

## CHAPTER – 1

### NATURE AND PURPOSE 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 spices 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.

**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.

#### HUNDI AS PRACTICED BY INDIAN MERCHANT COMMUNITIES

Name of Hundi	Classification	Functions of Hundi
<i>Dhani-jog</i>	<i>Darshani</i>	Payable to any person-no liability over who received payment.
<i>Sah-jog</i>	<i>Darshani</i>	Payable to a specific person, someone 'respectable'. Liability over who received payment.
<i>Firman-jog</i>	<i>Darshani</i>	<i>Hundi</i> made payable to order.
<i>Dekhan-har</i>	<i>Darshani</i>	Payable to the presenter or bearer.
<i>Dhani-jog</i>	<i>Muddati</i>	Payable to any person—no liability over who received payment, but payment over a fixed term.
<i>Firman-jog</i>	<i>Muddati</i>	<i>Hundi</i> made payable to order following a fixed term.
<i>Jokhmi</i>	<i>Muddati</i>	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the costs & the Drawee carries no liability.

#### Rise of Intermediaries

- Comprises of Commission agent, broker and distributor.
- Foreign Trade was financed by loans.
- Prominent role in promotion of trade.
- Provide financial security in return of risk taken.
- 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.

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## **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 and also brought Vasco-da-Gama to the shores of Malabar.
- 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 deals with king, tax collector and settle market toll on behalf of merchant at fixed sum of money.

## **MAJOR TRADE CENTRES IN ANCIENT TIMES**

1. ***Pataliputra***: Known as Patna today. It was not only a commercial town, but also a major centre for export of stones.
2. ***Peshawar***: It was an important exporting centre for wool and for the import of horses. It had a huge share in commercial transactions between India, China and Rome in the first century A.D.
3. ***Taxila***: It served as a major centre on the important land route between India and Central Asia. It was also a city of financial and commercial banks. The city occupied an important place as a Buddhist centre of learning. The famous Taxila University flourished here.
4. ***Indraprastha***: It was the commercial junction on the royal road where most routes leading to the east, west, south and north converged.
5. ***Mathura***: It was an emporium of trade and people here subsisted on commerce. Many routes from South India touched Mathura and Broach.
6. ***Varanasi***: It was well placed as it lay both on the Gangetic route and on the highway that linked North with the East. It grew as a major centre of textile industry and became famous for beautiful gold silk cloth and sandalwood workmanship.

7. **Mithila:** The traders of Mithila crossed the seas by boats, through the Bay of Bengal to the South China Sea, and traded at ports on the islands of Java, Sumatra and Borneo. Mithila established trading colonies in South China, especially in Yunnan.

8. **Ujjain:** Agate, carnelian, muslin and mallow cloth were exported from Ujjain to different centres. It also had trade relations through the land route with Taxila and Peshawar.

9. **Surat:** It was the emporium of western trade during the Mughal period. Textiles of Surat were famous for their gold borders (zari). It is noteworthy that Surat *hundi* was honoured in far off markets of Egypt and Iran.

10. **Kanchi:** Today known as Kanchipuram, it was here that the Chinese used to come in foreign ships to purchase pearls, glass and rare stones and in return they sold gold and silk.

11. **Madura:** It was the capital of the Pandayas who controlled the pearl fisheries of the Gulf of Mannar. It attracted foreign merchants, particularly Romans, for carrying out overseas trade.

12. **Broach:** It was the greatest seat of commerce in Western India. It was situated on the banks of river Narmada and was linked with all important marts by roadways.

13. **Kaveripatta:** Also known as Kaveripatnam, it was scientific in its construction as a city and provided loading, unloading and strong facilities of merchandise. Foreign traders had their headquarters in this city.

14. **Tamralipti:** It was one of the greatest ports connected both by sea and land with the West and the Far East. It was linked by road to Banaras and Taxila.

## **TYPES OF HUMAN ACTIVITIES**

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**

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.

It is majorly of three types:

- Business
- Profession
- Employment.

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

## **TYPES OF ECONOMIC ACTIVITIES**

### **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 and 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**

<b>Basic</b>	<b>Business</b>	<b>Profession</b>	<b>Employment</b>
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 and training from a professional body is a must.	Qualification requirements differ with job type.
Reward or return	Profit	Professional fee	Wages or salary
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 prescribed.	Professional code of conduct is there.	Rules set by the employer are to be followed.
Example	A person having his shop, factory etc.	Chartered Accountants, Lawyers, Doctors are all professionals.	Jobs in banks, companies etc.

### **OBJECTIVES OF BUSINESS**

1. Economic Objectives
2. Social Objectives

#### **1. Economic Objectives: -**

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Under economic objectives, the following objectives are included:

**(i) Market standing:** The basic purpose of every organisation is to survive and exist in the competition market for a long period of time.

**(ii) Earning 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) Innovation:** It is the introduction of new ideas or methods in the way something is done or made

**(iv) Increasing productivity:** Productivity is ascertained by comparing the value of output with value of inputs. Every business must aim at greater productivity through the best use of available resources.

**(v) Optimum utilisation of physical and financial resources:** The business enterprise must aim at greater productivity through the best use of available resources.

## **2. Social Objectives: -**

Social Objectives are those which are desired to be achieved for the benefit of the society.

**(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 advertisements 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.

## **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.

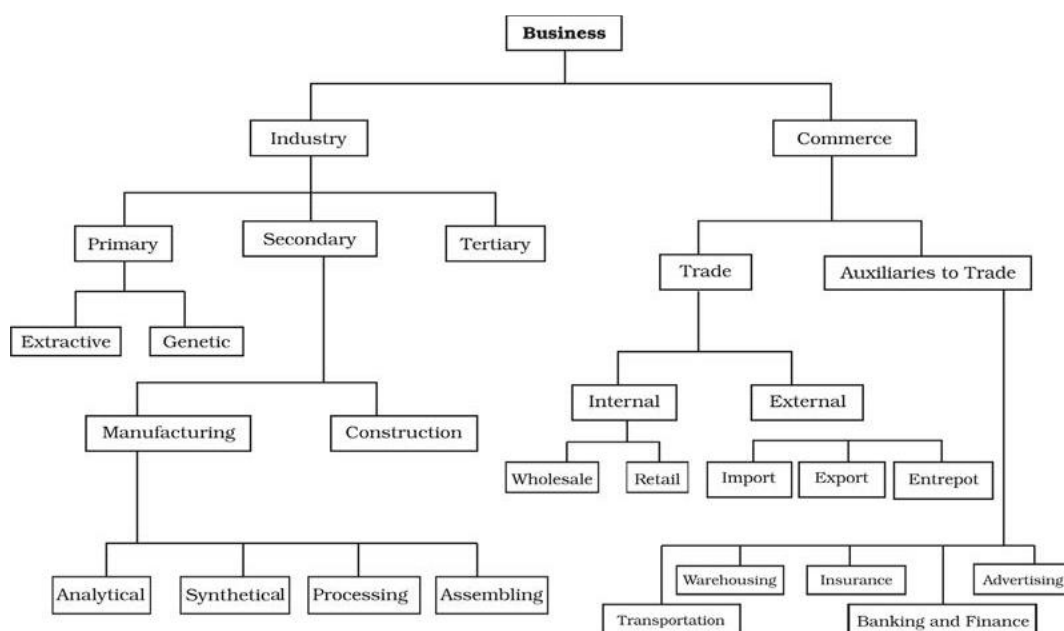
**(ii) Expansion and Growth:** The business is expanded only when it is earning sufficient amount of profit. When profit is large, a part of it can always be reinvested for expansion or diversification of production and other operations of the business.

**(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:

- Industry
- 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**

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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 breed of plants and animals for their use in further reproduction. Example- cattle breeding, poultry farms.

## **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.

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:

**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

**Synthetically industry:** These industries bring together materials and ingredients from varied sources and combine them to form a new product. For example, the cement industry.

**Processing industry:** These industries are involved in the extraction and 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.

**Assembling 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.

**b. 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.

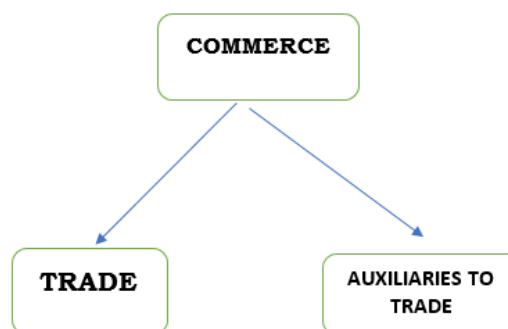
### **Functions of Commerce**

1. **Removing the hindrance of person**- by making 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 **removes 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 classified into two:

#### **(a) Internal Trade**

#### **(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:

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

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

**(iii) Entrepot:** Importing goods and services from one country & 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.

**(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:** It helps them to increase the sales and widen the customer base by promoting business products or services at a wide spectrum.

**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**

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

### **Causes of Business Risks**

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

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

### **MULTIPLE CHOICE QUESTIONS**

1. **Assertion (A):** Business is considered as an economic activity.  
**Reason (R):** It involves exchange of goods and services among people in the society.
  - (a) Both A and R are true. R is the correct explanation of A
  - (b) Both A and R are true, but R is not the correct explanation of A
  - (c) A is correct, but R is incorrect
  - (d) A is incorrect, but R is correct
2. Mehak is a practicing Chartered Accountant. She has her C.A. Firm in Bangalore. She deals in providing Income Tax and GST related services to her clients against very reasonable consultancy fees. Identify the type of economic activity performed by Mehak as referred in the above case.
  - (a) Business
  - (b) Profession
  - (c) Employment
  - (d) None of the above
3. Which of the following cannot be classified as an auxiliary to trade?
  - (a) Mining (b) Insurance(c) Warehousing (d) Transport
4. "Vishesh" is an NGO operating in the district. It deals in providing medicines and other medical facilities to the rural, backward, and below-poverty-line people in the district. In case of need, arrangements are made by the NGO to shift critical patients to referred hospitals. Name the type of human activities performed by the NGO "Vishesh".
  - a) Economic Activities
  - (b) Non-Economic Activities
  - (c) Spiritual Activities
  - (d) None of the above
1. Amar, Akbar and Anthony and Balvinder pursued their MBA from a reputed institute in Mumbai. After completion of their studies, all of them got engaged in different fields. Amar got a job at an Oil Refinery Industry as a Junior Executive in Finance. Akbar joined his family business in Textile Industry in Jalandhar, Punjab. Anthony opened his own Dairy Firm and Balvinder join the construction business. Identify the type of industry Mr. Akbar worked with as highlighted in the above case.
  - (a) Analytical Industry (b) Synthetic Industry (c) Processing Industry

(d) Assembly Industry

6. Himalaya General Store is a big businessman who deals in selling Nestle products in his locality. He purchased products of Nestle directly from the State Distributor in bulk quantities and sold them in the market to small shopkeepers from different corners of the city. Identify the type of trade followed by Nutan General Store.

- (a) Wholesale Trade
- (b) Retail Trade
- (c) International Trade
- (d) Entrepot Trade

7. Suman's factory was destroyed due to flood. Identify the type of business risk:

- (a) Economic Causes
- (b) Human Causes
- (c) Natural Cause
- (d) Other Causes

8. Warehousing facilitates the availability of goods as and when required. By doing this, which of the following utilities are provided by Warehousing?

- (a) Place Utility
- (b) Time Utility
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

9. Read the following statements carefully and choose the correct alternative

**Statement 1:** Business involves exchange of goods and services on a regular and recurring basis.

**Statement 2:** Every business aims to earn profits.

Alternatives:

- (a) Both the statements are true.
- (b) Both the statements are False.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 2 is true and Statement 1 is false.

10. Mr. Kumar is engaged in the business of Importing machinery from China and further selling it to Nepal. Which type trade is Mr. Kumar engaged in ?

- (a) Export
- (b) Import
- (c) Entrepot
- (d) None of the Above

### **Answers**

1.a, 2. B, 3. A, 4.b, 5.c, 6.a, 7.c, 8. B, 9 .a, 10.c

### **SHORT ANSWER TYPE QUESTIONS (3-4 marks)**

1. Samaira took advanced fashion designing course at Beads Academy to become a fashion designer. After completion of the course, she got a job at Trendz Fashions. She used her expertise to design modern outfits, which became famous overnight. Identify and explain the type of economic activity that Samaira is engaged in.

**Answer :** Samaira is engaged in is 'Employment'.

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

2. Rohit and Lohith are partners selling electronic products across India. They import the components from their friend Aman who does his business in China and assemble them in their factory established in a rural area of Jharkhand where most of the workers in the factory are children and women. They are paid very less salaries thus owner save on labour cost. They store their stocks in a warehouse but do not take proper safety measures against fire, burglary. There was a short circuit in the factory and as a result most of the stock was damaged. On the basis of the given information, answer the following questions:
- Specify the type of business activity performed by Rohit and Lohith.
  - Specify the type of business activity performed by Aman.
  - Name and explain the auxiliary to trade used by Rohit and Lohith.

**Answer:**

- Rohit and Lohith are engaged in an Industrial Activity (Secondary Industry: Assembling).
- The business activity performed by Aman is Trade (Export trade)
- The auxiliary to trade used by Rohit and Lohith is warehousing.

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

3. Rahul and Sahil completed their studies and planned to start their own business instead of looking for job. Rahul's father is working in Portland cement manufacturing company as supervisor. He told them that common materials used to manufacture cement include limestone, shells, and chalk combined with clay, slate, blast furnace slag, silica sand, and iron ore. He also told them that limestone is most often mined from a quarry which is done by Antra Ltd. He told them that his company is facing a problem of storing the limestone because of shortage of space. This gave them an idea to start a ware housing business. On the basis of the given information, answer the following questions:
- Identify the different types of industries being discussed in above case.
  - Specify the category of type of industries to which the industries identified in part(a).

**Answer:** The different types of industries being discussed above are:  
Portland Cement Company: Secondary industry. Antra Ltd.: Primary industry. Warehouse Business: Tertiary industry.

b) The category of aforesaid industries are

I. Portland Cement Company: Manufacturing industry. (Synthetic industry)

## II. Antra Ltd.: Extractive industry.

4. Sunita bought a readymade dress for Rs.5,000. Her friend liked the design of dress very much, so Sunita sold the same dress to her friend without charging anything. After completing her studies, Sunita opened a shop of selling readymade dresses for girls.
- Can transaction between Sunita and her friend be termed as Business? Give reason in support of your answer.
  - Can the sale of dresses on her shop be called as Business?

### **Answer :**

(a) No. The transaction between Sunita and her friend cannot be termed as Business. This is because exchange of dress is done without any consideration. Also, profit motive is not involved and the transaction is not done on regular basis.

(b) Yes, the sale of dresses on her shop will be called as Business as shop is opened with the motive of earning profit through regular transactions of exchange of dress for money.

5. "Earning of profit cannot be the objective of business any more than the eating is the objective of living". Do you agree with this statement? Give reasons in support of your answer.

**Answer :** Yes, I agree with this statement. Like eating is essential for survival of any human being, same way profit is essential and a must for survival of any business. But a person cannot survive for a long time and cannot lead a healthy life only by eating. A person has to perform other activities also such as social activities, religious activities and patriotic activities. Similarly, a business with the sole motive of earning profit cannot survive for a long time. To capture a big share in market and to create the goodwill businessman must have social and individual objectives along with economic objective of earning profit.

### **LONG ANSWER TYPE QUESTIONS (6 marks)**

1. Alex David is a legal advisor in a multinational company. He gets Rs.65,000 per month as his salary. On weekends, Alex David goes to nearby village and teaches some slum children, he does not charge anything from them, he does it out of sympathy and concern for poor children. This given him mental and psychological satisfaction. On the basis of the given information about Alex David, answer the following questions:
- Specify the types of human activity performed by Alex David.
  - Differentiate between types of human activity identified in part (a) on any four basis.

### **Answer :**

- The human activities performed by Alex David are:

- I. Working as legal advisor in a multinational company is an economic activity.
  - II. Teaching students in slum is a non- economic activity.
- b) The difference between economic and non- economic activity are:

S.No.	Basis	<b>Economic activity</b>	<b>Non- economic activity</b>
1.	Motive	These activities are undertaken with an economic motive of earning money and creation of wealth.	These activities are undertaken with the social or psychological motive.
2.	Expectation	Money income is expected from these activities.	Money income is not expected from these activities.
3.	Purpose	Creation of wealth	Psychological Satisfaction.
4.	Outcome	Production of goods and services.	Mental satisfaction of person who undertake it.

2. These days almost all corporate offices adopt parks or roads near to their office complex for maintenance.
- (a) Which objective they try to achieve by doing so?
  - (b) Name and explain the other two objectives of the business.

**Answer :**

- a) Social Objectives. Business diverts the profits earned to maintain the public property, this way they are able to help society and the employees working in the areas by providing well maintained facilities. This helps them to create awareness about the company and builds company image.
  - b) Other two objectives of the business are :
    - i. Economic Objectives (Explain)
    - ii. Human Objectives (Explain)
3. Ajit was running a trading business in India. Now he extended its operations to Dubai and USA by establishing places of business in these countries. In order to increase sales in Dubai, the company adopted selling strategies like sales promotion and advertising. As the company had an excellent credibility in the capital market, it was able to meet all its financial requirements by borrowing from Citi Bank. On the basis of the given information about Ajit, answer the following questions:
- a) Identify and explain the auxiliaries to trade used by Ajit for running his business. Also quote lines.
  - b) Identify the type of trade carried on by Ajit earlier and now.

**Answer : a) Advertising, Banking**

“In order to increase sales in Dubai, the company adopted selling strategies like sales promotion and advertising. As the company had an excellent credibility in the capital market, it was able to meet all its financial requirements by borrowing from Citi Bank.”

**b) Trade carried earlier-** Internal Trade.

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

**Trade carried Now- External Trade**

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

4. Ratan after doing his B.Pharm degree from a reputed government college started two chemist shops in two different localities of his home town. Encouraged with the success of these shops, he started six more shops in different cities of the state. His strategy was to cut price, focus on lower- and middle-class patients and open shops near hospitals. He earned good profit margins. But the staff of the shops did not give much attention to the customers. Because of this mis-management he started incurring huge losses and his business failed. On the basis of the given information about Ratan, answer the following questions:
- Identify and explain the main cause behind the business failure of Ratan.
  - Explain any two other causes of risk associated with Ratan's business.

**Answer:**

- The main cause behind the business failure of Ratan is Human Cause.  
Human Causes: Human causes include such unexpected events, like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.
- The other causes of business risks are:
  - Natural causes: Human beings have little control over natural calamities like flood, earthquake, famine etc. They result in heavy losses of life, property and income in business.
  - Economic Causes: They are related to a chance of loss due to change in market condition e.g., fluctuation in demand and prices, competition, change in exchange rate etc.

## **CHAPTER 2**

### **Forms of Business Organisation**

The business enterprises which are owned, controlled and managed by private individuals are known as Private sector enterprises. These enterprises work with the main motive of earning profit. Various forms of such business organisations are:

- Sole proprietorship
- Joint Hindu family business
- Partnership
- Cooperative societies and
- Joint stock company



**a) Sole Proprietorship:** The word “sole” implies “only”, and “proprietor” refers to “owner”. Hence, a sole proprietor is the one who is the only owner of a business. It refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks.

### **Features of Sole Proprietorship Business**

**(i) Formation and closure:** Hardly any legal formalities are required to start a sole proprietary business. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.

**(ii) Liability:** Sole proprietors have unlimited liability. She /he has to sell her personal property to repay the firm’s debts.

**(iii) Sole risk bearer and profit recipient:** The risk of failure of business is borne all alone by the sole proprietor. The proprietor enjoys all the benefits also.

**(iv) Control:** Sole trader can carry out his plans without any interference from others.

**(v) No separate entity:** Business does not have an identity separate from the owner.

**(vi) Lack of business continuity:** The death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor may even cause closure of the business.

### **Merits:**

**(i) Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision-making is prompt because there is no need to consult others.

**(ii) Confidentiality of information:** Sole decision-making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy.

**(iii) Direct incentive:** A sole proprietor directly gets the benefits of his efforts as he is the sole recipient of all the profit.

**(iv) Sense of accomplishment:** The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also a sense of accomplishment and confidence in one’s abilities.

**(v) Ease of formation and closure:** Sole proprietorship is the least regulated form of business; it is easy to start and close the business as per the wish of the owner.

### **Limitations**

**(i) Limited resources:** Resources of a sole proprietor are limited to his personal savings and borrowings from others. Lack of resources is one of the major reasons why the size of the business generally remains small.

**(ii) Limited life of a business concern:** The sole proprietorship business is owned and controlled by one person, so death, insanity, imprisonment etc of the proprietor can lead to its closure.

**(iii) Unlimited liability:** The liability of the sole proprietor is unlimited. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor.

**(iv) Limited managerial ability:** It is rare to find an individual who excels in purchasing, selling, financing, etc. Thus decision making may not be balanced in all the cases.

## **b) Partnership**

The Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.”

### **Features**

**(i) Formation:** The partnership form of business organisation is governed by the Indian Partnership Act, 1932. It comes into existence through a legal agreement.

**(ii) Liability:** The partners of a firm have unlimited liability. Personal assets may be used for repaying debts of the business.

**(iii) Risk bearing:** The partners bear the risks involved in running a business as a team.

**(iv) Decision making and control:** The partners share amongst themselves the responsibility of decision making and control of day to -day activities.

**(v) Continuity:** The death, retirement, insolvency or insanity of any partner can bring an end to the business.

**(vi) Number of Partners:** The minimum number of persons to start a partnership firm is two. As per Rule 10 of The Companies (miscellaneous) Rules 2014, at present the maximum number of members can be 50.

**(vii) Mutual agency:** The business is carried on by all or any one of the partners acting for all. Every partner is both an agent and a principal.

### **Merits**

**(i) Ease of formation and closure:** A partnership firm can be formed easily by putting an agreement between the prospective partners. Closure of the firm too is an easy task.

**(ii) Balanced decision making:** The partners can oversee different functions according to their areas of expertise. So the decisions are likely to be more balanced.

**(iii) More funds:** In a partnership, the capital is contributed by a number of partners. So it can raise larger amount of funds.

**(iv) Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners.

**(v) Secrecy:** A partnership firm is not legally required to publish its accounts and submit its reports. So it can maintain confidentiality of information.

### **Limitations:**

**(i) Unlimited liability:** Partners are liable to repay debts even from their personal resources. Thus, they have unlimited liability.

**(ii) Limited resources:** Capital contributed by the partners is usually not sufficient to support large scale business operations.

**(iii) Possibility of conflicts:** Difference in opinion of partners on some issues may lead to disputes between partners.

**(iv) Lack of continuity:** Partnership comes to an end with the death, retirement or insolvency of any partner. It may result in lack of continuity.

**(v) Lack of public confidence:** A partnership firm is not legally required to publish its financial reports. As a result, the confidence of the public in partnership firms is generally low.

### **Types of Partnership**

Partnership can be classified on the basis of two factors, i.e, duration and liability.

#### **Classification on the basis of duration**

**(i) Partnership at will:** This type of partnership can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm.

**(ii) Particular partnership:** Partnership formed for the accomplishment of a particular project or for a specified time period is called particular partnership.

#### **Classification on the basis of liability**

**(i) General Partnership:** In general partnership, the liability of partners is unlimited and joint. The partners enjoy the right to participate in the management.

**(ii) Limited Partnership:** In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability. Such a partnership does not get terminated with the death, lunacy or insolvency of the limited partners.

### **Registration**

Registration of a partnership firm means the entering of the firm's name, along with the relevant prescribed particulars, in the Register of firms kept with the Registrar of Firms. It is optional for a partnership firm to get registered.

#### **The consequences of non-registration of a firm**

- (a) A partner of an unregistered firm cannot file a suit against the firm or other partners,
- (b) The firm cannot file a suit against third parties, and
- (c) The firm cannot file a case against the partners.

In view of these consequences, it is therefore advisable to get the firm registered.

### **Partnership Deed**

The written agreement which specifies the terms and conditions of the partnership is called the partnership deed.

### **Types of Partners**

**(i) Active partner:** An active partner is one who contributes capital, participates in the management, shares its profits and losses and has unlimited liability.

**(ii) Sleeping or dormant partner:** Partners who do not take part in the day-to-day activities of the business are called sleeping partners.

**(iv) Nominal partner:** A nominal partner is one who allows the use of his name by a firm, but does not contribute capital, does not actively take part in management, does not share its profit or losses but has unlimited liability.

**(v) Partner by estoppel:** A person is considered a partner by estoppel if, through his own initiative, conduct or behaviour, he gives an impression to others that he is a partner of the firm. Such partners are held liable for the debts of the firm.

### **c) Joint Hindu Family Business**

This is a specific form of business organisation found only in India. It refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). It is governed by the Hindu Law. The basis of membership in the business is birth in a particular family and three successive generations can be members in the business. The business is controlled by the head of the family who is the eldest member and is called karta.

### **Features of Joint Hindu Family**

**(i) Formation:** There should be at least two members in the family and ancestral property to be inherited by them to start a sole proprietorship

**(v) Minor Members:** The basis of membership in the business is birth in a particular family Hence, minors can also be members of the business.

**(ii) Liability:** The liability of all members except the Karta is limited to their share of co-parcenary property of the business, But Karta has unlimited liability.

**(iii) Control:** The control of the family business lies with the Karta. His decisions are binding on the other members.

**(iv) Continuity:** The business continues even after the death of the Karta as the next eldest member takes up the position of Karta, leaving the business stable.

**(v) Minor Members:** Minors can become the members of the business.

#### **d) Cooperative Society**

The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912. The consent of at least ten adult persons is required to form a society. The capital of a society is raised from its members through issue of shares.

#### **Features**

**(i) Voluntary membership:** A person is free to join a cooperative society, and can also leave at any time. There cannot be any compulsion for him to join or quit a society.

**(ii) Legal status:** Registration of a cooperative society is compulsory. This provides a separate identity to the society which is distinct from its members.

**(iii) Limited liability:** The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital.

**(iv) Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee.

**(v) Service motive:** The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. If any surplus is generated, it is distributed to the members as dividend.

