

SAMPLE CONTENT

2014 to 2024



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Board Questions WITH Solutions

- Economics
- Secretarial Practice
- Organisation Of Commerce & Management

Chapter-wise compilation
of relevant Board Questions from 2014 to 2024

Smart Codes
for **Easy**
Memorisation



Std. XII
Commerce

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A collection of
Board 2014
to
2024
Questions With Solutions

Economics • Organisation of Commerce and Management • Secretarial Practice

STD. XII Comm.

Chapter-wise compilation of relevant
board questions with solutions
from 2014 to 2024

Salient Features

- **Subjects covered:**
 - Economics
 - Organisation of Commerce and Management
 - Secretarial Practice
- **Repository of Board questions:**
 - Includes questions from 2014 to 2024.
 - Includes relevant questions from previous curriculum.
- Chapter-wise segregation of objective and theory questions.
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- Answers provided for the questions as per the *latest edition* of the textbook.

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PREFACE

The journey to academic excellence in the Higher Secondary Certificate (HSC) examinations is both challenging and rewarding. **Target's 'Board Questions with Solutions: Std. XII Commerce.'** is a compilation of all the relevant questions (Objectives + Theory Questions) that have been asked in the previous years' HSC Maharashtra Board Papers of Commerce stream for Economics, Organisation of Commerce and Management and Secretarial Practice. The objective of this book is to offer students quick access to previous years' relevant board questions along with their answers.

The chapter-wise and question type-wise segregation of questions enables students to gauge the weightage given and type of questions preferred for a chapter. Flow of questions is set year-wise with questions from the most recent examination placed first in board examination year. Only those questions from previous years that fall under the latest syllabus prescribed by Maharashtra State Board of Secondary and Higher Secondary Education are included. The solutions are complete and comprehensive and supplied with suitable diagrams and graphs wherever applicable. To aid students in understanding the different ways questions can be framed, each one is listed with its alternate versions, marked with an 'OR'.

To facilitate easy recall of long answers with many points, we have created mnemonic codes and incorporated them as *Smart Codes* after the long answers wherever possible. These Smart Codes will help students memorize the answers.

This book is crafted to be an indispensable companion for students aspiring to excel in their HSC exams, providing them with a robust tool to master their subjects comprehensively.

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Best of luck to all the aspirants!

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01

Introduction to Micro-economics and Macro-economics

Objective Questions

Choose the Correct Option:

1. The branch of economics that deals with the allocation of resources. [Oct' 21]
- Micro-economics
 - Macro-economics
 - Econometrics
 - None of these
- a. i, ii and iii b. i and ii
c. only i d. None of these

Ans: c

2. The branch of economics that deals with the allocation of resources: [July 22]
- Micro economics
 - Macro economics
 - Econometrics
 - Monetary economics
- a. i, ii, iii
b. i, ii
c. only i
d. None of these

Ans: c

3. Method adopted in micro economics analysis. [Mar'24]
- Lumping method
 - Aggregative method
 - Slicing method
 - Inclusive method
- a. i, iii, iv b. ii, iii, iv
c. Only iii d. Only i

Ans: c

Complete the following statements by choosing the correct alternative:

1. The terms Micro-economics & Macro-economics were first used by _____. [Mar' 18, '15]
- a. Adam Smith b. Robbins
c. Ragnar Frisch d. Marshall

Ans: Ragnar Frisch

2. The branch of economics that deals with the allocation of resources is known as _____. [July' 23]
- Micro economics
 - Macro economics
 - Econometrics
 - Agricultural economics

Ans: Micro economics

3. Micro Economics is also called as _____. [Mar' 23, July' 18]

- Income theory
- Price theory
- Growth theory
- Employment theory

Ans: Price theory

4. Micro economics is a _____ equilibrium approach. [Mar' 20]
- partial
 - general
 - total
 - multi-variable

Ans: partial

5. Whole Economy is studied in _____. [Mar' 22]
- Micro Economics
 - Macro Economics
 - Econometrics
 - Natural Sciences

Ans: Macro Economics

Choose the Correct pair:

1.

Sr.No.	Group 'A'	Group 'B'
1.	Reward of entrepreneur	Profit

[Mar' 20]

Complete the correlation:

1. Micro economics :: _____ : Macro economics : Forest [July 22]

Ans: Tree

2. Micro-economics : Tree : : Macro-economics : _____ [July 23, Oct' 21]

Ans: Forest

3. Macro Economics : _____ : : Micro Economics : Price theory [Mar' 22]

Ans: Income and employment

4. General equilibrium : Macro Economics : : _____ : Micro Economics. [Mar'24]

Ans: Partial equilibrium

Find the odd word out:

1. Factors of production: Profit, Labour, Capital, Entrepreneur. [July 23]

Ans: Profit

2. Theory of product pricing, Theory of factor pricing, Theory of Economic growth and Development, Theory of Economic welfare. [Mar' 23]

Ans: Theory of Economic growth and Development



Identify and explain the concepts from the given illustrations:

1. Asha collected the information about the income of a particular firm. [Mar' 22]

OR

Madhav collected information about monthly expenditure of a family. [Oct' 21]

OR

Savita collected the information about individual income in a particular firm.

[July 23]

- Ans:** i. Micro-economics studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- ii. Hence, this illustration relates to the concept of 'Micro-economics' where information about the income or expenditure of a particular firm/family has been collected.

2. Samir paid wages to workers in his factory and interest on his bank loan. [July 22]

- Ans:** i. The theory of factor pricing explains how the rewards are determined for various factors of production like land, labour, capital and entrepreneur.
- ii. Hence, this illustration relates to the concept of 'theory of factor pricing' as Samir paid wages to workers (labour) in his factory and interest on his bank loan (capital).

State with reasons whether you agree or disagree with the following statements:

1. Micro economics is also known as price theory.

[Mar' 20]

Ans: Yes, I agree with the above statement.

Reason:

- i. Micro economics deals with the determination of prices of goods and services.
- ii. It also deals with the determination of prices of factors of production (i.e., land, labour, capital and entrepreneur).
- iii. Hence, Micro economics is also known as price theory.

