BUSINESS STUDIES

(CLass - XI)

Year : 2011-12

S.N.	Name	Designation, School & Contact No.
1.	**Mrs. Savita Drall**	**Principal** SKV, Mata Sundri Road, Delhi-110002 Ph. : 011-23222137
2.	**Poonam Khanna**	**Vice-Principal** SKV, BL-Block, Shalimar Bagh, Delhi-110008 Ph. : 011-27495281
3.	**Kumkum Kumar**	**Vice-Principal** SKV, U-Block, Mangol Puri, Delhi Ph. : 011-27914467
4.	**Ishwar Singh**	**Lect. Commerce** RPVV, Narela Delhi-110040 Ph. : 9990994248
5.	**Nikhat Islam**	**Lect. Commerce** D.D.U. S.V. Rouse Avenu Delhi-110002 Ph. : 011-23235263
6.	**Vinod Kumar**	**Lect. Commerce** G.B.S.S.S. Mata Sundri Road Delhi-110002 Ph. : 011-23239835

BUSINESS STUDIES SYLLABUS
Class XI

One Paper **100 Marks**

3 Hours

Units		**Periods**	**Marks**
PART-A : Foundations of Business			
1.	Nature and Purpose of Business	20	08
2.	Forms of Business Organisations	24	12
3.	Public, Private and Global Enterprises	20	08
4.	Business Services	18	10
5.	Emerging Modes of Business	10	06
6.	Social Responsibility of Business and Business Ethics	12	06
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PART-B : Finance and Trade			
7.	Sources of business finance	28	14
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9.	Internal Trade	28	12
10.	International Business	12	08
11.	Project Work	22	10
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Chapter

1

Nature And Purpose of Business
Economic and Non Economic Activities

All Human beings have different types of needs. So, in order to fulfill those needs they have to perform same or the other activity. Human activities are classified into Economic & non economic activities.

Basic	**Economic**	**Non-Economic**
Purpose / Notice	Those activities whose Objective is to earn money and to create wealth.	Those activities whose aim is not to earn money, but to satisfy social, psychological and emotional needs.
Examples	- People working in factories	- A house wife cooking food for her family
	- A teacher teaching in a school	- A teacher training his/ Daughter at home.

<u>Concept of Business :</u> - Business refers to those economic activities involving the purchase production and / or sale of goods and services with a motive of earning parts by satisfying human needs in society.

<u>Characteristics of Business</u> :-

1. An economic activity : Business in considered as an economic activity as it is undertaken with the objective of earning money.
2. Production or procurement of goods and services :- Business includes all the activities concerned with the production or procurement of goods & services for sale services include transportation, banking, Insurance etc.
3. Sale or exchange of goods & services :- These should be sale or exchange of goods & service between the seller & the buyer.
4. Dealing in goods & services an a regular basis :- These should be regularity of dealings or exchange of goods & services. One single transaction of sale or purchase does not constitute business.
5. Profit Earning :- The main purpose of business is to earn profit. A business cannot survive without making profits.
6. Uncertainty of return :- Every business invests money with the objective of earning profit. However there is always a possibility of losses.
7. Element of risk :- All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, change in consumer taste etc.

<u>Comparison of Business Profession and Employment</u>

Economic Activities

Business	**Profession**	**Employm**
- Fishing	- Medical (Doctor)	- Worker
- Manufacturing goods	- Legal (Lawyer)	- Employ
- Mining	- Accountancy (C.A)	

Business :- Refers to Purchase production and / or sale of goods & services with the objective of earning profit.

Profession :- Includes those activities which require special knowledge & skills in the occupation.

Employment :- Refers to the occupation in which people work for others and get remunelation in return.

	Basis of Distruction	Business	Profession	Employment
1.	Mode of Establisment	Starts after completing some legal formalities if needed	Membership of a professional body and certificate of practice required	Start afeter getting appointment letter.
2.	Nature of work	Provision of goods and services to the public.	Personalised services of expert nature.	Work alloted by the employee according to the contract.
3.	Qualification	No minimum Qualification is necessary	Professional Qualification and traning required	Qualification and training as prescribed by the employer.
4.	Capital Investment	Capital needed according to its nature & size	Limited capital for establishment	No capital required
5.	Reward /Return	Profits	Professional Fee	Salary or wage
6.	Risk	It Involves high risk	The degree of risk is low	No risk in it.
7.	Code of conduct	No code of conduct	Professional code of conduct is to be followed	The terms and conditions of service contract are to be followed.

Objectives of Business :- Since a business has to balance a number of needs and goals, it requires multiple objectives

1. **Market standing** : - Business can survive for a longer period only if it is able to capture a big share in the market and has market standing.

2. **Innovation** :- Means developing new products and their multiple uses, Old custumers can be maintained and new can be attracted by innovaton only.

3. **Improving productivity** :- Every business enterprise must aim at greater productivity by making optimum use of available resources.

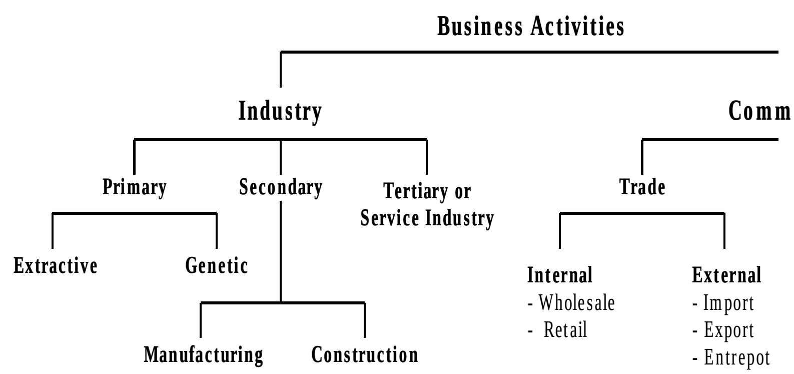
4. **Earning profit** :- One of the objectives of business is to earn profits on the capital employed. Every business must earn a reasonable profit to survive and grow.

5. **Optimum use of physical and financial resources :-** Every business requires physical (plant, machine, office etc) and financial resources (money or funds) to produce goods & services, The business enterprise must aim to use them efficiently.

6. **Workers performance and attitude** :- Every business enterprise must aim at improving its workers performance and creating positive attitudes of workers. It will boost the morale of the employees.

7. **Social Responsibility** :- A business is a part of society and so it must meet the expectations of the society. It can set goals in the areas of the environmental protection, Supply of desired Quality of products, employment generation etc.

Classification of Business Activities



1. **Primary Industry** :- The primary industry includes those activities through which the natural resources are used to provide raw materials to other industries. Primary indusries are of two types.

(i) **Extractive** :- Industry refers to those industries under which something is extracted out of the earth, water or air e.g., coal, iron, gas etc.

(ii) **Genetic** :- Refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms three planting etc.

2. **Secondary Industry** :- Under this industry new products are manufactured by using the previously produced things e.g., producing cotton is a primary industry and manufacturng cloth out of cotton is a secondary industry. It is of two types.

1. **Manufacturing** :- These industries convert raw materials or semi finished products into finished products e.g., paper from bamboo, sugar from sugar cane. It is futher be divided into for parts.

(i) **Analytic** :- Things are manufactured out of one twing e.g., petrol, diesel, gasoline out of crude oil.

(ii) **Processing** : Those industries wherein useful things are manufactured by making the raw material to pass through different production process e.g., steel from iron are.

(iii) **Synthetic** :- Many raw materials are mixed to produce more useful product e.g., paints, cosmetics.

iv) **Assembling** :- Where in the parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches etc.

3. **Tertiary or Service Industry** :- Includes those services which help business to move smoothly e.g. trasport, bank, Insurance, storage and Advertising.

COMMERCE :-

Meaning : Commerce refers to all those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services. The functions of commerce are as follows.

1. Removing the hindrance of person.
2. Transportation removes hindrance of place.
3. Storage and warehavsing activities remove the hindrance of time.
4. Insurance removes hindrance of risk.
5. Banking removes hindrance of finance.
6. Advertising removes hindrance of informaction.

Commerce includes two types of activities.

1. **Trade** : Refers to buying and selling of goods and services with the objecive of earning profit. It is classified into two categories.

i) **Internal Trade** :- Takes place withn a country. Internal trade is classified into two categories.

ii) **Retail Trade** : Refers to buying of goods and services in relatively small Quantities and selling them to the ultimate consumers.

2. **External Trade** :- between two or more countries. External trade can be classified into three categories.

i) **Import Trade** :- If goods are purchased from another country, it is called import trade.

ii) **Export Trade** :- If goods are sold to other countries it is called export trade.

iii) Entrepot Trade :- Where goods are imported for export to other countries e.g. Indian firm may import some goods from America and export the same to Nepal.

2. **Auxiliaries to Trade** :- All those activies which help in removing various hindrances which arise in connection with the production and distribution of goods are called auxiliaries to trade. An overview of these activties is given below.

i) **Trasportation and Communication** :- The production of goods takes place at one place where as these are demanded in different parts of the country. The obstacle of place is removed by the transport. Along with transport communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.

ii) **Banking and Finance** :- Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.

iii) **Insurance** :- It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.

iv) **Warehousing** :- There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses.

5. **Advertising** :- Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.

	Basis	**Industry**	**Commerce**	**Trade**
1.	Meaning	Production of good & services	Distribution of goods & services	Buying and selling. of goods and services.
2.	Capital requirement	Large amount of capital invested	Comparatively lesser capital Invested	Less capital depending on the nature of business
3.	Scope	It includes primary, secondary and services industries	It includes trade & auxiliaries to trade	It includes home and foreign trade
4.	Risk	Invdves maximum risk	less risk as Compared to industry	Least risk invdved
5.	Utility	Created form Utility	Creates place and time utility	Creates possesion utility.

Business Risk :- The term business risk refers to possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes and profecences of consumers, strike, increased competition, change in Government policy etc. These are of two types speculative & pure.

Nature of Business Risks :-

1. Business risks arise due to uncertainties :- Natural calamities, change in demand and prices, change in technology etc. are some of the examples of uncertainty which create risks.
2. Risk is an essential part of every business :- No business can avoide risk. Risk can be minimised but can not be eliminated.
3. Degree of risk depends mainly upon the nature and size of business :- For small scale business it is less and for large scale business it is more.
4. Profit is the reward for risk taking :- An entrepreneuer assumes risks and in consideration he gets reward which is called profit. Greater the risk higher is the chance of profit.

Casuse of Business Risk :-

1. Natural causes : are beyond human control e.g., flood, earthquake, heavy rains, famine etc.

2. Human causes : include carelessness or negligence of employees e.g., theft, strikes, riots, misappropriation of cash and goods etc.

3. Economic causes : related to a chance of loss due to change in market condition e.g., fluctuations in demand and prices, competition, change in technology etc.

4. Physical causes : Mechanical defects or failures may also lead to losses e.g., bursting of boiler or machine may cause death or destruction.

5. Other causes : These include unforeseen events like political distrubances, fluctuation in exchange rates etc.

Starting a Business :- Basic Factors

1. Selecting the line of business : - The first thing to be decided by the entre preneur is the line and type of business to be undertaken.

2. Scale or size of business :- After deciding the line of business the businessman must decide whether he wants to set up large scale or small scale business.

3. Choice of form of Business organisation :- The next decision must be taken is to finalise the form of business i.e., to set up sale proprietorship., partnership or joint stock company.

4. Location of Business Enterprise :- The entrepreneur has to decide the place where the enterprise will be located. Before taking this decision he must find out availability of raw materials, power, labour, banking, transportation etc.

5. Financial Requirement : The businessman must analyse the amount of capital he might require to buy fixed assets and for working capital (Day to day expenses) Proper financial planning must be done to determine the amount of funds needed.

6. Physical facilities : include machinery, equipment building etc. This decision depends upon the size, scale and type of business activities he wants to carry on.

7. Plant layout :- Showing the physical arrangement of machines and equipment needed to manufacture a product.

8. Competent and committed workforce :- The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perfrom various activities.

9. Tax planning :- The entrepreneur must try to analyse the types of taxes because these are a number of tax laws in the country which affect the functioning of business.

10. Setting up the Enterprise :- After analysing the above mentioned points carefully the entrepreneur can start the business which would mean mobilising various resources and completing legal formalities.

EXPECTED QUESTIONS :- (ONE MARK QUESTION)

Q.1. Give an example of activity which is economic in one side and non-economic on other side.

Q.2. Why is business considered an economic activity?

Q.3. It a person sells his domestic computer at a profit, will it be considered a business? Also explain the characteristic of business which is being stressed upon in the above said example.

Q.4. Name the economic activity in which specialised knowledge is required.

Q.5. Why is the insurance known as a teritary industry?

3/4 marks

Q.6. Write four differences among business, profession and employment.

Q.7. "No business is risk free" in the light of this statement, explain the concept of business risk and its any three causes.

Q.8. Explain any four objectives of business

Q.9. Define commerce, why is it of great importance in modern life?

Q.10 Distinguish between primary & secondary industry. Give examples.

5/6 marks

Q.11 Define business. Explain the characteristics of business (any four)

Q.12 "Commerce is the sum total of activities that remove hindrances in the free flow of goods from producers to consumers." Explain.

Q.13 Explain any six factors that are important to be considered while starting a business.

Q.14 Write difference among industry, commerce and trade on any five basis.

Q.15 "Profit maxmisation can't be the sole objective of a business". Explain.

Chapter

2

Forms of Business Organisation

MEANING :-

A business enterprise is an institutional arrangement to perform any business activity.

CLASSIFICATION :-

On the basis of ownership business enterprises can broadly be classified into the following categories.

- **Private Enterprises**
  - Owned, managed and controlled by private persons
  - **Non Corporate Form**
    1. Sole proprietorship
    2. Partnership
    3. Joint Hindu family Business
  - **Corporate Form**
    1. Co-operative society
    2. Joint Stock company
- **Public Enterprises**
  - Owned, managed and controlled by govt.
  - Types
    1. Departmental undertaking
    2. Statutary corporation
    3. Govt. Company

In case of CORPORATE FORM of private enterprises the identity of the enterprise is separate from that of the owner and in case of NON CORPORATE FORM, the identity of the enterprise is not different from that of its owners.

SOLE PROPRIETORSHIP

Sole proprietorship means a business owned, financed and controlled by a single person who is recipent of all profits and bearer of all risks.

It is suitable in areas of personalised services like beauty parlour, hair cutting saloons and small scale activities like retail shops.