#### **Merits**

**(i) Equality in voting status:** The principle of 'one man one vote' governs the cooperative society.

**(ii) Limited liability:** The liability of members of a cooperative society is limited to the extent of their capital contribution.

**(iii) Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society.

**(iv) Economy in operations:** The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs.

**(v) Support from government:** The cooperative society finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.

**(vi) Ease of formation:** The cooperative society can be started with a minimum of ten members. Its formation is governed by the provisions of Cooperative Societies Act 1912.

## **Limitations**

**(i) Limited resources:** The low rate of dividend offered on investment also acts as an obstacle in attracting membership or more capital from the members.

**(ii) Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries.

**(iii) Lack of secrecy:** As a result of open discussions in the meetings of members, it is difficult to maintain secrecy about the operations of a cooperative society.

**(iv) Government control:** Control of the government negatively affects its freedom of operation.

**(v) Differences of opinion:** Internal conflicts arising as a result of contrary viewpoints may lead to difficulties in decision making.

## **Types of Cooperative Societies:**

**(i) Consumer's cooperative societies:** The consumer cooperative societies are formed to protect the interests of consumers. It purchases goods in bulk directly from the wholesalers and sells goods to the members.

**(ii) Producer's cooperative societies:** These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale.

**(iii) Marketing cooperative societies:** Such societies members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products.

**(iv) Farmer's cooperative societies:** These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The aim is to gain the benefits of large-scale farming and increase the productivity.

**(v) Credit cooperative societies:** Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans.

**(vi) Cooperative housing societies:** Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. These societies construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

## **e) Joint Stock Company**

A company is an artificial person having a separate legal entity, perpetual succession and a common seal. The company form of organisation is governed by The Companies Act, 2013. The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders.

### **Features**

**(i) Artificial person:** Like natural persons, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued. It is, therefore, called an artificial person.

**(ii) Separate legal entity:** From the day of its incorporation, a company acquires an identity, distinct from its members.

**(iii) Formation:** The formation of a company is a time consuming, expensive and complicated process which involves the preparation of several documents.

**(iv) Perpetual succession:** A company being a creation of the law, can be brought to an end only by law.

**(v) Control:** The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business.

**(vi) Liability:** The liability of the members is limited to the extent of the capital contributed by them in a company.

**(vii) Common seal:** The company being an artificial person cannot sign its name by itself. Therefore, every company is required to have its own seal which acts as official signature of the company.

**(viii) Risk bearing:** The risk of losses in a company is borne by all the shareholders.

### **Merits**

**(i) Limited liability:** The shareholders are liable to the extent of the amount unpaid on the shares held by them.

**(ii) Transfer of interest:** The shares of a public limited company can be easily sold in the market and converted into cash in case the need arises. This avoids blockage of investment.

**(iii) Perpetual existence:** Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members.

**(iv) Scope for expansion:** Capital can be attracted from the public as well as through loans from banks and financial institutions. Thus there is greater scope for expansion.

**(v) Professional management:** A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specialisations.

### **Limitations**

**(i) Complexity in formation:** As compared to sole proprietorship and partnership form of organisations, formation of a company is more complex.

**(ii) Lack of secrecy:** The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy.

**(iii) Impersonal work environment:** Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company.

**(iv) Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

**(v) Delay in decision making:** Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower-level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

**(vi) Oligarchic management:** In most large sized organisations having a multitude of shareholders and are spread all over the country and a very small percentage attend the general meetings. The Board of Directors as such enjoy considerable freedom in exercising their power which they sometimes use even contrary to the interests of the shareholders.

**(vii) Conflict in interests:** There may be conflict of interest amongst various stakeholders of a company. These demands pose problems in managing the company as it often becomes difficult to satisfy such diverse interests.

**Types of Companies:** A company can be either a **Private or a Public company and One Person Company**

**Private Company:** A private company means a company which:

- (a) restricts the right of members to transfer its shares;
- (b) has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;
- (c) does not invite public to subscribe to its securities.

It is necessary for a private company to use the word private limited after its name.

**Public Company** A public company means a company which is not a private company. As per The Companies Act, a public company is one which:

- (a) has a minimum of 7 members and no limit on maximum members;



(b) has no restriction on transfer securities; and  
(c) is not prohibited from inviting the public to subscribe to its securities. However, a private company which is a subsidiary of a public company is also treated as a public company.

### **Privileges of a private limited company as against a public limited company:**

1. A private company can be formed by only two members whereas seven people are needed to form a public company.
2. There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.
3. Allotment of shares can be done without receiving the minimum subscription. A private limited company can start business as soon as it receives the certificate of incorporation.
4. A private company needs to have only two directors as against the minimum of three directors in the case of a public company. However, the maximum number of directors for both types of companies is fifteen.
5. A private company is not required to keep an index of members while the same is necessary in the case of a public company.

### **One Person Company**

One Person Company is a company with only one person as a member. That one person will be the shareholder of the company. It avails all the benefits of a private limited company such as separate legal entity, protecting personal assets from business liability and perpetual succession.

**Formation of a Company:** Formation of a company is a complex activity involving completion of legal formalities and procedures. These formalities can be divided into three distinct stages, which are:

(i) Promotion; (ii) Incorporation and (iii) Subscription of capital.

**1. Promotion of a Company:** Promotion is the first stage in the formation of a company. It involves conceiving a business idea and taking an initiative to form a company so that practical shape can be given to exploiting the available business opportunity.

Any person or a group of persons or even a company may have discovered an opportunity. If such a person or a group of persons or a company proceeds to form a company, then, they are said to be the **promoters** of the company.

### **Steps in Promotion:**

➤ **Identification of Business Opportunity:** The first and foremost function of a promoter is to identify a business idea e.g. production of new product or service.

- **Feasibility Studies:** After identifying a business opportunity the promoters undertake detailed studies of technical, Financial, Economic feasibility of a business.
- **Name Approval:** After selecting the name of company the promoters submit an application to the Registrar of companies for its approval.
- **Fixing up signatories to the Memorandum of Association:** Promoters have to decide about the director who will be signing the memorandum of Association.
- **Appointment of professional:** Promoters appoint merchant bankers, auditors etc.
- **Preparation of necessary documents:** The promoters prepare certain legal documents such as memorandum of Association, Articles of Association which have to be submitted to the Registrar of the companies.

## **2.Incorporation**

- **Application for incorporation:** Promoters make an application for the incorporation of the company to the Registrar of companies.
- **Filing of necessary documents:** Promoters files the following documents:
  - (i) Memorandum of Association.
  - (ii) Articles of Association.
  - (iii) Statement of Authorized Capital
  - (iv) Consent of proposed director.
  - (v) Agreement with proposed managing director.
  - (vi) Statutory declaration.
- **Payment of fees:** Along with filing of above documents, registration fee has to be deposited which depends on amount of the authorized capital.
- **Registration:** The Registrar verifies all the document submitted. If he is satisfied then he enters the name of the company in his Register.
- **Certificate of Incorporation:** After entering the name of the company in the register. The Registrar issues a Certificate of Incorporation. This is called the birth certificate of the company.

**3 Capital Subscription:** A public company can raise funds from the public by issuing shares and Debentures. For this it has to issue prospectus and undergo various other formalities:

### **Steps in capital subscription:**

1. **SEBI Approval:** SEBI regulates the capital market of India. A public company is required to take approval from SEBI.

2. **Filing of Prospectus:** Prospectus means any documents which invites offers from the public to purchase share and Debenture of the company.

3. **Appointment of bankers, brokers, underwriters:** Banker of the company receive the application money. Brokers encourage the public to apply for the shares, underwriters are the person who undertake to buy the shares if these are not subscribed by the public. They receive a commission for underwriting.

4. **Minimum subscription:** According to the SEBI guide lines minimum subscription is 90% of the issue amount. If minimum subscription is not received then the allotment cannot be made and the application money must be returned to the applicants within 30 days.

5. **Application to Stock Exchange:** It is necessary for a public company to list their shares in the stock exchange therefore the promoters apply in stock exchange to list company shares.

6. **Allotment of Shares:** Allotment of shares means acceptance of share applied. Allotment letters are issued to the shareholders. The name and address of the shareholders submitted to the Registrar.

**4. COMMENCEMENT OF BUSINESS:** To commence business a public company has to obtain a certificate of commencement of Business. For this the following documents have to be filled with the registrar of companies.

1. A declaration that 90% of the issued amount has been subscribed.
2. A declaration that all directors have paid in cash in respect of allotment of shares made to them.
3. A statutory declaration that the above requirements have been completed and must be signed by the director of company.

#### **IMPORTANT DOCUMENTS IN THE FORMATION OF A COMPANY**

**1. Memorandum of Association:** It is the most important document as it defines the objectives of the company. No company can legally undertake activities that are not contained in its Memorandum of Association.

#### **Contents of Memorandum of Association:**

**(i) The name clause:** This clause contains the name of the company with which the company will be known.

**(ii) Registered office clause:** This clause contains the name of the state, in which the registered office of the company is proposed to be situated.

**(iii) Objects clause:** It defines the purpose for which the company is formed.

**(iv) Liability clause:** This clause limits the liability of the members to the amount unpaid on the shares owned by them.

**(v) Capital clause:** This clause specifies the maximum capital which the company will be authorised to raise through the issue of shares.

**2. Articles of Association:** Articles of Association are the rules regarding internal management of a company. These rules are subsidiary to the Memorandum of Association.

**Contents of the Articles:**

1. The amount of share capital and different classes of shares.
2. Rights of each class of shareholders.
3. Procedure for making allotment of shares.
4. Procedure for issuing share certificates.
5. Procedure for forfeiture and reissue of forfeited shares.
6. Rules regarding casting of votes and proxy voting
7. Procedure for selection and removal of directors
8. Dividend declaration and payment related rules
9. Procedure for capital readjustment
10. Procedure regarding winding up of the company.

**3 . Prospectus:** Prospectus means any document which invites deposits from the public to purchase share or debentures of a company.

**Choice of form of Business Organisation**

**(i) Cost and ease in setting up the organisation:** From the point of view of initial cost, sole proprietorship is the preferred form as it involves least expenditure. Company form of organisation, on the other hand, is more complex and involves greater costs.

**(ii) Liability:** In case of sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. In joint Hindu family business, only the karta has unlimited liability. In cooperative societies and companies, however, liability is limited.

**(iii) Continuity:** The continuity of sole proprietorship and partnership firms is affected by death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of Joint Hindu family business, cooperative societies and companies.

**(iv) Management ability:** A sole proprietor may find it difficult to have expertise in all functional areas of management. If the organisation's operations are complex in nature and require professionalised management, company form of organisation is a better alternative.

**(v) Capital considerations:** If the scale of operations is large, company form may be suitable whereas for medium and small sized business one can opt for partnership or sole proprietorship.

**(vi) Degree of control:** If direct control over operations and absolute decision-making power is required, proprietorship may be preferred. But if the owners do not mind sharing control and decision making, partnership or company form of organisation can be adopted.

**(vi) Nature of business:** If direct personal contact is needed with the customers, sole proprietorship may be more suitable. For large manufacturing

units, however, when direct personal contact with the customer is not required, the company form of organisation may be adopted. Similarly, in cases where services of a professional nature are required, partnership form is much more suitable.

### MCQ QUESTIONS

1. The certificate of .....is called as the birth certificate of the company.
  - A. Prospectus
  - B. Certificate of Incorporation
  - C. Certificate of commencement
  - D. Memorandum of Association
2. Assertion: A public company inviting funds from the general public must make adequate disclosure of all relevant information and must not conceal any material information from the potential investors.  
Reason: Prior approval from SEBI is necessary for protecting the interest of the investors.
  - (A) Both A and R are true. R is the correct explanation of A.
  - (B) Both A and R are true, but R is not the correct explanation of A.
  - (C) A is correct, but R is incorrect.
  - (D) A is incorrect, but R is correct.
3. Identify the stage which involves conceiving a business idea and taking an initiative to form a company so that practical shape can be given to exploiting the available business opportunity.
  - (A) Company
  - (B) Promotion
  - (C) Partnership
  - (D) None of these
4. It is a popular form of business organisation and is the most suitable form for small businesses, especially in their initial years of operation.
  - (A) Company
  - (B) JHF
  - (C) Partnership
  - (D) Sole proprietorship
5. The Memorandum of Association must be signed by at least .... Persons in case of a public company and by ..... persons in case of a private company.
  - A. 1 and 2
  - B. 2 and 5
  - C. 2 and 7
  - D. 7 and 2
6. Assertion: Promoters have to decide about the members who will be signing the Memorandum of Association of the proposed company.  
Reason: The people signing memorandum are also the first Directors of the Company.
  - (A) Both A and R are true. R is the correct explanation of A.
  - (B) Both A and R are true, but R is not the correct explanation of A.
  - (C) A is correct, but R is incorrect.
  - (D) A is incorrect, but R is correct.
7. Joint Hindu Family Business is controlled by the head of the family who is the eldest member and is called.....
  - A. Karanavar
  - B. Co-parcener

- C. Kartha
- D. Superior

8. A ..... partner is one whose association with the firm is unknown to the general public. Other than this distinct feature, in all other aspects he is like the rest of the partners. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.  
(A) Secret (B) Active (C) Zero (D) None of these
9. Assertion: Articles of Association are the rules regarding internal management of a company.  
Reason: The rules are not subsidiary to the Memorandum of Association.  
(A) Both A and R are true. R is the correct explanation of A.  
(B) Both A and R are true, but R is not the correct explanation of A.  
(C) A is correct, but R is incorrect.  
(D) A is incorrect, but R is correct.
10. As per Rule 10 of The Companies (miscellaneous) Rules 2014, at Present the maximum number of partners can be ...  
(A) 2 (B) 200 (C) 50 (D) 100

### **ANSWERS**

1. (B) Incorporation
2. (A) Both A and R are true. R is the correct explanation of A.
3. (B) Promotion
4. (D) Sole proprietorship
5. (D) Seven, two
6. (A) Both A and R are true. R is the correct explanation of A.
7. (c) Karta
8. **(A)** Secret
9. (C) A is correct, but R is incorrect.
10. (C) 50

### **Short Answer questions (3/4 Marks)**

1. Read the following text and answer questions(A-D) on the basis of the same.  
Sarah's friends lived in a small town of 1,000 people. They were struggling to make ends meet. They didn't own a home and were paying heavy rents, leaving them with minimal funds for other essentials. Sarah was concerned about their well-being and she wanted to help them. She listened to their challenges and offering emotional support. Her aim was to solve the housing problems of that locality by constructing houses and giving the option of paying in instalments. Sarah and her friends established an organisation to help people with limited income to construct houses at reasonable costs. f lats or provide plots to members on which the members themselves can

construct the houses as per their choice.

- A.** Name the form of organisation established by Sarah and her friends to solve their housing crisis?  
(A) Sole proprietorship  
(B) Partnership  
(C) Cooperative society  
(D) Company
- B.** Under which Act, these organisations are governed?  
(A) Indian Partnership Act, 1932  
(B) Cooperative Societies Act, 1912  
(C) The Companies Act, 2013  
(D) Hindu Succession Act, 1956
- C.** What is the minimum number of persons required to form such organisation?  
(A) 2 (B) 5 (C) 20 (D) 10
- D.** Who can become the members of the above identified organisation?  
(A) Person of Sound mind (B) Has a common interest (C) Any person who is above 18 years (D) All of the Above

**Answer:**

- 1.(C) Cooperative society
  2. (B) Cooperative Societies Act, 1912
  3. (D) 10
  4. (D) All of the Above
2. It can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. Identify the type of business organisation. Explain its merits.

**Ans: Joint stock company**

**Merits**

- i. Limited liability:** The shareholders are liable to the extent of the amount unpaid on the shares held by them.
  - ii. Transfer of interest:** The shares of a public limited company can be easily sold in the market and converted into cash in case the need arises. This avoids blockage of investment.
  - iii. Perpetual existence:** Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members.
  - iv. Scope for expansion:** Capital can be attracted from the public as well as through loans from banks and financial institutions. Thus there is greater scope for expansion.
  - v. Professional management:** A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specialisations.
3. Partnership firm's registration is optional, but still why do partnership firms willingly go through this legal formality and get themselves registered? Explain.

Ans: **The consequences of non-registration of a firm**

- a) A partner of an unregistered firm cannot file a suit against the firm or other partners,
- b) The firm cannot file a suit against third parties, and
- c) The firm cannot file a case against the partners.

4. Explain the choice of form of business organisation on the basis of:

i) Liability    ii) Continuity    iii) Management ability    iv) Capital consideration.

**i) Liability:** In case of sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. In joint Hindu family business, only the karta has unlimited liability. In cooperative societies and companies, however, liability is limited.

**(ii) Continuity:** The continuity of sole proprietorship and partnership firms is affected by death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of Joint Hindu family business, cooperative societies and companies.

**(iii) Management ability:** A sole proprietor may find it difficult to have expertise in all functional areas of management. If the organisation's operations are complex in nature and require professionalised management, company form of organisation is a better alternative.

**(iv) Capital considerations:** If the scale of operations is large, company form may be suitable whereas for medium and small sized business one can opt for partnership or sole proprietorship.

5. It is a voluntary association of persons, who join together with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits. Name the type of business organisation. Explain its types.**Ans: Co-operative society.**

**(i) Consumer's cooperative societies:** The consumer cooperative societies are formed to protect the interests of consumers; The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members.

**(ii) Producer's cooperative societies:** These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale.

**(iii) Marketing cooperative societies:** Such societies members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products.



**(iv) Farmer's cooperative societies:** These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The aim is to gain the benefits of large-scale farming and increase the productivity.

### **Long answer questions (6 marks)**

1. This form of business is particularly common in areas of personalised services such as beauty parlours, hair salons and small-scale activities like running a stationery shop in a locality. Identify the form of business organisation. Explain its advantages.

Ans: Sole proprietorship

#### **Merits**

**(i) Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision-making is prompt because there is no need to consult others.

**(ii) Confidentiality of information:** Sole decision-making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy.

**(iii) Direct incentive:** A sole proprietor directly gets the benefits of his efforts as he is the sole recipient of all the profit.

**(iv) Sense of accomplishment:** The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also a sense of accomplishment and confidence in one's abilities.

**(v) Ease of formation and closure:** Sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.

2. It is a specific form of business organisation found only in India which is one of the oldest types of business organisation in the country. Write a short note about this form of business.

Ans: **Joint Hindu Family Business**

This is a specific form of business organisation found only in India. It refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). It is governed by the Hindu Law. The basis of membership in the business is birth in a particular family and three successive generations can be members in the business. The business is controlled by the head of the family who is the eldest member and is called karta.

**(i) Formation:** There should be at least two members in the family and ancestral property to be inherited by them to start a sole proprietorship.

**(v) Minor Members:** The basis of membership in the business is birth in a particular family Hence, minors can also be members of the business.

**(ii) Liability:** The liability of all members except the karta is limited to their share of co-parcenary property of the business, But Karta has unlimited liability.

**(iii) Control:** The control of the family business lies with the karta. His decisions are binding on the other members.

**(iv) Continuity:** The business continues even after the death of the karta as the next eldest member takes up the position of karta, leaving the business stable.

**(v) Minor Members:** Minors can become the members of the business.

3. Compare different types of partners like active partner, dormant partner, secret partner and partner by estoppel on the basis of capital contribution, liability, participation in management and profit share.

**(i) Active partner:** An active partner is one who contributes capital, participates in the management, shares its profits and losses and has unlimited liability.

**(ii) Sleeping or dormant partner:** Partners who do not take part in the day to day activities of the business are called sleeping partners.

**(iii) Secret partner:** A secret partner is one whose association with the firm is unknown to the general public. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability.

**(iv) Partner by estoppel:** A person is considered a partner by estoppel if, through his own initiative, conduct or behaviour, he gives an impression to others that he is a partner of the firm. Such partners are held liable for the debts of the firm.

4. Briefly explain the various documents required to be submitted to get the company registered.

**1. Memorandum of Association:** It is the most important document as it defines the objectives of the company. No company can legally undertake activities that are not contained in its Memorandum of Association.

**2. Articles of Association:** Articles of Association are the rules regarding internal management of a company. These rules are subsidiary to the Memorandum of Association.

**3. Prospectus:** Invitation to public for subscription of shares.

5. As compared to the sole proprietorship and partnership forms of organisation, this form of organisation has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions. Identify the form of business organisation and explain its demerits.

**Ans: Joint stock company.**

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## Limitations

**(i) Complexity in formation:** As compared to sole proprietorship and partnership form of organisations, formation of a company is more complex.

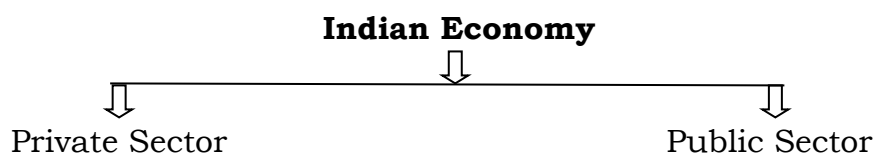
**(ii) Lack of secrecy:** The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy.

**(iii) Impersonal work environment:** Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company.

**(iv) Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

**(v) Delay in decision making:** Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

## CHAPTER-3 Public, Private and Global Enterprises



### Difference between Private Sector and Public Sector

Private Sector	Public Sector
<ul style="list-style-type: none"><li>• It includes the business enterprises owned, managed and controlled by individuals or group of individuals.</li><li>• Enterprises work with the main objective of earning profit.</li><li>• There is more freedom of operation.</li><li>• These are directly accountable to general public.</li><li>• Forms of Private Sector Enterprises are:<ul style="list-style-type: none"><li>○ Sole Proprietorship</li><li>○ Partnership</li><li>○ Joint Stock Company</li></ul></li></ul>	<ul style="list-style-type: none"><li>• It includes the enterprises and organisations owned and managed by government (central or state or both) either fully or partly.</li><li>• These are popularly known as Public Sector Undertakings /Enterprises (PSUs/PSEs).</li><li>• Enterprises work with the main motive of providing social welfare.</li><li>• There is less freedom of operation.</li><li>• These are accountable to general public as well as to parliament.</li><li>• Forms of Public Sector Enterprises:<ul style="list-style-type: none"><li>○ Departmental Undertakings</li><li>○ Statutory Corporations (Public Corporations)</li><li>○ Government Company</li></ul></li></ul>

(Public Company, Private Company and OPC) ○ Joint Hindu Family Business (Hindu Undivided Family) ○ Cooperative Society	
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**Public Sector Enterprises:**

**1. Departmental Undertakings:** These are established as departments of ministry and financed, managed and controlled by either central government or state government. Indian Railways, All India Radio, State Public Transportation (KSRTC, UPSRTC, RSRTC, etc.) are some examples of these.

**Departmental Undertakings:**

Features	Merits	Limitations
1. No Separate Entity 2. Financed by Government 3. Accounting & Audit Control as per Government Rules 4. Employees are Government Servants 5. Accountable to the concerned Ministry	1. Parliament has Effective Control 2. High Degree of Public Accountability 3. Source of Revenue for Government 4. Suitable for National Security	1. Lack of Flexibility 2. Leads to Delay 3. Avoids Risky Ventures 4. Over Political Interference 5. Promotes Red Tapism 6. Insensitive to Consumer Needs

**2. Statutory Corporations:** These are established by passing special Act in the Parliament. The Act defines its power, functions, rules, regulations of governing employees and its relationship with government. RBI, UTI, ONGC, LIC are some examples of these.

**Statutory Corporations:**

Features	Merits	Limitations
1. Set up under Act of Parliament 2. Separate Legal Entity 3. Employees are not Government Servants 4. Not Subject to Audit & Accounting like Government Department 5. Independently Financed 6. Wholly owned by Government	1. Internal Autonomy 2. Quick decisions 3. Effective Parliamentary control 4. Efficient Management 5. No Interference by Government in Finance	1. Autonomy for name's sake 2. Major Political Interference 3. Hub of Corruption 4. Appointment of Advisors by Government

**3. Government Company:** A government company is a company which is registered under the Companies Act, 2013 and in which not less than 51% of the paid-up capital is held by central government or state government or jointly by both. BHEL, SAIL, NMDC, etc. are some examples of it.

**Government Company:**

<b>Features</b>	<b>Merits</b>	<b>Limitations</b>
1. Registered under the Companies Act, 2013 2. Separate Legal Entity 3. Management by Provisions of the Companies Act 4. Employees are appointed as per MOA of Companies 5. Auditor is appointed by Government 6. Permitted to raise funds from Capital Market	1. Easy to Form 2. Separate Legal Entity 3. Enjoys Autonomy 4. Able to Control Market	1. Interference of Ministers and Government Officials 2. Not Directly Answerable to Parliament 3. Government is the Sole Shareholder 4. Provisions of the Companies Act do not have much Relevance

**Multi-national Company/Global Enterprise:**

- Global enterprises are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries but these have their headquarters in one country in which these are incorporated.
- Walmart, IBM, Microsoft, Toyota Motors, Coca cola, Wipro, Infosys, Apple Inc. are some examples of MNCs.

**Features of MNCs:**

**1. 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.

**2. International Operations:**

- An MNC has production, marketing and other facilities in several countries.

**3. Foreign Collaborations:**

- 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.

**4. Huge Capital Resources:**

- MNCs possess huge capital resources and they are able to raise lot of funds from various sources.

**5. Advanced technology:** These organisations possess advanced and superior

technology which enables 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.

**Joint Venture:**

- When two or more businesses agree to join together for a common purpose and mutual benefit, it gives rise to a joint venture.
- These two or more organisations may be private, government-owned or a foreign company.
- In a broader sense, a joint venture is the pooling of resources and expertise by two or more businesses, to achieve a particular goal.

**Benefits of Joint Venture:**

**(a) Increased resources and capacity:**

Joining hands with another or teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently.

**(b) Access to new markets & distribution networks:**

When a business enters into a joint venture with a partner from another country, it opens up a vast growing market.

**(c) Access to technology:**

Technology is a major factor for most businesses to enter into joint ventures. Advanced techniques of production leading to superior quality products save a lot of time, energy & investment as they do not have to develop their own technology.

