

## Unit 1 : Nature and Significance Of management

-> **Management** is an art of getting things done through others, with the aim of achieving goals effectively and efficiently.

-> **Management** is distinctive process consisting of Planning, Organising, Staffing, Directing and Controlling performed to determine and accomplishing stated objectives.

-> **Effectiveness** means completing the given **task on time**.

-> **Efficiency** means performing the **task at minimum cost**.

-> **Features/ Characteristics of Management** :--

(a) **Multidisciplinary**: Management uses multidisciplinary or several disciplines / subjects like economics, physiology, mathematics, etc. Simultaneously that benefits an organization.

(i) Management of Work

(ii) Management of people

(iii) Management of Operations

(b) **Goal oriented**: An effective management aims at attaining goal of an organization. Accordingly, all functions and efforts by the management are directed towards achieving these goals.

(c) **All Pervasive**: Management is pervasive or involves human activity across different course of action and level of business.

(d) **Dynamic function**: As a business keeps changing continuously under varying trends, taste, preferences, etc. Management is also characterized by continuous changes, activities and vigour that creates energy among individuals in an organization to work suitably

(e) **Continuous process**: Activities under management are conducted as a continuous process with distinguishable and specific activities, techniques and procedures which cannot be performed simultaneously.

(f) **Group Activity** A single Person can not do all the activities himself but he needs several persons to join their hands together.

(g) **Intangible Force** Management is such a force that can not be seen , only its presence can be felt.

-> **Importance of Management**

(1) Helps in achieving organizational goals

(2) Increases Efficiency

(3) It creates a dynamic Organisation

(4) Helps in achieving personal objectives

(5) Helps in Development of the society

**Objectives Of the Management:**

1.Organisational Objectives	2.Social Objectives	3.Personal Objectives
1. Profit 2. Survival 3. Growth	1 Provide Employment 2 Protect Environment 3 Quality Products at reasonable Rates 4 Adopting new technology	1 Good Salary 2 Social needs 3 Participation in management

**Nature Of Management**

**Management As an Art :**

Arts refers to the personalized application of existing knowledge and skills to get desired results.

(1) Theoretical Knowledge : Management also has theoretical knowledge in form of principles and theories.

(2) Based on Practice : One can become good manager after practice and experience.

(3) Personalized Application: Every manager uses his own knowledge to solve the problem in his own way.

**Conclusion** : Management processes all characteristics of an art.

## Management as a Science

Science is a systematic body of Knowledge that explains certain general truths

- (1) Systematized body of knowledge : Management is also a systematized body of knowledge
- (2) Principles based on experimentation : Management deals with human being and human behavior, the results of these experiments can not be accurately predicated or tested in the laboratories like principles of science.
- (3) Universal Validity : Management principles are not as exact as principles of pure of science and use is not universal.

Conclusion : Inexact or Soft Science not pure Science.

## Management As Profession

Profession refers to that economic activity for which one must have some specialized knowledge and skills and with the help of this knowledge he serves the society and takes fee as remuneration.

### Features

- (1) Specialized Knowledge : Management also has well principles, techniques and are taught in the universities as a disciplines.
- (2) Restricted Entry : Entry in Management is not restricted, one can become a good manager without having degree of MBA.
- (3) Professional Body : It is not compulsory for a manager to a member of any recognized Management Association like AIMA.
- (4) Ethical Code Of Conduct : There is no universally accepted code of conduct for manager and no association has right to take actions against defaulters.
- (5) Service Motive : manager also provide service to society by fulfilling their social responsibility.

Conclusion : Management is not a full fledge profession, it is at infancy stage.

