from the verb 'entreprendre' meaning 'to undertake'). In early 16th century it was applied to those who were engaged in military expeditions.
- ⌘ In 17th century the word 'entrepreneur' was used for civil engineering activities such as construction and fortification. It was applied to business for the first time in 18th century, to designate a dealer who buys and sells goods at uncertain prices. Entrepreneurship refers to all those activities which are to be carried out by a person to establish and to run the business enterprises in accordance with the changing social, political and economic environments.
- ⌘ Entrepreneurship includes activities relating to the anticipation of the consumers likes and dislikes, feelings and behaviors, tastes and fashions and the introduction of business ventures to meet out all these expectations of the consumers. Entrepreneurship is the ability of entrepreneurs to assess the risks and establish businesses which are risky but at the same time suits perfectly to the changing scenarios of the economy.
- ⌘ Entrepreneurship is an economic activity done to create, develop and maintain a profit-oriented business.
- ⌘ It begins with identifying an opportunity as a potential to sell and make profit in the market.
- ⌘ Entrepreneurship is the best utilization of available resources.
- ⌘ Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment to providing value for some product or service.
- ⌘ The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources. Also, it was generally recognized that entrepreneurs serve as agents of



change, provide creative, innovative ideas for business enterprises, and help businesses grow and become profitable. Whatever the specific activity they engage in, entrepreneurs in the twenty-first century are considered the heroes of free enterprise. Many of them have used innovation and creativity to build huge enterprises.

- ⌘ Entrepreneurship is now regarded as the “Pioneer ship” of business. The history of the early industrial development and trade and subsequent innovation in any country is largely the history of its entrepreneurs.
- ⌘ It describes people with the pioneering spirit, intuition inspiration, and a willingness to work hard and take risks. They are energetic self-starters who make it their mission to meet business challenges, independently and are restless in working for someone else, for a salary.

In a nutshell, the concept of entrepreneurship can be understood as follows:

- ⌘ Entrepreneurship involves decision-making, innovation, implementation, forecasting of the future, independency, and success.
- ⌘ Entrepreneurship is a discipline with a knowledge base theory and is an outcome of complex socio-economic, psychological, technological, legal, and other factors.
- ⌘ It is a dynamic and risky process. It involves a fusion of capital, technology, and human talent.
- ⌘ Entrepreneurship is equally applicable to big and small businesses and to economic and non-economic activities.
- ⌘ Different entrepreneurs might have some common traits but all of them will have some different and unique qualities. It is the purposeful and organized search for change, conducted after a systematic analysis of opportunities in the business environment.
- ⌘ Entrepreneurship is a philosophy and is the way one thinks, one acts, and therefore it can exist in any situation, be it business or government or in the field of education, science, and technology.
- ⌘ Entrepreneurship is a creative activity.
- ⌘ It is the ability to create and build something from practically nothing.
- ⌘ It is a knack of sensing opportunity where others see chaos and confusion.
- ⌘ Entrepreneurship is the attitude of the mind to seek opportunities, take calculated risks, and derive benefits by setting up a venture.
- ⌘ It is made up of activities to conceive, create, and run an enterprise.
- ⌘ To sum up, “Entrepreneurship is a dynamic process of vision, change and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions.



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- ⌘ Essential ingredients include the willingness to take calculated risks in terms of time, equity, or career, the ability to formulate an effective venture team, the creative skill to organize needed resources, the fundamental skill of building a solid business plan, and, above all, the vision to recognize opportunity where others see chaos, contradiction, and confusion.”
- ⌘ Entrepreneurship is the exciting journey of turning dreams into reality, fuelled by passion, innovation, and unwavering determination. It is the art of transforming challenges into opportunities, creating something from nothing, and fearlessly navigating the dynamic seas of business. In this daring realm, visionaries craft their destinies, pushing boundaries, and sculpting a legacy that echoes in the corridors of success.

History Of Entrepreneurship

- ⌘ The term “entrepreneurship” can be traced back to as early as the Middle Ages, when the “entrepreneur” was simply someone who carried out tasks, such as buildings and construction projects by applying all the resources at his disposal. However, it was during the 16th century when “business” was used as a common term, and the “entrepreneur” came into focus, as a person, who is responsible for undertaking a business venture.
- ⌘ Entrepreneurship as a term can be traced back to the economists of the 18th century, and it continued to attract the interest of economists in the 19th century. In the twentieth century, the word became synonymous with free enterprise and capitalism.
- ⌘ During the 20th century, within the last two decades, the concept of entrepreneurship has evolved from being a single individual to an entire organization or a corporation.

5.1.2. Entrepreneurship – Meaning And Definition

Meaning

- ⌘ In political economics, entrepreneurship is the quality of being a businessman, i.e. one who "undertakes an enterprise". The term puts emphasis on the risk and effort taken by individuals who both own and manage a business, and on the innovations resulting from their pursuit of economic success.

Entrepreneurship: *It refers to a process of action an entrepreneur undertakes to establish his enterprise.*



- ⌘ Entrepreneurship is the process of creating something new of value of devoting the necessary time & effort. By accepting and acknowledging the necessary financial, psychological & social risks. Finally receiving the resulting rewards be it monetary and personal satisfaction and freedom to do what you want. Entrepreneurship is the process

of identifying opportunities in the market place, arranging the resources required to pursue (hunt) these opportunities and investing the resources to exploit the opportunities for long term gains. It involves creating wealth by bringing together resources in new ways to start and operate an enterprise.

- ⌘ Entrepreneurship generates employment opportunities to many people besides providing self-employment to the entrepreneur. Any business venture started triggers a variety of economic activities like purchasing raw material, creating employment opportunities and so on. Thus, entrepreneurship become crucial for overall economic development of a nation.
- ⌘ **Entrepreneurship can be regarded as one of the four major factors of production besides the other three namely land, labour and capital UGC NET 2013.** It is generally believed that entrepreneurs are born. But no country or society can afford to wait for the birth of entrepreneurs to pursue its development agendas.
- ⌘ The pace of economic development of any country cannot be accelerated without creating a sense of awareness about entrepreneurship among the people. The latter should be made to take a pride in claiming to be a job provider rather than a job seeker. The Government and various other agencies involved in promoting entrepreneurship should carry on the noble task of engendering a spirit of entrepreneurship among the people who otherwise seek job.

Definition

1. **According to Peter F. Drucker** “Entrepreneurship is defined as a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation”.
2. **According to Ricardo Cantillon** “Entrepreneurship entails bearing the risk of buying at a certain price and selling at uncertain prices.”
3. **According to Robert K. Lamb** “Entrepreneurship is that form of social decision making performed by economic innovators.”
4. **As per A.H. Cole** “Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services.”
5. **According to Heggins**, “Entrepreneurship is meant the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials and selecting top managers of day-to-day operations”.
6. **Rebrt Ronstand** – as a dynamic process of creating incremental wealth.



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7. “Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in the form of

- (a) Introduction of a new product
- (b) Use of a new method of production
- (c) Opening of a new market
- (d) The conquest of new source of supplying raw material
- (e) A new form of organisation” – **Joseph A. Schumpeter**



9. “Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition, i.e. a capacity of seeing things in a way which afterwards proves to be true”. - V.R. Gaikwad

10. “Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful”. - Musselman and Jakson.