**(d) Innovation:**

The markets are increasingly becoming more demanding in terms of new and innovative products. Joint ventures allow business to come up with something new and creative for the same market.

**(e) Low cost of production:**

When international corporations invest in India, they benefit immensely due to the lower cost of production. They are able to get quality products for their global requirements. India is becoming an important global source and extremely competitive in many products.

**(f) Established brand name:**

When two businesses enter into a joint venture, one of the parties' benefits from the other's goodwill which has already been established in the market. If the joint venture is in India and with an Indian company, the Indian company does not have to spend time or money in developing a brand name for the product or even a distribution system.

**Public Private Partnership (PPP):**

- PPP is defined as a relationship between public and private entities in the context of infrastructure and other services.
- The public partners in PPP are Government entities, i.e., ministries, government departments, municipalities or state-owned enterprises.
- The private partners can be local or foreign and include businesses or investors with technical or financial expertise relevant to the project.
- Under the PPP model, public sector plays an important role and ensures that the social obligations are fulfilled and sector reforms and public investment are successfully met.
- The private sector's role in the partnership is to make use of its expertise in operations, managing tasks and innovation to run the business efficiently.
- 135 Km expressway by Kundli Manesar Expressway Ltd., Delhi Metro Railway Corporation, and Automated Testing Stations are some examples of PPP projects.

**Features of PPP Model:**

- Contract with the private party to design and build public facility.
- Facility is financed and owned by the public sector.
- Key driver is the transfer of design and construction risk.

**Multiple Choice Questions (MCQs)/One Mark Questions****Q.1** Match the following:

<b>A</b>	<b>B</b>
i) Financed through budget allocation	1. Statutory Corporations
ii) Formed by special Act	2. MNCs
iii) Incorporated under Companies Act.	3 Departmental Undertakings
iv) Centralised control over the operations	4. Government Company

- (a) i)-3, ii)-1, iii)-4, iv)-2      (b) i)-4, ii)-2, iii)-3, iv)-1  
 (c) i)-1, ii)-2, iii)-3, iv)-4      (d) i)-3, ii)-1, iii)-2, iv)-4

**Q.2** Government decided to sell the shares in Telecom department to private sector. This is an example of \_\_\_\_\_

- (a) Disinvestment                      (b) Memorandum of Undertaking  
 (c) Reconstruction                      (d) Rehabilitation

**Q.3** LIC is an example of a.....

- (a) Multinational Company                      (b) Departmental Undertaking  
 (c) Statutory Corporation                      (d) None of these

**Q.4** Public Sector Enterprises (PSEs / PSUs) are owned and managed by \_\_\_\_\_

- (a) HUF    (b) Government  
 (c) Private Sector                                      (d) Foreign Companies

**Q.5** Which among the following is a departmental undertaking?

- (a) Air India            (b) LIC            (c) SBI            (d) Indian Railways

**Q.6** Pick out the departmental undertaking from the following:

- (a) Shipping Corporation of India            (b) RBI  
(c) Indian Railways            (d) LIC

**Q.7** Identify the business which is brought in to existence by a Special Act of Parliament or State Legislature.

- (a) Departmental Organisation            (b) Public Corporation  
(c) Government Company            (d) Private Company

**Q.8** What is the minimum portion that the Government should hold in the paid-up capital of a Government Company?

- (a) 49%            (b) 51%            (c) 50%            (d) 25%

**Instructions:** **Q.9** to **Q.12** are based on Assertion and Reason. In each question, on the basis of (A) and (R) given in the question, choose the correct choice from the options given below:

- (a) Both **(A)** and **(R)** are wrong  
(b) Only **(A)** is right and **(R)** is wrong  
(c) Both **(A)** and **(R)** are right and **(R)** is the correct explanation of **(A)**  
(d) Both **(A)** and **(R)** are right but **(R)** is not the correct explanation of **(A)**

**Q.9 Assertion (A):** When a national security is concerned, departmental undertakings form of public sector enterprises is most suitable.

**Reason (R):** Departmental undertaking is under the direct control and supervision of the concerned ministry.

**Q.10 Assertion (A):** The government generally does not interfere in their financial matters, including their income and receipts.

**Reason (R):** The funds of these organisations do not come from the central budget.

**Q.11 Assertion (A):** Partnership is a relation between two or more persons who agree to

carry on a business to share profits.

**Reason (R):** Joint ventures and partnership are same.

**Q.12 Assertion (A):** MNCs have centralised control.

**Reason (R):** They only aim at maximising profits irrespective to spreading their branches all over.

**Instructions:** **Q.13** to **Q.16** are based on two statements, in each question, choose

the correct option from the following:

- (a) Both **Statements** are wrong  
(b) **Statement I** is right and **Statement II** is wrong  
(c) **Statement I** is wrong and **Statement II** is right  
(d) Both **Statements** are right

**Q.13 Statement I:** A statutory corporation is established under the Companies Act, 2013



and is registered and governed by the provisions of the Act.

**Statement II:** A government company may be formed as a private limited company or a public limited company.

**Q.14 Statement I:** The shares of a government company are purchased in the name of the President of India.

**Statement II:** The government is the major shareholder and exercises control over the management of government companies.

**Q.15 Statement I:** Qualitative research requires huge investment which only global enterprises can afford.

**Statement II:** Global enterprises possess a more reliable and upto-date market information system. Their advertising and sales techniques are normally very effective.

**Q.16 Statement I:** A public private partnership ensures higher quality and timely provision of public services.

**Statement II:** Huge industrial organization which extend their industrial operations through a network of their branches in several countries are known as global enterprises.

**Read the following and answer Q.17 to Q.20 on the basis of the same:**

Indian Railways is a part of Railway Ministry. It is organised, financed and controlled by

Railway Ministry. The finances are allocated from government treasury and whatever

revenue it earns is deposited to government treasury only. It is treated as a part of government and even the appointment recruitment and selection of employees is done in the same way as that of civil servant.

Gas Authority of India Ltd. (GAIL) is carrying on various projects of energy and power.

Majority of its shares are held by the government of India. It was registered under the

previous Companies Act. It enjoys all the characteristics of a company. The board of

directors are appointed by the government. The Board and shareholders are responsible

for the efficient working of the company. The company prepares its annual report and

submit to the appropriate authorities.

**Q.17** Name the type of public sector enterprise Indian Railways is:

- |                           |                              |
|---------------------------|------------------------------|
| (a) Government Company    | (b) Departmental Undertaking |
| (c) Statutory Corporation | (d) Public Company           |

**Q.18** How does Indian Railways get its finance?

- |                                |                              |
|--------------------------------|------------------------------|
| (a) Independently financed     | (b) From government treasury |
| (c) From Reserve Bank of India | (d) From the public          |

**Q.19** Name the type of public sector enterprise GAIL is:

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- (a) Government Company
- (c) Statutory Corporation

- (b) Departmental Undertaking
- (d) Public Company

**Q.20** In whose name does the public sector enterprise identified in Q.19 buy shares?

- (a) The Central Bank
- (c) The President of India
- (b) The Governor of India
- (d) The Prime Minister of India

**Answer Key**

1 (a)	2 (a)	3 (c)	4 (b)	5 (d)	6 (c)	7 (b)	8 (b)	9 (c)	10 (c)
11 (b)	12 (b)	13 (c)	14 (d)	15 (d)	16 (d)	17 (b)	18 (b)	19 (a)	20 (b)

**Very Short Answer Type Questions ( 3 Marks Questions)**

**Q.1** The Government of India planned to begin a Road Project. The Government needed management specialists and financial help to complete it. The Government contacted the private sector to fulfill this requirement. Now, this project will be completed jointly by both the public sector and private sector.

- (a) Identify the form of enterprise.
- (b) Give any two features of such enterprise.

**Ans.** (a) Public Private Partnership

(b) Features:

1. Contract with the private party to design and build public facility.
2. Facility is financed and owned by the public sector.

**Q.2** Differentiate between private sector and public sector enterprises.

**Ans. Difference between Private Sector and Public Sector**

Private Sector	Public Sector
<ul style="list-style-type: none"> <li>• It includes the business enterprises owned, managed and controlled by individuals or group of individuals.</li> <li>• Forms of Private Sector Enterprises are:               <ul style="list-style-type: none"> <li>○ Sole Proprietorship</li> <li>○ Partnership</li> <li>○ Joint Stock Company</li> </ul> </li> </ul> (Public Company, Private Company & OPC) <ul style="list-style-type: none"> <li>○ Joint Hindu Family Business</li> <li>○ Cooperative Society</li> </ul>	<ul style="list-style-type: none"> <li>• It includes the enterprises and organisations owned and managed by government (central or state or both) either fully or partly.</li> <li>• These are popularly known as Public Sector Undertakings /Enterprises (PSUs/PSEs).</li> <li>• Forms of Public Sector Enterprises:               <ul style="list-style-type: none"> <li>○ Departmental Undertakings</li> <li>○ Statutory Corporations (Public Corporations)</li> <li>○ Government Company</li> </ul> </li> </ul>

**Q.3** “Departmental Undertakings are a curse for public enterprise.” Do you agree? Give reasons to support your answer.

**Ans.** Yes.

**Reasons:**

1. Lack of Flexibility

2. Leads to Delay
3. Avoids Risky Ventures
4. Over Political Interference

**Q.4** “multi-national corporations are giants both in terms of assets and operations.” Explain this statement.

**Ans.**

**1. Huge Capital Resources:**

MNCs possess huge capital resources and they are able to raise lot of funds from various sources.

**2. International Operations:**

An MNC has production, marketing and other facilities in several countries.

**3. Foreign Collaborations:**

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.

**Q.5** Why is the government company form of organisation preferred to other types in the public sector?

**Ans. Merits of Government Company:**

1. Easy to Form
2. Separate Legal Entity
3. Enjoys Autonomy

**Short Answer Type Questions/Four Marks Questions**

**Q.1** To overcome the difficulties faced by public in public transport system, the government of India started the METRO project in which the government involved private sector participation to get the benefits of efficiency of private sector. The project was great success as lakhs of people are enjoying the metro service to move from one place to other.

- (a) Identify the form of enterprise.
- (b) Give any three features of such enterprise.

**Ans.** (a) Public Private Partnership

(b) Features:

1. Contract with the private party to design and build public facility.
2. Facility is financed and owned by the public sector.
3. Key driver is the transfer of design and construction risk.

**Q.2** Distinguish between Departmental Undertakings and Statutory Corporation on the basis of:

- |                   |                   |
|-------------------|-------------------|
| (i) Incorporation | (ii) Legal Status |
| (iii) Autonomy    | (iv) Suitability  |

**Ans. Departmental Undertakings Vs Statutory Corporation**

Basis	Departmental Undertakings	Statutory Corporation
-------	---------------------------	-----------------------

Incorporation	These are not incorporated under any act but established by the ministry as department of government	These are incorporated under special act passed in parliament
Legal Status	No separate legal entity	It has separate legal entity
Autonomy	No autonomy	Sufficient autonomy
Suitability	Where national security is concerned	Industrial and commercial undertaking of national priority

**Q.3** Name the enterprise which is the result of partnership between two companies. Why do two companies unite together to work as one enterprise? Give at least three reasons.

**Ans.** Joint Venture.

**Reasons:**

**1. Increased Resources and Capacity:**

Joining hands with another or teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently

**2. Access to New Markets and Distribution Networks:**

When a business enters into a joint venture with a partner from another country, it opens up a vast growing market.

**3. Access to Technology:**

Technology is a major factor for most businesses to enter into joint ventures. Advanced techniques of production leading to superior quality products save a lot of time, energy & investment as they do not have to develop their own technology.

**Q.4** Name the organisation which is established by passing a Special Act of Parliament or State Legislature. Give any three characteristics of such enterprise.

**Ans.** Statutory Corporation

**Characteristics:**

1. Set up under Act of Parliament
2. Separate Legal Entity
3. Employees are not Government Servants

**Q.5** You must have consumed soft drinks like Coca cola and Pepsi. Identify these companies and discuss three features of such companies.

**Ans.** Global Enterprises/Multi-national Corporations

**Features:**

**1. Advanced technology:**

These organisations possess advanced and superior technology which enables them to provide world class products & services.

**2. Product Innovations:**

MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.

### **3. Marketing Strategies:**

MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion

### **Long Answer Type Questions/Six Marks Questions**

**Q.1** The Tata Group, founded by Jamshedji N. Tata in 1868, as a private trading firm. Presently doing business in different segments like steel, automobiles, energy, home care products, etc. The group is managed by professional managers appointed by the Board of Directors. The business group enjoy global leadership and its main motive is to earn profit and generate wealth. The group is not accountable to the public.

(i) The given case is referring to the working of a private sector enterprise. Name the other sector which is also working in our mixed economy.

(ii) In the instant case, the group is not accountable to the public. State to whom the group is accountable?

(iii) What is the main aim of public sector enterprises?

(iv) In whose hand the management of public enterprises are entrusted?

(v) Does public enterprises have freedom of operations?

(vi) Are public enterprises accountable to the public?

**Ans.**

(i) Public Sector

(ii) Owners/Investors

(iii) To render services to the public at large.

(iv) The management and control lies in the hands of the Board of Directors having more of government representatives.

(v) Due to government interference, freedom of operation is less.

(vi) Yes, these enterprises are accountable to the public through Parliament.

**Q.2** Explain the characteristics of global enterprises.

**Ans. Characteristics of Global Enterprises:**

#### **1. 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.

#### **2. International Operations:**

- An MNC has production, marketing and other facilities in several countries.

#### **3. Foreign Collaborations:**

- 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.

#### **4. Huge Capital Resources:**

- MNCs possess huge capital resources and they are able to raise lot of funds from various sources.

#### **5. Advanced technology:**

- These organisations possess advanced and superior technology which enables 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.

**Q.3** Discuss the benefits of Joint Venture.

**Ans. Benefits of Joint Venture:**

**(a) Increased resources and capacity:**

Joining hands with another or teaming up adds to existing resources and capacity enabling the joint venture company to grow and expand more quickly and efficiently.

**(b) Access to new markets & distribution networks:**

When a business enters into a joint venture with a partner from another country, it opens up a vast growing market.

**(c) Access to technology:**

Technology is a major factor for most businesses to enter into joint ventures. Advanced techniques of production leading to superior quality products save a lot of time, energy & investment as they do not have to develop their own technology.

**(d) Innovation:**

The markets are increasingly becoming more demanding in terms of new and innovative products. Joint ventures allow business to come up with something new and creative for the same market.

**(e) Low cost of production:** When international corporations invest in India, they benefit immensely due to the lower cost of production.

**(f) Established brand name:**

When two businesses enter into a joint venture, one of the parties benefits from the other's goodwill which has already been established in the market.

**Q.4** What do you understand by public sector enterprise? Describe the various forms of public sector enterprises.

**Ans. Public Sector Enterprise:**

It includes the enterprises and organisations owned and managed by government (central or state or both) either fully or partly. These are popularly known as Public Sector Undertakings /Enterprises (PSUs/PSEs).

Forms of Public Sector Enterprises:

- Departmental Undertakings
- Statutory Corporations (Public Corporations)
- Government Company

**1. Departmental Undertakings:** These are established as departments of ministry and financed, managed and controlled by either central government or state government. Indian Railways, All India Radio, State Public Transportation (KSRTC, UPSRTC, RSRTC, etc.) are some examples of these.

**2. Statutory Corporations:** These are established by passing special act in the parliament. The act defines its power, functions, rules, regulations of governing employees and its relationship with government. RBI, UTI, ONGC, LIC are some examples of these.

**3. Government Company:** A government company is a company which is registered under the Companies Act, 2013 and in which not less than 51% of the paid-up capital is held by central government or state government or jointly by both. BHEL, SAIL, NMDC, etc. are some examples of it.

**Q.5** What are public corporations? Narrate their features, merits and limitations.

**Ans. Public Corporations:** These are also known as statutory corporations. These are established by passing special act in the parliament. The act defines its power, functions, rules, regulations of governing employees and its relationship with government. RBI, UTI, ONGC, LIC are some examples of these.

**Statutory Corporations:**

<b>Features</b>	<b>Merits</b>	<b>Limitations</b>
1. Set up under Act of Parliament 2. Separate Legal Entity 3. Employees are not Government Servants 4. Not Subject to Audit & Accounting like Government Dept 5. Independently Financed 6. Wholly owned by Government	1. Internal Autonomy 2. Quick decisions 3. Effective Parliamentary control 4. Efficient Management 5. No Interference by Government in Finance	1. Autonomy for name's sake 2. Major Political Interference 3. Hub of Corruption 4. Appointment of Advisors by Government

**CHAPTER 4 BUSINESS SERVICES**

**BUSINESS SERVICES**

**Meaning :** Business services are those services which are used by business enterprises for the conduct of their activities. For example, banking, insurance, transportation, warehousing and communication services.

**Types of Business Services**

1. Baking
2. Insurance
3. Transportation
4. Warehousing
5. Communication

**Banking:**

A banking company in India is the one which transacts the business of banking which means accepting, for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques or otherwise.

## **Types of Bank Accounts**

1. **Savings Deposit Account:** This type of bank account encourages the small savings of individuals. The deposits in this account are made by persons who wish to save a little out of their incomes. Interest is paid at nominal rate.
2. **Current Deposit Account:** these deposit accounts are most suitable for business organization. In this account, a depositor can deposit money any number of time and can withdraw it as and when requires it. No interest is paid on these accounts.
3. **Recurring Deposit Account:** in this type of account a depositor deposits a fixed amount of money on monthly basis for a fixed period. Rate of interest on RD account is generally higher than that of Savings account.
4. **Fixed Deposit Account:** money is deposited in fixed deposit account for a fixed period. Fixed accounts are time deposits with higher rate of interest as compared to the savings accounts. The amount of deposit is repayable by the bank after the expiry of the fixed term.
5. **Multiple Option Deposit Account:** It is a combination of savings account and Fixed Deposit Account which provide specific options to the depositors. It is a type of Savings Deposit Account in which amount of deposit in excess of a particular limit gets automatically transferred to Fixed Deposit Account

## **Banking Services**

1. **Bank Draft:** It is also known as Demand Draft. It is an instrument which is used for the transfer of funds.
2. **Bank Overdraft:** The bank allows a customer to overdraw his current account balance up to an agreed limit. The customer has to pay interest on the amount overdrawn by him.
3. **Cash Credits:** It is a short- term cash loan to a company. The borrower is sanctioned a credit limit up to which it may draw amounts from the bank. This credit limit is determined by the bank's estimation of the borrower's credit worthiness.

### **E- Banking:**

In simple terms, Internet banking means any user with a PC or mobile and a browser can get connected to the banks website to



perform any of the virtual banking functions and avail of any of the bank's services.

The range of services offered by e-banking are: Automated Teller Machines (ATM), Point of Sales (PoS), Electronic Data Interchange (EDI), Credit Cards, Electronic or Digital cash and Electronic bank transfer (EFT).

### **Types of Digital Payments**

- 1) **Electronic Funds Transfer (EFT):** EFT are electronic transfer of money from one bank account to another either within a single financial institution or across multiple institutions.
- 2) **Credit or Debit Cards (Plastic Cards):** The customer can make digital payments for online transactions through credit or debit cards.
- 3) **Digital Cash:** Digital cash (or e-cash) is a system of purchasing cash credits, storing the credits in computer or digital wallet, and then spending them while making electronic purchases over the internet or in person.
- 4) **Aadhaar Enabled Payment System (AEPs):** It can be used for payment transactions. This service can only be availed if Aadhaar number is registered with the bank.
- 5) **Mobile Wallets:** A mobile wallet stores credit card or debit card information on a mobile device like phone, a tablet, or smartwatch. Mobile wallets are a convenient way to buy things online or in stores that are set up to take payments through mobile wallet.
- 6) **Point of Sale (POS):** Point of sale (POS) is where a customer makes the payment for goods purchased in a store. POS can be found at restaurants, hospitals, gas stations, hotels, etc., to allow a space for customers to pay their bills.
- 7) **Unified Payments Interface (UPI):** It is a way to move money from one bank account to another using a single window. We can send or receive money or scan a quick response (QR) code to pay a person, a merchant, or a service provider to shop, pay bills, or authorize payments.
- 8) **Bharat Interface for Money (BHIM):** It is a UPI enabled initiative to facilitate safe, easy and instant digital payments through your mobile phone.
- 9) **Micro ATM:** Micro ATMs are like modified point of sales terminals which can connect to banking network via GPRS to perform banking transactions. This machine contains card swipe facility.
- 10) **Prepaid Cards:** A prepaid card is a card with money loaded on it, which can be used to pay for things at many stores and online.

**INSURANCE:** It is a contract or agreement under which one party agrees in return for a consideration (called premium) to pay an agreed amount of money to another party to make good a loss, damage or injury to something of value.

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Under the contract of insurance, the person whose risk is insured is called insured and the firm which insures the risk of loss is known as insurer.

### **PRINCIPLES OF INSURANCE**

- (i) **Utmost good faith:** A contract of insurance is a contract of uberrimae fidei i.e., a contract founded on utmost good faith. Both the insurer and the insured should display good faith towards each other in regard to the contract. It is the duty of the insured to voluntarily make full, accurate disclosure of all facts, material to the risk being proposed and the insurer to make clear all the terms and conditions in the insurance contract.
- (ii) **Insurable Interest:** The insured must have an insurable interest in the subject matter of insurance. Insurable interest of the insured in the subject matter of the insurance must exist at the time of happening of the event.
- (iii) **Indemnity:** All insurance contracts of fire or marine insurance are contracts of indemnity. According to it, the insurer undertakes to compensate the insured for the loss caused to him/her due to damage or destruction of property insured. The principle of indemnity is not applicable to life insurance.
- (iv) **Proximate Cause:** According to this principle, an insurance policy is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy. In case of loss arising out of any mishap, the most proximate cause of the mishap should be taken into consideration.
- (v) **Subrogation:** It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim. After the insured is compensated for the loss or damage to the property insured by him/her the right of ownership of such property passes on to the insurer. This is because the insured should not be allowed to make any profit, by selling the damaged property or in the case of lost property being recovered.
- (vi) **Contribution:** According to this principle, in case of double insurance, the insurers are to share the losses in proportion to the amount assured by each of them. In case there is a loss, when there is more than one policy on

the same property, the insured will have no right to recover more than the full amount of his actual loss.

### **Types of Insurance: Life, Fire, Marine and Health**

- 1. Life Insurance:** Life insurance may be defined as a contract in which the insurer in consideration of a certain premium, (either in a lump sum or by other periodical payments,) agrees to pay to the assured, or to the person for whose benefit the policy is taken, the assured sum of money, on the happening of a specified event contingent on the human life or at the expiry of certain period.
- 2. Fire Insurance:** Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during a specified period up to the amount specified in the policy. Normally, the fire insurance policy is for a period of one year after which it is to be renewed from time to time.
- 3. Marine insurance:** A marine insurance contract is an agreement whereby the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed against marine losses. Marine insurance provides protection against loss by marine perils or perils of the sea.
- 4. Health Insurance:** A health insurance is a contract between an insurer and an individual or group in which the insurer agrees to provide specified health insurance at an agreed-upon the premium, payable either in a lump sum or installments.

### **POSTAL SERVICE**

- 1. Mail Services:** Mail services consist of parcel facilities that is transmission of articles from one place to another; registration facility to provide security of the transmitted articles and insurance facility to provide insurance cover for all risks in the course of transmission by post.
- 2. Registered Post:** It is a service provides a higher level of security and tracking for packages as it is assigned a unique tracking number that helps to monitor its progress from the time it is dispatched until it is delivered.
- 3. Parcel:** It is a service of post office for sending books, garments etc. across the country as well as outside the country.

4. **Speed Post:** It has over 1000 destinations in India and links with 97 major countries across the globe.
5. **Courier Services:** It is provided by private post offices for sending and receiving letters, documents parcels, etc.

## TELECOM SERVICES

- (i) **Cellular mobile services:** These are all types of mobile telecom services including voice and non-voice messages, data services
- (ii) **Fixed line services:** These are all types of fixed services including voice and non-voice messages and data services to establish linkages for long distance traffic.
- (iii) **Cable services:** These are linkages and switched services within a licensed area of operation to operate media services, which are essentially one way entertainment related services. The two-way communication including voice, data and information services through cable network.
- (iv) **VSAT services:** VSAT (Very Small Aperture Terminal) is a satellite-based communications service. It offers businesses and government agencies a highly flexible and reliable communication solution in both urban and rural areas.
- (v) **DTH services:** DTH (Direct to Home) is again a satellite-based media services provided by cellular companies.

## MULTIPLE CHOICE QUESTIONS

1. -----is a type of Savings Deposits Account in which amount of deposit in excess of a particular limit gets automatically transferred to Fixed Deposit Account. And, in case sufficient funds are not available in Saving Deposits Account to honour a cheque issued, the required amount gets automatically transferred from Fixed Deposit Account to the Savings Deposits Account
  - (a) Recurring Deposit (RD) Account (b) Multiple Option Deposit Account
  - (c) Current Deposit Account (d) None of these
2. Which of the following is not included in the range of services offered by e-banking?
  - (a) Automated Teller Machines (ATM) (b) Bank Overdraft
  - (c) Digital cash d) Mobile wallet
3. All types of deposits in banks carry interest except-----

(a) Savings Account deposits b) Current Deposit Account

(c) Fixed Deposits d) Recurring Deposits

4. Read the following statements carefully – Assertion (A) and Reason (R) and choose the correct alternative:

**Assertion (A):** Banking, insurance, transportation, warehousing and communication services are examples of Business Services

**Reason (R):** These services are used by business enterprises for the conduct of their activities.

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is true, but Reason (R) is false

(d) Assertion (A) is false, but Reason (R) is true

5. Which of the following is not an example of 'Business Service'?

a) Transportation b) Warehousing c) Banking d) Recreational services

6. "Loss" is not measurable in this type of insurance. Name the type of such insurance.

a) Life insurance. b) Fire insurance c) Marine insurance. d) Accident insurance.

