केन्द्रीय विद्यालय संगठन
KENDRIYA VIDYALAYA SANGATHAN

आज़ादी का अमृत महोत्सव

शिक्षा एवं प्रशिक्षण का आंचलिक संस्थान, चंडीगढ़
ZONAL INSTITUTE OF EDUCATION AND TRAINING, CHANDIGARH

अध्ययन सामग्री /Study Material

शैक्षिक सत्र /Session - 2022-23

कक्षा / Class – ग्यारहवीं / XI

विषय / Subject – व्यवसायिक अध्ययन / BUSINESS STUDIES

विषय कोड / Subject Code - 054

तैयारकर्ता - रवि कुमार, सह-प्रशिक्षक (वाणिज्य)

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निदेशक महोदय का संदेश

विद्यार्थियों की शैक्षिक प्रगति को ध्यान में रखते हुए उपयोगी अध्ययन सामग्री उपलब्ध कराना हमारा महत्त्वपूर्ण उद्देश्य है। इससे न केवल उन्हें अपने लक्ष्य को प्राप्त करने में सरलता एवं सुविधा होगी बल्कि वे अपने आंतरिक गुणों एवं अभिरुचियों को पहचानने में सक्षम होंगे। बोर्ड परीक्षा में अधिकतम अंक प्राप्त करना हर एक विद्यार्थी का सपना होता है। इस संबंध में तीन प्रमुख आधार स्तंभों को एक कड़ी के रूप में देखा जाना चाहिए- अवधारणात्मक स्पष्टता, प्रासंगिक परिचितता एवं आनुप्रयोगिक विशेषज्ञता।

राष्ट्रीय शिक्षा नीति 2020 के उद्देश्यों की मूलभूत बातों को गौर करने पर यह तथ्य स्पष्ट है कि विद्यार्थियों की सोच को सकारात्मक दिशा देने के लिए उन्हें तकनीकी आधारित समेकित शिक्षा के समान अवसर उपलब्ध कराया जाए। बोर्ड की परीक्षाओं के तनाव और दबाव को कम करने के उद्देश्य को प्रमुखता देना अति आवश्यक है।

यह सर्वमान्य है कि छात्र-छात्राओं का भविष्य उनके द्वारा वर्तमान कक्षा में किए गए प्रदर्शन पर ही निर्भर करता है। इस तथ्य को समझते हुए यह अध्ययन सामग्री तैयार की गई है। उम्मीद है कि प्रस्तुत अध्ययन सामग्री के माध्यम से वे अपनी विषय संबंधी जानकारी को समृद्ध करने में अवश्य सफल होंगे।

शुभकामनाओं सहित।

मुकेश कुमार
उपायुक्त एवं निदेशक

अनुक्रमणिका / INDEX

SYLLABUS

BUSINESS STUDIES (Code No. 054)

CLASS – XI (2022-23)

Theory: 80 Marks **3 Hours**
Project: 20 Marks

Units		Periods	Marks
Part A	**Foundations of Business**		
1	Evolution and Fundamentals of Business	18	16
2	Forms of Business Organisations	24	
3	Public, Private and Global Enterprises	18	14
4	Business Services	18	
5	Emerging Modes of Business	10	10
6	Social Responsibility of Business and Business Ethics	12	
	Total	**100**	**40**
Part B	**Finance and Trade**		
7	Sources of Business Finance	30	20
8	Small Business and Enterprises	16	
9	Internal Trade	30	20
10	International Business	14	
	Total	**90**	**40**
	Project Work (One)	**30**	**20**

Part A: Foundation of Business:-

Concept includes meaning and features

Unit 1: Evolution and Fundamentals of Business:

Content	**After going through this unit, the student/ learner would be able to:**
History of Trade and Commerce in India: Indigenous Banking System, Rise of Intermediaries, Transport, Trading Communities: Merchant Corporations, Major Trade Centres, Major Imports and Exports, Position of Indian Sub-Continent in the World Economy.	• To acquaint the History of Trade & Commerce in India.
Business – meaning and characteristics.	• Understand the meaning of business with special reference to economic and non-economic activities. • Discuss the characteristics ofbusiness.
Business, profession and employment - Concept.	• Understand the concept of business, profession and employment. • Differentiate between business,profession & employment.
Objectives of business.	• Appreciate the economic and socialobjectives of business. • Examine the role of profit inbusiness.
Classification of business activities - Industry and Commerce.	• Understand the broad categories of business activities- industry and commerce.
Industry-types: primary, secondary, tertiary Meaning and subgroups.	• Describe the various types of industries.
Commerce-trade: (types-internal, external; wholesale and retail) and auxiliaries to trade; (banking, insurance, transportation, warehousing, communication, and advertising) – meaning.	• Discuss the meaning of commerce,trade and auxiliaries to trade. • Discuss the meaning of different types of trade and auxiliaries to trade. • Examine the role of commerce-trade and auxiliaries to trade.
Business risk - Concept.	• Understand the concept of risk as a special characteristic of business. • Examine the nature and causes of business risks.

Unit 2: Forms of Business organizations:

Sole Proprietorship - Concept, merits and limitations.	• List the different forms of business organizations and understand their meaning. • Identify and explain the concept, merits and limitations of Sole Proprietorship.
Partnership-Concept, types, merits and limitation of partnership, registration of a partnership firm, partnership deed. Types of partners	• Identify and explain the concept,merits & limitations of a Partnership firm. • Understand the types of partnership on the basis of duration and on the basis of liability. • State the need for registration of a partnership firm. • Discuss types of partners –active,sleeping, secret, nominal and partner by estoppel.
Hindu Undivided Family Business - Concept	• Understand the concept of Hindu Undivided Family Business.

Cooperative Societies - Concept, merits,and limitations.	• Identify and explain the concept, merits and limitations of Cooperative Societies. • Understand the concept of consumers, producers, marketing, farmers, credit and housing co-operatives.
Company - Concept, merits and limitations; Types: Private, Public and One Person Company - Concept	• Identify and explain the concept, merits and limitations of private and public companies. • Understand the meaning of one person company. • Distinguish between a private company and a public company.
Formation of company - stages, important documents to be used in formation of a company	• Highlight the stages in the formation of a company. • Discuss the important documents used in the various stages in the formation of a company.
Choice of form of business organization	• Distinguish between the various forms of business organisations. • Explain the factors that influence the choice of a suitable form of business organization.

Unit 3: Public, Private and Global Enterprises:

Public sector and private sector enterprises - Concept	• Develop an understanding of Public sector and private sector enterprises.
Forms of public sector enterprises: Departmental Undertakings, Statutory Corporations and Government Company.	• Identify and explain the features,merits & limitations of different forms of public sector enterprises.
Global Enterprises - Feature. Public Private Partnership - concept	• Develop an understanding of global enterprises, public private partnership by studying their meaning and features.

Unit 4: Business Services:

Business services - meaning and types.Banking: Types of bank accounts - savings, current, recurring, fixed deposit and multiple option deposit account.	• Understand the meaning & types of business services. • Discuss the meaning and types of Business service Banking • Develop an understanding of difference types of bank account.
Banking services with particular reference to Bank Draft, Bank Overdraft, Cash credit. E-Banking meaning, Types of digital payments.	• Develop an understanding of the different services provided by banks.
Insurance - Principles. Types - life, health,fire and marine insurance - concept.	• Recall the concept of insurance. • Understand Utmost Good Faith, Insurable Interest, Indemnity, Contribution, Doctrine of Subrogation and Causa Proxima as principles of insurance. • Discuss the meaning of different types of insurance-life, health, fire,marine insurance.
Postal Service - Mail, Registered Post, Parcel, Speed Post, Courier - meaning.	• Understand the utility of different telecom services.

Unit 5: Emerging Modes of Business:

E - business: concept, scope and benefits	• Give the meaning of e-business. • Discuss the scope of e-business. • Appreciate the benefits of e-business • Distinguish e-business from traditional business.

Unit 6: Social Responsibility of Business and Business Ethics:

Concept of social responsibility	• State the concept of social responsibility.
Case of social responsibility	• Examine the case for socialresponsibility.
Responsibility towards owners, investors, consumers, employees, government & community.	• Identify the social responsibility towards different interest groups.
Role of business in environment protection	• Appreciate the role of business inenvironment protection.
Business Ethics - Concept and Elements	• State the concept of business ethics. • Describe the elements of business ethics.

Part B: Finance and Trade:-

Unit 7: Sources of Business Finance:

Concept of business finance.	• State the meaning, nature and importance of business finance.
Owners' funds- equity shares, preferences share, retained earnings.	• Classify the various sources of funds into owners' funds. • State the meaning of owners'funds.
Borrowed funds: debentures and bonds, loan from financial institution and commercial banks, public deposits, tradecredit, Inter Corporate Deposits (ICD).	• State the meaning of borrowed funds. • Discuss the concept of debentures,bonds, loans from financial institutions and commercial banks, Trade credit and inter corporate deposits. • Distinguish between owners' funds and borrowed funds.

Unit 8: Small Business and Enterprises:

Entrepreneurship Development (ED): Concept, Characteristics and Need. Process of Entrepreneurship Development: Start-up India Scheme, ways to fund start-up. Intellectual Property Rights and Entrepreneurship.	• Understand the concept of Entrepreneurship Development (ED), Intellectual Property Rights.
Small scale enterprise as defined by MSMED Act 2006 (Micro, Small and Medium Enterprise Development Act).	• Understand the meaning of small business.
Role of small business in India with specialreference to rural areas.	• Discuss the role of small business in India.
Government schemes and agencies for small scale industries: National Small Industries Corporation (NSIC) and DistrictIndustrial Centre (DIC) with special reference to rural, backward areas.	• Appreciate the various Government schemes and agencies for development of small scale industries. NSIC and DIC with special reference to rural, backward area.

Unit 9: Internal Trade:

Internal trade - meaning and types services rendered by a wholesaler and a retailer.	• State the meaning and types ofinternal trade. • Appreciate the services ofwholesalers and retailers.
Types of retail-trade-Itinerant and small scale fixed shops retailers.	• Explain the different types of retail trade.
Large scale retailers-Departmental stores, chain stores - concept.	• Highlight the distinctive features of departmental stores, chain stores and mail order business.
GST (Goods and Services Tax): Concept and key-features	• Understand the concept of GST.

Unit 10: International Business:

International trade: concept and benefits	• Understand the concept of international trade. • Describe the scope of international trade to the nation and business firms.
Export trade - Meaning and procedure	• State the meaning and objectives of export trade. • Explain the important steps involved in executing export trade.
Import Trade - Meaning and procedure	• State the meaning and objectives of import trade. • Discuss the important steps involved in executing import trade.
Documents involved in International Trade; indent, letter of credit, shipping order, shipping bills, mate's receipt (DA/DP)	• Develop an understanding of the various documents used in international trade. • Identify the specimen of the various documents used in international trade. • Highlight the importance of the documents needed in connection with international trade transactions
World Trade Organization (WTO) meaning and objectives	• State the meaning of World TradeOrganization. • Discuss the objectives of World Trade Organization in promoting international trade.

Unit 11: Project Work

As per CBSE guidelines.

Suggested Question Paper Design

Business Studies (Code No. 054)

Class XI (2022-23)

March 2023 Examination

Marks: 80 **Duration: 3 hrs.**

S. No.	Typology of Questions	Marks	Percentage
1.	**Remembering and Understanding**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas.	44	55%
2.	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
3.	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments aboutinformation, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	Total	**80**	**100%**

Ch-01: Evolution and Fundamentals of Business

History of Trade and Commerce:-

India has Himalayas in the north, bordered by water in south. India got connected to adjoining foreign countries through the network of roads leading to **Silk Route**. The maritime routes linked the east and west by sea and were used for trade of species known as a **Spice Route.**

Role of business in the development of economy:

Business activities have been undertaken since the ancient era. There existed transfer of goods both within and outside the country, and the income received from such economic business activities were used for further investments.

One such example is of:

Hundi: It is an instrument of exchange used in old times which involved a contract that warrants the payment of money, a promise or order which is unconditional, and can be exchanged through transfer by valid negotiation.

In ancient times many trade centres were developed for the import and export of goods like Patliputra, Peshawar, Taxila, Indraprastha, Mithila, Maduram, Surat etc.

Hundi as practiced by Indian merchant Communities

Name of Hundi	Classification	Functions of Hundi
Dhani-jog	Darshani	Payable to any person - no liability over the receiver.
Sah-jog	Darshani	Payable to a specific person - Liability created.
Firman-jog	Darshani	Payable to order.
Dekhan-har	Darshani	Payable to presenter or bearer.
Dhani-jog	Muddati	Payable to any person over a fixed term – no liability over who received the payment.
Firman-jog	Muddati	Payable to order following a fixed term.
Jokhmi	Muddati	It is drawn against dispatched goods. Drawer bears the costs if goods get lost in transit.

Rise of Intermediaries:-

• Prominent role in promotion of trade

• Provide financial security in return of risk taken

• Comprises of Commission agent, broker, distributor

• Foreign Trade was financed by loans.

• Later with emergence of credit transaction, exports exceeded import and benefited indigenous banking system

• Commercial bank and industrial bank evolved to finance trade and commerce

• Agricultural bank evolved to provide short-term and long-term finance to agriculturist.

Maritime Trade:-

• Trade maintained by means of sea is referred to as maritime trade.

• Maritime trade was another important branch of global trade network.

• Malabar Coast, on which Muziris is situated. Pepper was particularly valued in the Roman Empire and was known as **'Black Gold'**.

• It was in the search for an alternate route to India for spices that led to the discovery of America by Columbus in the closing years of 15th century and also brought Vasco-da-Gama to the shores of Malabar in 1498.

• Calicut was such a bustling emporium that it was even visited by Chinese ships to acquire items, like frankincense (essential oil) and myrrh (fragrant resin used in perfumes, medicines) from the Middle East, as well as, pepper, diamonds, pearls and cotton from India.

• On the Coromandel Coast, Pulicat was a major port in the 17th century. Textiles were the principal export from Pulicat to Southeast Asia.

Merchant Corporation:-

• Formed to protect the interest of traders.

• Framed their own rules of membership and code of conduct which kings also accepted.

• Trade and industrial taxes were major source of revenue.

• The chief directly deal with king, tax collector and settle market toll on behalf of merchant at fixed sum of money.

Major Trade centres:-

➢ Pataliputra-Export of stones

➢ Peshawar-Export of wool and import of horses

➢ Taxila-Centre for learning

➢ Indraprastha-Commercial route on royal road

➢ Mathura-emporium of trade, people here subsisted on commerce

➢ Varanasi-Centre for textile industry

➢ Mithila-Traded at ports on the island of java, Sumatra, Borneo

➢ Ujjain- Agate, Muslin, carnelian cloth trading

➢ Surat-Textile trading mainly for their gold border (zari)

➢ Kanchi- Pearl, glass, rare stone

➢ Madura-Pearl fisheries

➢ Broaach-Linked to all important marts

➢ Kaveripatta-Trade of perfumes, cosmetics, scent, silk, wool, cotton, corals, pearls, gold, precious stone, ship building

➢ Tamralipti-Greatest port connected by both sea and land.

❖ All human being, wherever they are, required to perform some or the other activity to satisfy their needs. They pursue different occupations to earn a livelihood and to get some psychological satisfaction. Activities which human beings undertake are known as human activities.

Classification of Activities:
(a) Economic Activities and
(b) Non- Economic Activities

1. Economic Activities: Economic activities are any activities that are carried out with the goal of earning money and livelihood. For example, a worker working in a factory, a teacher teaching in school etc.
It is majorly of three types:
(a) Business
(b) Profession
(c) Employment.

2. Non-Economic activities: Activities which are performed out of love, affection, sympathy, etc & without the aim of earning profit are called non-economic activities. For example -Social work, religious activities etc.

Business:-
Any economic activity that is undertaken regularly and continuously to satisfy the societal needs as well as to earn profit through the mechanism of sale and purchase of goods and services is called a Business.

Characteristics of Business Activities:
1. An economic activity: Business consists of sale or exchange of goods and services with the primary objective of earning money. Hence, it is an economic activity.

2. Sale or exchange of goods and services for creating value: In business there should be transfer or exchange of goods or services for value. Production of goods for the purpose of personal consumption is not termed as business.

3. Regularity in dealings: To constitute a business there should be dealings in goods and services on regular intervals. Doing one single transaction does not constitute business. For example selling your old books, or furniture and purchasing a new one is not termed as business.

4. Production or procurement of goods and services: In every business enterprise before the consumption, production takes place. As a result, a business either manufactures the goods on its own or purchases them from producers, and then sells them to end customers.

5. Profit earning: The primary objective of every business is to earn more and more profit. No business can survive without earning profit. Hence all the efforts of the businessman are directed towards the earning of sufficient profit.

6. Uncertainty of return: It's not certain how much profit a business is going to earn, as there is a possibility of losses as well because of the changing environment. Every business has to handle both losses as well as profits.

7. Risk: Every business is exposed to certain risks, these risks can either be due to natural factors, human factors, financial factors, or personal factors. Therefore, both profit and losses walk hand in hand and every business has to take some risk in order to survive.

Profession:
Any economic activity which is carried out by a person with specialised knowledge & skills in order to serve society is called Profession.

Employment:
Any economic activity which involves doing work for someone else in consideration of money is termed as Employment.

Comparison of Business, Profession and Employment:

Basic	Business	Profession	Employment
Mode of establishment	Establishes after fulfilling some required legal formalities.	A certificate of practice required.	Starts after receiving an appointment letter.

Nature of work	Selling and buying of goods and services.	Rendering specialized services	Work is as per the contract and the rules of service.
Qualification	No minimum qualification required.	Formal qualification & training from a professional body is a must.	Qualification requirements differ with job type.
Reward or return	Profit	Professional fee	Wages or salary earned
Capital investment	It is dependent upon the type and size of business.	Limited capital needed.	No capital.
Risk	High uncertainty and risk.	Little or limited risk	No risk
Transfer of interest	Possible	Not possible	Not possible
Code of conduct	No code of conduct is prescribed.	Professional code of conduct is there.	Rules set by the employer are to be followed.
Example	A person having his shop, factoryetc.	Chartered Accountants, Lawyers, Doctors are all professionals.	Jobs in banks,companies etc.

