DIRECTORATE OF EDUCATION
GOVT. OF NCT OF DELHI

Support Material
(2015-2016)

CLASS : XI

BUSINESS STUDIES

Under the Guidance of:

Ms. Punya Salila Srivastava
Secretary (Education)

Ms. Padmini Singla
Director (Education)

Dr. Sunita Shukla Kaushik
Addl. DE (School & Exam)

Coordinators :

Ms. Savita Drall
DDE (Exam)

Ms. Sharda Taneja
OSD (Exam)

Dr. Satish Kumar
OSD (Exam)
Production Team

Anil Kumar Sharma
PREFACE

It gives me immense pleasure to present before you the subject-wise supporting material for the students of classes X, XI and XII, prepared by the teams of dedicated and industrious teachers from the Directorate of Education. The objective of this material is impart sufficient practice to the students and to enable them to think analytically and rationally.

I hope that the students will find this study material useful and it will help them achieve academic excellence. I also hope that teachers will guide and motivate the students to use this material in preparing for examinations.

I would like to appreciate the efforts of the teams of teachers and group leaders under the enlightened guidance of the Director (Education).

Wishing best of luck to all the students.

(PUNYA SALILA SRIVASTAVA)
PREFACE

The Directorate of Education prepares Support Material for different subjects indigenously. Every year, experienced and knowledgeable teachers revise and update the material for children.

Support material is a boon especially for those children who cannot purchase the costly but substandard ‘guides’ available in the market. Prepared in-house, the material is not only much better in quality, it is also provided to the students free of cost.

The material can serves as a very handy tool for revision. I call upon the teachers give their students sufficient practice in it.

I must share with the students that this material has the potential to enhance you performance and output, remarkably. So, please make it a habit to go through the text book first and then, practise from the Support Material.

I take this opportunity to thank all the learned teachers and HoSs who have contributed to the preparation/revision these works.

My best wishes!

(PADMINI SINGLA)
FOREWORD

I am delighted to present before you the latest issues of the support material for the students of classes X, XI and XII. During the last few years the content and quality of the support material has undergone subtle changes. Teams of subject experts have devoted their time, efforts and energy to prepare this material which facilitates the students while preparing for their exams. The material is updated according to the latest changes and improvements which have been carried out by the CBSE and NCERT.

I hope that our teachers will give sufficient practice to their students through this material which in turn will improve their creative and analytical skills.

I appreciate the hard work of all the teachers, group leaders and members of the Examination Branch whose efforts have materialized in the form of these books.

I wish you all the best.

Dr. Sunita S. Kaushik
Addl. Director of Education
(School and Exam)
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name</th>
<th>Designation</th>
<th>School</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>KUMKUM KUMAR</td>
<td>VICE PRINCIPAL</td>
<td>SKV, U-BLOCK, MANGOL PURI, DELHI-110083 TEL:- 011-27914467,</td>
</tr>
<tr>
<td>2.</td>
<td>GEETIKA ANIL</td>
<td>PGT (COMMERCE)</td>
<td>SKV, U-BLOCK, MANGOL PURI, DELHI-110083 TEL:- 011-27914467,</td>
</tr>
<tr>
<td>3.</td>
<td>SEEMA GARG</td>
<td>PGT (COMMERCE)</td>
<td>GGSSS TRI NAGAR NARANG COLONY, DELHI-110035, OFF TEL:- 27395482</td>
</tr>
<tr>
<td>4.</td>
<td>MUKESH SHARMA</td>
<td>PGT (COMMERCE)</td>
<td>GBSSS BL-BLOCK SHALIMAR BAGH, DELHI - 110088, 011-27494880</td>
</tr>
<tr>
<td>5.</td>
<td>RANJIT SINGH JAIN</td>
<td>PGT (COMMERCE)</td>
<td>RPVV, BT-BLOCK SHALIMAR BAGH, DELHI-110088 TEL:- 011-27483136</td>
</tr>
</tbody>
</table>
# BUSINESS STUDIES (CODE NO. 054)