## Three Levels Of Management (Hierarchy)

The levels of management denote a demarcation between various position in an organization on the basis of their responsibility, authority and status. These are –

Top Level	Middle Level	Supervisory Level
Board of Directors, CEO, CFO, GM ,Chairman, President, Vice President, Managing Director	H R Manager, Production Manager, Finance Manager, Operation manager, Divisional Heads, Regional Managers	Supervisors, Foreman and Line Managers
Determining Objectives & Policies, Strategies, Approval of Budget, Appointment of middle level managers, Responsible for all activities of the business,	Interpretation & execution of the policies Motivation & Coordination. Issuing Instructions	Implementation of Policies, Supervising & guiding employees , Submitting workers' grievances, Arranging resources , Responsible for proper working conditions

## Coordination

It is the force that binds all other functions of the Management.

### Characteristics

- (1) Integrates group efforts
- (2) Ensures unity of action
- (3) Continuous Process
- (4) All Pervasive
- (5) It is the responsibility of all managers
- (6) Deliberate Function

### Importance of coordination

- Ensures unity of action
- Erases interdepartmental conflicts
- Promotes harmonious implementation of plans
- Helps in maintaining a high degree of morale amongst employees
- It is an essence of management as it exists in Planning, Organising, Staffing, Directing and Controlling.

## Partnership---Fundamentals Of Partnership

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

### MAIN FEATURE

- (1) Two or more persons ( Maximum no. of partners 50, according to Sec. 464 of Indian Comp. Act 2013 )
- (2) Agreement
- (3) Existence of Business and Profit Motive
- (4) Sharing of Profits
- (5) Relationship of Principal and Agent
- (6) Business carried on by all or any of them acting for all
- (7) No Separate Existence

### Rights of a Partner

- (1) The right to share to share profits or losses.
- (2) Right to take part in the conduct of the business. (Management & Decision Making)
- (3) Right to inspect and have a copy of the books of accounts.
- (4) Right to disallow the admission of a new partner.

### PARTNERSHIP DEED

It is a document which contains terms and conditions of Partnership is called **Partnership Deed** .It is also called **Articles of Partnership**.

It may be **written or oral**.

**Contents** : Apart from the information about the partners following points are considered important for division of Profit & Loss :

- (i) Profit Sharing Ratio
- (ii) Salary or Commission to partners
- (iii) Interest on partners' Capital
- (iv) Interest Charged on Drawings
- (v) Interest on Loan ( Given by partner to firm )

**Provisions in absence of partnership deed :-**

- (1) Equal profit sharing ratio.
- (2) No, Interest on Capitals
- (3) No, Interest charged on Drawings
- (4) No, Salary and No, Commission
- (5) Interest on Loan given by a partner to firm 6% p.a.

### Profit & Loss Appropriation Account

It is an extension of Profit & Loss Account, Prepared to show the division of profit & loss among the partners. It is Nominal in nature.

### Profit and Loss Appropriation Account

Particulars	Amount	Particulars	Amount
To Profit & Loss a/c (net Loss )		By Net Profit A/C (Net Profit after all charges )	
To Salaries of Partners			
To Commission to Partners			
To Interest on Capitals:			
A		By Interest on Drawings:	
B		A	
To Reserve A/C		B	

To Profit transferred to partners' capital account: A B			
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### JOURNAL ENTRIES

1. Entry For Transfer Of Net Profit To P&L App. Account:  
 Profit & Loss A/c Dr.  
     To Profit & Loss Appropriation A/c
2. Entry for Interest on Capital :--  
 (i) For **ALLOWING** interest on capitals :---  
 Interest on Capital A/c Dr.  
     To Partners' Capital A/c  
 (ii) For **CLOSURE** of interest on capitals  
 Profit & Loss Appropriation A/c Dr.  
     To Interest on Capital A/c
3. Entry For Interest On Drawings Account :----  
 (i) For **CHARGING** Interest On Drawings:---  
 Partners' Capital A/c Dr.  
     To Interest On Drawings A/c  
 (ii) For **CLOSURE** of Interest On Drawings A/c :---  
 Interest On Drawings A/c Dr.  
     To Profit & Loss Appropriation A/c
4. Entry for Salary or Commission Payable to a Partner :---  
 (i) For **ALLOWING** salary/ commission to a partner :  
 Partner's Salary/ Commission A/c Dr.  
     To Partners' Capital A/c  
 (ii) For **CLOSURE** of salary o commission account :---  
 Profit & Loss Appropriation A/c Dr.  
     To Partners' Salary / Commission A/c
5. Entry for **TRANSFERRING A PART OF PROFIT TO RESERVE** :  
 Profit & Loss Appropriation A/c Dr.  
     To Reserve A/c
6. Entry for transfer of Credit Balance of P & L App. (Profits )  
 Profit & Loss Appropriation A/c Dr.  
     To Partners' Capital / Current A/c
7. Interest On Partner's Loan to the Firm :--  
 (i) For **PROVIDING** Interest On Partner's Loan :  
 Interest On Partner's Loan A/c Dr.  
     To Partner's Loan A/c  
 (ii) For **CLOSING** the Interest on Partner's Loan A/c  
 Profit & Loss A/c Dr.  
     To Interest on Partner's Loan A/c
8. Interest on Loan taken by a Partner from the Firm