5.1.3. Entrepreneurship – Concept

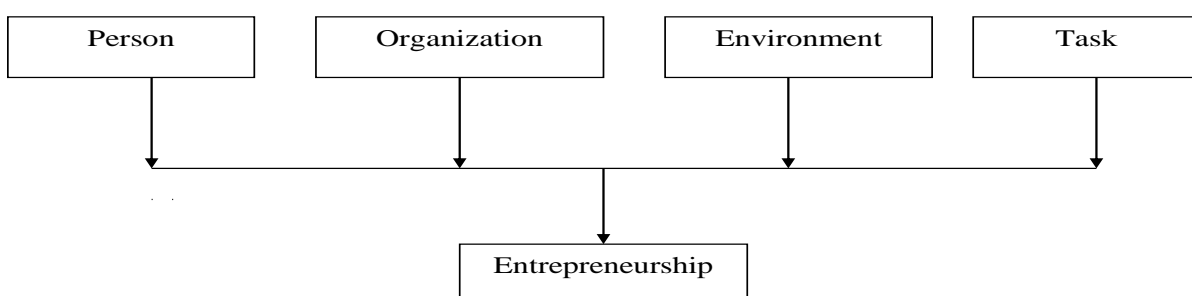
- ⌚ The word ‘entrepreneurship’ typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16th century, the term was used to denote army leaders. In the 18th century, it was used to denote a dealer who buys and sells goods at uncertain prices. Towards 1961, Schumpeter, used the term innovator, for an entrepreneur.
- ⌚ Two centuries before, the concept of entrepreneurship was shady. It is only in the recent years that entrepreneurship has been recognized widely all over the world like in USA, Germany, Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes. Till recently, in the west, the entrepreneurship is mainly an attribute of an efficient manager.
- ⌚ In India the definition of an entrepreneur being the one who undertakes to organize, own and run a business has been accepted in a National Seminar on entrepreneurship organized in Delhi in 1975. Still there has been no consensus on the definition of entrepreneurship and qualities of entrepreneurship.
- ⌚ Incidentally, entrepreneurship has engaged the attention of sociologists, psychologists and economists. Sociologists analyse the characteristics of an entrepreneur in terms of caste, family, social status etc. Psychologists analyse their attributes on the basis of their personality traits such as need for achievement, affiliation and power, risk taking,

decision making, creativity, leadership etc. The economists analyze them on the basis of occupational background, access to capital, business and technical experiences.

- ⌚ The term “entrepreneurship” is often used synonymously with the “entrepreneur”. Though they are two sides of the same coin, conceptually they are different. The entrepreneur is essentially a business leader and the functions performed by him are entrepreneurship.
- ⌚ Arthur H. Cole has stated that entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit-oriented business unit for the production or distribution of economic goods and services. Entrepreneurship is a concept that has undergone several revisions through history.
- ⌚ In the modern context, Entrepreneurship is seen differently by different entities. For e.g. sociologists and psychologists see the term differently from economists, since these two entities focus on different aspects of entrepreneurship.
 - 📖 It has assumed importance for accelerating economic growth both in developed & developing countries.
 - 📖 It is the hope and dreams of millions of individuals around the world
 - 📖 It promotes capital formation and creates wealth in country
 - 📖 It reduces unemployment and poverty. It is the process of exploring the opportunities.
- ⌚ The term entrepreneur has been treated differently by various authors. While some calls entrepreneurship as “risk-bearing”, others view it “innovative” and yet others consider it “thrill-seeking”. However, there was consensus among them as to the skills and abilities which a person should possess in order to become an entrepreneur, and how the entrepreneurs can be developed or how the supply of entrepreneurship can be increased in particular society.
 - 📖 Uncertainty bearing.
 - 📖 Co-ordination of productive resources.
 - 📖 Introduction innovation and the provision of capital



Conceptual model of entrepreneurship:



- ⌘ **The entrepreneurial personality:** - [personality, skills, experience and motives]: The entrepreneurial personality is a composite of the person, his skills, styles and motive. The ultimate success of a new venture depends largely upon the psychological makeup and determination of the entrepreneur.
- ⌘ **The entrepreneurial task:** - [Opportunity, resources, providing leadership]: The second leg of entrepreneurship is the role or task of an entrepreneur. The central task of the entrepreneur is to recognize and exploit opportunities. Opportunity may come from many sources. But entrepreneur must have the ability to perceive opportunities where others do not.
- ⌘ **The environment:** - [Availability of resources, infrastructure, rules and regulations]: Entrepreneurship is to a great extent controlled by the environment. The world surrounding organization influences facilitates or hinders the growth of entrepreneurship and the viability of the enterprise. Entrepreneurial environment is made up of several elements like economic, sociocultural, politico legal and others. Availability of capital and human resources is very important. Without necessary capital and people with the required skills and experience the opportunity cannot be pursued.
- ⌘ **The Organizational Context:** - [structure, rules, policies]: The organizational is the immediate setting in which creative and entrepreneurial works takes place. It includes the organization structure and systems, the definitions of work roles, group culture etc.

Evolution Of The Concept Of Entrepreneur

- ⌘ The word —Entrepreneurll is a French word, literally meaning —go-between. Thus, the term implies an agent or intermediary who establishes himself between seekers and providers with the intension of making profit.
- ⌘ However, the term has progressed far beyond its literal meaning and today encompasses concepts like risk-taking, innovation, management of resources organization of the tools of trade, etc. The following table traces the development of the term Entrepreneur and Entrepreneurship through history.



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Development of the Concept of Entrepreneurship:

Time	Definition of Entrepreneur ‘
Middle Ages	Person in charge of large-scale projects

17th Century	Person bearing the risk of loss in large, fixed-price contracts with the government
1725	Person bearing risks, as opposed to person supplying capital (Richard Cantillon)
1803	Person enjoying the profits of entrepreneurship, as opposed to person enjoying the profits of supplying capital (Jean Baptiste Say)
1876	Person who receives profits from managerial capabilities as opposed to person who receives interest from capital supplied (Francis Walker)
1934	Innovator who develops untried technology (Joseph Schumpeter)
1961	Energetic, moderate risk taker (David McClelland)
1964	Person who maximizes opportunities (Peter Drucker)
1975	Person who takes initiative organizes some social and economic mechanisms and accepts risks of failure (Albert Shapero)
1985	Person who creates something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the resulting rewards of monetary and personal satisfaction (Robert Hesrich)

Some facts about entrepreneurs and entrepreneurship:

E: Examine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.

N: Narrow the possible opportunities to one specific "best" opportunity.

T: think of innovative ideas and narrow them to the "best" idea.

R: research the opportunity and idea thoroughly.

E: enlist the best sources of advice and assistance that they can find.

P: Plan their ventures and look for possible problems that might arise.

R: Rank the risks and the possible rewards.

E: Evaluate the risks and possible rewards and make their decision to act or not to act.



N: Never hang on to an idea, no matter how much they may love it, if research shows it won't work.

E: Employ the resources necessary for the venture to succeed.

U: Understand that they will have to work long and hard to make their venture succeed.

R: Realize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.



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5.1.4. Importance Of Entrepreneurship

- ⌚ Entrepreneurship holds immense significance in fostering economic development, acting as a driving force for industrialisation and growth. According to Joseph Schumpeter, a nation's economic progress is intrinsically tied to its capacity for innovation, which, in turn, hinges on the distribution of entrepreneurial talent within its population.
- ⌚ While technical advancements are essential, their transformation into economic development relies on the entrepreneurial acumen of individuals who effectively organize and utilize capital, labour, and technology.
- ⌚ Experts emphasize that economic development doesn't occur spontaneously based solely on favourable economic conditions; it necessitates entrepreneurial activity as a catalyst. The abundance of activities seen in prosperous countries can be attributed to the presence of enterprising individuals.
- ⌚ Entrepreneurship being an intangible factor is the moving force and development is the consequence. It has an important role in the context of a developing nation like India which is confronted with major socio-economic problems. Entrepreneurship can play an important role not only in the industrial sector of a country but in the farm and service sectors also.
- ⌚ **An American magazine.** "The Economist' (1999) recently put it, "Innovation has become the industrial religion of the late 20th Century". It is being increasingly realized that today's managers and businessmen need not only managerial skills but entrepreneurial skills as well. Entrepreneurship needs to be demystified and transformed into a skill by teaching and practicing. Skill of entrepreneurship knows how to turn an ordinary corporation, managed in a routine manner, into an entrepreneurial organisation.

People within the organisation can be trained to:

- 📖 Defect the opportunities;

📖 Peruse the opportunities and rewarded;

📖 To lessen the consequences of failing;

- ⌚ Entrepreneurs play a pivotal role in creating new enterprises that invigorate the economy and revitalizing established businesses, which collectively form the economic framework. Their impact on economic development manifests in several ways, as they initiate and sustain growth by bringing innovative ideas to life, creating job opportunities, and fostering competition, all of which contribute to a thriving economy.