## CLASS-XI (2015-16)

<table>
<thead>
<tr>
<th>Units</th>
<th>100 Marks</th>
<th>3 Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Periods</td>
<td>Marks</td>
</tr>
<tr>
<td><strong>Part A  Foundations of Business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Nature and Purpose of Business</td>
<td>22</td>
</tr>
<tr>
<td>2</td>
<td>Forms of Business Organisations</td>
<td>26</td>
</tr>
<tr>
<td>3</td>
<td>Public, Private and Global Enterprises</td>
<td>22</td>
</tr>
<tr>
<td>4</td>
<td>Business Services</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>Emerging Modes of Business</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>Social Responsibility of Business and Business Ethics</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>120</strong></td>
</tr>
<tr>
<td><strong>Part B  Finance and Trade</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Sources of Business Finance</td>
<td>30</td>
</tr>
<tr>
<td>8</td>
<td>Small Business</td>
<td>16</td>
</tr>
<tr>
<td>9</td>
<td>Internal Trade</td>
<td>30</td>
</tr>
<tr>
<td>10</td>
<td>International Business</td>
<td>14</td>
</tr>
<tr>
<td>11</td>
<td>Project Work</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>120</strong></td>
</tr>
<tr>
<td><strong>Business -concept</strong></td>
<td>After going through this unit, the student/ learner would be able to:</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>• Concept includes meaning and features</td>
<td>• Understand the concept of business with special reference to economic and non economic activities.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Discuss the characteristics of business.</td>
<td></td>
</tr>
<tr>
<td><strong>Business, profession and employment-Concept</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Understand the concept of business, profession and employment.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Differentiate between business, profession and employment.</td>
<td></td>
</tr>
<tr>
<td><strong>Objectives of business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Appreciate the economic and social objectives of business.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Examine the role of profit in business.</td>
<td></td>
</tr>
<tr>
<td><strong>Classification of business activities - Industry and Commerce</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Understand the broad categories of business activities- industry and commerce.</td>
<td></td>
</tr>
<tr>
<td><strong>Industry-types: primary, secondary, tertiary-Meaning and subgroups</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Describe the various types of industries.</td>
<td></td>
</tr>
<tr>
<td><strong>Commerce-trade: (types-internal, external; wholesale and retail) and auxiliaries to trade; (banking, insurance, transportation, warehousing, communication, and advertising) - meaning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• State the meaning of commerce, trade and auxiliaries to trade.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Discuss the meaning of different types of trade and auxiliaries to trade.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Examine the role of commerce- trade and auxiliaries to trade.</td>
<td></td>
</tr>
<tr>
<td><strong>Business risk-Concept</strong></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Understand the concept of risk as a special characteristic of business.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Examine the nature and causes of business risks.</td>
<td></td>
</tr>
</tbody>
</table>
**Unit 2: Forms of Business organizations  26 Periods**

<table>
<thead>
<tr>
<th>Sole Proprietorship-Concept, merits and limitations.</th>
<th>After going through this unit, the student/learner would be able to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• List the different forms of business organisations and understand their meaning.</td>
</tr>
<tr>
<td></td>
<td>• Identify and explain the concept, merits and limitations of Sole Proprietorship.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partnership-Concept, types, merits and limitation of partnership, registration of a partnership firm, partnership deed. Types of partners</th>
<th>• Identify and explain the concept, merits and limitations of a Partnership firm.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Understand the types of partnership on the basis of duration and on the basis of liability.</td>
</tr>
<tr>
<td></td>
<td>• Define limited liability partnership.</td>
</tr>
<tr>
<td></td>
<td>• State the need for registration of a partnership firm.</td>
</tr>
<tr>
<td></td>
<td>• Discuss types of partners -active, sleeping, secret, nominal and partner by estoppel.</td>
</tr>
</tbody>
</table>

| Hindu Undivided Family Business: Concept | • Understand the concept of Hindu Undivided Family Business. |

<table>
<thead>
<tr>
<th>Cooperative Societies-Concept, types, merits, and limitations.</th>
<th>• Identify and explain the concept, merits and limitations of Cooperative Societies.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Understand the concept of consumers, producers, marketing, farmers, credit and housing co-operatives.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company-Concept, merits and limitations; Types: Private and Public-Concept</th>
<th>• Identify and explain the concept, merits and limitations of private and public companies.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Distinguish between a private company and a public company.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Formation of company-stages, important document (Memorandum of Association, Articles of Association, Certificate of</th>
<th>• Highlight the stages in the formation of a company.</th>
</tr>
</thead>
</table>
Discuss the important documents used in the formation of a company.

- Discuss the important documents used in the formation of a company.
- Distinguish between the various forms of business organisations.
- Explain the factors that influence the choice of a suitable form of business organisation.