(i) For **CHARGING** Interest on Loan to a partner :--  
Partners' Capital / Current A/c Dr.

To Interest on Partner's Loan A/c

(ii) For **CLOSING** the Interest on Partner's Loan A/c Dr.  
Interest On Partner's Loan A/c

To Profit & Loss A/c

**9. Rent paid to a Partner**

(i) For **PROVIDING** Rent to a Partner :--  
Rent a/c Dr.  
To Rent Payable a/c

(ii) For **CLOSING** the Rent a/c Dr.  
Profit & Loss a/c  
To Rent a/c

**Distinction between Charge & Appropriation out of Profits**

Basis	Charge	Appropriation
Nature	Expenses to be deducted from Profits	Distribution of net profits
Recording	Debited to P & L Account	Debited to P & L App. A/c
Necessary	Even in the event of Loss	Only in case of Profits
Examples	Interest on Capitals, Salary , Commission, Reserves, etc.	Interest on Partner's loan, Manager's Commission, Rent to a partner etc.

**WHEN APPROPRIATIONS ARE MORE THAN PROFITS :**

In this case the Profits will be distributed in the Ratio of Appropriations.

**COMPUTATION OF INTEREST ON CAPITAL**

**Note**-Compute interest on opening Balance of capital and on Additional capital introduced during the year.

$$\text{INTEREST ON CAPITAL} = \text{Opening capital} \times \frac{R}{100} + \text{Additional Capital} \times \frac{R}{100} \times \frac{\text{number of months}}{12}$$

**Calculation of opening capital (in case of fixed capitals)**

Capital at the end	***
Add withdraw of capital	***
Less additional capital	***
Capital in the beginning	***

**Calculation of opening capital (if capital are fluctuating )**

Capital at the end of the year	***
Add : Drawings Against Capital	***
Drawings Against Profits	***
Interest On Drawings	***
Less : Additional Capital	***
Partners' Salary	***
Interest on Capitals	***
Share of Profits	***
Capital In the Beginning	***

Treatment of Interest on Capitals if it is considered as :---

(1) **Appropriation**—It is allowed only if there is Profit.

If Net Profit is less than the amount of Interest- it is allowed only to the extent of Profit in the ratio of the Interest on Capitals.

- (2) **Charge** ----- It is to be allowed whether the firm has earned profit or incurred loss.  
In this case Interest on capitals should be debited to Profit & Loss account.

**CALCULATION OF INTEREST ON DRAWINGS :--**

$$\text{Interest On Drawings} = \text{Amount of Drawings} \times \frac{R}{100} \times \frac{\text{Months}}{12}$$

**Note :** Interest is not Charged on Drawings Against Capitals

: Do not Considered Number of months if **P.A.** is not given with Rate of interest.

**Drawings against Profits:** it is a part of expected profit and debited to Drawings account.

It does not reduce Capital and It is not considered while calculation of interest on Capitals.

**Drawings against Capital :** It is a part of Capital and Debited to Capital Account

It reduces Capital and It is considered while calculation of interest on Capital.

