GOVERNMENT DEGREE COLLEGE, KUKATPALLY, MEDCHAL DISTRICT-72

DEPARTMENT OF PUBLIC ADMINISTRATION

MATERIAL FOR VI-SEMESTER-E/M

FINANCIAL AND MATERIAL MANAGEMENT

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Question 1. Meaning, Scope and Importance of Financial Management?

Answer: INTRODUCTION & CONCEPT:

Finance is the life-blood of public administration. Every organization needs money, personnel and materials, which are needed for the functioning of any organization. Industry or enterprise can be made available only if money is available. The efficiency of operating systems and maintenance systems depends upon the effectiveness of the financial system as every administrative act may have financial implications.

MEANING:

Public financial administration refers to the procedures for the utilization of public funds in India. The phrase financial administration consists of two words viz. 'finance' and 'administration'. The word **'administration' refers to organization and management of collective human efforts in the pursuit of a conscious objective. The word 'finance' refers to monetary or money resources.** Financial administration refers to that set of activities which are related to making available money to the various branches of an office, or an organization to enable it to carry out its objectives.

Definition: Now let us get to know some definitions of financial administration:

1. According to **L.D. White**, "Fiscal management includes those operations designed to make funds available to officials and to ensure their lawful and efficient use.
2. According to **Jaze Gaston** "Financial administration is that part of government organization which deals with the **collection, preservation and distribution of public funds, with the coordination of public revenue.** and expenditure, with the management of credit operations on behalf of the State and with thé general control of the financial affairs of public households.

SCOPE OF FINANCIAL ADMINISTRATION:

The scope of public financial administration generally extends to Budgeting, Purchasing and Supply, Treasury Management, Tax Administration, Accounting and Auditing. We shall now try to understand some of the above aspects in greater detail:

1. **Budgeting: Budgeting refers to the preparation, enactment, execution and auditing of a budget. A budget is an annual statement of revenue or income and expenditure of the government in a financial year.** It is considered the master financial plan of the government. Government budgeting in India has a long

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tradition starting with the British rule. In India we have budgets separately for the Union Government and for each of the State governments. For historical reasons there were two budgets for the Union Government; one known as the General Budget and the other known as the Railway Budget. This system of dual budgeting at the Union level was recently scrapped by the BJP led NDA government (**in 2017 Railway Budget merged with the general budget ending the practice which began in 1924 under British rule**). Another important change introduced has been the changing of the date of the presentation of budget to the Parliament.There are certain principles of budgeting to guide the budget makers to make prudent budgets and to execute them expeditiously and effectively. These principles are also called the maxims or norms of budgeting. These are the **principle of annuality, principal of unity, principle cash budgeting and the principle of lapse.**

2. **Tax Administration:** Government spending is largely financed through tax revenue. **Tax administration includes assessment, timely collection, enforcement and management of the various tax laws under the internal revenue laws or related statutes of the country**.
3. **Accounting:** **Accounting forms a major component of financial administration. It is the systematic recording, summarizing, reporting and analysis of all financial transactions including receipt of income and expenditure of a public agency in a particular year.** A close relationship between budget and accounts is necessary for making comparison between goals or targets and actual achievements. In the public sector, the. accounting departments in the various ministries and the Accountant General are responsible for the preparation of agency wise accounts and national accounts respectively.
4. **Auditing:** It is the objective examination or scrutiny of the financial accounts and statements of an agency by an independent and competent person. The purpose of the audit is to verify the legality, accuracy, fairness and truthfulness of the financial accounts and statements produced by a public agency. The Comptroller and Auditor-General of India is responsible for carrying out audit activities in a professional and independent manner and for producing annual Audit Reports to the Parliament and State Legislatures.
5. **Treasury Management:** Treasury management covers the **activities of cash management** by controlling the spending by making **payments for contractors** and suppliers according to bills, invoices and contract terms; **managing**

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government bank accounts; public debt management; administration of technical assistance grants and foreign aid; and in implementing the budget in a timely manner.

6. **Management of Public Enterprises:** The scope of public financial administration will not be the same in all countries because of their differing socio-cultural, economic and political backgrounds. In India its scope extends to the public sector enterprises also. In the Public Sector Enterprises (PSUs) there are two types of budget viz., the operating budget and the development budget. **The operating budget is for the annual recurring expenditures such as payment of salaries, purchase of materials and equipment and administrative expenses.** Development budget concerns cost of acquisition of land, construction, infrastructure and equipment for new or on-going five-year development projects.

AGENCIES AND MACHINERY OF FINANCIAL ADMINISTRATION: The following agencies and machinery play an important role in the various operations of public financial administration in India.

1. **The Executive:** The Executive is responsible for the formulation of the financial policy of the government and the preparation of the budget for the ensuing year. It'is assisted in this task by the Central Agencies such as the Ministry of Finance and other Economic Ministries. The budget estimate originates from the administrative ministries as they alone know their sources of revenue and fund requirements. The executive approves. And presents the budget proposals to the legislature for its approval in the form of an annual financial statement.
2. **The Legislature:** Parliament can authorize the imposition and collection of taxes and the annual expenditure of the government agencies. The enactment of the budget goes through a few stages in the Legislature before it is approved Public agencies cannot exceed the allocation approved for them by the Legislature.
3. **The Ministry of Finance:** It is responsible for scrutinizing the budget estimates submitted by the various administrative ministries and public agencies and giving the final shape and consolidating the estimates and including them in the national budget for tabling in the Parliament. It is also responsible for monitoring the execution of the budget allocations as approved by the Legislature and controlling the expenditure of government agencies. Public agencies are required to follow the financial regulations formulated by the Finance Ministry. Once the Legislature has

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approved the budget, the Minister of Finance allows the administrative ministries to disburse the allocations for the purposes for which they were approved.

4. **Audit:** A very important agency of public financial administration is the Audit Department. The Audit Department is headed by the Comptroller and Auditor-General India. His/her function is to examine the accounts of all public authorities in the country and the appropriation of the funds approved by Parliament to meet public expenditure. He/she is also required to submit an Annual Report on his audit findings to the Parliament. An independent audit protects the State against misappropriation and wastage of public funds and checks and exposes fraud, unauthorized and excess expenditure and negligence in collecting revenue due to the government.
5. The Public Accounts Committee (PAC): It is a select committee of Parliament responsible for the examination of (a) the accounts of the Government of India and public authorities and the appropriation of the sums granted by Parliament to meet public expenditure and (b) the examination of the Auditor-General's Annual Reports exposing the weaknesses in public financial administration submitted to Parliament. The Committee has the power to send for persons, papers and official records and to report from time to time.
6. **Reserve Bank of India:** The Reserve Bank of India (RBI) is India's central bank. It was set up in 1935 under the Reserve Bank of India Act, 1934. It has an important role in the public financial administration. It controls the issue and **supply of the Indian Rupee**. It is the **regulator of the entire banking** system in India. It is **bankers' bank**. It regulates commercial banks and non-banking finance companies working in India. It also plays an important part in the **development strategy** of the Government of India. It serves as the **leader of the money market. It regulates money supply and credit in the country.** Until the Monetary Policy Committee was established in 2016, it also controlled monetary policy in India. The general superintendence and direction of the **RBI is entrusted with the 21 member** central board of directors: compressing of the governor; four deputy governors; two finance ministry representatives (usually the Economic Affairs Secretary and the Financial Services Secretary); ten government, nominated directors to represent important elements of India's economy; and four directors to represent local boards **headquartered at Mumbai, Kolkata, Chennai and New Delhi.** Each of these local boards in turn consists of five members each to represent

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regional interests, the interests of co-operative and indigenous banks. It provides important financial services like storing of foreign exchange reserves and the control of inflation.

IMPORTANCE AND OBJECTIVES OF FINANCIAL ADMINISTRATION:

This is why **Lloyd George,** the British Chancellor of Exchequer said: **"Government is money"**. The efficiency of operating systems and maintenance systems depends on the effectiveness of the financial system and **every activity may have financial implications.** Whether it is the Department of Agriculture, Railways, Road Transport Corporation, Primary Health Centre, Municipality or Panchayat Raj, or for that matter a **family, their day-today activities** would depend upon the availability of funds. Hence financial administration is very important.

1. Financial administration **provides scientific analysis** of all facts and figures through various financial tools, such as different financial statements, **budgets** etc.
2. Financial administration help in **evaluating the feasibility of the plans and schemes of the government** in the given circumstances, so that a proper decision can be taken to maximize advantage and minimize the risk involved.
3. The financial administration is generally concerned with **procurement, allocation and control of financial resources** of the government and governmental organizations.
4. Financial managers are responsible for the **financial health of an organization**. They produce financial reports, direct investment activities, and **develop strategies** and plans for the l**ong-term financial goals** of their organization.
5. Financial managers typically help management **make financial decisions prudently.**
6. Further, in the case of public enterprises they also deal with aspects such as **portfolio management, distribution** of dividend, capital raising, hedging and looking after fluctuations in foreign currency and product cycles.

Question: 2. Describe concept and principles of budget?

Answer: INTRODUCTION: The nineteenth century had witnesséd the growth of the problem of public finance on a large scale. The functions of the State became manifold (various) in all directions, on the one hand, and the necessity of checking on the financial administration to prevent fraud and waste and to secure the highest possible results from

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public expenditures on the other hand was felt. **To solve this vexing (worry) problem, there arose the budget system in England which was absolutely non-existent until 1803**. The budget thus became a very important tool of financial administration. Since India was ruled by the British, budgeting has also gained importance in India too.

MEANING AND DEFINITIONS OF BUDGET:

The word 'budget' is derived from a **French word 'Bougette**', meaning a leather bag or wallet. The term was used for the first in 1733 in a satire entitled 'Opened the Budget' pointed against Walpole's financial plan for that year. The Chancellor of the Exchequer used to carry a leather bag containing papers on the financial plans for the country to the House of Commons. So when he set off to place his financial plans before the House, he used to open his 'budget', that is, the bag, and it is because of this association of the financial plan with the 'bougette' that the financial statement of a country has come to be known as budget. The term budget, in modern times, therefore, denotes that document which contains estimates of revenue and expenditure of a country, usually for the fixed period of one year. Some of the definitions of the word "budget' are as follows:

Definitions:

1. **"Budget is a plan of financing for the upcoming fiscal year. This involves an itemized estimate of all revenues on the one hand and all expenditures on the other." - Munro.**
2. **"Budget is a detail of estimated revenues and expenditures** — a comparative chart of revenues and expenditures, and over and above this it is the authority and direction of the competent authority given for the collection of revenues and expenditure of public money." - Wilne.
3. "Budget is a document containing a preliminary approved Plan of Public Revenue and Expenditure."- Rene Storum.
4. **"Budget is a financial plan of the government for a definite period." - Taylor**

From the above definitions of budget we can conclude that the following are the elements of the budget:

i. It is a statement of expected-revenue and proposed expenditure;

ii. It requires some authority to sanction it;

iii. It is for a limited period and generally it is annual;

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iv. It sets forth the procedure and manner in which the collection of revenue and the administration of expenditures are to be executed.