Entrepreneurs initiate and sustain the process of economic development in the following ways:

1. **Capital Formation:** Entrepreneurs effectively mobilize idle savings from the public by issuing industrial securities. This results in the productive utilization of national resources, increasing the rate of capital formation, which is essential for rapid economic progress. They are instrumental in wealth creation.
2. **Improvement in Per Capita Income:** Entrepreneurs identify and capitalize on opportunities, converting latent and idle resources like land, labour, and capital into national income and wealth through the production of goods and services. This boosts the Net National Product and per capita income, important indicators of economic growth.
3. **Generation of Employment:** Entrepreneurs contribute to employment both directly and indirectly. Through self-employment and the establishment of various business units, they offer job opportunities to millions, helping to alleviate unemployment issues.
4. **Balanced Regional Development:** Entrepreneurs, both in the public and private sectors, play a crucial role in reducing regional disparities in economic development. **They establish industries in underdeveloped areas, taking advantage of concessions and subsidies offered by the government – UGC NET 2013.** This has put lesser-known regions on the map of economic development.
5. **Improvement in Living Standards:** Industries set up by entrepreneurs alleviate the scarcity of essential commodities and introduce new products, ultimately improving the standard of living for the common people. Mass production and the growth of small-scale industries contribute to increased variety and lower costs of goods.
6. **Economic Independence:** Entrepreneurship is vital for national self-reliance. By manufacturing indigenous substitutes for previously imported products and promoting exports, entrepreneurs reduce dependence on foreign countries. This ensures economic independence, which is crucial alongside political independence.





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INDEX

S. No	Chapter	Page No
8.1	Cost Accounting	1
	8.1.1. Introduction To Cost Accounting	1
	8.1.1.1. Indorduction	1
	8.1.1.2. Evolution Of Cost Accounting	2
	8.1.1.3. Development Of Cost Accounting	2
	8.1.1.4. Meaning of Cost	4
	8.1.1.5. Meaning Of Costing	4
	8.1.1.6. Meaning Of Cost Accounting	5
	8.1.1.7. Definition	5
	8.1.1.8. Objective Of Cost Accounting	9
	8.1.1.9. Fundamentals Principles Of Cost Accounting	10
	8.1.1.10. Importance Of Cost accounting	11
	8.1.1.11. Advantage And Disadvantage of Cost Accounting	11
	8.1.1.12. Scope Of Cost Accountancy	13
	8.1.1.13. Objections against cost accounting	14
	8.1.1.14. Implementation Of The Costing System	15
	8.1.1.15. Practical Difficulties In Implementing A Costing System	16
	8.1.1.16. Essentials Of A Good Cost Accounting System	16
	8.1.1.17. Distinction Between Financial Accounting And Cost Accounting	17
	8.1.1.18. Installation Of Cost System Or Cost Accounting System	18
	8.1.1.19. Relationship Of Financial Management Accounting To Cost Accounting	18
	8.1.1.20. Multiple Choice Questions	20
	8.1. 2. Methods And Techniques Of Costing	21
	8.1.2.1. Different Cost Concepts	21
	8.1.2.2. Cost, Expenses, Loss	22
	8.1.2.3. Characteristics Of the Cost Concept Of Accounting	23
	8.1.2.4. Cost Concept And The	24

	8.1.2.5. Methods Of Costing	25
	8.1.2.6. Techniques Or Types Of Costing	28
	8.1.2.7. Multiple Choice Questions	28
	8.1.3. Classification of cost - Materials-Labour-Overheads	29
	8.1.3.1. Classification Of Cost	29
	8.1.3.1.1. Classification Into Direct And Indirect Costs	30
	8.1.3.1.2. Classification Into Fixed And Variable Costs	31
	8.1.3.1.3. Classification Into Committed and discretionary costs:	33
	8.1.3.1.4. Classification into Product costs and Period costs	33
	8.1.3.1.5. Classification into controllable and non-controllable costs	34
	8.1.3.1.6. Classification into historical costs and pre-determined costs	35
	8.1.3.1.7. Classification Into Normal And Abnormal Costs	35
	8.1.3.1.8. Natural Classification of Cost	35
	8.1.3.1.9. Special Cost For Managerial Decision Making	39
	8.1.3.1.10. Items not be Included in Cost Account	43
	8.1.3.1.11. Degree of Traceability To The Product	43
	8.1.3.1.12. Association With the Product	44
	8.1.3.1.13. Effect of Product costs and Period Costs	45
	8.1.3.1.14. Functional Classification of Costs	45
	8.1.3.1.15. Relationship with Accounting Period	46
	8.1.3.1.16. Multiple Choice Questions	48
	8.1.3.2. Materials	49
	8.1.3.2.1. Material Control	49
	8.1.3.2.2. Store Keeping and Stock Control or Inventory Control	54
	8.1.3.2.3. Methods Of Pricing Material Issues	60
	8.1.3.2.4. Material Losses	63
	8.1.3.2.5. Multiple Choice Questions	64
	8.1.3.3. Labour	65

	8.1.3.3.1. Computation And Control Or Labour Cost	65
	8.1.3.3.2. Personnel Department	68
	8.1.3.3.3. Labour Turnover	68
	8.1.3.3.4. Engineering And Work Study Department	71
	8.1.3.3.5. Time Keeping Department	71
	8.1.3.3.6. Pay Roll Department	73
	8.1.3.3.7. Cost Accounting Department	73
	8.1.3.3.8. Remuneration And Incentives	74
	8.1.3.3.9. Multiple Choice Questions	80
	8.1.3.4. Overheads	81
	8.1.3.4.1. Introduction	81
	8.1.3.4.2. Meaning And Definitions	82
	8.1.3.4.3. Importance Of Overheads Cost	83
	8.1.3.4.4. Classification of overheads costs	83
	8.1.3.4.5. Codification of Overheads	91
	8.1.3.4.6. Procedure For Linking Manufacturing Overheads To Cost Unit	93
	8.1.3.4.7. Departmentalisation of Overheads	94
	8.1.3.4.8. Allocation of Overheads	96
	8.1.3.4.9. Apportionment of Overheads	96
	8.1.3.4.10. Primary Distribution of Overheads	97
	8.1.3.4.11. Secondary Distribution Of Overheads	100
	8.1.3.4.12. Absorption of Overheads	102
	8.1.3.4.13. Methods of Absorption of Overheads	104
	8.1.3.4.14. Machine Hour Rate Method	107
	8.1.3.4.15. Under Absorption And over Absorption Of Overheads	110
	8.1.3.4.16. Administration Overheads	112
	8.1.3.4.17. Selling And Distribution Overheads	115
	8.1.3.4.18. Research And Development Expenses	117
	8.1.3.4.19. Multiple Choice Questions	120
	8.1.4. Cost Sheet	121
	8.1.4.1. Introduction	121

	8.1.4.2. Purposes Of Cost Sheet	122
	8.1.4.3. Cost heads in a cost Sheet	122
	8.1.4.4. Cost Sheet/Statement	126
	8.1.4.5. Practical Problems	130
	8.1.4.6. Multiple Choice Questions	138
	8.1.5. Job Costing	139
	8.1.5.1. Introduction	139
	8.1.5.2. Meaning Of Job Costing	140
	8.1.5.3. Principle of job costing	140
	8.1.5.4. Process of Job Costing	140
	8.1.5.5. Suitability Of Job Costing	141
	8.1.5.6. Features Of Job Costing	141
	8.1.5.7. Objectives Of Job Costing	141
	8.1.5.8. Advantages Of Job Costing	141
	8.1.5.9. Disadvantages Of Job Costing	141
	8.1.5.10. Job Costing Procedure	142
	8.1.5.11. Practical Problems	145
	8.1.6. Process Costing	149
	8.1.6.1. Introduction	149
	8.1.6.2. Meaning:	150
	8.1.6.3. General Principles Of Process Costing	151
	8.1.6.4. Characteristics Of Process Costing	151
	8.1.6.5. Advantages Of Process Costing	151
	8.1.6.6. Limitation Of Process Costing	151
	8.1.6.7. Essential Stages Is Process Costing	152
	8.1.6.8. Industries Where Process Costing Is Applied	152
	8.1.6.9. Difference Between Process Cost And Job Cost	153
	8.1.6.10. Normal loss, abnormal loss, abnormal gain(excluding equivalent production and inter process profit), wastage scrap, spoilage and defective	154
	8.1.6.11. Simple Process Account Problems	156
	8.1. 7. Joint Products and By-Products	160