2. The scope of Macro Economics is unlimited.

[Oct' 21]

Ans: Yes, I agree with the above statement.

Reason:

- i. Macro-economic analysis explains which factors determine the level of national income and employment in the country. It also explains the causes of fluctuations in income, output and employment. Therefore, Macro-economics is also called as "Theory of Income and Employment".
- ii. Macro-economic analysis shows how the general price level in the economy is determined. It further explains what causes fluctuations in it. The study of general price level is important on account of problems created by inflation and deflation.
- iii. Macro-economics consists of the theory of economic growth and development. It explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.
- iv. The macro theory of distribution deals with the relative shares of rent, wages, interest and profits in the total national income.

Thus the scope of Macro Economics is unlimited.

3. Macro-economics is different from Micro-economics. [Mar'24, 23]

Ans: Yes, I agree with the above statement.

Reason:

- i. Macro-economics analyses the entire economy. It deals with total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, etc.
- ii. On the other hand, Micro-economics deals with a small part of national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- iii. Macro-economics uses lumping method while Micro-economics uses slicing method.
- iv. Macro-economic analysis is based on general equilibrium analysis while Micro-economic analysis is based on partial equilibrium analysis.
- v. The scope of macro-economics is wide while that of micro-economics is narrow or limited.
- vi. Macro-economics is also called theory of income and employment while Micro-economics is also called as price theory.
- vii. Hence, Macro-economics is different from Micro-economics.



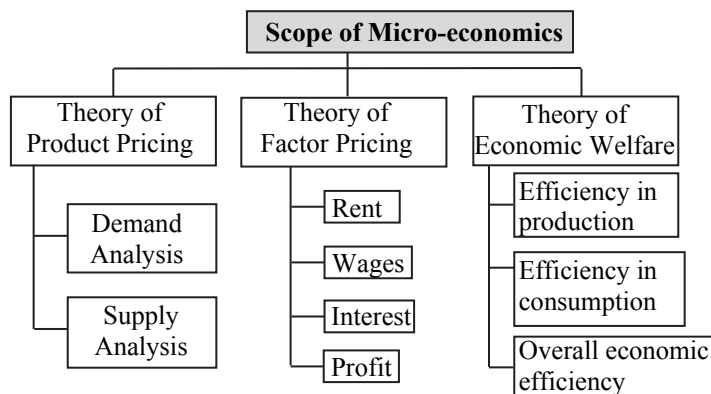
Theory Questions

Answer the following:

1. Explain the scope of micro-economics.

[Mar' 18, '16, '14]

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.



The scope of micro-economics can be explained with the following points:

1) **THEORY OF PRODUCT PRICING**

The price of an individual commodity is determined by the market forces of demand and supply. Micro-economics is concerned with demand analysis i.e. individual consumer behaviour and supply analysis i.e. individual producer behaviour. **The theory of product pricing explains how the price of a commodity is determined.**

2) **THEORY OF FACTOR PRICING**

Land, labour, capital and entrepreneur are all factors of production and contribute to the process of production. For this contribution, they get rewards in the form of rent, wages, interest and profits, respectively. **The theory of factor pricing explains how the factor prices (or rewards) are determined.**

3) **THEORY OF ECONOMIC WELFARE**

Theory of Economic Welfare basically deals with the efficiency in allocation of resources. Efficiency in the allocation of resources is attained when it results in maximisation of satisfaction of people. Economic efficiency involves three efficiencies:

i. **Efficiency in production:** Efficiency in production means producing maximum possible amount of goods and services from the given amount of resources.

ii. **Efficiency in consumption:** Efficiency in consumption means distribution of produced goods and services among the people for consumption in such a way as to maximise total satisfaction of the society.

iii. **Overall economic efficiency:** Overall efficiency means the production of those goods which are most desired by people. Micro-economic theories show under what conditions these efficiencies are achieved.

Thus, we can conclude that the scope of Micro-economics is limited to price theory (factor pricing and product pricing) and allocation of resources. It does not study the aggregates relating to the whole economy.

2. Explain the features of micro-economics.

[July' 18, '17, Mar' 16]

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc. The following are the features of micro-economics:



SMART CODE

P A S S

P

B U S

1) **PRICE THEORY**

Micro-economics deals with the determination of prices of goods and services as well as factors of production. Hence, it is known as price theory.

2) **ANALYSIS OF MARKET STRUCTURE**

Micro-economics analyses different market structures like perfect competition, monopoly, oligopoly, monopolistic competition etc.

3) **SLICING METHOD**

Micro-economics uses slicing method. It splits or divides the entire economy into small individual units and then studies each unit separately in detail. **E.g.:** study of individual income out of national income, study of individual demand out of aggregate demand etc.

4) **STUDY OF INDIVIDUAL UNITS**

Micro-economics is the study of the behaviour of small individual economic units like individual firm, individual price, individual household etc.

5) **PARTIAL EQUILIBRIUM**

Equilibrium means the balance between two factors. Micro-economics studies the behaviour of individual economic units like individual firm, individual consumer, individual household etc. However, while doing so, it isolates the individual unit from other forces and studies its equilibrium independently. Hence, micro-economics deals with partial equilibrium.



6) **BASED ON CERTAIN ASSUMPTIONS**

Micro-economic laws begin with the fundamental assumption, “Other things being constant” (Ceteris Paribus). Micro-economics assumes perfect competition, laissez-faire policy (minimal government intervention), pure capitalism, full employment etc. These assumptions are unrealistic. However, they make the analysis simple.

7) **USE OF MARGINALISM PRINCIPLE**

The concept of ‘marginalism’ is the key tool in micro-economic analysis. The term ‘marginal’ means a change brought about in the total by an additional unit. Marginal analysis helps to study a variable through the changes. Producers and consumers take economic decisions using this principle.

8) **SCOPE IS LIMITED**

The scope of micro-economics is limited to only individual units. It doesn’t deal with nationwide economic problems like inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.