FEATURES OF BUDGET:

After going through the meaning and various definitions of budget, characteristics of a budget can be summarized as follows:

1. A Budget is a Systematic Financial Plan.
2. Budget is a Scheme for Action
3. Budget is a gap between estimates and actuals of the income and expenditure.
4. Annual Plan.
5. Parliamentary sanction is mandatory for a budget.
6. Comprehensive Plan of Action.
7. Budget is presented by the Executive.
8. Budget is the Heart of Management.
9. Budget is a tool of legislative control.
10. Budget as reflection of the economic, social and cultural ethos of a country.

Functions of a Public Budget:

1. A Policy Statement.

2. Redistribution of Wealth.

3 Work Programme.

4. Source of Information.

5. An instrument of control.

6. Instruments of Management.

7. Responsibility to Constituency.

Principles of budget:

The budget to be an effective instrument of financial and work management must conform to certain principles, Herald D. Smith set out the following eight as budgetary principles:

1. Executive Programming
2. Executive Responsibility

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3. Reporting
4. Adequate Tools
5. Multiple Procedures
6. Executive Direction
7. Flexibility in Timing
8. Two way Budget Organization

Question 3. Describe the types of budget?

Ans: Government budgets can be classified on the basis of the following principles:

1. The method preparation
2. The period covered
3. Number of budgets introduced in the Legislature
4. The overall financial position depicted in the budget
5. The principle adopted in taking the items of income and expenditure in the budget
6. The classification of the receipts and expenditure in the budget

On the basis of these principles the budgets can be either:

i. Annual budgets or long-term budgets

ii. Single or plural budgets

iii. Surplus, deficit or balanced budgets

iv. Cash budget or revenue budget

A brief description of some of these types follows:

i) Annual or Long-term Budgets: Generally, the government budgets are annual, i.e., they are prepared for one year. In India, England and most of the other commonwealth countries the financial year begins on 1st of April and ends on the 31st of March, but in the **USA, Australia, Sweden and Italy the dates are 1st July and 30th, June. In France these dates are 1st of January and 31st of December.** Some countries have adopted the policy of planned economy and to meet the needs of long-term planning, they have resorted to **long-term budgeting, i.e., preparing the budget for three or more years.** Such budgets are in long-term budgets because what is provided for is financial planning over a period of years to finance the plan. These countries spread the estimated plan expenditure, but that does not amount to actual voting of appropriations for the entire

period. Every year the national budget will include the expenditure on the plan for that year which will be approved by the legislature.

ii) Single or Plural Budget: When the estimates of all the government undertakings find place in one budget, it is known as a single budget. The advantage of single budgets is that it reveals the overall financial position of the Government, as a whole. But if there are separate department wise budgets which are passed separately by the legislature, it is called **plural budgeting.** In India we have had two budgets — one for the railways and the other for all the other remaining departments. **The practice of having a separate railway budget started in 1921.** Currently, India has abandoned this overall budget system and has adopted a single budget system.

iii) Surplus, Deficit or Balanced Budget: A budget is surplus if the estimated revenues are in excess of the estimated expenditure. But if the anticipated revenues fall short of the anticipated expenditure, it is a deficit budget. According to economists, a deficit budget is a sign of the country's making progress**. A balanced budget is one wherein the anticipated revenues equal the anticipated expenditure.** The budgets of developing countries are generally deficit budgets.

iv) Cash or Revenue Budget: Cash budget is one wherein the estimates of the various items of **income and expenditure include the amounts actually to be received or spent in one year. In revenue budget the revenue and expenditure, accruing in one financial year, are budgeted in that financial year irrespective of the fact whether the revenues are realized or the expenditure is incurred in that financial year In india, Britain and USA, there is cash budgeting in France and other European countries there is revenue budgeting.**

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Question 4. Explain the preparation of the budget in India?

INTRODUCTION:

The word budget is mentioned in the Constitution of India by the name of Annual Financial Statement (Article 112). The meaning of the Annual Financial Statement is the estimated receipts and expenditure of the Government of India for the ensuing financial year. Primarily, it was the **Finance Department which was responsible for protecting the interest of the economy and financial prosperity in government.**

STAGES OF THE BUDGETING PROCESS: The following are the various stages through which a budget has to pass in India.

1. Preparation of budget
2. Parliamentary Approval/ Enactment of Budget
3. Execution of the Budget
4. Accounting and
5. Auditing

PREPARATION OF BUDGET: Preparation of the budget estimates is the first step in the budgetary process. In the Preparation of Budget, it starts with the preparation of estimates for the ensuing financial year in India which Commences on 1st April, and ends on March 31. The Ministry of Finance deals with the financial business of the Government and has overall responsibility for framing the Budget. In the Budget preparation the following three other organs are also involved in the budget preparation.

a) The Administrative Ministries

b) The NITI Aayog and

c) The Comptroller and Auditor General of India

Although the Finance Ministry has the overall responsibility for the framing of the budget, it is the administrative ministries which have the detailed knowledge of the administrative requirements. For incorporating the plan priorities in the Budget, the Finance Ministry is in close touch with the NITI Aayog. Also, the Comptroller and

Auditor General comes into the picture since it is he who makes available the accounting skills, so necessary for the preparation of the estimates of income and expenditure.

The **Preparation of Estimates: The preparation of the Union Budget commences 6 to 8 months before the Commencement of the next financial year.** The initiative comes from the Budget Division of the Department of Economic Affairs in the Ministry of Finance. The Finance Ministry dispatches a circular to the various Administrative Ministries and departments, asking them to start preparing estimates of expenditure. The general rule is that he who spends the money must also prepare estimates for it. The skeleton forms are supplied wherein the estimates and other requisite information has to be filled in. The Administrative Ministries, in turn, pass on these printed forms to be disbursing officers. These disbursing officers prepare the estimates on the prescribed form. Each form contains the following columns:

1. Minor heads and sub heads of appropriation.
2. Actuals for the previous year.
3. Sanctioned estimates for the current year.
4. Revised estimates for the current year.
5. Budget estimates of the next year and
6. Explanation for increase or decrease proposed in the estimates

Budget estimates scrutiny and consolidation of Departments: The estimates prepared by the disbursing officers are sent to the head of the departments in two parts.

Part-I relates to revénue and standing charges.

Part-II a) category figures items which are continuing from year to year, and

b) category relates to entirely fresh items. After the departmental heads have scrutinized and reviewed these estimates, they consolidate all the estimates of their department and forward them to the Finance Ministry by the middle of November. One copy each of the estimates is forwarded to the Accountant General of India. He examines the various items and ensures that all the sanctioned charges and

unsanctioned charges are incorporated duly. He separately submits his comments on the estimates of the administrative ministries to the Finance Ministry.

Scrutiny and Preparation of Estimates by the finance Ministry: **All the estimates sent by the administrative ministries reach the Budget Division, Department of Economic Affairs, and Ministry of Finance.** Its scrutiny is, different in character from that of the administrative ministry. It does not go into the policy of the expenditure. This is in the main, the responsibility of the administrative ministry itself. It is mainly concerned with the economy and has to adjust the demands of the several administrative departments/ ministries within the funds available to the government. In case of difference of opinion between administrative ministry and ministry of finance on any vital matter, the case is referred to the cabinet. In the cabinet also, in financial matters the voice of the Finance Minister is considered important and is normally upheld.

Preparation of estimates of Revenue by Finance Ministry: After the preparation of the estimates of expenditure, the estimates of revenue are prepared. The preparation of revenue is also the work of the Finance Ministry. The Department of Revenue, the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs, which are important revenue collecting agencies, make a forecast of the expected revenue for the coming financial year. Such a forecast is made on the basis of statistics of revenue collection of the preceding year. The Finance Ministry then makes suitable alterations in the rate of taxes to meet the requirement of expenditure. When the estimates of expenditure and income have been prepared by the Finance Ministry, two statements are prepared for submission to the Parliament. They are the Demands for Grants and the Annual Financial Statement. The Demands for Grants show the disbursements of the government both under the Public Account and the Consolidated Fund. Finally the Budget Division of the Department of Economic Affairs of the Finance 'Ministry is entrusted with the responsibility of the preparation, submission to and getting sanction of the Parliament, for the Annual budget and Supplementary and Excess Demands for Grants of the Union Government, and of States and Union Territories with legislature that are under President's Rule.

Approval by the Cabinet: The Finance Ministry places the consolidated budget before the Cabinet. After the approval of the Cabinet, the budget is presented to the Parliament. It must be mentioned here that the budget is a secret document and should not be leaked out before it is presented to the Parliament.

Question 5. Discuss the different stages of enactment of the budget in Parliament?

Ans: ENACTMENT OF THE BUDGET:

"No taxation without representation" is the slogan of the American Revolution. Like the US India is also following a democratic system of constitutional government. These two nations biggest democracies are following some important common norms. It is thus a cardinal principle of democratic governments that no taxation can be levied and no expenditure incurred, without the prior approval of the Parliament. The Journey of the Budget or the Annual Financial Statement, through Parliament, is the vital part of the process. In the Parliament, Budget does through the following five stages:

1. Presentation of Budget to the Parliament

2. General Discussion

3. Voting on Demands for Grants

4. Passing of the Appropriation Bill

5. Passing of the Taxation proposals

1. Presentation of Budget to the Parliament: The budget is presented to Parliament in two parts, the Railway Budget and the General Budget. Besides the General budget (The Annual General Financial Statement), there was also the Railway Budget separated from the former as early as 1921. But since 2017 these two budgets have been merged into one as the General Budget. The Powers of Parliament in respect of the enactment of the Budget are mentioned in the Constitution itself. The relevant Articles are 112 to 117 of the Constitution. The following provisions govern the enactment of the Budget.

1. Article-113: No demand for a grant shall be made except on the recommendation of the President.

2. Article-113: No proposal relating to expenditure can be brought without the recommendation of the President.

3. Parliament cannot increase a tax though it is empowered to reduce or abolish it.

4. Article-113: Charged expenditure upon the Consolidated Fund of India shall not be submitted to the vote of Parliament, though it is subject to discussion.

5. Parliament cannot amend the Appropriation Bill in a way as to have the effect of varying the amount or altering the destination, of any grant of varying the amount of any charged expenditure.

6. Powers of the Rajya Sabha are quite restricted in financial matters. Voting of demands for grants is the exclusive privilege of the Lok Sabha.

