



VIRTUAL CLASSES
ORGANISED BY BOS, ICAI

FOUNDATION LEVEL
PAPER 4 PART II
BUSINESS AND COMMERCIAL KNOWLEDGE

Faculty : CA Arjit Sethi



FOUNDATION LEVEL

PAPER 4 PART II

BUSINESS AND COMMERCIAL KNOWLEDGE

Chapter 6

Common Business Terminology

Faculty : CA Arjit Sethi

Terminology

01 Finance, Stock & Commodity Market

02 Marketing Terminology

03 Banking Terminology

04 Other Business Terminology



Banking Terminology

Banking Terminology

- **Accepting House**: *An accepting house is a banking or finance organization that specializes in the service of acceptance and guarantee of bills of exchange.*
- **Accrued Interest**: *Accrued Interest is the interest, accumulated on an investment but is not yet paid.*
- **Annuities**: *Annuities are contracts that guarantee income or return, in exchange of a huge sum of money that is deposited, either at the same time or is paid with the help of periodic payments.*
- **Automated Teller Machines**: *Automated teller machines are basically used to conduct transactions with the bank, electronically*

Banking Terminology

- **Bridge Financing**: Also, known as gap financing, bridge financing is a loan where the time and cash flow between a short term loan and a long term loan is filled up. Bridge financing begins at the end of the time period of the first loan and ends with the start of the time period of the second loan, thereby bridging the gap between two loans.
- **Bounced Cheque**: A bounced cheque is nothing but an ordinary bank cheque that any bank can refuse to encash or pay because of the fact that there are no sufficient finances in the bank account of the originator or drawer of the cheque or some other valid reason.
- **Cap**: A cap is a limit that regulates the increase or decrease in the rate of interest and installments of an adjustable rate mortgage.

Banking Terminology

- **Clearing House**: *The clearing house is a place where the representatives of the different banks meet for confirmation and clearing all the checks and balances with each other.*
- **Compound Interest**: *The compound interest, unlike simple interest, is calculated by taking into consideration, the principal amount and the accumulated interest.*
- **Debit Card**: *Digital cash technology, and is used when a consumer makes that payment via the card based on money in the bank. The debit card operates in the exact opposite manner of the credit card.*
- **Deposit Slip**: *A deposit slip depicts the amount of paper money, coins and the check numbers that are being deposited into a bank account.*

Banking Terminology

- **Debt Recovery**: *Debt recovery is the process that is initiated by the banks and lending institutions, by various procedures like debt settlement or selling of collaterals.*
- **E-Cash**: *Also known as electronic cash and digital cash, net-banking, UPI, Google Pay, PayTM, etc.*
- **Earnest Money Deposit**: *An earnest money deposit is made by the buyer to the potential seller of a real estate, in the initial stages of negotiation of purchase. TOKEN MONEY*
- **Guarantor**: *A guarantor is a creator of trust who takes the responsibility of the repayment of a loan, and is also, in some cases, liable and equally responsible for the repayment of the loan.*

Banking Terminology

- **Letter of Credit**: *A document issued by a bank (on behalf of the buyer or the importer), stating its commitment to pay a third party (seller or the exporter), a specific amount, for the purchase of goods by its customer, who is the buyer.*
- **Mortgage**: *A mortgage is a legal agreement between the lender and the borrower where real estate property is used as collateral for the loan, in order to secure the payment of the debt.*
- **Overdraft**: *It is a check or rather an amount of check, which is above the balance available in the account of the payer.*

Banking Terminology

- **Syndicated Loan**: *A very large loan extended by a group of small banks to a single borrower, especially corporate borrowers. In most cases of syndicated loans, there will be a lead bank, which provides a part of the loan and syndicates the balance amount to other banks.*
- **Zero-Down-Payment Mortgage**: *Zero-down-payment mortgage is a type of mortgage given to a buyer who does not make any down payments while borrowing. The mortgage buyer borrows the amount at the entire purchase price. For example, Jan Dhan Account.*

Other Terminology

Other Terminology

- **Acquisition**: *When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one.*
- **Bankruptcy**: *A bankruptcy refers to economic insolvency, wherein the person's assets are liquidated, to pay off all liabilities with the help of a bankruptcy trustee or a court of law.*
- **Bottom-Line**: *The firm's income after all expenses have been deducted from revenues. These expenses include interest charges paid on loans, general and administrative costs and income taxes. In simpler words, it is the same thing as Net Profits*

Other Terminology

- **Corporate Governance**: *It is a system of overseeing the affairs of a corporation to ensure that they are conducted in an ethical manner and as per provisions of law. The mechanism of corporate governance includes:*
 - (a) the board of directors who appoint, oversee and reward the management team;*
 - (b) independent audit of the accounts of the company;*
 - (c) reporting of the performance to the markets (stock exchanges) and business media.*

All these are examples of the system of corporate governance.