3. **Explain any four features of Micro economics.** [July 23, 22]

Ans: Refer Q.2 of Answer the following for explanation (Any four points)

4. **Explain the importance of micro-economics.** [Mar’ 20, ’19, July’ 17, Mar’ 17]

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.

The following points explain the importance of micro-economics:



SMART CODE

P U B

F R E E

1) **PRICE DETERMINATION**

Micro-economics explains how the prices of different products and various factors of production are determined. It is also known as price theory.

2) **UNDERSTANDING WORKING OF FREE MARKET ECONOMY**

A free market economy refers to an economy where the economic decisions regarding:

- i. What to produce?
- ii. How much to produce?
- iii. How to produce? etc.

are taken at individual level. There is no intervention by the government or any other agency in decisions regarding the production. Micro-economics helps in understanding the working of such free market economy.

3) **BUSINESS DECISIONS**

Micro-economic theories are helpful to businessmen for taking crucial business decisions like determination of price of goods, determination of cost of production, maximisation of output and profit etc.

4) **FORMS BASIS OF WELFARE ECONOMICS**

Resources are scarce and the government must allocate these resources properly for ensuring maximum social welfare. Micro-economic analysis helps the government in optimal allocation and utilisation of scarce resources in order to achieve maximum welfare. It also studies how taxes affect social welfare.

5) **REQUIRED BY GOVERNMENT**

Micro-economics is useful to government in framing economic policies such as taxation policy, public expenditure policy, price policy etc. These policies help the government to attain its goals of efficient allocation of resources and economic welfare of the society.

6) **EXPLAINS ASPECTS OF FOREIGN TRADE**

Micro-economics explains various aspects of foreign trade like effects of tariff on a particular commodity, determination of foreign exchange rates of any two countries, gains from international trade to a particular country etc.

7) **ECONOMIC MODEL BUILDING**

Micro-economics helps in understanding various complex economic situations by way of simple economic models. Economic models are built using various economic variables. Micro-economics has also helped in development of various terms, concepts, terminologies and tools of economic analysis.

5. **Explain any four points of importance of Micro economics.** [Mar’ 23]

Ans: Refer Q. 4 of Answer the following for explanation (Any four points)

6. **Explain the scope of macro-economics.** [Mar’ 22, 20, July’ 18, Mar’ 14]

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.

Page no. **5** to **86** are purposely left blank.

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01

Principles of Management

Objective Questions

Select the correct answer from the options given below and rewrite the statements:

- Management principles influence _____.
[Mar'18]
a. human behaviour b. organisation
c. government
Ans: human behaviour
- Henry Fayol is called as the father of _____ management.
[Feb'20, July 18]
a. modern b. scientific
c. technical
Ans: modern
- Principle of _____ is based on 'A place for everything and everything in its place'.
[July 22]
a. discipline b. order
c. equity
Ans: order
- According to principle of _____, all employees should be given the same treatment.
[Feb'19]
a. discipline b. authority
c. equity
Ans: equity
- Member of organisation should receive orders from _____.
[Mar'22]
a. many superior b. one superior
c. all superiors
Ans: one superior
- Scalar chain means the hierarchy of _____ from the top level to the lower level for the purpose of communication.
[Feb'23]
a. discipline b. unity
c. authority
Ans: authority
- _____ is regarded as Father of Scientific Management.
[Feb'24, Oct'21]
a. Henry Fayol b. F. W. Taylor
c. Philip Kotler
Ans: F. W. Taylor

Match the pairs:

1.

Sr. No.	Group 'A'	Group 'B'
1.	Henry Fayol [Feb'23]	Modern Management
2.	Scientific Management Theory [July 23, Mar'22]	F.W. Taylor

2.

Sr. No.	Group 'A'	Group 'B'
1.	Principle of unity of command [Feb' 20]	One man one boss
2.	Controlling [Feb' 20]	Last function of management
3.	Principle of Unity of direction [Feb'24]	One head one plan

Write a word or a term or a phrase which can substitute each of the following statements:

- Father of modern management. [Mar'18]
Ans: Henry Fayol
- The principle of management that says work should be divided into parts. [Mar'17, 16]
Ans: Principle of Division of Work
- Principle of management which says unity is strength. [Oct'14]
Ans: Principle of Esprit De Corps
- Father of scientific management. [Mar'14]
Ans: F. W. Taylor

State whether the following statements are true or false:

- The principles of management are universal in nature. [July 23]
Ans: True
- F. W. Taylor has proposed 14 principles of management. [Feb'23]
Ans: False



Select the correct option from the bracket:

1. (Scalar Chain, Union is strength, F. W. Taylor, Repair Boss, Henry Fayol)

Sr. No.	Group 'A'	Group 'B'
1.	Father of Scientific Management [Mar'22]	F. W. Taylor

Correct the underlined word and rewrite the following sentences:

1. Security in job always affects adversely on the efficiency of employees. [July 23]
Ans: Insecurity in job always affects adversely on the efficiency of employees.
2. Decentralisation means concentration of powers and authorities at a specific position. [Mar'22]
Ans: Centralisation means concentration of powers and authorities at a specific position.

Explain the following terms/concepts:

1. Principle of Esprit De Corps [July 22]

Ans: Esprit de Corps means union is strength. Power of many is always more than power of one. The manager should create a spirit of team work among the employees. They should be made to realise that the organisation goals are achieved only due to the combined efforts of all the employees. Manager should build a sense of togetherness among the employees. The goals can be achieved smoothly and easily, if the workers work with unity.

2. Mental Revolution [Oct' 21]

Ans: Taylor introduced the concept of "Mental Revolution". It focuses on change in the attitude of employees and management towards each other. Both should realise their equal importance in an organisation and give full co-operation for achieving organisational goals. This will increase productivity and profits.

3. Fatigue Study [July 23]

Ans: Fatigue study is a part of work study which is a technique of scientific management. Generally, long working hours without sufficient breaks, target pressure, heavy working tools, and poor working conditions result into physical and mental stress i.e. fatigue. It has an adverse effect on the health and efficiency of the employees. The management must study the factors that are causing fatigue and take steps to reduce the fatigue in order to maintain operational effectiveness.