The whole process of the presentation of the 'Annual Financial Statement' to both the Houses of Parliament is started by the President of India. After the prior approval by the President the Finance Minister presents the budget to the Lok Sabha on the 1st of February (earlier it was done on the **26 or the last working day** of February). This is with the speech known as the **Budget speech.** The budget is laid before the Rajya Sabha at the end of the Budget speech in the Lok Sabha. Along with the presentation of the annual financial statement (the budget) to Parliament, the Finance Minister submits the following five documents:

i. Key to Budget Documents

ii. Budget at a Glance

iii. Receipts Budget

iv. Expenditure Budget. Vol.II

v. Memorandum of explaining the process in the Finance Bill.

A discussion does not immediately follow the presentation of the budget. The copies of the Budget together with the Financial Statement are printed and circulated to all the members for their reference.

2. General Discussion: According to Rule 130 of the Rules of Conduct of Business of Parliament, no discussion of the budget shall take place on the day on which it is presented to the Parliament.' The **Speaker, therefore, fixes** a date on

which general discussion on the Budget is to take place. Such a date is generally fixed **one week after the presentation** of the Budget and about **four days** are allotted for the purpose. Discussion covers all items of expenditure including those that are charged on the Consolidated Fund of India and are excluded from the vote of the Parliament. It relates to the general principles or policy underlying a review and criticism of the administration of the various Ministries. The discussion is more of political rather than of financial nature and major part of the time is allowed to the opposition to review the work of the Government for the year and ventilate the grievances of the people. At this stage, no motion is moved nor is the Budget submitted to the vote of Parliament. It may be mentioned here that the general discussion on the budget takes place in both the Houses of Parliament simultaneously. The Finance Minister makes a general reply at the end of the discussion.

3. The Voting Demands: The Demands for Grant are referred to the Standing Committee of the concerned Ministries for thorough consideration. It was in 1993 that the Parliament took the decision to set up **Department related Standing** Parliamentary Committees to scrutinize the Demands for Grants of various ministries, departments before these are discussed and voted in the House. There are tw**enty four such committees**; **eight** of which are chaired by the members of the Rajya Sabha and the remaining **16 by** the members of Lok Sabha. Each committee consists of 31 members @ 21 members from Lok Sabha and 10 from Rajya Sabha.

The Lok Sabha proceeds to the voting of demands for grants not charged on the Consolidated Fund of India. The voting of demands is the exclusive privilege of the Lok Sabha and the Rajya Sabha does not take part in it. While voting the demands for grants, the Lok Sabha sits as House and not as the Committee of the Whole House as is the practice of the House of Commons in Great Britain. The total number of days allotted for the voting of demands is 26 as in Britain. It is evident from the short time given that many of the demands are voted without any discussion at all. The Speaker, in consultation with the Leader of the House, fixes a time limit for particular demands or group of-demands and for the entire expenditure part of the budget. As soon as the time-limit for any demand is reached, it is immediately put to vote irrespective of the fact whether the discussion on it is

complete or not. On the last day allotted for the voting of the demands, at 5 P.M. the Speaker puts all the demands which remain outstanding to vote and disposes them whether they have been discussed or not. Due to the Parliamentary system of government, the reduction of any item of the budget in opposition to the wishes of the Cabinet is tantamount to a vote of no confidence. What, therefore, happens in the House during the demands for grants is not a discussion of the heads of items of the budget from the financial point of view, but a general ventilation of grievances against the administration of particular departments of the government. As each head of expenditure comes up for discussion, some member rises and moves a token cut of one rupee or a hundred rupees in its estimates. Then he proceeds to criticize the administration of the department to which it relates. The Minister concerned has to defend the administration against all criticism that is leveled against it by the opposition. At the end of the discussion of each demand, the demand is put to the vote of the House in the following form: "That a sum not exceeding .... Be granted to the President (or the Governor) to defray the charges, which will come in the course of payment during the year ending March 19 in respect of — (subject of the demand)". A demand when duly voted becomes a grant. It may be remembered that the House can only reject or reduce a demand but cannot increase it. If more money is needed for expenditure, it is authorized by way of Supplementary grants.

4. Passage of the Appropriation Bill: The next stage is the passage of the Annual Appropriation Bill into a statute. All the demands voted by the Lok Sabha and the expenditure charged on the Consolidated Fund of India are put together and incorporated in a Bill called the Annual Appropriation Bill. Article 114(1) of the Constitution provides that after the grants have been made. "there shall be a Bill " introduced to provide for the appropriation out of the Consolidated Fund of India of all moneys required to meet:

a) The grants so made by the House of the People, and

b) The expenditure charged on the Consolidated Fund of India but not exceeding in any case the amounts shown in the statement previously laid before Parliament".

An Appropriation Bill is accordingly introduced in the Lok Sabha. The allotment of time for the different stages of the Bill is determined by the Speaker. The debate is

restricted to those points only which have not been already discussed during the debates on estimates. The Bill follows the same procedure in the House as any other Bill except in this that no amendment to the grants as voted by the House previously, or altering its destination, or to the Consolidated Fund Charges can be proposed in either House. After being passed by the Lok Sabha, it is certified by the Speaker as Money Bill and sent to the Rajya Sabha.

The Rajya Sabha has neither the power of amending nor rejecting the Appropriation Bill. It can only discuss and make recommendations within 14 days to the Lok Sabha, which may or may not accept them. Even if the Lower House rejects the suggestions made by the Upper House, the bill will be considered as passed by both the Houses in the form it was passed by the Lower House. In case the Upper House does not make recommendations within the above specified period and remains silent, even then the bill will be deemed to have passed by the Upper House on the expiry of that period.

The Appropriation Bill is then sent to the President for his assent which is just a formality because the President cannot return a Money Bill for reconsideration.

5. Consideration and passing of the Taxation proposals/Finance Act:

The Appropriation Act authorizes the Government to appropriate money from the Consolidated Fund but it has not so far been provided wherefrom the money for expenditure would come. Provision is therefore made for collecting the required money by way of taxation. For this purpose a Finance Bill is placed before the House. This Bill incorporates the financial proposals of the Government for the ensuing year and is placed before the Parliament at the same time as the Budget. The procedure followed is that of Money Bill and it is only in Select Committee Report, that a clause by: clause consideration of the bill follows. The scope of amendments is restricted to proposals for the reduction or abolition of a tax. The financial proposal becomes operative as soon as the Budget is presented under the Provisional Collection of Taxes Act, 1931. The Finance Bill must be passed before the end of April and after having been passed, the Government is authorized to collect the taxes. With the passage of the Appropriation Bill and the Finance Bill, the enactment of the Budget is complete.

GRANTS: The budget contains the ordinary annual estimates which constitute the bulk of the annual receipts and charges. To meet expenditure on circumstances unforeseen at the time of budget there are other four kinds of grants which the Lok Sabha may be asked to make, viz., (1) Supplementary Grants, (2) Votes on Accounts, (3) Exceptional Grants, and (4) Votes on Credit. . |

1. Supplementary Grants: If the amount authorized by the Appropriation Act of the year is found to be insufficient for any service or if expenditure on some new service becomes necessary or if expenditure incurred on any service exceeds the amount provided for in the budget the President is author; under Article 115 of our Constitution to cause to be laid before the Parliament a supplementary financial statement embodying the supplementary grants which is passed according to the usual procedure followed for the passage of Appropriation Bill.

2. Votes on Account: Under article 116 (1) of the Constitution, the Lok Sabha has power to make any grant in advance in respect of the estimated expenditure for a part of any financial year pending the passing of the Appropriation Act.

As the voting of expenditure for a particular financial year is not completed till the month of April, it becomes necessary for the Lok Sabha to make provision for defraying (provide money to pay) the expenditure likely to be incurred till the voting is over. This provision in advance pending the passage of the Appropriation Act is known as 'Vote on Account'. It may, however, be mentioned that demands for grants on account are restricted to such services as have received the sanction of the Parliament. Usually, it is not used for the new services. The estimated requirements broadly represent one-twelfth of the whole year's gross requirements except in exceptional cases where it can be more also if the expenditure is not uniformly spread over the year.

3. Exceptional Grants and Vote on Credit:

Article 116(b) reads: The House of the People shall have power "to make a grant for meeting an unexpected demand upon the resources of India when on account of the magnitude or the indefinite character of the service the demand cannot be stated with the details ordinarily given in an annual financial statement." The same Article in clause (c) states: The House of the People shall have the power "to make

exceptional grant which forms no part of the current service of any financial service". The expenditure on such unforeseen events can be met from advances made by the President out of the Contingency Fund of India. These advances will have to be authorized by the Parliament later.

Question: 6 Describe the process of execution of the budget in the country.

Answer: Introduction: After the enactment of the Budget, the next step in the budgetary process is its execution. The execution of the budget is the responsibility of the Executive because the grants of money are made by the Legislature to it. The two important principles involved in the execution of budget are:

i. That it must **conform to the terms of the Appropriation Act** and Finance Act; and

ii. That there must be a **high degree of honesty, integrity and efficiency** in the execution.

The process of execution of the Budget involves the following five different operations.

i. Assessment and collection of funds,

ii. Custody of public funds,

iii. Disbursement of funds,

iv. Accounting,

v. Auditing.

1. Assessment and Collection: Before the taxes are collected they have got to be assessed. Assessment means the act of **determining as to what amounts are to be collected from different individuals within the limits of the authority given by the legislature.** Assessment, therefore, involves the preparation of a list of persons and institutions liable to pay the tax and also determining how much each has to pay according to the prescribed rates. The executive has to devise a suitable machinery and procedure for assessing the amount that is due to the Government from an individual or an association. While devising such a machinery care should be taken to prevent the evasion of taxes.

The Department of Revenue of the Finance Ministry exercises overall control and supervision over the direct and indirect taxes levied by the Government of India through the two statutory Boards, viz., the Central Board of Direct Taxes, and the Central Board of Excise and Customs.

2. Custody of Public Funds: All revenues that are collected have to be placed in safe custody. This involves two main considerations, namely:

i) There should be no possibility of embezzlement (theft) and misappropriation.

ii) There should be convenience and promptness of payment.

Earlier, huge stocks of public money were maintained in the Treasury in specially constructed strong boxes. But with the development of the banking system, now there is little - need for the Government to use treasury for the custody of its funds. Moreover, it is not necessary to carry on all the financial transactions through cash money as most of the work may now be done through cheques as payment by cheque minimises the chances of foul play and embezzlement. In most of the countries, therefore, the Central Banks carry all the money transactions on behalf of the Government as done by the **Bank of England in London.** But in a huge country like India where the banking facilities are not sufficient, it is not possible to have such a centralised system for receiving money and for making payments on behalf of the Government. The Reserve Bank of India, and where there is no branch or agency of the Reserve Bank, the State bank of India, however, conducts the Treasury business of the Government of, india. But since the branches of the Reserve Bank and State Bank do not yet exist at all Places, the Government still has to maintain over 1,200 sub-treasuries and over 300 District treasuries, to supervise over them.