<u>Multiple Objectives of Business:</u>

1. Economic Objectives
2. Social Objectives
3. Human or Personal Objectives.

1. <u>Economic Objectives</u>:- Under economic objectives, the following objectives are included:
(i) Survival: The basic purpose of every organisation is to survive and exist in the competition market for a long period of time & it is possible only when it is able to cover its cost and earn profit.

(ii) Profit: The most important objective of every organisation is earning adequate amount of profit. Profit is essential for survival, growth and expansion of business.

(iii) Growth: The success of any organisation is measured by the growth rate and growth is measured in terms of sales, number of branches etc.

2. <u>Social Objectives</u>:-
(i) Supply of Desired Quality of Products: Customer prefer to buy the products only when they are of satisfactory quality and are available at a reasonable price. Today's customer is a quality conscious customer and he expects value for money.

(ii) Avoidance of Unfair Trade Practices: Anti-social or unfair trade practices include black marketing, adulteration, hoarding, overcharging, etc. Exaggerating in advertisement s about the uses of products is also an unfair trade practice.

(iii) Employment Generation: The business man must create employment opportunities and help in overcoming this basic problem of developing countries. The business employs people to perform different types of work.

(iv) Social Service or Community Service: The big companies can help in social service programmes run by NGOs and Government organisations by contributing large amount of funds in the form of donations, charity, etc.

(v) Avoidance of Pollution: As a businessman has added to spreading of pollution, so it becomes the moral duty of the businessman come forward and help in solving the problem of pollution.

3. Human or Personal Objectives:-

(i) Providing good working condition.

(ii) Payment of competitive and satisfactory wages and salaries.

(iii) Personal growth and development of employee by imparting training to employees.

(iv) Peer recognition and respect by encouraging employees to take initiative and participating in decision-making.

Role of Profit in the Business:

(i) Survival: A business and businessman cannot survive for a long time without earning adequate profit. Profit is a source of income for a businessman which becomes his means of livelihood.

(ii) Expansion and Growth: The business is expanded only when it is earning sufficient amount of profit. When profit is large, a part of it can always be reinvested for expansion or diversification of production and other operations of the business.

(iii) Symbol of efficiency or an Index of Performance: Profits indicate whether a business is being managed efficiently or not. Higher profits indicate the efficiency of management and lowest profit indicate inefficiency of management.

(iv) Reward for bearing the risk: Profit is considered as a price or reward paid to a businessman for bearing the risk. The desire to earn profit motivates the businessman to bear the uncertainties and unexpected risks.

(v) Helps to gain reputation of goodwill: A profit earning company always has a better reputation in the market as compared to companies which are running in loss.

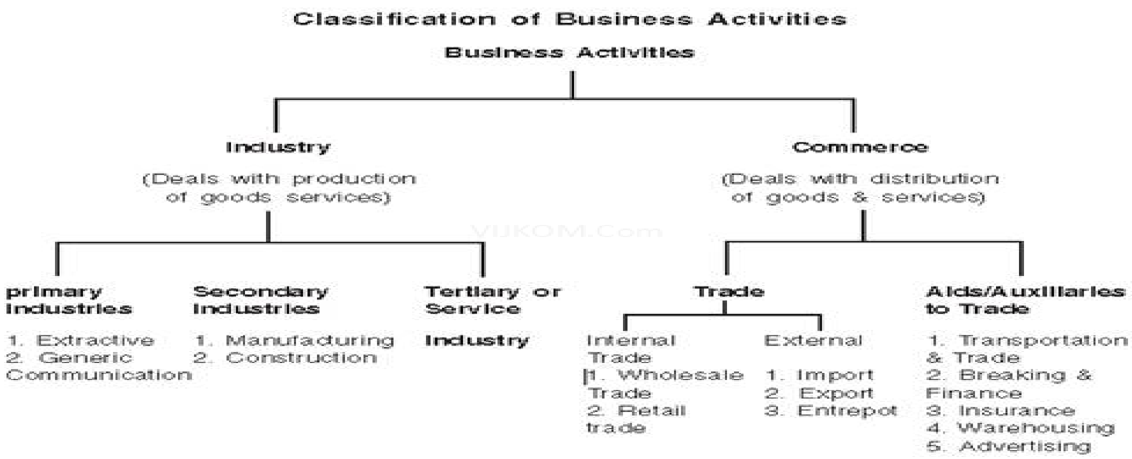
Classification of business activities:-

The business activities are mainly classified into:

A. Industry

B. Commerce

- ➢ Trade
- ➢ Auxiliaries to Trade



A. Industry:-

It is basically concerned with the production of goods and services for an economic motive. It is further divided into following categories:

1. Primary
2. Secondary
3. Tertiary

1. Primary industry:

It includes all those activities which are concerned with the extraction and production of natural resources and development of plants, etc.

It is further divided into two parts:

(a) Extractive industries: These industries provide some basic raw materials that are mostly products of the natural environment. It includes farming, mining, etc.

(b) Genetic industries: These industries do breeding of plants and animals for their use in further reproduction. Example- Cattle breeding, Poultry farms etc.

2. Secondary industries:-

These industries are concerned with further processing of the material extracted at the primary sector so as to convert them into a finished product. Example, Mining of iron ore etc.

It is further divided into two parts:

(a) Manufacturing industries: These industries engage in producing goods through processing of raw materials and creating utilities.

It is further divided into four parts:

(i) Analytical Industry: These industries separate and bifurcate different elements from the basic material, so as to produce various by-products from the same element. For example, petrol, diesel etc. all are made from one basic material that is crude oil.

(ii) Synthetic Industry: These industries bring together materials and ingredients from varied sources and combine them to form a new product. For example, the cement industry.

(iii) Processing Industry: These industries are involved in the extractionand processing of resources and raw materials, so as to produce semi-finished or finished products. For example, the Sugar industry, Paper industry, Textile industry etc.

(iv) Assembly Industry: These industries bring together different components of various firms to form a new product. For example, different components of various industries are brought together to assemble them and convert it into a television, computer, car etc.

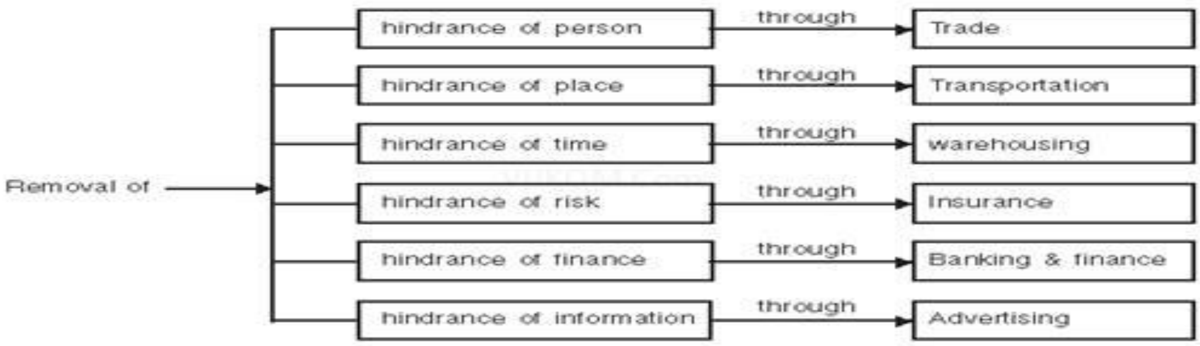
(v) Construction industries: These industries are involved in the construction sector, and it involves constructive works such as building dams, bridges, buildings, etc.

3. Tertiary industry:-

These industries provide support services to primary and secondary industries so that they can perform their work without any hindrances. For Example, Banking industry, Transportation industry, Communication industry, etc.

B. Commerce:-

Commerce includes all the activities which are required for the exchange of goods and services. It also involves all the activities that assists in removal of hindrances of people, place, time, finance, risk, information faced during the exchange of goods and services.



1. Removing the hindrance of person- by marking goods available to consumers from the producers. through trade.

2. Transportation removes hindrance of place- by moving goods from the place of production to the markets for sale.

3. Storage and warehousing activities remove the hindrance of time- by facilitating holding of stock of goods to be sold as and when required.

4. Insurance removes hindrance of risk of loss or damage of goods due to theft, fire, accidents etc.

5. Banking removes hindrance of finance- by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.

6. Advertising removes hindrance of information- by informing consumers about the goods and services available in the market.

Classification of Commerce:-

It includes two types of activities:

- Trade.
- Auxiliaries to Trade.

- **Trade**

The buying and selling of goods and services with an aim to earn profit is termed as trade. The people who are involved in trade are referred to as traders. Trade can be bifurcated as:

(a) Internal Trade and, (b) External Trade.

(a) Internal Trade:- It refers to buying and selling of goods or services within the geographical boundaries of a country.

(i) Wholesale trade: It refers to buying and selling of goods and services in large quantities.

(ii) Retail Trade: It refers to buying and selling of goods and services in small quantities.

(b) External Trade:- It refers to buying and selling of goods or services beyond the geographical limits of the country. It involves:

(i) Imports: It refers to the purchase of goods and services from other countries.

(ii) Exports: Selling goods and services to other countries.

(iii) Entreport: Importing goods and services from one country and exporting to some third country.

- **Auxiliaries to Trade:-**

Auxiliaries to trade assists the buying and selling of the goods and services by removing the hindrances of place, people, time, finance, risk and information.

The auxiliaries to trade are:

(a) Transport and Communication: Transportation helps in the movement of raw material and finished products from the place of production to the place of consumption. Communication enables easy interaction by one party with another, who is far away from each other. It assists in removal of the hindrance cause due to place.

(b) Banking and finance: It helps business activities to overcome the problem of finance by lending loans and credit facilities since business can't survive if funds are not available for procuring material. It assists in removal of the hindrance cause due to finance.

(c) Insurance: It provides protection to businesses from various types of risks such as due to fire, theft etc. It assists in curbing hindrances of risk.

(d) Warehousing: It helps business firms to overcome the problem of storage and facilitates the availability of goods. It assists in curbing hindrances of time.

(e) Advertising and Public Relations: It helps them to increase the sales and widen the customer base by promoting business products or services at a wide spectrum. It is a tool to influence customers. It assists in curbing hindrances caused due to information.

(f) Middlemen: These people act as mediators between the producer and consumers. These include wholesalers, retailers etc. It assists in curbing hindrances of persons.

Business Risk:-

The risk caused due to inadequate profits or losses as a result of uncertainties or unexpected events is called business risk.

Nature of Business Risks:-

(a) Risk is an essential part of every business. It can only be reduced but not eliminated in full.
(b) It arises due to uncertainties like natural calamities such as earthquakes, floods etc., which are unavoidable.
(c) The extent of risk depends upon the nature and size of business.
(d) 'No risk, no gain' is applicable to every business. Hence, profit is the reward for risk taking.

Causes of business risks:

(a) Natural causes: These are due to natural causes such as floods, earthquakes, etc. Every person has little control or no control over these causes.

(b) Human causes: These causes include unexpected events caused by man, such as negligence of employees, power failure, employee's or customer's dishonest practices etc.

(c) Economic causes: The economic causes involve the changes and variations taking place in the economy such as uncertainties due change of technology and method of production, political disturbances, change in prices, tax rates etc.

(d) Other causes: All those causes which cannot be considered under the above causes are the other causes, such as exchange rate fluctuations etc.

Factors for Starting a business:

1. Selection of type of business: First step is to decide the nature and size of business which person wants to do. It depends upon customer requirements inthe market and also the knowledge that person has about the product. A person can enter primary, secondary or tertiary industry, based on the possibility of profit, demand, customer preference etc.

2. Size of Business: Every person has to decide whether it wants to operate on alarge scale or at a medium scale. It depends upon demand for the product and the necessary capital that person has. If a person is optimistic about all the factors, he can open up his business on a large scale & vice-versa.

3. Location of business enterprise: It's another important factor while starting a business. The location of business is dependent on the easy availability of raw material & labour, banking services, transportation services nearby etc. Any mistake in this can result in high losses to business.

4. Financing the proposition: For every business, availability of capital or funds is an important factor while starting a business. Because capital is needed in each activity and aspect of business, such as in investment in fixed assets, stocks, meeting day to day expenses, etc.

5. Physical facilities: Availability of Machines, Equipment & Building is also considered while starting a business. The extent of physical facilities dependsupon the nature and size of business & availability of funds.

6. Competent and committed workforce: Every business needs competent workforce to run its business operations smoothly. Proper planning and training should be done for hiring employees at the right position and at the right time and cost.

7. Tax planning: Because of increasing tax laws in the country every business has to do proper tax planning in advance to save itself from any problem in future.

8. Launching the enterprise: After all these steps, a person can go ahead with starting a business. It can be a partnership firm, a sole proprietorship firm, a company etc.

Ch-02: Forms of Business Organisation

A business enterprise is an organization which is engaged in some businesses or commercial activities. Business enterprise may be classified into three broad categories:

1. Private sector enterprises.

2. Public sector enterprises.

3. Joint sector enterprises.

1. Private sector enterprises: The business enterprises which are owned, controlled and managed by private individuals are known as Private sector enterprise. Like- Reliance India Limited, Tata Company, Wipro etc.

2. Public sector enterprises: The business enterprises which are owned, controlled and managed by the central and state government are known as Public sector enterprise. Like - SAIL (Steel Authority of India Limited), Gail (Gas Authority of India Limited), LIC etc.

3. Joint sector enterprises: The business enterprise which is owned, controlled and managed jointly by private entrepreneur and government are known as Joint sector enterprise. Like- Maruti Udyog Ltd., Cochin Refineries, etc.

Forms of Private Sector Enterprises:

The private sector enterprise can function and run by adopting any of the following forms:

1. Sole proprietorship.
2. Partnership.
3. Joint Hindu Family Business.
4. Co-operative Societies.
5. Company.

1. Sole proprietorship:-

It is a form of organisation which is owned, managed and controlled by an individual who bears all the risk and receives all the profit.

Features:

(a) Formation and closure: It can be established and closed without any legal formalities.

(b) Liability: The liability of the sole proprietor is unlimited in this form of business organisation.

(c) Sole risk bearer and profit recipient: Being a sole owner, he bears all the risk and receives all the profits.

(d) Control: All the decisions are taken and implemented in the organization by the owner.

(e) No separate entity: Both owner and business are considered as one in the eyes of law.

(f) Lack of business continuity: Business can be continued till the owner wishes to.

Merits:-

(a) Quick decision making: Prompt decision making as all the decisions are to be taken by the owner.

(b) Confidentiality of information: Being a sole owner, it is easy to maintain business secrecy.

(c) Direct incentive: All the profits are enjoyed by the owner as there is no one to share profits.

(d) Sense of accomplishment: Successful business provides satisfaction to the owner and sense of achievement.

(e) Ease of formation and closure: No legal formalities for formation and closure of business which makes it easy to start and end the business.

Limitations:-

(a) Limited resources: Business can be funded from savings of the owner or money borrowed from friends, relatives.

(b) Limited life of a business concern: Continuity of the business depends on the health and state of mind of the owner.

(c) Unlimited liability: In case business fails repayment of debts, his personal assets are at risk.

(d) Limited managerial ability: One person may not possess the ability to manage all the functions.

Suitability:

Sole proprietorship is suitable-

• Where the personal attention to customer is required as in tailoring, beauty parlour.
• Where goods are unstandardized like artistic jewellery.
• Where modest capital and limited managerial skills are required as in case of retail store

2. <u>Partnership:</u>

According to partnership Act 1932, partnership is the relation between persons who have agreed to share the profits of the business carried on by all or any one of them acting for all.

Features:

(a) Formation: Business is established as per the provisions of Partnership Act 1932.

(b) Liability: All the partners in the business have unlimited liability.

(c) Risk bearing: All the risk in the business is shared by all the partners.

(d) Decision making and control: All the decisions are taken in after the consent of all the partners and each partner shares responsibility of running business.

(e) Continuity: Continuity depends upon the partnership deed among the partners at the time of its formation.

(f) Number of partners: Minimum 2 and maximum 50 members [as per the Companies (miscellaneous) Rules 2014}, or maximum could be 100 (according to Companies Act, 2013).

(g) Mutual agency: Each partner is the owner as well as the agent of the firm and agent to other partners.

Merits:

(a) Ease of formation and closure: Business can be established and closed with the consent of all the partners as the registration is optional.

(b) Balanced decision making: All the decisions are taken by consent partners as partners undertake responsibilities as per their expertise.

(c) More funds: Funds are provided by all the partners, which increases the scope for large-scale business operation.

(d) Sharing of risks: Business risk and responsibilities are shared among all the partners.

(e) Secrecy: It is easy to maintain business secrecy as there is no need to submit financial results.

Limitations:

(a) Unlimited liability: Each partner's liability is extended to their personal property.

(b) Limited resources: Availability of Finance is limited due to the restriction of number of partners.

(c) Possibility of conflicts: All the partners may have different opinions which create conflict among them.

(d) Lack of continuity: Any conflict between partners or death of a partner may bring business to an end.

(e) Lack of public confidence: It is difficult for an outsider to ascertain true financial position as there is a lack of availability of financial reports.

Types of Partners:-

(a) Active partner: A partner who contributes capital, shares profits and losses, participates in management and has unlimited liability.

(b) Sleeping or dormant partner: Partner who contributes capital, shares profits and losses and has unlimited liability but does not participate in management.

(c) Secret partner: This partner participates in management operations secretly, but does contribute in profits and losses.

(d) Nominal partner: Partner who does not contribute capital and does not share profit and losses but allows partnership business to project him or her as partner.

(e) Partner by estoppel: An individual who is not a partner but projects himself/ herself as a partner to an outsider and has unlimited liability.

(f) Partner by holding out: An individual who is not a partner but is projected as a partner by other partners of the partnership firm and his liability is unlimited.

Partner	Contribution Of Capital	Management	Profit/Loss Sharing	Liability
Active	Yes	Yes	Yes	Unlimited
Sleeping	Yes	No	Yes	Unlimited
Secret	Yes	Yes, but secretly	Yes	Unlimited
Nominal	No	No	Generally Yes	Unlimited
Partner by Estoppel	No	No	No	Unlimited
Partner by Holding out	No	No	No	Unlimited

Minor as partner:

An individual of age below 18 years can be admitted with mutual consent of all other partners but legally he is not a partner.

Types of partnership:

Partnership can be categorized on the basis of duration and liability:

Classification on the basis of duration:

(i) Partnership at will: Partnership continues till the partners agree to do so.

(i) Particular partnership: The partnership formed for a specific task for project or for a specific period of time. It comes to an end after completion of task or expiry of time.