4. Principle of Discipline [Feb'24]

Ans: According to Fayol, discipline is the most essential thing in the organisation. Employees must respect and obey the rules of the organisation. Discipline helps to achieve the goals set in the organisation. There should be proper understanding between management and employees regarding the rules so that the discipline is maintained.

Justify the following statements:

1. Principles of management are flexible in nature.

[July 22, Mar' 22, Oct' 21, Feb' 19, Oct' 15]

- Ans:** i. The principles of management can be changed or modified according to the situation & need of the organisation.
 ii. Managers can be flexible while implementing principles to suit the requirement.
 iii. They act as guidelines to managers and are not in the form of a law which is to be followed as it is.
 iv. Thus, principles of management are flexible in nature.

2. Principles of management improve the efficiency of employees. [July 17, Mar' 17]

- Ans:** i. Principles of management help the manager:
 a. In understanding the organisation better
 b. In understanding the situations and problems
 c. In finding solutions to various situations and problems
 ii. Managers use the principles of management to maintain discipline and healthy working environment.
 iii. It helps in developing cordial relationship between management and employees which increases the efficiency level of employees and also affects effective administration.
 iv. Thus, principles of management improve the efficiency of employees.

3. Taylor emphasised on standardisation of tools and equipment. [July 23]

- Ans:** i. Standardisation of goods and services is a technique of scientific management suggested by F. W. Taylor.
 ii. This technique involves standardisation of working environment and methods of production.
 iii. According to Taylor, employees should be provided with good working conditions and good tools & equipment.



- iv. It helps to reduce spoilage and wastage of material, cost of production, and workers' fatigue. Overall, it improves quality of work.
- v. Thus, Taylor emphasised on standardisation of tools & equipment.

4. Management principles are helpful in optimum utilization of resources. [Feb'24]

- Ans:**
- i. In every organisation two types of resources are used i.e. physical resources (material, machines, money etc.) and human resources (manpower).
 - ii. The basic function of the management is optimum utilisation of these resources and controlling wastage.
 - iii. Managers use the principles of management to maintain discipline and healthy working environment.
 - iv. It helps in developing cordial relationship between management and employees which increases the efficiency level of employees and also affects the effective administration.
 - v. Thus, management principles are helpful in optimum utilisation of resources.

Study the following case/situation and express your opinion:

- 1. Mr. Harshad is an entrepreneur and engaged in production of eco-friendly utensils. Both male and female workers are working in his factory. All male employees are directly working on machines whereas female employees are working in packaging department. Mr. Sharath is working as finance manager while Mrs. Naina is working as HR manager who is responsible for recruiting employees in the factory. On this basis:**

- i. Which principle of management is involved in above case?
- ii. What is the designation of Mrs. Naina in this organisation?
- iii. Who is responsible for overall planning of the organisation? [July 23]

- Ans:**
- i. In the above case, we can observe the 'principle of division of work' since work is divided into different kinds such as production, accounting, HR etc.
 - ii. Mrs. Naina is the HR Manager in the organisation.
 - iii. As per the Principle of Unity of Direction, there should be one head and one plan in every organisation. Mr. Harshad is the entrepreneur / head of the organisation and hence, he is responsible for the overall planning of the organisation.

Theory Questions

Answer the following

- 1. Explain nature of principles of management. [Feb' 23, July' 18, Oct' 15, Mar' 15, Mar' 13]**

Ans: The principles used for management of business organisations are called as principles of management. These principles provide guidelines to managers while taking business decisions. Management principles are formed to guide and influence the behaviour of employees. They focus on improving the overall efficiency of the organisational resources. The nature of principles of management is explained as follows:



SMART CODE

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B

G

F

C

A

- 1) PRINCIPLES ARE FORMED BY PRACTICE AND EXPERIMENT**

The management principles are developed gradually with thorough research work. Systematic observations and experiments are conducted before developing them. The results of such experiments are practiced in organisations and then developed as principles.

- 2) UNIVERSAL APPLICATION**

The principles of management are universal in nature. They can be applied to:

- i. All types of organisation, irrespective of their size and nature
- ii. All levels of management

Their results may vary and application may be modified but these are suitable for all kinds of organisations.

E.g.: Management is required in big companies like Reliance and also in a small book store.

- 3) BEHAVIOURAL IN NATURE**

Management is a group activity which aims at achieving certain goal through a group of human beings. Management principles are designed to influence behaviour of human beings. These principles control a group of people and direct them to achieve the objectives.

- 4) GENERAL GUIDELINES**

Management principles provide general guidelines to wisely handle the organisational situations and solve the problems. They are not rigid. Which management principles are to be applied depends upon the situation, size and nature of organisation.

E.g.: When we say fair remuneration, the term 'fair' can vary as per the nature, size and financial condition of the organisation.



5) **FLEXIBILITY**

Management principles are flexible in nature. They can be modified according to the situation. As business situations keep on changing, these principles can be modified and used in the organisation as per its need. In other words, managers can be flexible while implementing these principles.

E.g.: With a change in technology, application of management principles changes.

6) **CAUSE AND EFFECT RELATIONSHIP**

Principles of management help to determine the cause or reason for a particular effect. Therefore, they are the base for taking business decisions.

E.g.: Payment of good wages and incentives (cause) helps in increasing the output of workers (effect) or making effective advertisement (cause) increases the sale of a product. (effect).

7) **ALL PRINCIPLES ARE OF EQUAL IMPORTANCE**

All principles of management are of equal importance. They have to be practiced simultaneously for complete achievement of predefined goals. If any specific principle is focused more while others are not followed with the same focus, then it affects the working of organisation.

Management principles are the principles of social science. The nature of principles of management is not absolute like pure sciences. With some modifications as per the requirement, organisation needs to apply these principles.