3. Disbursement of Funds: Disbursement is the process of withdrawal of money from the Treasury for payments of, Various liabilities. This practice is based on British system. **Every care should be taken in the Work of disbursement against illegal and inaccurate withdrawals or payments.** Particular Control is, therefore, exercised by the Ministry of Finance over expenditure. The legislature makes the grants to the Government as a whole, technically to the President but not to the individual departments. **The Ministry of Finance designates the Head of each**

administrative department, as a controlling officer in respect of the expenditure occurring in his department. These Officers in turn allocate grants to the disbursing officers or heads of offices working under them. The work of communicating grants to the controlling and disbursing officers is taken up immediately after the enactment of the budget. Expenditure against appropriation is controlled by dividing grants into primary units of appropriation, for example, the pay of officers, establishments, contingencies, etc. These appropriations are sometimes further divided for purposes of financial control. The basic unit of expenditure control is the sub-head. The disbursing officer is allocated certain sub-heads of appropriations. He or she alone can withdraw money from the treasury.

4. Accounting: Accounting means keeping a systematic record of financial transactions. A good accounting system is indispensable for adequate budgetary control for several reasons. It is only through **systematic accounts supported by vouchers and receipts that the legality and honesty of the transactions as also the fidelity (faithfulness) of the officers handling the funds can be determined. Secondly,** it is through accounts only that it can be ascertained whether provisions of the budget as voted by the legislature have been properly implemented or not, i,e., how much has been spent and for what purpose and whether spending is within the budgetary limits or not. **Thirdly,** accounts furnish valuable information needed regarding financial conditions and operations for policy determining and programme making.

5. Audit: The last stage in the execution of the budget is audit. The term, audit, has been defined as **"the process of ascertaining whether the administration has spent or is spending its funds in accordance with the terms of the legislative instrument which appropriated the money."** It is a means of enforcing accountability. The Audit Department of the Government of India is headed by the Comptroller and Auditor-General of India. His functions are not merely to ensure that the appropriations made by Parliament have not been exceeded by the executive without a supplementary vote or that the expenditure conforms to rules but also to satisfy himself on behalf of Parliament as to its wisdom, faithfulness and economy. The Comptroller and Auditor General acts as an agent of the Parliament itself. The Parliament exercises control over expenditure through its three important

financial committees - **The Public Accounts Committee, the Estimates Committee, and the Committee on Public Undertakings.**

Question 7. What is the Gender Budget? Describe the features of the gender budget in india.

Introduction:

Gender budgeting means preparing budgets or analyzing them from a gender perspective. Gender Budget is concerned with gender sensitive **formulation of legislation, programmes and schemes; allocation of resources; implementation and execution;** audit and impact assessment of programmes and schemes; and follow-up corrective action to address gender disparities.

Features of Gender Budgeting (GB):

1. A powerful tool for **achieving gender mainstreaming** so as to ensure that benefits of development reach women as much as men.
2. Does not seek to create a separate budget but **seeks affirmative (conformative) action to address specific needs of women**.
3. **Monitors expenditure and public service delivery from a gender perspective.**
4. Entails dissection of the Government budgets to establish its gender differential impacts and to ensure that gender commitments are translated into budgetary commitments.

The Five-Step Framework for Gender Budgeting:

- Step 1: **An analysis of the situation** for women and men and girls and boys (and the different sub-groups) in a given sector.
- Step 2: An assessment of the extent to which the sector's policy **addresses the gender issues and gaps** described in the first step.
- Step 3: An assessment of the adequacy of **budget allocations** to implement the gender-sensitive policies and programmes identified in step 2.
- Step 4: **Monitoring whether the money was spent as planned**, what was delivered and to whom.

- Step 5: An assessment of the **impact of the policy/ programme**/scheme and the extent to which the situation described in step 1 has changed.

Rationale Behind Gender Budgeting:

1. **According to the 2011 census, women account for 49 per cent of the total population of the country.**
2. Women face disparities in **access to and control over services and resources.**
3. Bulk of the public e**xpenditure and policy concerns are in "gender neutral sectors".**
4. Implications on women in the above sectors are not recognised or identified.
5. Gender responsive budgets policies can contribute to achieving the objectives of **gender equality, human development and economic efficiency.**

Gender Budgeting in India:

- Gender Budget Statement (GBS) was first introduced in the Indian Budget in 2005-06. This GB Statement comprises two parts–
    - Part A reflects Women Specific Schemes, i.e. those which have 100% allocation for women.
    - Part B reflects Pro Women Schemes, i.e. those where at least 30% of the allocation is for women.
- India's gender budgeting efforts stand out globally because they have not only influenced expenditure but also revenue policies (like differential rates for men and women in property tax rates and reconsideration of income tax structure) and have extended to state government levels.
- **Gender budgeting efforts in India have encompassed four sequential phases: (i) knowledge building and networking, (ii) institutionalizing the process, (iii) capacity building, and (iv) enhancing accountability.**
- Gender budgeting in India is not confined to an accounting exercise. The gender budgeting framework has helped the gender-neutral ministries to design new programs for women.
- Gender Budgeting Cells (GBC) as an institutional mechanism have been mandated to be set up in all Ministries/Departments.

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- GBCs conduct gender based impact analysis, beneficiary needs assessment and beneficiary incidence analysis to identify scope for re-prioritization of public expenditure and improve implementation etc.

Shortcomings (Failures): Not only has the magnitude of the gender budget as a proportion of the total expenditure of the Union Budget decreased, the budgetary allocations for **promoting gender equality and women's empowerment** have also shown a decline.

1. There are only a few "big budget" women exclusive schemes of the Ministry of Women and Child Development (MWCD) like the Nirbhaya Fund and the Beti Bachao Beti Padhao campaign.
2. Lack of dedicated human resources to implement the interventions identified by the GBCs.
3. Monitoring remains one of the weakest links in the GRB work with no designated mechanism for monitoring it at the national level.
4. Assumptions behind reporting allocations under Part B of the GBS remain questionable.

Way Forward (Suitable):

An assessment of gender responsive budgeting in India reveals a mixed picture.

- There are number of positive developments, such as changes in select planning and budgeting processes and creation of gender budget cells.
- However, restricted reach of GB and stagnant or even declining allocations for the gender agenda are stumbling blocks.
- The adoption of the GB should be accompanied by multifaceted and interrelated improvements to budgets in general and the gender sensitivity of budgets.
- There needs to be shift from mere "reporting" of gender allocations to "purposive planning" with wider participation of women.
- The Finance Minister has proposed to increase the gender budget allocation to Rs 131,700 crore for 2019-20 from Rs 121,961crore a year ago.

- The Minister pitched for women-led development to be the government's mantra from being about women development; focussing on schemes on nutrition, anganwadi and women employment.

Question 8. What do you mean by the Green Budget? Discuss its implication in India and do you think that a green budget can help in solving the problem of climate change.

Green Budget: Introduction: As of 2021, the total forest cover in the world 31 percent, in India is 24.62, in Telangana, 24.06 percent of the total geographical area. Every year the government presents the Budget for the future aspiration of the country. With the increasing concern towards sustainable environment from the world fraternity, the countries worldwide have started the process of Green budget. **The green budget is one area where governments can influence human's interaction with the environment by discouraging environmental destruction, and encouraging beneficial behavior.** Through this process, the coalition of national conservation organizations and environmental group identifies some of the programs to be included in the Green Budget. This budget displays how the central funding for conservation can help, such as:

- **To meet the environmental and climatic challenges of a changing climate,**
- **Sustain our nation's natural resources like lands, waters etc, and**
- **Develop our clean energy resources.**

Green Budget or Green Accounting is one type of accounting that tries to include all factorial environmental costs into the financial results of operations. It has been debated and argued that gross domestic product (GDP) ignores the environmental loss and degradation while calculating it, and therefore policymakers and government need a revised model that incorporates them through green accounting.

The main idea of having the green accounting is to help understand the advantages of achieving traditional and desired economics goals in respect with environmental goals. It also increases the related information which is available for analyzing key policy issues, especially when those vital and important pieces of information are often overlooked left unrecognized. The Green accounting/budgeting helps to promote a **sustainable future** for businesses as it brings green research and development and green public procurement into the big picture. **Penalties and fines**

for polluters and incentives (such as tax breaks, polluting permits, Green points etc.) are also a major crucial part of this type of accounting.

Why it's Important?

Green budget gives us the assurance that not only the present but the future generations are also **hazard free and safe**. It gives us a sense of satisfaction that we **not only care for the people, but for all the living beings, natural resources, flora (trees) and fauna (the animals of preauricular regions) etc.** Hence making budget green is not only about **how much fund is allotted for wildlife or forest protection.** It is about **integrating them into every aspect of our economy and to ensure that there is no wasteful and undesired use of natural resources.**

For many past years, green issues in India are either hastily added or overlooked in FM's budget speech. But this year FM Arun Jaitley seems to have done better, but there are still miles to go to ensure that there is full integration of all the green concerns into every aspects of the economy or just to get recognition by our ministers that investing and protecting the environment is good for the economy.

In today's world when many countries are on the verge of facing the wrath of nature with a possible **climate change impact,** India is also one of those countries. India is considered one of the most vulnerable countries with various climate change hazards like floods, drought, landslide, sea-level rise. **In such a scenario climate change will have a negative and disastrous impact on food security, farming, forests, water resources, marine biodiversity, and coastal areas and coastal livelihoods, and health can affect Indian people severely. Climate change is said to have a strong influence on the overall economic development of India.**

This is when Green Budgeting, an instrument that facilitates Integration of Environmental Policies, can be applied to solve this problem. Generally, Green Budgeting can be understood as a "process in which all the dimensions of sustainable development [ecological balance, social progress and economic growth,] are completely integrated in one single policy that is a budget document." Further, the Green Budget (GB) has the functions to comprehensively and consistently analyze government revenues and expenditures to bring absolute sustainable development. The major importance is given to non-economic targets such as the percentage of reduction in carbon emission in a given year that the government expects to reduce.