FEATURES

1. Single ownership :- It is wholly owned by one individual.
2. Control :- Sole proprietor has full power of decision making.
3. No Separate Legal Entity :- Legally there is no difference but business and businessman.
4. Unlimited Liability :- The liability of owner is unlimited. In case the assets of business are not sufficent to meet its debts, the personal property of owner can be used for paying debts.
5. No legal formalities :- are required to start, manage and dissolve such business organisation.
6. Sole risk bearer and profit receipent :- He bears the complete risk and there is nobody to share profit / loss with him.

MERITS

1. Easy to start and close :- It can be easily started and closed without any legal formalities.
2. Quick decision making :- as sole trader is not required to consult or inform anybody about his decisions.
3. Secrecy :- He is not expected to share his business decisions and secrets with anybody.
4. Direct incentive :- Direct relationship between efforts & reward provide incentive to the sole trader to work hard.

5. Personal touch :- The sole trader can maintain personal contacts with his customers and employees.

6. Social Utility :- It provides employment to persons with limited money who are not interested to work under others. It prevents concentration of wealth in few hands.

LIMITATIONS

1. Limited financial resources :- funds are limited to the owner's personal savings and his borrowning capacity.

2. Limited Managerial ability :- Sole trader cann't be good in all aspects of business and he cann't afford to employ experts also.

3. Unlimited liability :- of sole trader compels him to avoid risky and bold business decisions.

4. Uncertain life :- Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.

5. Limited scope for expansion :- Due to limited capital and managecial skills, it cannot expand to a large scale.

SUITABILITY :

Sole tradership is suitable.

* Where the personal attention to customer is required as in tailoring, tailoring beauty parlour.
* Where goods are unstandarlised like artistic jewellery.
* Where modest capital & limited managecial skills are required as in case of retail store.

JOINT HINDU FAMILY BUSINESS

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

FEATURES

1, Formation - for a joint hindu family business there should be atleast two members in the family and some ancestral property to the inherited by them.

2. Membership - is by virtue of birth in the family.

3. Control - In it, control lies with eldest member of family known as “Karta”. All other members can give only advice.

3. Liability - of Karta is unlimited but of all other members is limited to the extent of their share in property.

4. Continuity - The business is not affected by death or incapacity of Karta as in such cases the next senior male member becomes the Karta.

6. Minor members - A minor can also become full fledged member of Family business.

There are two systems of JHF Business

DAYABHAGA SYSTEM

- Is prevailing in West Bengal
- Both male and female members can become co parceners

MITA

- It pre expec
- It allo to bec

MERITS

1. Effective control - The Karta can promptly take decisions as he has the absolute decision making power.

2. Continued business existence - The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.

3. Limited liability - The liability of all members except Karta is limited. It gives them a relief.

4. Secrecy - Complete secrecy regarding business decisions can be maintained by Karta.

5. Loyality and co operation - It helps in securing better co operation and greater loyality from all the members who run the business.

LIMITATIONS

1. Limited capital - There is shortage of capital as it is limited to the ancestral property.
2. Unlimited liability of Karta - It make him less enterprising.
3. Dominance of Karta - Karta manages the business and smetimes he ignores the valueable advice of other members. This may cause conflict among members and may even lead to break down of the family unit.
4. Hasty decisions - As Karta is overburdened with work. So sometimes he takes hasty and unbalanced decisions.
5. Limited managecial skills of Karta also poses a serious problem.

   The joint Hindu family business is on declive because of the diminishing no. of Joint Hindu families in the country.

PARTNERSHIP

Meaning : Partnership is a voluntary associations of two or more persons who agree to carry on some business jointly and share its profits and losses.

The partnership was evolved to overcome the shortcomings of sole proprietorship and Joint Hindu Family business.

FEATURES

1. Two or more persons - There must be atleast two persons to form a partnership. The maximum no. of persons is 10 in banking business and 20 in non banking business.
2. Agreement - It is an outcome of an agreement among partners which may be oral or in writng.
3. Lawful business - It can be formed only for the purpose of carrying on some lawful business.
4. Decision making & control - Every partner has a right to participate in mgt & decision making of the organisation.
5. Unlimited liability - Partners have unlimited liability.
6. Mutual Agency - Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.

7. Lack of continuity - firms existence is affected by the death, Lunacy and insolvency of any of its partner. It suffers from lack of continuity.

MERITS

1. Ease of formation & closure - It can be easily formed. Only an agreement among the partners is required.
2. Larger financial resources - There are more funds as capital is contributed by no. of partners.
3. Balanced Decisions - as decisions are taken jointly by partners after consulting each other.
4. Sharing of Risks - In it, risk get distributed among partners which reduces anxiety, burden and stress on individual partner.
5. Secrecy - Secrecy can be easily maintained about business affairs as they are not required to publish their accounts or to file any report to the govt.

LIMITATIONS

1. Limited resources - There is a restriction on the number of partners and hence capital contributed by them is also limited.
2. Unlimited liability- The liability of partners is unlimited and they are liable individually as well as jointly. It may prove to be a big drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.
3. Lack of continuity - Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partner.
4. Lack of public confidence - Partnership firms are not required to publish their reports and accounts. Thus they lack public confidence.

TYPES OF PARTNERS

1. General / Active Parter - Such a partner takes active part in the mgt. of the firm.
2. Sleeping of Dormant Partner - He does not take active part in the mgt of the firm. Though he invest money, shares profit & Loss, has unlimited liability.

3. Secret Partner - He participates in business secretly without disclosing his association with the firm to general public. His liability is also unlimited.

4. Nominal Partner - Such a partner only gives his name and goodwill to the firm. He neither invests money nor takes profit. But his liability is unlimited.

5. Partner by Estoppel - He is the one who by his words or conduct gives impression to the outside world that he is a partners of the firm whereas actually he is not. His liability is unlimited towards the third party who has entered into dealing with firm on the basis of his pretention.

6. Partner by holding out - He is the one who is falsely declared partner of the firm wheras actually he is not. And even after becoming aware of it, he does not deny it. His liability is unlimited towards the party who has deal with firm on the basis of this declaration.

PARTNERSHIP DEED

The written agreement on a stamped paper which specifies the terms and conditions of partnership is called the partnership deed.

It generally includes the following aspects -

- Name of the firm
- Location / Address of the firm
- Duration of business.
- Investment made by each partner.
- Profit sharing ratio of the partners.
- Terms relating to Salaries, Drawing, Interest on capital and Interest on Drawing of partners.
- Duties and obligations of partners.
- Terms governing admission, retirement and expulsion of a partner.
- Preparation of accounts and their auditing.
- Method of solvng disputes.

REGISTRATION OF PARTNERSHIP

Registration is not compulsory, it is optional. But it is always beneficial to get the firm registered.

The consequences of non-registration of a firm are as follows -

1. A partnet of an unregistered firm cannot file suit against the firm or other partner.
2. The firm cannot file a suit against third party.
3. The firm cannot file a case against its partner.

COOPERATIVE SOCIETY

A cooperative society is a voluntary association of persons of moderate means, who unite together to protect and promote their common economic interests.

FEATURES

1. Voluntary association - Everyone having a common interest is free to join a cooperate society and can also leave the society after giving proper notice.
2. Legal status - Its registration is compulsary and it gives it a separate identity.
3. Limited liability - The liabity of the member is limited to the extend of their capital contribution in the society.
4. Democratic control - Management and control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.
5. Service motive - The main aim is to serve its members and not to maximise the profit.
6. State control - They have to abide by the rules and regulation framed by govt. for them.
7. Distribution of surplus - The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of member.

MERITS

1. Ease of formation - It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formalities.

2. Limited liability :- The liability of members is limited to the extend of their capital contribution.

3. Stable Existence - Due to registration it is a separete legal entity and is not affected by the death, Lunacy or insolvency of any of its member.

4. Economy in operations - Due to elimination of middleman and voluntary services provided by its members.

5. Government Support - Govt. provides support by giving loans at lower interest rates, subsides & by charging less taxes.

6. Social utility :- It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

LIMITATIONS

1. Shortage of capital - It suffers from shortage of capital as it is usually formed by people with limited means.

2. Inefficent management - Co operative society is managed by elected members who may not be competent and experienced. Moreover it cann't afford to employ expert and experienced people at high salaries.

3. Lack of motivation - Members are not inclined to put their best efforts as there is no direct link between efforts and reward.

4. Lack of Secrecy - Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.

5. Excesive govt. control - it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registor.

6. Conflict among members - The members are from different sections of society with different view points. Sometimes when sometimes some members become rigid, the result is conflict.

TYPES OF COOPERATIVE SOCIETIES

1. Consumers co operative Society - It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.

2. Producer’s Co operative Society - The main aim is to help small producers who cannot easily collect various items of production and face some problem in marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.

3. Marketing Cooperative Society - It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different members is pooled together and sold by society at good price.

4. Farmer’s Co operative Society - In such societies, small farmers join together and pool their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on large scale.

5. Credit co opearative Society - Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.

6. Co operative Housing Society - The main aim is to provide houses to people with limited means / income at reasonable price.

JOINT STOCK COMPANY

Meaning - Joint stock co is a voluntary association of persons having a separate legal existence, perpetual succession and common seal. Its capital is divided into transferable shares.

FEATURES

1. Seperate Legal Existence - It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.

2. Perpetual Existence - Death, insolvency and insanity or change of members has no effect on the life of a co. It can come to an end only through the prescribed legal procedure.

3. Limited Liability - The liability of every member is limited to the nominal value of the shares bought by him or to the amt. guaranted by him.

4. Transferability of shares - Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co.
5. Common Seal - It is the official signature of the company and it is affixed on all important documents of company.
6. Seperation of ownership and conrol - Management of company is in the hands of elected reprentatives of shareholders known individually as director and collectively as board of directors.

MERITS

1. Limited Liability - Limited liability of shareholders reduces the degree of risk borne by him.
2. Transfer of Interest - Easy transferability of shares increases the attractiveness of shares for investment.
3. Perpetual Existence - Existence of a co is not affected by the death, insanity, Insolvency of member or change of membership. Company can be liquidated only as per the provisions of companies Act.
4. Scope for expansion - A company can collect huge amount of capital from unlimited no. of members who are ready to invest because of limited liability, easy transferability and chances of high return.
5. Professional management - A company can afford to employ highly qualified experts in different areas of business mgt.

LIMITATIONS

1. Legal formalities - The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
2. Lack of secrecy - It is very difficult to maintain secrecy in case of public co, as company is required to publish and file its annual accounts and reports.
3. Lack of Motivation - Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.
4. Delay in decision making - Red tapism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.

5. Oligarchic managemen - Co. is said to be democratically managed but actually managed by few people i.e. board of directors. Sometimes they take decisions keeping in mind their personal interests and benefit, ignoring the interests of shareholders and Co.

TYPES OF COMPANIES

On the basis of ownership, companies can be divided into two categories - Private & Public. Difference bet Private Company & Public Co.

Private Co.	Public Co.
i) It has minimum 2 & maximum 50 member	i) It has minimum 7 & maximum unlimited members.
ii) It cannot invite general public to buy its shares & debentures	ii) It invites general public to buy its shares & debentures
iii) There are certain restrictions on tranfer of its shares.	iii) Its share are freely transferable
iv) It can commence bussiness after incorporation	iv) It can commence business after obtaining certificate of commencement of business
v) It has to write "Private Ltd" after its name	v) It has to write only "Limited" after its name
Example : Tata Sons, Citi Bank, Hyundai Motor India In this	**Example** : Reliance Industries Ltd., Wipro Ltd., Raymonds Ltd.
vi) Minimum capital require is one Lakh	** In it minimum capital required is five lakhs.

CHOICE OF FORM OF BUSINESS ORGANISATION

The following factors are Important for taking decision about form of organisation.

1. Cost and Ease in Setting up the Org. - Sole properietorship is least expensive and can be formed without any legal formalities to be fulfilled. Company is most expensive with lot of legal formalities,

2. Capital Consideration - Business requiring less amount of finance prefer sole proprietorship and partnership form, where as business activites requiring huge financial resources prefere company form.

3. Nature of Business - If the work requires personal attention such as tailoring unit, hair cutting saloon, it is generally set up as a sole proprietorship. Units engaged in large scale manufacturing are more likely to be organised in company form.

4. Degree of Control Desired - A person who desires full and exclusive control over business prefers proprietorship rather than partnership or Co. because control has to be shared in these cases.

5. Liability or Degree of Risk - Projects which are not very risky can be organised in the form of sole proprietorship & partnership. Where as the risky ventures should be done in company form of organisation because the liability of shareholders is limited.

FORMATION OF A COMPANY

Formation of a company means bringing a company into existence and starting its business. The steps involved in the formation of a company are :-

i) Promotion

ii) Incorporation

iii) Capital subscription

iv) Commencement of business.

A private company has to under go only first two steps but a publc company has to undergo all the four stages.

I. Promotion :-

Promotion means conceiving a business opportunity and taking an initiative to form a company.

Step in Promotion :-

1. Identification of Business Opportunity : The first and foremost function

of a promoter is to identify a business idea e.g. product a new product or service.

2. Feasibility Studies :- After identifying a business opportunity the promoters undertake detailed studies of technical, Financial, Economic feasibility of a business.

3. Name Approval : After selecting the name of company the promotors submit an application to the Registrar of companies for its approval.

4. Fixing up signatories to the Memorandom of Association :- Promotors have to decide about the director who will be signing the memorandum of Association.

5. Appointment of professioanl : - Promoters appoint merchant bankers, auditors etc.

6. Preparation of necessary documents :- The promoters prepare certain legal documents as memorandum of Association, Articles of Association which have to he submitted to the Registrar of the companies.

II. Incorporation :-

Incorporation means registration of the company as body corporate under the companies Act 1956 and receivng certificate of Incorporation.

Step for Incorporation

1. Application for incorporation :- Promotors make an application for the incorporation of the company to the Register of companies.

2. Filing of necessary documents :- Promotors filling the following documents :-

   i) Memorandum of Assoication.

   ii) Articles of Association.

   iii) Statement of Authorised Capital

   iv) Consent of proposed director.

   v) Agreement with proposed managing director.

   vi) Statutory declaration.

3. Payment fees :- Along with filing of above documents, registration fees has to be deposited which depends on amount of the authorised capital.

4. Registration :- The Registrar verifies all the document submitted. If he is

satisfied then he enters the name of the company in this Register.

5. 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.

III. Capital Subscription :-

A public company can raise funds from the public buy issuing shares and Debentures. For this it has to issue prospectus and undergo various other formalities:-

Step required for raising funds from public :

1. SEBI Approval : SEBI regulates the capital market of India. A public company is required to take approval from SEBI.
2. Filing of Prospects :- Prospects 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 underwriter.
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 a 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.

