

	Paper Solution Sub:FAMT Class: SE (IT)	
Q.1	<b>Creation</b> The divine act by which, according to various religious and philosophical traditions, the world was brought into existence.	02
a)		
i)	1. the act or process of creating 2. the fact of being created or produced 3. something that has been brought into existence or created, esp a product of human intelligence or imagination In financial accounting basically creation term related to creation of wealth for nation. <a href="#">creation</a> - an artifact that has been brought into existence by someone And simply "getting" money can be mistakenly called "making money."	
ii)	Innovation 1. The act of introducing something new. 2. Something newly introduced. a creation (a new device or process) resulting from study and experimentation	02
iii)	Entrepreneur A person who organizes, operates, and assumes the risk for a business venture. 1. (Business / Professions) the owner or manager of a business enterprise who, by risk and initiative, attempts to make profits 2. (Business / Professions) a middleman or commercial intermediary	02
iv)	Wealth Creation wealth creation serves the needs of people. To trick a man out of money is to profit in a financial sense, but not to create. To make something of value and sell it is creation. This is not difficult to understand, but it is often forgotten.  wealth creation serves the needs of people. To trick a man out of money is to profit in a financial sense, but not to create. To make something of value and sell it is creation. This is not difficult to understand, but it is often forgotten.	02
b)	<b>Give definition of Creative accounting and Double entry book keeping system</b>	10
Ans	<b>Creative accounting</b> and <b>earnings management</b> are <a href="#">euphemisms</a> referring to <a href="#">accounting</a> practices that may follow the letter of the rules of <a href="#">standard accounting practices</a> , but certainly deviate from the spirit of those rules. They are characterized by excessive complication and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations desired by the authors. The terms "innovative" or "aggressive" are also sometimes used.  The use of aggressive and/or questionable accounting techniques in order to produce a desired result, generally high earnings per share. Creative accounting may include selling assets with a low cost basis, shipping unusually large quantities of product near the end of the year, and failure to write down inventories that have declined in value.	

"Thinking outside the box" when such practice is not permitted. Creative accounting is actually a good description of the practice, as it tends to "create" a picture that is not technically correct...

### **Double entry book keeping system**

-**Bookkeeping** is the record of monetary business transaction. It is a record of sales, purchases, depreciation and stock. It helps in financial analysis of a company.

- **Bookkeeping** is the recording of financial transactions. Transactions include sales, purchases, income, and payments by an individual or organization. Bookkeeping is usually performed by a bookkeeper.

There are two methods of bookkeeping, 1) single entry bookkeeping and 2) double entry bookkeeping.

Bookkeeping is a fundamental function for every business. It provides the general manager and controller with a position report for the business. A good bookkeeper is accurate and timely.

Four important features of competent bookkeeping are:

- **Timeliness:** It's generally important to record transactions on a timely basis. This means that invoices and bills are posted by the next business day. However, on some instances similar transactions are processed in batches.
- **Account Reconciliations:** It's also critically important for accounts to be reconciled monthly to assure accuracy. For the cash to be right, for example, check books must be reconciled to the bank statements and outstanding checks must be identified.
- **Analyzing Accounts:** For payables and receivables, it's important to know the age of the bills and invoices. How much is "current" and "overdue" is basic to staying on top of your credit rating and vendor relations. For receivables it's important to know how you are doing in collecting funds from each of your customers.
- **Matching:** Revenues in a fiscal period must be matched to expenses incurred in that same period. When items don't match in the same period, inaccurate income statements are the result. This leads the general manger to miscalculate the direction of the business.

Q.2

a)

b)

**Define and explain the features of profit and loss account, balance sheet and cash flow statement**

10

Ans

## **The profit and loss account**

**Introduction:** The remaining nominal accounts in the ledger represent non-trading income, gains and profits of the business in the case of credit balances, e.g. rent, discount and interest receivable. Debit balances represent expenses and losses of the business and are known as overheads, e.g. salaries and wages, rent and rates payable, lighting, heating, cleaning and sundry office expenses. These must now be transferred to the profit and loss account so that we can calculate the net profit of the business from

all its activities.