2. **What is the significance or importance of the principles of management?**

[Feb' 20, Mar' 18, 17, 16, 14, Oct' 14]

Ans: The principles used for management of business organisations are called as principles of management. Management principles are in the form of pre-determined solutions for the problems which are recurring. These principles are tested and practiced worldwide from many years. Hence, it is important for every manager to know them. The significance of the principles of management can be explained with the help of the following points:



SMART CODE

P U S H E D H

1) **PROVIDES USEFUL INSIGHT TO MANAGERS**

Principles of management help the managers:

- i. In understanding the organisation
- ii. In better understanding of the situations and problems
- iii. In handling various situations and finding solutions to problems

Management principles are based on the experience of various professional people. These principles guide managers about the manner in which they should act in different situations. This type of timely guidance reduces wastage of resources and helps to achieve the organisational goals in an appropriate manner.

2) **UNDERSTANDING SOCIAL RESPONSIBILITY**

Management principles are not developed only from the view point of handling the resources effectively but they also guide management in understanding social responsibility of the organisation. This helps the management to focus on providing quality products at reasonable prices, avoiding artificial monopoly situations in market, ensuring fair competition, fair remuneration, healthy working place, standard tools and machinery etc.

E.g.: Business organisation should focus on developing eco-friendly products.

3) **SCIENTIFIC DECISIONS**

In business organisation, a scientific decision means systematic or balanced decision. Management principles train the managers to take scientific decisions so that they don't have to follow the trial and error method every time. With the use of various management principles, managers can analyse different situations and find alternative options to get desired results.

4) **HELPFUL IN EFFICIENT UTILISATION OF RESOURCES**

In every organisation, two types of resources are used i.e. physical resources (material, machines, money etc.) and human resources (manpower). The basic function of management is optimum utilisation of these resources and controlling their wastage. The management always uses the principles of management to maintain discipline and healthy working environment. It helps in developing cordial relationship between management and employees which increases the efficiency level of employees and enables effective administration.

E.g.: Use of standard tools and machinery helps in increasing quality and productivity. It also increases level of efficiency of human resources.

5) **ENCOURAGES RESEARCH AND DEVELOPMENT (R AND D)**

Management principles are dynamic in nature. Over the years, they have developed to suit the current need. It enables the managers to bring consistent improvement in them. As a result, managers adopt new trends at the work place automatically. These principles also help management to make comparison of a used principle with its expected outcome. If needed, management can modify these



principles as per situation. Consequently, they develop scientific approach towards research and development. It contributes to growth and development of organisation.

E.g.: R & D department always works on finding new techniques in the field of production, finance, marketing, human resources etc.

6) **DEVELOPS OBJECTIVE APPROACH**

Managers have to take many decisions on a daily basis. If they approach every issue subjectively (i.e. from a personal point of view), they may be biased while taking a decision. However, management principles help managers to develop an objective approach which considers factual evidence while making decisions. As a result, managers can correctly identify business opportunities, find root causes of problems and provide appropriate solutions. This helps to make the managers more efficient and decision making becomes smooth. It builds confidence in the minds of the managers.

7) **HELPS TO CO-ORDINATE AND CONTROL**

It is difficult to create co-ordination and co-operation among different employees working in different departments. It is also a difficult task for manager to keep control on the performance of all team members. Management principles provide guidelines for better co-ordination and control within the organisation.

3. **Explain 14 principles of Henry Fayol in detail.**

[Feb'20, 19, July 19, 17, Mar'16, 14, 13]

Ans: Henry Fayol (1841-1925) was a French mining engineer who rose to the position of the Chief Managing Director. He became a leading industrialist and a successful manager. He conducted many experiments in management and proposed fourteen principles of management. These principles have been explained in his book "General and Industrial Administration". Due to his contribution to management, he is called the "Father of Modern Management". His principles serve as a guideline for decision-making and management actions.

The following are the principles of management laid down by Fayol:



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1) **PRINCIPLE OF DIVISION OF WORK**

As per this principle, the work in an organisation should be divided into small sub

parts. The work could be divided into different kinds such as technical, financial, commercial, security operations, accounting and managerial. This work should be assigned to employees depending on their interest, skill, qualities and capabilities. This helps in increasing efficiency, leads to specialisation and ultimately increases productivity level.

E.g.: In a college, there are different professors for different subjects. Each professor teaches the subject assigned to him/her according to his qualification and interest.

2) **PRINCIPLE OF AUTHORITY AND RESPONSIBILITY**

Authority is the right to take decisions, i.e., the right to give orders and get work done from subordinates. A manager can work properly only if he is given authority to take decisions. However, authority comes with responsibility. When authority has been given to the manager, he is responsible for that work. If the work is not completed in time or not done properly, the manager is to be held responsible.

E.g.: A captain of Indian Cricket Team is given the authority to choose his team and decide the batting order. However, when the team loses a match, he is held responsible for the defeat.

3) **PRINCIPLE OF DISCIPLINE**

According to Fayol, discipline is the most essential thing in the organisation. Employees must obey and respect the rules of the organisation. Discipline helps to achieve the goals set in the organisation. Good discipline is the result of effective leadership. There must be a clear understanding between management and employees regarding the organisation's rules so that the discipline is maintained. Discipline should be observed at all levels of management.

E.g.: Management should clearly convey office timings to its employees and the employees need to adhere to these.

4) **PRINCIPLE OF INITIATIVE**

Initiative means taking the first step and volunteering to do the work in an innovative way. Managers should encourage employees to take initiative and come up with new ideas. According to this principle, managers should welcome such ideas and conduct thorough discussion on these ideas. This approach helps to build a healthy organisational culture.

5) **PRINCIPLE OF SUBORDINATION OF INDIVIDUAL INTEREST TO ORGANISATIONAL INTEREST**

According to this principle, the interest of an individual must be given lesser importance as compared to the interest of the organisation. The manager should always consider the interest of



the whole organisation rather than the interest of a single employee while taking any decision. Similarly, the employees should also give higher importance to the interest of the organisation than their own self.

E.g.: M. S. Dhoni stepped down as the captain of the Indian Cricket Team in 2017 and allowed Virat Kohli to take over as the captain in spite of still being in the team. He gave more importance to the team's interest rather than his individual interest.