IV. COMMENCEMENT OF BUSINESS :-

To commence business a public company has to obtan a certificate of commencement of Business. For this the following documents have to be filled with the register 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.

IMPORANT DOCUMENTS USED IN THE FORMATION OF A COMPANY :-

I. Memorandum of Association :-

Memorandum of Association is the important document of a company. No company can be registered without a memorandum of association. It is called life giving document.

Contents of Memorandum of Association

1. Name clause :- This clause contains name of the company. It should not be similar to the name of another company.
2. Situation clause :- In this clause the name of the state in which the registered office of the company is to be situated is given.
3. Object clause :- This clause define the object for which company is formed.
4. Liability clause :- This clause limits the liability of the members to the amount unpaid on the share held by them.
5. Capital clause :- This clause specifies the maximum capital which the company will be authorised to raise.

II. Articles of Association :-

The articles of association are the rules for the management of the internal affairs of a company. The articles define the duties, right and power of the officer and director of the company.

Contents of the Articles of Association.

1. The amount of share capital and different types of shares.
2. Rights of each class of shareholder
3. Procedure for making allotment of shares.
4. Procedure for issuing share certificates.

5. Procedure for forfeiture and reissue of share.
6. Procedure for conducting, voting and proxy.
7. Procedure for appointment of director.
8. Procedure for declaration of dividend.
9. Procedure regarding alteration of share capital.
10. Procedure regarding winding up of the company.

III. Prospectus :

Prospectus means any document which invites the public to purchase shares and debentures of the company. It contains past history, present status and future prospectus of the company.

Contents of the Prospectus.

1. Name, address and registered office of the company.
2. The main object of the company.
3. Authorised capital and types of share
4. The name and address of the directors.
5. Name of the Bank, Brokers ₹ame and underwriter name.
6. Merchant bankers to the issue.

1 MARK QUESTIONS :-

1. Write the name of form of business organisation found only in India.
2. Name two types of business in which sole propritorship is very suitable.
3. Name the person who manages a Joint Hindu Family business.
4. Write the names of systems which govern membership in Joint Hindu Family Business.
5. Enumerate the two conditions necessary for formation of Joint Hindu Family business.
6. What is the minimum no. of persons required to form a co operative society?
7. Explain the meaning of unlimited liability.
8. Name the type of Co. which must have a minimum paid up capital of 5 lacs
9. What is meant by minimum subscription?

3 MARKS QUESTIONS

9. Explain the concept of mutual agency in partnership with suitable example.
10. What is the role of Karta n Joint Hindu Family business?
11. Which document is called charter of a company?
11. Define prospectus state its contents.
12. What is meant by "Partner by estoppel"?
13. What is "Secret Partner"?
14. Write a short note on producers co-operative society.
15. Explain how a co operative organisation is a domocratic setup.

4/5 MARKS QUESTIONS :

15. Is registration of partnership compulsory? What are the consequences of non-registration?
16. Explain any four clauses of memorandum of association.
17. Define Articles of Association. How does it differ from Memorandom of Association?
18. Differentiate between :-
    a) Memerandum of Association & Articles of association.
    b) Private co. & Public Co.

6 MARKS QUESTIONS :

19. Mr. Amit Kumar is interested in the floatation of a company. Breifly discuss the steps he should take.
20. Discuss the reasons for the superiority of Joint Stock co. over sole proprietorship and partnership.
21. Explain the factors which affect the choice of form of business organisation.
22. Which form of business is suitable for following types of business and why?
    a) Beauty Parlor
    b) Coaching centre for Science Students

c) Hotel

d) Restaurent

e) Shopping Mall

f) Chartered Accountancy firm.

Chapter 3

Public And Global Enterprises

PUBLIC SECTOR ENTERPRISES

Meaning : - The public sector consists of various organisations owned and managed by central or state or by both governments. The govt. participates in economics activity of the country through these enterprises.

FEATURES :

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

FORM OF PUBLIC ENTERPRISES

1. Departmental Undertaking	**2. Statutory Corporations**	**3. G C**

I. DEPARTMENT UNDERTAKING

These are established as departments of the ministry and are financed, managed and controlled by either central govt. or state govt.

Examples :- Indian Railways, Post & Telegraph

FEATURES

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

MERITS

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

DEMERITS

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

STATUTORY CORPORATIONS

It is established under a special Act passed in parliament or state legislative assembly. Its objectives, powers and functions are clearly defined in the statute /Act.

Examples :- Unit Trust of India, Life Insurance Corp.

FEATURES

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

MERITS

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

DEMERIT

1. In reality, there is not much operational flexibility. It suffers from lot of political interferance.

2. Usually they enjoy monopoly in their field and do not have profit motive due to which their working turns out to be in efficient.

3. Where there is dealing with public, rampant corruption exists.

Thus public corp. is suitable for undertaking requiring monopoly powers e.g. public utilities.

GOVERNMENT COMPANY

A government company is a company in which not less than 51% of the paid up share capital is held by the central govt; or state govt. or jointly by both

Examples :- Hindustan Insecticides Ltd., State Trading Corp. of India, Hindustan Cables Ltd.

FEARURE

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

MERITS

1. It can be easily formed as per the provision of companies Act. Only an executive decision of govt. is required.
2. It enjoys autonomy in management decisions and flexibility in day to day working.
3. It can appoint professional managers on high salaries.

LIMITATIONS

1. It suffers from interferance from govt. officials, ministers and politicians.

2. It evades constitutional responsibility, which a company financed by the govt. should have, as it is not directly answerable to parliament.

3. The board usually consists of the politicians and civil servants who are interested more in pleasing their political bosses than in efficent operation of the company.

CHANGING ROLE OF PUBLIC SECTOR

Public sector in India was created to achieve two types of objective - (1) to speed up the economic growth of the country and (2) to achieve a more equitable distribution of income and wealth among people.

The role and importance of public sector changed with time. Its role over a period of time can be summarised as following :-

1. Development of Infrastructure :- At the time of independence, India suffered from acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machinery etc. Because of huge investment requirement and long gestation period, private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to public sector which it discharged quite efficently.

2. Regional balance :- Earlier, most of the development was limited to few areas like port towns. For providing employment to the people and for acclerating the economic development of backward areas many industries were set up by public sector in those areas.

3. Economics of scale - In certain industries (like Electric power plants, natural gas, petroleum etc) huge capital and large base are required to function economically. Such areas were taken up by public sector.

4. Control of Monopoly and Restrictive trade Practices - These enterprises were also established to provide competion to pvt. sector and to check their monopolies and restrictive trade practices.

5. Import Substitution - Public enterprises were also engaged in production of capital equipments which were earlier imported from other countries. At the same time public sector Cos like STC and MMTC have played an important role in expandng exports of the country.

Very important role was assigned to public sector but its performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

PUBLIC SECTOR REFORMS :-

In the industrial policy 1991, the govt. of India introduced four major reforms in public sector.

a) Reduction in no. of industries reserved for public sector - This no. is reduced from 17 to 8 and to 3 industries only in 2001. These three industries are atomic energy, arms and rail transport.

b) Memorandum of Understanding (MOU) - Under this govt. lays down performance targets for the management and gives greater autonomy to hold the mgt. accountable for the results.

c) Disinvestment - Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better financial discipline.

d) Restructure and Revival :- All public sector sick units were refered to Board of Industrial and financial Reconstruction (BIFR). Units which were potentially viable were restructured and which could not be revived were closed down by the board.

MULTI NATIONAL COMPANIES

Multinational Company may be defined as a company that has business operations in several countries by having its factories, branches or offices in those contries. But it has its headquarter in one country in which it is incorporated.

Example :- GEC, IBM, PHILIPS, COCA-COLA etc.

FEATURES

1. Huge Capital Resources :- MNCs possess huge capital resources and they are able to raise lot of funds from various sources.

2. International Opercations :- A MNC has production, marketing and other facilities in several countries.

3. Centralised control : MNCs have headquarters in their home countries from where they exercise control over all branches and subsidaries. It provides only broad policy framework to them and there is no interferance in their day to day operations.

4. Foreign Collabration :- Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country.

5. Advanced technology - These orgs possess advanced and superior technology which enable them to provide world class products & services.

6. Product Innovations :- MNCs have highly sophisticated research and developent departments. These are engaged in developing new products and superior design of existing products.

7. Marketing Strategies - MNCs use aggresive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

JOINT VENTURES

Meaning :- When two or more independent firms together establish a new enterprise by pooling their capital, technology and expertise, it is known as a joint venture.

Example : Hero Cycle of India and Honda Motors Co. of Japan jointly established Hero Honda. Similarly Suzuki Motors of Japan and Govt. of India come together to form Maruti Udyog.

BENEFITS

1. Greater resources and Capacity - In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficently.

2. Access to advanced technology - It provides access to advanced techniques of production which increases efficency and then helps in reduction in cost and improvement in quality of product.

3. Access to New Markets and distribution network - A foreign co. gain access to the vast Indian market by entering into a joint venture with Indian Co. It can also take advantage of the well established distribution system of local firms.

4. Innovation - Foreign partnets in joint ventures have the ideas and teachnology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.

5. Law cort of production - Raw material and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefited by the low cost of production.
6. Well known Brand Names :- When one party has well established brands & goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

VERY SHORT ANSWER QUESTIONS (1 MARK)

1. Name the sector which consists of business organisations owned & managed by government.
2. Give two examples of Multinational Companies.
3. Write the name of system by which mangement of a public enterprise is granted more autonomy but held accountable for specific results.
4. Write the name of enterprise that operate in several countries.
5. What is departmental undertaking?
6. Name the type of public enterprise which requires a special Act of parliament.

SHORT ANSWER QUESTIONS (3 MARKS)

7. What is memorandum of understanding?
8. How does the govt. maintain a regional balance in the country?
9. Write three difference bet' Departmental undertaking and Government Co.

LONG ANSWER QUESTIONS (5/6 MARKS)

10. Define joint venture and explain its major benefits.
11. Write main features of multi national company.
12. Why is the government company form of organisation preferred to other types in the public sector?
13. Explain the changing role of public sector in India.
14. What is statatory corporation? Explain its features.
15. Explain three merits and three limitations of Departmental undertaking.

Chapter

4

BUSINES SERVICES

INTRODUCTION -

All of us have seen a petrol pump. Have you ever thought how a petrol pump owner does his business in a village / remote areass in hilly tracks? How he gets money to purchase large quantities of petrol / diesel ? How he communicates to petrol depots ? How he safe guards himself from various risks associated with his business?

The answer to all the above questions is in the understanding of a term known as "Business Service".

Meaning :- Business services mean those services which help in the successful running of a business. Business cannot be even imagined in the absence of these services.

e.g Banking, insurance, transport, warehousing and communication.

Nature of Business Services :- Nature of business services is elucidated by the following points.

NATURE OF BUSINESS SERVICES :

1. Intangibility : Cannot be seen, touched or smelled. Just can only be felt. yet their benifits can be availed of e.g. Treatment by doctor.
2. Inconsistency : Different customers have different demands & expectation. e.g. Mobile services/Beauty parlour.
3. In Separability : Production and consumption are performed simultaneously e.g. ATM may replace clerk but presence of customer is a must.
4. Inventory Loss : Services cannot be stored for future use or performed earlier to be consumed at a later date. e.g. underutilised capacity of hotels and airlines during slack demand cannot be stored for future when there will be a peak demand.
5. Involvement : Participation of the customer in the service delivery is a must

   e.g. A cutomer can get the service modified accoarding to specific requirement.

Type of Services :-

1. Social Services :- Provided voluntarily to achieve certain goals e.g. health care and education services provided by NGOs.
2. Personal Services :- Services which are experienced differently by different customers.

   e.g. tourism, restaurants etc.
3. Business Services :- Services used by business enterprises for the conduct of their activities.

   e.g. Banking, Insurance, communication, warehousing adn transportation.

BANKING : Mean a company accepting deposits of money from public (for lending & investment), repayable on demand and withdrawl by cheque or otherwise.

e-Banking

Electronic | **Ban**

Meaning : Banking using electronic media i.e. internet with personal computer / laptop / mobile phone.

SERVICES OFFERED BY E-BANKING

i) Electronic fund Transfer System (EFTS)

ii) Automated Teller Machine (ATM)

iii) Point of Sales (PoS)

iv) Credit Cards.

BENIFITS

i) 24 hours × 7 day services

ii) Can operate from any where in the world.

iii) Greater security as customer can travel without cash.

TYPE OF BANKS

i) Commercial Bank

Functions of Commercial Bank

Primary / Main Function | **Secondary / Subs**

Accepting the Deposits
i) Fixed / time deposit
ii) Current / demand deposit Account
iii) Saving deposit Account
iv) Recurring deposit Account
v) Multiple option deposit Account

Lending Money
i) Loans
ii) Cash Credit
iii) Overdraft
iv) Discounting and Purchase of Bill of Exchange

Agency Function

ii) Central Bank

iii) Cooperative Banks

iv) Specialised Bank

1. **Commercial Bank**

Public sector bank owned by govt. They are 20 e.g. SBI, PNB, CB. etc.	Private sector Banks owned by private promoters HDFC, ICICI etc. emphasize more on profitability	Foriegn banks own & managed by forie promoters CITI Ban Standard Charted.

2. Co-oprative Bank : - They provide cheap credit to their members, an important source of rural credit i.e. Agriculture financing in India, e.g. Delhi Nagrik Shastri Bank etc.

3. Specialised Bank :- They are foriegn exchange bank industrial banks, development banks, export/import bank etc. These banks provide financial aid to industries, heavy turn over / key projects & foriegn trade e.g. IDBI, SIDBI etc.

4. Central Bank :- The Central Bank of a country in the Apex institution & the monetary authority. It issues currency & controls money supply & credit in the country. It supervises, controls and regulates the activities of all commercial Banks. it also acts as a banker to the govt. Reserve Bank of India is the Central Bank of our country.

INSURANCE

Meaning :- It is a contract where one party takes the responsibility of the risk of other party in exchange of some fixed fee.

Principles of Insurance

1. Principle of the utmost good faith : It refers that no material or important facts should be concealed by both the parties to the insurance contract.

2. Principle of Insurable Interest : It refers that there must be such a relationship between the Insured and the subject matter of insurance that the insured stands to benifit by its safety and to loose by its loss.

3. Principle of Indemnity : It refers that the insured can get only the compensation against actual loss and he cannot make profit out of it.