The profit and loss (income) statement presents a summary of the revenues and costs for an organisation over a specific period of time. Such a statement is generally developed on a monthly, quarterly and yearly basis. The profit and loss statement enables a marketer to examine overall and specific revenues and costs over similar time periods and analyses the organisation's profitability. Monthly and quarterly statements enable the firm to monitor progress towards goals and revise performance standards if necessary.

When examining a profit and loss statement, it is important to recognise one difference between manufacturers and retailers. For manufacturers the cost of goods sold involves the cost of manufacturing products (raw materials, labour and overheads). For retailers, the cost of goods sold involves the cost of merchandise purchased for resale (purchase price plus freight charges).

The balance sheet shows that the profit for an accounting period increases proprietor's funds. The trading and profit and loss account shows, in detail, how that profit or loss has arisen. The profit and loss statement consists of these major components:-

- **Gross sales** - the total resources generated by the firm's products and services
- **Net sales** - the revenues received by the firm after subtracting returns and discounts (such as trade, quantity, cash)
- **Cost of goods sold** - the cost of merchandise sold by the manufacturer or retailer.
- **Gross margin (profit)** - the difference between sales and the cost of goods sold: consists of operating expenses plus net profits
- **Operating expenses** - the costs of running a business, including marketing
- **Net profit before taxes** - the profit earned after all costs have been deducted.
- The profit and loss account shows items of income or expenditure which although earned or expended by the business are incidental to it and not part of the actual manufacturing, buying or selling of goods.

## The balance sheet

**Introduction:** The balance sheet is a statement of the financial position of a business at a given date. It is, therefore, only a "snapshot" in time. When comparing business performance, therefore, a number of years and time periods may be more suitable. The balance sheet is the accounting equation but set out in a vertical form in order to be more readily, understood i.e. the accounting equation.

**Assets - Liabilities = Capital + Profit - Drawings**

	\$
Assets	X
Less: liabilities	X

Net assets	X
Representing:	
Capital	X
Profit for the year	X
	X
Less: drawings	X
Proprietor's funds	X

This is a simplified form; in reality the assets and liabilities will be further sub-divided and analysed to give more detailed information. Figure 2.4 shows a pro forma balance sheet.

### Figure 2.4 Pro forma balance sheet

Balance sheet at 31 December 19X0

	C Cost	D Depreciation	Net value (C-D)
	\$	\$	\$
A) Fixed assets			
Freehold factory	x	x	x
Machinery	x	x	x
Motor vehicles	x	x	x
	x	x	x
B) Current assets			
Stocks and work in progress		x	
Debtors and prepayments		x	
Cash at bank		x	
Cash in hand		x	
		x	
C) Current liabilities			
Trade creditors	(x)		
Accrued charges	(x)		
		(x)	
			x
D) Net current assets			xx
E) 15% loan			(x)
			xxx
F) Representing:			
Capital at 1 January			x
Profit for the year			x
			x
Less: drawings			(x)
G) Proprietor's fund			xxx

- A) **Fixed assets:** assets acquired for use within the business with a view to earning profits, but not for resale. They are normally valued at cost less accumulated depreciation.
- B) **Current assets:** assets acquired for conversion into cash in the ordinary course of business; they should not be valued at a figure greater than their net realisable value.
- C) **Current liabilities:** amounts owed by the business, payable within one year.
- D) **Net current assets:** funds of the business available for day-to-day transactions. This can also be called working capital.
- E) **Loans:** funds provided for the business on a medium to long term basis by an individual or organisation other than the proprietor.
- F) This total is the total of the business's net assets.
- G) This total is the total of proprietor's funds, i.e. the extent of his investment in the business. Within these main headings the following items should be noted.