7. DTH services are provided by

a) Transport companies. b) Banks c) Cellular companies d) None of the above

8. Mrs. Kavitha is working as an accountant in ABC Ltd. She wants to deposit ₹4,000 every month in a bank in order to meet her son's future education expenses. Suggest the best deposit a/c she should open in a bank.

a) Savings Bank a/c b) Fixed Deposit a/c c) Recurring Deposit a/c

d) Multi- Option Deposit a/c

9. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the time of death or at the expiry of a certain period. Choose the correct option for it.

- a) Fire Insurance b) Marine Insurance c) Medical Insurance d) Life Insurance

10. There are two statements marked as Assertion (A) and Reason (R).

Read the statements and choose the appropriate option from the options given below:

**Assertion (A)** There is always an element of risk in life and business.

**Reason (R)** Insurance is a tool which is used to minimise the impact of such risks.

- (a) Both the Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)  
(b) Both the Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)  
(c) Assertion (A) is true, but Reason (R) is false  
(d) Assertion (A) is false, but Reason (R) is true

11. Identifying the emerging mode of business service shown in the picture below:



- a) Communication b) e-Banking  
c) Warehousing d) Insurance

12. Roshan, the owner of GB Fertilizers opened a current account in State Bank of India. One day he needed money more than the balance in the account. He was worried about how to arrange the money. He needed the amount for 1 month. One of his friends told him that the customer having current account in the bank can get the permission to withdraw money more than the balance in the account after making an agreement with the bank.

Identify the facility provided by the bank referred to in the above case.

- a) Cash credit b) Bankers' cheque c) Bank draft d) Bank overdraft

13. **Assertion (A):** According to the principle of Subrogation, the insured should not be allowed to make any profit by selling damaged property or in case of lost property being recovered.

**Reason (R):** Principle of Subrogation is corollary to the principle of Indemnity and damaged goods will belong to the insurance company, once the  
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compensation is paid. It also states that insurance is not a contract of making profit.

- a) Both Assertion and Reason are correct and (R) is the correct explanation to (A).
- b) Both Assertion and Reason are incorrect.
- c) Assertion is correct, but Reason is incorrect.
- d) Assertion is incorrect, but Reason is correct.

14. A contract of insurance is a contract of ‘uberrimae fidei’: which principle of insurance is being highlighted?

- a) Indemnity b) Subrogation c) Utmost good faith d) Insurable interest

15. Insurable interest must exist at the time of loss only in case of

- a). Life insurance b). Fire Insurance c). Marine insurance d) all of these.

### MCQs ANSWERS

1	b	2	b	3	b	4	a	5	d
6	a	7	d	8	c	9	d	10	a
11	b	12	d	13	a	14	c	15	d

### SHORT ANSWER QUESTIONS

1. Identify and explain any three types of digital payments shown in the picture below:



Ans.1. Credit or Debit Cards (Plastic Cards) : The customer can make digital payments for online transactions through credit or debit cards.

2. Mobile Wallets: A mobile wallet stores credit card or debit card information on a mobile device like phone, a tablet, or smartwatch. Mobile wallets are a convenient way to buy things online or in stores that are set up to take payments through mobile wallet.

3. Micro ATM: Micro ATMs are like modified point of sales terminals which can connect to banking network via GPRS to perform banking transactions. This machine contains card swipe facility.

2. Postal services are important for modern business. Indian Post & Telegraph department provides various postal services across India through 22 postal circles. In the light of this statement explain the different

types of postal services.

**ANS:**

- a. Mail Services: Mail services consist of parcel facilities that is transmission of articles from one place to another; registration facility to provide security of the transmitted articles and insurance facility to provide insurance cover for all risks in the course of transmission by post.
- b. Registered Post: It is a service provides a higher level of security and tracking for packages as it is assigned a unique tracking number that helps to monitor its progress from the time it is dispatched until it is delivered.
- c. Parcel: It is a service of post office for sending books, garments etc. across the country as well as outside the country.
- d. Speed Post: It has over 1000 destinations in India and links with 97 major countries across the globe.
- e. Courier Services: It is provided by private post offices for sending and receiving letters, documents parcels, etc.

4. Explain any three types of insurance.

**Ans:**

- a) Life Insurance: Life insurance may be defined as a contract in which the insurer in consideration of a certain premium, (either in a lump sum or by other periodical payments,) agrees to pay to the assured, or to the person for whose benefit the policy is taken, the assured sum of money, on the happening of a specified event contingent on the human life or at the expiry of certain period.
- b) Fire Insurance: Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during a specified period upto the amount specified in the policy. Normally, the fire insurance policy is for a period of one year after which it is to be renewed from time to time.
- c) Marine insurance: A marine insurance contract is an agreement whereby the insurer undertakes to indemnify the insured in the



manner and to the extent thereby agreed against marine losses. Marine insurance provides protection against loss by marine perils or perils of the sea.

4. Krishna completed her degree course and decided to set up an IAS coaching class to girls of poor families who couldn't bear the high fee charged by reputed coaching centres. Her father agreed for this and gave her Rupees 10 lakh to establish the institute as a start-up. She used Rupees 5 lakh for the infrastructure facilities and the remaining amount deposited in the savings bank account. One of her friends was a bank employee, advised her to keep it in fixed deposit account. But Krishna replied that she would need money any time, hence could not keep in fixed deposit. Then her friend told her that she could deposit this amount in such an account which would serve the purpose of both savings account and fixed deposit account. Identify and explain the type of bank account which was explained by Krishna's friend.

**Ans.** Multiple Option Deposit Account: A kind of deposit scheme introduced by different banks, where the excess amount in the savings bank account is transferred to fixed deposit account and the account holder earns more rate of interest. If the bank receives a cheque for this account and the balance is not sufficient, the amount will be transferred from fixed deposit account to savings bank account to clear the cheque.

5. Vimal took out the life insurance policy of his wife. After one year the couple got divorced and after two years, his wife met with an accident and died on the spot. Is Vimal entitled to get compensation from the insurance company? If Vimal was regularly paying the premium amount?

**Ans:** Yes, Vimal is entitled to the compensation because in case of the life insurance policy, the insurable interest must be present at the time of contract. So, Vimal will get the compensation for the death of his wife even after divorce

### **LONG ANSWER QUESTIONS**

1.
  - a) Amit took an insurance policy against his car and after 3 months he sold the car to Biju. The car was stolen from outside Biju's house. Amit made a claim to the insurance company. His claim was rejected on the ground that Amit was

no longer the owner of the car, so he has no right to get the compensation.

- (i) Was Amit eligible for compensation from the insurance company?
- (ii) Which principle of Insurance is applicable here? Explain.

b) Mr. Hareesh gets his house insured against fire for Rs.10 Lakh with Insurer A and for Rs. 5 Lakh with B. The house was damaged due to landslide and incurred a loss of Rs.6 Lakh. How much compensation can Mr. Haree claim from A and B? Give reason in support of your answer by explaining the principle of insurance applicable.

**Ans.** (i) No

(ii) Insurable interest: The insured must have an insurable interest in the subject matter of insurance. Insurable interest means some pecuniary interest in the subject matter of the insurance contract.

b) Hareesh can claim ₹4,00,000 from A and ₹1,00,000 from B. According to the Principle of Contribution, if a person takes out 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 him for the actual loss.

2. Read the following and answer the question that follow on the basis of the same:

All of us have seen a petrol station. Have your ever thought how a petrol station owner does his business in a village: How he gets the petrol and diesel to the villages in the interior? How he gets the money to purchase large quantities of petrol and diesel: How he communicates to petrol depots for requirement and also to customers? How he safeguards himself from various risks associated with this business? The answer to all the above questions lies in the understanding of business services. The transportation of petrol and diesel from oil refineries to Petrol pumps is carried out by train and tankers. They are then stored at various depots of oil companies situated in all major towns across India. Petrol pump owners use postal, mail and telephone facilities to be in touch with customers, banks and the depots for the availability of their requirements on a regular basis. As oil companies always sell the petrol and diesel on advance payment, the owners have to take out loans and advances from banks to fund their purchases. Petrol and diesel

being highly risky products, the owners have to safeguard themselves from various risks by getting the business, the products, the life of people working there, etc., insured. Thus, we see that a single business of providing petrol and diesel at a petrol pump is actually a collective outcome of various business services. These services are

being utilized in the entire process of shipment of petrol and diesel from oil refineries to the point of sale at petrol pumps, spread across the length and breadth of India.

- a) Give the meaning of Business service
- b) Explain briefly various types of business services described above.

**Ans.** a) Business services are those services which are used by business enterprises for the conduct of their activities.

b) "The transportation of petrol and diesel from oil refineries to Petrol pumps is carried out by train and tankers". -- Transportation

"They are then stored at various depots of oil companies situated in all major towns across India". -- Warehousing

"Petrol pump owners use postal, mail and telephone facilities to be in touch with customers". ---Communication

"The owners have to take out loans and advances from banks to fund their purchases". ---Banking

"The owners have to safeguard themselves from various risks by getting the business, the products, the life of people working there, etc." ---Insurance

3. Alan has recently constructed a new godown in the basement of his furniture showroom. He approached New India General Insurance Company for fire insurance of his godown. The official there asked for the information regarding construction type, age of building, fire safety equipment installed etc. The official of insurance company also made it clear that in the event of any loss due to a fire, he can recover an actual amount of loss only. Alan to understand that any loss arising due to fire in godown will lead to loss to his business. Identify and explain the principles of insurance stated in above paragraph. (any three)

**Ans.** Principles of insurance identified

- (i) Utmost good faith
- (ii) Indemnity
- (iii) Insurable interest

4. Briefly explain the following principles of insurance

- a) Utmost good faith
- b) Insurable interest
- c) Doctrine of subrogation
- d) Causa Proxima

**Ans:**

- a) Utmost good faith: A contract of insurance is a contract of uberrimae fidei i.e., a contract founded on utmost good faith. Both the insurer and the insured display good faith towards each other in regard to the contract.
- b) Insurable interest: The insured must have an insurable interest in the subject matter of insurance. Insurable interest means some pecuniary interest in the subject matter of the insurance contract.
- c) Subrogation: It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim, as far as the right of the insured in respect of recovery from an alternative source is involved.
- d) Proximate Cause: According to this principle, an insurance policy is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy.

5. Briefly explain the following banking services.

- a) Bank Draft    b) Bank Overdraft
- c) Cash Credits    d) E- Banking

**Ans :**

- 1. Bank Draft: It is also known as Demand Draft. It is an instrument which is used for the transfer of funds.
- 2. Bank Overdraft: The bank allows a customer to overdraw his current account balance up to an agreed limit. The customer has to pay interest on the amount overdrawn by him.
- 3. Cash Credits: It is a short- term cash loan to a company. The borrower is sanctioned a credit limit up to which it may draw amounts from the bank. This credit limit is determined by the bank's estimation of the borrower's credit worthiness.
- 4. e-banking is electronic banking or banking using the electronic media. Thus, e-banking is a service provided by banks that allows a customer to conduct banking transactions, such as managing savings, checking accounts, applying for loans or paying bills over the internet using a personal computer, mobile phone, etc.

## CHAPTER 5

### EMERGING MODES OF BUSINESS

#### E-Business

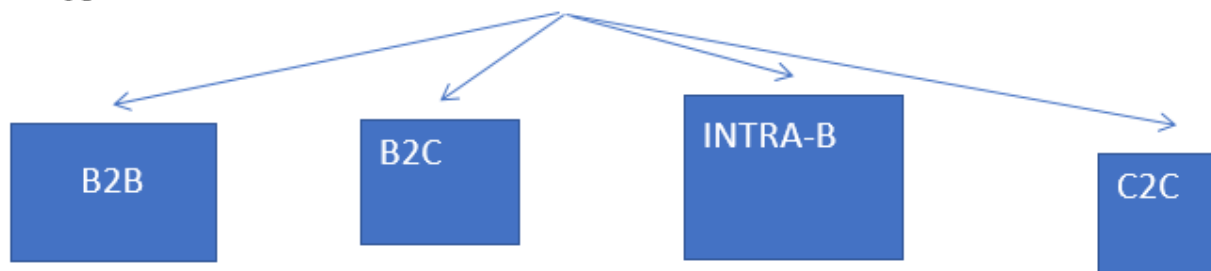
- Business operations such as industry, trade and commerce using computer networks are called E-Business.
- Business functions as well as managerial activities can be carried out through computer networks.

#### E-Commerce

- Commercial transactions conducted electronically on the internet
- It is only a part of e-Business
- It covers a firm's interactions with its customers and suppliers over the internet

#### Scope of E-Business

Four types of E-Business Transactions



#### Business To Business (B2B)

- In this case, commercial transactions take place between different business organizations  
Eg: Placing of purchase orders, invoices, quotations etc.

#### Business To Customers (B 2 C)

- It means Business to Customers transactions
- It includes selling of goods, call centers, After sale service etc.

#### Intra - B (With in the Business)

- Here the transactions take place within the firm
- It includes the use of computer networks in marketing, finance, production, purchase, human resource, Research and Development departments etc.
- It also includes interaction of business with its employees (B2E) like salary payment, seeking suggestions from employees etc.

#### Customer To Customer (C2C)

- It is best suited for dealing in goods for which has no established markets
- E.g.eBay.com, olx.com, etc.
- Allows persons to globally search for potential buyers

#### Differences between Traditional Business and E-Business

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<b>Base</b>	<b>Traditional</b>	<b>E-Business</b>
Ease of Formation	Difficult	Simple
Physical presence	Required	Not required
Location requirement	Important	Not Important
Cost of setting up	High	Low Cost
Operating cost	High	Low
Contact with suppliers and customers	Indirect through Intermediaries	Direct
Business process and length of cycle	Long time	Short time
Interpersonal touch	More	Less
Ease of going global	Less	More
Employees	Semi-skilled or unskilled	Technically and professionally Qualified

## **Benefits of E-Business**

### **1.Ease of formation**

It is very easy to start due to less legal formalities and with a limited investment.

### **2.Convenience**

Internet offers the convenience of 24 hours business

### **3.Speed**

Internet allows faster services.

### **4.Global reach**

It provides a boundary less market

### **5.Movement towards a paperless Society**

Use of internet has considerably reduced dependence on paperwork

## **MULTIPLE CHOICE QUESTIONS**

1. Out of e-commerce and e-business, which is a broader term?

(a) e-business (b) both e-business and e-commerce are the same thing

- (c) e-commerce (d) None of these
2. Complaint lodged by a customer at the company's call center is \_\_\_\_\_ type of e-business transaction.
- (a) C2C Commerce (b) C2B Commerce  
(c) B2C Commerce (d) B2B Commerce
3. Here, parties involved in the electronic transactions are from within a given business firm; hence the name is \_\_\_\_\_.
- (a) Intra-C Commerce (b) Intra-D Commerce  
(c) Intra-B Commerce (d) Intra-A Commerce
4. Mail sent by the Marketing department to the Purchase department is an example of:
- (a) B2B (b) B2C (c) C2C (d) Intra B
5. Length of the business cycle is generally \_\_\_\_\_ in the case of e-business.
- (a) Longer (b) Shorter (c) Narrower (d) Wider
6. Interaction between any two departments of one firm is a common feature of \_\_\_\_\_ commerce.
- (a) B2B Commerce (b) B2C Commerce  
(c) C2C Commerce (d) Intra-B Commerce
7. Match the following:
- |        |                          |
|--------|--------------------------|
| 1. C2C | a. After-sale service    |
| 2. B2C | b. Collaborations        |
| 3. B2B | c. Selling antique items |
- (A) 1-c, 2-a, 3-b  
(B) 1-a, 2-b, 3-c  
(C) 1-b, 2-c, 3-a  
(D) 1-c, 2-b, 3-a
8. **Assertion:** There is no risk in the traditional business.  
**Reason:** In traditional business, Parties have no personal interaction while buying and selling.
- (a) Assertion is correct, reason is not  
(b) Assertion is incorrect, reason is correct.  
(c) Assertion and reason both are correct.  
(d) Assertion and reason both are incorrect.
9. **Assertion:** There is more risk in the traditional business.  
**Reason:** In traditional business, Parties have personal interaction while buying and selling.
- (a) Assertion is correct, reason is not  
(b) Assertion is incorrect, reason is correct.  
(c) Assertion and reason both are correct.  
(d) Assertion and reason both are incorrect.
10. Passion Limited is a well-known automobile company in India. In order to reduce dependence on a single supplier the automobile

factory works through a network of computers which is used for placing orders. Identify the constituent of e-business being described in the given lines.

a) B2B (b) B2C (c) C2C (d) Intra B

### ANSWER KEY:

1.	Answer: (a) e-business
2.	Answer: (b) C2B Commerce
3.	Answer: (c) Intra-B Commerce
4.	Answer. d) Intra-B
5.	Answer. b) Shorter
6.	Answer. d) Intra-B Commerce
7.	Answer. a) 1-c 2-a, 3-b
8.	Answer. d) Assertion and Reason both are incorrect
9.	Answer. c) Assertion and Reason both are correct
10.	Answer. a) B2B

### SHORT ANSWER QUESTIONS:

- During summer holidays, Mayur visit his grandparents to celebrate his grandfather's 90<sup>th</sup> birthday. His grandmother shares with him that she would like to buy a special gift for her husband on his birthday, but she cannot walk comfortably up to the market. Mayur opens an application of a popular e-commerce company on his smartphone and shows his grandmother different types of products which are being offered for sale from distant places and also some product of China company. Although, initially the grandmother is fascinated by the concept of purchase online, but is reluctant to make a purchase as she is not confident about the whereabouts of the seller.

State any two advantages of e-business mentioned in the paragraph.

#### 1. Convenience

**Ans:** Internet offers the convenience of 24 hours business

#### 2. Global reach

It provides a boundary less market

- OLX Is a system of selling where consumers directly interact with the other consumers through electronic mode. Identify and explain this system. How in your opinion is this system beneficial to consumers? This system is called C2C commerce.

**Ans:**

- It provides a market for those consumers who wants to deal in goods for which there is no established market.

- Consumers directly interact with other consumers through electronic mode.

Advantage: Allows persons to globally search for potential buyers



3. Govind is a manufacturer of readymade kid's garments. He sells his products through various dealers across the country. However, his sales are decreasing over the years. Recently, his wife gifted him a jacket. Which she had ordered through Myntra. This gave Govinda an idea to start selling his products online.
1. What type business was Govind doing earlier and which type of business he wants switch to?
  2. State any two advantage.

**Ans:** Govind was doing traditional business and he wants to do e-business.

**Benefits of E-Business (any two)**

**1. Ease of formation**

It is very easy to start due to less legal formalities and with a limited investment.

**2. Convenience**

Internet offers the convenience of 24 hours business

**3. Speed**

Internet allows faster services.

**4. Global reach**

It provides a boundary less market

**5. Movement towards a paperless Society**

Use of internet has considerably reduced dependence on paperwork

**LONG ANSWER QUESTIONS:**

1.	<p>Unique enterprise is dealing in auto spare parts. With the expansion in business the enterprise found that the decisions are delayed and level of coordination is coming down. The CEO called for a meeting of all the managers. Ravi a newly appointed manager suggested that company should have its own internet so that all the employees can interact and pass important information to each other through internet. Even short meeting of different departments can be conducted through Video conferencing to take fast action. The CEO liked the idea and installed an internet for connecting all the employees in line.</p> <p>(a) Which branch of e-business is suggested by Mr.Ravi ?          (b) What are the benefits provided by e-business ?</p>
<b>ANS:</b> :	<p><b>Intra - B (Within the Business)</b></p> <ul style="list-style-type: none"> <li>● Here the transactions take place within the firm</li> <li>● It includes the use of computer networks in marketing, finance, production, purchase, human resource, Research and Development departments etc.</li> </ul> <p><b>Benefits of E-Business</b></p> <p><b>1. Ease of formation</b>          It is very easy to start due to less legal formalities and with a limited investment.</p> <p><b>2. Convenience</b>          Internet offers the convenience of 24 hours business</p>

	<p><b>3.Speed</b> Internet allows faster services.</p> <p><b>4.Global reach</b> It provides a boundary less market</p> <p><b>5.Movement towards a paperless Society</b> Use of internet has considerably reduced dependence on paperwork</p>
<p>2.</p> <p><b>Ans:</b></p>	<p>Melodius Ltd. Is a popular music company. Keeping in line with the changing trends the company uses various types of e-business activities to operate successfully. The company interacts through a network of computers with a number of other businesses firms which may be suppliers or salespersons. The company carries out of a number of promotional activities and sometimes even delivery of products that are carried out online. The company has setup call centres for the customers to make toll free calls to make queries and lodge complaints round the clock at no extra cost to them. The company makes use of intranet for managing interactions and dealings among various department and persons within the organisations. The company provides virtual private network technology because of which it is not necessary for the employees to come to office and the meeting can be held online via video conferencing. The company uses the financial intermediaries like 'paypal' in order to facilitate payments on line. Quote the scope of e-business mentioned in the above paragraph by quoting the line.</p> <p>B2B commerce: "The company interacts through a network of computers with a number of other businesses firms which may be suppliers or salespersons."</p> <p>B2C commerce:" The company carries out of a number of promotional activities and sometimes even delivery of products that are carried out online"</p> <p>Intra-B:" The company makes use of intranet for managing interactions and dealings among various department and persons within the organisations."</p> <p>B2E commerce: The company provides virtual private network technology because of which it is not necessary for the employees to come to office and the meeting can be held online via video conferencing"</p> <p>C2C commerce: "The company uses the financial intermediaries like paypal in order to facilitate payments on line."</p>

<p>3.</p> <p><b>Ans</b></p>	<p>www.olx.in, www.quicker.com etc. are examples of websites used to conduct business. Dipti's sofa set got spoiled in the rain. Her friend suggested that she should change the fabric so that it looks new and put it for sale on www.olx.com. Dipti followed her friend's advice and got her sofa repaired so that it looks better and uploaded nicely clicked pictures on www.olx.com in without disclosing the fact that it was damaged from inside. She found a customer and sold it for Rs.9,000. After one week the buyer found the real state of the sofa set and called Dipti but she did not answer any of the calls.</p> <p>(i) Name the type of e-business in the above case. (iii) Explain two advantages of e-commerce</p> <p>(i)C2C business. The Advantages of E-Commerce</p> <p>1. <u>No Geographical Boundaries</u>: Anyone, at any moment, can order anything from anywhere. On the one hand, it provides access to the worldwide market for the seller, while on the other side, it allows the buyer to select products from nearly any area of the globe.</p> <p>2. <u>Workable Business Hours</u>: Since the internet is always available. E-business eliminates the time constraints that local enterprises face.</p>																
<p>4.</p> <p><b>Ans:</b></p>	<p>Binu and Sinu were childhood friends. Both had a passion to start a textile business. Binu rented a shop and started a business in his village. He encouraged Sinu also to start a business. As she had only less capital she thought of selling the dress from Binu's shop through online with less investment. Binu had customers from his own village whereas Sinu had customers from all over India. Point out the difference between the business carried out by Binu and Sinu from the above paragraph.</p> <p>Binu did traditional business and Sinu did e- business.</p> <table border="1" data-bbox="320 1424 1399 1906"> <tr> <td>Physical presence</td> <td>Required</td> <td>Not required</td> </tr> <tr> <td>Location requirement</td> <td>Important</td> <td>Not Important</td> </tr> <tr> <td>Cost of setting up</td> <td>High</td> <td>Low Cost</td> </tr> <tr> <td>Interpersonal touch</td> <td>More</td> <td>Less</td> </tr> <tr> <td>Ease of going global</td> <td>Less</td> <td>More</td> </tr> </table>		Physical presence	Required	Not required	Location requirement	Important	Not Important	Cost of setting up	High	Low Cost	Interpersonal touch	More	Less	Ease of going global	Less	More
Physical presence	Required	Not required															
Location requirement	Important	Not Important															
Cost of setting up	High	Low Cost															
Interpersonal touch	More	Less															
Ease of going global	Less	More															
<p>5.</p>																	

<p><b>Ans:</b></p>	<p>Mr Gupta is working at the post of general manager in AU small finance Haryana. He is transferred to Delhi. So, he sold his old sofa, and bed through OLX. In Delhi, he brought a new sofa and small bed of his choice according to the space of the room placing online order to Godrej furniture. On receiving the delivery of the items, he found colour defect in the sofa so he filed an online complaint with customer care cell of Godrej furniture. The head of customer grievances cell forwarded this complaint mail to the Marketing manager and production manager for further action. In enquiry, it was found that M/s Touchwood furniture dealers, <b>online distributor</b> of Godrej furniture in Delhi, took a long time to deliver the online order to Godrej furniture.</p> <p>A. 'So, he sold his old sofa, and bed through OLX'. Identify which type of e-business model involve in the transaction mentioned here.</p> <p>B. 'He found colour defect in the sofa so he filed an online complaint with the customer care cell of Godrej furniture. Identify the type of e-business model involved in the transaction mentioned here.</p> <p>C. 'The head of the customer grievances cell forwarded this complaint mail to the Marketing manager and production manager for further action'. Identify the scope of e-business mentioned in this case.</p> <p>D. 'M/s Touchwood furniture dealers, distributors of Godrej furniture in Delhi made the 'took a long time on delivery' while taking online order from Godrej furniture for making delivery to its online customers.' Identify which advantage was not enjoyed by the customer.</p> <p>A. customer to customer  B. C2B  C. Intra-B  <b>D.Speed</b></p> <p>Internet allows faster services.</p>
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## Chapter 6

### Social Responsibility of Business and Business Ethics.

**Social Responsibility:** Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of objectives and values of our society.

Thus, **social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well-being.** The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

**Need for Social Responsibility.** The very concept of social responsibility implies that it is essentially an ethical issue, since it involves the question of what is morally right or wrong in relation to the firm's responsibilities. Social responsibility also has an element of voluntary action on the part of the business person who may feel free to perform or not to perform such responsibilities. They may also exercise their freedom for deciding the extent to which they would like to serve various sections of society.

**Arguments For 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 a 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 build 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:** Social responsibility creates better environment for business operations as it improves quality of life and standard of living of 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 involves 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, overpopulation, 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 fulfil social responsibility because of lack of public confidence and cooperation.