The Green Budgeting system has its roots in the Green Economy Model and is based on the concept of sustainable development. The first and solid impetus for Green Budgeting came in the Agenda 21 and Brundtland Report that emphasizes the need to ensure the coherence of economic, social, sectoral, and environmental policies, and plans instruments, including fiscal measures and the budget´. The process of Green budgeting can be also seen as being integrated into the Green

Economy as an economic development model, which is directly opposed to the current `black´ economy system which relies on fossil fuels. The Green Economy is based on the theory of ecological economics that focuses on the interdependence of human economies and natural ecosystems and the adverse impact of human economic activities on climate change under United Nations Environment Program-UNEP.

India's Step towards Green Budget

In this year's budget, the allocation of around Rs.150 crore has been made for National Afforestation Programme. The attempts have also been to discourage the practice of "dirty coal" by increasing the clean energy cess to Rs.200 from Rs.100 per tonne of coal to finance clean environment initiatives. However, there is not much clarity on how this money will be spend to start the clean environment initiatives as previous funds allocated for the environmental cause too are lying unused and if implemented then through which department of the government.

Budget 2023 announces an outlay of **Rs 19,700 crore** for the recently approved Green Hydrogen Mission which targets domestic manufacturing of electrolysers.

The announcement to encourage organic farming, the government setting up of a Rs.400 crore fund. A separate programme would be started for ***sustainable groundwater management.*** However, the commitments done under the Paris climate summit for a conscious transition to a low-carbon economy by India is missing from this year budget.

Apart from the above mentioned initiatives for protecting groundwater, the budget significantly assumes that growth can not happen without these natural resources.

Internationally, a strategy has been created for reallocating investments towards the green economy, which initially may lead to slower potential economic growth rate for a few years, as renewable natural resources are replenished (an effect that can be strong in some sectors, such as fisheries), but in the long run it will result into faster economic growth. The UNEP report on Green Economy also underlines other various benefits for the economy as it leads to reduction in the risks of adverse negative events associated with climate change, water scarcity and energy shocks while creating increased employment.

Why investment in Natural Resources?

There are various advantages associated with the investment made for natural resources. For example, the Center for International Forestry Research (CIFR) estimates that families living around forests or in forest earn an average of one-fourth

to one-fifth of their income from forest-based resources. According to Food and Agriculture Organization (FAO) estimates in 2005 that the value of extracted non-timber forest products from worldwide forests amounted to $18.5 billion. In India along with many countries, local economies and livelihoods are thrived by non-timber forest products although their role is understated.

Way ahead:

Government should not merely proposed some law and consider it done. But efficient implementation of the laws is equally important. **Further government can create a Green Protection Fund (GPF)** which could be used to protect existing wildlife, front-line forest protection force with better equipped forest belts, free flowing of rivers without garbage and sludge, and better biodiversity protection.

Question 9. Describe the organization and functioning of the finance ministry?

Introduction: The Finance Ministry is the most important and core ministry in the Union Government. It exercises control over the working of all other departments. It prepares the national budget and submits it to the Parliament for approval. After the Parliament has approved the budget, it executes the budget and maintains control and supervision over the financial matters of the administrative ministries and their departments.

HISTORY OF THE FINANCE MINISTRY:

The origin of the Finance Ministry in India goes back to the year **1810** when a separate Finance Department was created out of the then Public Department. **In 1947 the Department of Finance was designated as the Ministry of Finance** It was initially organized into **three wings, viz., Expenditure, Economic Affairs and Revenue**.

The Ministry of Finance is at present is organized into the following five Departments:

i) Department of Revenue.

ii) Department of Expenditure.

iii) Department of Economic Affairs.

iv) Department of Financial Services

v) Department of Investment and Public Asset Management.

The organization and working of the above five departments is briefly explained below:

(i) Departments of Revenue:

This Department is responsible for all matters relating to **Central Board of Revenue, Customs, Income Tax, Central Excise, Sales Tax, Insurance, Opium, Stamp**

Duties on Bills of Exchange, Cheques, Promissory Notes, Bills of Lading(a receipt of shipping), Letters of Credit (Bank guaranteeing), Policies of Insurance, Transfer of Shares, Debentures, Proxies and Receipts, and Foreign Exchange. It also advises the Government of India on fiscal matters, proxies and receipts, examines fresh proposals on promoting legislation for the modification of tax laws and administers Gold Control Regulations.

ii) Department of Expenditure:

This Department is responsible for **financial rules and regulations, delegation of financial powers, sanctions relating to all Ministries and offices of the Government of India,** advice to Ministries and government undertakings on cost account matters, expenditure proposals relating to the Delhi Administration, Indian Audit and Accounts Department, Defence Accounts Department, Local Taxation, State Finance, Capital Budget, Planning and Development Finance.

iii) Department of Economic Affairs:

The Department of Economic Affairs of the Ministry of Finance, headed by a Secretary, is one of the most important Departments of the Ministry. **It monitors the economic trends in the country** and advises the Government on all matters pertaining to internal and external economic management including the working of **commercial banks, investment regulations, and external assistance to term-lending institutions. It prepares the Government's Budget, makes periodic assessments of foreign exchange needs.**

iv) Department of Financial Services:

The mandate of the Department of Financial Services (DFS) covers the functioning of **Banks, Financial Institutions, Insurance Companies and the National Pension System. The Department is headed by the Finance Secretary who is assisted by three Additional Secretaries (AS), Six Joint Secretaries (JS), two Economic Advisers (EA) and a Deputy Director General (DDG).**

v) Department of Investment and Public Asset Management:

The Department of Disinvestment was set up as a separate Department on December, 10th 1999 and was later renamed as Ministry of Disinvestment from September 6th, 2001. From May 27th, 2004, the Department of Disinvestment was one of the departments under the Ministry of Finance. It has been renamed as Department of Investment and Public Asset Management (DIPAM). The department aims at proper management of the Centre's investment in equity including its disinvestments in Central Public Sector Undertakings. Also the department takes up all the functions of the erstwhile ministry which broadly was responsible for systematic policy approach to disinvestment and privatization of Public Sector Units (PSUS). This department looks after the affairs of the National Investment Fund, which was established by the government on January 27th, 2005. This fund was not to be a part of the Consolidated Fund of India.

Department of Public Enterprises The Department of Public Enterprises, which was previously part of the Department of Industry and Public Enterprises, will now be under the Department of Finance. The Department of Finance will now have six departments, and the parent division of DPE, the Department of Hard Industry and Public Enterprises, will now be called the Department of Hard Industry.

FUNCTIONS OF THE MINISTRY OF FINANCE: The Ministry of Finance is responsible for the following functions:

i. **The administration of the finances of the Central Government** and the financial matters affecting the country as a whole like inflation and recession.

ii) Raising the necessary revenues for carrying on the administration and **regulating the taxation and borrowing policies of the Government:**

iii) The administration of problems relating to **banking and currency.**

iv) **Controlling the entire expenditure** of the Government in co-operation with the Administrative Ministries and departments concerned.

v) **Ensuring national and government financial stability.**

vi) **Ensuring food security** for the country; and public safety through TAP and SCP schemes.

vii) Allocate annual costs for the implementation of government infrastructure projects.

viii) **Provide policies and guidelines to promote national economic growth.**

ix) **To provide quality service to the various customers of the Unit.**

x) **To develop and establish adequate human resource management.**

xi) **Improve the functions of administrative support services.**

xii) Develop and implement a fully integrated Public Works Accounting system.

xiii) Improving the structure and format of Consolidated National Accounts.

These functions of the Finance Ministry reveal that it is a very powerful organ of the Government of India. Hence its political head happens to be a senior minister in the government who is known for integrity and maintenance of financial meticulousness.

Question 10. Explain the constitutional position and functions of the Finance Commission of India?

The Finance Commission is a constitutional body for the purpose of allocation of certain revenue resources between the Union and the State Governments. It was established under Article 280 of the Indian Constitution by the Indian President. It was created to define the financial relations between the Centre and the states. It was formed on 22 November, 1951.

Composition:

Finance Commission Chairman and Members:

- Chairman: Head the Commission and presides over the activities. He should have had public affairs experience.
- Four Members.
- The Parliament determines legally the qualifications of the members of the Commission and their selection methods.

Qualifications: of Finance Commission Chairman and Members:

1. The 4 members should be or have been qualified as
   a. High Court judges, or
   b. Be knowledgeable in finance or
   c. Experienced in financial matters and are in administration, or
   d. Possess knowledge in economics.

All the appointments are made by the President of the country.

Grounds of disqualification of members: found to be of unsound mind, involved in a vile act, if there is a conflict of interest.

Tenure: The tenure of the office of the Member of the Finance Commission is specified by the President of India and in some cases, the members are also re-appointed.

- The members shall give part-time or service to the Commission as scheduled by the President.

Salary and allowances: The salary of the members is as per the provisions laid down by the Constitution.

- N. K. Singh, IAS, (Chairman)
- Ajay Narayan Jha, IAS, (Member)
- Prof. Anoop Singh, (Member)
- Ashok Lahiri, (full time Member)
- Prof. Ramesh Chand, (part time Member)
- Arvind Mehta, IAS, (Secretary)

Functions of Finance Commission: The Finance Commission makes recommendations to the president of India on the following issues:

1. The **net tax proceeds distribution to be divided between the Centre and the states,** and the allocation of the same between states.
2. The principles governing the **grants-in-aid to the states by the Centre out of the consolidated fund of India.**

3. The steps required to extend the consolidated fund of a state to **boost the resources of the panchayats and the municipalities** of the state on the basis of the recommendations made by the state Finance Commission.
4. The Commission decides the **basis for sharing the divisible taxes by the centre and the states and the principles** that govern the grants-in-aid to the states every five years.
5. Any matter in the interest of sound finance may be referred to the Commission by the President.
6. The Commission's recommendations along with an explanatory memorandum with regard to the actions done by the government on them are **laid before the Houses of the Parliament.**
7. The FC evaluates the rise in the Consolidated Fund of a state in order to affix the resources of the state Panchayats and Municipalities.
8. The FC has sufficient powers to exercise its functions within its activity domain.
9. As per the Code of Civil Procedure 1908, the FC has all the powers of a Civil Court. It can call witnesses, ask for the production of a public document or record from any office or court.

Advisory Role of Finance Commission

The recommendations made by the Finance Commission are of an advisory nature only and therefore, not binding upon the government.

Finance Commissions list year-wise are given in the table below:

Finance Commission	Chairman	Year of Appointment
First	K.C. Neogy	1951
Second	K. Santhanam	1956
Third	A.K. Chanda	1960
Fourth	Dr. P.V. Rajamannar	1964
Fifth	Mahavir Tyagi	1968
Sixth	Brahamananda Reddy	1972
Seventh	J.M. Shelat	1977
Eighth	Y.B. Chavan	1982
Ninth	N.K.P. Salve	1987
Tenth	K.C. Pant	1992

Eleventh	A.M. Khusro	1998
Twelfth	Dr. C. Rangarajan	2002
Thirteenth	Dr. Vijay Kelkar	2007
Fourteenth	Y.V. Reddy	2013
Fifteenth	N.K Singh	2017

Question 11. Write an essay on Centre State Financial Relations?