## **Cash flow statement**

### **Aim of a cash flow statement**

The aim of a cash flow statement should be to assist users:

- to assess the company's ability to generate positive cash flows in the future
- to assess its ability to meet its obligations to service loans, pay dividends etc
- to assess the reasons for differences between reported and related cash flows
- to assess the effect on its finances of major transactions in the year.

The statement therefore shows changes in cash and cash equivalents rather than working capital.

### **Indirect method cash flow statement**

Figure 3.1 shows a pro forma cash flow statement.

#### **Figure 3.1 Pro forma cash flow statement**

<b>Cash Flow Statement For The Year Ended 31 December 19X4</b>		
	<b>\$</b>	<b>\$</b>
<i>Net cash inflow from operating activities</i>	X	
<i>Returns on investments and servicing of finance</i>		
Interest received	X	
Interest paid	(X)	
Dividends paid	(X)	

Net cash inflow/ (outflow) from returns on investments and servicing of finance	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Taxation	<input type="checkbox"/>	<input type="checkbox"/>
Corporation tax paid	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax paid	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Investing activities	<input type="checkbox"/>	<input type="checkbox"/>
Payments to acquire intangible fixed assets	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Payments to acquire tangible fixed assets	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Receipts from sales of tangible fixed assets	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Net cash inflow/ (outflow) from investing activities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Net cash inflow before financing	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Financing	<input type="checkbox"/>	<input type="checkbox"/>
Issue of ordinary capital	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Repurchase of debenture loan	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Expenses paid in connection with share issues	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Net cash inflow/ (outflow) from financing	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Increase/ (Decrease) in cash and cash equivalents	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Q.3 a) **Q.3 a) What do you mean by accounts? Explain Various methods of depreciation?** 10

**Accounts:**

a statement of financial transactions

**Definition**

Financial records of an organization that register all financial transactions, and must be kept at its principal office or place of business. The purpose of these records is to enable anyone to appraise the organization's current financial position with reasonable accuracy. Firms present their annual accounts in two main parts: the balance sheet, and the income statement (profit and loss account). The annual accounts of a registered or incorporated firm are required by law to disclose a certain amount of information. And have to be certified by an external auditor that they present a 'true and fair view' of the firm's financial affairs.

a statement of monetary transactions with the resulting balance

**Accounting**

The practice or profession of maintaining financial records, noting [expenses](#) or [revenue](#), and determining how much one owes or is owed. Accounting seeks to assure that every individual or company pays or is paid the correct amount.

There are several different types of accounting, each of which reports revenue and earnings differently from other methods. Two major accounting methods are [accrual accounting](#) and [cash accounting](#).

Accrual accounting recognizes revenue and matches it with the expenses that generated that revenue. Cash accounting, on the other hand, recognizes revenue and expenses in the order in which they are received or spent.

## **Depreciation:**

This is a procedure for allocating the **used up value** of durable assets over the period they are owned by the business or until they are salvaged.

By depreciating an asset, an allowance is made for the deterioration in the asset's value as a result of use (wear and tear), age and obsolescence. Generally, property is depreciable if it is used in business or to earn income; wears out, decays, gets used up or becomes obsolete, and has a determinable useful life of more than one year.

The proportion of the original cost to be depreciated in any one year is largely a matter of judgement and financial management. Normally, the depreciation allowance taken in any given year should reflect the actual decline in value of the asset - whether it is designed to influence income taxes or the undepreciated value of an asset reflecting the resale value of the asset.

Gradual conversion of the cost of a tangible capital asset or fixed asset (excluding land because it has unlimited life) into an operational expense (called depreciation expense) over the asset's estimated useful life.

The objectives of computing depreciation are to reflect reduction in the book value of the asset due to obsolescence (functional depreciation) and wear and tear (physical depreciation), spread a large expenditure (purchase price of the asset) proportionately over a fixed period to match revenue received from it, and reduce the taxable income by charging the amount of depreciation against the firm's total income.