4. Proximate Causes : When the loss is the result of two or more causes, the proximate cause, i.e. the direct the most dominant & most effective cause of loss should be taken into consideration. The insurance company is not liable for the remote cause.

5. Principle of Subrogation : It refers that if the insured compenosate the insured then all the rights related to the subject matter of insurance get-transferred to the insurer.

6. Principle of contribution : - If the same subject matter, except life is insured by more than one insurers, then the actual loss will be shared by all the insurer.

7. Principle of mitigation :- If refers that the insured should try to minimize the loss of the subject matter of the insurer even if it is insured.

TYPE OF INSURANCE

Life Insurance :-

1. Whole life policy :- Amount payable will not be paid before the death of the assured. It will be payable to legal heir (s)

2. Endowment life Insurance : Sum assured is given in full payment after completion of policy / death of insured, whichever is earlier.

3. Joint Life Policy : Policy taken up by two or more persons.

4. Annuity Policy : Policy money is payable monthly.

5. Children Endowment Policy :- for children to meet higher education or marriage expenses.

General Insurance :-

1. **Marine Insurance (Loss by Marine Perils)**

Ship Insurance Cargo Insurance Freigh

2. * Fire Insurance - Loss due to fire

* Other Insurance

i) Health Insurance

ii) Vehicle Insurance

iii) Burglary Insurance

iv) Cattle Insurance

v) Crop Insurance

vi) Fi delity Insurance

COMMUNICATION SERVICES

Meaning :- Transmission of ideas and information.

Importance :-

i) establishing links with outside world.
   i.e. suppliers, customers, competitions etc.

ii) for quick exchange of information.

Communicatin Services

Postal

* Financial facilities
1. Monthly income Scheme
2. Deposits
3. Money order
4. NSC
5. Kisan Vikas Patra

* Mail Facilities
1. Parcel
2. Registration of transmitted articles.
3. Insurance
4. Allied facility
   1) Greeting post
   2) Media post
   3) Speed post
   4) e-bill post
   5) direct post
   6) inter national money transfer
   7) passport

Telecom

1. Mobile Services
2. Radio Paging
3. Fixed line.
4. Cable
5. VSAT - Satellite Base Service
6. DTH Direct to home service
   e.g. Tata & Sky etc.

Other m

1. Fax
2. Internet
3. Extranet
4. e-mail
5. www.
6. Voice ma
7. UMS
   Unified m

TRANSPORTATION

Meaning : Physical movement of goods and persons from our place to another.

Mode of transportation :- Rail, road, air & sea..

Need and importance of Transportation :- Transportation remove the hindrance of place and make goods available to the consumer from the place of production.

1. Transportation is required in the process of production and distribution of finished goods to market.
2. Efficient transportation reduces the cost of production and distribution and thereby the selling price of a product - Low price - mass consumption.
3. Transportation makes goods available, thereby increasing variety in consumption which helps to improve standard of living.
4. It facilitates foriegn & internal trade.
5. It widens market. If there had been no means of transport, market for goods would have remain local.
6. It provides direct and immediate employment to millions of people, more over, it indirectly creates employments opportunities by providing a boost to trade and industry.
7. It helps to stablise prices by moving the goods from the place where they are in exces supply to the place where they are scarce.

WARE HOUSING

Meaning :- Ware housing means storage & preservation of goods in a warehouse.

Warehouse : It is an establishment for keeping and storing goods, in a scientific & systematic manner so as to maintain their original quality, value & usefulness.

Types of Warehouse

1. Private warehouse :- Owned by multiproduct companies or retail chain stores for handling their own stock because of heavy cost of construction they are less in numbers.
2. Public warehouse : Govt. regulates their operation by issuing licences for them to private parties. They can be used for storage of goods by traders, manufactures or public after payment of fees.
3. Government warehouse :- Fully owned and managed by govt. e.g. FCI, STC, CWC.
4. Cooperative warehouse :- Owned, managed and controlled by some marketing cooperative societies for their own members.

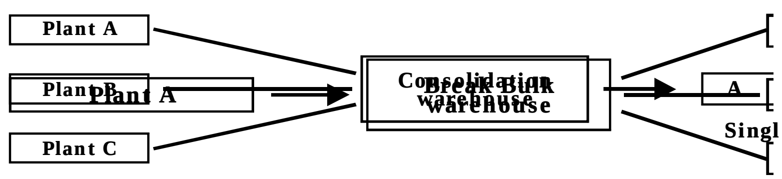
In India, the National cooperative Development cooperation is developing co-operative warehouse.

5. Bonded Warehouse :- are licenced by the govt. to accept imported goods before the payment of custom duties by the importer of such goods.

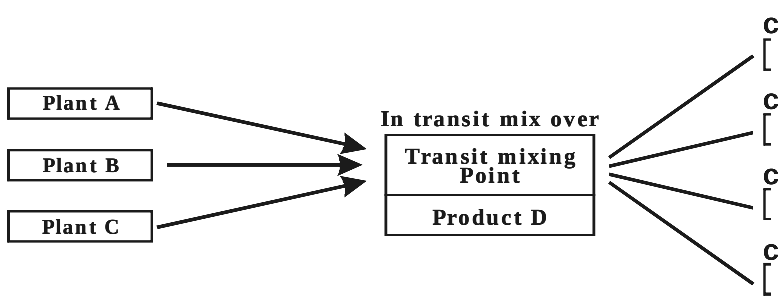
FUNCTIONS OF WAVE HOUSE

1. Stock piling and protection.
2. Risk bearing
3. Price Stablisation
4. Financing
5. Consolidation :-

6. Break the bulk



7. Value added services : - e.g transit mixing, packaging & Labelling.



Important Questions

1 mark questions

1. Define a service.
2. Mention any two features which distinguish services from goods.
3. Which institutes is called a borrower as well as a lender?
4. Name the Central Bank of our country and which is ther largest Commercial Bank of our India?
5. Define insurance.
6. Principle of Indemity is not applicable to which insurance?
7. Name the type of insurance where in insurable interest need not exist when the policy is taken?
8. What are the recent modes of communication.
9. What are the two catagories of communication services?
10. Name the warehouse where imported goods are kept?

3/4 marks questions

11. Define a bank? State various types of Banks.
12. Give three advantages of insurance.
13. What do you mean by internet? State its benefits.
14. Explain the importance of ware housing.
15. What is e-banking? What are the advantages of e-banking?

5/6 marks questions

16. State and explain the characteristion of services.
17. State and explain various means of communication.

18.a) A factory owner gets his stock of goods insured, but he hides the fact that the electricity board has issued him statutory warning letter to get his factory's wiring changed later on, the factory catches fire due to short circuit. Can he claim compansation?

b) Saurab has taken a loan from Ashish against the security of his factory. Can Ashish take a fire insurance policy of that factory. State the name of "Principle" also in both the cases.

19. Explain the following function of ware housing.

    i) consolidation

    ii) Price stablisation

    iii) Financing

20. Explain the advantages of transportation service by mentioning name of service.

Chapter

5

Emerging Modes of Business

INTRODUCTION -

The world of business in changing e-business and outsourcing are two most obvious expressions of this change. The newer modes of business. e-business and BPO are not new business, but simply the new ways of doing busines. Interestingly, the two trends of e-business & BPO are continuing to envolve, and that is why these are referred as "Emerging modes of Business".

e-Business - Electronic Business

Meaning - Means conducting industry, trade and business using computer network 24×7×365 days a yr. Business (24 hrs. × 7 days × 365 days a year business), there by dismantling the tim & space / locational constraints of its performance.

e-commerce :- means buying & selling products & services over the internet. It makes use of e-mail, electronic fund transfer etc.

Scope of e-business

1. B2B Commerce :- Business to Business - Both the parties are business firm, e.g. Manufacturer of an automobile requires assembly of a large number of components which are being manufactured by different firm; Maruti Udyog, Bajaj auto etc. use B-2-B commerce.

2. **B2C Commerce** : - Business to Customer - Transaction taking place between business & individual customers :

* It facilitates promotion of products on line. e.g. music or film

* Companies sell products & services on line to customer e.g. Amul.com sell Amul products online.

- It is fast & 24 hrs.

3. Intra - B. Commerce :- Parties involved are from with in a given business firm. It makes it possible for the marketing department to interact constantly with the production department to get information about customer requirement.

4. C2C Commerce :- Consumer to consumer - Business originates from the consumer & the ultimate destination is also consumer.

   Its area of application is the formation of consumer forum. e.g. selling used books over the internet.

Comparitive Study

e-business & Traditional business

	Basis	**Traditional Business**	**e-business**
1.	formation	Difficult	Simple
2.	Physical presence	Required	Not required
3.	Locational requirement	Market	None
4.	Cost of setting up	High	Low/no requirement of physical facility
5.	Communication	Hierarchical top to lower level	Non-Hierarchical

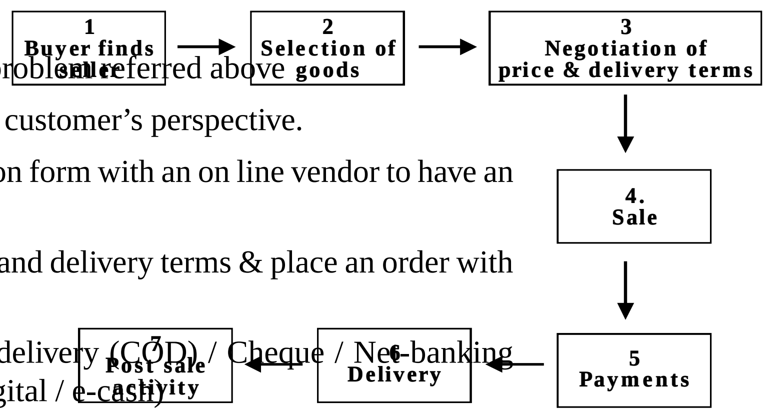
BENIFITS OF E-BUSINESS

1. Ease of formation & lower investment requirements :- It is relatively easy to start, no huge stock & capital.
2. Convenience :- 24×7×365 Anywhere, anytime, anything.
3. Speed : Internet allows any transaction alone at a click of mouse
4. Global reach / access : Customers have complete freedom to choose products from almost any part of the world.
5. Movement towards a paper less society : Using internet or mobile phones, thereby reducing dependency of people on paper.
6. Reduced costs : Reduced cash of advertising exchange of informantion & delivery.
7. Customer convenience & satifaction : Use of internet to hug goods / services & payment can also be made on line.

Limitation of e-business :-

1. Low personal touch : People want to test & feel products like garment, furniture, jewellery etc which is not possible here.
2. Gap between order taking/giving and order ful filment speed :- Physical delivery takes time & some time due to technical reasons websites takes long time to open.
3. Need for technology capability & competence of parties to e-business :- requires computer knowledge and there is a shortage of skilled persons who can successfully handle e-commerce.
4. Increased risk due to anonymity & non traceability of parties : It becomes difficult to establish the identity of the parties.
5. People resistance : e-business means new ways of doing things with new technology causes stress and a sense of insecurity. So people resist of entry into e-business.
6. Ethical fallouts : Companies use an ‘electronic eye’ to keep track of computer files used by their employees, their e-mail accounts etc. It is not ethical.

Buying / Selling Process



Except delivery stage, all stage unvalue flow of infromation which include :

1. Face to face interaction : Time cansuming.
2. Telephone : presence of both parties for verbal exchange.
3. By post : Time consuming.
4. Internet : free from most of the problem referred above

step involved in on-line trading from a customer's perspective.

1. Regsistration : To fill a registration form with an on line vendor to have an 'account'
2. Placing order : - Negotiate price and delivery terms & place an order with the vendor.
3. Payment mechanism : Cash on delivery (COD) / Cheque / Net-banking transfer/ credit or debit card (Digital / e-cash)

E-Business risks :-

I. Transaction risk :

1. Denial by customer/seller for order placed.
2. Default on delivery - wrong address & wrong goods delivered.
3. Dafault on payment - Seller doesnot get payment where as customer claims

that the payment was made.

II. Data storage and transmission risk :

1. Virus distroys information
2. Hacking : means unauthorise entry into website.

III. **Risk of threat to intellectual property & privacy :** Once the information in available on internet, it may be copied.

Resources required for successful e-business implementation

1. Well designed website.
2. Adequate computer hardware.
3. Technically qualified and responsive workforce.
4. Effective telecommunication system.

OUTSOURCING

Meaning :- Oursourcing means contracting out non core & routine activities to outside agencies with a view to benefiting from their experience, expertise & efficency e.g. Reliance Industries Ltd. wants to advertise its ‘Vima’ brand of clothing. it may appoint ‘X Advertising Co. to design, prepare & release advertisements on its behalf.

Nature / Salient features of outsourcing :-

1. Outsourcing involves contracting out : - e.g. activities like sanitation, (cleanliness) outside agencies on contractul basis.
2. Generally non-core business activities are outsourced :-
    1. Financial Services : e.g. issue of shares / debentures etc.
    2. Advertising Services : avail the services of expert in advertising related work.
    3. Courier Services : with cheaper rates & safety.
    4. Customer Support Service : After sale service i.e. handling diverse complants from their customers.
3. **Processes may be outsourced to a captive unit or a third party :** There are three types of third party service providers.

1. Captive BPO unit : Provides service of a given kind to only one firm.
2. Horizonatals : Service provided to a wide base of clients, cutting across industries.
3. Verticals : Specialise in one or two industries & scale up to doing a number of process from non-care of care.

   Scope / Segments of outsourcing.

   1. Contract manufacturing
   2. Contract research
   3. Contract sales.
   4. Information

NEED FOR OUTSOURCING (BENEFITS)

1. Focusing on core functions : By contracting out routine / non-care activities, a company can focus on more crucial matters.
2. Quest for excellence / benefit of specialisation : Outsourcing agency provide expertise of concerned function.
3. Cost reduction : Specialist perform the job at lower price due to large scale services.
4. Convenience & less investments : The firm need not to invest money in creating & maintaining system for routine & non-care activities.
5. Economic growth and development : Due to outsourcing every function is performed by the organisation most competent to do it. Division of labour & great or specialisation helps to maximise productivity & profits limitation of outsourcing.

1. Confidentiality : Vital informaton / knowledge may pan to competitors. via outsourcing firms.
2. Sweat Shipping : Outsourcing firm try to get maximum benefits from Low-cost manpower.
3. Ethical concer : Use to child labour in outsourcing firm n unethical.
4. Resentment in home counters : Contracting out jobs / employment may cause resentment in home countries.