Classification on the basis of liability:

(i) General partnership: Partnership where all partners have joint and unlimited liability.

(ii) Limited partnership: Partnership where all partners have limited liability and at least one partner must have unlimited liability.

Partnership deed:

A written document where all the terms and conditions of partnership are mentioned. It generally has following clauses:

(a) Name of firm.

(b) Nature of firm.

(c) Duration of Partnership.

(d) Duties and obligations of Partners.

(e) Valuation of Assets.

(f) Interest on capital and interest on drawings.

(g) Profit-loss sharing ratio.

(h) Salaries and withdrawals of the Partners.

(i) Preparation of accounts and their auditing.

(j) Procedure for dissolution of firm.

(k) Method of solving disputes.

Registration:

It is optional for a partnership firm to get registered with the registrar of firms of the state in which firm is situated.

Consequences of non registration:

1. In case of non registration, a partner cannot file a case or file suit against other partners or the partnership firm.

2. Firm cannot sue third parties.

3. The form cannot file a case against one or more partners of the firm.

Procedure for getting firm registered:

(i) Submission of application in prescribed form with the Registrar of Firms.

(ii) Fee deposition with the Registrar.

(iii) Receiving certificate of registration after the Registrar is satisfied.

3. Joint Hindu Family Business:

It is owned by the members of undivided joint Hindu family and managed by the eldest member of the family known as KARTA. It is governed by the provisions of Hindu law. The basis of membership is birth in a particular family.

Features:

(a) Formation: Hindu Undivided Family is formed with at least two members of a family having ancestral property. It is governed by Hindu Succession Act, 1956.

(b) Liability: All the members of the family except Karta have limited liability up to their share in the business property.

(c) Control: All the activities in the business organization are controlled by Karta.

(d) Continuity: It can be discontinued if all the members of the family agree to do so.

(e) Minor members: Membership in the organization is by birth.

Merits:

(a) Effective control: Complete control of business with 'Karta' thus effective decision-making.

(b) Continued business existence: Business continues till all the members wish to continue and control is transferred to the next elder member in case of death of 'Karta'.

(c) Limited liability of members: Members of the family enjoy liability limited to their share in the business party.

(d) Increased loyalty and cooperation: Family members have a sense of belongingness and loyalty, hence, all work with a common objective of growth.

Limitation:

(a) Limited resources: Business can be funded mainly from ancestral property, hence limiting the financial resources.

(b) Unlimited liability of Karta: The personal property of 'Karta' is at risk as he has unlimited liability.

(c)Dominance of Karta: Difference of opinion among members and 'Karta'may cause conflict amongst them.

(d) Limited managerial skills: Karta may not have knowledge and expertise of all the functions performed in the business.

4. <u>Co-operative Society:</u>

An organisation of voluntary people working for a common purpose with an aim to protect economic and social interests of the members. It must be registered under the Co-operative Societies Act, 1912.

Features

(a) Voluntary membership: Any individual irrespective of caste, gender, religion with common interest is free to join or leave a co-operative society as and when he/she desires.

(b) Legal status: Co-operative society has separate identity status distinct from its members, and the registration of such society is also mandatory.

(c) Limited liability: Members have liability limited to their capital contribution.

(d) Control: All the decision making power is in the hands of an elected managing committee which are chosen by members with one man one vote concept.

(e) Service motive: Society is formed with the motive of providing mutual help to team members.

Merits:-

(a) Equality in voting status: Each member has equal right to vote and elect members of the managing committee.

(b) Limited liability: The liability of members is limited to their capital contribution.

(c) Stable existence: Cooperative societies keep on going irrespective of situations of death, bankruptcy or insanity of its members.

(d) Economy in operations: The members of the society work voluntarily which helps in reducing costs.

(e) Support from government: Government provides support to societies in the form of lower taxes, interest rates and subsidies.

(f) Ease of formation: No legal formalities are involved in formation of societies.

Limitations:-

(a) Limited resources: Capital contribution by the member is the only source of finance, and low dividend also discourages members for the provision of finance to the society.

(b) Inefficiency in management: Members working on voluntary basis may lack necessary expertise and skills, leading to inefficiency in operations and management.

(c) Lack of secrecy: Difficult to maintain secrecy as members disclose all information related to work of the society in the meeting.

(d) Government control: Societies need to follow rules and regulations as stated by the government and submit audited financial reports of the society. However, such government intervention affects the freedom of work for such societies.

(e) Differences of opinion: Difference of opinion as a result of individual interest over the welfare may lead to conflicts amongst members.

Types of cooperative societies:-

(i) Consumer's cooperative societies: Societies formed for providing good quality services and products at a reasonable rate, to protect the interest of consumers.

(ii) Producer's cooperative societies: Societies formed for providing good quality and low priced raw materials and other inputs, to protect the interest of producers.

(iii) Marketing cooperative societies: Societies for providing services related to marketing of products by small producers.

(iv) Farmer's cooperative societies: Societies formed for providing farmers with better inputs at reasonable rates to improve productivity.

(v) Credit cooperative societies: Societies established to provide financial assistance to its members at very reasonable terms.

(vi) Cooperative housing societies: Societies formed for constructing houses for its members at reasonable cost.

5. Company:-

The Companies Act, 2013 defines, "A company as an artificial person having a separate legal entity, perpetual succession and a common seal."

Features of Company/Joint Stock Company:-

(a) Artificial person: A company is created by law and has legal status but it does not function like human beings. All business activities are done by the board of directors in the name of the company.

(b) Separate legal entity: A company has its own identity distinct from its owner with the incorporation of a company.

(c) Formation: Company is formed by fulfilling all the legal formalities as stated under Companies Act, 2013.

(d) Perpetual succession: A company is created by law and only law can bring an end to its existence. Existence of the company is not affected by the status of members.

(e) Control: Business affairs of a company are managed and controlled by the Board of Directors.

(f) Liability: A company has limited liability i.e., liability only to the extent of the capital contribution.

(g) Common seal: As a company is an artificial legal person, it cannot have asign on its own. Hence common seal acts as the official signature for a company. All the official documents must have a common seal for legal binding.

(h) Risk bearing: The risk of loss is shared by all the shareholders in proportion to their investment in the company.

Merits:-

(a) Limited liability: Shareholders liability is limited to the investment in the company, thus there is no risk of losing personal assets.

(b) Transfer of interest: Shares can easily be sold in the market or can be converted into cash.

(c) Perpetual existence: Company's existence is not affected by the status of shareholders, company continues to exist.

(d) Scope for expansion: Companies can raise large amounts of funds from the public as well as borrowings from financial institutions or banks.

(e) Professional management: large-scale operation requires management by professionals and specialised individuals.

Limitations:-

(a) Complexity information: Formation of a company requires fulfilling of documentation and legal formalities which makes the procedure lengthy and complex.

(b) Lack of secrecy: All financial information is disclosed to the general public that there is no confidentiality or secrecy.

(c) Impersonal work environment: Business affairs are managed by professionals not owners, thus, it lacks personal contact with employees and customers.

(d) Numerous regulations: A company involves various rules and regulations which reduces freedom to work and involves a lot of money, time and effort.

(e) Delay in decision making: Decision making needs to follow a set of hierarchy which may cause delay in taking decisions and actions.

(f) Oligarchic management: Shareholders have very little control over the running of business, thus, the directors take all the decisions which may attimes get influenced by their personal interest.

(g) Conflict in interests: It is difficult for management to satisfy everyone as there are too many stakeholders with diverse interests.

On the basis of the number of shareholders, enterprises can be classified into 3 kinds of companies:

1. **Public Company:** A public company is an enterprise which:
   - Is not a private company.
   - Is a company which is not an ancillary of any of the private company.
2. **Private Company:** A private company is an enterprise, which by its articles:
   - Limits the authority to transfer its shares.
   - It must have at least 2 people, apart from the case of one person company.
   - Restricts the number of its shareholders to 200 (excluding its employees).
3. **One Person Company or OPC:** According to Sec.2 (62) of the Companies Act, 2013, 'company which has only 1 person as a shareholder'. Rule number 3 of the Companies (Incorporation) Rules, 2014 says that:
   - Only a natural person who is an Indian citizen and an Indian resident can form 1 person company.
   - It cannot execute non-banking financial investment pursuits.
   - It is paid-up share capital which is not more than ₹ 50 Lakhs.
   - Its aggregate annual turnover of 3 years does not cross ₹ 2 Crores.

Difference between Public and Private Company

Basis	Public Company	Private Company
Members	Minimum: 7 members Maximum: Unlimited	Minimum: 2 members Maximum: 200
Minimum number of directors	3 directors	2 directors
Invitationto Public	Can invite public forsubscription	Cannot invite public for subscription
Transferof shares	Can transfer	Cannot transfer
Index of Members	Compulsory	Not compulsory

Formation of Company:

Formation of a Company is a time-consuming process that requires the completion of numerous legal formalities and processes.

There are three important steps in this process:

A. Promotion:

B. Incorporation:

C. Subscription of Capital:

Unlike a public limited company, which is forbidden from raising funds from the public, a private corporation is not required to produce a prospectus or complete the formalities of a minimum subscription.

A. <u>Promotion of company:</u>

It entails conceptualizing a business idea and taking the initiative to start a company so that the available business opportunity can be put into practice.

Promoter:

The term Promoter is defined in Section 2 (69) of the Companies Act 2013 as

- who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or
- who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
- in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act:

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.

<u>Functions of Promoter:</u>

1. Identification of business opportunity:

The opportunity could be in the form of developing a new product or service, making a product available through a new channel, or any other investment opportunity. The technical and economic feasibility of the opportunity is next assessed.

2. Feasibility studies:

Converting all potential business ideas into actual projects may not be viable or lucrative. As a result, the promoters do extensive feasibility assessments.

The feasibility studies listed below may be carried out:

- **Technical feasibility**: An excellent idea may be technically impossible to implement. It could be due to a lack of readily available raw materials like material, labour, location, infrastructure, or technology.
- **Financial viability**: Every company activity necessitates the use of capital. The promoters must calculate the amount of money needed to pursue the recognised business idea. If money cannot be secured, the project must be abandoned.
- **Economic feasibility**: The project might be technically and financiallypossible, but it may have a slim possibility of being profitable. Hence this step focuses on the cost-benefit analysis of the company to find outits future viability.

3. Name approval:

The promoters must choose a name for the company and file an application for approval to the registrar of companies in the state where the firm's registered office will be located. If the proposed name has been rejected, an alternate name may be accepted. In the application to the Registrar of Companies, three names are submitted in priority order.

4. Fixing up Signatories to the Memorandum of Association:

The members who will sign the proposed company's Memorandum of Association must be decided by the promoters. Those who sign the memorandum are also the company's first directors. Their signed consent to serve as Directors and to purchase the company's qualification shares is required.

5. Appointment of professionals:

The promoters select specialists such as mercantile bankers, auditors, and others to assist them in preparing the essential documents that must be filed with the Registrar of Companies.

6. Preparation of necessary documents:

The promoter takes measures to prepare necessary legal documents that must be submitted to the Registrar of Companies for the company to be registered under the law. The Memorandum of Association, Articles of Association, and Consent of Directors are the documents required.

<u>Documents required to be submitted:</u>

There are six documents in total, they are:

1. Memorandum of Association:

It identifies the company's goals. The Memorandum of Association is duly stamped, signed, and witnessed. In the case of a public business, it must be signed by at least seven members. For a private business, however, two members' signatures are sufficient. No corporation can legally engage in activities that are not outlined in its memorandum of association.

The following clauses are included in the MoA:

- **Name Clause:** This section contains the name of the business that has already been approved by the Registrar of Companies.
- **Registered office clause:** It specifies the state in which the company's registered office is proposed to be located. Although an exact address is not required, it must be provided to the Registrar within thirty days of the company's formation.
- **Object's clause:** This specifies the reason for the company's formation. A firm is not legally permitted to engage in any action that is not relatedto the objectives set forth in this clause.
- **Liability clause:** This clause restricts the members' liability to the amount owed on the shares they own.
- **Capital clause:** This clause establishes the maximum amount of capital that the company may raise through the issuance of shares. The proposed company's permitted share capital, as well as its partition intothe number of shares with a fixed face value, is defined.
- **Subscription Clause:** The subscription provision, which is the sixth and last clause of the MOA, shall declare the subscribers' intent to incorporate the company and agree to take shares in the firm based on the number stated in the Memorandum.

2. Articles of Association:

They are the rules that govern a company's internal management. These regulations are an addendum to the Memorandum of Association; they should not conflict with or supersede anything in the Memorandum of Association.

According to Section 2(5) of the Companies Act, 2013, "articles" refers to a company's articles of organization as initially drafted, as amended from time to time, or as implemented in accordance with any previous company law or this Act.

3. Consent of Proposed Directors:

In addition to the Memorandum and Articles of Association, everyone nominated as a director must sign a written permission stating that they acceptto function in such capacity and agree to purchase and pay for qualification shares.

4. Agreement:

Another document that must be presented to the Registrar for the company to be registered under the Act is the agreement that the firm forms with an individual as a Director or a full-time Director or Manager.

5. Statutory Declaration:

A declaration confirming that all legal conditions for registration have been met must be presented to the Registrar along with the above-mentioned documents for the company to be legally registered.

6. Receipt of Payment of Fee:

The necessary payments for the company's registration must be paid. The amount of such fees will be determined by the company's authorized share capital.

Position of Promoter:

A firm's promoters have a fiduciary relationship with the company, which they must not abuse. They can only make a profit if it is publicly revealed; they cannot make any hidden gains.

In the event of non-disclosure, the company has the right to cancel the contract and reclaim the money paid to the promoters. It can also sue for damages or losses incurred because of material information not being disclosed. Promoters do not have the legal right to claim expenses incurred in the company's promotion. The company, on the other hand, may choose to reimburse them for their pre-incorporation costs.

The corporation may also pay the promoters a lump-sum payment or a commission on the purchase price of property obtained through them or on the shares sold as compensation for their efforts. The corporation may also provide them stock or debentures or give them the opportunity to buy the securities later.

B. Incorporation

The application must be filed with the Registrar of Companies in the state where the company's registered office will be located.

A registration application must be accompanied by specified papers. They areas follows:

- A duly stamped, signed, and witnessed Memorandum of Association. In the case of a public business, it must be signed by at least seven members. However, two members' signatures are sufficient for a private company.
- As with the Memorandum, the Articles of Association must be legallystamped and witnessed.
- The prospective directors' written approval to serve as directors, as well as an agreement to purchase qualification shares.
- The prospective Managing Director, Manager, or full-time director has reached an agreement if one exists.
- A copy of the letter from the Registrar authorizing the company's name.
- A legislative declaration attesting to the fact that all registration requirements have been met. This document must be properly signed.
- Along with these documents, a notification containing the exact address of the registered office may be submitted.

Effect of the Certificate of Incorporation:

The date inscribed on the Certificate of Incorporation marks the beginning of a company's legal existence. On that date, it becomes a legal entity with eternal succession. It gains the ability to enter legally binding contracts. The Certificate of Incorporation is indisputable documentation of a company's regular incorporation.

C. Capital Subscription:

SEBI clearance is required to raise funds from the public. The Registrar of Companies will receive a copy of the prospectus or a statement in lieu of the prospectus. Bankers, brokers, underwriters, and other professionals are hired. A request for approval to trade in shares or debentures must be made to the stock exchange.

Process of Capital Subscription:

1. SEBI Approval:

SEBI (Securities and Exchange Board of India), our country's regulatory body, has developed recommendations for information disclosure and investor protection.

A public firm seeking funding from the public must make full disclosure of all relevant facts to potential investors and must not withhold any material information.

2. Filing of Prospectus:

Section 2(70) of the Companies Act of 2013 defines a prospectus as. “Any document that is described or issued as a prospectus” is how a prospectus is defined. This includes any notification, circular, advertisement, or otherdocument that serves as an invitation to public offers.

The Registrar of Companies receives a copy of the prospectus or a statement in lieu of the prospectus. A Statement-in-Lieu of Prospectus is submitted with the Registrar of Companies (ROC) when a company does not issue a prospectus to the public for the subscription of the shares.

All of the directors or their authorised agents must sign the declaration in writing. It's similar to a prospectus, with the exception that it's only a few pages long.

3. Appointment of Bankers, Brokers, Underwriters:

Raising money from the general people is a huge undertaking. The money for the application will be received by the company's bankers. The brokers try to sell the shares by handing out application forms and pushing others to apply. If the public does not subscribe to the shares, the underwriters promise to buy them.

4. Minimum Subscription:

To prevent enterprises from starting into business with insufficient resources, the company must obtain applications for a particular minimum number of shares before proceeding with the issuance of shares. This is referred to as the‘minimum subscription' under the Companies Act. If the number of applications for the shares received is less than 90% of the issue size, the allocation cannot be made, and the application money must berefunded to the applicants.

5. Application to Stock Exchange:

At least one stock exchange is approached for approval to trade in its shares or debentures. If such approval is not obtained within ten weeks of the subscription list's closing date, the allotment becomes worthless, and any money received from applicants must be returned to them within eight days.

6. Allotment of Shares:

The money received for the application should be kept in a separate bank account and not used by the company until the shares are distributed.

If the number of shares allocated is fewer than the number applied for, or if no shares are assigned to the applicant, any excess application money must bereturned to the applicants or applied to allotment money owed to them.

Successful allottees receive their allotment letters. Within 30 days of allotment, a ‘return of allotment' signed by a director or secretary is filed withthe Registrar of Companies.

Difference between Memorandum of Association and Article of Association:

Basis of Difference	**Memorandum of Association (MoA)**	**Article of Association (AoA)**
Objectives	The purposes for which the company's internal rules are developed are defined in the Memorandum of Association.	The company's management is governed by the articles of association. They describe how the company's goals will be met.

Position	This is the company's primary document, and it is governed by the Companies Act.	This is a supporting document that exists along side the Memorandum of Association and the Companies Act.
Relationship	The company's interaction with outsiders is defined by the Memorandum of Association.	Articles clarify the members' and company'sconnection.
Validity	Acts that go beyond the Memorandum of Association are void and cannot be ratified by themembers even if they vote unanimously.	Members can ratify acts that go beyond the Articles as long as they don't contradict the Memorandum.
Necessity	A Memorandum of Association is required for every business.	Articles of Association are not required to be filed by a public limited business. Table F of the Companies Act of 2013 may be adopted.