In effect, charging of depreciation means the recovery of invested capital, by gradual sale of the asset over the years during which output or services are received from it.

Depreciation is computed at the end of an accounting period (usually a year) and the method best-fitting the usage profile of the asset is chosen (except where some other method is dictated by the tax laws). When applied to intangible assets, the preferred term is amortization.

Diminishment in the economic potential of an asset over its productive or useful life.

### **Various methods of depreciation:**

There are four main and acceptable methods of calculating depreciation, namely:

- the accelerated cost recovery system (ACRS) method
- the straight line method
- the declining balance method
- written down value method

b) What do you mean by finance? Explain of importance of financial accounting and

management accounting for firm in a competitive market scenario?

Ans **Finance**

The study of money and how it is used. Finance considers the relationship of money to time and risk. One of the main subsets of finance is the study of credit and banking, as this involves money, time, and risk all together. Finance may deal with personal or corporate issues, such as how will an individual or company acquire the money needed to perform a certain act.

Is it more a general term that can be applied to any sphere of the human endeavor that is found in the day to day activity or in the mere theoretical applications in the study of Economics? Finance, at best, is a generally applied term for more than just a couple of things.

As a definite term it is applied to the basic commercial activity of the provision of funds and capital along with being a specific branch of economics that deals with the overall study of the management of money and other assets.

**Management accounting** is the process of measuring and reporting information about economic activity within organizations, for use by managers in planning, performance evaluation, and operational control:

The process of identifying, measuring, analyzing, interpreting, and communicating information in the pursuit of a company's business goals. Also known as cost accounting.

The key difference between managerial accounting and financial accounting is that managerial accounting is intended to help managers within the organization make decisions. In contrast, financial accounting is intended to provide information to parties outside the organization.

Q.4 **What do you mean by Cost Accounting?**

a)

### **Cost Accounting**

A branch of accounting that observes and calculates the actual costs of a company's operations. Internal managers, rather than auditors, use cost accounting most of the time to identify aspects of their company where costs can be cut. For example, a manager may enlist a cost accountant to determine the most expensive aspects of his/her business that is, where the money goes. The accountant may make a detailed report so that the manager may make decisions based upon it. Because cost accounting is primarily internal, it need not conform to the Generally Accepted Accounting Principles. It is also called managerial or management accounting.

The process of identifying, measuring, analyzing, interpreting, and communicating information in the pursuit of a company's business goals. Also known as cost accounting.

### **Activity-Based Costing**

A method in accounting whereby one assigns as many revenues and expenditures as possible to the specific items that caused them. That is, activity-based costing attempts to eliminate or reduce indirect costs and to maximize direct costs. This helps a company streamline its costs and thereby reduce waste. Activity-based costing is used in activity based management.

### **indirect costs**

Costs of construction not directly related to the sticks and bricks. Examples include

- Real estate taxes
- Administrative costs

- Professional fees
- Insurance
- Lease-up expenses

### **direct costs**

Construction costs that are readily identifiable, such as labor, materials, and construction management fees. Contrast with indirect or soft costs which cover an allocation for overhead plus all expenses spent away from the construction site, such as legal, accounting, permitting, and construction period interest. Sometimes called hard costs.

### **Activity Based Management**

An area of management accounting that evaluates business activities so that management can make better-informed business decisions, especially by streamlining activity to reduce costs. ABM utilizes activity-based costing, which attempts to allocate overhead costs to specific goods and services and find ways to reduce them.

b)

Q.5 Explain the ABC and EOQ techniques of inventory management

a)

b)

## Inventory Classification

### ○ ABC Analysis

- Pareto principle
- Classify items as A, B or C
  - Annual dollar volume

### ○ *Taking* Inventory

- Audit of what is in stock/storage
- Reconcile purchases and usage
  - On hand = Purchases - Usage

### ○ Cycle counting

- Taking partial inventory daily
- Frequency of counting
  - A items most frequent
  - C items least frequent