Importance : Questions : (1-10 One mark each)

1. Mention any two strongest trends that are shaping the business.
2. What is e-business.
3. What is e-commerce.
4. Mention any two application of e-business.
5. Give two examples of application of C2C commerce
6. Mention any two importance of e-business.
7. How does e-business provide customer convimence?
8. What is the popular name for credit cards & debit cards.
9. What is VIRUS.
10. Mention two types of e-business risks.

3/4 MARKS QUESTIONS

11. State any three difference between e-business and traditional business.
12. What are the opportunities & benefits offered by e-business to the customers.
13. Explain briefly any four limitations of e-business.
14. Why are business increasingly outsourcing services. Explain any three reason.

5/6 MARKS QUESTIONS

15. Elaborate the steps involved in on-line trading.
16. How can a business firm ansure safety an security of e-transaction? Explain any four methods.

Chapter

6

Social Responsibilities of Business And Business Ethics

CONCEPT OF SOCIAL RESPONSIBILITY

A business is a part of society. So, a business exterprise should do business and earn money in ways that fulfil the aspirations of the society. Thus social responsibility relates to the valuritary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resarces of society and earn money from the members of society so they must do something for the society.

Arguments in favour of Social Responsibility :

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

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

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

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

4. Availability of resarces 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 agruments against social responsibility are :

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

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

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

REALITY OF SOCIAL RESPONSIBILITY

Reality of social responsibility is that inspite of the above arguments in favour & against of social responsibility business enterprises all concerned with social responsibility because of the influence of certain external forces.

These forces are

1. Threate of public Regulaton - When business firms ageeate in a socially irresponsible manner action is taken to regulate their activities and safeguard the interest of the people.

2. Presure of labour movement - Navadays even labour in our country has become educated, powerful and organisd due to formation of trade unions this has forced enterprises to take care of welfare of labour and reward them for their efficiency.

3. Impact of consumer consiousness : Today, consumers are concious of their rights and powers. In present day market customer is considered as a king. So, business enterprises have started following cutomer oriented policies.

4. Development of social standard for business - Today, busineses are no longer considered to make money only at any cast, According to newly developed social standard business enterprises have to interact with the members of society to exist and grow.

5. Development of busness education - with the development of busness education more & more people have become sensitive towards social issues.

6. Relationship between social interest and business interest - Business enterprises have realised that social and business interest are not contradictory but they are complementary to each other.

KINDS OF SOCIAL RESPONSIBILITY

1. Economic Responsibility - As economic responsibility business is expected to produce goods and services according to the needs of the customers and sell them at a profit.

2. Legal Responsibilit - Every business enterprises in expected to operate within the laws of our society. A law abeding enterprice gets no interference of government and is considered as a socially responsible enterprise.

3. Ethical Responsibility - Ethic is much more than law. While behaving ethcally business enterprises should not be involved in adulteration, black marketing, unduly high prices etc.

4. Discretionary Responsibility :- This responsibility is purely voluntary. This includes contribution in charity, to help weakel sections of the society, helping people attected by flood etc.

SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

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

1. Responsibility towards share holders :-

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

   ii) To ensure the safety of their investment

   iii) To strengthen financial position of the company.

   iv) To sateguard the assets of the business.

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

2. Responsibility Toward workers :-

   i) Providing four composation and benefits.

   ii) Providing good and safe working conditions.

   iii) To develop a sense of belongingness.

3. Responsibility toward consumers :-

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

   ii) To ensure regular and adequate supply of products.

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

   iv) To handle the customers grievance promptly.

4. Responsibility Towards Government -

   i) To pay taxes honestly

   ii) To observe rules laid down by the government.

   iii) to avoid corrupting government employees.

5. Responsibility towards community -

   i) To make available opportunities for employment.

   ii) To avoid polluting the environment.

   iii) To uplift the weaker sections of society.

BUSINESS AND ENVIRONMENTAL PROTECTION :-

Meaning of Envronment : - The environment is defined as the totality of man's surrandings - both natural and man made. Natural Resource all land, watle, air and man made - cultural neritage, socio economic institutions and the people meaning of Environmental pollution - It means injection of harmful substances nto the environment. The greatest problem that industries and businessmen are creating is that of pollution - What is the result of industrial production. So, protection of environment is must.

Causes of Pollution :- Many industrial organisations have ben responsible for causing air, waste, land and noise pollution.

1. Air Pollution - Due to smoke, chemical emitted by factories, vehicle. It has created a nole in the ozone layer leading to global warming.
2. Waste pollution - Due to chemicals and wast dumping into the rivers, streans & lakes. It has lead to the death of several animals and pased a serious problem of human life.
3. Land Pollution - Due to dumping og garbage and toxic wastes which affect the fertility of land and makes it unfit for agriculture.
4. Noise Pollution : Caused by the running factories and vehicles. Noise pollution can be responsible for many diseases like loss of healing, violent behaviour and mental disoder.

NEED FOR POLLUTION CONTROL :-

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

ROLE OF BUSINESS ENVIRONMENTAL PROTECTION :

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

BUSINESS ETHICS :

Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong By ethic we mean the business practices which are desieable from the point of view of Society. The purpose of business ethics is to guide the managers and employees in performing their jobs. Examples of business ethics all charging fair prices from customers, giving fair treatment to workers, earning reasonable profits and paying taxes to the government honestly.

ELEMENTS OF BUSINESS ETHICS

1. Top management commitment - The CEO and higer level mangers must be committed to ethical norms of behaviour. This would set on example for all employeers and encourage then to follow ethissin practice.
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, health care 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
5. Measuring Results - Although it is difficult to measure the ethical results but it must be verified and audted that how for work is being carried according to ethical standards.

QUESTIONS (ONE MARK)

1. Define social responsibility of business.
2. Write two examples of business ethics.
3. State two effects of noise pollution.
4. What is environmental pollution?

3/4 MARKS QUESTIONS

5. Why business is responsible for Environment Protection.
6. Enumerate any three responsibilities of business towards employees.
7. Why should a business assume social responsiblity?
8. Explain the major causes of environmental pollution.
9. Define business ethics and explain its significance.

5/6 MARKS QUESTIONS

10. Explain the forces which are responsible for increasing concern of business enterprises towards social responsibility.
11. “It is in the interest of business to fulfill its social responsibilities towards different interest groups”. Explain.

Chapter

7

Sources of Business Finance

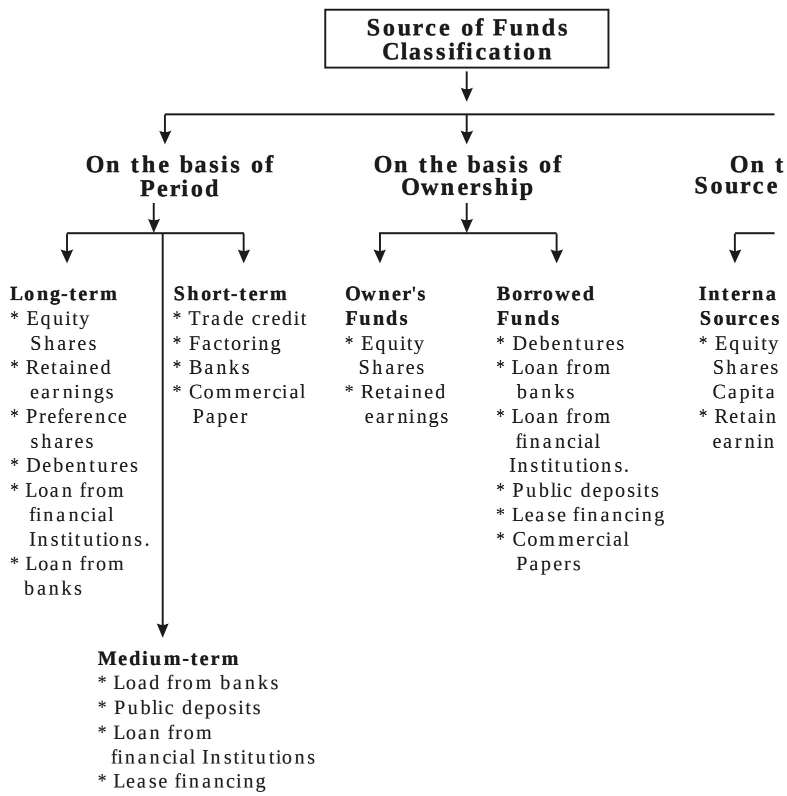
The term “finance” means money or fund. The requirements of funds by business to carry out its various activities is called business finance.

NATURE OF BUSINESS FINANCE :-

1. Fixed Capital Requirement :- In order to start a business funds are needed to purchase fixed assets like land and building, plant and machinery. This is called fixed capital requirement.
2. Working Capital Requirement :- A business needs funds for its day to day operation. This is known as working Capital requiements. Working capital is required for purchase raw materials, to paid salaries, wages, rent and taxes.
3. Diversification :- A company needs more funds to diversify its operation to become a multi-product company e.g. ITC.
4. Technology upgration : Finance is needed to adopt modern technology for example uses of computers in business.

5. Growth and Explanation : Higher growth of a business enterprise requires higher investment in fixed assets. So finance is needed for growth and exponsion.

CLASSIFICATION OF SOURCE OF FUNDS :



METHODS OF RAISING FINANCE :-

Issue of Share : The capital obtained by issue of shares is known as share capital. The capital of a company is divide into small units called share. If a company issue 10,000 shares of Rs. 10/- Each then the share capital of company is 1,00,000. The person holding the share is known as shareholder. There are two types of share I Equity share II preference share.

a) **Equity Share :** Equit shares represent the ownership of a company. They have right to vote and right to participate in the management because they are the owner of the company.

ADVANTAGES / MERITS :-

1. Permanent Capital : Equity share capital in important sources of finance for a long term.
2. No charge on assets : For raising funds by issue of equity shares a company does not need to mortgage its assets.
3. Higher returns : Equity share holder get higher returns in the years of high profits.
4. Control : They have right to vote and right to participate in the management.
5. No burden on company : Payment of equity dividend is not compulsory

LIMITATIONS / DEMERITS :-

1. Risk : Equity shareholder bear higher risk because payment of equity dividered is not compulsory.
2. Higer Cost : Cost of equity shares is greater than the cost of preference share.
3. Delays : Issue of Equity shares is time consuming.
4. Issue depends on Share Market Conditions : Equity shareholdre are the primary risk bearer therefor the demand of equity shares are in the boom time.

B. Preference Share : - Preference shares are safe in investment. They receive dividend at a fixed rate. Preference shareholder are like creditors. They have no voting right.

Types of preference shares :-

1. Cumulative preference shares.
2. Non cumulative preference shares.
3. Participating preference shares.
4. Non participating preference shares.
5. Convertible preference shares.
6. Non Convertible preference shares.

MERITS OF PREFERENCE SHARES :-

1. Investment is safe : Preference shareholders investment is safe. They have preferential right to claim dividend and capital.
2. No Charge on assets : The company does not need to mortgage its assets for issue of preference shares.
3. Control : It does not affect the control of equity share holders because they have no voting right.
4. Fixed dividend : They get fixed dividend so they are useful for those investor who wnt fixed rate of return.

LIMITATIONS / DEMERITS :

1. 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.
2. No tax saving : Preference dividend is not deductible from profit for income tax. Therefore there is no tax saving.
3. Burden on the company : In the year of losses dividend has to be paid.

DIFFERENCE BETWEEN EQUITY SHARES AND PREFERE SHARES

	Base	**Equity Shares**	**Preference Shares**
1.	Dividend	After preference dividend is paid	Priority over Equity share
2.	Voting Right	Full voting right	No Voting right.
3.	Risk	Risk hearing securities	Less risk
4.	Rate of Return	Fluctuates with profit	Fixed
5.	Control	Control the management	No control

Debentures : Debentures are the important debt sources of finance for raising long term finance. They found fixed rate of interest on Debentures. Interest is paid after every six months or one year. They are like a creditors of a company.

Type of Debentures :-

1. Secured Debentures
2. Unsecured Debentures
3. Convertible Debentures.
4. Non Convertible Debentures.
5. Redeemable Debentures.
6. Registered Debentures.

MERITS OF DEBENTURES :

1. Investment is Safe : Debentures are prefered by those investor who do not want to take risk and are interested in fixed income.
2. Control : Debenture holder do not have voting right.
3. Less Costly : Debentures are less costly as compared to cost of prefence shares.
4. Tax Saving : Interest on Debentures is a tax deducatable expense. Therefore, there is a tax saving.

LIMITATION OF DEBENTURES :-

1. 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.
2. Charge on assets : Th company has to martgarge its assets to issue Debentures.
3. Reduction in Credibility : With the new issue of debentures the company to further borrow funds reduces.

DIFFERENCE BETWEEN SHARES AND DEBENTURES

	Base	**Shares**	**Debentures**
1.	Nature	Shares are the capital	Debentures are a loan.
2.	Return	Dividend	Interest.
3.	Voting Right	Full voting right	No voting right.
4.	Holder	Owner is called share holder	Creditors called Debenture holder
5.	Types	There are two types of shares	More than two types.
6.	Security	Not recured by any charge	Secured and carry a charge on the assets of the company.

Retained Earning :- A portion of company's net profit after tax and dividend. Which is not distributed but are retained for reinvestment purpose is called retained earning. This is also called sources of self-financing.

MERITS

1. No costs : No costs in the form of interest, dividend, advertisement and prospects.
2. No charges on assets : The company does not have to mortgage its assets.
3. Growth and expansion : Growth and expansion of business is possible by reinvesting the retained profits.
4. Goodwill : The market price of the company share will increase.

DEMERITS

1. Uncertain Source : It is uncertain source of fund because it is available only when profits are high.
2. Dissatisfaction among shareholder : Retained profits cause dissatisfaction among the shareholder because they get low dividend.

PUBLIC DEPOSITS :

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

MERITS :-

1. No charge on assets : The company doesnot have to mortgage its assets.
2. Tax Saving : Interest paid on public deposits is tax deductable, hence there is tax saving.
3. Simple procedure : The procedure for obtaining public deposits is simpler than share and Debenture.
4. Control : They do not have voting right therefore the control of the company is not diluted.

LIMITATIONS :-

1. For Short Term Finanace : The maturity period is short. The company can not depend on them for long term.
2. Limited fund : The quantum of public deposit is limited because of legal restrictions 25% of share capital and free reserves.
3. Not Suitable for New Company : New company generally find difficulty to raise funds through public deposits.

COMMERCIAL BANKS :

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

1. Timely financial assistance : Commercial Bank provide timely financial assistance to business.
2. Secrecy : Secrecy is maintained about loan taken from a Commercial Banks.
3. Easier source of funds : This is the easier source of funds as there in no need to issue prospectus for raising funds.