Choice of form of Business Organisation:-

(a) Cost and ease in setting up the organisation: It is easy to start sole proprietorship with minimum cost and legal requirements whereas formation of a company is a complex task with lengthy legal procedure. But partnership has the advantage of less legal requirements with low cost.

(b) Liability: In sole proprietorship and partnership, the liability of owner or partners is unlimited but in cooperative societies and companies, members have limited liability.

(c) Continuity: In sole proprietorship and partnership, continuity is affected by death and insolvency of the owners but cooperative societies, companies and Hindu undivided family enjoy perpetual existence.

(d) Management ability: In sole proprietorship, it is difficult that the owner may have expertise in all functions but in other forms of business, division of work is possible which leads to better decision making.

(e) Capital consideration: In case of large scale of operation, company formis more suitable but in case of small scale of operation, partnership or sole proprietorship can be chosen.

(f) Degree of control: If the owner wants all the control in his hand the sole proprietorship may be preferred but if the owner is ready to share control,then he can adopt partnership or company form.

(g) Nature of business: For trading and services, sole proprietorship and partnership form can be chosen. For manufacturing, a company form of organisation can be adopted.

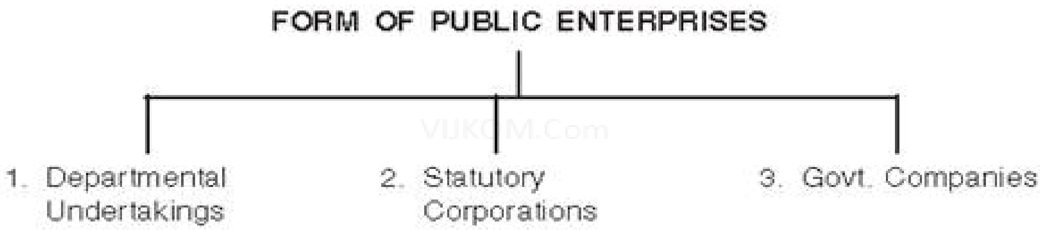
Ch-03: Private, Public and Global Enterprises

<u>Private Sector Enterprise</u>:- The Private sector consists of business owned by individuals or a group of individuals. The various forms of organisation are- Sole Proprietorship, Partnership, Joint Hindu Family, Co-operative & Company.

<u>Public Sector Enterprise</u>:- The Public sector consists of various organizations owned and managed by central or State or by both governments. The government participates in economic activity of the country through these enterprises.

Feature:

1. Capital is contributed by central or state or both govts.
2. Public welfare or Service is the main objective.
3. Management & control are in the hands of govt.
4. It is accountable to the public.



I. <u>Departmental Undertaking</u>: -

These are established as departments of the ministry and are financed, managed and controlled by either central govt. or state govt. Examples: Indian Railways, Post & Telegraph departments.

Features:-

1. No Separate Entity: It has no Separate legal entity.
2. Finance: It is financed by annual budget allocation of the govt. and all its earnings go to govt. treasury.
3. Accounting &Audit: The govt. rules relating to audit & accounting are applicable to it.
4. Staffing: Its employees are government employees & are recruited & appointed as per govt. rules.
5. Accountability: These are accountable to the concerned ministry.

Merits:-

1. It is more effective in achieving the objective laid down by government as it is under the direct control of government.
2. It is a source of govt. income as its revenue goes to government treasury.
3. It is accountable to parliament for all its actions which ensure proper utilization of funds.
4. It is suitable for activities where secrecy and strict control is required like defence production.

Demerits:

1. It suffers from interference from minister and top officials in their working.
2. It lacks flexibility which is essential for smooth operation of business.
3. It suffers from red tapism in day to day work.
4. These organizations are usually insensitive to consumer needs and do not provide goods and adequate service to them.
5. Such organization are managed by civil servants and government officials who may not have the necessary expertise and experience in management.

Suitability:

(i) Where full Government control is needed.
(ii) Where secrecy is very important such as defence.

II. <u>Statutory Corporation</u>:-
It is established under a special Act passed in parliament or state legislative assembly. Its objectives, powers and functions are clearly defined in the special Act.
Examples: Unit Trust of India, Life Insurance Corporation etc.

Features:-
1. It is established under a special act which defines its objects, powers and functions.
2. It has a separate legal entity.
3. Its management is vested in a Board of directors appointed or nominated by government.
4. It has its own staff, recruited and appointed as per the provisions of act.
5. This type of enterprise is usually independently financed. It obtains funds by borrowing from govt. or from public or through earnings.
6. It is not subject to same accounting & audit rules which are applicable to govt. department.

Merits:-
1. Internal Autonomy: It enjoys a good deal of autonomy in its day to day operations and is free from political interference.
2. Quick decisions: It can take prompt decisions and quick actions as it is tree from the prohibitory rules of govt.
3. Parliamentary control: Their performance is subject to discussion in parliament which ensures proper use of public money.
4. **Efficient Management:** Their directors and top executives are professionals and experts of different fields.

Demerits:-
1. In reality, there is not much operational flexibility. It suffers from lot of political interference.
2. Usually they enjoy monopoly in their field and do not have profit motive due to which their working turns out to be inefficient.
3. Where there is dealing with public, rampant corruption exists. Thus public corporation is suitable for undertaking requiring monopoly powers e.g. public utilities.

Suitability:
It is suitable for organizing public enterprise when,
(i) The enterprise requires special power under an Act.
(ii) The enterprise requires a huge amount of capital investment.

III. <u>Government Company:-</u>
A government company is a company in which not less than 51% of the paid up share capital is held by the central government or state government or jointly by both.
Examples: Hindustan Insecticides Ltd., State Trading Corp. of India, Hindustan Cables Ltd etc.

Features:-
1. It is registered or Incorporated under companies Act1956.
2. It has a separate legal entity.
3. Management is regulated by the provision of companies Act.
4. Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of association.
5. The govt. Co. obtains it funds from govt. shareholdings and other private shareholdings. It can also raise funds from capital market.

Merits:-
1. It can be easily formed as per the provision of companies Act. Only an executive decision of govt. is required.

2. It enjoys autonomy in management decisions and flexibility in day to day working.
3. These are able to control the market and curb unhealthy business practices.

Limitations:
1. It suffers from interference from government officials, ministers and politicians.
2. It evades constitutional responsibility which a company financed by the govt. should have as it is not directly answerable to parliament.
3. The board usually consists of the politicians and civil servants who are interested more in pleasing their political bosses than in efficient operation of the company.

Suitability:
(i) Where the private sector is also needed along with in govt.
(ii) Where activities related to finance are to be encouraged.

<u>Changing Role of Public Sector:-</u>
Public sector in India was created to achieve two types of objective –
(1) to speed up the economic growth of the country and
(2) to achieve a more equitable distribution of income and wealth among people.

The role and importance of public sector changed with time. Its role over a period of time can be summarized as following:
1. Development of Infrastructure: At the time of independence, India suffered from acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machinery etc. Because of huge investment requirement and long gestation period, private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to public sector which it discharged quite efficiently.
2. Regional balance: Earlier, most of the development was limited to few areas like port towns. For providing employment to the people and for accelerating the economic development of backward areas many industries were set up by public sector in those areas.
3. Economies of scale: In certain industries (like Electric power plants. natural gas, petroleum etc) huge capital and large base are required to function economically. Such areas were taken up by public sector.
4. Control of Monopoly and Restrictive trade Practices: These enterprises were also established to provide competition to Private Sector and to check their monopolies and restrictive trade practices.
5. Import Substitution: Public enterprises were also engaged in production of capital equipments which were earlier imported from other countries. At the same time public sector Companies like STC and MMTC have played an important role in expending exports of the country. Very important role was assigned to public sector but is performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

<u>Public Sector Reforms:-</u>
In the industrial policy 1991, the govt. of India introduced four major reforms in public sector.
(i) Reduction in No. of industries reserved for public sector: This no. is reduced from 17 to 8 and to 3 only in 2001. These three industries are atomic energy arms and rail transport.
(ii) Memorandum of Understanding (MOU): Under this govt. lays down performance target for public sector and gives greater autonomy to hold the management but held accountable for the specified results.
(iii) Disinvestment: Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better financial discipline.
(iv) Restructural and Revival: All public sector sick units were referred to Board of Industrial and Financial Re-construction (BIFR). Unite which were potentially viable were restructured and which could not be reviewed were closed down by the board.

Multinational Companies/ Global Enterprises:-
Multinational company may be defined of a company that has business operations in several countries by having its factories, branches or offices in those countries. But is has its headquarter in one country in which it is incorporated.
Examples: PHILIPS, Coca Cola etc.

Features:-
1. Huge Capital Resources: MNCs possess huge capital resources and they are able to raise lot of funds from various sources.
2. International Operations: A MNC has production, marketing and other facilities in several countries.
3. Centralized control: MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only broad policy framework to them and there is no interference in their day to day operations.
4. Foreign Collaboration: Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country.
5. Advanced technology: These organisation possesses advanced and superior technology which enable them to provide world class products & services.
6. Product Innovations: MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.
7. Marketing Strategies: MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

Public Private Partnership (PPP):-
It means an enterprise in which a project or service is finance and operated through a partnership of Government and private enterprises.

Features:-
1. Facilitates partnership between public sector and private sector.
2. Pertaining high priority project.
3. Suitable for big project (capital intensive and heavy industries).
4. Public welfare example Delhi Metro Railway Corporation.
5. Sharing revenue- Revenue is shared between govt. & private enterprises in the agreed Ratio.

Ch-04: Business Services

Goods:-

A good is a tangible item that can be supplied to a buyer and entails the transfer of ownership from the seller to the buyer.

Services:-

Services are discreetly recognisable, basically intangible actions that satisfy demands but are not always tied to the selling of a product or another service. For example, banking services, tele-communication services etc.

<u>Characteristics/Features of Services</u>:-

1. Intangible:-

They cannot be touched. They are experiential in nature. Often, the quality of the item cannot be evaluated before consumption. Service providers should strive consciously to create a desired service in order for the consumer to have a positive experience.

2. Lack of Homogeneity or Inconsistency:-

There is no such thing as a typical tangible product, hence services must be performed uniquely each time. Customers have varying requirements and expectations in terms of services they require. Service providers must be able to adjust their offerings to better match the needs of their clients.

3. Non-transferability or Inseparability:-

Simultaneous activity of production and consumption makes the production and consumption of services seem to be inseparable. Services must be utilized in the order in which they are created. Service providers may use appropriate technology to create a substitute for the person, but client interaction remains a fundamental aspect of services.

4. Inventory:-

It is not possible to save services for later use. That is, services are perishable, and suppliers may only hold a limited amount of connected commodities, not the service itself. This means that demand and supply must be regulated because the service must be provided when the client requests it.

5. Customers participation or Involvement:-

A service characteristic is the customer's involvement in the service deliveryprocess. Customers have the option of having services customised to meet their individual needs.

Difference between goods and services

Basis	Services	Goods
Nature	An activity or process, for example Watching a movie in a cinema hall.	A physical object, For example, Video cassette of movie.
Type	Heterogeneous.	Homogenous.
Intangibility	Intangible Example; Doctor treatment.	Tangible Example; Medicine.
Inconsistency	Different customers have different demands. Example; Mobile service may vary from customer to customer.	Different customers getting a standardised demand fulfilled. Example; Mobile Phones.
Inseparability	Simultaneous production and consumption takesplace. Example; Eating Ice-cream in a restaurant.	Separation of production & consumption. Example; Purchasing Ice-cream from a store.

Inventory	Cannot be kept in stock. Example; Experience of a train journey.	Can be kept in stock. Example; Train journey ticket
Involvement	Participation of customers at the time of service delivery exists. Example; Customer tells the type of servicein a fast food joint.	Involvement at the time of delivery is not possible. Example; Manufacturing a vehicle.

<u>Type of Services:</u>

1. Social Services: Provided voluntarily to achieve certain goals e.g. healthcare and education services provided by NGOs.

2. Personal Services: Services which are experienced differently by different customers. e.g. tourism, restaurants etc.

3. Business Services: Services used by business enterprises to conduct their activities smoothly. e.g - Banking, Insurance, communication, Warehousing and transportation.

Various categories of Business Services:-

A. Banking

B. Insurance

C. Postal and Telecom Services

D. Warehousing

E. Transportation.

A. <u>Banking</u>:-

Meaning of Bank

A bank is an institution which deals in money and credit. It collects deposits from the public & supplies credit, there by facilitating exchange. It also performs many other functions like credit creation, agency functions, general services etc. Hence, A bank is an organization which accepts deposits, lends money and perform other agency functions.

<u>Types of Accounts:</u>

1. Fixed Deposit Account: Money is deposited in the account for a fixed period is called as Fixed Deposit account. After expiry of specified period, person can claim his money from the bank. Usually the rate of interest is maximum in this account. The longer the period of deposit, the higher will be the rate of interest on deposit.

2. Current Deposit Account: Current deposit Accounts are opened by businessman. The account holder can deposit and Withdraw money. Whenever desired. As the deposit is repayable on demand, it is also known as demand deposit. Withdrawals are always made by cheque. No interest is paid on current accounts. Rather charges are taken by bank for services rendered by it.

3. Saving Deposit Account: The aim of a saving account is to mobilize savings of the public. A person can open this account by depositing a small sum of money. He can withdraw money from his account and make additional deposits at will. Account holder also gets interest on his deposit. In this account though the rate of interest is lower than the rate of interest on fixed deposit account.

4. Recurring Deposit Account: The aim of recurring deposit is to encourage regular savings by the people. A depositor can deposit a fixed amount, say Rs. 100 every month for a fixed period. The amount together with interest is repaid on maturity. The interest rate on this account is higher than that on saving deposits.

5. Multiple Option Deposit Account: It is a type of saving Bank A/c in which deposit in excess of a particular limit get automatically transferred into fixed Deposit. On the other hand, incase adequate fund is not available in our saving Bank Account so, as to honour a cheque that we have issued the required amount gets automatically transferred from fixed deposit to the saving bank account.

Therefore, the account holder has twin benefits from this amount.

(i) S/he can earn more interest and

(ii) It lowers the risk of dishonoring a cheque.

Types of Banks

Basis	Commercial Bank	Co-operative Banks	Specialised Banks	Central Bank
Meaning	They are governed by Indian Banking Regulation Act 1949 and according to it banking means accepting deposits of money from the public for the purpose of lending or investment.	Cooperative banks are Governed by provisions of state Cooperative societies act.	These banks are foreign exchange banks, industrial banks, development banks and export-import banks that cater to the unique demands of these operations.	The central bank of any country supervises, controls and regulates the activities of all the commercial banks of the country.
Purpose	Accepting deposits of money from the public for the purpose of lending or investment.	It is meant essentially For providing cheap credit to their members.	These banks are foreign exchange banks, industrial banks, development banks and export-import banks that cater to the unique demands of these operations.	The central bank of any country supervises, controls and regulates the activities of all the commercial banks of the country. Any country's currency and credit policiesare controlled and coordinated by it.
Examples	There are two types of bank. Public Banks: In which the government has a major number of public sector banks like SBI, PNB, IOB etc. Private Banks are HDFC, ICICI, AXIS etc.	a) Saraswat Cooperative Bank b) Cosmos Cooperative Bank	EXIM Bank,SIDBI, NABARD	RBI

Functions of Commercial Banks:

1. Acceptance of deposits:

- Because banks are both borrowers and lenders of money, deposits are the foundation of loan operations. They pay interest as borrowers, and they receive interest as lenders.
- Deposits are generally taken through a current account, saving account and fixed deposit. Deposits in a current account can be withdrawn to the extent of the balance at any time and without any specific, timely warning.
- Fixed accounts are time deposits that pay a greater interest rate than savings accounts. A premature withdrawal is allowed, but the percentage of interest earned will be lost.

2. Cheque facility:

The cheque is the most advanced credit instrument, as well as a distinctive feature and function of banks for deposit withdrawal. It is the most practical and cost-effective mode of exchange.

There are two types of cheques:

- Bearer cheques, which can be cashed at a bank, counter right away.
- Crossed checks; that should only be placed in the payee's account.

3. Lending of funds:

From the money obtained through deposits, banks provide loans and advances. The advances can be made in the form of overdraft and cash credit discount rate bills, common term loans, consumer credit and other miscellaneous advances.

4. Remittances of funds:

Because of the interconnection of branches, it is possible to move funds from one location to another. Bank drafts, pay orders on mail transfer, and minimal commission charges are all used to transmit monies.

5. Allied services:

Bill payments, locker facilities, underwriting services come under this. Other services they provide include purchasing and selling shares anddebentures on behalf of clients, as well as other personal services.

6. E-banking: Use of computers and internet in the functioning of the banks is called electronic banking. Because of these services the customers don’t need to go to the bank every time for every transaction. He can make transactions with the bank at any time and from any place.

The chief electronic services are the following:

a) Electronic. Fund Transfer: Under it, a bank transfers wages and salaries directly from the company s account to the accounts of employees of the company. The other examples of EFTs are online payment of electricity bill, water bill, insurance premium, house tax etc.

b) Automatic Teller Machines: (ATMs) ATM is an automatic machine with the help of which money can be withdrawn or deposited by inserting the card and entering personal Identity Number (PIN). This machine operates for all the 24 hours.

c) Debit Card: A Debit Card is issued to customers in lieu of his money deposited in the bank. The customers can make immediate payment of goods purchased or services obtained on the basis of his debit card provided the terminal facility is available with the seller.

d) Credit Card: A. bank issues a credit card to those of its customers who enjoy good reputation. This is a sort of overdraft facility. With the help of this card, the holder can buy goods or obtain services up to a certain amount even without having sufficient deposit in their bank accounts.

e) Tele Banking: Under this facility, a customer can get information about the account balance or any other information about the latest transactions on the telephone.

f) Core Banking Solution Centralized Banking Solution: In this system customer by opening a bank account in one branch (which has CBS facility) can operate the same account in all CBS branches of the same bank anywhere across the country. It is immaterial with which branch of the bank the customer deals with when he/she is a CBS branch customer.

g) National Electronic Fund Transfer: NEFT refers to a nationwide system that facilitate individuals, firms and companies to electronically transfer funds from any branch to any individual, firm or company having an account with any other bank branch in the country. NEFT settles transactions in batches. The settlement takes place at a particular point of time for example, NEFT settlement takes place 6 times a day during the week days (9.30am, 10.30 am, 12.00 noon, 1.00 pm. 3.00 pm & 4.00pm) and 3 times during Saturday 9.30 am, 10.30 am and 12.00 noon) Any transaction initiated after a designated settlement time is settled on the next fixed settlement time.

f) Real Time Gross Settlement: RTGS refers to a funds transfer system where transfer of funds takes place from one bank to another on a Real-time and on Gross basis. Settlement in Real time means transactions are settled as soon as they are processed and are not subject to any waiting period. Gross settlement means the transaction is settled on one to one basis without bunching or netting with any other transaction. This is the fastest possible money transfer system through the banking channel. The RTGS service for customers is available from 9.00 am to 3.00 pm on weekdays and from 9.00 am to 12.00 noon on Saturdays. The basic difference between RTGS and NEFT is that while RTGS transactions are processed continuously, NEFT settles transactions in batches.