Generally, in a typical federation along with the distribution of legislative and administrative powers, the financial resources of the country are also distributed to ensure the financial independence of the units. However, the Indian Constitution does not make a clear cut distribution of the financial resources and leaves much to be decided by the Central Government from time to time.

Part-XII, Article 268 to **293** of the constitution deals with Centre-State Financial Relations.

1. **Taxes Exclusively Assigned to the Union:** Income from certain subjects like customs and export duties, income tax, excise duty on tobacco, jute, cotton, etc., corporation tax (Economic transactions of the companies), taxes on the capital value of assets of individuals and companies; Estate duty and succession duty in respect of the property and other than agricultural land; and income from the earning departments like the railways and postal departments have been exclusively assigned to the Union Government by the Constitution.
2. **Taxes Exclusively Assigned to States: Income from land revenue, stamp duty** except on documents included in the Union List; succession duty and Estate duty in respect of agricultural land; **income tax on agricultural lands;** taxes on goods and passengers carried by road or inland water; taxes on vehicles used on roads, animals, boats, taxes on the consumption or sale of electricity, tolls, taxes on lands and buildings; taxes on professions, traders, calling and employment; duties on alcoholic liquors for human consumption, opium, Indian hemp, and other narcotic drugs, taxes on the entry of goods into local areas, taxes on luxuries, entertainments, amusements, betting and gambling, etc. has been assigned to the States.
3. **Taxes Levied by Union but Collected and Appropriated by the State (268):** The taxes on the following items are levied by the Union Government but the actual revenue from them is collected and appropriated by the States; (i) stamp duties on bills of exchange, cheques, promissory notes, bills of

landing, letters of credit, policies of insurance, transfer of shares, etc.; (ii) Excise duties on medicinal toilet preparation containing alcohol or opium or Indian hemp or other narcotic drugs.

4. **Taxes Levied and Collected by the Union but assigned to States (269):** The taxes in this category are levied and collected by the Union Government although they are subsequently handed over to the states where from they have been collected. Such taxes included duties in respect of **succession to property other than agricultural land;** state duty in respect of property other than agricultural land terminal taxes on goods or passengers carried by railways, sea or air, taxes on railway freights and fares; taxes other than stamp duties on transactions in stock exchanges and futures markets; taxes on the sale or purchase of newspapers and advertisements published therein; taxes on purchase or sale of goods other than newspapers where such sale or purchases take place in the course of interstate trade or commerce.
5. **Taxes Levied and Collected by the Union but Shared (270):** Taxes on income other than agricultural income and excise duties other than those on medicinal and toilet preparations are levied and collected by the Union Government but shared with the states on an equitable basis. The basis of distribution is determined by the Parliament through a law.

Question 12. Describe the composition and functions of the Public Accounts Committee?

This committee was set up first in India in 1921 under the provisions of the Government of India Act of 1919 & and has since been in existence. At present, it consists of 22 members (15 from the Lok Sabha and 7 from the Rajya Sabha). The members are elected by the Parliament every year from amongst its members according to the principle of proportional representation by means of the single transferable vote. Thus, all parties get due representation in . The term of office of the members is one year. A minister cannot be elected as a member of the Committee. The Chairman of the Committee is appointed by the Speaker from amongst its members. Until 1966-67, the Chairman of the Committee belonged to the ruling party However since then (i.e. 1967) a convention has developed whereby the Chairman of the committee is selected invariably from the Opposition.

The functions of the Committee is to examine the annual audit reports of the Comptroller and Auditor General of India (CAG) which are laid before the Parliament by the President. In this function, the Committee is assisted by the CAG.

The CAG submits three audit reports to the president, namely , i) audit report on appropriation accounts ii)audit report on finance accounts and iii) audit report public undertakings.

The committee examines public expenditure not only from the legal and formal point of view to discover technical irregularities but also from the point of

view of economy, prudence, wisdom and propriety to bring out the cases of waste, loss, corruption, extravagance, inefficiency and nugatory expenses.

In more detail, the functions of the committee are:

1. **To examine the appropriation accounts and the finance accounts of the Union government and any other accounts laid before the Lok Sabha.** The appropriation accounts compare the actual expenditure with the expenditure sanctioned by the Parliament through the appropriation Act, while the finance accounts show the annual receipts and disbursements-of the Union government.

2. In scrutinizing the appropriation accounts and the audit report of CAG on it, the Committee has to Satisfy itself that:

   (a) the money that has been disbursed was legally available for the applied service or purpose;

   (b) the expenditure conforms to the authority that governs it; and

   (c) every re-appropriation has been made in accordance with the related rules.

3. **To examine the accounts of state corporations,** trading concerns and manufacturing projects and the audit report of CAG on them (except those public undertakings which are allotted to the committee on public undertakings).
4. **To examine the accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the CAG.**
5. To consider the report of the CAG relating to an audit of any receipt or to examine the accounts of stores and stocks.
6. To examine the money spent on any service during a financial year in excess of the amount granted by the Lok Sabha for that purpose.

On the role played by the Committee, **Ashok Chanda** observed: “Over a period of years, the Committee has entirely fulfilled the expectation that it should develop into a powerful force in the control of public expenditure. It may be claimed that the traditions established and conventions developed by the Public accounts committee conform to the highest traditions of parliamentary democracy”.

However, the effectiveness role of the Committee is limited by the following:

(a) It is **not concerned with the questions of policy** in broader sense.

(b) It conducts a **post-mortem examination** of accounts (showing the expenditure already incurred).

(c) It cannot **intervene in the matters of day-to-day administration.**

(d) Its recommendations are advisory and not binding on the ministries.

(e) It is not vested **with the power of disallowance of expenditures** by the departments.

(f) It is not an executive body and hence, cannot issue an order. Only the Parliament can take a final decision on its findings.

Question 13. Describe the composition and functions of the Estimates Committee?

The origins of this committee can be traced to the Standing Financial Committee setup in 1921. The first estimates Committee in the post-independence era was constituted in 1950 on the recommendation of John Mathai, the then Finance minister. Originally, it had 25 members but in 1956 its membership was raised to 30. All the thirty members are from Lok Sabha only. The Rajya Sabha has no representation in this Committee. These members are elected by the Lok Sabha every year from amongst its members, according to the principles of proportional representation by means of a single transferable vote. Thus, all parties get due representation in it. The term of office is one year. A minister cannot be elected as a member of the Committee. The Chairman of the Committee is appointed by the Speaker from amongst its members. The Chairman of the Committee is invariably from the ruling party.

The function of the Committee is to examine the estimates included in the budget and suggest "economies' in-public-expenditure. Hence, it has been described as a 'continuous economic committee.'

In more detail, the functions of the Committee are:

(a) To report what economies, improvements in organization, efficiency and administrative reforms consistent with the policy underlying the estimates, may be affected.

(b) To suggest alternative policies in order to bring about efficiency and economy in administration.

(c) To examine whether the money is well laid out within the limits of the policy implied in the estimates.

(d) To suggest the form in which the estimates shall be presented to Parliament:

The Committee shall not exercise its functions in relation to such public undertakings as are allotted to the Committee on Public Undertakings.

The Committee may continue the examination of the estimates from time to time, throughout the financial year and report to the House as its examination proceeds. It shall not be incumbent on the Committee to examine the entire estimates of any one year. The demands for grants may be finally voted down despite the fact that the Committee has made no report.

However, the effectiveness of the role of the committee is limited by the following:

i) It examines the budget estimates only after they have been voted by the Parliament, and not before that.

ii) It cannot question the policy laid down by the Parliament.

iii) Its recommendations are advisory and not binding on the ministries and departments. Thus, by rotation, it would cover all of them over a number of years.

iv) It lacks the expert assistance of the CAG which is available to the Public Accounts Committee.

(vi) Its work is in the nature of a post-mortem.

Question 14. Describe the composition and Committee on Public Undertakings?

Ans: This Committee was created in 1964 on the recommendation of the Krishna Menon Committee. Originally, it had 15 members (10 from the Lok Sabha and 5 from the Rajya Sabha). But in 1974, its membership was raised to 22 (15 from the Lok Sabha and 7 from the Rajya Sabha). The members are elected by the Parliament every year from amongst its members according to the principle of proportional representation by means of a single transferable vote. Thus, all parties get due representation in it. The term of office of the members is one year. A minister cannot be elected as a member of the Committee. The Chairman of the Committee is appointed by the Speaker from amongst its members who are drawn from the Lok Sabha only. Thus, the members of the Committee who are from the Rajya Sabha cannot be appointed as the Chairman.

The functions of the Committee are:

(a) To examine the reports and accounts of public undertakings.

(b) To examine the reports, if any, of the Comptroller and Auditor-General on public

undertakings.

(c) To examine, in the context of a**utonomy and efficiency** of public undertakings, whether the affairs of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices.

(d) To exercise such other functions vested in the Committee on Public Accounts and the Committee on Estimates in relation to public undertakings as may be allotted to the Committee by the Speaker from time to time.

The Committee shall not examine and investigate any of the following:

(i) Matters of major government policy as distinct from business or commercial functions of the public undertakings.

(ii) Matters of day-to-day administration.

(iii) Matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.

Further, the effectiveness of the role of the committee is limited by the following:

(a) It cannot take up the examination of more than ten to twelve public undertakings in a year.

(b) Its work is in the nature of a post-mortem.

(c) It does not look into technical matters as its members are not technical experts.

(d) Its recommendations are advisory and not binding on the ministries.

Question 15. Write a note on the methods of procurement of materials?

INTRODUCTION: Materials Management is the process of supplying goods and services to an organization in such a way that it achieves its objectives. The objectives of materials management include procurement, storage and distribution of the materials to achieve maximum profit.

PROCUREMENT:

Procurement is the primary and the most vital stages of materials management. It implies securing of the goods and services from external agencies. This task is usually assigned to the purchase department, which arranges the supply of materials, spare parts and services or semifinished goods required by the organization to produce the desired product, from some source outside the organization. **Procurement has assumed great importance in modern times because 60 to 70 percent of the cost of goods produced is spent on its materials and therefore utmost care should be taken to ensure that goods and services of desired quality, quantity etc. are secured at the lowest price and at the desired time**. Usually this is achieved by selecting the suppliers who can **provide standard**

items at competitive rates at all times.

BASIC PRINCIPLES OF PROCUREMENT

As noted above, the **main objective of procurement (purchasing) is to minimize the cost of production or maximize the profit.** This can be achieved by observing the following principles.