	8.1.7.1. Joint product costing:	160
	8.1.7.1.1. Meaning of joint product costing:	160
	8.1.7.1.2. Features Of Joint Product Costing	160
	8.1.7.1.3. Different Methods Of Apportionment Of Joint Cost	161
	8.1.7.1.4. Characteristics of joint products:	162
	8.1.7.1.5. Accounting For Joint Products	162
	8.1.7.2. By – Product Costing	163
	8.1.7.2.1. Meaning Of By-Products	163
	8.1.7.2.2. Features of by-product:	164
	8.1.7.2.3. Accounting For By-Products	164
	8.1.7.2.4. Methods Of Accounting For By Products:	165
	8.1.7.2.5. Distinguish Between Join Product And By-Product	165
	8.1.7.2.6. Simple Problems For By-Products And Joint Products	166
	8.1. 8. Operating Costing	168
	8.1.8.1. Introduction	168
	8.1.8.2. Meaning Of Operating/Service Costing	169
	8.1.8.3. Characteristics Features Of Operating Costing	170
	8.1. 9. Contract Costing	170
	8.1.9.1. Introduction	170
	8.1.9.2. Jobs where contract costing is used:	170
	8.1.9.3. Features Of Contract Costing	170
	8.1.9.4. Specific Aspects Of Contract Costing	171
	8.1.9.5. Advantages	174
	8.1.9.6. Disadvantages	175
	8.1.9.7. Treatment Of Profits Or Loss On Contracts Account	175
	8.1.9.8. Problems For Contract Costing	176
	8.1.10. Standard Costing And Variance Analysis (Material And Labour Only)	178
	8.1.10.1. Introduction	178
	8.1.10.2. Meaning Of Standard	178
	8.1.10.3. Meaning Of Standard Cost	178

	8.1.10.4. Meaning Of Standard Costing	179
	8.1.10.5. Application Of Standard Costing	180
	8.1.10.6. Standard Costing And Budgetary Control	180
	8.1.10.7. Standard Costs And Estimated Costs	181
	8.1.10.8. Advantages of standard costing'	182
	8.1.10.9. Establishment Of A Standard Costing System	183
	8.1.10.9.1. Standard cost for direct materials.	185
	8.1.10.9.2. Standard cost for direct labour.	185
	8.1.10.9.3. Standard overhead costs.	186
	8.1.10.10. Variance Analysis	187
	8.1.10.10.1. Direct material variances.	188
	8.1.10.10. 2. Direct Labour Variances	190
	8.1.10.11. Multiplechoice Questions	195
	8.1.11. Activity-Based Costing (ABC)	196
	8.1.11.1. Introduction	196
	8.1.11.2. Definition	197
	8.1.11.3. Explanation Of Activity-Based Costing	197
	8.1.11.4. Difference Between Traditional Costing And Activity-Based Costing	198
	8.1.11.5. Factors Prompting The Development Of Activity-Based Costing System	199
	8.1.11.6. Importance Of Activity-Based Costing	199
	8.1.11.7. Advantage Of Abc System	200
	8.1.11.8. Important Terms In Activity-Based Costing	201
	8.1.11.9. Steps To Follow In Activity-Based Costing	201
	8.1.11.10. Need Or Objects Of Activities-Based Costing	202
	8.1.11.12. Limitations Of Abc System	202
8.2	Management Accounting	203
	8.2.1. Introduction to Management Accounting - Functions and Benefits of Management accounting	203
	8.2.1.1. Introduction	203
	8.2.1.2. Meaning Of Management Accounting	205
	8.2.1.3. Definition Of Management Accounting	205

	8.2.1.4. Characteristics (Or) Nature Of Management Accounting	206
	8.2.1.5. Scope Of Management Accounting	207
	8.2.1.6. Function Of Management Accounting	209
	8.2.1.7. Distinction Between Financial Accounting And Management Accounting	210
	8.2.1.8. Distinction Between Management Accounting And Cost Accounting	211
	8.2.1.9. Tools And Techniques Of Management Accounting	212
	8.2.1.10. Benefits Of Management Accounting	214
	8.2.1.11. Limitations Of Management Accounting	214
	8.2.1.12. Installation Of Management Accounting System	215
	8.2.1.13. Management Accountant Or Financial Controller	216
	8.2.1.14. Functions Of Management Accountant	216
	8.2.1.15. Duties of management accountant.	217
	8.2.1.16. Objective Type Questions	218
	8.2.2. Analysis and Interpretation of Financial statements - Comparative statements, Common size statements and Trend analysis	219
	8.2. 2.1. Meaning Of Financial Statements	219
	8.2.2.2. Nature Of Financial Statements	220
	8.2.2.3. Significance Of Financial Statements	221
	8.2.2.4. Limitations of financial statements.	222
	8.2.2.5. Analysis And Interpretation Of Financial Statements	223
	8.2.2.6. Objectives Of Financial Statement Analysis	225
	8.2.2.7. Procedure For Financial Statement Analysis	225
	8.2.2.8. Types Of Financial Analysis	226
	8.2.2.9. Tools Or Techniques Of Financial Statement Analysis	227
	8.2.2.9.1. Comparative Financial Statements	227
	8.2.2.9.2. Common Size Financial Statements	228
	8.2.2.9.3. Trend Analysis	229
	8.2.2.10. Objective type questions:	230

	8.2.3. Ratios	231
	8.2.3.1. Introduction	231
	8.2.3.2. Meaning Of Ratio Analysis	232
	8.2.3.3. Modes Of Expression Of Ratios	232
	8.2.3.4. Steps In Ratio Analysis	233
	8.2.3.5. Advantages Of Ratio Analysis	233
	8.2.3.6. Limitations Of Ratio Analysis	234
	8.2.3.7. Classification Of Ratios	234
	8.2.3.7.1. Traditional Ratios	234
	8.2.3.7.2. Functional Ratios	235
	8.2.3.8. Summary Of Ratios	258
	8.2.3.9. Practical problems:	262
	8.2.3.10. Computation Of Items Of Financial Statements From Ratios And Other Data Ascertaining Specific Items	271
	8.2.3.11. Objective Type Questions	277
	8.2.4. Funds Flow Statement	278
	8.2.4.1. Introduction:	278
	8.2.4.2. Meaning Of Funds	278
	8.2.4.3. Meaning Of Flow	280
	8.2.4.4. Meaning Of Fund Flow Statement	282
	8.2.4.5. Objectives Of Funds Flow Statement	282
	8.2.4.6. Advantages Of Funds Flow Statement	283
	8.2.4.7. Limitations Of Funds Flow Statement	284
	8.2.4.8. Distinction Between Funds Flow Statement And Balance Sheet	284
	8.2.4.9. Preparation Of Funds Flow Statement	285
	8.2.4.9.1. Sources Of Funds	285
	8.2.4.9.2. Application Of Funds	287
	8.2.4.10. Steps Involved In Preparation Of Funds Flow Statement	288
	8.2.4.11. Points To Remember	299
	8.2.4.12. Objective Type Questions	301

	8.2.5. Cash Flow Statement as per AS 3	302
	8.2.5.1. Introduction:	302
	8.2.5.2. Meaning Of Cash Flow Statement	302
	8.2.5.3. Differences Between Cash Flow Statement And Funds Flow Statement	303
	8.2.5.4. Advantages Of Cash Flow Statement	304
	8.2.5.5. Limitations Of Cash Flow Statement	304
	8.2.5.6. Preparation Of Cash Flow Statement	305
	8.2.5.6.1. Items Of Cash Inflow (Sources)	305
	8.2.5.6.2. Items of Cash Outflows (Applications of Cash)	309
	8.2.5.7. Steps Involved In Preparation Of Cash Flow Statement	310
	8.2.5.8. Accounting Standard 3 (Revised)- Cash Flow Statement	312
	8.2.5.9. Objective Type Questions	318
	8.2.6. Budget and Budgetary Control	319
	8.2.6.1. Introduction	319
	8.2.6.2. Meaning Of Budget	319
	8.2.6.3. According to this definition, the budget will have the following essential features	319
	8.2.6.4. Meaning Of Budgeting	320
	8.2.6.5. Budgeting Control	320
	8.2.6.6. Objectives of Budgetary Control	320
	8.2.6.7. Advantages Of Budgetary Control	321
	8.2.6.8. Limitations Of Budgetary Control	321
	8.2.6.9. Essential Of Successful Budgetary Control	322
	8.2.6.10. Organisation For Budgetary Control	323
	8.2.6.11. Classification Of Budgets	325
	8.2.6.11.1. Budgets Based On Functions	325
	8.2.6.11.2. Budgets Based on Flexibility	331
	8.2.6.12. Performance Budgeting	333
	8.2.6.13. Zero Base Budgeting (Zbb)	335