LIMITATIONS / DEMERITS

1. Short or Medium term finance : Funds are not available for a long time.
2. Charge on assets : Required source security of assets before a loan is sanctioned.

FINANCIAL INSTITUTION :

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

MERITS :

1. Longterm Finance : Financial Institution provide long term finance which is not provided by Commercial Bank.
2. Managerial Advice : They provide financial, managerial and technical advice to business firm.
3. Easy installments : Loan can be made in easy installments. It does not prove to be much of a burden on business.

LIMITATIONS / DEMERITS :-

1. More time Consuming : The procedure for granting loan is time consuming due to rigid criteria and many formalities.
2. Restrictions : Financial Institution place restrictions on the company's autonomy of management.

INTERNATIONAL SOURCE OF BUSINESS FINANCE :

1. Commercial Bank : Commercial Bank all over the world provide foreign currency loan for business. Standard chartered is a major source of foreign currency loan to the Indian industry.
2. International Agencies and development Bank : Many number of international agencies and development Bank e.g. IFC, ADB provide long term loan.
3. **INTERNATIONAL CAPITAL MERKET :**

   GDR : When the local currency shares of a company are delivered to the depository bank, which issues depository receipt against shares, these receipt denominated in US doller are caller GDR's.

I. Feature of GDR :-

1. GDR can be listed and traded on a stock exchange of any foreign country other than America.
2. It is negotiable instrument.
3. A holder of GDR can convert it into the shares.
4. Holder get dividends.

5. Holder does not have voting rights.
6. Many Indian companies such as Reliance, Wipro and ICICI have issue GDR.

II. **ADR** : Whan the depository receipt issued by a company in USA are known as ADR's

Feature of ADR :-

1. It can be issued only to American Citizens.
2. It can be listed and traded is American stock exchange.
3. Indian companies such as Infosys, Reliance issued ADR

DIFFERENCE BETWEEN ADR & GDR

	Basis	**ADR**	**GDR**
1.	Listing	Only in American Stock Exchange	Anywhere of the world
2.	Liquidity	More liquid	Less liquid.
3.	Share Holder	Only American Citizens	All over the World Citizens.

III. FCCB's : - The FCC B's are issued in a foreign currency and carry a fixed interest rate. These are listed and traded in foreign stock exchange and similar to the debenture.

QUESTIONS :

1. What is meant by business finance.
2. Define a share.
3. Why is equity share capital called risk capital?
4. Preference share are not suitable to which kind of Investor.
5. Write the name of two Indian Company which issue GDR.
6. Why are retained profit called self financing.
7. What is the full form of ADR.

8. What is the difference between share and debenture.
9. What do you understand by GDR.
10. Explain the right of equity share holder.
11. Explain the main merits and demerits of debenture
12. What is the difference between ADR and GDR's.
13. "Public Deposits as a source of finance is better than raising funds" Comments.
14. What are the feature of equity share. What are the advantage of issuing equity share to raise long term finance.debenture.

Chapter

8

Small Business

A business which operates on a small scale and required less capital, less labour and less machines is called small business. The goods are produces on a small scale. This business is operate and managed by the owner of the business. In India the village and small Industries sector consists of both traditional, Handlooms Handicrafts, coir, khadi and Village Industries. Modern small Industries - Small scale industries and Powerlooms.

Several parameters can be used to measure the size of business. These include the number of persons employed is business, Capital invested in business, Volume of output of business and power consumed for business activities. The definition used by the Government of India to describe small Industries is based on the investment in plant and machinery. It can be dividend as :-

	Type of Industries	Investment Limit Rs.	Features
1.	Small scale Industries	One Crore	For specific production it is 5 Crore (71 product)
2.	Ancillary small Industrial Unit	One crore	50% of output supplied to the parent unit
3.	Export Oriented Units (EOU's)	One crore	It export more than 50% of its production. It can sell 25% in domestic market.
4.	Tiny Industrial Unit	25 Lakhs	Investment Limit in plat and Machinary is not more than 25 lakh.
5.	Women Enterprises	Any of the above	Owned and managed by woman and have capital not less thay 51%
6.	Mirco Business Enterprises	One lakh	Those whose Investement in plant and Machinery does not exceed. Rs. 1 lakh
7.	Village Industries	Investment Worker per head Rs. 50,000/-	Location in Rural Areas Produces any goods without the use of power.
8.	Cottage Industries	Not defined by Capital Investment	Normally use family labour. Used Simple machine, use small capital.

ROLE OF SMALL SCALE INDUSTRIES IN SOCIO ECONOMIC DEVELOPMENT OF INDIA :-

1. Employment : Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country.

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

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

4. Balance regional development : S.S.I can be set any where in the country. They use local resources. Less capital and simple technology.

5. Complementary to large scale Industries : S.S.I. supply various types of components spare parts, tools. Which are required by large scale enterprises.

6. Low cost of production : S.S.I. also enjoy the advantage of low cost of production because they used local resources in their product.

7. Quick and timely decisions : Due to the small size of the organisation quick and timely decisions can be taken without consulting many people.

8. Development of entrepreneurship : S.S.I. provide opportunity of young men and women to start their own business.

ROLE OF SMALL BUSINESS IN RURAL INDIA

1. Provides Employment in Rural Areas : - Cottage and rural industries provide employment opportunities in the rural areas.

2. Improve Economic Condition : Small business provide multiple source of income to the rural households. S.S.I improve economic conditions and standard of living of people living in those Areas.

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

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

5. Equitable distribution of national Income : Small Scale Industries and cottage Industries ensure equitable distribution of national income.

PROBLEMS OF SMALL SCALE INDUSTRIES

1. Finance : These units are suffering from lakh of adequate of working capital. They find it difficult to borrow loan from bank at a reasonable rate of interest.

2. Raw Materials : These units are unable to obtain raw material of good quality at reasonable price. They cannot afford to purchase raw materials in bulk.

3. Difficulties in Marketing : The small scale units cannot afford to spend much funds on advertisements and distribution channels. They depend on middle man who often exploil them.

4. Problem of Technology : Due to lack of capital they cannot afford new machines and technology. They use old machine. On account of this reason their cost of production is high.

5. Competition : They face competition not only with large industries but also from MNC's China has killed Indian small scale industries.

6. Other Problems :

   I. Lack of mangement skills.

   II. Lack of demand for the products.

   III. Burden of Local Taxes.

   IV. Problems Relating to labour.

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

Measures Taken by the Government

- **Institutional Support**
- **Solve Marketing Problems**
- **Solve the Problem of Competition**
- **Ince**

(A). INSTITUTIONAL SUPPORT :-

1. National Bank for Agriculture and Rural Development (NABARD)

NABARD was set up in 1982 to promot integrated rural development the object of NABARD are as under :-

I. It provides financial support to small Industries, cottage and village industries and Agriculture.

II. It provides counselling and consultancy services.

III. It also organises training and development programme for rural entrepreneurs.

2. Small Industries Development Bank of India (SIDBI)

SIDBI was set up in 1980. SIDBI is the main financial Institution for financing and development of small Business in India. The objects of SIDBI are as under :-

I. It provides term loan to SSI unit for modernisation, technology and diversification.

II. It provides assistance for working capital requireements for SSI.

III. It provides assistance for sick units of SSI for rehabilitation.

IV. It provides discounting of Bill of SSI.

V. It provides service like leasing.

3. National small Industries Corporation (NSIC)

This was set up in 1955 to promote, aid and foster the growth of small scale units in India.

I. It supplies imported machines and raw materials to small scale industries on easy hire-purchase schemes.

II. It export the products of small units.

III. It provides technology to small scale Industries.

4. The Rural Small Business Development Centre (RSBDC)

I. It aims at providing management and technical support to micro and small units in rural areas.

II. It has organised several programmes for skill development and training.

III. It provides training programmes for people employed in industries such as toy making, candle making etc.

5. National Commission for Enterprises in the Unorganised Sector.

Its objectives are as under

I. It improves the productivity of small enterprises.

II. To enhance their competitiveness

III. To provide facilities in the area of credit, raw material, technology etc.

6. **Rural and Women Enterpreneurship Development :** It creates business environment to encourage initiatives of rural and women entrepreneurs provides training and advisoly service.

7. **District Industries Centre (DIC)** : They provide all the services and suport facilities to the entrepreneurs for setting up small and village Industries.

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

(C) Incentives :

1. Power : Some states supply power at a concessional rate of 50%.
2. Tax holidays : Exemption from payment of tax for 5 years.
3. Land and Water : Availability of land at concessional rate. Water is supplied on no profit no loss basis.
4. Octroi : Most of the states have abolished octori.

(D) Protective Measures :-

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

QUESTIONS :-

1. What do you mean by Small Business?
2. Give full form of NABARD.
3. What is a Women Enterprise.?
4. How much Small Industries contribute to total export from India?

5. Write the features of Cottage Industries.
6. Explain any three types of Small Scale Industries in India.
7. Explain four important problems of Small Business in India.
8. Explain the role of NABARD to promote Agriculture and rural development.
9. Explain the role of small scale Industries in development of Rural Area.
10. What measure has the government taken to solve the problem of finance and marketing in the small scale sector.
11. Write short note on :-
    I. SIDBI
    II. DIC

Chapter

9

Internal Trade

Trade refers to the process of buying and selling of goods and services with the objective of earning profit. When trade takes place between the people of the same country then it is termed as internal trade. Infact, buyin and selling of goods and services within the geographical boundaries of a nation or country is called internal trade. Internal trade can be classifed into two broad categories.

i) Wholesale trade

ii) Retail trade

Wholesale trade : Buying and selling of goods and services in large quantities for the purpose of resale or intermediate use is referred to as wholesale trade. Wholesalers acts as an important link between manufacturers and retailers. They purchase in bulk and sell in small lots to retailers.

SERVICES OF WHOLESALER TO MANUFACTURERS.

1. Wholesaler's enable manufacturers to undertake large scale production as they purchase goods in large quantities from them.
2. Wholesaler deals in goods in their own name and bear variety of risks such as the risk of fall in prices, theft, pilferage spoilage, fire etc.
3. Wholesalers provide financial assistance to the manufacturers by making cash payment for the purchased goods.
4. Wholesaler provide various useful information regarding the customer preference, market conditions etc to the manufacturer.
5. Wholesalers help manufacturer in marketing function by purchasing goods from them and selling them to the retailers.
6. Wholesalers provide the storage facilities also as they hold the goods in their warehouses/Godowns.

SERVICES OF WHOLESALERS TO RETAILERS

1. Wholesalers make goods available to the retailers, who make them available to the ultimate customers.
2. Wholesalers help retailers in the marketing of the goods by undertaking advertising and other sales promotional activities.
3. Wholesalers help retailers by providing credit facility to them.
4. Wholesalers sell goods to retailers in small quantities and thus retailers do not face the risk of storage, pilferage reduction in prices etc.
5. Wholesalers do have specialised knowledge and they can help retailers by providing the same to them. They inform the retailers about new products, their uses and quality etc.

RETAIL TRADE :

Buying of goods in large quantities from the wholesalers and selling them in small quantities to the ultimate consumers is formed as retail trade. Retailers serve as an important link between the producers and final consumers in the distribution of products and services.

SERVICES OF RETAILERS TO MANUFACTURERS AND WHOLESALER :-

1. Retailers help manufacturers & wholesalers in the distribution of their goods & services to the ultimate consumers.
2. Retailers help manufacturers & wholesalers in promoting their goods & services.
3. Retailers undertake personal selling efforts and thus, help manufacturers and wholesalers in the process of actualising the sale of the products.
4. Retailers collect and provide market information about the tastes, preferences and attitudes of consumers to the producers.
5. Retailers make manufacturer and wholesaler free from the burden of making individual sales and thus help them to operate on large scale production.

SERVICES OF RETAILERS TO CONSUMERS :-

1. Retailers provide goods to consumers according to their requirements.
2. Retailers deals in large varieties of products of different manufacturers and thus they offer wide selection to the consumers.
3. Retailers provide important information about the new products to the consumers.
4. Retailers also provide after sales services in the form of home delivery, supply of spare parts and attending to the customers.
5. Retailers sometmes provide goods to customers on credit basis also, which increase their level of consumption and standard of living.
6. Retailers ensure regular availability of different goods to customers.

TYPES OF RETAILING TRADE

Retail trade can be classified into following two categories on the basis whether or not they have a fixed place of business.

i) Itinerant Retailers ii) Fixed shop Retailers.

I. Itinerant Retailers : - The retailers who do not have a fixed place of business to operate from are called itinerant retailers. They have to move from one place to another alongwith their goods in search of consumers.

Following are the characteristics of itinerant retailers.

1. They are small traders having limited resources.
2. they generally deals in consumer products of daily use.
3. They exphasis on providing greater customer services.
4. They do not have any fixed place to operate from.

TYPES OF ITINERANT RETAILERS

1. Peddler and hawkers : They are small producers who generally deals in non-standardised and low-value product such as fruits, vegetables, toys etc. They carry the products on a bicycle, a hand cart, Cycle rickshaw or on their heads and move from place to place to sell their products at the doorstep of the customers
2. Market traders : They are the small retailer who open their shops at different places and sell the goods on fixed days such as every saturday or tuesday. These trader deals in single line of goods such as toys, readymade garnment crockery etc.
3. Street traders (Pavement Vendors) : These types of retailers are found at places where huge floating population gather such as railway station, bus stand etc and sell consumer items of common use, such as stationery, newspapers, toys etc. They do not change their place of business frequently.
4. Cheat Jacks : They are small retailers who have independent shops of a temporary nature in a business locality. They keep on changing their bussiness from one locality to another but very frequently. They deal in consumer items such as repair of watches, shoes, buckets etc.

II. FIXED SHOP RETAILERS

Retailers who maintain permanent establishment to sell their goods are called fixed shop retailers. Following are the main characterstics of fixed shop retailers :

1. As compare to itinerant traders, fixed shop retailers have greater resources.
2. They deals in durable as well as non-durable goods.
3. There are different size groups of fixed shop retailers varying from very small to very large.

4. They provide greater services to the customers such as home delivery, repairs, credit facilities etc.

TYPES OF FIXED SHOP RETAILERS :

Fixed shop retailers can be classified into two types

(a) Small shop keepers (b) Large retailers.