## ABC Analysis

Item Stock Number	Percent of Number of Items Stocked	Annual Volume (units)	x	Unit Cost	=	Annual Dollar Volume	Percent of Annual Dollar Volume	Class
#10286	20%	1,000		\$ 90.00		\$ 90,000	38.8%	72% A
#11526		500		154.00		77,000	33.2%	A
#12760		1,550		17.00		26,350	11.3%	B
#10867	30%	350		42.86		15,001	6.4%	23% B
#10500		1,000		12.50		12,500	5.4%	B
#12572		600		\$ 14.17		\$ 8,502	3.7%	C
#14075		2,000		.60		1,200	.5%	C
#01036	50%	100		8.50		850	.4%	5% C
#01307		1,200		.42		504	.2%	C
#10572		250		.60		150	.1%	C

## Cycle Counting

**5,000 items in inventory:**

**500 A items, 1,750 B items, 2,750 C items**

Policy is to count:

A items every month (20 working days)

B items every quarter (60 days)

C items every six months (120 days)

Item Class	Quantity	Cycle Counting Policy	Number of Items Counted per Day
A	500	Each month	$500/20 = 25/\text{day}$
B	1,750	Each quarter	$1,750/60 = 29/\text{day}$
C	2,750	Every 6 months	$2,750/120 = 23/\text{day}$
			<b>77/day</b>

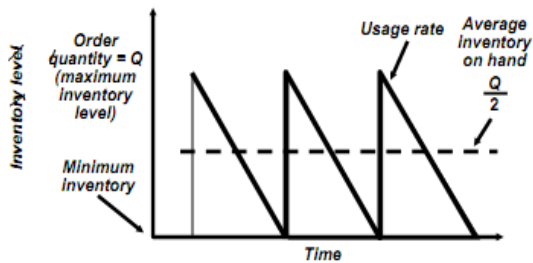
Basic EOQ Model:

Important assumptions

1. Demand is known, constant, and independent
2. Lead time is known and constant

3. Receipt of inventory is instantaneous and complete
4. Quantity discounts are not possible
5. Only variable costs are setup and holding
6. Stockouts completely avoidable

### Inventory Usage Over Time



### Minimizing Total Costs

**Objective is to minimize total costs**

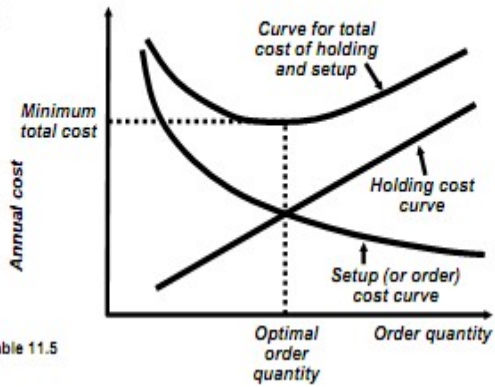


Table 11.5

1

### Minimizing Total Costs

**Objective is to minimize total costs**

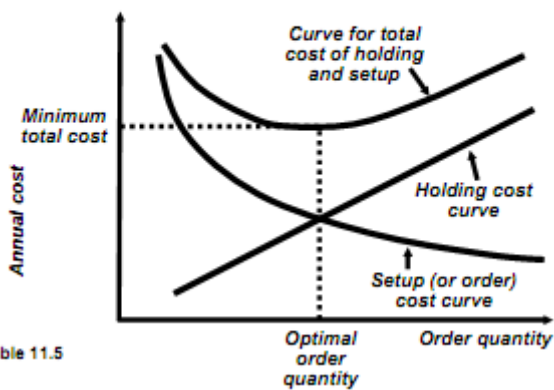


Table 11.5

EOQ Model

$$\text{Annual setup cost} = \frac{D}{Q} S$$

Q = Number of pieces per order

Q\* = Optimal number of pieces per order (EOQ)