Right Quality of Materials:

In the first instance only the right quality of materials should be purchased because if substandard materials are purchased the production will not be up to the mark and the finished products may not find ready customers at the prescribed price. Similarly, if the materials are of a superior quality, the cost of production will go up. As the goods have to be sold at competitive rates profits will go down or may even result in losses. Therefore, right quality of materials must be procured.

Right Quantity:

Materials should be purchased in right quantity so that the cost of carrying is the least. If materials are purchased in smaller quantities than actually required the cost shall be higher. Further, there shall always be a risk of work coming to a standstill due to non-availability of materials. This would upset the production schedules and damage the reputation of the company. On the other hand, materials purchased in excess of required quantities would lead to unnecessary investments, higher storage cost, higher wastages etc.

Right time of Purchase:

It is also vital that the materials should be purchased at the right time viz., **when they are easily available in the market at lowest possible rates.** For example the flour mills should buy **wheat at the time of harvesting.** However, while buying the materials at the lowest possible prices the quality of the materials should not be sacrificed.

Selection of Right Source:

While making purchases efforts should be made to locate the **right supplier who can supply the materials at the most economic prices on schedule.** The buyer must find capable vendors who are willing to supply the materials of **agreed quality at the agreed price in accordance with the agreed schedule.**

Close Relations with other Departments

As the Purchase Department has to fulfill the needs of other departments and serve them, it must maintain close relations with these departments as well as suppliers of the company.

Information about New Materials and Processes

The purchasing Department must try to gather information about the new materials and processes so that the cost of production can be reduced and the quality

of the production improved.

METHODS OF PROCUREMENT OF MATERIALS:

Organizations make use of different methods to purchase materials. The most common methods of purchase are as under:

1) Purchase According to Need: In the first place the materials are purchased as and when their need arises. The method of purchase is appropriate for procurement of items, which are not regularly used. For this purpose, generally the purchase department keeps a record of reliable suppliers and procures the materials from them as and when the need arises.

2) Purchase for Future: This method of purchase is used for the purchase of items which are regularly consumed, even though the level of such consumption is quite low. Usually the price changes of these items are negligible.

3) Market Purchase:

In this method the purchases are made at a time **when the materials are available in the market at the lowest price** and thus substantial savings are affected. Such purchases are not related to the production needs and if the assessment of price fluctuations is not correct it can result in losses to the organization.

4) **Speculative Purchase:**

In this method excessive purchases are made from the market when the prices are very low in the hope that the excess materials shall be sold at a higher price to earn profits. This method of purchase not only ensures higher profits but also wards against possible shortages of materials. However, in the method the organization has to make high financial commitments.

5) Contract Purchase:

Under this system agreement is concluded with the supplier for supply of items at some future date, generally at regular intervals. This system not only ensures supply as per scheduled requirements but also wards against future price fluctuations. This method is beneficial both to the purchasers and suppliers. While the purchaser is able to reduce the size of the inventory, the supplier is assured of stable demand.

6. Scheduled Purchase: Finally, the purchase may be scheduled **according to the requirements of various departments of the organization.** The scheduled purchasing is closely related to carefully controlled production.

This methods of buying may be divided into **four main categories**, although

there may be a combination of them as listed and discussed below:

i) Tender system:

Very large firms and local authorities use the system of purchasing by tender. Here, the purchasing authority decides on the items and determines the quantity required for say, prices for the different lots. The delivery of goods may then be taken at one time, or in installments, as required throughout the year. In this system, the time spent on price negotiations is saved; and once the contract has been given, the actual act of purchase becomes very simple, for the desired quantities can be easily requisitioned. However, the following disadvantages flow from this system.

a) The lowest tender is not always the best or the most economical; and

b) A contract for a period of time may mean that higher prices would be paid if the market prices should fall during the contract period.

ii) Quotation system:

Under this system, every time a large quantity of anything is ordered, different suppliers are **asked to submit quotations, along with samples.** The system has the advantage of getting supplies from many firms, whose quotations have been accepted. It also ensures that the best market prices are obtained every time goods are ordered.

iii) Buying from Same Suppliers

It is always advantageous to purchase from the **same suppliers whose quantity and service have been found satisfactory over a period of time.** However, when this has been done over a period of years, it may come as quite a shock to the buyer when he obtains a lower quotation from a competitor instead of placing a blind order.

iv) Spot Purchasing:

Under this method, items are **purchased through various sales representatives who may call on the firm.** They sometimes bring samples, and invariably seek to increase the quantities ordered. But this definitely is not a recommended way of buying.

Question 16. Write a note on the methods of Storage?

Ans: STORAGE: Storage is another **important aspect** of materials management. Almost all the organizations maintain a stores department, **which is responsible for the proper storage of the materials and issues the same to the respective departments on proper requisition. Generally, all those items, which are not in use for some time e.g. spare parts and raw materials, are called stores and the**

building or space where they are kept is known as a storeroom. Thus storage is that aspect of materials control, which is concerned with the physical storage of goods.

Types of Stores:

Generally three types of stores exist viz.

1. **Centralized stores:** Generally most of the **big organizations** have a centralized store where all the materials are kept.

2. **Decentralized Stores:** Decentralized stores refer to stores, **which are situated in various departments** which handle the stores of that particular department.

3. **Central stores with sub-stores:** Some organizations maintain central stores with sub-stores. **As the departments are located at a considerable distance from the central store they set up sub-stores to cut the cost of transportation and handling charges.** The sub-stores are located nearer the production department.

In many offices the stationery stock keeping is decentralized though the present tendency is towards centralization.

Centralization of stationery storage offers the following advantages:

1. Better utilization of storage equipment.
2. More economical use of floor space.
3. Permits a better utilization of stock.
4. Supervision and stock control also become simpler.

The principal factors to be kept in view with regard to storage are:

i) Location of the Storeroom:

The location of the storeroom should be in a **central place of the office**, and within **easy reach of the various departments.** If possible, it should be in a place, which is lighted up by **daylight** otherwise costly artificial lighting would have to be installed and used. If possible all the stocks should be concentrated in one room to **save space, travel and labour**, **and to facilitate supervision and control.** Unnecessary handling of goods may be avoided by locating the storeroom near the receiving section of the organization. This is very desirable when branch office stationery requirements are supplied from the central office, necessitating pacing and transport. The other factors, which affect the location of the stock room and which should be borne in mind are: prevention of pilferage, avoidance of all fire hazards, and easy supervision.

ii) Physical arrangement of Stationery in Stock: arrangement of stationery and supplies is necessary to **facilitate easy access, instant issue, and elimination of**

delay. Stationery may be stored on open shelves, on racks, in cabinets or almirah, or in sealed and packed boxes or containers, depending on the value and nature of the item to be stored. In small offices, where the stocks are stored in the main office room cabinets or almirahs with doors should be provided: but in all enclosed stock ro separated from the office, open shelves should be used because they are less expensive, readily accessible and offer a larger storage space. In all circumstances, there should be a systematic arrangement of all the items. The arrangement of all the items. **The arrangement of stocks is facilitated if the following steps are taken.**

1. **Like items should be kept in one place;**
2. Items that are requisitioned frequently should have a most **convenient location so that they may be easily issued.**
3. **Bulky items of stationery should be stored on lower shelves so that they require minimum effort for storage and issue.**
4. **Stationery in packets should have identifying marks or samples should be fixed in front of the packets.**
5. Items of relatively **high value should be subject to a high degree of security and protection.**
6. A list of all the items **should be pasted on the door of the cabinet indicating the location of each item.**
7. An index of all items in the stores should be prepared indicating the location of each item.

iii) Classification System:

To facilitate the location of any single item, the shelves should be numbered consecutively, and a loose leaf of card index should be kept up to date, from which the relative shelf number of any item may be obtained. Apart from indexing, a suitable system of codification (**alphabetical, numerical decimal or a combination of these**) may be adopted for the identification and quick location of the store items.

iv) Storage equipment includes:

Cupboards, bins, shelves, racks, ladders, etc. are the storage equipment. It may be remembered that centralization ensures a better utilization of storage equipment. When stationery is stored in a department, a better looking and consequently more expensive set of shelves has to be provided; and there is some inevitable loss of shelf space. For a central stockroom, less valuable space can be provided with cheaper but equally useful equipment, which can be built up to the height of the ceiling. Every part of the shelves should be fully utilized to ensure an economy of space.

Question 17. Write a note on Distribution?

Materials management is responsible for materials flow from the moment a product is conceived or Customer order is received till the moment the material

reaches the production shop floor and then again, from the time the finished product leaves the production pipeline and is delivered to the ultimate customer, **Distribution, which implies the release of stocks from the stores, is the last stage of materials management. The stocks may be released from the store either to the production lines, or to the market. Usually, the raw materials stocked in the stores are sent to the production centers, while the finished goods are sent to the markets. Both these actions fall within the purview of distribution.**

1. Release of Raw Materials and Finished Goods:

Request for release of raw materials from the stores is made by the departments requiring these materials. Usually their request is made in writing. This intimation of requirement is known as Indent. After receiving the requisition the distribution officer intimates the date, time and place of delivery to the indenting department and materials are released on the stipulated date and time. While releasing the material several documents such as permits, supply documents, receipts, gate-passes etc., are prepared. It is possible that materials indented may hot be available in the stock. In such cases the store officer should inform the requisitioning authority about the same in writing, The responsibility for packing and transportation generally tests which the stores department.

The release of finished products into different markets constitutes the other aspect of the distribution. It is very vital that the goods should be sent to the market at the right time and in the right quantities, The goods must reach their destination promptly. In this regard the trades and retail traders play an important part. Generally all big producers have a network of wholesale dealers throughout the country and through them the goods, flow to the retail trader and finally to the consumers, These producers try to effect utmost economies in transport that their profits do not fall.

Question 18. Explain the importance of transportation in materials management.

Transportation and Traffic Management: Transportation of materials from sources located in different parts of the country to the user's plant is of critical importance in the field of materials management. It can be safely said that the cost of transportation of materials accounts for nearly 10 to 20 percent of the cost of the materials purchased. In fact, this will be much higher in the case of industries where, suppliers are located in remote areas and the industry depends on heavy imports.

The important aspects of traffic and transportation Management are choice of mode of transport, route selection, rate verification and auditing, management of claims and lost shipments as well as application of linear programming to Minimize transportation costs.