FIXED SHOP SMALL RETAILERS :

It include following

1. General Stores : These shops provide different product required to satisfy the day-to-day needs of the consumers such as stationery items, grocery items etc.
2. Speciality Shops : These shops deal in specific line of products like only in ladies shoes, children garments, men's wear, toys etc. These shops are generally located in a control place where a large number of customers can be attracted.
3. Streat Stall Holders : They are small retailer who are generally found at place having floating populations such as street crossing, main road etc. They deal in cheap variety of goods such as soft drinks cigarettes, toys etc.
4. Second hand good shop : These shops deal in secondhand or used goods such as books, clothes, furniture, automobile etc. They are generally located at streat crossings or in busy streets in the form of a stallor a temporary platform.

FIXED SHOP LARGE STORE OR LARGE RETAILERS

Fixed shop large stores include following retailers

1. Departmental Stores :- A Departmental store is a large retail outlet offering a wide variety of products, classified into well defined departments under one roof. It has a number of departments, each specialises in single line of product such as toiletries, medicines, furnitures, groceries etc within a sotre.

   Following are the features of a departmental store :-

i) They are located at a central place so that maximum customers could reach there.

ii) They provide all facilities such as restaurant, travel and information bureau, telephone both, restrooms etc.

iii) These stores are very large in size and so they are generally formed as a joint stock company managed by a board of directors.

iv) All the purchases in a departmental store are made by the purchase department of the store centrally.

v) A departmental store combines both the functions of retailing as well as warehousing.

Advantages of Departmental Stores.

1. They attract large number f customers are they are located at central places.
2. They provide great convenience to customers as they can purchase number of goods at one place.
3. They provide attractive services to customers like home delivery of goods, credit facilities, restrooms etc.
4. They are able to undertake various promotional activities which help people to know about the products.
5. They are organised at a very large scale and thus, benefits of large-scale operations are available to them.

Limitations of Departmental Store.

1. They operate on large scale which lead to lack of personal attention to the customers.
2. They provide various services to the customers like restrooms, home delivery of goods etc which increases their operating cost and thus the overall price of the goods increases.
3. They are situated at a central place and thus they are not convenient for sudden required goods.
4. They operates on large scale and so the possibility of loss is also large / high.

Chain Stores or Multiple Shops.

Chain store or multiple shop refer to network of retail shops that are owned and operated by same organisation, established in localities spread in different parts of the country e.g. Bata Shoe Co., Mc Donalds etc. Some of the important features of such shops are as follows.

1. They are located in popular localities where maximum customers can approach.
2. The manufacturing or procurement of goods is centralised at the head office from where the goods are despatched to each store or shop.
3. Each chain store is supervised by the Branch manager, who is responsible for its day to day working. He send all the information like sales, cash deposits, requirement of the stock daily to head office.
4. All the branches are controlled by the head office.
5. The prices of goods are fixed and all sales are made on cash basis.

Advantages of Chain Stores.

1. They sell goods on cash basis and thus there are no losses on account of bad debts.
2. They eliminate middlemen in the sale of goods & services as they directly sell the goods & services to the customers.
3. Central procurement or manufacturing enables the organisation to enjoy the economies of scale.
4. The total risk of an organisation is reduced as the losses incurred by one shop may be covered by profits in other shop.
5. The goods not in demand in one locality may be transferred to another locality where they are in demand, which reduces the chances of dead stock.
6. In case a shop is not operating at a profit, then it may be closed or shifted to other locality without affecting the profitability of the organisation as a whole.

Limitations of Chain Stores.

1. Chain stores sell goods produced in their organisation only and so they

offer limited choice of goods.

2. Personal managing the chain store have to obey the instructions of the head office. Thus, they do not take their own initiatives to satisfy the customers.
3. If the demand for the goods handled by multiple shop changes, it may leads to heavy losses as large amount of stock remains unsold at the central office.

Mail Order Houses

The retail outlets that sell their goods through mail are referred to as mail order houses. There is no personal contact between the buyers and the sellers in this type of trading. The trader contacts the customer through advertisement in newspaper or magazines, circulars, catalogues and price List is sent to them by post. All the information about product such as price, features, delivery terms, terms of payment etc are described in the advertisement. The customers may be asked to make full payment in advance or goods may be sent by VPP (Value Payable Post), under which goods are delivered to the customer only when he makes full payment for the same. The goods may be sent through a bank which deliver them to the customer only when he makes full payment.

Advantages of Mail Order Houses :

1. They can be started with low amount of capital as no expenditure on building or other infrastructural facilities are required.
2. They doesn’t require the services of middlemen so they are eliminated.
3. They do not extend credit facilities to the customers and thus there are no chances of bad debts.
4. They can serve people wherever postal services are available.
5. They deliver goods at the doorstep of the customer which result in great convenience to the customers in buying the goods.

Limitation of Mail Order houses

1. There is no personal contact between the buyers and the sellers. The buyers

are not in a position to examine the products before buying.

2. They rely heavily on advertisement and other promotional activities which increases their cost of product.
3. In mail order selling after sales services are absent.
4. They do not provide credit facilities to the buyers.
5. Their success depends heavily on the efficiency of postal services.
6. Receipt and execution of order through mail may take too much time which delay delivery.

Consumer Cooperative Store.

A consumer cooperative stores are those which are owned, managed and controlled by consumers themselves. The main aim of these stores is to provide goods to the members at low cost and to reduce the number of middlemen. To start a consumer cooperative store, at least 10 persons are required to form a voluntary association & get it registered under the cooperative Societies Act.

Advantages of Consumer Cooperative Store

1. It is easy to from a Consumer Cooperative Society. Ten people can form a voluntary association and get it registered under the cooperative societies Act.
2. The liability of the members is limited to the extent of the capital contribution.
3. They are controlled and managed in a democratic manner.
4. They could offer goods to the consument at lower prices by eliminating middle men.
5. They sell goods on cash basis and so the requirement for working capital is reduced.
6. They are generally opened at public places where consumers could easily reach.

Limitations of Consumer Cooperative Stores.

1. They are managed by people who work for honorary basis which restict more effective work from them.
2. They have limited members which leads to shortage of funds.
3. The members of such stores lack expertise as they are not trained in running the stores efficiently.
4. They may not operate successfully as the members do not patronise them regularly.

Super Markets

A super market is a large retailing business unit selling wide variety of consumer goods such as grocery, utensils, clothes, electronic appliances, household goods and medicines under one roof. They are generally located at central locations to secure high turnover.

Advantages of Super Markets.

1. They offer a wide variety of product at low cost under one roof.
2. They are generally located at central locations which secure high turnover.
3. They offer wide variety of goods of different designs, colour etc to the consumers.
4. They generally sell goods on cash basis which eliminate the possibility of bad debts.
5. They deals on large scale. The benefits of large scale buying & selling reduces their operating cost.

Limitation of Super Markets.

1. They sell their products on cash basis only. Due to lack of credit facilities purchasing power of buyers reduces.
2. They operates on the principles of self-service thus customer do not get any personal attention.
3. Mishandling of goods by some customers may raise their cost.

4. Their establishment and running requires huge investments.

5. Their overhead expenses are high and they may fail to create low price appeal among the customer.

Vending Machines.

They are coin operated macnines which help useful in selling several products such as milk, soft drinks, chocolates, platform tickets etc in many countries. They latest area in which this concept is getting popular is the case of Automated Teller Machines (ATM) in the banking service. They made it possible to withdraw money at any time without visiting any branch of a bank. They can be useful for selling prepacked brands of low priced product which have high turnover and which are uniform in size and weight. However, the installation cost and expenditure on regular maintenance and repair of these machines are quite high. Moreover, the consumers can neither see the product before buying nor can return the unwanted goods.

Role of Commerce and Industry Associations in the Promotion of Internal Trade.

Association of business and industrial houses are formed to promote and protect their common interest and goals. They undertake following functions.

1. The chamber of commerce and Industry help in the inter-state movement of goods through various activities.

2. They ensure that imposition of octroi and other local taxes do not affect trade adversely.

3. They also under take marketing of agro products and related issues.

4. They interact with the Government to make laws relating to weights and measures and protection of brands.

5. They discuss with government to get sound infrastructure so that business activities could be undertaken easily.

Very Short Answer Type Questions (carrying 1 mark each)

1. Define Trade.
2. List the two broad categories of trade.
3. Which shops deal n specific live in products?
4. Give an example of chain store.
5. How does mail order house provide convenience to customer?
6. What are Vanding Machines?
7. Write the full form of ATM.
8. Give the full form of CII.

Short Answer Type Questions (carrying 3/4 marks each)

1. Enumerate the main features of wholsale trade.
2. What are the services offered by retailer to the consumers?
3. Mention differences between departmental and multiple shops.
4. Give advantages and limitations of mail order business.
5. Explain the concept of vending machines.

Long Answer Type Questions (Carrying 5/6 marks each)

1. Differentiate between wholesale trade and retail trade.
2. What are Super Bazar? Explain their advantages and limitations.
3. Describe the role and functions of chambers of Commerce.
4. Explain the main types of Itinerant Retailers.
5. Explain the advantages of consumer cooperative store.

Chapter

10

International Business

Manufacturing and trading beyond the geographical boundaries of a country is known as international business. The development of communication, technology and infrastructure etc make it possible. New modes of communication and development of faster and more efficient means of transportation have brought nations closer to one another as a result of which trade between them can take place. Following are the main reasons behind international business.

1. Unequal disribution of natural resources and differences in the productivity levels of the countries make them incapable of producing every good of their requirement.
2. Labour productivity and production costs differ among nations due to socio-economic, geographical and political reasons.
3. The availability of different factors of production such as labour, capital and raw materials differ among nations.

Scope of International Business

Major forms of business operations that constitue international business are as follows

1. Merchandise exports and imports. Merchandies exports means sending tangible goods abroad and merchandise imports means bringing tangible goods from abroad.
2. Exports and imports which involve trade in intagible items that can not be seen or touched. It is also called invisible trade.
3. Another way of entering into international business is licensing and franchising country to produce and sell goods under their trademarks patents or copy right in lieu of some fee is called licensing Pepsi and Coca-Cola are producted & sold all over the world by local companies in foreign countries under licensing system. Franchising is similar to licensing, but it is used in connection with the provision of services. MCDonald's operates fast food restaurants all over the world through the system of franchising.
4. Foreign investment is another important form of international business. It can be of two types : direct and portfolio investments. Direct investment takes place when a company directly invests in properties such as plant & machinery in foreign countries with a view to undertake production and marketing of goods and services in those countries. It provides the investor a controlling interest in a foreign country. Under portfolio investment, a company makes investment by acquiring shares or providing loans to a foriegn company & earns income by way of dividends or interest on load. In this invester does not get directly involved in producion or marketing of goods.

Benefits of International Business

International Business is important to both nations and business firms. It offers them various benefits.

Benefits of Nations :

1. It helps a country to earn foreign exchange which can be used for importing various goods from abroad.
2. It leads to specialisation of a nation in the prodcution of those goods which can be produced by it in the most effective and economical manner.

3. It helps a nation in improving its growth prospects and also create opportunities for employment.

4. It make it possible for people to consume goods and services produced in other countries which help in increasing their standard of living.

Benefits to Firms :-

1. It helps in increasing profits of the firms by selling goods in the countries where prices are high.

2. It help firms in using their surplus production copacities and improving the profitability of their operations.

3. It help firms in improving their growth prospects.

4. It acts as one of the ways of achieving growth for firms facing tough market conditions in the domestic market.

5. It improves business vision as it make firms more competitive, and diversified.

Difference between Domestic & International Business.

	Basis	**Domestic Business**	**International Business.**
1.	Nationality of buyers & Sellers	Both Buyers & Sellers belong to same country	Buyers & Sellors belong to different countries.
2.	Mobility of sectors of production	The factors of production Like capital, labour and raw material can move freely within the country	There are restrictions on free mobility of factors of prodcution across countries
3.	Customer heterogencity across market	Domestic markets are relative more homo-geneous in nature	International markets lack homogeneity due to differ-ences, in languages, prefe-rences customs etc across markets.
4.	Currency used	Currency of home country is used in business	currency used in business transactions is that of more than one country.
5.	Political System	It has to face the political system and risk of only one country	It is subjected to political system & risk of different countries.

Mode of Entry into International Business

I. Exporting and Importing

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

Advantages :

1. It is one of the easiest way of entring international business.
2. It require less investment in terms of time and money as compared to other modes of entring international business.
3. It is less risky as compared to other modes of entry into international business.

Limitations :-

1. It involves additional packing, transportation and insurance costs which increases the cost of products.
2. Exporting is not possible in case the foreign country restricts imports.
3. The local firms are near to the customers could serve them better as compare to a foreign trader.

II. Contract Manufacturing

When a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain goods produced as per its specifications it is called contract manufacturing.

It is also know as outsourcing and it can take place in following forms.

a) Production of components like automobile components to be used later for making final product like car.

b) Assembling of components into final products such as assembling of tyres, seat etc in a scooter.

c) Complete manufacture of products such as garments.

Advantages of Contract Manufacturing.

1. It helps the international firms to produce goods on a large scale without much investment in setting up production facilities.
2. It involves little investment in the foreign countries therefore the investment risk is less.
3. It helps a firm to get the products manufactured or assembled at lower cost.
4. It helps local producers in foreign countries as they could utilize their idle production capacities and a ready market for their products is also provided.
5. It provides opportunities to local manufacturers to get involved in international business and earn incentives.

Limitations of Contract Manufacturing.

1. When local firms do not adhere to production design and quality standards, it may cause serious product quality problems to the international firm.
2. Local manufacturer has to produce goods according to the terms and specifications of the contract and so it loses his control over the manufacturing process.
3. Local producer is not allowed to sell the contracted output as per its will.

III. Licensing and Franchising :-

Permitting another party in foreign country to produce and sell goods under their trademarks, patents or copy right in lieu of a fee called royalty is termed as licensing. When there is mutual exchange of knowledge, technology and patents between the firms it is called cross-licensing. Franchising is similar to licensing, but it is used in connection with the provision of services. Pizza Hut and Wal-Mart are examples of some of the leading franchisers operating worldwide.

Advantages of licensing and franchising

1. It is a less expensive mode of entering into international business as the licensors or franchisers do not have to make any investment abroad.
2. Since no or very little foreign investment in involved, the degree of risk of

the licensor is very low.

3. licensee /Franchisee is a local person which restrict Government intervation and thus, business can be run smoothly.
4. The licensee has greater market knowledge and contacts as he is a local person which ensure success of marketing operations.
5. Excluding Licensee/Franchise, no other foreign firm can use such trademarks & patents.

Limitations of Licensing and franchsing

1. There is always a danger that the licensee may start marketing product which is identical to the licensor.
2. Trade secrets can get divulged to others in the foreign market if not maintained properly.
3. Conflicts may arises between licensor and licensee with regard to maintenace of accounts, payment of royalty, non-adherence of the norms etc.