Other Terminology

- **Joint Products and By-Products:**

Joint products represent “two or more products separated in the course of the same processing operation, usually requiring further processing each product being in such proportion that no single product can be designed as a major product”. For example: In the oil industry, gasoline, fuel oil lubricants, paraffin, coal tar, asphalt and kerosene are all produced from crude petroleum.

By-products are defined as “products recovered from material discarded in a main process, or from the production of some major products, where the material value is to be considered at the time of severance from the main product”. Thus, by-products emerge as a result of processing operation of another product or they are produced from the scrap or waste of materials of a process. For example, molasses in sugar industry.

Other Terminology

- **Proprietary Forms of Business Organisations**: *These are the forms of business organisation where the law does not distinguish between the business as a separate entity distinct from its owners. Sole-proprietorship and Partnership.*
- **Triple Bottom Line (TBL)**: *It is the BCK philosophy that promotes the belief and evaluates the business's performance on the basis that attainment of profit, care for people and care for the planet are equally important. The equal emphasis on these triple Ps, viz., Profits, People and Planet is known as the TBL. This idea at the macro level corresponds to the more evolved notion of the development of a country's economy, society and ecology. See sustainable development.*

Other Terminology

- **Turnaround**: *A turnaround is the financial recovery of a company that has been performing poorly for an extended time. To effect a turnaround, a company must acknowledge and identify its problems, consider changes in management, and develop and implement a problem-solving strategy.*
- **Vision and Mission**
- *A Mission Statement defines the company's business, its objectives and its approach to reach those objectives.*
- *A Vision Statement describes the desired future position of the company.*

CALL and PUT *Options*

Call Option Example

- *Shruti, wants to buy a house in Mumbai after 3 years and **expect the price to rise** by then.*
- *Buys a call option from a real estate agent*
- *Saying boss, I want to buy an “option” to buy it for **INR 50,00,000** after 3 years, irrespective of what the price at that time! - CALL ‘**OPTION**’, not an obligation to buy.*
- *To get into this contract she pays, INR 1,00,000 as token money, called **PREMIUM**.*

STRIKE PRICE



After 3 Years, she has the option to buy or not to buy the house-
If she wants to buy she will pay INR 50,00,000 and take the house, even if the house is for INR 65,00,000 then. She gains 15L
If she doesn't want to buy - She won't pay anything, but that INR 1,00,000 will also not be returned. So her loss is maximum INR 1,00,000

Put Option Example

- *Mayank, expects the price of share of Y Ltd. to fall.*
- *Currently it is at INR 10 per share*
- *So, he buys a PUT Option, to buy 100 shares of Y Ltd after 1 month at INR 9.5 per share*
- *For this, he pays Premium of INR 50 (0.50 rupee per share)*

After 1 month,

- *If the price of the share is INR 9, he would not exercise the option and his maximum loss will be INR 50*
- *If the price of the share is INR 11, he will exercise and pay INR 950 (9.5 per share for 100 shares) and can sell them off immediately at INR 11 per share. So he can gain 1.5 per share = 150 rupees.*

EASY! BUT VERY VERY RISKY

LEVEL TOUGH Q1

The Ministry of Finance drafted a policy to lure foreign investors in education industry. For it they made representations to various stakeholders and got a negative response to the proposed policy, the most crucial one coming from CBSE and NCERT. Which of the following levels of impact transmission of policy formulation is talked about here?

- **Instruments**
- **Market Participants**
- **Institutions**
- **Policy Context**

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LEVEL TOUGH Q2

TopTech, a sports marketing company took an environmental analysis of its organisation in a closed door top management meeting, and devised a strategic plan to move ahead in the next 3 years. What doesn't seem right here with respect to the purpose of such analysis?

- **Understanding of changes was ignored**
- **Strategic Inputs were missing**
- **Fostering of ideas in the organisation was ignored**
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LEVEL TOUGH Q3

Mr.D.K. Sinha's assets were scrutinized and investigated by SEBI and later it was taken up in the High Court for money laundering case. Which of its core functions is SEBI conducting here?

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LEVEL TOUGH Q4

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- **Amazon**
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LEVEL TOUGH Q5

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Questions
If any

A big Thank You,
To all of you!!
Study Hard,
BEST OF LUCK!



Thank You!
Stay Home.
Stay Safe.

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BCK

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