Benefits of E-Banking to Customer:
1. E-Banking provides 24 hours a day x 365 days a year services to the customers.
2. Customers can make transactions from office or house or while traveling via mobile telephone.
3. There is greater customer satisfactions through e-banking as it offers unlimited access and great security as they can avoid travelling with cash.

Benefits of E-Banking to Banks:
1. E-Banking lowers the transaction cost.
2. Load on branches can be reduced by establishing centralized data base.
3. E-Banking provides competitive advantage to the bank, adds value to the banking relationship.

B. <u>Insurance</u>:-

- It is a contract or agreement in which one party (the insured) agrees to pay another party (the insurer) an agreed sum of money (premium) when something of worth in which the insured has a pecuniary stake is lost, damaged, or injured. And, in exchange for the premium paid by the insured, the insurer/insurance company agrees to assume the risk of the unforeseen catastrophe and compensate the insured up to the agreed-upon amount.
- There are two major types of insurance:
  - Life Insurance
  - General Insurance.

- General insurance further includes
- Fire Insurance.
- Marine insurance
- Other Insurances
  - Health Insurance.
  - Burglary Insurance.
  - Cattle Insurance.
  - Crop Insurance.
  - Vehicle Insurance etc.

<u>Basic Terminology:</u>
a. Insured: Insured is the one who takes up the insurance policy, and is exposed to a certain risk.
b. Insurer: Insurer is the one who agrees to take the responsibility of the risk the insured is exposed to.
c. Premium: It is a fee that the insured has to pay the insurer in return for the risk taken up by the insurer on behalf of the insured.
d. Insurance Policy: It is a policy or document that specifies the terms and conditions related to the insurance contract.
e. Sum assured: It is the amount for which the insurance policy is taken.

<u>Features of Insurance:</u>

- Insurance is the exchange of a little monthly payment (premium) for the risk of a significant potential loss.

- The risk of loss still exists, but it is dispersed over a vast number of policyholders exposed to the same risk.
- The premium paid by them is pooled out of which the loss sustained by any policy holder is compensated.
- Risk is transferred from one party (Insured (to another party (Insurer).
- Insurance can be done for any type of risk, fire, threat, third party etc.
- Two parties are required namely the insured and the insurer for the insurance contract to take place.

<u>Functions of Insurance:</u>

1. Certainty:

- Insurance tends to reduce the level of risks, and the insured receives the payment for loss.
- The insurer charges for providing the certainty, in terms of premium.

2. Protection:

- Protection from probable chances of loss, such as loss due to fire, theft etc.
- Insurance cannot prevent a risk or event from occurring, but it can compensate for losses incurred as a result of it.

3. Risk sharing:

- All those who have been affected by the loss, share it.
- Every insured member pays a premium to acquire their share.

4. Capital formation:

- The assets accumulated by insurers as a result of premium payments made by the insured are invested in a variety of income-generating schemes.

<u>Principle of Insurances:</u>

1. Utmost Good Faith: Insurance contracts are based upon mutual trust and confidence between the insurer and the insured. It is a condition of every insurance contract that both the parties i.e. insurer and the insured must disclose every material fact and information related to insurance contract to each other.

2. Insurable Interest: It means some pecuniary interest in the subject matter of insurance contract. The insured must have insurable interest in the subject matter of insurance i.e., life or property insured the insured will have to incur loss due to this damage and insured will be benefitted if full security is being provided. A businessman has insurable interest in his house, stock, his own life and that of his wife, children etc.

3. Indemnity: Principle of indemnity applies to all contracts except the contract of life insurance because estimation regarding loss of life cannot be made. The objective of contract of insurance is to compensate to the insured for the actual loss he has incurred. These contracts 'provide security from loss and no profit can be made out of these contracts.

4. Proximate Cause: The insurance company will compensate for the loss incurred by the insured due to reasons mentioned in insurance policy. But if losses are incurred due to reasons not mentioned in insurance policy than principle of proximate cause or the nearest cause is followed.

5. Subrogation: This principle applies to all insurance contracts which are contracts of indemnity. As per this principle, when any insurance company compensates the insured for loss of any of his property, then all rights related to that property automatically gets transferred to insurance company.

6. Contribution: According to this principle if a person has taken more than one insurance policy for the same risk then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate for the actual amount of loss because he has no right to recover more than the full amount of his actual loss.

- For example, an insured has taken an insurance policy from three insurers of ₹ 50,000 each on the same subject matter, and the loss due to fire is only ₹ 75,000. So, in this case the insured will not get ₹50,000 from each insurer, instead he will be paid proportionately by all the insurers, in the ratio of sumassured, such as 1:1:1, that is ₹ 25,000 from each insurer, or any other method but the amount would not exceed ₹ 75,000.

7. **Mitigation:** According to this principle the insured must take reasonable steps to minimize the loss or damage to the insured property otherwise the claim from the insurance company may be lost.

Types of Insurance

1. Life insurance:

- Life insurance is a contract in which the insurer agrees to pay the assured, orthe person for whose benefit the policy is taken, the assured sum of money on the occurrence of a specified event contingent on human life or at the expiration of a specified period, in exchange for a certain premium, either in a lump sum or by other periodical payments.
- The policy is the written version of the agreement or contract that contains all of the terms and conditions.
- The insured is the one whose life is protected.
- The insurance company is the insurer and the consideration paid by the insured is the premium.
- The premium can be paid in installments over time.

2. Fire insurance:

- In exchange for the premium paid, the insurer guarantees to make good any loss or damage caused by fire over a specified period of time, up to the amount specified in the policy.
- The fire insurance policy is usually for a year and must be renewed on a regular basis.
- A claim for fire damage must meet the following two requirements:
  - There must be a monetary loss.
  - Fire must be unintended and accidental.

3. Marine Insurance: A marine insurance contract is an arrangement in which the insurer agrees to indemnify the insured against maritime losses in the way and to the extent agreed upon.

- Marine insurance protects against losses caused by marine perils, often known as sea perils. There are three factors to consider:
  - **Hull Insurance:** Because the ship is exposed to several dangers at sea,this insurance policy is designed to compensate the insured for losses incurred as a result of ship damage.
  - **Cargo insurance:** Cargo or the goods in the ship is exposed to numerous dangers while being transported by ship, this insurance covers the risk of voyage.
  - **Freight insurance:** If the cargo is damaged or lost in transit, the shipping business is not reimbursed for the freight payments; hence to avoid this scenario, the shipping company takes up this insurance policy.

Difference between Life Insurance, Fire Insurance & Marine Insurance:

Basis	Life Insurance	Fire Insurance	Marine Insurance
Subject Matter	Human life is the subject matter of life Insurance.	The subject matter isany physical property or any asset that could be damaged due to fire.	The subject matter is ship, cargo or freight.

Element	Life insurance canbe used for both protection and investment.	Fire insurance has only the elements of protection and not the elements of investment.	Marine insurance has only the elements of protection.
Insurable Interest	Insurable interest must be present atthe time of policy implementation, but it is not required when claims are due.	Insurable interest on the subject matter must be present both at time of effecting policy as well as when claim falls due.	Insurable interest must exist at the time the claim is due or merely at the time of the loss.
Duration	A life insurance policy normally lasts longer than ayear and is purchased for a period of time ranging from 5 to 30 years or for therest of one's life.	The average length of fire insurance coverage is one year.	Marine insurance policy is for one year or the period of voyage or mixed.
Indemnity	The notion of indemnity does not apply to life insurance. The sum assured is paid either on the happening of a certain event or on maturity of the policy.	A contract of indemnifi-cation is what fire insurance is. Only the exact amount of loss can be claimed from the insurer by the insured. The loss resulting from the fire is covered up to the policy's maximum level.	Marine insuranceis a contract of indemnity. The insured can claim the market value of the ship and cost of goods destroyed at the sea and the loss will be indemnified.
Loss Measurement	Loss is not measurable.	Loss is measurable.	Loss is measurable.
Surrender Value Or PaidUp Value	Surrender value or paid up value is a term used to describe the worth of a life insurance policy.	Fire insurance has no surrender value or paid-up value.	There is no surrender value or paid-up value for marine insurance.
Policy Amount	One can be insured for any amount in life Insurance.	The policy amount cannot exceed the value of the subject matter under fire insurance.	In marine insurance the amount of the policy can be in the market value of the ship or cargo.
Contingency of Risk	There is an element of certainty. The event i.e. death of a policy holder is bound to happen. Therefore a claim will be present.	The event, i.e., fire devastation, may not occur. No claim maybe made in case no damage occurs. Hence there is an element of uncertainty.	The event i.e., loss at the sea may not occur and there may be no claim. There is an element of uncertainty.

<u>Communication Services</u>

- Business does not operate in a vacuum; it must communicate with others in order to exchange ideas and information.
- To be effective, communication services must be efficient, accurate, and quick. In today's fast-paced and competitive world, advanced technology is critical for speedy decision-making.
- For example,
  I. Postal Services
  II. Telecommunication Services.

I. <u>Postal Services</u>:-

This service is required by every business to send and receive letters, market reports, parcel, money order etc. on regular. All these services are provided by the post and telegraph offices scattered throughout the country. The postal department performs the following services.

1. <u>Financial Services:</u> They provide postal banking facilities to the general public and mobilize their savings through the following saving schemes like public provident fund (PPF), KisanVikasPatra, National Saving Certificate, Recurring Deposit Scheme and Money Order facility.

2. <u>Mail Services</u>: The mail services offered by post offices includes transmission of messages through post cards, Inland letters, envelops etc. The various mail services all:

1. UPC (under postal certificate): When ordinary letters are posted the post office does not issue any receipt. However, if sender wants to have proof then a certificate can be obtained from the post office on payment of prescribed fee. This paper now serves as a evidence of posting the letters.

2. Registered Post: Sometimes we want to ensure that our mail is definitely delivered to the addressee otherwise it should come back to us. In such situations the post office offers registered post facility which serves as a proof that mail has been posed.

3. Parcel: Transmission of articles from one place to another in the form of parcels is known as parcel post. Postal charges vary according to the weight of the parcels.

<u>Allied Postal Services</u>:-

1. **Greetings Post:** Greetings can be sent through post offices to people at different places.
2. Media Post: Cooperates can advertise their brands through post cards, envelops etc.
3. **Speed Post:** It allows speedy transmission of articles (within 24 hours) to people in specified cities.
4. **e-bill post:** The post offices collect payment of bills on behalf of BSNL and other organizations.
5. Courier Services: Letters, documents, parcels etc. can be sent through the courier service. It being a private service the employees work with more responsibility.

II. <u>Telecommunication Services:-</u>

Today's global business world, the dream of doing business across the world, will remain a dream only in the absence of telecom services. The various types of telecom services are:-

1. Cellular mobile services: cordless mobile communication device including voice and non-voice messages, data services and PCO services.

2. **Radio Paging Services** means of transmitting information to persons even when they are mobile.

3. Fixed Line Services includes voice and non-voice messages and data services to establish linkage for long distance traffic.

4. **Cable services** Linkages and switched services within a licensed area of operation to operate media services which are essentially one way entertainment related services.

5. **VSAT Service** (Very small Aperture Terminal) is a Satellite based communication service. It offers government and business agencies a highly flexible and reliable communication solution in both urban and rural areas.

6. **DTH Services** (Direct to Home) a Satellite based media services provided by cellular companies with the help of small dish antenna and a setup box.

Ch-05: Emerging Modes of Business

Meaning of e-business: In this age of internet, the world commerce has gradually started linking with it. This has brought a new concept of commerce called e-commerce/e-business. Now we are capable of reaching the users of Internet all over the world simply by opening a shop on the Internet. The Internet users can order for the goods, receive their delivery and make their payment while sitting at their home on the Internet.

Scope of e-Business

It can be understood by the view point of the parties involved and making transactions:

1. **B2B Commerce**: It is that business activity in which two firms or two business units make electronic transaction. For example- one can be producer firm and other a supplier firm.

2. **B2C Commerce**: Business to customer. In this one party is a firm and other party is a customer. On one hand a customer can seek information through Internet about products, place orders, get some items and make payments and on the other hand the firm can make a survey any time to know who is buying and can also know the satisfaction level of customers. In modern times, call centers can provide these information.

3. **C2C Commerce**: Customer to Customer Commerce – Under it, both the parties involved in electronic transaction are customers. It is required for the buying and selling of those goods for which there are no established markets. For example- selling old car through internet.

4. **Intra-B Commerce:** Within business Commerce – Under it, the parties involved in the electronic transaction are the two departments of same business. For Example, through internet it is possible for the marketing department to interact constantly with the production department and get the customized goods made as per the requirement of customers.

Difference between e-Business and Traditional Business.

Basis	e-Business	Traditional Business
1. Ease of formation	Simple	Difficult
2. Physical presence	Not required	Required
3. Cost of setting up	None	Yes, in terms of finding a location which is nearer to the source of raw materials or the market for the products.
4. Operating cost	Low as no requirement of physical facilities.	High, because various costs has to be incurred in terms of rent payment etc.
5. Nature of contact with the suppliers and the customers	Low as a result of relianceon a network of relationships rather than ownership of resources.	High due to fixed charges associated with investment in procurement and storage, production, marketing and distribution facilities
6. Nature of Internal communication	Direct	Indirect through intermediaries
7. Response time for meeting customers /Internal	Non-hierarchical. Allowing direct vertical, horizontal and diagnostic communication instantaneously.	Hierarchical From top level management to middle level management, andthen to lower level management to operatives.

8. Shape of the Organisational Structure	Because of the directness of the order and communication, it is horizontal/flat.	Vertical/ tall due to hierarchy or chain of command.
9. Business processes and Length of cycle	Simultaneous (concurrence) different processes take place at a time. Business process cycle is therefore shorter.	Sequential procedure i.e. Purchase-production/operation- marketing-sales. The business processes cycle is therefore longer.
10. Opportunity for interpersonal touch	Less	More, because of higher personal contact.
11. Opportunity for physical pre- sampling of the products	Less. However, for digital products such an opportunity is tremendous. One can pre-sample books,journals etc	More
12. Ease of going global	Much, as cyberspace is truly without boundaries.	Less, because a lot of legal formalities have to be done
13. Govt. Patronage	Much as IT sector is among the top most priorities of the government.	Shrinking with time.
14. Nature of human capital	Technically and professionally qualified personnel needed.	Semi-skilled and even semi-skilled manpower needed.
15. Transaction risk	High due to the distance and anonymity of the parties.	Low due to arm's length transaction and face to face contact.

<u>Opportunities/ Benefits of e-Business</u>

1. Easy to set up:

If we have the necessary software, a device, and access to the internet, we can start an online business from the comfort of our own homes.

2. Cheaper than traditional business:

The cost taken to set up any business is cheaper. In addition, the transaction costs are effectively lower.

3. No geographical boundaries:

Anyone from anywhere can order anything at any time. On the one hand it allows the seller and access to the global market, on the other hand It offers the buyer freedom to choose products from almost any part of the world.

4. Flexible business hours:

The internet is available at all times. The time barrier that location-based firms face is broken by e-business.

5. Speed and efficiency:

Online ordering systems scans process payment and orders in real-time, usually faster, more accurately and cheaper than human workers.

6. Movement towards up paperless society:

Use of the internet has considerably reduced dependence on paperwork. In fact, administrative reforms are attracting E-Commerce solutions to speed up the process of giving rights, approvals, and licenses.

Ch-6: Social Responsibility of Business and Business Ethics

Concept of Social responsibility:-

A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being.

Arguments in favour of Social Responsibility:-

There is a need for Social Responsibility of business for Existence and Growth:

1. **Justification for Existence and Growth**: Business is the creation of society therefore it should respond according to the demands of the society. To survive and grow in society for long run the business must provide continuous services to the society.

2. **Long term Interest of the firm**: A firm can improve its image and builds goodwill in the long run when its highest goal is to serve the society. If it indulges in unfair Trade Practices e.g. adulteration, hoarding, black marketing, it may not be able to exist for long.

3. **Avoidance of government regulations**: Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.

4. **Availability of resources with business**: Business has valuable financial and human resources which can be effectively used for solving problems of the society.

5. **Better environment for doing business**: It is the social responsibility of business enterprise to provide better quality of life and standard of living to people. So, business will get better community to conduct business.

6. **Contribution to social problems**: Some of the social problems have been created by business firms themselves such as pollution, creation of unsafe work places, discrimination etc. Therefore, it is the moral obligation of business to solve such social problems.

Arguments Against Social Responsibility:-

Major arguments against social responsibility are:

1. **Profit Motive** – A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.

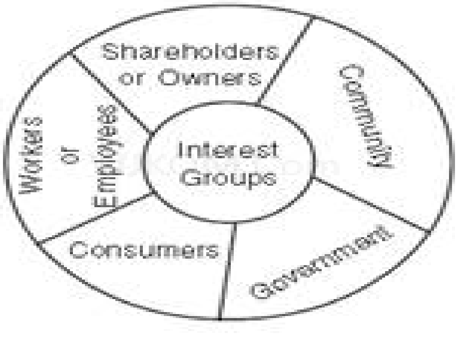
2. **Burden on consumers** – Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.

3. **Lack of Social Skills** -The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.

4. **Lack of public support** – Generally public does not like business involvement in social problems. Therefore, business cannot fulfill social responsibility because of lack of public confidence & cooperation.

Social responsibility towards different Interest groups:-

Business has Interaction with several interest groups such a shareholders, workers, consumers, government and community. Business is responsible to all these groups.



1. Responsibility towards shareholders:-

(i) To ensure a fair and regular return on the investment of shareholders.

(ii) To ensure the safety of their investment.

(iii) To strengthen financial position of the company.

(iv) To safeguard the assets of the business.

(v) To protect the interest of all types of investors in the business.