**Case- I** If a partner draws once in a year and date of drawing is Given.

Example : A draws Rs.80,000 on 1<sup>st</sup> August 2018.

$$\text{Interest On Drawings} = 80000 \times \frac{R}{100} \times \frac{8}{12}$$

**Case-II** If a partner draws once in a year and date of drawing is not Given.

Example: A draws Rs.80,000 during the year.

$$\text{Interest On Drawings} = 80000 \times \frac{R}{100} \times \frac{6}{12}$$

Note If question is silent about date of Drawings compute Interest for **HALF OF THE PERIOD.**

**Case- III** If a partner draws same amount and follows a particular sequence

Example: A draws Rs. 5,000 p.m. at the end of each month.

$$\text{Total Drawings} = 5,000 \times 12 = 60,000$$

$$\text{Interest On Drawings} = 60000 \times \frac{R}{100} \times \frac{6.5}{12} \text{ (Average of the months)}$$

$$\text{Average of the months} = \frac{\text{Time Left After First drawing} + \text{Time Left After Last drawing}}{2}$$

If a partner draws same amount through out the year

	Beginning	Middle	End
Monthly	6.5/12	6/12	5.5/12
Quarterly	7.5/12	6/12	4.5/12
Half yearly	9/12	6/12	3/12

**Case—IV Product Method**

If a partner Makes frequent Drawings of Different Amounts

Example: A drew from business for his personal use as

1 <sup>st</sup> July 2018	10,000 × 9 = 90,000
31 <sup>st</sup> August 2018	50,000 × 7 = 3,50,000
1 <sup>st</sup> January 2019	40,000 × 3 = 1,20,000
31 <sup>st</sup> March 2019	20,000 × 0 = 0
	<u>5,60,000</u>

$$\text{Interest On Drawings} = 5,60,000 \times \frac{R}{100} \times \frac{1}{12}$$

### TREATMENT OF INTEREST ON LOAN :

**Loan given by Partner to the firm** is a **CHARGE** against the profits and hence it is allowed whether there are Profits or not. It is Debited to P & L a/c not to P & L App. a/c and Credited to Loan a/c.

**Loan taken by Partner from the firm** is a **GAIN** for the firm and is Credited to the P & L a/c and Debited to the Capital/ Current a/c.

**RENT PAID TO A PARTNER :** It is a **CHARGE** against Profit and hence it is allowed whether there are Profits or not. It is Debited to P & L a/c not to P & L App. a/c and Credited to Rent payable a/c.

### CAPITAL ACCOUNT OF THE PARTNERS :--

- (1) Fixed Capital Accounts
- (2) Fluctuating Capital Accounts

### FIXED CAPITAL ACCOUNTS

- (i) Partners' Capital Account
- (ii) Partners' Current Account

### PROFORMA OF :

#### PARTNERS' CAPITAL ACCOUNT

Particulars	A	B	Particulars	A	B
To Bank A/c ( Capital Drawn )			By Balance b/d ( opening Capital )		
TO Balance C/d (Closing Balance )			By Bank A/c ( additional Capital )		

#### PARTNERS' CURRENT ACCOUNT

Particulars	A	B	Particulars	A	B
To Balance b/d ( opening Dr. balance of current a/c )			By Balance b/d ( opening credit balance of current a/c )		
To Drawings			By Interest on Capitals		
To Interest on Drawings			By Partner's Salary		
To P & L App. a/c ( share of loss )			By Partner' Commission		
To balance c/d ( closing balance )			By P & l App. a/c ( share of profit )		

#### FLUCTUATING CAPITAL ACCOUNT

Particulars	A	B	Particulars	A	B
To Bank a/c ( Capital Drawn)			By Balance b/d ( opening capital )		
To Drawings			By Interest On Capitals		
To Interest on Drawings			By Partner's Salary		
To P & L App. a/c ( share of Loss )			By Partner's Commission		
To Balance c/d ( closing balance )			By P & L App. a/c (share of Profit )		
			By Bank a/c ( additional Capital )		

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