Let us now consider each aspect in detail. While dealing with the choice of mode of and transport, the avenues that are open to the materials managers are shipping, rail, road and others.

i) Transport By Shipping: This is generally resorted to in case of imports. At times this method is used for movement of materials from one part to another within the country as well. For example, coal is moved from Kolkata port to Chennai by ships. By and large transportation by sea is economical when distances involved are very long. They are used for carrying such vital commodities as food grains, oil, etc. The increased use of shipping makes us book into the need for more berthing facilities at our ports.

ii) Rail Transport: Indian Railways is one of the largest rail networks in the world with 67,368 km of tracks and 22,550 trains that carry 3.04 million tonnes of weight every day. There has been a continuous modernizing of the track, locomotives, signalling equipment and other derives for monitoring and control. Railways are ideally suited for long distances of over 500 kilometers freight transportation within the country. Railways, most economically handle movement of heavy materials such as coal, steel, raw materials, ores etc. As a national organization, railways have certain social obligations. Thus they give priority to movement of food grains,

coal, raw materials and finished products for steel plants and so on. They have therefore evolved a freight structure, which will ensure subsidized transportation of these essential commodities. The freight rate structure of Indian railways is the lowest in the world, as they have to be based on social obligations and net on economic considerations. This has made possible a shift in freight traffic to road, particularly in the case of high rated commodities. It is imperative for the materials manager to avail of the various need-based transport packages that have been developed by railways, which are discussed below:

iii) Quick Transport Service: A scheme has been introduced to overcome the consumers' apprehension about undue delay in the transport of goods by introducing a guaranteed Quick Transit Service on payment of a small surcharge, which is refundable in case consignments do not reach their destination within the target time. The service so far has been introduced on the main trunk routes connecting most of the big commercial centers. This is a continuing process and more and more commercial centers are being connected through this service.

iv) Container Service: To compete with the door-to-door service of road transport, particularly for smalls and high-rated commodities, the Railways introduced a scheme called road-cum-rail transport in containers of five tones capacity, ensuring door-to-door delivery as catered for by road transport. Here, again, the service is relatively on a small scale covering only a very few commercial centers and is being progressively transported.

v) Freight Forwarder Scheme: The freight forwarder scheme involves a collection agency, which ensures that a single wagon is loaded with small quantities of various consumers for a single destination, thus eliminating en-route repacking, with possible loss and damage. This scheme again is on a small scale and is being developed. Recently, the Railways have introduced a scheme at specified points through Mobile Booking Services.

v) Parcel Express: Introduction of an increased number of parcel expresses for quicker transport of Perishables and other consignments by freight rates in coaching vans is receiving the constant attention of the Railways. In view of the international energy crisis and the rise in the price of petroleum products, there is a need to save petroleum-based products on long-term basis, The productivity of HSD oil on rail transport is said to be nearly six times that of road transport, Therefore at a national level there is a need to avoid wasteful competition between rail and road transport so that each can concentrate on traffic for which it is best suited.

vi) Road Transport: There are a large number of transport organizations in the country having a fleat of trucks They are suited for transporting freight of the order of 5 to 15 tonnes usually over distances of 300 to 500 kms. There are many factors hindering the movement of freight by road. Some of them are octroi, interstate permits, check posts and high price of fuel, However, this is a very important mode of transportation of material. The Government of India, for facilitating faster movement of goods transport throughout India by road, has issued more permits on an all India basis. The GST is also a move forward to intimate some of these problems.

vii) Other Modes: Movement through inland waterways, pipelines and air are other modes available. They can be fruitfully used depending upon the nature of the operations, location and urgency. For instance, crude oil from the ports to the refinery is normally conveyed

Question 19. Explain meaning and objectives of Inventory management?

MEANING: Inventory management is the act of keeping track of an organisation's stocked goods, and monitoring their weight, dimensions, amounts, and location. The objective of inventory Management is to minimize the cost of holding inventory by helping the decision maker know when it is time to replenish products, or buy more materials or to manufacture them.

Inventory management is also defined as the process of supervision Of non-capitalizeg assets (inventory) and stock items. It is a component of the supply chain management. Inventory management supervises the flow of goods from

manufacturers to warehouses and from these facilities to the point of sale.

The scope of inventory management: The scope of inventory management covers or extends to the balance between replenishment lead time, carrying costs of inventory, asset management, inventory forecasting, inventory valuation, inventory visibility, future inventory price forecasting, physical inventory, available physical space, quality management, replenishment, returns and defective goods, and demand forecasting. Balancing these competing requirements leads to optimal inventory levels, which is an ongoing process as the organizations or businesses need shifts to react to the wider environment.

OBJECTIVES OF INVENTORY MANAGEMENT:

1. **Time:** The time lags present in the supply chain, from supplier to user at every Stage, requires that you maintain certain amounts of inventory to use in this lead time.
2. **Seasonal Demand:** Demand for goods varies periodically where as producers' capacity is fixed. This can lead to stock accumulation.
3. **Uncertainty:** Inventories are maintained as buffers to meet uncertainties in the demand, supply or the movements of goods.
4. **Economies of scale:** Ideal condition of "one unit at a time at a place where a user needs it, when he needs it principle tends to incur lots of costs in terms of logistics.
5. **Appreciation in Value:** In some situations, some stock gains the required value when it is kept for some time to allow it reach the desired standard for consumption, or for production. For example, milk in the dairy industry.

IMPORTANCE OF INVENTORY MANAGEMENT:

Effective inventory management is essential for ensuring that an organization or a business has enough stock on hand to meet the public or customer demand. If inventory management is not handled properly it can result in an organisation either losing money on potential sales that cannot be filled, or wasting money by stocking too much inventory. An inventory management system can also help organizations prevent a number of other mistakes. Inventory management saves money in the following ways.

1. **Avoiding spoilage:** If you're selling a product that has an expiry date, like food or makeup, there's a very real chance it will go bad if you don't sell it in time. Solid inventory management helps YOu avoid unnecessary spoilage.

2. **Avoid dead stock:** Dead stock is stock that can no longer be sold, but not necessarily because it expired, it could have gone out of season, out of style, or otherwise become irrelevant. By managing your inventory better, you can

avoid dead stock.

3. **Save on storage costs:** Warehousing is often a variable cost. It fluctuates based on how much product you're storing. When you store too much product at once or end up with a product that's difficult to sell, your storage costs will go up. Avoiding this will save money for the organisation.

4. **Inventory management improves cash flow:** Not only is good inventory management cost-efficient, it improves cash flow in other ways too. This is because inventory is a product that is likely to have been already paid up and you're going to sell it for cash, but while it's sitting in your warehouse it's definitely not cash.

Question 20. Write a note on techniques of inventory management:

Inventory management is a customizable part of running an organization or doing a business. The inventory system can differ from organization to organization. However, every organisation should strive to remove human error from inventory management as much as possible by taking advantage of inventory management software. Regardless of the system one uses, the following eight techniques of inventory management will help improve an Organisation's inventory management and cash flow.

1. **Set par levels:** Make inventory management easier by setting "par levels" for each of the organisation's products. Par levels are the minimum amount of product that must be on hand at all times.

2. **First-In First-Out (FIFO):** "First-mn, first-out is an important principle of inventory management. It means your oldest stock is one that gets sold first or first-out, and not the newest stock.

3. **Manage relationships:** Part of successful inventory management is being able to adapt quickly to changing situations. Whether you need to return a slow selling items to make room for a new product, restock a fast seller very quickly, troubleshoot manufacturing issues or temporarily expand your storage space, it's important to have a strong relationship with your suppliers. That way they will be more willing to work with you to solve problems.

4. **Coutingracy planning:** Your sales spike unexpectedly and you oversell your stock. You run into a cash flow shortfall and cannot pay for product you desperately need. Your warehouse does not have enough room to accommodate your seasonal spike in sales.

5. **Regular auditing:** Regular reconciliation is vital. In most cases, you will be relying on software and reports from your warehouse to know how much product you have stock. However, it is important to make sure the facts match up. There are several methods for doing this. They are physical inventory, spot checking and cycle counting.

6. **Prioritize with ABC:** Certam products need more attention than others. Using an ABC analysis each product to one of three categories:

   i) High-value products with « low frequency of sales - Category 'A'
   ii) Moderate valine products with a moderate frequency af sales - Category "B'
   iii) Low-value products with a high frequency of sales -Category "C"

7. **Accurate forecasting:** A huge part of good inventory management comes down to accurately predicting demand, Making no mistakes is perhaps impossible, There are countless variables involved and one ever knows for sure what exactly is coming but you can try to get close, Here are a few things to look at when projecting your future sales:
   i) Trends in the market
   ii) Last year's sales during the same week
   iii) This year's growth rate
   iv) Guaranteed sales from contracts and subscriptions
   v) Seasonality and the overall economy
   vi) Upcoming promotions
   vii) Planned ad spend

8. **Consider Drop shipping:**Drop shipping is almost an ideal practice from the inventory management perspective. Instead of having to carry inventory and ship products yourself the manufacturer or wholesaler takes care of it for you.

Question 21. Explain the concept, importance and scope of material management?

Concept of material management:

Materials management is one of the important subsystems of Management vital to the operations of a firm, composed of an integrated group of its own sub systems. Considerable attention is being paid by modern managers to the concept of materials management.

Definition:

Materials management is the planning, directing, controlling and co-coordinating of those activities which are concerned with materials and inventory requirements from

the point of inception of their introduction into the manufacturing process.

According to A.K. Datta Materials Management is essentially an activity of the enterprise for the procurement and use of materials distinctly separated from the process of procurement and use of human skills and labours for the ultimate deployment to attain some predetermined objectives."

Scope of material management:

Key component of materials management viz., 'materials planning, control; procurement, storage and distribution which come under the scope of materials management.

1. **Materials Planning:** In the first place materials management involves materials planning. While planning not only the present requirement of materials should be taken into account but also the future needs.

2. **Materials Control:** Secondly, materials management is concerned with proper use of the materials. The materials should be used for the purpose for which they have been allocated and the wastages should be avoided. In short, materials control ensures optimum use of materials.

3. **Procurement:** Procurement of necessary material resources also falls within the purview or materials management. As the non-availability of the raw materials is likely to upset the production Process, efforts should be made to procure necessary raw materials from appropriate sources at the lowest possible prices.

4. **Storage:** As all the goods produced by an organization are not immediately consumed, they Should he carefully stored without reducing their utility.

5. **Distribution:** Finally materials management is also concerned with the distribution of materials all goods are produced for the consumption of consumers.

Importance of material management:

Different organizations make use of material management for the attainment of different objectives. The main importance of the materials management are:

1. To procure the raw materials at the minimum price by wisely timing the purchase. This objective is true of industries using materials like cotton, jute, hides, skins etc.

2. To procure the materials when they are available. This is true of industries, which use Scarce materials for manufacture of goods viz., industries involved in manufacturing complex machinery.

3. Consistency in quality and reliability. This is the main objective in the aircraft and precision industry.

4. Inventory turnover to keep them ready for after sale customer service.

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