### **Kinds of Social Responsibility.**

1. **Economic Responsibility:** Basically, a business enterprise is an economic institution. Therefore, its primary responsibility is to produce the goods and services according to the demands of the society and to earn profits.
2. **Legal Responsibility:** The responsibility of every business is to carry out business activities within the laws of the country. Since these laws are meant for the good of the society, a law-abiding enterprise is a socially responsible enterprise as well.
3. **Ethical Responsibility:** This refers to the behaviour of the firm expected by the society but not defined by law (example, respecting the dignity of employees).
4. **Discretionary Responsibility:** These obligations are assumed by the enterprises voluntarily. (example, donation to charitable institutions, helping the affected people during floods, earthquakes, etc).

### **Social Responsibility Towards Different Interest Groups.**

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

#### **Responsibility Towards Shareholders:**

- a) To ensure a fair and regular return on the investment of shareholders.
- b) To ensure safety of their investment.
- c) To strengthen financial position of the company.
- d) To safeguard the assets of the business.
- e) To protect the interest of all types of investors in the business.

**Responsibility Towards Workers:**

- a) Providing fair compensation and benefits.
- b) Providing good and safe working conditions.
- c) To develop a sense of belongingness.

**Responsibility Towards Consumers:**

- a) To supply right quality of goods and services at reasonable prices.
- b) To ensure regular and adequate supply of products.
- c) To inform them about new products and new uses of existing products.
- d) To handle the customer's grievance promptly.

**Responsibility Towards Government:**

- a) To pay taxes honestly.
- b) To observe rules laid down by the government.
- c) To avoid corrupting government employees.

**Responsibility Towards Community:**

- a) To create employment opportunities.
- b) To avoid polluting the environment.
- c) To uplift the weaker sections of society.

**Business and Environmental Protection**

**Meaning of Environment:** The environment is defined as a totality of natural and man-made things existing around us. It is from the environment that the business draws its resources.

**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 a must.

**Role of Business in Environmental protection.**

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

**Business Ethics:**

**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 ethics we mean the business practices which are durable 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 behaviour. This would set an example for all employees paying taxes to the government honestly.
2. **Publication of Code:** Code of ethics is a formal written document of the principles, values and standards that guide a firm's actions. It may cover areas like honesty, quality, safety, healthcare, etc.
3. **Establishment of Compliance Mechanism:** A suitable mechanism should be developed to comply with the ethical standards of the enterprise. This mechanism should be properly communicated to all in the organisation.
4. **Employees Involvement:** It is the employees at the lower levels who implement ethical principles, so they must be involved in the process of developing ethical code of conduct.
5. **Measuring Result:** Although it is difficult to measure the ethical results, it must be verified and audited that how far work is being carried according to ethical standards.

### Multiple Choice Questions

1. Social responsibility is:  
(A) Same as legal responsibility.  
(B) Broader than legal responsibility.  
(C) Narrower than legal responsibility.  
(D) None of them.
2. That an enterprise must behave as a good citizen is an example of its responsibility towards:  
(A) Consumers (B) Owners (C) Workers (D) Community
3. Which of the following is not the part of ethics?  
(A) Caring towards well-being of others.  
(B) Chemical and waste dumping in water bodies.  
(C) Respect for others.  
(D) Fairness in dealing.
4. Match the following:

Stakeholders	Services expected from business.
1. Employees	A. To provide the desired quality of goods and services.
2. Consumers	B. To provide good working conditions and



	satisfactory remuneration.
3. Government	C. To provide more employment opportunities.
4. Community	D. To respect the laws of the land.

(A) 1. B; 2. A; 3. D; 4. C.      (C) 1. C; 2. B; 3. A; 4 D

(B) 1. D; 2.C; 3. B; 4. A.      (D) 1. A; 2. B; 3, C; 4. A

5. Smoke and other chemicals from manufacturing plants are type of.....

(A) Air pollution.      (C) Land pollution.

(B) Noise pollution.      (D) None of these.

6. Environmental protection can best be done by the efforts of:

(A) Scientists.    (B) Business people    (C) Government    (D) All of these.

7. Carbon monoxide emitted by the automobiles directly contributes to:

(A) Noise pollution.      (C) Water pollution.

(B) Air pollution.      (D) Land pollution.

8. Which of the following can explain the need for pollution control?

(A) Reduced risk of liability.      (C) Cost savings.

(B) Reduction of health hazards.    (D) All of these.

9. Match the following:

Type of pollution	Cause of pollution.
1. Land pollution	A. Industrial and commercial activities done by businessmen.
2. Air pollution	B. Dumping of waste in water bodies.
3. Noise pollution	C. Smoking, chemicals of manufacturing plants created a hold in the ozone layer, which is created pollution.
4. Water pollution	D. Dumping of toxic waste on land.

(A) 1, D; 2, C; 3, A; 4, B.      (C) 1, A; 2, B; 3, C; 4, D.

(B) 1, C; 2, B; 3. A; 4, D.      (D) 1, D; 2, C; 3, B; 4, A.

10. Noise pollution can be responsible for.....

(A) Loss of hearing.      (C) Malfunctioning of heart.

(C) Mental disorder.      (D) All of these.

12 Ethics is important for:

(A) Top-level management.      (C) Non-managerial employees.

(B) Middle-level management.    (D) All of these.

11. Which of the following alone can ensure effective ethics programme in a business enterprise?

(A) Publication of a code.    (C) Establishment of compliance mechanisms.

(B) Involvement of employees.    (D) All of these.

12. Primary responsibility of a business is to produce goods and services that a society wants and sell them at a profit. This is called.....
- (A) Legal responsibility. (C) Economic Responsibility.  
(B) Personal responsibility. (D) None of these.
13. Every business has a responsibility to operate within the laws of the land as per the .....
- (A) Legal responsibility. (C) Economic responsibility.  
(B) Financial responsibility. (D) Personal responsibility.
14. Respecting the religious sentiments and dignity of people while advertising for a product is .....
- (A) Economical responsibility. (C) Ethical responsibility.  
(B) Legal responsibility. (D) None of these.
15. Providing charitable contributions to educational institutions is .....
- (A) Discretionary responsibility. (C) Economic responsibility.  
(B) Legal responsibility. (D) Noe of these.
16. A business enterprise has the responsibility to provide a fair return to the .....
- (A) Customers (B) Government (C) Shareholders (D) Tax authority.
17. Which of the following is a responsibility of a business towards the workers?
- (A) Providing opportunities to the workers for meaningful work.  
(B) Right kind of working conditions.  
(C) Fair wages. (D) All of these.
18. Which of the following is an example of responsibility towards consumers?
- (A) Fair wages to workers.  
(B) Responsibility to provide a fair return.  
(C) Supply of right quality and quantity of goods and services.  
(D) Responsibility for providing jobs.
19. Responsibility towards government is .....
- (A) Safety of investments provided by the shareholders.  
(B) Pay taxes regularly and honestly.  
(C) Supply of goods at a reasonable price to consumers.

(D) None of these.

### MCQ ANSWERS

1. B	7. B	13. C	19. C
2. D	8. D	14. A	20. B
3. B	9. A	15. C	
4. A	10. D	16. A	
5. A	11. D	17. C	
6. A	12. D	18. D	

### SHORT ANSWER QUESTIONS

20. "There is a strong case for assumption of social responsibility by business."  
Give any two reasons.

**Ans:** can write any two points from the segment "Arguments for social responsibility"

21. Mention a business firm's social responsibility towards shareholders

**Ans:** to ensure fair and regular return on investment

22. "Social responsibility is different from legal responsibility." How?

**Ans:** Can differentiate on the basis of "compulsion"

23. What is business ethics?

**Ans:** Moral standards which govern the activities of business

### Case Study Questions/Long Answer Questions.

24.	<p><b>Read the following text and answer the questions that follow:</b></p> <p>Newlook Furniture Ltd., a company manufacturing and trading furniture, was started by 5 youths of Mysuru under Start Up India Scheme. It provides a diverse collection of wooden, plastic, cane, bamboo and metal furniture at reasonable rates to the customers. They import raw-materials from Indonesia for the same by abiding the government policy and procedures for imports. The company is earning good profits and donating 10% of its profits for plantation of trees on highway sides. The company also organizes training and skill development programme for its workers. The efficient planning and marketing strategy of the company has offered the owners of the company reasonable appreciation of capital employed.</p> <p>1. Providing furniture at the reasonable rates is an example of social responsibility towards which of the following: (A) Consumers (B) Community (C) Creditors (D) Owners.</p> <p>2. "Donating 10% of its profits for plantation of trees on highway</p>
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	<p>sides”. Identify the kind of social responsibility undertaken by the company.</p> <p>(A) Legal (B) Personal (C) Discretionary (D) None of these.</p> <p>3. “Import raw-materials from Indonesia for the same by abiding the government policy and procedures for imports”. Identify the kind of responsibility fulfilled here:</p> <p>(A) Discretionary (B) Legal (C) Economic (D) Ethical</p> <p><b>Answers: 1 A 2 C 3 B</b></p>
27	<p><b>Read the following text and answer the questions that follow:</b></p> <p>Anand and Adarsh graduated from IIT Kharagpur, joined together and started a company in Mysuru under the Name Chamundi Synthetic Fibres Ltd., engaged in producing packing cases. Their company is outsourced a large order of such packing cases from a Chinese firm. Getting such business orders from local as well as foreign firms, the company has expanded the scale of its operations. They were aware of the fact that their factory is polluting the environment but no necessary equipment to control air pollution and for waste disposal were installed by them. It was argued by the Finance Manager of the company that such decision will involve a cash outlay of 1 crore which would decrease the working capital of the company by this amount. After a long discussion, finally the management of the company decided that the benefits of pollution control are more than the cost of pollution control. The business must follow the laws and regulations enacted by the government for protecting the environment instead of ignoring social responsibility of the business.</p> <p>1. Which of the following does not cause any pollution?</p> <p>(A) Dumping of toxic waste on land.  (B) Dumping waste into rivers, streams and lakes.  (C) Recycling waste instead of disposal.  (D) Smoke and other chemicals from manufacturing plants.</p> <p>2. “The business must follow the laws and regulations enacted by</p>

	<p>the government for protecting the environment instead of ignoring social responsibility of the business”. Identify the kind of social responsibility stated here:  (A) Economical (B) Ethical (C) Legal (D) Discretionary.  (B)</p> <p>3. “The benefits of pollution control are more than the cost of pollution control.” Identify the benefits of pollution Control:  (A) Reduced risk of liability. (C) Both (A) &amp; (B)  (B) Cost savings. (D) Neither (A) &amp; (B)</p> <p>4. By adopting pollution control measures the company has discharged its social responsibility towards:  (A) Government and community. (C) Workers and Owners.  (B) Community and investors. (D) Investors and Employees.</p> <p><b>Ans: 1. C 2. C 3. C 4. A</b></p>
28	<p>“It is in the interest of business to fulfil its social responsibilities towards different interest groups”. Why?  <b>Ans:</b> Hint: Give arguments for assumption of social responsibilities by the business</p>
29	<p>“Business is not merely a profit-making enterprise but essentially a social institution.” Explain.  <b>Ans:</b> Hint: Business is a part of society. It gets inputs from the society and supplies its output to the society. It is also an economic institution whose aim is to earn profit. However, it must fulfil its social obligations towards different groups in the society.</p>
30	<p>“Like an individual, a business enterprise should also be a loyal citizen of the state.” Comment.  <b>Ans:</b> Hint: give responsibilities of business towards government</p>

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**CHAPTER 7**  
**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.

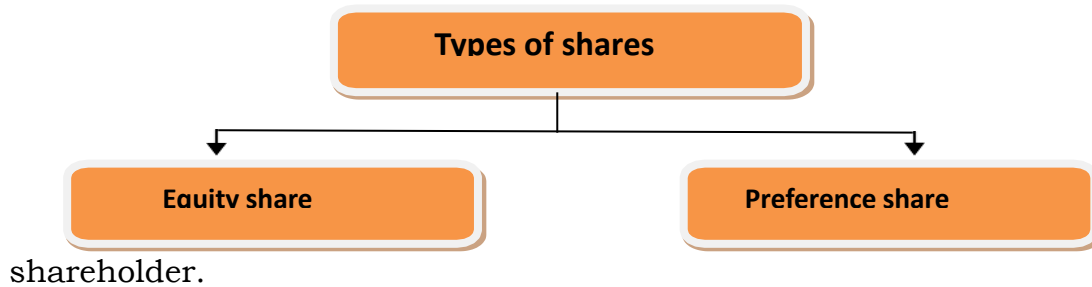
B. **Borrowed Funds:** These are the funds raised through loans and borrowings. This source includes raising funds from

1. Debentures and bonds.
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



**1. Equity Share:**

Equity shares represent the ownership of a company. They have right to vote and right to participate in the management.

**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. Preference Share (Owner's Fund - Long-term Source of Finance):**

Preference shares are considered safer in investment (as compare to equity shares). They receive dividend at a fixed rate. Preference shareholders 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 shareholders 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**

<b>Bas e</b>	<b>Equity Shares</b>	<b>Preference Shares</b>
<b>1. Dividend</b>	After preference shares	Priority over equity share
<b>2. Voting Right</b>	Have voting rights.	No voting right.
<b>3. Risk</b>	Risk bearing securities	Less risk
<b>4. Rate of Return</b>	Fluctuates with profit	Fixed Rate of dividend
<b>5. Control</b>	Control on the management.	No control on the management.



### **Retained Earnings (Owner's Fund- Long-term Source of Finance):**

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 back of 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. Borrowed Funds:**

#### **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 investors 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-deductible 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**

<b>Base</b>	<b>Shares</b>	<b>Debentures</b>
<b>1. Nature</b>	Shares are the capital.	Debentures are a loan.
<b>2. Return</b>	Dividend.	Interest.
<b>3. Voting Right</b>	Have voting right.	No voting right.
<b>4. Holder</b>	Owner is called shareholder.	Creditor.
<b>5. Types</b>	There are two types of shares.	More than two types.
<b>6. Security</b>	Not secured by any charge.	Secured and generally carry a charge on the assets of the company.

## **2. Loan from Financial Institutions (Borrowed Fund- Long-term Source of Finance):**

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 instalments:** Loan can be made in easy instalments. 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. Loan from Commercial Banks (Borrowed Fund- Short & Medium-term Finance):**

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 is 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. Public Deposits (Borrowed Fund- Medium-term Finance):**

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 deductible, hence there is tax saving.
- (c) **Simple procedure:** The procedure for obtaining public deposits is simpler than share & 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 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 to industry 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 deposits, 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.

**Features of ICDS:**

- (a) These transactions take place between two companies.
- (b) There are short term deposits.
- (c) These are unsecured deposits.
- (d) These transactions are generally completed through brokers.
- (e) These deposits have no organized market.
- (f) These deposits have no legal formalities.
- (g) These are risky deposits from the point of view of lender

## MULTIPLE CHOICE QUESTIONS (MCQs)

1. Which of the following is a short-term source of finance?
  - (a) Shares
  - (b) Debentures
  - (c) Trade Credit
  - (d) All of these
2. Out of the following, which one is a type of Inter-Corporate Deposit?
  - (a) Three Month Depos its
  - (b) Six Month Deposits
  - (c) Call Deposit
  - (d) All of these
3. Equity shareholders are called:
  - (a) Owners of the company
  - (b) Partners of the company
  - (c) Executives of the company
  - (d) Guardian of the company
4. Which of the preferential right is enjoyed by preference shareholders over equity shareholders?
  - (a) Right to receive repayment of capital
  - (b) Right to receive fixed rate of dividend
  - (c) Both (a) and (b)
  - (d) Voting rights
5. Which of the following is a source of Borrowed Fund?
  - (a) Equity Shares
  - (b) Global Depository Receipts
  - (c) Inter-Corporate Deposits
  - (d) Indian Depository Receipts
6. Out of the following, which one is not a feature of Owners' Funds?
  - (a) Risk Bearer Capital
  - (b) Periodic Interest Payment
  - (c) Permanent Capital
  - (d) No Security Needed
7. The providers of \_\_\_\_\_ funds have a control over the management of business.
  - (a) Owners'
  - (b) Borrowed
  - (c) Both (a) and (b).
  - (d) None of these
8. The liability of equity shareholders is \_\_\_\_\_.
  - (a) Unlimited
  - (b) Limited
  - (c) Zero
  - (d) None of these
9. Preference Shares are referred to as Hybrid Securities because they have features of both \_\_\_\_\_ and \_\_\_\_\_.
  - (a) Equity Shares, Debentures
  - (b) Retained Earnings, Debentures
  - (c) Equity Shares, Public Deposits
  - (d) Retained Earnings, Equity Shares

**10.** \_\_\_\_\_ Capital is used for buying Current Assets.

- (a) Fixed      (b) Working    (c) Both (a) and (b)      (d) None of these

**11.** At the time of winding up, refund of \_\_\_\_\_ is made after the refund of \_\_\_\_\_.

- (a) Preference Share Capital, Equity Share Capital  
(b) Retained Earnings, Equity Share Capital  
(c) Equity Share Capital, Preference Share Capital  
(d) None of these

**12.** Retained Earnings is also known as:

- (a) Internal Financing    (b) Ploughing Back of Profits  
(c) Self-Financing      (d) All of these

**13.** Which source of finance is available in normal course of purchase of goods?

- (a) Inter-Corporate Deposits    (b) Trade Credit  
(c) Public Deposits              (d) None of these

**14.** \_\_\_\_\_ are more dependable than external sources as they do not depend on investors' preference and market conditions.

- (a) Equity Shares              (b) Preference Shares  
(c) Retained Earnings    (d) Debentures

**15.** Which of the following constitutes a source for long-term finance?

- (a) Retained Earnings (b) Equity Shares  
(c) Debentures              (d) All of the above

**16.** Retained Earnings does not involve any cost in the form of:

- (a) Dividend              (b) Interest  
(c) Flootation Cost    (d) All of the above

**17.** Which of the following source of finance does not create any charge against the assets of a company?

- (a) Equity Shares and Debentures  
(b) Preference Shares and Debentures  
(c) Equity Shares and Preference Shares

(d) None of the above

**18.** The term 'redeemable' is used for:

- a) Preference shares
- (b) Commercial paper
- c) Equity Shares
- (d) Public deposits

**19.** Funds required for purchasing current assets is an example of:

- (a) Fixed capital requirement
- (b) Ploughing back of profits
- (c) Working capital requirement
- (d) Lease financing

**20.** Public deposits are the deposits that are raised directly from:

- (a) The public
- (b) The directors
- c) The auditors
- d) The owners

### **FILL IN THE BLANKS**

1. \_\_\_\_\_ capital refers to that part of total capital, which is required for holding current assets.
2. \_\_\_\_\_ funds are permanent source of finance, while \_\_\_\_\_ funds provide funds for a specified period.
3. The capital of a company is divided into small units called \_\_\_\_\_.
4. The return earned by equity shareholders is known as \_\_\_\_\_ (Dividend/Interest).
5. Preference shareholders have \_\_\_\_\_ right as to the redemption of capital at the time of winding up of company.
6. The acceptance of public deposits is regulated by the \_\_\_\_\_ (RBI/SEBI) in India.
7. Equity shares provide \_\_\_\_\_ (Permanent/Temporary) capital to the company.
8. The liability of equity shareholders is \_\_\_\_\_ (Limited/Unlimited).
9. \_\_\_\_\_ is the credit extended by one trader to another for the purchase of goods and services.

10. As per the RBI guidelines, the minimum period of Inter-Corporate-Deposit is \_\_\_\_\_ days which can be extended to \_\_\_\_\_ year.

### **TRUE OR FALSE**

1. Equity shares create a charge on the assets of the company.
2. Loan money is involved in inter-corporate deposits as it is a secured deposit made by one company with another company.
3. Equity shareholders are paid dividend only when the company earns sufficient profits.
4. No charge is created against firm assets for obtaining the trade credit.
5. The issue of preference shares reduces the capacity of the company to further borrow funds.
6. Inter-corporate deposits are free from bureaucratic and legal hassles.
7. There is tax saving in case of dividend on preference shares as they are deductible from profits as expense.
8. Preference shareholders enjoy the right to receive a fixed rate of dividend before any dividend is paid to equity shareholders.
9. Trade Credit may be used to enhance the inventory level of a business enterprise.
10. Interest rates offered on public deposits are usually higher than that offered on bank deposits.
11. The issue of public deposits dilutes the control of the company.
12. In case of lower earnings of the company, interest to debenture holders is paid at a lower rate.

### **ASSERTION REASON QUESTIONS (ARQs)**

1. Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:

**Assertion (A):** The importance of business finance has increased tremendously these days.

**Reason (R):** Goods are produced on large scale and capital-intensive techniques are used.

Alternatives:

- (a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is True but Reason (R) is False.
- (d) Assertion (A) is False but Reason (R) is True.



**2.** Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:

**Assertion (A):** Equity share capital act as a temporary source of capital for the business. Alternatives:

**Reason (R):** Equity Capital is to be repaid at the time of liquidation of a company.

(a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is True but Reason (R) is False.

(d) Assertion (A) is False but Reason (R) is True.

**3.** Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:

**Assertion (A):** The providers of Owners' Funds have a control over the management of business.

**Reason (R):** There is a risk involved in the refund of Owners' Funds as they are the primary risk bearer,

Alternatives:

(a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is True but Reason (R) is False.

(d) Assertion (A) is False but Reason (R) is True.

**4** Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:

**Assertion (A):** Retained Earnings can only be used by an established firm and not by a new firm.

**Reason (R) :** Newly established firm has not yet earned any profits to be used as reserves.

Alternatives:

- a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A)
- c) Assertion (A) is True but Reason (R) is False.
- d) Assertion (A) is False but Reason (R) is True.

### STATEMENT BASED QUESTIONS

1. Read the following statements carefully and choose the correct alternative from the following:

**Statement 1:** Borrowed Funds are permanent source of finance.

**Statement 2:** Borrowers are under legal obligation to pay interest even in case of losses.

Alternatives:

- a. Both the statements are true.
- b. Both the statements are false.
- c. Statement 1 is true and Statement 2 is false.
- d. Statement 2 is true and Statement 1 is false.

2. Read the following statements carefully and choose the correct alternative from the following:

**Statement 1:** Owners' Funds does not require any security.

**Statement 2:** The providers of borrowed funds do not get the right to control.

Alternatives:

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 2 is true and Statement 1 is false.

3. Read the following statements carefully and choose the correct alternative from the following:

**Statement 1:** Retained earnings is an economical method of financing.

**Statement 2:** Retained earnings have characteristics of both equity shares and debentures.

Alternatives:

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 2 is true and Statement 1 is false.

4. Read the following statements carefully and choose the correct alternative from the following:

**Statement 1:** Raising finance through equity capital is less costly as compared to debentures.

**Statement 2:** The liability of equity shareholders is unlimited.

Alternatives:

- a) Both the statements are true.
- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false.
- d) Statement 2 is true and Statement 1 is false.

5. Read the following statements carefully and choose the correct alternative from the following:

**Statement 1:** Interest is not payable on trade credit.

**Statement 2:** The control of the company is not diluted in case of public deposits.

Alternatives:

- a. Both the statements are true.
- b. Both the statements are false.
- c. Statement 1 is true and Statement 2 is false.
- d. Statement 2 is true and Statement 1 is false.

### **ANSWERS OF OBJECTIVE QUESTIONS**

#### **Multiple Choice Questions (MCQs)**

- |       |       |       |       |
|-------|-------|-------|-------|
| 1. c  | 2. d  | 3. A  | 4. c  |
| 5. c  | 6. b  | 7. A  | 8. b  |
| 9. a  | 10. b | 11. c | 12. d |
| 13. b | 14.c  | 15.D  | 16. d |
| 17. c | 18.a  | 19.C  | 20. a |
| 21. d |       |       |       |

#### **Fill in the Blanks**

- 1. Working
- 2. Owner's, Borrowed
- 3. Shares
- 4. Dividend
- 5. Preferential

- 6. **RBI**
- 7. **Permanent**
- 8. **Limited**
- 9. **Trade Credit**
- 10. **Seven, one**

**True or False**

**True      3 4 6 8 9 10**

**False    1 2 5 7 11 12**

**Assertion Reason Questions (ARQs)**

**1.a                      2.d                      3.b                      4.a**

**Statement Based Questions**

**1. (d)    2. (a)    3. (c)    4. (b)    5. (a)**

**VERY SHORT ANSWER TYPE QUESTIONS**

**Q. 1.** What do you mean by business finance?

**Ans.** Business finance refers to the money required for carrying out business activities.

**Q. 2.** What is meant by fixed capital?

**Ans.** Fixed capital is the money invested in fixed assets.

**Q. 3.** Out of a trading concern and a manufacturing concern, which will have large amount of fixed capital?

**Ans.** Manufacturing Concern.

**Q. 4.** Name the funds needed for day-to-day operations of business.

**Ans.** Working Capital.

**Q. 5.** What do you mean by working capital?

**Ans.** Working capital refers to that part of total capital, which is required for holding current assets, such as stock, bills receivables, etc.

**Q.6.** Out of long-term & short-term sources of finance, which source should be preferred to finance fixed assets?

**Ans.** Long-term sources.

**Q.7.** Give any two examples of long-term sources of finance.

**Ans.** (i) Shares; (ii) Debentures.

**Q.8.** Mention any two examples of short-term sources of finance.

**Ans.** (i) Trade Credit; (ii) Loans from commercial banks.

**Q. 9.** How can you classify sources of funds on the basis of ownership?

**Ans.** (i) Owners' Funds; (ii) Borrowed Funds.

**Q. 10.** What do you mean by owners' funds?

**Ans.** The funds provided by the owner of the business enterprise are known as owners' funds.

**Q. 11.** What is meant by borrowed funds?

**Ans.** The funds raised through loans or borrowings, are known as borrowed funds.

**Q. 12.** Out of owners' funds and borrowed funds, which one is a permanent source of finance? **Ans.** Owners' Funds.

**Q. 13.** Give two examples of owners' funds.

**Ans.** (i) Equity Shares; (ii) Preference Shares.

**Q. 14.** Give two examples of borrowed funds.

**Ans.** (i) Debentures; (ii) Loans from commercial banks.

**Q.15.** What do you mean by equity shares?

**Ans.** Equity shares are those shares which do not carry any special or preferential rights in respect of payment of annual dividend and repayment of capital.