	8.2.6.14. Control Ratios	336
	8.2.6.15. Objective Type Questions	337
	8.2.7. Marginal Costing and Break – Even analysis.	338
	8.2.7.1. Introduction Of Marginal Costing	338
	8.2.7.2. Salient Features Of Marginal Costing	339
	8.2.7.3. Advantages Of Marginal Costing	341
	8.2.7.4. Limitation Of Marginal Costing	342
	8.2.7.5. Marginal Costing And Absorption Costing	343
	8.2.7.5.1. Absorption Costing - Meaning	343
	8.2.7.5.2. Definition	343
	8.2.7.5.3. Advantage And Limitation Of Absorption Costing	343
	8.2.7.5.4. Differences Between Marginal Costing And Absorption Costing	344
	8.2.7.6. Cost Volume Profit Analysis	345
	8.2.7.6.1. Important Terms And Concepts In Cost Volume Profit Analysis	346
	8.2.7.7. Application Of Marginal Costing	357
	8.2.7.8. Practical Application Of Marginal Costing Techniques In Different Situation	363
	8.2.7.9. Simple Problems	365
	8.2.7.10. Objective Type Questions	375
	Set – 1 – Multiple Choice Questions	378
	Set – 2 – Multiple Choice Questions	388
	Set – 3 – Multiple Choice Questions	401

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B.Off 2: 65C, Thillai Ngr(West), 4th Cross St, Trichy– 620018, Cell : 76399 67359
B.Off 3: 266-C - Advaita Ashram Road, New Bus Stand, Salem– 4, Cell : 93602 68118

UNIT- VIII

COST AND MANAGEMENT ACCOUNTING

SYLLABUS

**Introduction to Cost Accounting – Methods and Techniques of Costing
–Classification of cost – Materials – Labour – Overheads – Cost sheet
– Job Costing – Process Costing – Joint Products and By-Products –
Operating Costing – Contract Costing – Standard costing and
Variance Analysis (Material and Labour only) – Activity Based
Costing. Introduction to Management Accounting – Functions and
Benefits of Management accounting – Analysis and Interpretation of
Financial statements: Comparative statements, Common size
statements and Trend analysis – Ratios – Funds flow statement – Cash
Flow Statement as per AS 3 – Budgets and Budgetary control –
Marginal Costing and Break – Even analysis.**

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SANNATHI STREET, KANCHIPURAM – 1. CELL: 9566535080

B.Off 2: B.Off 2: 65C, Thillai Ngr(West), 4th Cross St, Trichy – 620018.

B.Off 3:266-C, Advaita Ashram Road,(Opp to New Bus Stand), Salem-636 004.

Trichy: 76399 67359

Salem: 93602 68118

PG -TRB COMMERCE

UNIT - 8

COST AND MANAGEMENT ACCOUNTING

8.1. COST ACCOUNTING

Introduction to Cost Accounting – Methods and Techniques of Costing – Classification of cost – Materials – Labour – Overheads – Cost sheet – Job Costing – Process Costing – Joint Products and By-Products – Operating Costing – Contract Costing – Standard costing and Variance Analysis (Material and Labour only) – Activity Based Costing.

8.2. MANAGEMENT ACCOUNTING

Introduction to Management Accounting – Functions and Benefits of Management accounting – Analysis and Interpretation of Financial statements: Comparative statements, Common size statements and Trend analysis – Ratios – Funds flow statement – Cash Flow Statement as per AS 3 – Budgets and Budgetary control – Marginal Costing and Break – Even analysis.

8.1. 1. Introduction To Cost Accounting

8.1.1.1. Introduction

- ♠ The primary purpose of accounting is to provide financial information relating to an economic/business activity. It is concerned with measuring, recording, and reporting financial information by the management to plan and control the activities of a business as well as by others who provide funds or who have various interests in the operations of an entity.
- ♠ The accounting system that provides the information to measure product costs and performance, and control the operations of a firm is called cost accounting.



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- ♠ Cost Accounting is one of the important disciplines of accountancy to give proper information required to the management for effectively discharging its functions such as planning, organizing, controlling, directing, co-ordinating and decision making. In this regard Financial Accounting is concerned with record keeping directed towards the preparation of Profit and Loss Account and Balance Sheet. It provides information about the enterprise in a general way.
- ♠ Accordingly, Financial Accounts are prepared as per the requirement of the Companies Act and Income Tax Act. The main purpose of financial accounting is to ascertain profit or loss of a concern as a whole for a particular period.
- ♠ Thus, financial accounting does not serve as the needs of management for effective control, determination of prices, making effective plan for future operations and formulating various policy decisions. To overcome the limitations of the financial accounting, the cost accounting is a recent development born in response to the needs of management for detailed information about cost of a product or a unit of services.
- ♠ Every business firm is expected to make profit in the long run and, keep costs within control. Recently the Companies Act has made obligatory the keeping of cost records in some manufacturing companies.
- ♠ In essence, therefore Cost Accounting is now widely used by large manufacturing and nonmanufacturing operations.




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8.1.1.2. Evolution Of Cost Accounting

For examples: salary, materials, other expenses etc. In the case of service industry, they are interested in the cost of ascertaining the cost of the services it renders. The cost per unit is arrived by dividing the total expenditure incurred to the total number of production or the service rendered. This method can be used when there is only one product. If the manufacturing company manufactures more than one product, it becomes imperative to split the total cost among the number of products.

8.1.1.3. Development Of Cost Accounting

- ♠ The fundamental objective of any accounting system is to provide necessary information relating to business to all parties **who are interested in the welfare of the organisation owners, management, investors, creditors, government, stock exchange, banks and financial institutions.**
- ♠ The information needs of the majority of them can be satisfied by means of financial statements such as profit and loss account and balance sheet. The needs of the management, however, cannot be fulfilled with the help of information given in the **financial statements.**

- ♠ What the management requires is not business information that enables it to exercise control over the entire business in a general way, but day-to-day information for **planning, control and decision-making**.
- ♠ In order to provide relevant information to the management for taking the right decision to avoid all possible wastages and losses and to increase the efficiency of the business, a new branch of accounting known as 'cost accounting' has been developed.
- ♠ Cost accounting is a recent development born in response to the needs of managers for detailed information about the **cost of product or unit of service**. The emergence of cost accounting is a major event of human renaissance.
- ♠ The progress of human civilisation and cost accounting have almost run parallel. There is evidence that costing was practised by the **Sumerians in Mesopotamia in 5000 B.C.** and it was certainly well-developed in Florence in the Middle Ages.
- ♠ It is reasonable to assume that people at different periods employed some measures of cost accounting, at least, to ascertain prices to be charged to customers, - extensive mechanisation of production system resulting in large scale production.
- ♠ However, the **Industrial Revolution in the eighteenth century brought about, some sporadic efforts were made in the U.K. and the U.S.A. to install factory cost system as far back as 1805**. But the concept of '**prime cost**' was used around **1875 by some industrialists**. The growth of cost accounting during the **First World War was rapid** chiefly owing to price controls imposed by the government and the cost-plus contracts.
- ♠ The system of cost-plus contracts necessitated maintenance of cost records and ascertainment of cost of a job or service. The **great depression 1929 challenged the survival of many industries and threw them on cost reduction measures**. Further, conditions prevailing  **95665 35080** during and after the **Second World War** made reduction a key note.
- ♠ The development of cost accounting in India is of recent origin and it was given importance after independence, when **the Government of India introduced selective cost audit under Section 233B of the Indian Companies Act, 1956 and framed Cost Accounting Record Rules, 1968 for this purpose**.
- ♠ At present, **42 products** are under the fold of **cost audit** and the companies manufacturing these products are required to maintain cost accounting records and subject the same to cost audit. Over the passage of time, several contributions to the subject have made cost accounting an independent system by itself. It has developed into a systematised body of knowledge.

8.1.1.4. Meaning Of Cost

- ♠ The cost of a good or service is essentially the valuation or the resources given in exchange for that good or service. In industrial terms, the cost is the value in the money of a commodity, the materials involved, the efforts, risks, and opportunities created altogether.
- ♠ Cost is also the investment made for producing a product. It is noteworthy that while the value of a commodity is a measure of its usefulness, the cost is strictly calculated in terms of money. Cost is often an umbrella term for several classifications that it holds. These classifications are as follows: Prime cost; Sunk cost; Factory cost; Direct cost & Indirect cost. It is important to mention the type of cost in the balance sheet for better interpretation.