6) **PRINCIPLE OF ORDER**

This principle is based on 'A place for everything and everything in its place'. Human resources and materials should be in the right place at the right time for maximum efficiency. The principle focuses on the proper utilisation of physical and human resources.

E.g.: An accounts expert should be in accounts department and not in marketing department.

7) **PRINCIPLE OF UNITY OF COMMAND**

Each employee of an organisation should receive orders from only one superior. This principle helps in managing conflicts and solving disputes among people in the organisation. If an employee receives orders from more than one superior, he will get confused. He will not understand whose orders to follow. This will hamper the work. Each employee should know his immediate superior and should receive orders only from him. For this, the organisational hierarchy should be well defined.

E.g.: If an employee is working on two projects with two different superiors, both of them may ask him to finish work on the same day. In that case, employee will either have to work long hours which will affect his efficiency or he may have to finish the task in an improper manner. To avoid this, he should receive order from only one superior.

8) **PRINCIPLE OF STABILITY OF TENURE**

When an employee is recruited, the management should assure him about the stability of his tenure (job security). It helps to create a sense of belongingness among the employees. An employee who is secured about his job will put his maximum efforts. It will also help to minimise employee turnover ratio.

9) **PRINCIPLE OF REMUNERATION**

As per this principle, employees must be paid a fair amount of salary/wages for the services rendered by them. Fair remuneration keeps employees financially satisfied and retains them for a longer period of time with the organisation. It also helps to increase their productivity and efficiency. The remuneration should be fixed by taking into consideration the skill, expertise, knowledge, tenure, cost of living, market trend, profitability of organisation etc.

10) **PRINCIPLE OF EQUITY**

Management should be fair as well as friendly to the subordinates. While allocating any work, delegating the authorities, deciding the monetary terms etc., there should not be any discrimination between the employees. Also, the remuneration should not depend on the department but the level on which subordinates are working. It implies that salary/wages of employees working at the same level should be the same even though they belong to different departments. This will help to avoid conflicts within the organisation.

E.g.: Sr. Executive – Accounts, Sr. Executive – Production, Sr. Executive – Sales should all have equal pay.

11) **PRINCIPLE OF SCALAR CHAIN**

Scalar chain refers to the hierarchy of authority from the top level to the lower level, for the purpose of communication. This helps to ensure the orderly flow of information. Traditionally, organisations used to frame large scalar chain which is time consuming.

E.g.: If any financial decision taken by the top management requires a change in the accounting system, then the CFO will first inform the Manager-Accounts and Manager-Accounts will inform the Head-Accounts. The Head-Accounts will then inform the Account Executive and finally the work will get done.

However, in order to avoid this longer chain and to take speedy decisions; cross communication or direct communication is followed by various organisations. It is known as Gang Plank. For direct communication, it is essential to take proper permission of authorities.

12) **PRINCIPLE OF CENTRALISATION**

Centralisation refers to the concentration of powers and authorities in one or few hands. This situation usually occurs in small organisations. However, if the size of organisation is large, there is a decentralisation of power and authority. According to this principle, there must be a proper balance between centralisation and decentralisation in the organisation. This is to be done according to the size of the organisation, nature of the activity etc.

13) **PRINCIPLE OF UNITY OF DIRECTION**

This principle states that 'there should be one head and one plan' in every organisation. Each group in the organisation should have the same objective and the group should be directed by one manager using single plan.

Note: The difference between unity of direction and unity of command is:

- Principle of unity of command: One individual, one superior
- Principle of unity of direction: One group, one objective, one superior.



14) **PRINCIPLE OF ESPRIT DE CORPS (TEAM WORK)**

Esprit de Corps means union is strength. Power of many is always more than power of one. The manager should create a spirit of team work and understanding among the employees. They should be made to realise that the organisational goals are achieved only due to the combined efforts of all employees. When all employees work as a team, the difficulties can be solved quickly and organisational goals can be achieved easily.

Above 14 principles of Henry Fayol are very useful to manage the organisation efficiently and effectively. These principles are also supportive to the functions of management. These principles are very logical and hence, applicable in modern management era.

4. **Explain any five principles of management of Henry Fayol. [July 22, Mar' 22, Oct'21]**

Ans: Refer Q.3 of Answer the following for explanation (Any five points).

5. **Explain any four principles of management of Henry Fayol. [Feb'24]**

Ans: Refer Q.3 of Answer the following for explanation (Any four points).

6. **Elaborate principles of scientific management. [Mar'15]**

Ans: According to Taylor, "Scientific management consists of knowing what you (i.e. management) want men to do exactly; and seeing it that they do it in the best and the cheapest manner."

Taylor's principles of scientific management are as follows:

1) **SCIENCE, NOT RULE OF THUMB**

The 'Rule of Thumb' decisions, based on personal judgments of the manager, adversely affect the efficiency of an organisation. Therefore, Taylor insisted upon scientific method for every small work. It involves selecting the best way of performing a job after scientific analysis of that job and not by trial and error method. Standard required time and standard output should be defined by the manager so that time and human energy is saved, and expected standard output is achieved. Taylor believes that even a small production activity, like loading iron sheets into box cars, can be scientifically planned.

2) **HARMONY, NOT DISCORD**

According to this principle, there should be harmony between the employees and management. This will help in minimising conflicts between them. There should be perfect understanding between employees and

management. It will help to create healthy work environment for achieving the desired goal. Organisation should think about maximum prosperity of employees too.

3) **MENTAL REVOLUTION**

Taylor introduced the concept of "Mental Revolution". It focuses on change in the attitude of employees and management towards each other. Both should realise their equal importance in an organisation and give full co-operation for achieving organisational goals. This will increase productivity and profits.

4) **CO-OPERATION, NOT INDIVIDUALISM**

This principle emphasises on mutual co-operation between employees and management. Co-operation, trust, team spirit etc. can turn internal competition into healthy work environment. Management should always consider the suggestions given by employees in decision making process. Employees should be treated as an integral part of organisation in all respects. At the same time, employees should resist themselves from going on strikes and making unnecessary demands from management. The employees and management should treat each other as two pillars of organisation.