2. Responsibility Towards workers:-

(i) Providing fair compensation and benefits.

(ii) Providing good and safe working conditions.

(iii) To develop a sense of belongingness.

3. Responsibility toward consumers:-

(i) To supply right quality of goods & services at reasonable prices.

(ii) To ensure regular and adequate supply of products.

(iii) To inform them about new products and new uses of existing products.

(iv) To handle the customers grievance promptly.

4. Responsibility towards Government:–

(i) To pay taxes honestly.

(ii) To observe rules laid down by the government.

(iii) to avoid corrupting government employees.

5. Responsibility towards community:–

(i) To make available opportunities for employment.

(ii) To avoid polluting the environment.

(iii) To up lift the weaker sections of society**.**

Business and Environmental Protection:-

Meaning of Environment: The environment is defined as the totality of man's surroundings - both Natural and Man-made.
Natural Resources - all land, water, air and,
Man-made Resources - cultural heritage, socio-economic institutions and the people.

Meaning of Environmental Pollution – It means injection of harmful substances into the environment. The greatest problem that industries and businessmen are creating is that of pollution - which is the result of industrial production. So, protection of environment is must.

Causes of Pollution: Many industrial organizations have been responsible for causing air, water, land and noise pollution.
1. **Air Pollution** – Due to smoke, chemical emitted by factories, vehicle. It has created a hole in the ozone layer leading to global warming.

2. **Water pollution** – Due to chemicals and waste dumped into the rivers, streams & lakes. It has led to the death of several aquatic animals and posed a serious problem to human life.

3. **Land Pollution** – Due to dumping of garbage and toxic wastes which affect the fertility of land and makes it unfit for agriculture.

4. **Noise Pollution**: Caused by the running factories and vehicles. Noise pollution can be responsible

for many diseases like loss of hearing, violent behaviour and mental disorder.

Need for Pollution Control:

1. To ensure healthy life: Many diseases like cancer, heart attack and lung complications all caused by pollutants in the environment. Pollution control is must to keep a check on these diseases.
2. **To ensure safety:** Due to environmental pollution and smoke, the visibility is reducing due to which chances of accidents have been increasing. To reduce the number of accidents there must be a check on pollution.
3. **Economic Losses**: Pollutants in the environment bringing heavy economic losses for the country, for example- Taj Mahal is losing its beauty due to pollution.
4. **Improved Public Image**: A firm that adopts pollution control measures enjoys a good reputation as a socially responsible enterprise.

Role of Business Environmental Protection:

1. Eco-friendly and clean or low waste technology should be used by industrial organization.
2. Industrial wastes should be recycled as far as possible.
3. Plant and machinery should be modernized to minimize pollution.
4. The business houses should comply with the laws and regulations enacted for prevention of pollution.
5. Positive steps should be taken to save environment. These include plantation of trees, cleaning of rivers, ponds etc.

Business Ethics:-

Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong. By ethic we mean the business practices which are desirable from the point of view of society.

Elements of Business Ethics:

1. Top management commitment: The CEO and higher level managers must be committed to ethical norms of behavior. This would set an example for all employers and encourage them to follow ethical practice.

2. Publication of code: Code of ethics is a formal written document of the principles, values and standards that guide firm's actions. It may cover areas like honesty, quality, safety, health care etc.

3. Establishment of compliance mechanism: A suitable mechanism should be developed to comply with the ethical standards of the enterprise. The mechanism should be properly communicated to all in the organisation.

4. Employee involvement: It is the employees of the lower levels who implement ethical principal so they must be involved in the process of developing ethical code.

5. Measuring results: Although it is difficult to measure the ethical results but it must be verified and audited that have for work is being carried according to ethical standards.

Ch-07: Sources of Business Finance

Concept of Business Finance:

The term finance means money or fund. The requirements of funds by business to carry out its various activities is called business finance. Finance is needed at every stage in the life of a business. A business cannot function unless adequate funds are made available to it.

Significance of Business Finance:

- To purchase plant and machinery, land, buildings and other fixed assets.
- Smooth functioning of day to day operations of the business
- Expansion.

Need of Business Finance:

a) Fixed Capital Requirement: In order to start a business, funds are needed to purchase fixed assets like land and building, plant and machinery. The funds required in fixed assets remain invested in the business for a long period of time.
b) Working Capital Requirement: A business needs funds for its day to day operation. This is known as Working Capital requirements. Working capital is required for purchase of raw materials, to pay salaries, wages, rent and taxes.
c) Diversification: A company needs more funds to diversify its operation to become a multi-product company e.g. ITC.
d) Technology upgradation: Finance is needed to adopt modern technology for example uses of computers in business.
e) Growth and expansion: Higher growth of a business enterprise requires higher investment in fixed assets. So, finance is needed for growth and expansion.

Sources of Finance on the basis of Ownership:
A. Owners' Funds and B. Borrowed Fund.

A. Owners' Fund: Funds provided by the owners of the organisation are known as Owners' Funds. It includes profits that are reinvested into the business. The important sources of owners' funds are:

1. Equity shares.
2. Preference Shares Retained earnings.
3. Retained Earnings.
4. GDR (Global Depository Receipt).
5. ADR (American Depository Receipt).
6. IDR (Indian Depository Receipt).

B. Borrowed Funds: These are the funds raised through loans and borrowings. Thissource includes raising funds from

1. Debentures.
2. Loans from financial institutions.
3. Loans from commercial Banks.
4. Public deposits.
5. Trade credit.
6. Inter Corporate deposits (ICD).

Issue of Share (Owner's Fund - Long-term Source of Finance):

The capital obtained by issue of shares is known as share capital. The capital of a company is divided into small units called share. If a company issue 10,000 shares of ₹ 10/- each then the share capital of company is ₹ 1, 00,000. The person holding the share is known as shareholder.
There are two types of share:

1. Equity share and, 2. Preference share.

1. <u>Equity Share</u>:

Equity shares represent the ownership of a company. They have right to vote and right to participate in the management. In the year 2000, an amendment was made in Companies Act permitting companies to issue two categories of equity shares.

(i) Equity shares with equal rights.

(ii) Equity shares with differential rights as to dividend.

Merits:

a) Permanent Capital: Equity share capital is important source of finance for a long term.

b) No charge on assets: For raising funds by issue of equity shares a company does not need to mortgage its assets.

c) Higher returns: Equity share holder get higher returns in the years of high profits.

d) Control: They have right to vote and right to participate in the management.

e) No burden on company: Payment of equity dividend is not compulsory.

Limitations:

a) Risk: Equity shareholder bear higher risk because payment of equity dividend is not compulsory.

b) Higher Cost: Cost of equity shares is greater than the cost of preference share.

c) Delays: Issue of Equity shares is time consuming.

d) Issue depends on Share Market Conditions: Equity Shareholders are the primary risk bearer therefore the demand of equity shares is more in the boom time.

2. <u>Preference Share(Owner's Fund - Long-term Source of Finance):</u>

Preference shares are considered safer in investment (as compare to equity shares). They receive dividend at a fixed rate. Preference shareholder are like creditors. They have no voting right.

Merits:

a) Investment is safe: Preference shareholders investment is safe. They have preferential right to claim dividend and capital.

b) No Charge on assets: The Company does not need to mortgage its assets for issue of preference shares.

c) Control: It does not affect the control of equity share holders because they have no voting right.

d) Fixed dividend: They get fixed dividend. So, they are useful for those investors who want fixed rate of return.

e) Hybrid Security: The Preference Shares are called hybrid securities, as these shares have the features of equity shares as well as features of debentures.

Limitations:

a) Costly sources of funds: Rate of preference dividend is greater than rate of interest on debenture, for a company it is costly source of funds than Debentures.

b) No tax saving: Preference dividend is not deductible from profit for income tax. Therefore, there is no tax saving.

c) Not suitable for risk takers: Preference shares are not suitable for those who are willing to take risk for higher return.

d) As dividend on these shares is to be paid only when the company earns profit, so investors may not be very attractive to these.

Difference between Equity Shares and Preference Shares:

	Base	**Equity Shares**	**Preference Shares**
1.	Dividend	After preference shares	Priority over equity share
2.	Voting Right	Dividend is paid full voting rights.	No voting right.

3.	Risk	Risk bearing securities	Less risk
4.	Rate of Return	Fluctuates with profit	Fixed Rate of dividend
5.	Control	Control on the management.	No control on the management.

3. <u>Retained Earnings (Owner's Fund- Long-term Source of Finance):</u>

When a company earns profit, a certain amount or percentage of those profits is retained within the business for future use and this is known as Retained Earnings.When the business is financed through this source it is known as ploughing backof profit or internal financing.

Merits:-

a) Permanent source of funds.
b) No explicit cost involved in the form of dividend or interest.
c) Greater degree of operational flexibility and freedom.
d) Enhances the unexpected loss absorption capacity of the business.
e) May lead to an increase of the market price of the company's equity shares.

Limitations:-

a) Excess retention of profits may lead to dissatisfaction among shareholders.
b) Since the profits keep on fluctuating, it is an uncertain source of funds.
c) Opportunity cost remains unrecognized so it may lead to sub-optimal use of funds.

B. <u>Borrowed Funds:</u>

1. Debentures/Bonds (Borrowed Fund- Long-term Source of Finance)

It is an important source of raising funds or long term debt capital. It bears a fixed rate of interest. Debenture holders are the creditors of the company.

Merits:

a) Investment is Safe: Debentures are preferred by those investor who do not want to take risk and interested in fixed income.
b) Control: Debenture holder does not have voting right. No control over the management.
c) Less Costly: Debentures are less costly as compared to cost of preference shares.
d) Tax Saving: Interest on Debentures is a tax deductable expense. Therefore, there is a tax saving.

Limitation:

a) Fixed Obligation: There is a greater risk when there is no earning because interest on debentures has to be paid if the company suffers losses.
b) Charge on assets: The Company has to mortgage its assets to issue secured Debentures.
c) Reduction in Credibility: With the new issue of debentures, the company's capability to further borrow funds reduces.

Difference between Shares and Debentures:

	Base	**Shares**	**Debentures**
1.	Nature	Shares are the capital.	Debentures are a loan.
2.	Return	Dividend.	Interest.
3.	Voting Right	Full voting right.	No voting right.
4.	Holder	Owner is called shareholder.	Creditor.
5.	Types	There are two types of shares.	More than two types.

6.	Security	Not secured by any charge.	Secured and generally carry a charge on the assets of the company.

2. <u>Loan from Financial Institutions (Borrowed Fund- Long-term Source of Finance)</u>:

The state and central government have established many financial institutions to provide finance to companies. They are called development Bank. These are IFCI, ICICI, IDBI, LIC and UTI. etc.

Merits:

a) Long term Finance: Financial Institution provides long term finance which is not provided by Commercial Bank.

b) Managerial Advice: They provide financial, managerial and technical advice to business firm.

c) Easy installments: Loan can be made in easy installments. It does not prove to be much of a burden on business.

d) Easy availability: The funds are made available even during periods of depression.

Limitations:

a) More time Consuming: The procedure for granting loan is time consuming due to rigid criteria and many formalities.

b) Restrictions: Financial Institution place restrictions on the company's board of Directors.

3. <u>Loan from Commercial Banks (Borrowed Fund- Short & Medium-term Finance)</u>:

Commercial Banks give loan and advances to business in the form of cash credit, overdraft loans and discounting of Bill. Rate of interest on loan is fixed.

Merits:

a) Timely financial assistance: Commercial Bank provides timely financial assistance to business.

b) Secrecy: Secrecy is maintained about loan taken from a Commercial Banks.

c) Easier source of funds: This is the easier source of funds as there in no need to issue prospectus for raising funds.

Limitations:

a) Short or Medium term finance: Funds are not available for a long time.

b) Charge on assets: Required source security of assets before a loan is sanctioned.

4. <u>Public Deposits (Borrowed Fund- Medium-term Finance):</u>

The deposits that are raised by company direct from the public are known as Public Deposits. The rate of interest offered on public deposits is higher than the rate of interest on bank deposits. This is regulated by the R.B.I. and cannot exceed 25% of share capital and reserves.

Merits:

a) No charge on assets: The Company does not have to mortgage its assets.

b) Tax Saving: Interest paid on public deposits is tax deductable, hence there is tax saving.

c) Simple procedure: The procedure for obtaining public deposits is simpler than share and Debenture.

d) Control: They do not have voting right therefore the control of the company is not diluted.

Limitations:

a) For Short Term Finance: The maturity period is short. The company cannot depend on them for long term.

b) Limited fund: The quantum of public deposit is limited because of legal restrictions 25% of share capital and free reserves.

c) Not Suitable for New Company: New Company generally find difficulty to raise funds through public deposits.

5. Trade Credit (Borrowed Fund- Short-term Finance):

It refers to the extension and provision of credit by one trader to another for the purchase of goods and services, or other supplies without on the spot payment. This is generally used by organizations as short term financing. The terms of trade credit may vary from person to person based on past records and from industry toindustry based on industry norms.

Merits:

a) A continuous and a convenient source of funds.

b) It is readily available if credit worthiness is known to the seller.

c) It helps in increasing the inventory levels in case of increase in sales volume.

d) While providing funds. It does not create a charge on assets of the firm.

Limitations:

a) There can be chances of over-trading.

b) Fulfils only limited financial needs.

c) Costly in comparison to few other sources.

6. Inter-Corporate Deposits (ICD) (Borrowed Fund- Short-term Finance):

Inter-Corporate Deposits are unsecured short term deposits made by one company with another company. These deposits are essentially brokered deposited, which led the involvement of brokers. The rate of interest on their deposits is higher than that of banks and other markets. The biggest advantage of ICDS is that the transaction is free from legal hassles.

Type of lCDS:-

1. Three Months Deposits:- These deposits are most popular type of ICDS. These deposits are generally considered by borrowers to solve problems of short term capital adequacy. The annual rate of interest for these deposits is around 12%.

2. Six months Deposit: - It is usually made first class borrowers. The annual rate of interest for these deposits is around 15%

3. Call deposits:- This deposit can be withdrawn by the lender on a day’s notice. The annual rate of interest on call deposits is around 10%

Features of ICDS

1. These transactions takes place between two companies.
2. There are short term deposits.
3. These are unsecured deposits.
4. These transactions are generally completed through brokers.
5. These deposits have no organized market.
6. These deposits have no legal formalities.
7. These are risky deposits from the point of view of lenders.

Factors affecting the choice of the source of funds:

The choice of source of funds greatly depends upon various factors like:

1. Cost of finance: The source of funds generally bears two types of costs namely:

a. The cost of procurement of funds

b. Cost of utilisation of funds.

Both these costs are to be strongly analyzed before deciding which source to consider.

2. Financial Position: Business should be in a sound position to repay the borrowed funds. In case when the company is not in a very good position to pay, those sources should be selected which do not become a financial burden to the company.

3. Form of business organization: Raising of funds strongly depends upon the form of business a company undertakes. For example, in case it is a sole proprietorship it cannot issue equity shares.

4. Time period: It is important for an organisation or a business to choose the funds requirement as per the time period that whether it is required for a short period of time or a longer period and then raise funds accordingly from the market.

5. Risk factors: A strong analysis of the risk involved in each source of fund should be carefully analysed. The source that has the least risk should be selected. For example, equity is less risky as compared to loans in respect to financial risk that arises from fixed interest payments, and repayment aspects.

6. Dilution of Control: The choice of what source from which financing has to be procured also depends upon the extent to which firm is ready for the dilution of control. Such as if existing equity shareholders aren't willing to dilute the control they enjoy, in such a case the company may issue finance from source other than equity share capital.

7. Credit worthiness: The type of sources from which the firm raises its capital impacts its credit worthiness. Hence the firm should choose sources which do not adversely affect its creditworthiness in the market.

8. Ease of issuance of finance: The flexibility and ease with which the firm is able to procure finance also affects the choice of source of finance. Excessive documents, legal restrictions, heavy investigation and other reasons may discourage the company from using a particular source of finance.

9. Tax Advantages: Some sources of finance are tax deductible, and hence firms can enjoy tax advantage using those sources. For example interest on debenturesis a tax deductible expense; hence firms wanting to enjoy tax benefits may go for these sources.

Ch-08: Small Business

Entrepreneurship Development:
Entrepreneurship is the process of setting up a business which is owned, managed and controlled by a person who takes the initiative to take the risk, as well as add creativity and innovation to start an enterprise; this person is known as an entrepreneur.

Characteristics of Entrepreneurship

a) **Life line of a nation:** Entrepreneurship is a yardstick to measure the development of any country as no country can prosper and grow without development of entrepreneurship.

b) **Provide Innovation:** Entrepreneurship involves creating something new according to the changing business environment or may be for reducing cost and enhancing profits.

c) **Growth of economy:** The Entrepreneurs adapt to changes as changes take place in the environment. The changes adopted by entrepreneurs in enterprises even bring changes in the society and economy.

d) **Increased Profits:** An entrepreneur always tries to minimise cost. He always tries to get optimum utilisation of resources.

e) **Employment opportunities:** Entrepreneur not only provides the scope for self employment but also offers employment to large number of people as in the case of successful enterprises.

f) **Social benefits:** Entrepreneur s always try to adopt latest technology and raise the standard of living by providing good quality products and services and services at lowest cost.

Process of Entrepreneurship:
1. Self-discovery.
2. Identifying opportunities.
3. Generating and evaluating ideas.
4. Planning.
5. Raising start-up capital
6. Start-up.
7. Growth.
8. Harvest.

Startup India Scheme:
Startup India is an initiative of Government of India. The campaign was first announced by Prime Minister. Mr. Narendra Modi in his speech on 15th August, 2015.
The scheme aims to :
- Encouraging people towards entrepreneurship.
- Encourages more dynamic startups.

Intellectual Property Rights:
- Intellectual Property Rights refers to the legal rights regarding intellectual property.
- Intellectual Property refers to the creation of the human mind, like inventions, artistic works, etc.
- The intellectual property is intangible.
- Trade secret is an intellectual property right which refers to confidential information that provides a competitive edge to the company holding it.
- Intellectual property is bifurcated into two main categories:
    - **Industrial property:** It includes patents, trademarks, industrial designs and geographical indications,
    - **Copyrights:** It includes artistic, literary works such as poems, books, plays,films, drawings, photographs etc.

- IP's which are recognized in India are:
    - Copyright,
    - Patent,
    - Trademark,
    - Geographical Indication,
    - Design,
    - Plant Variety,
    - Semi-conductor Integrated Circuit Layout Design.