Example: Cost is commonly defined as a 'sacrificed resource' for a particular thing. If we buy a watch for ₹ 30, a number of dollars is considered to be the cost of that watch. Here, ₹ 300 are sacrificed to obtain a watch. It is the simplest example, but the cost can be of anything which is measurable in terms of money.

For example, the cost of preparing one pizza itself includes various other costs like the cost of flour, other ingredients, labour, electricity, and other overheads. Similarly, the cost of production of any product or service can be determined.

8.1.1.5. Meaning of costing:

- ♠ 'Cost' is a term, whereas 'Costing' is a process for determining the cost. It may be called a technique for ascertaining the cost of production of any product or service in the business organization.
- ♠ The actual scope of this term can best be understood in the context of big manufacturing concerns who produce hundreds of products and spend a lot of money on material, labour, and other overheads.
- ♠ The cost of each product in those organizations requires recording expenses with to each product or process, classifying expenses like direct material, labour, overheads, etc., allocating direct expenses, and suitable apportionment of overheads to each product for the correct determination of per-unit cost of production of each product.

Some Important Points to Remember

- ♠ Direct costing is the assignment of cost according to the increasing and decreasing level of activity.
- ♠ On the contrary, the assignment of costs irrespective of the activity levels is known as absorption costing.



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8.1.1.6. Meaning Of Cost Accounting

- ♣ Cost accounting is a method of recording, concisely constructing, analysing, and understanding a company's expenses due to some investment, capital requirements, process, etc.
- ♣ It is a business strategy meant to give insight into the company's expenditures, leading to greater cost efficiency, pre-planning, and finance decisions. Another advantage of cost accounting is that it provides transparency to the company regarding its financial activities.
- ♣ This practice makes it possible for the management to look into which areas require cost-cutting and which ones need greater investment. This technique leads to a better vision for the organization

Meaning of cost accountancy:

- ♣ This term is over and above costing and cost accounting. It envisages the application of costing and cost accounting in a business setup. Cost Accountancy facilitates management with cost control initiatives, ascertainment of profitability, and informed decision-making.
- ♣ It also includes determining the selling price for the products, division, and unit-wise profitability. Forecasting expenses and probable future incomes are also a part of the practice of Cost Accountancy.

8.1.1.7. Definition

- ♣ The Institute of Costs and Management Accountants (ICMA), now known as the Chartered Institute of Management Accountants (CIMA), London has defined the terms cost, costing, cost accounting and cost accountancy as under:

The definitions of the following important concepts of Cost Accountancy are given below:

- | | | |
|--------------------|---|----------------------|
| ♣ Cost | | ♣ Cost Allocation |
| ♣ Costing | | ♣ Cost Absorption |
| ♣ Cost Accounting | | ♣ Cost Ascertainment |
| ♣ Cost Accountancy |  | ♣ Cost Audit |
| ♣ Cost Control | TCA | ♣ Cost Unit |
| ♣ Cost Reduction | | ♣ Cost Centre |

(a) Cost: The word 'Cost' is used in a variety of ways. Cost may be defined as a total of all expenses incurred in a given thing. AICPA defines cost as "the amount measured in money or cash expended or other property transferred, capital stock issued, services performed or a liability incurred in considerations of goods or services received or to be received." '**Cost**' is defined by **W.M. Harper** in the following words "**Cost is the value of economic resources used as a result of producing or doing the thing cost.**"

(b) Costing: ICMA London has defined costing as "**the technique and process of ascertaining costs.**" As a technique, it refers to costing as the body of principles and rules concerned with appropriate allocation of expenditure for the determination of cost of products and services. The technique in costing consists of the body of principles and rules for ascertaining the costs of products and services. The technique is dynamic and changes with the change of time. The process of costing is the day to day routine of ascertaining costs. It is popularly known as an arithmetic process.

Material	₹	100
Labour	₹	40
Expenses	₹	60
Total	₹	200

For example, If the cost of producing a product say ₹ 200/-, then we have to refer material, labour and expenses accounting and arrive the above cost as follows:

Finding out the breakup of the total cost from the recorded data is a daily process. That is why it is called arithmetic process/daily routine. In this process we are classifying the recorded costs and summarizing at each element and total is called technique.

(c) Cost Accounting: Cost accounting is the method of accounting for cost. The I C M A defines Cost Accounting as the technique and process of ascertainment of costs. Cost accounting begins with the recording of all income and expenditure, and ends with the presentation of statistical data.



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Cost Accounting may be defined as "**Accounting for costs classification and analysis of expenditure as will enable the total cost of any particular unit of production to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted**".

Thus, Cost Accounting is classifying, recording an appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for the purpose of control and guidance of management. **Job costing is suitable for specific order concerns. – (PGTRB - 2003-2004)**

Cost Accounting can be explained as follows: -

- ♠ Cost Accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data.
- ♠ It is the formal mechanism by means of which cost of products or services are ascertained and controlled. Cost Accounting provides analysis and classification of expenditure as will enable the total cost of any particular unit of product / service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted.
- ♠ **Differential costs do not find place in Accounting Records – (PGTRB- 2005-2006)**

- ♠ For example, it is not sufficient to know that the cost of one pen is ₹ 25/- but the management is also interested to know the cost of material used, the amount of labour and other expenses incurred so as to control and reduce its cost.
- ♠ It establishes budgets and standard costs and actual cost of operations, processes, departments or products and the analysis of variances, profitability and social use of funds. Thus, Cost Accounting is a quantitative method that collects, classifies, summarises and interprets information for product costing, operation planning and control and decision making.
- ♠ **(d) Cost Accountancy:** According to the Chartered Institute of Management Accountants London, cost accountancy means "**the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability**. It includes the presentation of information derived therefore for the purpose of managerial decision making. Thus, cost accountancy is the science, art and practice of a cost accountant."
- ♠ It is a **science** because it is a systematic body of knowledge having certain principles which a cost accountant should possess for proper discharge of his responsibilities.
- ♠ It is an **art** as it requires the ability and skill with which a Cost Accountant is able to apply the principles of Cost Accountancy to various managerial problems.
- ♠ **Practice** includes the continuous efforts of a Cost Accountant in the field of Cost Accountancy. Such efforts of a Cost Accountant also include the presentation of information for the purpose of managerial decision making and keeping statistical records.



(e) Cost Control: Cost control is the guidance and regulation by executive action of cost of operating an undertaking. It involves pre-determination of targeted costs, measuring the actual costs, investigating into the causes of variations and instituting the corrective action.

(f) Cost Reduction: The term 'cost reduction' refers to the achievement of real and permanent reduction in the unit of cost of goods manufactured or services rendered without impairing their suitability or diminution in the quality of product. Cost reduction involves saving in unit cost; such saving is of permanent nature and the utility and quality of the goods and service Remain unaffected.

(g) Cost Allocation: Cost allocation is the allotment of whole item of cost to cost centres. The technique of charging the entire overhead expenses to a cost centre is known as Cost Allocation.

(h) Cost Absorption: The term 'Cost Absorption' refers to the process of absorption of all overhead costs allocated to or apportioned over particular cost centre or production department by the units produced.

(i) Cost Ascertainment: The term 'Cost Ascertainment' means to ascertain the cost of each product, process or operation and ensure that all the expenses have been absorbed in the cost of products. Cost Ascertainment is one of the important objectives of Cost Accounting.

(j) Cost Audit: I C M A defines 'Cost Audit' as a detailed examination or verification of cost accounts and check on the adherence to the cost accounting plan. The purpose of cost audit is to examine whether the methods laid down for ascertaining costs and other decisions are being properly implemented and whether the cost accounting plan is being adhered to or not.

The purpose can be: Protective and Constructive.

- ♠ **Protective** purpose aims to examine that there is no undue wastage or losses and that the cost accounting system reflects the correct and realistic cost of production.
- ♠ **Constructive** purpose aims at providing the management with information useful in regulating production, choosing economic methods of operations, reducing the operational costs, etc. based on the findings during the course of cost audit.

(k) Cost Unit: The term 'Cost Unit' refers to a unit of product, service or time in relation to which costs may be ascertained. It is a unit of quantity in terms of which costs can be measured. Cost Unit may be selected on the basis of (a) Single and (b) Composite (or) Commonly used. The following are some examples of Cost Units used in different industries:

NAME OF INDUSTRY	COST UNITS USED
Paper	Per Tonne (or) Per Kg
Steel	Per Tonne
Sugar	Per Quintal
Cement	Per Tonne
Textile (cloth)	Per Metre
Transport	Passenger Kilometre
Electricity	Per Kilo Watt-hour
Bricks	Per 1000 bricks

l) Cost Centre:

According to the Chartered Institute of Management Accountants, London, Cost Centre is defined as a location, person or items of equipment (or group of these) for which costs may be ascertained and used for purposes of cost control. In other words, cost centre is a part of an organization which includes location, processes, equipment, (or) machine centres, various departments, persons etc. in relation to which costs can be charged or ascertained.