D = Annual demand in units for the Inventory item

S = Setup or ordering cost for each order

H = Holding or carrying cost per unit per year

Annual setup cost = (Number of orders placed per year) x (Setup or order cost per order)

$$= \left( \frac{\text{Annual demand}}{\text{Number of units in each order}} \right) (\text{Setup or order cost per order})$$
$$= \left( \frac{D}{Q} \right) (S)$$

$\text{Annual setup cost} = \frac{D}{Q} S$ $\text{Annual holding cost} = \frac{Q}{2} H$
---

Annual holding cost = (Average inventory level)  
x (Holding cost per unit per year)

$$= \left( \frac{\text{Order quantity}}{2} \right) (\text{Holding cost per unit per year})$$

$$= \left( \frac{Q}{2} \right) (H)$$

b) Explain various kinds of collaborative strategies in detail.

10

Q.6

a)

b) **What are the effect of technology on economic growth of business organization**

10

Ans The tremendous technological growth that we have been experiencing is made possible through extensive programmes of technological research being conducted by many types of researchers working within universities, business, and non-profit research organizations. Technological developments are strong and all pervasive forces of the business environment. Technology is the scientific knowledge to practical problems.

Technology feeds on itself and it affects business in two major ways:

1. Through its impact on society in general
2. Through its direct influence on business operations and activities.

Technology affects society. In fact, we feel its effect on our everyday life. It affects economic growth, our standard of living and our culture. However, some of the effects of technology are highly beneficial and some detrimental. One should be careful that these effects on members of the society in turn affect business practices.

Technology affects our everyday life. We are surrounded by so much of technology, that we take it for granted and usually do not realize how much it affects us until we have to do without electricity, water, transport or telephone. Technological developments have raised the standard of living. In spite of inflationary pressure and considerably a high

degree of unemployment, generally families eat better, wear a wider variety of clothing, and live in more comfortable homes.

Technology also influences basic aspects of our culture, including religion, education, mobility, health care, art, language, laws and their enforcement. For example, technological advances in health care allow physicians to treat their patients in a virtual environment through video conferencing, which again is helpful in legal environment too for the judges to proceed with investigations on hard core criminals, who need not be produced before the court for security reasons.

Every new technology is a force involved in creative destruction. Say, television hurts movies, synthetic fibres, rival for cotton fibre. The discovery of new technology even sometimes affects economic growth-TV with its high entertainment value takes away productive hours of mankind. Each new technology creates major long term consequences, that are not always foreseeable. How do you justify nations spending more money to develop missiles, nuclear weapons and bombs for the sake of security?

Developing nations have to buy technology from foreign countries, as they are not resourceful in terms of capital needed for Research and Development, expertise, patents, licenses, equipments and so on. This transfer of technology involves huge costs as a result of which a vicious circle is formed, in which weak technology creates dependence and dependence creates weakness.

The recent trend can be enumerated through this slogan, "Conserve, reduce and recycle". The stress today is on clean production measures, advanced robotics, zero-emission vehicles, material recycling and alternative fuels and materials. This change towards love for environment by the technologists is a sure sign of positive development.

Q.7

a) Technology and national economy 05

**Economic growth** is the increase of per capita gross domestic product (GDP) or other measure of aggregate income. It is often measured as the rate of change in real GDP. Economic growth refers only to the quantity of goods and services produced. An industrial economy gets its resource from other countries. There is no need to worry about farms because they get their produce from other countries just like their natural resources

Economic growth can be either positive or negative. Negative growth can be referred to by saying that the economy is *shrinking*. Negative growth is associated with economic recession and economic depression.

b) Partnership and limited companies 05

c) Why balance sheet balance 05

Ans Definition: A financial statement which is a snapshot of a business at a particular point in time. It records the assets, liabilities and capital of a business. Assets less liabilities equal

capital. Capital is the owners' interest in the business.