IV. JOINT VENTURE

Join venture means establishing a firm that is jointly owned by two or more independent firms. It can be brought into existence in three major ways.

i) Foreign investor buying an interest in a local company.
ii) Local firm acquiring an interest in an existing foreign firm.
iii) Both the foreign and local entrepreneurs jointly forming a new enterprise.

Advantages of Joint Venture

1. International firm finds it financially less burdened to expand globally.
2. It make it possible to undertake large projects requiring huge capital outlays and manpower.
3. The foreign firms are benefitted from the knowledge of local partner's as they know the competitive conditions, culture, language, political & business systems.

4. It leads to sharing of costs and risk with a local partner which help a firm to enter in a foreign market.

LIMITATIONS OF JOINT VENTURE

1. It involves sharing of technology and trade secrets with local firms in foreign countries, thus there is always a risk of declosure of technology & trade secrets to others.
2. It may leads to conflicts, between the investing firms with regard to control.

WOLLY OWNED SUBSIDIARIES

When a foreign company is acquired by a parent company by making 100% investment in its equity capital then it is called wholly owned subsidiaries. A wholly owned subsidiary in a foreign market can be established either by setting up a new firm altogether to start operations in a foreign country or by acquiring an established firm in the foreign country.

EXPORT PROCEDURE

1. An exporter receives an enquiry from the prospective buyers seeking information regarding price, quality & other terms conditions for export of goods. The exporter sends a quotation known as proforma invoice as reply.
2. If the buyer is satisfied with the export price & other terms & conditions, he places the order or indent for the goods.
3. After receiving the order or indent, the exporter undertakes an enquiry regarding the credit worthiness of mporter to assess the risk of non-payment by the importer.
4. According to custom laws the exporter or the export firm must have export license before proceeding with exports. The following procedure is followed for obtaining the export license.

- To open account in any authorised bank
- To obtain import export code (IEC) number from Directorate General foreign Trade (DGFT) or Regional Import Export Licensing Authority (RIELA).

- Register with appropriate export promotion council.
- To get registered with Export Credit and Guarantee corporation (ECGC) in order to safeguard against risk of non-payments.

5. After obtaining the export license the exporter approaches his banker in order to obtain preshipment finance for carrying out production.
6. Exporter, after obtaining the preshipment finance from the bank, proceeds to get the goods ready as per the orders of the importer.
7. Government of India ensures that only good quality products are exported from India. The exporter has to submit the preshipment inspection report along with other documents at the time of export.
8. According to Central Excise Tariff Act, excise duty on the material used in manufacturing goods is to be paid. For this purpose exporter apply to the concerned Exice Commissioner in the region with an invoice.
9. In order to obtain Tariff concessions or other exemptions the importer may ask the exporter to send certificate of origin.
10. The exporter applies to the shipping company for provision of shipping space. He has to provide complete information regarding the goods to be exported, probable date of shipment & port of destination. The shipping company issues a shipping order. Which is an instruction to the captain of the ship, after accepting application for shipping.
11. The goods are packed & marked with necessary details like name & address of the importer, growss & net weight, port of shipment & destination etc. After this the exporter makes arrangement for the transportation of goods to the port.
12. In order to protect the goods against the risk of loss or damage due to the perils of the sea transit the exporter gets the goods insured with an insurance company.
13. Before loading the goods on the ship they have to be cleared by the customer. For this purpose the exporter prepares the shipping bill & submits five copies of the shipping bill along with following documents to the Customs Appraiser at the customs house.!

(i) Certificate of origin

(ii) Commercial Invoice

(iii) Export Order

(iv) Letter of credit

(v) Certificate of Inspection, where necessary.

(vi) Marine Insurance Policy.

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

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

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

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

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

DOCOMENTS USED IN EXPORT TRASACTIONS

A. Documents related to goods :-

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

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

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

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

B. Documents Related to Shipment :-

1. Shipping Bill : It is th 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, exporter's 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 The ship. It contains name of the vessel, description of packages, marks, conditions of the cargo at the time of receipt on board the ship etc.

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

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

5. Cart Ticket :- Also known as cart chit or gate pass, it is prepared by the exporter. It contains details regarding export cargo like number of packages, shipping bill number, port of destination etc.

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

C. Document related to payment :-

1. Letter to credit :- It is a guarantee letter issued by the importer bank stating

that it will honour the export bills to the bank of the exporter up to a certain amount.

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

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

IMPORT PROCEDURE

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

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

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

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

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

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

on the imported goods lying uncleared at the port for want of payments.

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

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

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

10. Imported goods are subjected to customs clearance which is a very lengthy process & involves a lot of formalities. The importer usually appoints a c & F agent for fulfilling these formalities.

    First of all the importer obtains a delivery order which is also known as endorsement for delivery. This order enables the importer to take the delivery of goods after paying the freight charges.

    Besides freight charges, importer also has to pay dock dues for obtaining port trust dues receipts for which he submits two copies of a duly filled in form know as "application to import" to the Landing & Shipping Dues Office". After paying dock dues the importer get back one copy of application as a receipt which is referred as 'port trust dues receipts'.

    Finally the importer fills in a form known as 'bill of entry' for assessment of customs import duty. An examiner examines the imported goods & gives his report on the bill of entry. This bill is then presented to the port authority which on receiving necessary charges, issues the release order.

Documents used in an Import Transaction

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

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

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

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

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

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

7. Bill of exchange : Explained ealier.

8. Trade Enquiry : It is a written request made by an importing firm to the overseas supplier for providing information regarding the price and various terms and conditions for exporting goods.

Foreign Trade Promotion : Incentive and Organisational Support

Various incentives and schemes are started by the government to help business firms improve Competitiveness of their exports. The Government has also setup number of organisations to provide infrastructural support and marketing assistance to firms engaged in International business.

Foreign Trade Promotion Measures & Schemes.

1. Duty drawback scheme : Goods meant for export are not subjected to payment of various excise and customs duties. Any such duties paid are refunded to exporters on production of proof of exports of these goods to the concerned authorities. Such refunds are called duty draw backs.
2. Export Manufacturing under bond scheme : Under this facility firms can produce goods without payment of excise and other duties. The firms can avail this facility after givng an undertaking (i.e. bond) that they are manufacturing goods for export purposes.
3. Exemption from payment of sales taxes :- Goods meant for export purpose are not subject to sales tax. Income derived from export operations had beeen exempt from payment of Income tax for a long period but now this exemption is only available to 100% Export oriented units and units set up in Export Processing Zones / special economic zones for selected years.
4. Advance Licence Scheme : - It is a scheme under which an exporter is allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods. The firms exporting intermittently can also obtain these licences against specific export orders.
5. Export Processing Zones :- They are industrial estates, which form enclaves from the Domestic Tariff Areas. These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost.

   In addition to above there are other measures such as availability of export finance, export promotion, capital goods sheme etc are used for foreign trade promotion.

Organisational Support :-

Government has set up from time to time various institutions in order to facilitate the process of foreign trade. Following are few of them.

(i) Department of Commerce

(ii) Export Promotion Councils

(iii) Commodity Boards

(iv) Export Inspection Council

(v) Indian Trade Promotion Organisation

(vi) Indian Institute of foreign trade.

(vii) State Trading Organisation.

International Trade Institutions and Trade Agreements

World Bank : The International Bank for reconstruction and development i.e. World Bank was established in 1945, whose main objectives were to aid the task of reconstruction of the war affected economies of Europe and assist in the development of the underdeveloped nations of the world.

Following are its main functions :-

1. To bring about economic growth and widen the scope of international trade.
2. To develop infrastructural facilities such as energy, transportation etc.
3. To help different countries for raising cash crops so that their income rises.
4. In addition to providing financial assistance for infrastructure development, agriculture, industry, health etc it also give important assistance to other areas.

International Monetary Fund :-

It came into existence in 1945, whose main objective is to develop an orderly international monetary system which facilitate international payments and adjustments in exchange rates among national currencies. The main objectives are

1. To provide international monetary cooperation through a permanent institution.
2. To facilitate expansion of balanced growth of international trade and to promote & maintain high levels of employement & real income.
3. To promote exchange stability with a view to maintain orderly exchange arrangements among member countries.
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members.

World Trade Organisation :

It came into existence on Ist January 1995. The headquarters of WTO are situated at Geneva, Switzerland. It is a permanent organisation created by an international treaty ratified by the Governments and legislatures member of states. It is concerned with solving trade problems between countries & providing a forum for multilateral trade negotiations. Following are its functions.

1. To remove barriers of International trade.
2. To Act as a dispute settlement body.
3. To ensure that all the rules regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes.
4. Laying down a commonly accepted code of conduct for international trade.
5. To consult other agencies to bring better understanding cooperation in global economic policy making.

Very Short Answer Type Questions (carrying 1 mark each)

1. What is International Business?
2. State the two types of foreign Investment.
3. List two modes of entry into Internatinal Business.
4. What is contract manufacturing.
5. Who is a franchiser?
6. What is an indent.
7. Name any two export documents related to payment.
8. What is proforma Invoice.
9. Write the full form of SEZ.
10. Name two International Trade Institution.

Short Answer Type Questions (carrying 3/4 marks each)

1. Give difference between Internal and International trade.
2. What is joint Venture? Give its Limitations.

3. Explain the scope of Internationa Business.
4. Explain the functions of World Trade Organisation
5. What is a letter of Credit? Why it is needed?
6. What is bill of lading? How it is different from bill of entry.

Long Answer Type Questions (carrying 5/6 marks each)

1. Explain the benefits of International business to a Nation and firms.
2. Explain the advantage and Limitations of Licensing and franchising.
3. Explain the principal document used in exporting
4. Explain the Import Procedure.
5. Explain the following.
   - i) Trade Enquiry
   - ii) Export Processing Zones
   - iii) IMF
   - iv) WTO

Model Questions Paper-I

Time : 3 hrs. **M.M. : 90**

1. Write the name of business organisaition which is formed with the motive of welfare of It's members. 1
2. Write the full form of ATM. 1
3. Give an example of Chain store. 1
4. Define outsourcing. 1
5. Name any two application of E-business. 1
6. Give one example of economic responsibility. 1
7. Write one difference between ethic and law. 1
8. Give two example of Traditional Industries. 1
9. What is the parameter used by the Government to identify small unit. 1
10. What is a women enterprise. 1
11. What is a letter of credit? Why it is needed? 3
12. What is Departmental undertaking? Write its any two features. 3
13. "No business is risk Free'. In the light of this statement explain business risk and its causes (any two). 3
14. What is business Finance? Why do business needs Funds. 3
15. State the features of cottage industries. 3
16. Explain any four advantages of warehousing. 4
17. What are the services affered by retailers to the consumer. 4
18. Discuss the limitation of electronic mode of doing busines. Are these limitations severe enough to restrict its scope? Give any three reasons to support your answer. 4

19. What is environmental pollution? Why do the business enterprices need to adopt pollution control measures.

20. “Commerce is the sum of those processes which are engaged in the removal of hindrances of person. Place and time”. In the light of this statement explain the hindrances which are solved by the effective commerce. 5

21. Explain the principle documents used in exporting. 5

22. Define partnership deed and write its main contents. 5

23. Write about the major reform brought in by the govt. in the public sector in the Industrial policy of 1991. 5

24. What is the difference between GDR and ADR. 5

25. “Public Deposits as a source of finance is better than raising loans” comment. 6

Or

Discuss the importance of Preference and Equity shares as sources of long-term finance.

26. Explain the main types of Itinerant Retailers. 6

Or

Explain the advantages of consumer cooperative store.

27. Explain the stage of formation of Joint Stock company. 6

Or

Explain any six factors which affect the choice of form of business organisation.

28. Describe various types of insurance and examine the nature of risks protected by each type of Insurance. 6

Or

What do you mean by services? Explain their characteristics.

Model Questions Paper-II

Time : 3 hrs. **M.M. : 90**

1. Insurance is essential for business. Why? 1
2. What in EFT. 1
3. Write the full form of C I I. 1
4. Name the type of manufacturing industry in which one material is separated into several useful products. 1
5. Name the form of business organisation which is found only in India. 1
6. What is the maximum no. of partners in a partnership firm carrying on banking business. 1
7. Explain the meaning of unlimited liability. 1
8. Write one object of NABARD. 1
9. Write one object of SIDBI. 1
10. Name the type of public Enterprise which requires a special Act of parliament. 1
11. Explain the nature of Business Finance. 3
12. Explain the meaning of Memorandum of understanding. 3
13. Explain the role of Karta in joint Hindu Family Business. 3
14. What is Joint Venture? Give its two limitation. 3
15. "Business is an economic activity" Do you agree? Why? 3
16. "Profit maximisation can't be the sole objective of business" Comment. 4
17. Write about four features of multinational company. 4
18. What is e-banking? What are Its advantages. 4
19. Explain the four problems of Small Scale Industries. 4
20. Write a note on various telecome services available for enhancing business. 5

21. State and explain types of outsourcing of services. 5

22. Explain licensing and Franching. How they differ? 5

23. Make difference between departmental and multiple shops. 5

24. Explain any Five types of preferenec shares. 5

25. Define Retained earning. Write merits of retained earning. 6

Or

What is the difference between share and Debenture.

26. What are Super Bazar? Explain their two advantages and two disadvantages. 6

Or

Give advantages and limitation of mail order business.

27. What do you mean by Business Ethics? What are its elements. 6

Or

"Business is essentially a social Institution and not merely a profit - making activity. Explain.

28. What do you understand by Joint stock company? Explain it's Five Features. 6

Or

Which form of business organisation is suitable for following types of business and why.

i) Beauty Parlour

ii) Hotel

iii) Bakery Shop

iv) Shipping Mall

v) Small retail outlet

vi) Chartered Accountancy Firm.

Suggested List of Projects

1. Name ten MNC's and give detailed information about one foreign and one Indian MNC- its history, head office, list of products and services, countries where these MNC's are operating and the method of production and distribition they are following.
2. Make a project on Insurance giving information about the different policies provided by different insurance companies and also collect literature of different insurance companies.
3. Visit a commercial Bank and collect information about the different services provided by it to its customers and the various forms & slips used by bank in its daily working.
4. Visit some chain store, like Big Apple, 6 Ten, 365 or Big Bazar, Collect Information about the products, their varieties, prices and the services provided to the customers. Write about their relevance in the context of Indian market.
5. Visit weekly market or your locality and collect information about the products and the prices of products sole three, the overage investment made by shopkeepers, the category of customers, benefits of market to the customers and problems usually faced by shopkeepers.