Cost Centres can be classified into the following types:

- ♣ **Personal Cost Centre:** It consists of a person or group of persons, e.g., salesmen, Marketing Manager, etc.
- ♣ **Impersonal Cost Centre:** It is a Cost Centre which consists of a location or items of equipment.
- ♣ **Operation Cost Centre:** It consists of machines and/or persons carrying out similar operations.
- ♣ **Process Cost Centre:** It is a Cost Centre which consists of a specific process or a continuous sequence of operations.



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8.1.1.8. Objectives Of Cost Accounting

The following are the important objectives of Cost Accounting:

- | | |
|---|--|
| ♣ Ascertainment of cost. | ♣ Assisting Management in decision making. |
| ♣ Determination of selling price. | ♣ Formulating business policy. |
| ♣ Cost control and cost reduction. | ♣ Matching costs with revenue |
| ♣ Ascertainment of profit of each activity. | |

The following are the major objectives/functions of cost accounting:

- ♣ **Ascertainment of cost:** The basic objective of cost accounting is to ascertain the cost of a product, job or service. Expenses relating to a product are collected from diverse sources. In addition to direct expenses relating to a product, joint expenses pertaining to several products are also taken into consideration (apportioned on some equitable basis) while ascertaining the cost of a product.
- ♣ **Control of cost:** The second objective of cost accounting is to control the cost so that the maximum and better production at minimum cost may be made possible. To achieve this objective, the techniques of budgetary control and standard costing are adopted.
- ♣ **Reduction in cost:** Costs are not only to be controlled but constant efforts are to be made for reducing them. Cost reduction implies real and permanent reduction in the unit cost of goods manufactured or service rendered without impairing their (products or goods) suitability for the use intended. Value analysis, time and motion study, standardisation, simplification, etc. are the major techniques of cost reduction.
- ♣ **Determination of selling price:** Cost accounting provides cost information on the basis of which selling prices of products or services can be determined. In the event of depression or recession, cost accounting guides in deciding the extent to which the selling price may be reduced to meet special situations.

- ♠ **Matching cost with revenue:** The profit of any activity can be ascertained by matching cost with the revenue of that activity. The purpose of this step is to determine profit or loss of any activity on an objective basis.
- ♠ **Providing basis for operating policy:** Cost accounting is an essential tool for the management to formulate operating policies and to take business decisions like determination of cost-volume-profit relationship; whether to buy or to make an article, etc.



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8.1.1.9. Fundamentals Principles Of Cost Accounting

- ♠ Cost accounting has been developed into a system and so is governed by certain fundamental principles. These principles serve to achieve the objectives of cost accounting in a systematic manner.
- ♠ **Double entry principle:** Like financial accounting, the cost ledgers and other cost control accounts are maintained on the basis of double entry principle. Cost accounting, however, requires a greater use of cost sheets and cost statements for the purpose of cost ascertainment, cost control and guidance to the management.
- ♠ **No conservatism principle:** In financial accounting, the closing stock is valued at cost price or market price whichever is lower, but in cost accounting, the closing stock is always valued at cost price. There is a value attached to the concept of conservatism in financial accounting but it is not so in cost accounting. There is a tendency to show reduced profits in financial accounting and to create secret reserve but this is not so in cost accounting. The reason is quite clear. If cost accounting adopts the concept of conservatism, the costs would become incomparable. Cost statements are required to be prepared so as to state facts with no known bias. However, providing for emergency is a normal practice which is allowed in costing.
- ♠ **Absorption rate principle:** In cost accounting, the expenses are determined on the basis of predetermined rate. This estimation process is known as "absorption of overheads". This is for the purpose of comparison with actual as a control purpose.
- ♠ **Cause relationship principle:** The costs are collected and analysed according to their nature and are allocated or apportioned on the basis of cause relationship. For example, canteen expenses are apportioned among the various departments according to the number of employees in each department.
- ♠ **Exclusion principle:** Purely financial expenses, abnormal cost, financial incomes, appropriation of profit and capital expenses are completely ignored in cost accounting while determining the cost of product or service. **These items are in no way connected with cost of product or service. They are considered only in financial accounting.** For example, discount on issue of shares has nothing to do with the cost of production.

♠ **Inclusion principle:** For cost accounting purposes, certain expenses not actually incurred are included while determining the cost, as they are deemed to have been incurred. Interest on own capital, for example, is a part of cost in cost accounting but is ignored in financial accounting.



TCA

8.1.1.10. Importance of cost accounting:

Cost accounting has many importance. Specially, the following parties are benefitted from it.

1. Importance to management: Management is highly benefitted with the introduction of cost accounting. It helps to ascertain the cost and selling price of the product. Cost data help management to formulate the business policies. The introduction of budgetary control and standard cost would be an aid to analyse cost. It also helps to find out reasons for profit or loss. It provides data to submit tender as well. Thus, cost accounting is an aid to management.

2. Importance to investors: Investors can obtain benefit from the cost accounting. Investors want to know the financial conditions and earning capacity of the business. An investor must gather information about organization before making investment decision and investor can gather such information from cost accounting.

3. Importance of consumers: The aim of costing is to reduce the cost of production to minimize the profit of business. Reduction in the cost is usually passed on the consumers in the form of lower price. Consumers get quality goods at a lower price.

4. Importance to Employees: Cost accounting helps to fix the wages of the workers. Efficient workers are rewarded for their efficiency. It helps to induce incentive wage plan in business.

5. Importance to Government: Cost accounting is one of the prime sources to provide reliable data to internal as well as external parties. It helps government agencies to determine excise duty and income tax. Government formulates tax policy, industrial policy, export and import policy based on the information provided by the cost accounting.

8.1.1.11. Advantages And Disadvantages Of Cost Accounting

Advantages of Cost Accounting:

♠ Cost accounting system has been fully successful in achieving its objectives. Its importance is, therefore, continuously increasing. It is advantageous not only to the management but to others also. In brief, the advantages of cost accounting may be summarised under the following heads.

Advantages to Cost Accounting:

1. A good cost accounting system helps in identifying unprofitable activities, losses and inefficiencies in any form. The management is able to concentrate on profitable jobs and consider change or closure of the unprofitable jobs.
2. It helps in controlling costs with specific techniques like standard costing and budgetary control.
3. It provides information to the management to serve as a guide in making decisions involving financial considerations. Guidance may also be given by the cost accountant on a host of issues such as whether to buy or manufacture a given component, whether to accept orders below cost, etc.
4. It provides such information that enables the management to formulate production and pricing policies and to prepare estimates of contracts and tenders.
5. It assists the management in the control of stock of raw materials, consumable stores, work-in-progress and finished goods so that the capital locked up in these stocks can be kept to the minimum.
6. It guides the management in the fixation of selling price particularly during depression period when prices may have to be fixed below cost.
7. It provides a reliable check on the accuracy of financial accounts with the help of reconciliation between the two at the end of the accounting period.
8. It enables the management to make cost comparison of various jobs, products, departments, etc. so as to improve performance.
9. It helps in the introduction of a cost reduction programme and ascertaining new and improved ways to reduce costs.
10. It advises management on future expansion and proposed capital outlays.

Advantages to workers:

1. Cost accounting introduces incentive wage schemes, bonus plans, etc. which bring better reward to sincere and efficient workers.
2. A good costing system is helpful to the management in increasing productivity and profitability of the organisation. This leads to prosperity of industries, better wages for workers and security of jobs.



- ♠ **Advantages to creditors:** Bankers, debenture holders and other creditors study the information provided by cost accountants to ascertain the solvency, profitability and future prosperity of the business concern before they sanction loans. The reports of the cost accountants help them immensely to take the right decisions.

இன்றைய TRB பயிற்சியாளரே நாகைய அரசு பள்ளி ஆசிரியரே!