Balance Sheets are the most important aspect of accounts handling, management and calculation. The end result of the analysis of an organization's success is achieved out of the tallying amounts of their balance sheet. Success of an organization has many aspects, but there have to be certain tangible ways to measure it and view it. The balance sheet is a spot on method to view, prove, and measure an organization's financial position. It takes into consideration all the tangible assets and liabilities as well as a few intangible ones. Balance sheets are also used as effective budgeting and control measures.

--- (05)

A [balance sheet](#) is a financial statement that depicts a company's current financial status. It basically depicts assets and liabilities of the company. The balance sheet can be used as a tool in order to forecast the company's income projection, growth and development. The process of financial analysis and balance sheet analysis is used to derive concrete figures about the company's revenue, assets and liabilities. The balance sheet analysis helps investors, share brokers, investment bankers and financial institutions, to check the profitability of investment for a particular company. The balance sheets of companies are available in the annual reports of the company. The elements of balance sheets are at times also disclosed on websites of the company. Before we proceed to the analysis of balance sheets, it is important to know the meaning of the elements of balance sheets.

#### **Elements: Balance Sheet Analysis**

It must be noted that a balance sheet can be prepared by any type of business organization. The balance sheet and nature of financial statements depend on the form of business organization. The following are some of important elements that one must thoroughly analyze before making an investment.

*Assets:* An asset is any property owned by the company, that has monetary value and can be sold. Assets are generally divided into fixed assets and current assets. Real estate and machinery are examples of fixed assets, whereas the bank balance and investments are examples of current assets.

*Liabilities:* A liability of a company is any sum of money that the company owes to other people and organizations. A loan is very prominent example of a liability. The amount of equity share capital is also an important liability, as the company raises its capital with the issue of shares. Amount of liabilities exceeding amount of assets is not a very good sign.

*Return over Assets:* The return over assets means the value of returns and revenue in proportion with the assets and liabilities of the company. This figure is expressed either in ratios or percentages.

*Expected Payments:* Many a times, it so happens that a customer of the company is unable to make timely payments. Such payments are charged with an interest and are included in the assets. These assets are included in the calculation of return over assets.

*Credit Rating:* The current [credit rating](#), [credit scores](#) and [credit history](#) are depicted in the final accounts. It is necessary to analyze credit rating while making a balance sheet analysis, as it reflects a company's credit worthiness and ability to raise credit for a new project.

### **How to Do a Balance Sheet Analysis?**

Doing a balance sheet analysis is not a very difficult task. The following balance sheet analysis guide will help you to review a given balance sheet very quickly. The procedure also describes some specific ratios which depict [financial management](#) and general [cash flows](#) of the company.

*Step 1:* The first step is to add the liabilities and paid up equity share capital. The total must tally with that of the assets. After tallying, the next step is to compare the total assets with liabilities. In this comparison, do not include the amount of issued shares in the liabilities. If the total number of assets exceed the total number of liabilities, then the financial standing of the company and its performance is very good.

*Step 2:* The next step is to have a look at the current assets and liabilities. More current unsecured liabilities is sometimes considered to be good sign. However, if the amount of total liabilities exorbitantly exceed the asset total, then it is not a very good sign.

*Step 3:* The third step is a very important one, as one needs to calculate the ROA, return over assets. The ROA can be calculated very easily by dividing the net income by assets. Some companies also depict their forecasted ROA in their annual reports. The rate of ROA depends on the type of business that the company follows. For example, producer companies have a high ROA, leasing and real estate companies have a lower ROA. Consultancy companies have a mammoth ROA as they have less capital investment but a very high wage rate. It is essential to take these factors in consideration.

*Step 4:* This step involves special consideration for patents and copyrights. Every company invests huge amounts in research and development, which is of course rather costly. One must take into consideration the ratio between the amount invested for the research and the returns over it.

*Step 5:* The debt asset ratio signifies the ratio between the amounts payable in comparison to the assets of the company. This ratio can be effectively calculated by dividing the total liabilities with total assets. The lesser the liability dimension, the better is the company's performance.