Why is IPR Important for Entrepreneurs?

- IPR are important for entrepreneurs to promote and protect their inventions and creations.
- Creators, authors, inventors, etc., will get benefited for their hard work only if their work is distributed or shared to the public with their permissions.
- IPR protects the work from being copied by others and can also defend in court for the rights to use, make or sell it.

Types of Intellectual Property:

- **Copyright:** Copyright is the right of the creator which prohibits use of content by unauthorized persons. The registration of content is optional but it is necessary to use exclusive rights in case of infringement.
- **Patent:** Patents protect the making, selling and importing of scientific inventions. A patent is an exclusive right granted by the government which provides the 'right to exclude' for 20 years.
- **Trademark:** It helps in differentiating the products of different companies like, label, logo, etc. Trademarks may be categorised as conventional and non conventional trademarks.
    - **Conventional trademark:** Includes words, label logo shape of good packaging etc.
    - **Non conventional trademark:** Includes mark which got recognition over the course of time.

MSMED ACT:-

Micro, Small and Medium Enterprises Development Act, 2006 deals with issues and provides rules and regulations for micro, small and medium enterprises in manufacturing and service sector.

Investment and Turnover limits under MSMEs:

As against the earlier bifurcation of MSMEs into manufacturing and service sector, both are treated as one and the same, and are defined under a common metric. The investment and turnover limits are:

Sector	Investment in Plant and machinery		
	Micro	**Small**	**Medium**
Manufacturing and Service	Upto ₹ 1 Crore	Upto ₹ 10 Crore	Upto ₹ 20 Crore
	Turnover		
	Upto ₹ 5 Crore	Upto ₹ 50 Crore	Upto ₹ 100 Crore

- **Village Industries:**

  The Industries located in rural areas with investment in fixed assets as per the rules of central government.

- **Cottage Industries:**

  Traditional industries run normally by family with small capital investment.

<u>Role of Small Business in Socio, Economic Development of India:</u>

1. Output Generation: The share of product from SSI is 45% of total export from India. So, it earn valuable foreign exchange and solve the problem of balance of payment.

2. Employment Generation: Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country. These enterprises are labour intensive and labour is available in abundant amount is rural areas of India.

3. Balanced Regional Development: SSI can be set anywhere in the country. They use local resources, less capital and simple technology.

4. Supply of Enormous Variety of product: Small scale Industries produce an enormous variety of goods e.g. readymade garments, stationery, soaps, Leather's goods Plastic and rubber goods.

5. Provide Opportunity for Entrepreneurship: SSI provides opportunity of young men and women to start their own business.

6. Advantage of Low cost of production: SSI also enjoys the advantage of low cost of production because they used local resources in their product.

<u>Role of Small Business in Rural India</u>:-

1. Provides Employment in Rural Areas: Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas ample labour is available.

2. Improve Economic Condition: Small business provides multiple source of income to the rural households. SSI improves economic conditions & standard of living of people living in those areas.

3. Prevent migration: Development of rural and village industries can also prevent migration of the rural population to urban areas in search of employment.

4. Utilisation of Local Resources: SSI use local resources e.g. coir, wood and other products.

5. Equitable distribution of rational Income: Small Scale Industries and cottage Industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country.

6. Balanced Regional development – These enterprises are often dependent on local source of production. This way, industries do not just limit themselves to a particular place but diversify. This helps in balanced regional development.

<u>Problems Associated with MSMEs:-</u>

(a) Finance: There is limited finance availability with these enterprises that makes the day to day working difficult. Also raising finance from banks is a challenge because of these enterprises' poor credit worthiness.

(b) Raw materials: Due to unavailability of certain raw materials, these enterprises have to adjust and compromise either in terms of poor quality raw material, or high price raw material. Both the situations add to the problems of such enterprises.

(c) Managerial skills: Business run by a single person or family, which lacks managerial skills, technical skills and entrepreneurial skills. Also due to no education, things become even more difficult. Hence neither they are capable to manage the enterprises on own, nor they can hire people for such work sue to shortage of financial resources.

(d) Labour: Production with the help of unskilled or semi skilled workers.

(e) Marketing: It is difficult for these enterprises to maintain direct contact with customers, hence they have to depend on middlemen, who in return pay less prices or delay in the payment, thus exploiting them to no limits.

(e) Quality: Due to traditional methods of production, these enterprises struggle to maintain standardized quality.

(f) Technology: Use of outdated and obsolete technology creates issues in terms of high cost and low quality.

(g) Global Competition: They have to face competition with large scale industriesand multinational companies.

(h) Capacity utilization: Under utilization of resources takes place due to lack of managerial skills and sufficient demand to make the full use of production capacity of the machines.

Government Assistance to Small Industries and Small Business Units:

(A) Institutional Support:

I. National Small Industries Corporation (NSIC):-

This was set up in 1955 to promote, aid and foster the growth of small scale units in India. Main constraint faced by entrepreneurs is shortage of funds to purchase machinery and equipment. Non availability of finance, deprives many new entrepreneurs from availing opportunities. NSIC was established to cater to this need of entrepreneur.

Main functions of NSIC:

1. It supplies imported machines and raw materials to small industries on easy hire-purchase schemes.
2. It exports the products of small units.
3. It provides technology to Small Scale Industries.
4. Helps in up gradation to technology.
5. Provides in up gradation of technology
6. Provides various equipment on lease basis.
7. Undertakes construction of industrial estates.

II. District Industries Center (DIC):-

The concept of DIC came during 1977, when Government of India announced the new Industrial policy on 23rd Dec, 1977. The main objective of DICs is to make available all necessary services at one place. The finance for setting up DICs in a state are contributed equally by particular state Govt. and Central Government.

Functions of District Industries Centre:

1. Act as the focal point of industrialization of the district
2. Identifies projects for setting up of SSI units.
3. Issues permanent registration certificate to SSI units.
4. Provides marketing support to SSI units
5. Act as a link between the entrepreneurs and the lead bank of district.
6. Helps businessman in obtaining license from Electricity board, water supply board etc.

Govt. Incentives to hilly backward and Rural Areas:-

1. Power: Some states supply power at a confessional rate of 50%.

2. Tax holidays: Exemption from payment of tax for 5 years.

3. Land and Water: Availability of land at confessional rate. Water is supplied on no profit no loss basis.

4. Octroi: Most of the states have abolished Octroi.

5. Protective Measures: The government reserved 800 items for exclusive production by the small scale Industries and give priority in allocation of raw materials and machines.

6. Marketing Assistance: Government tries to solve their marketing problem by improving information and in order to provide guarantee for sale of goods.

7. Finance: Subsidy of 10-15% for building capital asset. Loans are offering data confessional rates.

8. Sales Tax: In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years.

Ch-09: Internal Trade

<u>Internal Trade</u>:
Internal trade refers to the buying and selling of goods and services within a country's border. In this the buying and selling occur in the home country, with payments made or received in the home country and only a few formalities for traders to complete.

Internal trade can be classified into two broad categories:

1. Wholesale trade

2. Retail trade

Wholesale Trade: It refers to the trade in which goods are sold in large quantities. The person who carries on wholesale trade is known as wholesaler. A wholesaler provides many valuable services to the manufacturer as well as the retailer.

Services of Wholesalers:
They provide both time and place utility by making the products available in a location where they are needed and at a time when they are needed for consumption or use.

The various services of wholesalers:

- Services to Manufacturers
- Services to Retailers

<u>Service to manufacturers</u>:

a) Facilitating large scale production:
Small orders from a variety of merchants are collected by wholesalers, who then transmit the pool of orders on to manufacturers, who make bulk purchases.

b) Bearing risk:
The wholesale merchants deal in good in their own name take delivery of the goods and keep the goods purchased in large lots in their warehouses. They bear a variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire etc.

c) Financial assistance:
Cash payment is made generally; hence the manufacturers need not block their capital. Sometimes they also advance money to the procedure for bulk orders placed by them.

d) Expert Advice:
As the wholesalers are in direct contact with the retailers, they are in a position to advise the manufacturers about various aspects including customers taste and preferences, market condition, competitive activities and the features referred by the buyer.

e) Help in marketing function:
Release the manufactures from many of the marketing activities and enable them to concentrate on the production activity. A large number of customers get their goods from retailers who in return have actually bought the goods from the wholesaler.

f) Facilitate production continuity:
Facilitate production continuity through purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or consumers.

g) Storage:
When goods are produced in factories, wholesalers declare delivery and store them in their godowns /warehouses. They thus provide time utility.

Service to Retailers:-

a) Availability of goods:

So as to provide a diverse assortment of goods to its customers, the wholesalers provide the retailers with varied products and services. Wholesalers hold the inventory of goods as well as handle the work of collecting goods from several producers thus relieving the retailers of the same.

b) Marketing support:

Wholesalers are responsible for a variety of marketing duties as well as providing support to retailers. The retailers are benefited due to this as it helps them in increasing the demand for various new products.

c) Grant of credit:

The wholesalers usually provide credit to their frequent customers. As a result, the retailer can run their firm with a modest quantity of working cash.

d) Specialized knowledge:

Wholesalers specialize on a single product line and have a good understanding of the market, which is further passed to the retailers.

e) Risk sharing:

Retailers can avoid the risk of pilferage, stockpiling, obsolescence, and demand fluctuations by purchasing small merchandisable quantities.

2. Retail Trade:

Retail trade refers to sale of goods in small lots to the final consumers. A retailer buys goods from a wholesaler and sells them to the consumer.

Services of Retailers:

Retailers act as a vital link in the distribution of goods and services between producers and ultimate customers. They give the following services:

- Services to Manufacturer and Wholesalers
- Services to Consumers

Services to Manufacturer and Wholesalers:

a) Help in distribution of goods:

Provide help in the distribution of manufacturer's product by making goods available to the final consumer who may be scattered over a large geographic area. They thus provide place utility.

b) Personal selling:

Personal selling by retailers relieves the producer of this activity and considerably assists them in the process of actualizing product sales.

c) Enabling large scale operations:

Enable them to operate at a relatively large-scale level and thereby fully concentrate on their other activities.

d) Collecting market information:

Retailers serve as an important source of collecting market information about the tastes, preferences and attitudes of customers which is useful in taking important marketing decisions.

e) Help in promotion:

Manufacturers and distributors have to conduct various promotional activities in order to increase the sale of their product. Retailers participate in these activities and promotes sales of product.

Services to Consumers:

a. Regular availability of products:

There is a continuous and regular availability of various products produced by different manufacturers which allows buyers to purchase things as and when they are needed.

b. New Products information:
Because of the shelf space, and display retail stores have, the retailers provide new product information, features, etc to the customers, thus directing their buying behavior.

c. Convenience in buying:
The customers can buy goods in small quantities anywhere at any time, as the retail stores are available in every residential area thus adding to customer's convenience.

d. Wide selection:
The retailers maintain stock of a variety of products of different manufacturers, thus enabling the consumer to make their choice out of a wide selection of goods.

e. After Sales services:
Services such as home delivery, delivery of spare parts etc is also a merit of retail stores.

f. Provide credit facilities:
Provide credit facilities to their regular customers, thus leading to high future sale prospects from the same customers.

<u>Types of Retailers</u>:

A. Itinerant Retailers
B. Fixed Shop Retailers

1. Small -scale Fixed Retail Shop.
2. Large-scale Fixed Retail Shop.

A. <u>Itinerant Retailers</u>:
They are the retailers that continue to move their wares from street to street or from location to location in search of buyers.

Types of Itinerant:

1. Hawkers and Peddlers: Hawkers and Peddlers move from street to street in search of customers.
The main features of hawkers and peddlers are:
(a) They sell a variety of goods such as fruits, vegetables, toys etc.
(b) They deal with non-branded and local items.
(c) They supply the goods at the door step of the customer.

2. Periodic Market Trader: These traders sell their goods on fixed days in different market places. Their weekly market is fixed.
The main features of periodic market traders are:
(a) They sell their goods in the weekly market.
(b) They deal in low price and low quality goods.
(c) These traders also set up shops on the occasion of Diwali, Christmas, etc.

3. Street Traders: These retailers display their articles on busy street corners, pavements, bus stands etc. The main features of street traders are:
(a) They generally operate near public places such as railway stations.
(b) They deal in a variety of goods such as towels, things of daily use mirrors etc.

4. Cheap Jacks: They display their goods in hired shops or intents for a temporary period in different localities. The main features of cheap jacks are:
(a) They hire small shops.
(b) They shift from locality depending upon the prospectus of business.
(c) They deal in low price, household articles.

B. <u>Fixed Shop Retailer</u>: The retailers having a fixed place of sale are known as fixed shop retailers.

Fixed shop retailers can be further classified into two categories:
1. Small scale Fixed Retail Shops
2. Large scale Fixed Retail Shops.

1. Small Scale Fixed Retailer:
(i) General Stores: General stores are small shops located in residential areas.
The main features of general stores are:
(a) They have a large variety in each line of product.
(b) They provide free home delivery, credit facility.

(ii) Specialty Stores: These stores deal in a particular type of product under one product line only.
The main features of specialty stores are:
(a) These stores are specialized in one product only.
(b) They keep all the brands of that product.

(iii) Street Shops: These shops are situated at street crossings, They are also known as street stalls
The main features of street shops are:
(a) These shops have a limited space.
(b) These retailers display their goods on tables, stands etc.

(iv) Second-hand Goods Shops: These shops deal with second-hand goods or used articles such as books.
The main features of second- hand good shop.
(a) These shops sell used goods.
(b) The goods are generally priced low because these are used goods.

(v) Seconds Shops: There are the shops to sell goods which are not produced according to the required specification.
The main features of second-hand goods shop.
(a) These shops deal in the products which have some manufacturing defect.
(b) Goods are sold at a heavily discounted price.

2. Large-Scale Fixed Retail Shop: Large scale retailers deal in a large stock of goods and purchase goods in bulk. Features of large scale retailers are:

(i) Departmental Stores.
(ii) Chain Stores or Multiple Shops.
(iii) Mail Order Retailing.
(iv) Automatic Vending Machines.

(i) Departmental Stores:
A departmental store is a huge store that sells a wide range of products dividedinto distinct departments, with the goal of meeting almost every customer's demand under one roof. It is divided into several departments, each of which focuses on a single typeof product. Shopper stop, Lifestyle are some examples of department stores.
Features:
(a) Provide maximum service to higher class of customers for price is of secondary importance full stop insert bullet

(b) These are located at a central place in the heart of a city which caters to a large number of customers.

(c) As the size of the store is very large, they are generally formed as a joint stock company are managed by a board of directors.

(d) A Departmental Store combines both the functions of retailing as well as warehousing.

(e) They have centralised purchasing arrangements, whereas sales are distributed across departments.

(ii) Chain Stores or Multiple Shops:

A number of shops with comparable appearances have been created in various locations throughout the country. These various stores usually sell standardised and branded consumer goods with a high turnover of sales. These stores are owned by the same company and have the same merchandising tactics, as well as the same products and displays. For example, such as Bata, etc.

Features:

(a) These stores are in well-traveled areas where a large number of people can be approached.

(b) Centralised at the head office, from where the goods are dispatched to each of these shops.

(c) The shop is under the direct supervision of the branch manager who is held responsible for its day-to-day management.

(d) Controlled by the head which is concerned about formulating the policy and getting them implemented.

(e)The prices of goods in such stores are set, and all transactions are conducted in cash.

Difference between Departmental Stores and Chain Stores:

S/No.	Basis	Departmental Stores	Chain Stores
1.	**Variety**	Departmental stores keep a wide variety of products to satisfy the requirement of all the customers.	Chain store are specialised in only one line of product. They deal with limited range only.
2.	**Credit/Cash Basis**	Departmental stores offer both cash and credit facilities to their regular customers.	Chain Store sells goods only on cash basis.
3.	**Location**	Departmental stores are centrally located in big cities.	Chain stores are located in different localities.
4.	**Risk**	There is greater risk in departmental stores.	The risk gets spread over all the stores located in different areas.
5.	**Types of Customers**	It attracts customers belonging to the higher income group.	They attract customers from all income groups.
6.	**Services**	Departmental stores offer various services like post office, restaurants, etc.	Chain store does not offer such services.
7.	**Decoration**	Different departmental stores may adopt different decoration and display styles.	All chain stores have uniform decoration and display Style.
8.	**Pricing**	Prices charged in all departmental stores are not fixed and uniform.	Prices charged in all chain stores are fixed and uniform.
9.	**Advertising**	Departmental stores advertise in the local city where these are situated.	Chain store gives national level advertisement.
10.	**Flexibility**	There is more flexibility of operations in departmental stores. Changes in policies are made according to local opportunities.	There is no or very little flexibility as policies are framed by head offices and changes are not permitted according to local opportunity.

(iii) Mail Order Retailing:

- In mail order houses, merchandise is sold through mail.
- In this sort of business, there is usually no direct personal contact between the buyers and sellers.
- Potential consumers are approached for orders through newspaper or magazine advertisements, circulars, catalogues, samples and bills, and price lists mailed to them.
- After receiving the orders, the items are thoroughly inspected to ensure that they meet the purchasers' standards, which are then carried out through the post office.

- There may be a variety of payment options available:
  - Full advance payment.
  - The goods may be sent by Value Payable Post (VPP). The goods are sent via postal service and are only provided to consumers after full payment has been received.
- The commodities may be sent through a bank, which would then be responsible for delivering the items to the customers. There is no possibility of bad debt in this arrangement.

Suitability:
Only the goods that are:

- Graded and standardised
- Easily transported at low cost
- Have ready demand in the market
- Available in large quantities throughout the year
- Less competed in the market
- Can be described through pictures etc, are suitable for this type of trading.

(iv) <u>Automatic Vending Machines</u>:

Automatic vending machine is a new form of direct retailing. It is a machine operated by coins or tokens. The buyer inserts a coin or token in the machine and receive a specific quantity of product from the machine.

Advantages:

(a) Buying round the clock is possible.
(b) The customer gets fresh supply of goods.
(c) No, requirement of salesman.

Limitations;

(a) Initial investment to install the machine is quite high.
(b) Machine requires regular repair and maintenance.
(c) Coins of exact shape and size are required to operate the machine.

<u>Goods and Services Tax</u>:-

On July 1, 2017, the Government of India adopted the Commodities and Services Tax (GST) in accordance with the 'One Nation, One Tax' philosophy, in order to create a unified market and ensure the smooth movement of goods across the country. Effective taxation ensures that public funds are effectively employed in fulfilling social objectives for sustainable development.