**Q. 16.** How does equity share capital act as a fixed or permanent capital for the business?

**Ans.** Because it is to be repaid only at the time of liquidation of a company.

**Q. 17.** What are 'Preference Shares'?

**Ans.** Preference shares are those shares, which enjoy preferential right in payment of dividend and repayment of capital.

**Q. 18.** What is the position of debenture holders in relation to the company?

**Ans.** Debenture holders are the creditors of the company.

**Q. 19.** Mention the two preferential rights which preference shareholders enjoy over equity shareholders.

**Ans.** (i) Right to receive fixed rate of dividend; (ii) Right to receive repayment of capital on winding up of the company.

**Q. 20.** Distinguish between equity shares and preference shares on the basis of 'Voting Rights!

**Ans.**

<b>Basis</b>	<b>Equity Shares</b>	<b>Preference Shares</b>
Voting Rights	Equity shareholders enjoy voting rights in company.	They do not carry voting rights except when dividend remains unpaid for a specified period.

**Q. 21.** Distinguish between equity shares and preference shares on the basis of 'Face Value.

<b>Basis</b>	<b>Equity Shares</b>	<b>Preference Shares</b>
Face Value	The face value of equity share is generally low.	The face value of preference share is generally high.

**Q. 22.** What are retained earnings?

**Ans.** Retained earnings refer to that part of profits which is kept as reserve for use in the future.

**Q. 23.** Why retained earnings cannot be used by a newly established company?

**Ans.** Because it has not yet earned any profits to be used as reserves.

**Q. 24.** What do you mean by trade credit?

**Ans.** Trade credit is the credit extended by one trader to another for the purchase of goods and services.

**Q. 25.** How does issue of debentures not affect the control of equity shareholders?

**Ans.** As debenture holders do not have voting rights.

**Q. 26.** Distinguish between shares and debentures on the basis of 'Rate of Return!

**Ans.**

<b>Basis</b>	<b>Shares</b>	<b>Debentures</b>
Rate of Return	Dividend fluctuations depending on residual profits.	Interest rate is fixed irrespective of profits.

**Q. 27.** Distinguish between shares and debentures on the basis of 'Degree of risk!

**Ans.**

<b>Basis</b>	<b>Shares</b>	<b>Debentures</b>
Degree of risk	Shareholders bear a high degree of risk.	Debenture holders bear minimum degree of risk.

### **Short Answer Type Questions**

**1.** What is business finance? Why do businesses need funds? Explain.

Hint: Business finance refers to the money required for carrying out business activities. Also discuss "Significance of Business Finance.

**2.** List sources of raising long-term and short-term finance.

Hint: Long-term Finance: Shares, Debentures, Long-term Borrowings and Loans from Financial Institutions Short-term Finance: Trade Credit, Loans from Commercial Banks, etc.

**3.** What preferential rights are enjoyed by preference shareholders? Explain.

Hint: Preference shareholders enjoy 2 preferential rights: (i) Right to receive fixed rate of dividend; (ii) Right to receive repayment of capital on winding up.

**4.** Name any three special financial institutions and state their objectives.

Hint: Refer the heading 'Special Financial Institutions in India.

### **Long Answer Type Questions**

**1.** Explain trade credit and bank credit as sources of short-term finance for business enterprises.

Hint: For explanation of trade credit, refer the heading Trade Credit: For explanation of bank credit, refer the heading 'Loans from Commercial Banks.

**2.** Discuss the sources from which a large industrial enterprise can raise capital for financing modernisation and expansion.

Hint: Discuss the following sources: Equity Shares, Preference Shares, Debentures and Loans from Financial Institutions.

### **CASE STUDY QUESTIONS**

**Q.1.** State with reasons whether the following statements are True or False:

- (a) Equity shareholders are to be given dividend irrespective of the fact whether the company has earned sufficient profits or not.
- (b) Retained Earnings can be used by both new as well as old company.
- (c) As per the RBI guidelines, the minimum period of Inter-Corporate Deposits is 30 days.

**Ans.**

- (a) False. There is no obligation on the company to pay dividend as it depends on the profits available and the decision of directors and members.
- (b) False. Retained earnings cannot be used by a newly established company and it has to rely on external sources of finance.
- (c) False. As per the RBI guidelines, the minimum period of Inter-Corporate-Deposits is 7 days.

**Q. 2.** A company needs to increase its stock of raw material and finished goods, which will require funds of 5 lakhs. What are the various options available with the company to finance this amount?

**Ans.** The various options available with the company to finance the working capital needs of 5 lakhs are:

(i) Trade Credit; (ii) Loans from Commercial Banks; (iii) Public Deposits.

**Q. 3.** Identify the source of finance highlighted in the following cases:

- (i) It facilitates the purchase of goods and services without making immediate payment.
- (ii) It refers to that part of profits which is kept as reserve for use in the future.
- (iii) This source has characteristics of both equity shares and debentures.
- (iv) It is also known as ploughing back of profits.
- (v) It is a permanent source of capital and is not redeemed during the life time of the company.

**Ans.** (i) Trade Credit; (ii) Retained Earnings; (III) Preference Shares; (iv) Retained Earnings, (v) Equity Shares.



**Q.4.** After completing the studies, Priyanka decided to start her own business of homemade chocolates. After analysing all the pros and cons, she came to a conclusion that total funds required are 12,00,000. She had 2,00,000 in her savings bank account. As these funds were insufficient to start the business, she approached Axis Bank for obtaining a loan of 10,00,000. The loan was approved within a month. On the basis of given case, answer the following questions:

- (a) Categorise the two types of funds on the basis of ownership.
- (b) Out of the two sources of funds, which one is a permanent source of finance?
- (c) Which source of funds require legal obligation to pay interest at a fixed rate at regular intervals?

**Ans.** (a) On the basis of ownership, 2,00,000 in Priyanka's Savings bank account constitute the Owner's Funds, while loan of 10,00,000 constitute the Borrowed Funds.

(b) Owner's Funds of 2,00,000 is a permanent source of finance.

(c) Borrowed Funds of 10,00,000 require legal obligation to pay interest at a fixed rate at regular intervals.

**Q. 5.** The directors of a company have decided to expand the business activities by purchasing fully automatic machinery worth 50 crores. As a finance manager, advise the directors about the various sources of finance available to the company.

**Ans.** The directors should use long-term sources to finance the purchase of fixed asset, i.e. machinery. The various sources available are: (i) Equity Shares; (ii) Retained Earnings; (iii) Preference Shares; (iv) Debentures; (v) Loans from Financial Institutions; (vi) Loans from Banks.

**Q. 6.** To meet the problem of short-term capital inadequacy, Tizen Ltd. Borrowed 5 crores from Sky Ltd., which had surplus funds. Although Sky Ltd. Charged higher interest rates as compared to bank borrowings still Tizen Ltd. Preferred this source as no security had to be given to raise funds. Identify the source of finance being discussed in the given case. Also, state its three features.

**Ans.** The source of finance discussed is Inter-Corporate Deposits (ICD).

Discuss 'Features of ICD:

**Q.7.** State with reasons whether the following statements are 'True' or 'False':

- (i) Funds needed for day-to-day operations of business is termed as fixed capital.
- (ii) Debenture holders are paid interest only when the company earns sufficient profits.

- (iii) Retained earnings are dependable source of finance.
- (iv) Preference shares create a charge on the assets of the company.
- (v) Equity capital is a source of permanent capital for the company.

**Ans.**

- (i) False. It is termed as working capital.
- (ii) False. Debenture holders are paid fixed rate of interest at specified Intervals, irrespective of the fact whether the company has earned sufficient profits or not.
- (iii) True. Retained earnings are dependable source of finance as they do not depend on investors preference and market conditions and are permanent funds.
- (iv) False. Preference shares are issued without creating any charge on the fixed assets of the company.
- (v) True. Equity capital serves as permanent capital as it is to be repaid only at the time of liquidation of a company.

**Q.8.** Jupiter Ltd. is a well-known manufacturer of sanitary fittings. Recently, company was short of funds for meeting its day-to-day expenses. So, the company approached one of its suppliers to grant 60 days credit on purchase of raw material. On the basis of creditworthiness of Jupiter Ltd., the supplier granted the credit. Identify the source of finance highlighted in the given case. Also, state its four features.

**Ans.** The source of finance highlighted is Trade Credit: Discuss 'Features of Trade Credit'.

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## **CHAPTER - 8**

### **SMALL BUSINESS AND ENTERPRISES**

#### **ENTREPRENEURSHIP DEVELOPMENT**

Entrepreneurship Development is the process of improving the skills and knowledge of entrepreneurs through various training and classroom programs.

Entrepreneurship is a systematic, purposeful and creative activity of identifying a need, mobilizing resources and organizing production with a view to delivering value to the

customers, returns for the investors and profits for the self in accordance with the risk and uncertainties associated with business.

An entrepreneur is a person or group of persons who establishes an enterprise, takes the risk, accumulates all the resources required to carry out production or perform services and creates an innovative product or service.

### **Characteristics of Entrepreneurship**

- 1. Systematic activity** – Entrepreneurship is a systematic, step by step and purposeful activity. It requires skill, knowledge and competency which can be acquired, learnt and developed through education, training, observation and experience. Thus we can say the entrepreneurs are made but not born.
- 2. Lawful and purposeful activity** – The aim of entrepreneurship is to run a lawful business to create value for personal profit and social gain.
- 3. Brings innovation and creativity** – Entrepreneurship is innovative as it involves introduction of new products, discovery of new markets and source of supply of inputs, technological breakthroughs as well as introduction of newer organizational forms for doing things better, cheaper, faster and in a manner that causes the least harm to the environment.
- 4. Organizes production** – Production requires the combined utilization of diverse factors of production, land, labour, capital and technology. The entrepreneur brings the idea of business and the factors of production; thus, he organizes the production activities.
- 5. Risk taking** – The entrepreneur takes all the risks in the business as he brings the factors of production including capital. The essence of entrepreneurship is the ‘willingness to assume risk’ arising out of the creation and implementation of new ideas.

### **NEED FOR ENTREPRENEURSHIP**

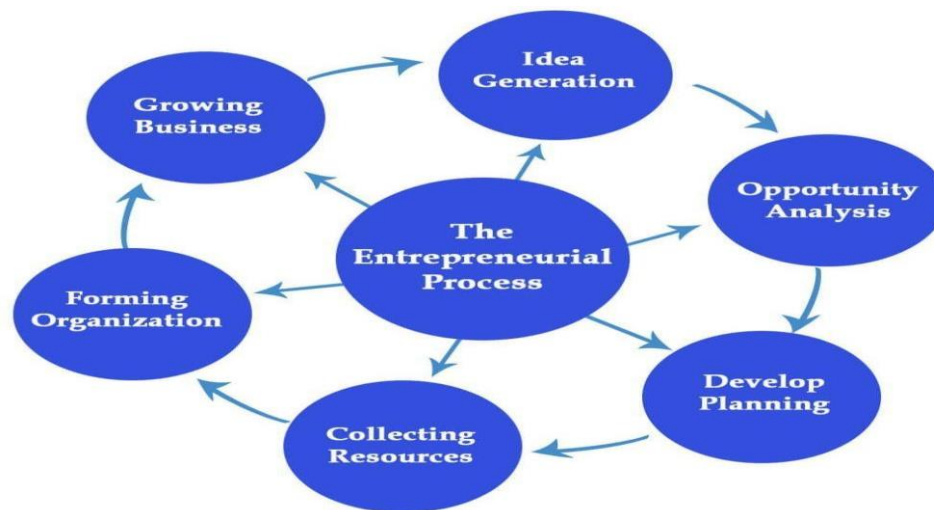
- 1. Contribution to Gross Domestic Product (GDP):** - Increase in GDP is considered as the most common indicator for economic development. Entrepreneurs generate income through organisation of production.
- 2. Capital Formation:** - Entrepreneurial decision is an investment decision that enhances the productive capacity of the economy, which results in capital formation.
- 3. Generation of employment:** - Entrepreneurship is a source of employment to people with different abilities, skills and qualifications. It provides livelihood to those who have capital to earn interest and the land to earn rent.
- 4. Generation of business opportunities for others:** - Every new business creates opportunities for the suppliers of inputs and marketers of output.
- 5. Improvement of Economic Efficiency:** - Entrepreneurs improve economic efficiency by improving process, reducing wastes, increasing yield and bringing technological progress by altering labour capital ratio.
- 6. Improving spectrum and scope of economic activities:**

-Diversification of economic activities across the geographic, sectoral and technological scope leads to development of an economy. Entrepreneurs mobilise local and even overseas resources to augment the productive capacity of a country.

7. **Impact on local communities:** - As there are no entry barriers in terms of educational qualifications, entrepreneurship is an attractive career option for marginalized groups to pursue their economic dreams.

## PROCESS OF ENTREPRENEURSHIP DEVELOPMENT

The process of entrepreneurship development consists of the following stages:



- I. **Idea Generation:** - This is the first step in the entrepreneurial process. An idea can be a problem or solution. Here, the entrepreneur identified an idea worth pursuing. The entrepreneur will conduct the feasibility study and take input from other stakeholders.
- II. **Opportunity Analysis:** - After identifying the opportunity, the entrepreneur will evaluate it. They will see if the opportunity provides any value to the business or the consumer, whether it will be sustainable in the long term if the profit is healthy, the market competition, the risks associated with the opportunity, and whether the entrepreneur's product or service will be different or better than the competitor.
- III. **Developing Plan:** - After analyzing the opportunity, the entrepreneur develops a plan to realize it and launch the company. This is a crucial step in the entrepreneurial process..
- IV. **Collecting Resources:** - Launching a new business requires resources, including financing, human labor, materials, and more. If the entrepreneur is self-sufficient, they can self-finance. However, they may go to investors or financial institutions to get the funds.
- V. **Forming Organization:** - Once the entrepreneur secures the funds and resources, they will launch the company and form a legal entity. The structure of the organization will depend on its requirements.
- VI. **Growing Business:** - After launching the company, it will start

producing products or offering services. The entrepreneur will ensure that the business is running smoothly and growing.

### **START-UP INDIA SCHEME**

Startup India Scheme is an important initiative by Govt. of India to promote a strong eco-system for nurturing innovation and startup (new enterprises) in the country. This drive will towards sustainable economic growth and generate large scale employment opportunities.

The main objectives of this scheme are:

- (i) To initiate an entrepreneurial culture and inculcate entrepreneurial values in the society at large and influence the mindset of people towards entrepreneurship.
- (ii) To create awareness about the charms of being an entrepreneur and the process of entrepreneurship.
- (iii) To encourage more dynamic startups by motivating educated youth, scientists and technologists to consider entrepreneurship as a lucrative, preferred and viable career.
- (iv) To Broad base the entrepreneurial supply by meeting specific needs have underrepresented target groups, like women, socially and economically backward communities, under-represented regions to achieve inclusiveness and sustainable development to address the needs of the population at the bottom of the pyramid.
- (v) To support the early phase of entrepreneurship development, including the pre-startup as well as early post startup phase and growth enterprises.

### **WAYS TO FUND START-UP**

The funding for start-ups can be available in the following ways:

1. **Boot Strapping** – Bootstrapping in business means starting a business without external help or capital. It is considered as the first funding option because by using personal savings and resources, entrepreneur is tied to his business.
2. **Crowd Funding** – Crowd funding refers to the practice of funding a project or venture by raising money from a large number of people for a common goal. Pooling resources by a group of people for a common goal especially through internet platforms.
3. **Angel Investment** – Angel investors are the individuals with surplus cash who have keen interest to invest in upcoming startups. They also offer mentoring or advice along with capital.
4. **Venture Capital** – Venture capitalists provide professionally managed funds to companies and startups that have huge potential. It is also called risk capital as it is invested in new ventures. Venture capitalists provide expertise, mentorship and evaluate business from sustainability and scalability point of view. Eg: Accel Partners, Blume Ventures etc.
5. **Business Incubators and Accelerators** – Incubators provide funds for startups in the early stage of their business, whereas accelerators help the startups to run or to take a giant leap in business. Eg: Angel Prime, Khosla Labs, Startup Village
6. **Microfinance and NBFCs** – Microfinance is a category of financial services targeted at individuals and small businesses who lack access to conventional banking or who have not qualified for a bank loan. Eg: BSS Microfinance P Ltd.,

Asirvad Microfinance Pvt. Ltd. etc.

NBFCs (Non-Banking Financial Companies) are registered under Indian Companies Act and they perform only lending functions to the public and they cannot accept demand deposits such as SB A/c, Current A/c etc. Eg: Mahindra & Mahindra Financial Services Ltd., Muthoot Finance Ltd., Bajaj Finance Ltd. etc.

### **INTELLECTUAL PROPERTY RIGHTS AND ENTREPRENEURSHIP**

Intellectual Property is a category of property that includes intangible creations of human intellect. Intellectual property (IP) refers to the creations of the human mind, like inventions, literary and artistic works, symbols, names, images and designs used in business.

All inventions of creations begin with an 'idea'. Once the idea becomes an actual product, i.e., Intellectual Property, one can apply to the authority concerned under the Government of India for protection. Legal rights conferred on such products are called 'Intellectual Property Rights' (IPR). Once it is allotted to a person by the Govt. authority, he/she can rent, give or sell it to others.

Intellectual property is divided into two broad categories:

1. Industrial property, which includes inventions (patents), trademarks, industrial designs and geographical indications,
2. Copyrights, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such as drawings, paintings, photographs and sculptures and architectural designs.

### **SMALL SCALE ENTERPRISES**

Small scale industries, Micro, Small and Medium Enterprises (MSME), contribute significantly to the development process and act as a vital link in industrialization in terms of production, employment and exports for economic prosperity by widening the entrepreneurial base and use of local raw materials and indigenous skills.

#### **SMALL SCALE INDUSTRIES AS PER MSMED Act, 2006**

Small business is generally defined in terms of size of the business enterprises. The definition used by the Government of India to describe MSME is based on the investment in plant and machinery and turnover.

#### **Classification of Manufacturing and Service Enterprises.**

According to MSMED Act 2006(Revised with effect from 1<sup>st</sup> July 2020) an enterprise, engaged in providing or rendering of services or manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951, there are three types of enterprises. Manufacturing industries are defined in terms of investment in plant and machinery while service Enterprises are defined in terms of investment in equipment.

- **Micro Enterprise:** Investment in plant and machinery or equipment does not exceed ₹ 1 crore and annual turnover does not exceed ₹ 5 crores.
- **Small Enterprise:** Investment in plant and machinery or equipment is more than ₹ 1 crore but does not exceed ₹ 10 crores and annual turnover does not exceed ₹ 50 crores.
- **Medium Enterprise:** Investment in plant and machinery or equipment

is more than ₹ 10 crores but does not exceed ₹ 50 crores and annual turnover does not exceed ₹ 250 crores.

Types of Business	Investment in Plant and Machinery	Turnover
Micro Enterprise	1 Crore	Does not exceed 5 crores
Small Enterprise	1 crore >10 Crores	Does not exceed 50 crores
Medium Enterprise	10 crores >50 Crores	Does not exceed 250 crores

## **ROLE OF SMALL BUSINESS IN INDIA WITH SPECIAL REFERENCE TO RURAL AREAS**

Small business organizations play an important role in the socio-economic development of the country. Some of them are as follows:

1. It helps the balanced regional development of our country. Small industries in India account for 95 per cent of the industrial units in the country
2. MSME are the second largest employers of human resources, after agriculture. They generate a greater number of employment opportunities per unit of capital invested compared to large industries. It is considered as more labour intensive and less capital intensive.
3. MSME in our country supplies an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items etc.
4. MSME which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. It contributes significantly to the balanced development of the country.
5. MSME provides ample opportunity for entrepreneurship. The latent skills and talents of people can be channeled into business ideas which can be converted into reality with little capital investment.
6. MSME also enjoys the advantage of low cost of production. Locally available resources are less expensive.
7. Due to the small size of the organisation, quick and timely decisions can be taken.

## **GOVERNMENT SCHEMES AND AGENCIES FOR SMALL SCALE INDUSTRIES**

Some of the support measures and programmes meant for the promotion of small and rural industries are as follows.

### **1. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)**

National Small Industries Corporation (NSIC) is a Government of India enterprise under the Ministry of Micro, Small and Medium Enterprise. It was set up in 1955 to promote the growth of small business units in the country.

The main functions of NSIC are:

- To Supply indigenous and imported machines on hire purchase basis.

- To procure and supply indigenous and imported raw materials.
- To support the export of products.
- To provide monitoring and advisory services.
- To serve as technology business incubators.
- To create awareness on technological upgradation.

NSIC has implemented a new scheme of 'performance and credit rating' of small businesses to achieve two objectives.

- (i) Sensitising the small industries about the need for credit rating and
- (ii) Encouraging the small business units to maintain a good financial track record.

In addition to this, NSIC has been providing marketing support to Micro and small enterprises under marketing assistance schemes.

## **2. DISTRICT INDUSTRIES CENTRES (DICS)**

DIC programme was launched on 1st May, 1978 at the district level to provide services and support facilities to the entrepreneurs for setting up small and village industries. It provides different kinds of assistance to entrepreneurs.

- a. To support small entrepreneurs at district level.
- b. To provide all facilities and support to set up small and village industries.
- c. To help the identification of suitable schemes for entrepreneurs by Central and State Govts.
- d. To prepare feasibility reports on each industry.
- e. To arrange credit facilities and equipment.
- f. To Arrange raw materials.
- g. To impart training for artisans, entrepreneurs etc.

### **MCQ/True or False/Fill in the Blanks(1 mark)**

1. Intellectual property is tangible. (True or False)
2. Small businesses generally have a short gestation period. (True or False)
3. \_\_\_\_\_are individuals with surplus cash who have keen interest to invest in upcoming start-ups.
4. (Bootstrapping / Angel Investment) in business means starting a business without external help and is commonly known as self-financing.
5. \_\_\_\_\_ is the practice of funding a project by raising money from a large number of people for a common goal.
6. While calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items shall be (Excluded/Included)
7. Small industries are the second largest employers of human



resources, after agriculture. (True or False)

8. As per Ministry of Commerce and Industry, a start-up means an entity incorporated or registered in India which is not older than five years and its annual turnover does not exceed 20 crores in any preceding year.
9. Entrepreneurs improve the standard of living of many people, directly and indirectly.
10. In the case of Manufacturing Enterprise, investment in Plant and Machinery is more than 1 crore but does not exceed 10 crores.

#### MATCHING TYPE QUESTIONS

11. Match the statements given under A with the correct options given under B.

A

B

1) Medium Manufacturing Enterprise	a. Investment in equipment is more than 10 crores but does not exceed 50 crores
ii) Medium Service Enterprise	b. Investment in equipment does not exceed 10 crores
	c. Investment in Plant and Machinery is more than 10 crores but does not exceed 50 crores

i) Angel Investment	a. Self-financing.
ii) Crowdfunding	b. Professionally managed funds which are invested in companies that have huge potential.
iii) Bootstrapping	c. Individuals with surplus cash who invest in upcoming start-ups.
iv) Venture Capital	d. Raising money from a large number of people for a common goal.

Match the statements given under A with the correct options given under B.

12. Which of the following points highlight the role of small-scale business in the development of the country?
  - (a) Promotes Balanced Regional Development
  - (b) Employment Generation
  - (b) Low Cost of Production
  - (c) All of these
13. Performance and credit rating' scheme is implemented by:

- (a) District Industries Centers
  - (b) National Small Industries Corporation
  - (c) National Bank for Agriculture and Rural Development
  - (d) Small Industries Development Bank of India
14. As per the Ministry of Commerce and Industry, a start-up means an entity incorporated or registered in ----- years.
- a) Two      (b) Three      (c) Four      (d) Five
15. Which of the following methods can be used to fund a Start-up?
- (a) Crowdfunding      (b) Angel Investment
  - (c) Bootstrapping      (d) All of the above

Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:

Alternatives:

- a) Both Assertion (A) and Reason (R) are True and Reason(R) is the correct explanation of Assertion (A).
  - (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A)
  - (c) Assertion (A) is True but Reason (R) is False.
  - (d) Assertion (A) is False but Reason (R) is True.
16. Assertion (A): Small business is defined on the basis of investment in plant and machinery or equipment in India.  
Reason (R): In India, there is scarcity of capital and abundance of labour.
17. Assertion (A): Small industries promote balanced regional development of the country.  
Reason (R): In case organisation of small industries, quick and timely decisions can be taken due to small size of the organization
18. Assertion (A): Small business is an important source of employment generation.  
Reason (R): Entrepreneurs of small business command huge capital.
19. Assertion (A): Products of small industries give a tough competition to products of large companies.  
Reason (R): Small industries are unable to use modern technology and it is difficult for them to invest in quality research.

#### **STATEMENT BASED QUESTIONS**

Read the following statements carefully and choose the correct alternative from the following:

- (a) Both the statements are true.
  - (b) Both the statements are false.
  - (c) Statement 1 is true and Statement 2 is false.
  - (d) Statement 2 is true and Statement 1 is false.
20. Statement 1: Boot Strapping refers to the practice of funding a project or venture

by raising money from a large number of people for a common goal.

Statement 2: Boot Strapping is a good option of funding only if the initial requirement is small and handy.

21. Statement 1: Micro Enterprise is an enterprise in which investment in plant and machinery or equipment does not exceed 5 crore and annual turnover does not exceed 10 crores.

Statement 2: In India, MSMED Act, 2006 was established for developing and enhancing the competitiveness of large industries.

- (a) Statement 1: Small industries are the largest employers of human resources.

Statement 2: Sm all industries promote balanced regional development of the country.

22. Statement 1: Medium Enterprise is an enterprise in which investment in plant and machinery or equipment is more than 10 crores but does not exceed 50 crores and annual turnover does not exceed 250 crores.

Statement 2: In India, small business is defined on the basis of investment in land and building.

23. Statement 1: Entrepreneurs improve the standard of living of many people, directly and indirectly.

Statement 2: Entrepreneurship involves bigger risk as compared to career in employment or practice of a profession.