5) **DIVISION OF RESPONSIBILITY**

Proper division of work should always be accompanied with division of responsibilities between the managers and employees. Major planning is done by the top and middle level management authorities whereas employees are concentrating on its execution. The reporting is done as per the instructions given by superiors. Managers should always help, encourage and guide the employees. It helps for best performances of managers as well as employees.

6) **DEVELOPMENT OF EMPLOYER AND EMPLOYEES FOR GREATER EFFICIENCY AND MAXIMUM PROSPERITY**

The best performance of any organisation depends on the skills and capabilities of its employees to a great extent. Thus, conducting training and development programmes for the employees as per requirement is very essential. It ultimately impacts the profitability of the organisation. Each employee should be given proper opportunity to attain greater efficiency and maximum prosperity.

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01 Introduction to Corporate Finance

Objective Questions

Select the correct answer from the options given below and rewrite the statements:

1. _____ is related to money and money management. [July 23, Mar' 22]
 a. Production b. Marketing
 c. Finance

Ans: Finance

2. Company has to pay _____ to government. [Feb' 23]
 a. taxes b. dividend
 c. interest

Ans: taxes

3. _____ refers to any kind of fixed assets. [July 22]
 a. Authorised capital
 b. Issued capital
 c. Fixed capital

Ans: Fixed capital

4. The _____ capital remains in business almost permanently. [Feb' 19]
 a. fixed b. working
 c. borrowed

Ans: fixed

5. _____ means mix up of various sources of funds in desired proportion. [Mar '17]
 a. Capital budgeting b. Capital structure
 c. Capital goods

Ans: Capital structure

6. Finance is the management of _____ affairs of the company. [Feb'24]
 a. monetary b. marketing
 c. production

Ans: monetary

Match the pairs:

1.

Sr. No.	Group 'A'	Group 'B'
1.	Fixed capital [Oct' 21, July 17, Mar' 14]	Fixed assets/ Investment in Fixed assets [July 17, Mar '14]
2.	Working capital [July 16]	Sum of current assets

3.	Corporate finance [Mar' 22]	Deals with acquisition and use of capital
4.	Capital budgeting [Feb'24]	Investment decision

Write a word or a term or a phrase which can substitute each of the following statements:

1. The difference between current assets and current liabilities. [July 18]

Ans: Net Working Capital

State whether the following statements are true or false:

1. Finance is related to money and money management. [Feb' 23]

Ans: True

2. It is not possible to go ahead without a financial plan. [Mar' 16, Oct' 15]

Ans: True

3. Fixed capital is also referred as circulating capital. [July 22]

Ans: False

4. Working capital stays in the business almost permanently. [July 23]

Ans: False

5. Requirement of working capital does not depend upon any factor. [Oct '14]

Ans: False

Complete the sentences:

1. The finance needed by business organisation is termed as _____. [Oct' 21]

Ans: Capital

Explain the following terms/concepts:

1. **Fixed capital** [Feb'24, July 23]

Ans: Fixed capital is the capital which is used for buying fixed assets which are used for a longer period of time in the business. These assets are not meant for resale. It stays in the business for long period almost permanently. Examples of fixed capital are capital used for purchasing land and building, furniture, plant and machinery etc.



2. Working capital [July 22, Feb' 23]

Ans: Working capital is the capital which is used to carry out the day-to-day business activities. Working capital ensures smooth functioning of the business firm. The capital invested in building up inventories, in financing receivables and payables as well as covering day-to-day operating expenses is referred to as working capital.

3. Production Cycle [Mar' 22]

Ans: Production cycle refers to the process of converting raw materials into finished goods. If a firm has longer production cycle, it requires more amount of working capital. If a firm has shorter production cycle, it requires lesser working capital.

Justify the following statements:

1. There are various factors affecting the requirement of fixed capital. [July 23]

Ans: Fixed capital is the capital which is used to purchase fixed assets of the business. Many factors affect fixed capital requirement. These factors are explained below.

- i. Nature of business: Manufacturing industries and public utility companies invest huge amounts to acquire fixed assets whereas trading business may not require huge investments in fixed assets.
- ii. Size and scope of business: When a business firm is set to carry production or business operations on a large scale, it will have higher fixed capital requirement.
- iii. Extent of lease or rent: If an entrepreneur decides to acquire assets on lease or on rental basis, then the business will require lesser amount of funds for fixed assets.
- iv. Arrangement of sub-contract: If a business chooses to sub-contract some processes of production to outside companies, it would minimise the fixed capital requirement of the business.
- v. Acquisition of old assets: If the company can acquire old equipment and plants at low prices, then it would reduce the need of investments in fixed assets.
- vi. Acquisition of assets on concessional rate: In order to encourage industrial growth at regional level, government may provide land and building at concessional rates. Such facilities will reduce the fixed capital requirement of a business.
- vii. International conditions: International conditions play a significant role, particularly in large organisations carrying business at international levels.

e.g.: if a company is expecting war, it may decide to invest huge amount of funds to expand fixed assets before there is a shortage.

- viii. Trend in economy: If it is expected that the business is going to be successful and has a bright future, large amount of funds are invested in fixed assets so as to reap the benefits in the future.
- ix. Population trend: When the population increases at a high rate, it leads to increase in demand and certain manufacturers find this as an opportunity to expand their business. This leads to increase in the amount invested in fixed assets.
- x. Consumer preference: Industries which provide goods and services which are in high demand will require large amount of fixed capital. e.g.: Mobile phone manufactures
- xi. Competitive factor: Competition is a very important factor influencing the decisions regarding the fixed capital requirement. If any competitor shifts to automation, then all the other companies in the same line of activity will be forced to follow the competitor.

Theory Questions

Answer the following

1. State any four factors affecting fixed capital requirement. [July 22, Oct'21, Feb' 18]

Ans: Fixed capital is the capital which is used to purchase fixed assets of the business. These assets are used for a longer period of time and are not meant for resale. The factors affecting fixed capital requirement are as follows:

1) NATURE OF BUSINESS

Nature of the business determines the fixed capital requirement. Manufacturing industries and public utility companies have to invest huge amounts to acquire fixed assets while trading businesses may not require huge investments in fixed assets.