*Step 6:* The receivables turnover ratio is a ratio between sales and accounts receivable. This ratio basically signifies the relation between the investments in sales and money receivable. The more money receivable, the better is the financial status of the company.

*Step 7:* The inventory turnover is another very important ratio that establishes the relationship between sales and value of inventory. This ratio is particularly important for producer companies, as it signifies the company's ability to produce goods with available assets.

*Step 8:* The last step is to analyze miscellaneous features of the company such as goodwill, current projects and credit ratings. This analysis would help you to analyze the companies actives of the near future.

#### **d) Effects of technology on society**

Ans In the past few decades there has been a revolution in computing and communications, and all indications are that technological progress and use of information technology will continue at a rapid pace.

Today, innovations in information technology are having wide-ranging effects across numerous domains of society, and policy makers are acting on issues involving economic productivity, intellectual property rights, privacy protection, and affordability of and access to information.

One of the most significant outcomes of the progress of information technology is probably electronic commerce over the Internet, a new way of conducting business. Though only a few years old, it may radically alter economic activities and the social environment. Already, it affects such large sectors as communications, finance and retail trade and might expand to areas such as education and health services. It implies the seamless application of information and communication technology along the entire value chain of a business that is conducted electronically.

The following sections will focus on the impacts of information technology and electronic commerce on business models, commerce, market structure, workplace, labour market, education, private life and society as a whole.

### **Private Life and Society**

Increasing representation of a wide variety of content in digital form results in easier and cheaper duplication and distribution of information. This has a mixed effect on the provision hand, distribution of content outside of channels that respect intellectual property rights can reduce the incentives of creators and distributors to produce and make content available in the first place. Information technology raises a host of questions about intellectual property protection and new tools and regulations have to be developed in order to solve this problem. Many issues also surround free speech and regulation of content on the Internet, and there continue to be calls for mechanisms to control objectionable content. However it is very difficult to find a sensible solution.

### **What is the Impact of Technology on Our Society?**

Think of the days when there were no computers and no modern means of transport. Human life was highly restricted due to the unavailability of technological applications. Daily life involved a lot of physical activity. The life of the common man of those times was not as luxurious as that of the modern times, but he was more active. Daily exercise was integrated in the routine physical activities. It was contrary to the lifestyle of today, which carries no time slot for rigorous exercise and carries laze and inactivity.

We think of technology as a boon to society. I am afraid; this is not completely true. The Internet has bred many unethical practices like [hacking](#), spamming and [phishing](#). [Internet crime](#) is on the rise. The Internet, being an open platform for expression, lacks regulation. There is no regulation on the content displayed over websites. [Internet gambling](#) facilities have brought [casinos](#), a click away. Exposure to the Internet technology from an early age has resulted in children and youngsters addicted to it.

Think of the days when there were no online messengers, no emails and no [cell phones](#). Indeed the cellular technology created the miracle of enabling communication over the wireless media. The communication facilities provided by the Internet worked wonders in speeding long-distance communication but also deprived mankind of the warmth of personal contact. Emails replaced handwritten letters and communication lost its personal touch. With the means of communication available a few clicks away, the tendency of taking pains to reach the loved ones has vanished.

Moreover, we have become excessively dependent on technology. Is so much of a

dependency desirable? Is it right to rely on machines? Is it right to depend on computers rather than relying on human intellect? Computer technology and [robotics](#) have almost replaced human brains. With the developing technology, we have started harnessing [artificial intelligence](#) in many fields. Where is this [digital divide](#) going to take us? How will our 'tomorrow' be? 'Machines replacing human beings' does not portray a rosy picture. It can lead to severe issues like unemployment and crime. An excessive use of machines in every field can result in an under utilization of human brain. Due to under utilization of intelligence for a prolonged period of time, man may lose his intellectual abilities and may not even be able to think.