### Answer key

Question No:	Question No:	Question No:
1-False	11 -- i-c, ii- a	21 - D
2 - True	12 - i) - c, ii) - d, iii) - a, iv) - b	22 - B
3 - Angel Investors	13 - D	23 - D
4 - Boot Strapping	14- B	24 - C
5-crowd funding	15 - D	25- A
6 -Excluded	16 - D	
7 - True	17 - A	
8- False	18 - B	

9 - True	19- C
10- False	20- D

### Short Answer Questions/ Long Answer Questions

24. “Small scale industries play a significant role in the developing countries like India”. Justify statement by giving suitable reasons.

**Ans:** Yes, I agree with the given statement.

- a) It helps the balanced regional development of our country. Small industries in India account for 95 per cent of the industrial units in the country
  - b) MSME are the second largest employers of human resources, after agriculture. They generate a greater number of employment opportunities per unit of capital invested compared to large industries. It is considered as more labour intensive and less capital intensive.
  - c) MSME in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items etc.
  - d) MSME which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. It contributes significantly to the balanced development of the country.
  - e) MSME provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channeled into business ideas which can be converted into reality with little capital investment.
25. Why do banks hesitate to lend money to small scale industries?  
**Ans:** banks hesitate to lend money to small scale industries because of low creditworthiness and lack of collateral security.
26. Why are small industries unable to supply good quality products?  
**Ans:** small industries are unable to supply good quality products because of lack of modern technology and shortage of resources to invest in research and development.
27. “Entrepreneurs succeed by thinking and doing new things or old things in new ways. Entrepreneurs are those who marry their creative ideas with the purposeful action and structure of a business. They are able to not only come up with indigenous ideas, but also turn those ideas into profits:. Which characteristic of entrepreneurship is being highlighted in the given para?

**Ans:** Brings innovation and creativity – Entrepreneurship is innovative as it involves introduction of new products, discovery of new markets and source of supply of inputs, technological breakthroughs as well as introduction of newer organizational forms for doing things better, cheaper, faster and in a manner

that causes the least harm to the environment.

28. There are various types of Intellectual Property Rights which have been recognised in India. Identify the type in the following statements.

- a) It is a right conferred upon the creators of literary, artistic, musical, sound recording and cinematographic film.
- b) It represents collective goodwill of a geographical region, which has built itself over centuries.
- c) It helps in distinguishing similar products in the market from its competitors.
- d) It is a protection given to aesthetic appearance or eye-catching features and item of its production is valid for 10 years.
- e) It is an exclusive right granted by the government which provides the exclusive right to exclude all others and prevent them from making, using, offering for sale, selling or importing the invention. Ans: a)

**Ans:**

Copyright: Copyright is the right to “not copy”.

It is offered when an original idea is expressed by the creator or author. It is a right conferred upon the creators of literary, artistic, musical, sound recording and cinematographic film. The copyright is an exclusive right of the creator to prohibit the unauthorized use of the content which includes reproducing and distributing copies of the subject matter.

b) Geographical Indication: A Geographical Indication (GI) is primarily an indication which identifies agricultural, natural or manufactured products (handicrafts, industrial goods and food stuffs) originating from a definite geographical territory, where a given quality, reputation or other characteristic are essentially attributable to its geographical origin.

c) Trademark : A trademark is any word, name, or symbol (or their combination) that helps us identify the goods made by an individual, company, organization, etc. Trademarks also let us differentiate the goods of one company from another.

d) Design: A ‘design’ includes shape, pattern, and arrangement of lines or colour combination that is applied to any article. It is a protection given to aesthetic appearance or eye-catching features. The term of protection of a design is valid for 10 years, which can be renewed for further 5 years after expiration of this term, during which a registered design can only be used after getting a license from its owner and once the validity period is over, the design is in public domain.

e) Patent: A patent is a type of IPR which protects the scientific

inventions (products and or process) which shows technical advancement over the already known products. A 'patent' is an exclusive right granted by the Government which provides the exclusive 'right to exclude' all others and prevent them from making, using, offering for sale, selling or importing the invention.

29. "Entrepreneurs are frequently thought of as national assets to be cultivated, motivated, and remunerated to the greatest possible extent. In fact, some of the most developed nations such as United States are world leaders due to their forward-looking innovation, research and entrepreneurial individuals. Great entrepreneurs have the ability to change the way we live and work, on local and national bases. If successful, their innovation may improve standard of living and in addition to creating wealth with entrepreneurial ventures, they also create jobs and contribute to a growing economy. The importance of entrepreneurship is not to be underestimated."

Do you agree with this? Give reasons to justify your answer.

**Ans:** Yes, I agree that entrepreneurship is very important. Explain the NEED FOR ENTREPRENEURSHIP.

30. After completing MBA from FMS, Delhi, Raveena decided to enter into a startup business. She wants to explore the diary product business after hearing news of adulteration being found in the milk all over Delhi. She does feasibility studies and finds there is a demand for healthy and quality products in the market. She is confused about the options available to her for her startup. Suggest any 6 ways through which she can finance it.

**Ans:** The funding for start-ups can be available in the following ways: (Explain the following)

1. Boot Strapping.
2. Crowd Funding.
3. Angel Investment.
4. Venture Capital.
5. Business Incubators and Accelerators.
6. Microfinance and NBFCs

31. Sushant Singh done his B.Tech in electrical engineering. He has no business experience but wants to start a small-scale manufacturing unit. He has chosen to manufacture light engineering goods which will be marketed to manufacturers and in replacement markets.

Which Govt. agency should he approach for receiving suitable guidance for stating his unit?

What type of facilities will he be able to get from concerned agency.

**Ans:** (a) DIC (b) Role of DIC

32. Preet food Industries set up food and beverages processing plant in the rural area of Tamil Nadu and opted for labour intensive technique due to easy availability of labour and to provide employment to local people. Board of director decided to invest 50 lakhs to acquire plant & machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20 lakhs to maintain day to day expenses.

(a) Name the Act of Industries which is applicable to the above industry.

(b) which category of part (a) will the above industry come?

(c) State the investment limit in this category.

**Ans:** (a) MSMED Act, 2006. Small Scale Industry, Rs. 10 crores.

33. After completing the graduation, three close friends (Raghav, Madhav and Manohar) decided to start their own business.

a) Raghav established a factory to produce readymade garments and invested ₹ 9 crores in plant and machinery.

b) Madhav set up a manufacturing unit to produce sanitary fittings. He invested ₹ 35 crores in plant and machinery.

c) Manohar started a manufacturing unit to produce stationary items and invested ₹ 80 lakhs in plant and machinery.

**Ans:** a) Raghav: Small Enterprise.

b) Madhav: Medium Enterprise.

c) Manohar: Micro Enterprise.

## CHAPTER 9 :

### INTERNAL TRADE

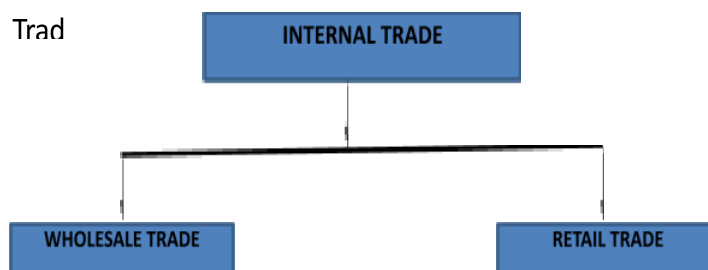
#### MEANING

Internal Trade is the buying and selling of goods and services within the boundaries of a nation. Internal trade is also known as 'Home Trade' or 'Inland Trade' or Domestic trade.

#### TYPES OF INTERNAL TRADE

Internal Trade can be classified into two broad categories.

- (1) Wholesale Trade
- (2) Retail



#### WHOLESALE TRADE

Wholesale trade refers to the buying and selling of goods and services in large quantities for the purpose of resale or intermediate use. The traders who deal in wholesale trade are known as wholesalers.

#### **Services of Wholesalers**

Wholesalers provide various services to the manufacturers as well as retailers

#### **(a) Services to Manufacturers**

##### **1. Facilitates large scale production**

As the wholesalers purchase goods from the manufacturers in bulk quantities, producers are able to undertake production on a large scale and take advantage of the economies of scale.

##### **2. Bearing risk**

The wholesalers deal in goods in their own name, take delivery of the goods and keep the goods in large quantities in their warehouses. In this process they bear variety of risks such as the risk of fall in prices, theft, spoilage, fire etc.

##### **3. Financial Assistance**

Wholesalers generally purchase goods from manufacturers on cash basis and sometimes even give advance for bulk orders. In this way wholesalers provide financial help to the manufacturers.



#### **4. 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 customer's taste and preferences, market conditions, competitive activities and the features preferred by the buyers.

#### **5. Help in marketing function**

The wholesalers collect orders from a large number of retailers and supply goods to them, who in turn sell the goods to the consumers. As a result, the wholesaler allows the manufacturer to concentrate more on production activity and relieves him from marketing of goods.

#### **6. Facilitates production continuity**

The wholesalers purchase goods from producers as and when these are produced. It helps the manufacturers in maintaining continuity of production activity.

#### **7. Storage**

The wholesaler takes delivery of goods when these are produced in the factory and store them in their own warehouses. It relieves the manufacturers of the storing problems.

### **(b) Services to Retailers**

#### **(1) Availability of goods**

The wholesaler provides the products of various manufacturers to the retailers and saves them from keeping large quantities of each product.

#### **(2) Marketing Support**

The wholesaler performs various marketing functions and provides support to the retailers. They undertake advertising and other sales promotional activities to induce customers to purchase the goods.

#### **(3) Grant of credit**

Wholesalers provide financial help to retailers by selling them goods on credit. They can make payment after receiving the payment from the customers.

#### **(4) Specialised knowledge**

Wholesalers specialize in a particular line of products and have expert knowledge of the market conditions relating to such products. They pass on the benefit of their specialized knowledge to the retailers and inform them about new products, their uses, quality, prices etc.

#### **(5) Risk Sharing**

The wholesaler purchases in bulk and sells in relatively small quantities to the retailers. Being able to purchase merchandise in smaller quantities, retailers are in a position to avoid the risk of storage, pilferage, obsolescence, reduction in prices and demand fluctuations.

### **RETAIL TRADE**

Retail Trade refers to buying of goods and services in relatively small quantities from wholesalers and selling them to the ultimate consumers. The traders who deal in retail trades are known as retailers.

#### **Services of Retailers**

## **(a) Services to Manufacturers and wholesalers**

### **1. Helps in distribution of goods**

Retailers provide access to the market to manufacturers and wholesalers through distribution of goods to the final consumers, who may be scattered over a large geographical area.

### **2. Personal Selling**

By undertaking personal selling efforts, the retailers relieve the producers of this activity and greatly help them in the process of actualizing the sale of the products.

### **3. Enabling large scale operations**

On account of retailer's services, the manufacturers and wholesalers are free from the trouble of making individual sales to consumers in small quantities. This enables them to operate on, at relatively large scale, and thereby fully concentrate on their other activities.

### **4. Collecting market information**

As retailers remain in direct and constant touch with the buyers, they serve as an important source of collecting market information about the tastes, preferences and the attitude of customers.

### **5. Helps in promotion**

Retailers participate in the promotional activities of the manufacturers and wholesalers in various ways and thereby help in promoting the sale of the products.

## **(b) Services to Consumers**

### **1. Regular availability of products.**

Consumers are assured of continuous supply of goods and they need not store the goods in large quantities. A retailer makes available to the customers all types of commodities.

### **2. New product information**

By arranging for effective display of products and through their personal efforts, retailer provide important information about the arrival, special features etc. of new products to the consumers.

### **3. Convenience in buying**

Retailers offer great convenience to the customers in buying small quantities of products according to their requirements. Retail shops are usually situated near to residential areas and remain open for long hours.

### **4. Wide Selection**

Retailers generally keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods.

### **5. After sale service**

Retailers provide important after sale services in the form of home delivery , repair of goods in the case of durable items, supply of spare parts and attending to customers.

### **6. Provide credit facilities**

The retailers sometimes provide credit facilities to their regular buyers. It enables the customers to increase their consumption level and standard of living.

## **TYPES OF RETAIL TRADE**

The retail trade may be classified into two main categories:

1. Itinerant Retailers

2. Fixed Shop Retailers

### **Itinerant Retailers**

Itinerant retailers are those traders who do not have a fixed place of business to operate from. They keep on moving with their wares from street to street or place to place, in search of customers.

Main features of Itinerant Retailers are:

- They are small traders operating with limited resources.
- They normally deal in consumer products of daily use.
- They mostly sell goods on a cash basis.
- They operate with a very small amount of capital.
- They generally sell goods at prices lower than charged by fixed shop retailers.
- They provide greater service to customers by making the products available to their doorsteps.

## **TYPES OF ITINERANT RETAILERS**

### **(1) Hawkers and Pedlars**

Hawkers and Pedlars move from street to street in search of customers. The Hawkercarry their goods in a wheeled vehicle, while the pedlars carry the goods on their head and back.

They generally deal in non -standardized and low value products such as fruits vegetables, toys, fabrics, snacks and ice cream etc. The main advantage of this form Retailing is convenient service to customers.

### **(2) Market Traders**

Market traders are the small retailers who open their shops at different places on fixed days. These retailers sell their goods at periodical markets such as weekly, monthly or annually.

Generally they display their goods on temporary structures made outside the shops which are closed for a weekly holiday. They are mainly catering to lower income group of customers and deal in low priced consumer items of daily use.

### **(3) Street Traders (Pavement vendors)**

These retailers arrange or display their goods at busy street corners, pavements and other busy public places like bus stands, railway stations, cinema halls etc.

They sell consumer items of common use, such as stationery items, eatables, readymade garments, newspapers and magazines etc.

### **(4) Cheap Jacks**

Cheap Jacks display their goods in hired shops or in tents for a temporary period in different localities. They keep on changing their business from one locality to another, depending upon the potentiality of the area. They generally deal in house hold articles, readymade garments and other low priced goods.

## **FIXED SHOP RETAILERS**

The retailers having a fixed place of sale are known as fixed shop retailers. They do not move from one place to another in search of customers. 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 retail shops**

Small scale fixed retailers are the most common form of retailers. They are mostly situated in localities to fulfill the needs of people residing in local areas.

## **TYPES OF SMALL SCALE FIXED RETAIL SHOPS**

(a) **General Stores**

General stores are small shops located in residential areas deals with items of daily use such as grocery items, soft drinks, toiletry products, stationary and confectionery. They have a large variety in each line of product. They also provide free home delivery credit facility and other services to regular customers.

(b) **Specialty Shops**

These retail shops specialize in sale of a specific line of products. For ex. Men's wear shops, stationery shops, medical shops etc.

(c) **Street Stall holders**

These small vendors are commonly found at street crossing or other places where the flow of traffic is heavy. They attract floating customers and deal mainly in goods of cheap variety like hosiery products, toys, magazines, soft drinks etc.

(c) **Second hand goods shops**

These shops deals in second hand or used goods like books, cloths, furniture and other household goods. The goods are sold at lower prices. Generally persons with modest means purchase goods from such shops.

**(2) Large scale fixed retail shops**

Large scale fixed retailers operate on large scale as they maintain large stock of goods and purchase of goods in bulk. Two important types of large scale fixed shop retailers are:

- (a) Departmental Stores
- (b) Chain Stores or Multiple Shops.

**(a) Departmental Stores :** A departmental store is a large establishment, which sells a wide variety of products and aims to satisfy all needs of the customers under one roof. The store is divided into a number of departments and each department deals in a particular variety of goods. They satisfy diverse market segments with a wide variety of goods and services.

**Important features of a departmental store:**

- (i) Central Location:** It is generally located at a central place in the city so that people living in different areas may reach there easily.
- (ii) Large variety of goods:** These stores maintain a large variety of goods and customers can purchase almost all their requirements from these stores.
- (iii) Large Size:** As the size of these store is very large, they are generally formed as a joint stock company managed by a board of directors.
- (iv) Centralised Purchasing:** All the purchases in a departmental store are made centrally by the purchase department.
- (v) Elimination of middlemen:** A departmental store purchase goods directly from the manufacturers, which sells them to the ultimate consumers and eliminates middlemen.
- (vi) Services:** A departmental store provide a number of services and facilitates to the customers such as restaurant, travel and information bureau, rest rooms, telephone booth etc.

**(b) Chain Stores or Multiple shops** Chain stores or multiple shops are networks of retail shops, which are owned and operated by manufacturers or intermediaries. All the retail shops deal in similar line of standardized and

branded consumer products. They all have identical merchandising strategies, with identical products and displays. Bata, Pizza hut, Raymonds etc. are examples of multiple shops.

**Important features of Multiple shops are:**

- (i) Large Size:** Chain stores operate on a large scale. Huge investment is required to set up identical shops in different parts of the country.
- (ii) Location:** These shops are located in fairly populous localities where sufficient number of customers can be approached.
- (iii) Centralised Purchases:** The head office makes all the purchases for all these multiple shops. Thereafter goods are dispatched to different shops as per their requirements.
- (iv) Centralised control:** All stores are controlled by the head office, which formulates policies and get them implemented in different shops.
- (v) Specialised in one line:** Generally chain stores specialize in one line of product and variety in that line only is available at all the shops located in different areas.
- (vi) Uniform Prices:** The prices of the product charged by chain stores located in different parts of the country are the same and they sell goods at a fixed price.
- (vii) Elimination of middlemen:** Chain stores are generally owned by manufacturers who sell their goods directly to consumers, so middlemen are eliminated.
- (viii) Cash Sales:** In chain stores no credit is given. Goods are sold on cash basis only.

**MAIL ORDER BUSINESS:** Mail Order Houses are the retail outlets that sell their merchandise through mail usually without any direct personal contact between buyers. For obtaining orders, potential customers are approached through advertisements in newspapers or magazines, circulars, catalogues, samples and bills and price lists sent to them by post. On receiving the orders, the items are carefully scrutinized with respect to the specifications asked for by the buyers and are compiled with through the post office.

**GOODS AND SERVICES TAX (GST)**

GST or Goods and Services Tax is a comprehensive indirect tax which has replaced many indirect taxes in India. GST was introduced in India with effect from 1<sup>st</sup> July 2017. The Government of India, following the *credo* of 'One Nation and One Tax', and wanting a unified market in order to ensure the smooth flow of goods across the country implemented GST. GST is a destination based single tax on the supply of goods and services from the manufacturer to the consumer, and has replaced multiple indirect taxes levied by the Central and the State governments, thereby converting the country into a unified market.

**Key features of GST:**

1. The territorial spread of GST is the whole country.
2. GST is applicable on the supply of goods or services as against the earlier concept of tax on the manufacture or sale of goods or on the provision of services.
3. It is based on the principle of destination based consumption tax against the earlier principle of origin based taxation.
4. Import of goods and services is treated as Inter-state supplies and would be subject to IGST in addition to the applicable customs duties.

5. CGST, SGST and IGST are levied at rates mutually agreed upon by the Centre and the states under the aegis of the GST council. There are four tax slabs namely 5%, 12%, 18% and 28% for all goods or services.
6. Exports and supplies to SEZ are zero rated.
7. There are various modes of payment of tax available to the tax payer, including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT) or Real Time Gross Settlement (RTGS)

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### **MULTIPLE CHOICE QUESTIONS**

1. Which of the following is not a type of Itinerant retailer?
 

(a) Hawkers	(b) Market Traders
(c) Street Traders	(d) Street Stalls
  
- 2..... deal in similar line of standardized and branded consumer products and have identical merchandising strategies, with identical products and displays.
 

(a) Departmental Stores	(b) Chain Stores
(c) General Stores	(d) Speciality shops
  
3. Which among the following is not a feature of wholesalers ?
  - (a) Wholesalers acts as a link between producers and retailers
  - (b) Wholesalers maintain personal relations with the customers.
  - (c) Wholesalers deal with large quantities of goods.
  - (d) Wholesalers generally specialize in one line of product.
  
4. Gopakumar sells vegetables in a cycle rickshaw and moves from place to place. He provides them at the doorstep of his customers. Which type of itinerant trader he is?
 

a) Hawkers	b) Pedlars	c) Cheap jacks	d) Market traders
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5. Hameed is the proprietor of a Men's wear shop located in the city. Which type of Retail shop is it ?
 

(a) General Stores	(b) Speciality shops
(c) Street Shops	(d) Second hand goods shops
  
6. 'Bata stores' is an example for which type of retail shops ?
 

(a) Departmental Stores	(b) General stores
(c) Multiple Shops	(d) Speciality shops.
  
7. Read the following statements, Assertion and Reason and choose the correct alternative from the given below.
 

Assertion (A) : The departmental Stores are generally formed as joint stock company.

Reason (R): All the purchases in a departmental store are made centrally by the Purchase department.

Alternatives:

  - (a) Both Assertion (A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion (A)
  - (b) Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
  - (c) Assertion(A) is true, but Reason (R) is false

(d) Assertion (A) is false, but Reason (R) is true

8. Read the following statements carefully and choose the correct alternative from the following.

Statement 1: Import of goods and services is treated as inter-state supplies and would be subject to IGST under GST.

Statement 2: GST is a destination based consumption tax with facility of Input Tax Credit in the supply chain.

Alternatives:

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 1 is false and Statement 2 is true.

9. Observe the image given below and name the type of itinerant trader



- (a) Pedlars      (b) Hawkers      (c) Market trader      (d) Street

trader

10. Government of India, following the credo of **“One Nation and One Tax”**, and wanting a unified market in order to ensure the smooth flow of goods across the country implemented the Goods and Service Tax (GST) from .....

- (a) April 1, 2020
- (b) November 15, 2018
- (c) July 1, 2017
- (d) August 15, 2016

### **ANSWER KEY –MULTIPLE CHOICE QUESTIONS**

7. (d) 2.(b) 3.(b) 4.(a) 5.(b) 6.(c) 7.(b) 8.(a) 9.(a) 10. (c)

### **SHORT ANSWER QUESTIONS**

1. Ajay is a small trader who sells items of daily use in the weekly market. He has fixed different days for different places, like Monday, he set up his shop with temporary Structure in ‘Som Bazar’. On Tuesday, he set up his shop in ‘Mangal Bazar’ and so on.

- (a) Ajay’s shop will be classified under which retail shop ?
- (b) State any two

features of it **Ans:**

Market Traders

Important features of market traders:

- Market traders are the small retailers who open their shops at different places on fixed days.
- These retailers sell their goods at periodical markets such as weekly, monthly or annually.
- Generally they display their goods on temporary structures made

- outside the shops which are closed for a weekly holiday.
- They are mainly catering to lower income group of customers and deal in low priced consumer items of daily use.

2. State any three features of Goods and Service Tax (GST)

**Ans: Key features of GST:**

1. The territorial spread of GST is the whole country.
  2. GST is applicable on the supply of goods or services as against the earlier concept of tax on the manufacture or sale of goods or on the provision of services.
  3. It is based on the principle of destination based consumption tax against the earlier principle of origin based taxation.
  4. Import of goods and services is treated as Inter-state supplies and would be subject to IGST in addition to the applicable customs duties.
  5. CGST, SGST and IGST are levied at rates mutually agreed upon by the Centre and the states under the aegis of the GST council. There are four tax slabs namely 5%, 12%, 18% and 28% for all goods or services.
3. "These retailers are generally seen in areas having high population like bus stands, Railway stations etc. They deal in common use products, like news papers, magazines Toys, stationery items etc."
- (a) Identify the type of retailer and state any two features of it.

**Ans:**

Street Traders (Pavement Vendors)

- These retailers arrange or display their goods at busy street corners, pavements and other busy public places like bus stands, railway stations, cinema halls etc.
  - They sell consumer items of common use, such as stationery items, eatables, readymade garments, newspapers and magazines etc.
  - They deal in low priced products of common use.
4. Prakash is a retailer, who runs a small retail shop in his locality dealing with a variety of products required to satisfy the day to day needs of the people in his locality. He sells on credit to trusted customers and free home delivery also.
- (a) Which type of retail shop is run by Prakash ?
- (b) Briefly explain any other three small scale fixed retail shops.

**Ans:** (a) General Stores

(b) (a) Speciality Shops

These retail shops specialize in the sale of a specific line of products. For example, Men's wear shops, stationery shops, medical shops etc. The speciality shops are generally located in a central place in order to attract large number of customers, and they provide a wide choice to the customers in the selection of the goods.

(b) Street Stall holders

These small vendors are commonly found at street crossing or other places where flow of traffic is heavy. They attract floating customers and deal mainly in goods of cheap variety like hosiery products, toys, magazines, soft drinks etc.

(c) Second hand

goods shops



These shops deal in second hand or used goods like books, cloths, furniture and other household goods. The goods are sold at lower prices. Generally persons with modest means purchase goods from such shops.

5. Briefly explain any four services provided by Retailers to consumers

**Ans:** Retailers Services to Consumers

1. Regular availability of products.

Consumers are assured of continuous supply of goods and they need not store the goods in large quantities. A retailer makes available to the customers all types of commodities.

**2. New product**

**information**

By arranging for effective display of products and through their personal efforts, retailer provide important information about the arrival, special features etc. of new products to the consumers.

3. Convenience in buying

Retailers offer great convenience to the customers in buying small quantities of products according to their requirements. Retail shops are usually situated near to residential areas and remain open for long hours.

4. Wide Selection

Retailers generally keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods.

5. After sale service

Retailers provide important after sale services in the form of home delivery, repair of goods in the case of durable items, supply of spare parts and attending to customers.

6. Provide credit facilities

The retailers sometimes provide credit facilities to their regular buyers. It enables the customers to increase their consumption level and standard of living.

**LONG ANSWER TYPE QUESTIONS**

1. Rajesh has decided to launch an instant food range by the name of 'Delicia'. He has decided to initially launch instant idli mix, dosa mix, gulab jamun mix and pakoda mix in the market at national level. However, he is not able to decide on the distribution level. He has the following options available.

(i) Place his products at departmental stores all across the country.

(ii) Set up own retail outlets across the country

(iii) Start an e-portal

(iv) Appoint wholesalers across the country.

He has discussed the various options with his stakeholders and after discussion, he decided to appoint

wholesalers all over India.