Teacher's Care Academy கடந்த 14 ஆண்டுகளாக TRB தேர்வுகளுக்கான சிறப்பு பயிற்சியை வழங்கி வருகிறது. இதுவரை 10,000-க்கும் மேற்பட்ட ஆசிரியர்களை அரசு வேலைகளில் வெற்றிகரமாக நியமிக்க உதவியதில் நாங்கள் பெருமதம் கொள்கிறோம். எங்கள் நிறுவனத்தில் அனைத்து TRB தேர்வுகளுக்கும் விரிவான பயிற்சிகள் உள்ளன, அவை:

- PGTRB
- UGTRB
- SGT
- POLYTECHNIC TRB
- BEO
- TET Paper I & II
- College TRB
- Special Teachers



கூடுதலாக, தமிழ்நாடு அரசு இப்போது அனைத்து அரசு பணிக்கான தேர்வாணையங்களுக்கு (TRB, TNPSC, MRB, TNUSRB) தமிழ் மொழி கட்டாய தகுதி தேர்வு (Tamil Compulsory Exam) முதற்கட்ட தேர்வாக அறிவித்துள்ளது இதற்காக தமிழ் மொழி கட்டாய தகுதி தேர்வு என்ற புத்தகத்தை பிரத்தியேகமாக உங்கள் Teacher's Care Academy வெளியிட்டுள்ளது. இந்த புத்தகம் அமெசானியும் கிடைக்கிறது ஆனால் எங்களை நேரடியாக தொடர்பு கொண்டு வாங்கும் போது உங்களுக்கு கூடுதல் தள்ளுபடி கிடைக்கும்



TEACHER'S CARE ACADEMY

Head Office
38/23, Vaigundaperumal Koil Street,
Kancheepuram-1.
Mobile : 95665 35080, 9786269980
Land Line : 044-2723 5080

Branch Office
266-C - Advaita Ashram Road,
Opp to New Bus Stand,
Salem - 636 004.
Contact : 93602 68118

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CONTACT US

Web Site : www.tcaexamguide.com

Mobile App : [tcaexamguide](#)

E-Mail : tcaexamguide@gmail.com

Youtube : [Teachers Care Academy](#)

Mobile Number : 95665 35080, 9786269980
76399 67359, 93602 68118

PGTRB

PGTRB தேர்விற்கு நாங்கள் அனைத்து மொழி பாடத்திற்கும் பயிற்சிகளை வழங்கி வருகிறோம்
அதாவது

- + Tamil
- + English
- + Mathematics
- + Physics
- + Chemistry
- + Botany
- + Zoology
- + Economics
- + Commerce
- + Computer Science
- + History

மேற்கண்ட அனைத்து படப்பிரிவுகளுக்கான Study Material-களுடன் Psychology, Tamil Eligibility Book, Question Bank மற்றும் General Knowledge Material-களுடன் வழங்கப்படும்

TET (Teachers Eligibility Test)

TET தேர்விற்கு நம் Teachers Care Academy-யில் Paper I மற்றும் Paper II என இரண்டு தாள்களுக்கும் பிரத்தியேகமாக பயிற்சிகளை வழங்குகிறோம்

இதற்கு தமிழ்நாடு அரசால் வழங்கப்பட்டுள்ள பள்ளி பாட புத்தகத்தில் இருந்து குறிப்புகளை எடுத்து Study Material-களாக வழங்குகிறோம்

மேலும் Psychology-க்கு TRB-ஆல் வழங்கப்பட்டுள்ள பாடத்திட்டத்தை விடப்பற்றி பல்வேறு Reference Book-லிருந்து குறிப்புகளை எடுத்து Study Material-களாக வழங்குகிறோம்

UGTRB

TET தேர்வில் வெற்றி பெற்ற ஆசிரியர்களுக்கு நடத்தப்படும் UGTRB போட்டி தேர்வுக்காக அனைத்து மொழி பாடத்திற்கும் பயிற்சிகளை வழங்கி வருகிறோம் அதாவது

- + Tamil
- + English
- + Mathematics
- + Physics
- + Chemistry
- + Botany
- + Zoology
- + History
- + Geography

SGTRB

TET தேர்வில் வெற்றி பெற்ற ஆசிரியர்களுக்கு நடத்தப்படும் SGTRB போட்டி தேர்வுக்காக தமிழ்நாடு அரசால் வழங்கப்பட்டுள்ள பள்ளி பாட புத்தகத்தில் இருந்து குறிப்புகளை எடுத்து *Study Material*-களாக வழங்குகிறோம்

BEO

BEO தேர்வுக்காக TRB-ஆல் பாடத்திட்டம் வெளியிடப்பட்டுள்ளது அந்த பாடத்திட்டத்தின் அடிப்படையில் அனைத்து பாடத்திற்கும் உங்கள் *Teachers Care Academy* அலகு (*Unit-Wise*) வாரியாக *Study Material*-களை வழங்குகிறது.

POLYTECHNIC TRB

Polytechnic தேர்விற்காக உங்கள் *Teachers Care Academy* பின்வரும் மொழி பாடத்திற்கு பயிற்சிகளை வழங்கி வருகிறது. அநாவது,

- ✚ Civil
- ✚ EEE
- ✚ ECE
- ✚ CSE
- ✚ Mechanical
- ✚ English
- ✚ Mathematics
- ✚ Physics
- ✚ Chemistry

College TRB

தமிழ்நாட்டில் அரசு கல்லூரிகளில் காலியாக உள்ள உதவி பேராசிரியர் பணிக்கு TRB வெகு விரைவில் போட்டித் தேர்வை நடத்த இருக்கிறது

அந்த தேர்வுக்காக நம் *Teachers Care Academy*-யில் பின்வரும் மொழி பாடத் திட்டத்திற்கும் பயிற்சிகளை வழங்கி வருகிறது

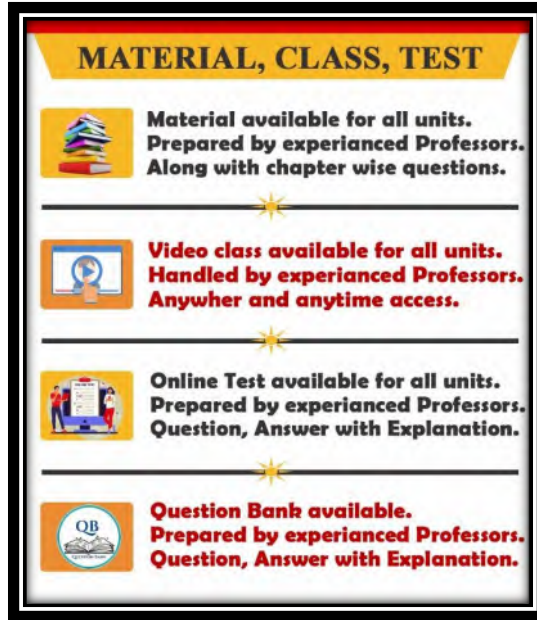
- ✚ Tamil
- ✚ English
- ✚ Mathematics
- ✚ Physics
- ✚ Chemistry
- ✚ Botany
- ✚ Zoology
- ✚ Economics
- ✚ Commerce
- ✚ Computer Science
- ✚ History
- ✚ Geography

Special Teachers

TRB-ஆல் நடத்தப்படும் ஈறப்பாசிரியர் தேர்வுக்காக நம் *Teachers Care Academy*-யில் பின்வரும் பாடத்திட்டத்திற்கு பிரத்தியேகமாக பயிற்சிகள் வழங்கப்பட்டு வருகிறது. அநாவது,

- ✚ Sewing
- ✚ Drawing
- ✚ Music
- ✚ PET

மேற்கண்ட அனைத்து தேர்வுகளுக்கும் உங்கள் *Teachers Care Academy* பலவிதமான பயிற்சிகளை வழங்குகிறது, அவை



இந்த ஆண்டு (2024) *TNPSC Batch*-யும் அறிமுகம் செய்திருப்பதில் நாங்கள் பெருமிதம் கொள்கிறோம். எங்கள் வழிகாட்டுதல் வரவிருக்கும் தேர்வுகளில் நீங்கள் வெற்றி பெற உதவும் என நாங்கள் உறுதியாக நம்புகிறோம்.

உங்கள் அரசு ஆசிரியர் பணி கனவு நிறைவேற வாழ்த்துக்கள்!

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tcaexamguide@gmail.com



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38/23, Vaigundaperumal Koil Street, Kanchipuram-1

Mobile : 95665 35080, 97862 69980

Help Line Numbers : 9360268118 7639967359

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