2) SIZE OF BUSINESS

When a firm is set up to carry business operations on a large scale, it has higher fixed capital requirement as most of the production processes are based on automatic machines and equipment.

3) SCOPE OF BUSINESS

The business firms that are formed to carry on production or distribution on a large scale would require more amount of fixed capital.



4) **EXTENT OF LEASE OR RENT**

If an entrepreneur decides to acquire assets on lease or on rental basis, then the business requires lesser amount of funds for acquiring fixed assets.

5) **ARRANGEMENT OF SUB-CONTRACT**

If a business chooses to sub-contract some processes of production to outside companies, then limited assets are required to carry out the production. This would minimise the fixed capital requirement of business.

6) **ACQUISITION OF OLD ASSETS**

If the company can acquire old equipment and plants at low prices, then it would reduce the need for investment in fixed assets.

7) **ACQUISITION OF ASSETS ON CONCESSIONAL RATE**

In order to encourage industrial growth at regional level, the government may provide land and building at concessional rates. The plant and equipment may also be made available on instalment basis. Such facilities reduce the fixed capital requirement of a business.

8) **INTERNATIONAL CONDITIONS**

International conditions play a significant role, particularly in large organisations carrying out business on international level. **E.g.:** if a company is expecting war, it may decide to invest huge amount of funds to expand fixed assets before there is a shortage.

9) **TREND IN ECONOMY**

If it is expected that the business is going to be successful and has a bright future, then the entrepreneur will carry out all sorts of business expansion. In that case, large amount of funds are invested in fixed assets so as to reap the benefits in future.

10) **POPULATION TREND**

When the population increases at a high rate, it leads to increase in demand and certain manufacturers find this as an opportunity to expand their business. **E.g.:** businesses like automobile industry, electronic goods manufacturing industry, ready-made garments, etc. This leads to increase in the amount invested in fixed assets.

11) **CONSUMER PREFERENCE**

Industries that provide goods and services which are in high demand would require large amount of fixed capital. **E.g.:** Mobile phone manufactures as well as mobile network providers.

12) **COMPETITIVE FACTOR**

Competition is a prime element in decision making regarding the fixed capital requirement. If one of the competitors shifts to automation, then all other companies in the same line of activity are forced to follow the competitor.

2. **Define capital structure and state its components.** [Feb' 20, Mar' 16, Oct' 15]

- Ans: 1) Capital structure refers to 'mix up of various sources of funds in desired proportion'. To decide capital structure means to decide upon the ratio of different types of capital.
- 2) A combination of different sources is used in capital structure. It is nothing but 'security mix.'
- 3) The capital structure is composed of owned funds and borrowed funds.
- 4) Owned funds include share capital, free reserves and surplus while borrowed funds include debentures, bank loans and long-term loans provided by financial institutions.
- 5) R. H. Wessel defines capital structure as "the long-term sources of funds employed in a business enterprise".
- 6) John Hampton stated that "A firm's capital structure is the relation between the debt and equity securities that makes up the firm's financing of its assets".

COMPONENTS OF CAPITAL STRUCTURE

The four basic components of capital structure are as follows:

1) **EQUITY SHARE CAPITAL**

Equity shares are the basic source of financing business activities. Equity shares get dividend and repayment of capital after it is paid to preference shares. Equity shareholders are the owners of the company. They bear ultimate risk associated with ownership. The rate of dividend given to equity shareholders fluctuates depending upon the profits earned.

2) **PREFERENCE SHARE CAPITAL**

Preference shares are those shares that carry preferential right as to payment of dividend and have priority over equity shares for repayment of capital on liquidation of the company. Preference shares are paid dividend at a fixed rate.

3) **RETAINED EARNINGS**

It is ploughing back of profits made by the company. It is an internal source of financing.

4) **BORROWED CAPITAL**

It consists of the following:

- i. **Debenture:** It is an acknowledgment of loans raised by the company. A company has to pay interest on debentures at an agreed rate.
- ii. **Term loan:** These loans are provided by banks and financial institutions. Term loans carry a fixed rate of interest.

The capital structure of a company can be explained with the help of an example of a Balance sheet as follows:

Balance Sheet of XYZ Ltd as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Fixed Assets	
20,000 equity shares of ₹ 10 each fully paid	2,00,000	Building	5,00,000
5,000 preference shares of ₹ 100 each fully paid	5,00,000	Plant and Machinery	2,00,000
		Current Assets	
		Sundry debtors	1,00,000
		Inventories	40,000
		Cash in hand	20,000
		Cash at bank	40,000
Reserves and Surplus	50,000		
Liabilities			
1000, 10% debentures of ₹ 100 each fully paid	1,00,000		
Sundry creditors	30,000		
Bills payable	20,000		
	9,00,000		9,00,000

Capital structure = Equity share capital + Preference share capital + Reserves + Debentures

$$= 2,00,000 + 5,00,000 + 50,000 + 1,00,000$$

$$= 8,50,000$$

Distinguish between:

1. Fixed capital and Working capital [Feb'24, 23, 22, Feb' 20, July 17, Mar' 17, July 16, Mar' 15, Oct' 14]

Ans:

Fixed capital	Working capital
1) Meaning	
Fixed capital refers to any kind of physical asset i.e. fixed assets.	Working capital refers to excess of current assets over current liabilities.
2) Nature	
It stays in the business almost permanently.	It is circulating capital. It keeps changing.
3) Purpose	
It is used for financing fixed assets such as land, building, equipment, etc.	It is used for financing short-term assets such as cash, account receivable, inventory, etc.
4) Sources	
Fixed capital funding can come from issuing shares, debentures, bonds, taking long-term loans, etc.	Working capital can be funded with short-term loans, deposits, trade credit, etc.
5) Objectives of investors	
Investors invest money in fixed capital hoping to make future profit.	Investors invest money in working capital for getting immediate returns.
6) Risk	
Investment in fixed capital involves more risk.	Investment in working capital is less risky.



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