The GST has replaced 17 indirect taxes (8 Central + 9 State levels) and 23 cesses of the Centre and the States, eliminating the need for filing multiple returns and assessments and stream lining the tax treatment of goods and services from producers to consumers throughout the supply chain.

<u>Key features of GST</u>:-

- The territorial spread of GST in whole country.
- GST comprises Central GST (CGST) and the State GST [SGST] and IGST (Interstate GST).
- GST [CGST + SGST] is charged at each stage of value addition and the supplier offsets the levy on inputs in the previous stages of the value chain through the tax credit mechanism.
- There are four tax bands for all goods and services, namely 5%, 12%, 18%, and 28%.
- There is no tax on export and supplier to SEZ.
- Tax liability takes place when the taxable person exceeds the exemption limit of Rs 20 lakh.

Ch-10: International Business

International Business

Manufacturing and trade beyond the boundaries of one's own country is known as international business. International or external business can, therefore, be defined as those business activities that take place across the national frontiers. It involves not only the international movements of goods and services, but also of capital,personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.

Reason for International Business

1. Countries cannot produce equally well or cheaply all that they need. This is because of the unequal distribution of natural resources among them or differences in their productivity levels.
2. Labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons
3. Principle of territorial division of labour is applicable at the international level too. Most developing countries which are labour abundant, for instance, specialise in producing andexporting garments
4. Firms to engage in international business to import what is available at lower prices in other countries, and export goods to other countries where they can fetch better prices for their products

Problems of International business:

There are various complexities or problems involved in the international business. The major problems faced are as follows:

1. Different currencies:

Every country has its own currency. So importer has to make payment in the currency of exporter's country.

2. Legal Formalities:

International business is subject to a large number of legal formalities and restrictions. The government of every country exercises strict control over business with other nations.

3. Distance Barriers:

Due to large distance between countries, it is difficult to establish quick and personal contacts between traders from different countries.

4. Language Barrier:

Due to different languages in different countries, it becomes difficult for traders to understand the terms and conditions of the contract.

5. Difference in Laws: International business transactions are subject to laws, rules and regulations of multiple countries.

6. Information Gap:

It is difficult to obtain accurate information about foreign markets and about the financial position of foreign merchants.

7. Transport Problem:

Water and air transport are the important modes of transport used in international business. Shipping is less costly but time consuming. On the other hand airways are faster but the cost involved is very high.

Difference between International Business vs. Domestic Business:

Basis	International Business	Domestic Business
1. Nationality of buyers and Sellers	Buyers and sellers come from different countries.	Buyers and sellers are from the same country.
2. Nationality of other stakeholders	Belong from various countries and hence have wider set of values and aspirations.	Belong to one country & hence consistency in their value system and behaviour.
3. Mobility of factors of production.	Mobility with various restrictions.	Free mobility.
4. Customer heterogeneity across markets	Difference in taste and preference complicate the task of designing product in international market.	Difference in taste and preference does not complicate the task of designing product in domestic market.
5. Differences in business systems & practices	The differences in business systems and practices are considerably much more among different countries.	The differences in business systems and practices are considerably less within a country.
6. Political system and risk	Political environment differs from one country to another. Special efforts are needed.	Predict the impact of political environment on business operations.
7. Business regulations and policies	Business laws, regulations and economic policies differ among different countries.	Business laws, regulations, economic policies are less uniformly applicable within a country.
8. Currency used in Business transactions	The price of one currency expressed in relation to that of another country's currency, keeps on fluctuating.	No such problem is faced as only home currency is used.

Benefits of International Business:-

Benefits to Nations:-

(a) International business helps a country to earn foreign exchange which it can later use for meeting its imports of other goods.

(b) Produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently.

(c) Exporting and flourishing in International trade helped in improving their growth prospects and created opportunities for employment of people.

(d) Due to International business people in world community are able to consume and enjoy a higher standard of living.

Benefits to Firms:-

(a) When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.

(b) Making use of surplus production capacities & thereby improving the profitability of operations.

(c) When demand in home country gets saturated, the company can think of growth prospects in developing countries.

(d) When competition in the domestic market is very intense, internationalization seems to be the only way to achieve significant growth.

(e) The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalization.

Mode of Entry into International Business:-

Exporting and Importing:-

Exporting refers to selling of goods and services from the home country to a foreign country while importing refers to purchase of foreign products and bringing them into one's home country.

Export Procedure:-

1. An exporter receives an enquiry from the prospective buyers seeking information regarding price, quality & other terms conditions for export of goods. The exporter sends a quotation known as Proforma invoice as reply.

2. If the buyer is satisfied with the export price & other terms & conditions, he places the order or indent for the goods.

3. After receiving the order or indent, the exporter undertakes an enquiry regarding the credit worthiness of importer to assess the risk of non-payment by the importer.

4. According to custom laws the exporter or the export firm must have export license before proceeding with exports. The following procedure is followed for obtaining the export license. To open a bank account in any authorized bank.

- To obtain import export code (IEC) number from Directorate General foreign Trade (DGFT) or Regional Import Export Licensing Authority (RIELA).
- Register with appropriate export promotion council.
- To get registered with Export Credit and Guarantee Corporation (ECGC) in order to safeguard

against risk of non-payments.

5. After obtaining the export license the exporter approaches his banker in order to obtain pre-shipment finance for carrying out production.

6. Exporter, after obtaining the pre-shipment finance from the bank, proceeds to get the goods ready as per the orders of the importer.

7. Government of India ensures that only good quality products are exported from India. The exporter has to submit the pre-shipment inspection report along with other documents at the time of export.

8. According to Central Excise Tariff Act, excise duty on the material used in manufacturing goods is to be paid. For this purpose exporter has to apply to the concerned Excise Commissioner in the region with an invoice.

9. In order to obtain Tariff concessions or other exemptions the importer may ask the exporter to send certificate of origin.

10. The exporter applies to the shipping company for provision of shipping space. He has to provide complete information regarding the goods to be exported, probable date of shipment and port of destination. The shipping company issues a shipping order. Which is an instruction to the captain of the ship, after accepting application for shipping.

11. The goods are packed & marked with necessary details like name & address of the importer, gross & net weight, port of shipment & destination etc. After this the exporter makes arrangement for the transportation of goods to the port.

12. In order to protect the goods against the risk of loss or damage due to the perils of the sea transit the exporter gets the goods insured with an insurance company.

13. Before loading the goods on the ship they have to be cleared by the customer. For this purpose the exporter prepares the shipping bill & submits five copies of the shipping bill along with following documents to the Customs.

Appraiser at the customs house:

(i) Certificate of Origin

(ii) Commercial Invoice

(iii) Export Order

(iv) Letter of credit

(v) Certificate of Inspection, where necessary.

(vi) Marine Insurance Policy.

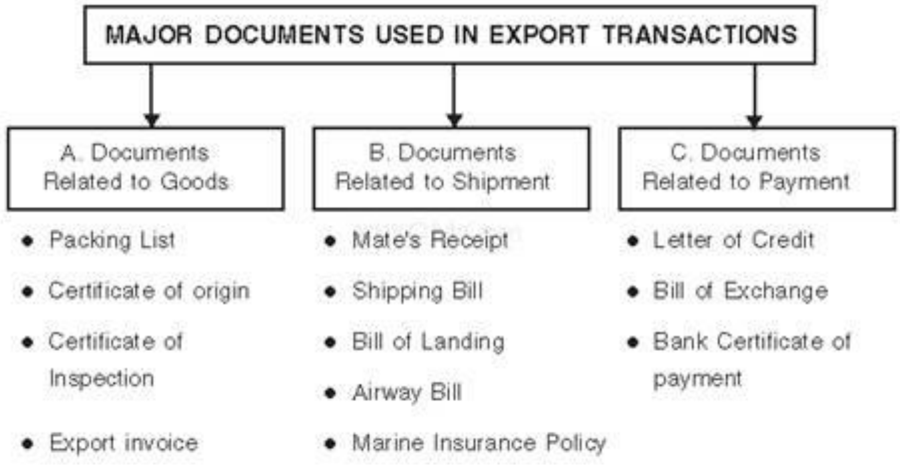
On submitting the above documents, the super intended of the concerned port trust is approached for obtaining the carting order which is the instruction to the staff at the gate of the port to permit the entry of cargo inside the dock.

14. After the goods have been loaded on board of the ship the captain or the mate of the ship issues mate’s receipt to the port superintendent which contains information regarding vessel, berth, description of packages, date of shipments, marks, condition of the cargo at the time of receipt on board the ship etc.

15. The clearing & forwarding agent (C&F agent) hands over the mates receipt to the shipping company for calculating freight. On receiving the freight the shipping company issues a bill of lading.

16. The exporter prepares an invoice for the dispatched goods. Invoice contains information regarding the quantity of goods sent & the amount to be paid by the importer. It is duly attested by the customs.

17. After shipment of goods the importer is informed about it by the exporter. Various documents like certified copy of invoice, bill of lading packing list. Insurance policy, certificate of origin & letter of credit are sent by the exporter through his bank. These documents are required by the importer for getting the goods cleared from customs.



Documents Used in Export Transactions:-

A. <u>Documents related to goods:</u>

1. Export Invoice: It is a seller's bill information about goods like quantity, number of packages, marks on packing, name of ship, port of destination, terms of delivery payments etc.

2. Certificate of Inspection: For ensuring quality the government has made inspection of certain goods compulsory by some authorised agency like export Inspection council of India (EICI) etc. After inspecting the goods, the agency issues a certificate of inspection that the consignment has been inspected as required under the export (Quality Control & Inspection) Act, 1963.

3. Packing List: This document is in the form of a statement regarding the number of cases or packs & the details of the goods contained in these packs. It provides complete details regarding the goods exported & the form in which they are being sent.

4. Certificate of Origin: This certificate specifies the country in which the goods are being manufactured. This certificate enables the importer to claim tariff concessions or other exemptions. This certificate is also required in case when there is a ban on imports of some goods from certain countries.

B. <u>Documents Related to Shipment</u>:

1. Shipping Bill: It is the main document on the basis of which permission is granted for the export of goods by the custom office. It contains full details regarding the goods being exported name of the vessel, exporters name & address, country of final destination etc.

2. Mate's Receipt: This receipt is issued by the captain or mate of the ship to the exporter after the goods are loaded on board of the ship. It contains name of the vessel, description of packages, marks, conditions of the cargo at the time of receipt onboard the ship etc.

3. Bill of lading: It is a document issued by the shipping company. It acts as an evidence regarding the acceptance of shipping company to carry the goods to the port of destination. It is also referred to as document of title to the goods & is freely transferable by endorsement & delivery.

4. Airway Bill: Similar to a shipping bill, an airway bill is a document issued by the airline company on receiving the goods on board, its aircraft and at the same time giving its acceptance to carry them to the port of destination.

5. Marine Insurance Policy: It is a document containing contract between the exporter & the Insurance Company to indemnify the insured against the loss incurred by the insured in respect of goods exposed to the perils of the sea transit in consideration of a payment called Premium.

C. **<u>Document related to payment</u>:-**

1. Letter to credit: It is a guarantee letter issued by the importer bank stating that it will honour the export bills to the bank of the exporter up to a certain amount.

2. **Bill of Exchange**: In export & import transaction, exporter draws the bill on the importer asking him to pay a specified amount to a certain person or the bearer of the instrument. The documents required by the importer for claiming title of exported goods are passed on to him only when the importer accepts this bill.

3. Bank Certificate of Payment: It is a certificate that the necessary documents relating to the particular export consignment have been negotiated & payment has been received in accordance with the exchange control regulations.

<u>Import Procedure</u>:-

1. The first step involved in importing goods is to gather information about the countries & firms which export the product required by the exporter. It can be gathered from trade directories, trade associations & organizations. The exporter prepares a quotation also known as Performa Invoice & sends it to the importer.

2. The Importer Consults the export import (EXIM) Policy in force, in order to know whether the goods that he/she wants to import are subjected to import licensing or not. If License is required then it is to be obtained.

3. In case of an import transaction, the supplier resides in a foreign country hence he demands payment in foreign currency. This involves exchange of Indian Currency into foreign currency. The Exchange Control Department of the Reserve Bank of India (RBI) regulates foreign exchange transactions in India. As per rules, every importer has to secure the sanction of foreign exchange.

4. The importer places an import order or indent with the exporter for the supply of specified goods. The order contains information regarding price, quality, quantity, size & grade of goods instruction regarding packing, delivery shipping, mode of payment etc.

5. When the payment terms are agreed between the importer & the overseas supplier, the importer obtains the letter of credit from its banker & forward sit to the overseas supplier.

6. The importer arranges for the funds in advance to pay the exporter on arrival of goods at the port this enables the importer to avoid huge penalties on the imported goods lying uncleared at the port for want of payments.

7. The overseas supplier after loading the goods on the ship dispatches the Shipment Advice to the importer. It provides information regarding, shipment of goods like invoice number, bill of lading/airway bill, name of ship with date description of goods & quantity etc.

8. After shipping the goods, the overseas supplier hands over the various documents like commercial invoice, bill of lading, insurance policy certificate of origin to his banker for their onward transmission to the importer when he accepts the bill of exchange drawn by the supplier. The acceptance of bill of exchange by the importer for the purpose of getting delivery of the document is known as retirement of import documents.

9. When the goods arrive in the importer's country, the person in charge of the carried informs the officer in charge at the dock or the airport about it. The person in charge of the ship or airway provides the document called import general manifest for unloading of cargo.

10. Imported goods are subjected to customs clearance which is a very lengthy process & involves a lot of formalities. The importer usually appoints a C&F agent for fulfilling these formalities.
First of all, the importer obtains a delivery order which is also known as endorsement for delivery.

This order enables the importer to take the delivery of goods after paying the freight charges. Besides freight charges, importer also has to pay dock dues for obtaining port trust dues receipts for which he submits two copies of a duly filled in form know as application to import to the Landing & Shipping Dues Office. After paying dock dues the importer get back one copy of applications a receipt which is referred as port trust dues receipts. Finally, the importer fills in a form known as bill of entry for assessment of customs import duty. An examiner examines the imported goods & gives his report on the bill of entry. This bill is then presented to the port authority which on receiving necessary charges, issues the release order.

Documents used in an Import Transaction:-

1. Performa Invoice: A pro forma invoice is a document that contains details as to the quality, grade, design, size, weight & price of the export product & the terms & conditions on which their export will take place.

2. Import order or Indent: It is a document in which the importer orders for supply of requisite goods to the supplier. The order containing the information such as quantity & quality of goods, price, method of forwarding the goods, nature of packing, mode of payment etc.

3. Shipment advice: The exporter sends shipment advice to the importer for informing him that the shipment of goods has been made. It contains invoice number bill of lading/ airways bill number & date, name of the vessel with date, the port of export, description of goods & quantity & the date of sailing of the vessel.

4. Bill of Lading: It is prepared & signed by the master of the ship acknowledging the receipt of goods on board, it contains terms & conditions on which the goods are to be taken to the port of destination.

5. Bill of entry: It is a form supplied by the customs office to the importer who filled it at the time of receiving the goods. It has to be in triplicate & is to be submitted to the customs office. It contains information such as name & address of the importer, name of the ship, number of packages, of marks on the packages, description of goods, quantity and value of goods, name and address of the exporter, port of destination and custom duty payable.

6. Letter of Credit: It is a document that contains a guarantee from the importer's bank to the exporter's bank that it is undertaking to honour the payment up to a certain amount of the bills issued by the exporter for export of the goods to the importer.

7. Bills of exchange: Explained earlier.

Foreign Trade Promotion Measures & Schemes:

1. Duty Drawback Scheme: Goods meant for exports are not subjected to payment of various excise and custom duties. Any such duties paid are refunded to exporters on production of proof of exports of these goods to the concerned authorities such refunds are called duty drawback.

2. Export manufacturing under BOND Scheme: Under this facility firm can produce goods without payment of exercise and other duties. The firm can avail this facility after giving an undertaking (i.e. bond) that they are manufacturing goods for export purposes.

3. Exemption from payment of sales Taxes: Goods meant for export purpose are not subject to sales tax. Income derived from export operations had been exempt from payment of income tax for a long period, but now this exemption in only available to 100%. Export oriented units and unit's setup in Export Processing Zones/ Special Economic Zones for selected years.

4. Advance License Scheme: It is a scheme under which an exporter is allowed duty free required for the manufacture of export goods. The firms exporting intermittently can also obtain these licenses against specific export orders.

5. Export Processing Zones: They are industrial estate which from enclaves from the Domestic Tariff Areas. These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost.

In addition to the above there are other measures such as availability of export finance, Export promotion, Capital goods scheme etc. that are used for foreign trade promotion.

Important Terms Used in External Trade:

1. Free on Board (FOB):- Freight is paid by importer and he only bears all the risk.

2. Cost and Freight (C&F):- Under this, freight is paid by the exporter and he bears the risk till goods reach the importer's country.

3. Cost, Insurance and Freight (CI&F):- Under this policy, the exporter bears freight charges and cost along with marine insurance policy.

International Trade Institution (WTO):-

World Trade Organization (WTO):-

It came into existence on 1st January 1995. The headquarters of WTO is situated at Geneva, Switzerland. It is a permanent organization created by an international treaty rectified by the Governments and legislatures of member states. It is concerned with solving trade problems between countries and providing a forum for multilateral trade negotiations.

Objectives of WTO:

1. To reduce the trade tariffs and barriers imported by different countries in the smooth flow of international trade.

2. To improve the standard of living, create employment, increase income and effective demand and facilitate higher production and trade.

3. To maintain sustainable development by optionally using world's resources.

4. To promote an integrated, more viable and durable trading system among nations.

Role/Functions of WTO:

1. To remove barriers of International trade.

2. To Act as a dispute settlement body by settling trade related disputes among member nations.

3. To ensure that all the rules and regulations prescribed in the Act are duly followed by the member countries for settling of their disputes.

4. Laying down a commonly accepted code of conduct for international trade aiming at reducing tariff and non-tariff barriers in international trade.

5. To consult other agencies to bring better understanding cooperation in global economic policy making.

6. Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations.

7. Taking special steps for the development of the poorest nations.

8. Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body.

9. Co-operating with IMF and World Bank and its associates for establishing co-ordination in global trade policy making.

10. Acting as forum for trade liberalization.

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