On the basis of the above case , answer the following.

- (a) Briefly explain any three services availed by Rajesh by appointing wholesalers across the country
- (b) Briefly explain any three services provided by wholesalers to retailers.

**Ans:** (a) Services to Manufacturers

### **1.** Facilitates large scale production

As the wholesalers purchase goods from the manufacturers in bulk quantities, producers are able to undertake production on a large scale and take advantage of the economies of scale.

### **2.** Bearing risk

The wholesalers deal in goods in their own name, take delivery of the goods and keep the goods in large quantities in their warehouses. In this process they bear variety of risks such as the risk of fall in prices, theft, spoilage, fire etc.

### **3.** Financial Assistance

Wholesalers generally purchase goods from manufacturers on cash basis and sometimes even give advance for bulk orders. In this way wholesalers provide financial help to the manufacturers.

### **4.** Expert Advice

As the wholesalers are in direct contact with the retailers, they are in a position to advice the manufacturers about various aspects including customer's taste and preferences, market conditions, competitive activities and the features preferred by the buyers.

### **5.** Help in marketing function

The wholesalers collects orders from large number of retailers and supply goods to them, who in turn sells the goods to the consumers. As a result, wholesaler allows the manufacturer to concentrate more on production activity and relieves him from marketing of goods.

### **6.** Facilitates production continuity

The wholesalers purchases goods from producers as and when these are produced. It helps the manufacturers in maintaining continuity of production activity.

### **7.** Storage

The wholesaler takes delivery of goods when these are produced in the factory and store them in their own warehouses. It relieves the manufacturers of the storing problems.

**(b)** Wholesalers Services to Retailers

#### **(1)** Availability of goods

The wholesalers provides the products of various manufacturers to the retailers and saves them from keeping large quantity of each product.

#### **(2)** Marketing Support

The wholesalers perform various marketing functions and provide support to the Retailers. They undertake advertising and other sales promotional activities to Induce customers to purchase the goods.

### (3) Grant of credit

Wholesalers provide financial help to retailers by selling them goods on credit.

They can make payment after receiving the payment from the customers.

### (4) Specialised knowledge

Wholesalers specialize in a particular line of products and have expert knowledge of the market conditions relating to such products. They pass on the benefit of their specialized knowledge to the retailers and inform them about new products, Their uses, quality, prices etc.

### (5) Risk Sharing

The wholesalers purchase in bulk and sell in relatively small quantities to the retailers. Being able to purchase merchandise in smaller quantities, retailers are in a position to avoid the risk of storage, pilferage, obsolescence, reduction in prices and demand fluctuations.

2. "Steps Footwear (P) Ltd." deals in manufacturing of footwear. This company had opened 10 new branches to sell its products directly to its customers in different parts of the country. The speciality of these shops is that all its shops the goods available are of the same type and their price is also same. The layout of the shop is also same for all these shops. The people are happy to buy quality products directly from producer or manufacturer.

(a) Identify the type of retail shop opened by "Steps footwear (P) Ltd."

(a) Briefly explain its important features.

**Ans: a) Multiple Shops/Chain Stores**

Important features of Multiple shops are:

(i) Large Size: Chain stores operate on a large scale. Huge investment is required to set up identical shops in different parts of the country.

(ii) Location : These shops are located in fairly populous localities where sufficient number of customers can be approached.

(iii) Centralised Purchases: The head office makes all the purchases for all these multiple shops. Thereafter goods are dispatched to different shops as per their requirements.

(iv) Centralised control: All stores are controlled by the head office, which formulates policies and get them implemented in different shops.

(v) Specialised in one line: Generally chain stores specialize in one line of product and variety in that line only is available at all the shops located in different areas.

(vi) Uniform Prices: The prices of the product charged by chain stores located in different parts of the country are the same and they sell goods at a fixed price.

(vii) Elimination of middlemen: Chain stores are generally owned by manufacturers who sell their goods directly to consumers, so middlemen are eliminated.

(viii) Cash Sales: In chain stores no credit is given. Goods are sold on cash basis only.

3. Ganesh Kumar owns a large scale retail outlet at a central location in Mumbai. The outlet is divided into a number of sections and each section deals in a particular variety of goods. They provide number of facilities and services to their consumers such as restaurant, telephone booth, kids play area etc.

(a) Identify the type of retail outlet being highlighted in the above case.

(b) State the important features of it

**Ans: (a) Departmental Stores**

Important features of a departmental store:

- (i) Central Location:** It is generally located at a central place in the city so that people living in different areas may reach there easily.
- (ii) Large variety of goods:** These stores maintain a large variety of goods and customers can purchase almost all their requirements from these stores.
- (iii) Large Size:** As the size of these store is very large, they are generally formed as a joint stock company managed by a board of directors.
- (iv) Centralised Purchasing:** All the purchases in a departmental store are made centrally by the purchase department.
- (v) Elimination of middlemen:** A departmental store purchase goods directly from the manufacturers, which sells them to the ultimate consumers and eliminates middlemen.
- (vi) Services:** A departmental store provide a number of services and facilitates to the customers such as restaurant, travel and information bureau, rest rooms, telephone booth etc.

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## **CHAPTER 10**

### **INTERNATIONAL TRADE**

#### **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.

**Scope of International Business** – Major areas of operations of international business are briefly discussed below:

1. **Merchandise exports and imports** – Merchandise means goods which are tangible, i.e., those that can be seen and touched.
2. **Service exports and imports** – It means trade in intangibles, i.e., those that cannot be seen or touched. It is also known as invisible trade. Eg. Tourism and travel, transportation, entertainment, communication, educational service etc.
3. **Licensing and franchising** – Permitting a person/firm in a foreign country to produce and sell goods under your trademarks, patents or copyrights for a fee is another way of operating international business. Eg. Pepsi, Coca-Cola etc. Franchising is somewhat similar to licensing with the difference that it is connected with provision of services. Eg. Mc Donald (fast food restaurants), KFC etc
4. **Foreign Investments** – It means investment abroad in exchange for financial return. It can be in FDI (Foreign Direct Investment)- directly invested in properties, and FPI (Foreign Portfolio Investment)- investing by way of acquiring shares or granting loans.

## Difference between International business vs. Domestic business

Basis	International Business	Domestic Business
<b>1. Nationality of buyers &amp; Sellers</b>	Buyers & sellers come from different countries.	Buyers & sellers are from the same country.
<b>2. Nationality of other stakeholders</b>	Belong from various countries & hence have wider set of values and aspirations.	Belong to one country & hence consistency in their value system and behaviour.
<b>3. Mobility of factors of production.</b>	Mobility with various restrictions.	Free mobility.
<b>4. Customer heterogeneity across markets</b>	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.
<b>5. Differences in business systems &amp; practices</b>	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.
<b>6. Political system &amp; risk</b>	Political environment differs from one country to another. Special efforts are needed.	Predict the impact of political environment on business operations.
<b>7. Business regulations &amp; policies</b>	Business laws, regulations and economic policies differ among different countries.	Business laws, regulations , economic policies are less uniformly applicable within a country.
<b>8. Currency used in Business transactions</b>	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 the 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.

## **Export Trade**

Exporting refers to selling of goods and services from the home country to a foreign country. Export trade is a function of international trade whereby goods produced in one country are shipped to another country for sale or trade.

### **EXPORT PROCEDURE:**

1. **Receipt of enquiry and sending quotation** – The exporter gets an enquiry from prospective buyers from a foreign country and sending quotation in the form of a proforma invoice, which is a document containing all description about the product such as price, quality, grade, size, weight, mode of delivery, type of packing, payment terms etc.
2. **Receipt of order or indent** – If the buyer is satisfied with the conditions in the proforma invoice, an order will be placed. This order is also called indent. It contains the description of goods, price, quality etc.

3. **Assessing importer's creditworthiness and securing a guarantee for payments** – After receiving indent, the exporter conducts an enquiry about the financial capacity of the importer to ensure the promptness in settlement. Usually, exporters may demand a letter of credit in this regard.
4. **Obtaining export license** – In order to get the export license from the Import-Export Licensing Authority, the exporter has to fulfill the following formalities:
  - a. Open a bank account.
  - b. Obtaining Import Export Code (IEC) number from the Directorate General of Foreign Trade or Regional Import Export Licensing Authority.
  - c. Registering with appropriate export promotion council. Eg: Apparel Export Promotion Council, Council for Leather Exports etc.
  - d. Registering with Export Credit and Guarantee Corporation (ECGC) to cover the risk of non-payment
5. **Obtaining pre-shipment finance** – After the confirmation of order the exporter may approach his bank for getting pre-shipment finance to carry out export production.
6. **Production or procurement of goods** – The exporter makes ready the goods as per specification either by production or by purchasing it from the market.
7. **Pre-shipment inspection** – In foreign trade the quality of goods must conform to international standards. For this compulsory inspection by Export Inspection Agency – EIA (Govt. of India undertaking) should be done.
8. **Excise Clearance** – All goods produced are subject to excise duty under Central Excise and Tariff Act, but exported goods are either exempted or if paid, it is later refunded. So the exporter has to apply to the Excise Commissioner for export clearance. If the authority is satisfied, the excise clearance is given or the claim for refund is allowed. Such refund of duty is called duty drawback.
9. **Obtaining certificate of origin** – Some importing countries provide tariff concession or other exemptions for goods imported from certain countries. To avail such benefits the exporter has to obtain and submit certificate of origin along with other export documents. Certificate of Origin is a proof that the goods are actually been produced in the country from where it is exported.
10. **Reservation of shipping space** – The exporter has to apply for this by



furnishing complete information about the goods, probable date of shipment and port of destination. On acceptance, the shipping company issues a shipping order

11. **Packing and forwarding** – Goods are packed and marked with details such as name and address of importer, gross and net weight, destination port, country of origin etc. A packing list is attached herewith all other documents.
12. **Insurance of goods** – The exporter has to insure the goods with an insurance company to cover the risk due to sea perils in transit.
13. **Customs clearance** – Before loading the goods on the ship, customs clearance should be obtained by the exporter. For this the exporter prepares a shipping bill.
14. **Obtaining mates receipt** – After the goods are loaded on the ship, the captain or mate of the ship issues a certificate called mate's receipt.
15. **Payment of freight and insurance of bill of lading** – The C&F agent (Clearing and Forwarding agent) submits the mate's receipt to the shipping company for computation of freight. After the payment of freight, the shipping company issues a bill of lading.
16. **Bill of lading** – It is document issued by the shipping company after the cargo is loaded on the ship. It is prepared on the basis of Mates Receipt. The shipping company undertakes the delivery of goods to the buyer by producing this document.
17. **Preparation of invoice** – The exporter has to prepare an invoice of the goods, which contains the details such as quantity and the amount to be paid by the importer.
18. **Securing payment** – After shipment of goods, the exporter sends the relevant documents like Bill of lading, bill of exchange, letter of credit, invoice, etc. to the bank for completing the formalities to receive payment from the importer

## **IMPORT TRADE:**

Import trade refers to buying goods and services from another country. Countries are most likely to import goods that domestic industries cannot produce as efficiently or cheaply.

### **Import trade procedure:**

1. **Trade enquiry** – The importer has to collect information about the exporters of the products he needs from various sources like trade directories, trade associations, websites etc. After identifying the

exporter, he sends the trade enquiry. Trade enquiry is a written request by the importer to the overseas supplier for getting information such as price, quality and other terms and conditions for export.

**2. Obtain the import license** – Certain goods can be imported freely, while others require license. He has to apply for the import license at DGFT and obtain IEC number.

**3. Obtaining foreign exchange** – In import trade, payment is made in foreign currency, all foreign exchange transactions are regulated by RBI in India. So that the importer has to get prior sanction for foreign exchange.

**4. Placing order or indent** – The importer has to place an order or indent for the supply of goods. It should contain price, quality, quantity, size, grade and instructions relating to packing, shipping, delivery schedule, insurance and mode of payment etc.

**5. Obtaining letter of credit** – The importer should obtain the letter of credit from his bank and forward it to the exporter.

**6. Arranging finance** – Importer should arrange fund in advance to pay to the exporter on arrival of goods.

**7. Receipt of shipment advice** – It is a document sent by the exporter to the importer containing information about the shipment of goods after it is being loaded on the ship.

**8. Retirement of import documents** – After the goods are shipped, the exporter submits all the necessary documents with his banker for getting payment. Here the importer has to retire (receive) the documents either by ready payment or by accepting a bill of exchange.

**9. Arrival of goods** – On arrival of goods the person in charge of the ship informs the officer at the dock through a document called import general manifest. Import General Manifest is a document contains the details of **imported goods and on the basis of which the cargo is unloaded.**

**10. Customs clearance and release of goods** – After fulfilling all the formalities at the dock and payment of dock dues, freight if any and the customs duty, the importer can release the goods from the port.

### **Documents involved in International Trade**

**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 the name of the vessel, description of packages, marks, conditions of the cargo at the time of receipt onboard the ship etc.
- 3. 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
- 4. Indent:** It is a document in which the importer orders for supply of requisite goods to the supplier. The order contains the information such as quantity & quality of goods, price, method of forwarding the goods, nature of packing, mode of payment etc.
- 5. Shipping Order:** The exporting firm applies to the shipping company for provision of the shipping space. It is an instruction to the captain of the ship that the specified goods, after customs clearance at a designated port, be received on board

### **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 the 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 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 coordination in global trade policy making.
- 10.** Acting as a forum for trade liberalization.

# INTERNATIONAL BUSINESS

## International Business

### Features

- Involves Two Countries
- Use of Foreign Exchange
- Legal Obligations
- High degree of risk
- Heavy Documentation
- Time Consuming
- Lack of Personal Contact
- Language Differences

### Reasons

- Uneven Distribution of Natural Resources
- Availability of Factors of Production
- Specialisation
- Cost Benefits

### Benefits to Nations

- Earning of Foreign Exchange
- More Efficient Use of Resources
- Improving Growth Prospects and Employment Potentials
- Increased Standard of Living

### Benefits to Business Firms

- Prospects for Higher Profits
- Increased Capacity Utilisation
- Prospects for Growth
- Way out to Intense Competition in Domestic Market
- Improved Business Vision

### Disadvantages

- Different Currencies
- Legal Formalities
- Distance Barriers
- Language Barrier
- Difference in laws
- Information Gap
- Transport Problem

## Export Trade

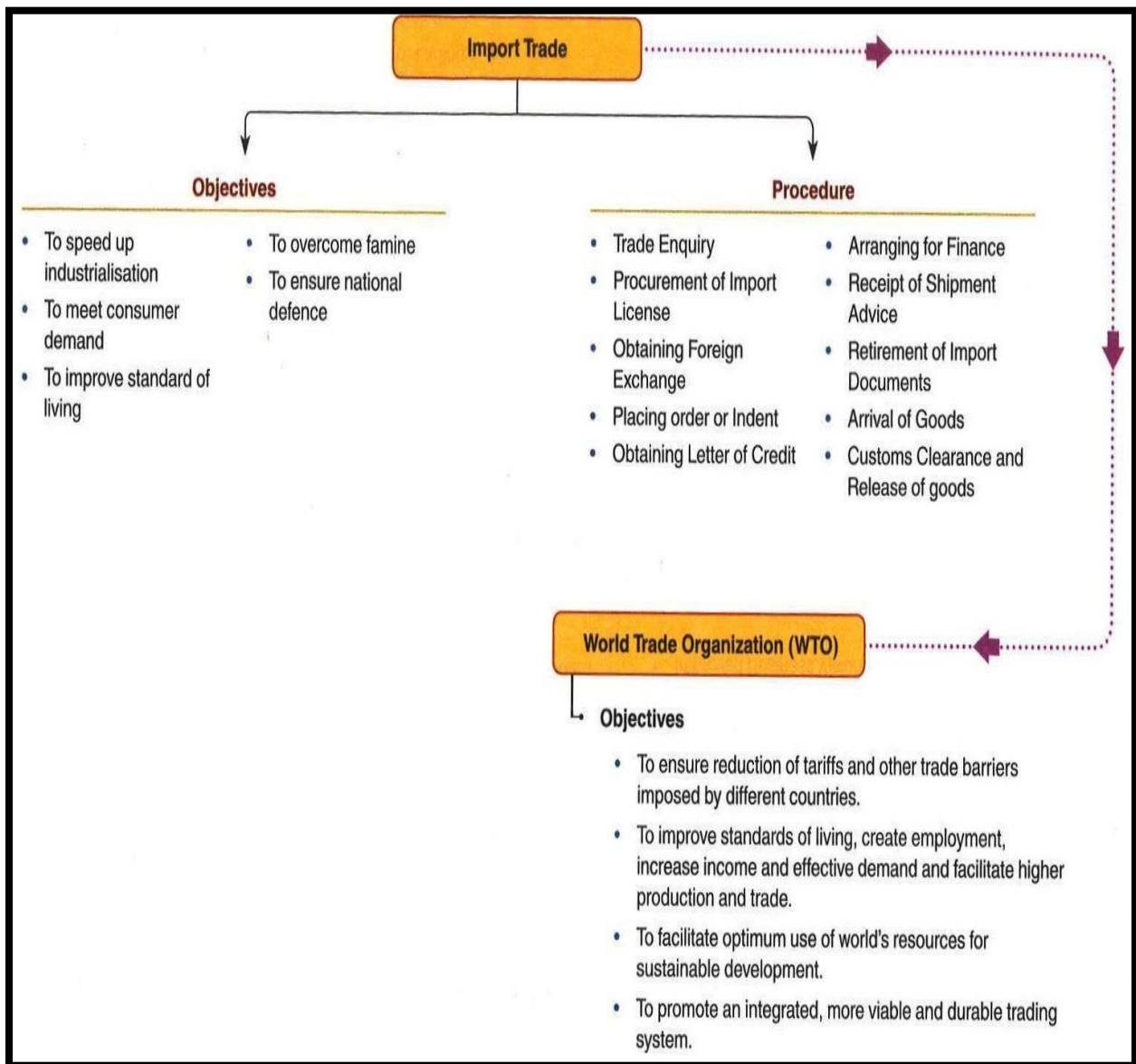
### Procedure

- Receipt of Enquiry and Sending Quotations
- Receipt of Order or Indent
- Assessing Importer's Credit-worthiness and securing a Guarantee for Payments.
- Obtaining Export License
- Obtaining Pre-shipment Finance
- Production or Procurement of Goods
- Pre-shipment Inspection

- Excise Clearance
- Obtaining Certificate of Origin
- Reservation of Shipping Space
- Packing and Forwarding
- Insurance of Goods
- Customs Clearance
- Obtaining Mate's Receipt
- Payment of Freight and Issuance of Bill of Lading
- Preparation of Invoice
- Securing Payment

### Objectives

- To sell surplus goods
- To make better use of resources
- To earn foreign exchange
- To increase national income
- To generate employment
- To increase government revenue
- To create international cooperation



### MULTIPLE CHOICE QUESTIONS (MCQs)

- Certificate of Inspection is issued by:
 

(a) Captain of the ship	(b) Exporter's Bank
(c) Insurance Company	(d) Export Inspection Council of India
- Which of the following is not an objective of import trade?
 

(a) To overcome famine	(b) To improve standard of living
(c) To earn foreign exchange	(d) To speed up industrialization
- Cart ticket is also known as:
 

(a) Cart chit	(b) Gate Pass
(c) Vehicle Pass	(d) All of these

4. The exporter has to open a bank account in any bank \_\_\_\_\_ authorised by to deal in foreign exchange.
- (a) State Bank of India (b) Reserve Bank of India  
(c) Central Government (d) State Government
5. Pre-shipment Inspection is not compulsory for:
- (a) Export Houses (b) 100% Export Oriented Units  
(c) Star Trading Houses (d) All of these
- 6 \_\_\_\_\_ is subject to rules, laws or taxation policies of various countries.
- (a) International business (b) Domestic Business  
(c) both (a) and (b) (d) None of these
7. Which of the following documents are not required for obtaining an export licence?
- (a) IEC number  
(b) Letter of credit  
(c) Registration cum membership certificate  
(d) Bank account number
8. Which of the following documents is not required in connection with an import transaction?
- (a) Bill of lading (b) Shipping bill  
(c) Certificate of origin (d) Shipment advice
9. Which of the following do not form part of the duty drawback scheme?
- (a) Refund of excise duties  
(b) Refund of customs duties  
(c) Refund of export duties  
(d) Refund of income dock charges at the port of shipment.
10. Which one of the following is not a part of export documents?
- (a) Commercial invoice (b) Certificate of origin  
(c) Bill of entry (d) Mate's receipt

Answers:

1	2	3	4	5	6	7	8	9	10
d	c	d	b	d	a	b	b	d	c

**ASSERTION REASON QUESTIONS (ARQs)**

Read the following statements: Assertion and Reason.  
 Choose one of the correct alternatives given below:  
*Alternatives:*

- (a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is True but Reason (R) is False.
- (d) Assertion (A) is False but Reason (R) is True.

1.

**Assertion (A) :** International Business and International Trade are one and the same thing.

**Reason (R) :** International Business involves the international movements of goods and services, capital, personnel, technology and intellectual property.

2. **Assertion (A) :** International business is subject to rules, laws or taxation policies of various countries.

**Reason (R) :** Business systems and practices are less homogeneous in the case of International business.

3.

**Assertion (A) :** Letter of Credit is the most appropriate and secure method of payment to settle international transactions.

**Reason (R) :** Letter of credit is a guarantee issued by the exporter's bank.

**Answers**

1	2	3
d	b	c

**Short Answer Type Questions**

1. Differentiate between international trade and international



business.

**Ans:** International Business is a much broader concept as compared to International Trade. International Business involves not only international movements of goods and services (ie. international trade), but also of capital, personnel, technology and intellectual property like patents, trademarks, knowhow and copyrights.

2. What is the major reason underlying trade between nations?

**Ans:** Uneven distribution of natural resources and factors of production.

3. What is bill of lading? How does it differ from bill of entry?

**Ans:** Bill of Lading is a document prepared by the shipping company to

acknowledge the receipt of goods on board the ship and gives an undertaking to carry them to the port of destination.

On the other hand, bill of entry is a document prepared by the importer to show the details of goods imported and is used by custom authorities determine import duty.

4. Explain the meaning of mate's receipt.

**Ans:** Mates receipt is the receipt issued by the commanding officer of the ship to the exporter after the cargo is loaded on the ship.

5. What is a letter of credit? Why does an exporter need this document?

**Ans:** Letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Exporter needs this document to minimise the risk of non-payment.

### **LONG ANSWER QUESTIONS/CASE STUDIES**

Q.1. Ram is a successful businessman who is engaged in manufacturing of auto spare parts. The products manufactured by him are sold not only in India, but are also exported to various countries like Singapore, Switzerland, Belgium, etc. On the basis of given case, answer

the following questions:

(a) Identify the two kinds of business in which Ramakant is engaged.

(b) Differentiate between the two types of business as identified in part (a) of the question.

**Ans:** a) The two kinds of business in which Ram is engaged are:

(i) Domestic Business; (ii) Inter-national Business.

(b) For differences between the two, refer to Domestic Business Vs International Business.

Q.2. International business encompasses all commercial activities that take place to promote the transfer of goods, services, resources, people, ideas, and technologies across national boundaries. The Internet and technology have made it much easier for businesses of all sizes to profit from the international business. Going international provides access to a world of opportunities to the business: Do you think that domestic business firms can derive any benefit from International Business. Give reasons to justify your answer.

**Ans:** Yes, according to me, domestic business firms can derive many benefits from International Business. Discuss Benefits to business.

Q3. Prateek wants to export auto spare parts to Mr. Dev in Switzerland. Mr. Dev has asked for an enquiry to seek information about availability of goods, price, quality and terms and conditions for export of goods. In response to the enquiry, Pradeep sends a reply in the form of Proforma Invoice. Mr. Dev found the price and terms and conditions acceptable. So, he placed the order for goods. After verifying the creditworthiness of Mr. Dev, Pradeep obtains an export license and arranges the pre-shipment finance. On the basis of given case study, state the next steps to be followed by Prateek related to the procedure of export trade.

**Ans:** The next steps to be followed by Prateek in the export trade are:

(i) Production or Procurement of Goods

- (ii) Pre-shipment Inspection
- (iii) Excise Clearance
- (iv) Obtaining Certificate of Origin
- (v) Reservation of Shipping Space
- (vi) Packing and Forwarding
- (vii) Insurance of Goods
- (viii) Customs Clearance
- (ix) Obtaining Mates Receipt
- (x) Payment of Freight and Issuance of Bill of Lading
- (xi) Preparation of Invoice
- (xii) Securing Payment.

Q.4. Identify the document highlighted in the following statements:

- i. This certificate specifies the origin of goods exported.
- ii. This document is issued by the commanding officer of the ship to the exporter after the cargo is loaded on the ship.
- iii. This document is prepared by shipping company to acknowledge the receipt of goods on ship and gives an undertaking to carry them to port of destination.
- iv. This document is the most appropriate and secure method of payment to settle international transactions.
- v. On the basis of this document, customs office grants permission for the export.
- vi. This document is prepared by the importer and it shows the details of goods imported and is used by custom authorities to determine import duty.
- vii. On the basis of this document, imported goods are unloaded from the carrier.

**Ans:**

(i) Certificate of Origin; (ii) Mates Receipt; (iii) Bill of Lading; (iv) Letter of Credit; (v) Shipping Bill; (vi) Bill of Entry; (vii) Import General Manifest.

Q.5. It is an international organisation established to supervise and liberalize world trade. It is the successor to the General Agreement on Tariffs and Trade (GATT). Although GATT proved remarkably successful in liberalizing world trade over the next five decades, but by late 1980s, there were

calls for a stronger multilateral organisation to monitor trade and resolve trade disputes. Following the completion of the Uruguay Round (1986-94) of multilateral trade negotiations, this Organisation began operations on January 1 st , 1995.

- (i) Identify the Organisation highlighted in the given case.
- (ii) How many countries are members of the organisation identified in (i) above.
- (iii) State any three objectives of the organisation identified in (i) above. **Ans:**

1. (i) The Organisation is World Trade Organization (WTO):

(ii) 164 Members.

(iii) Discuss Objectives of WTO:

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