### Unit 3: Public, Private and Global Enterprises 22 Periods

<table>
<thead>
<tr>
<th>Public sector and private sector enterprises concept</th>
<th>After going through this unit, the student/learner would be able to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Develop an understanding of Public sector and private sector enterprises</td>
</tr>
</tbody>
</table>

| Forms of public sector enterprises: Departmental Undertakings, Statutory Corporations and Government Company. | • Identify and explain the features, merits and limitations of different forms of public sector enterprises |
|                                                                                                           |

| Changing role of public sector enterprises | • Discuss the change in the role of public sector in an economy. |
|                                           |

| Global enterprises, Joint ventures, Public private partnership - concept | • Develop an understanding of global enterprises, joint ventures and public private partnership by studying their meaning and features. |
|                                                                        |

### Unit 4: Business Services 22 Periods

<table>
<thead>
<tr>
<th>Banking: Types of bank accounts- savings, current, recurring, fixed deposit and multiple option deposit account.</th>
<th>After going through this unit, the student/earner would be able to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Understand the meaning of banking</td>
</tr>
</tbody>
</table>

| Banking services with particular reference to issue of bank draft, banker’s cheque (pay order), Real Time Gross Settlement (RTGS), National electronic Funds Trans- | • Differentiate between a bank draft and a banker’s cheque |
|                                                                                                           |                                                     |
| fer (NEFT), bank overdraft, cash credit and e-banking | Differentiate between bank overdraft and cash credit |
|                                                      | Understand the meaning of e-banking. |
|                                                      | Describe Automated Teller Machine (ATM), Debit Card, Credit Card and Internet banking and Mobile banking as different ways of e-banking. |

| Insurance-: Principles, Types - life, health, fire and marine insurance - concept | Recall the concept of insurance |
|                                                                                    | Understand Utmost Good Faith, Insurable Interest, Indemnity, Contribution, Doctrine of Subrogation and Causa Proxima as principles of insurance |
|                                                                                    | Describe the different types of insurance. |

| Postal and telecom services: Mail, Under Postal Certificate (UPC), Registered Post, Parcel, Speed Post and Courier and other services | Understand the utility of different postal and telecom services. |

## Unit 5: Emerging Modes of Business 12 Periods

<p>| E-business-scope and benefits, resources required for successful e-business implementation, online transaction, payment mechanism, security and safety of business transactions | After going through this unit, the student/learner would be able to: |
|                                                                                                                                   | • State the meaning of e-business. |
|                                                                                                                                   | • Discuss the scope of e-business. |
|                                                                                                                                   | • Appreciate the benefits of e-business. |
|                                                                                                                                   | • Distinguish e-business from traditional business. |
|                                                                                                                                   | • Explain the process of online buying and selling as a part of e-business. |
|                                                                                                                                   | • Examine the major security concerns of electronic mode of doing business. |
|                                                                                                                                   | • Understand the methods of secure and safe business transactions. |</p>
<table>
<thead>
<tr>
<th>Topic</th>
<th>Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outsourcing-Concept: Business process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO)-Concept, need and scope</strong></td>
<td>• Understand the concept of outsourcing.</td>
</tr>
<tr>
<td></td>
<td>• Discuss the need for business process outsourcing and Knowledge Process Outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Examine the scope for Business process Outsourcing and Knowledge Process Outsourcing.</td>
</tr>
<tr>
<td><strong>Smart cards and ATM’s meaning and utility</strong></td>
<td>• State the meaning of Smart cards and ATM’s.</td>
</tr>
<tr>
<td></td>
<td>• Appreciate the utility of Smart cards and ATM’s.</td>
</tr>
</tbody>
</table>

**Unit 6: Social Responsibility of Business and Business Ethics 16 Periods**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concept of social responsibility</strong></td>
<td>After going through this unit, the student/Learner would be able to:</td>
</tr>
<tr>
<td></td>
<td>• State the concept of social responsibility.</td>
</tr>
<tr>
<td><strong>Case of social responsibility</strong></td>
<td></td>
</tr>
<tr>
<td>Responsibility towards owners, investors, consumers, employees, government and community.</td>
<td>• Examine the case for social responsibility.</td>
</tr>
<tr>
<td>Environment protection and business-Meaning and role</td>
<td>• Identify the social responsibility towards different interest groups.</td>
</tr>
<tr>
<td>Business Ethics-Concept and Elements</td>
<td>• Appreciate the role of business in environment protection.</td>
</tr>
<tr>
<td></td>
<td>• State the concept of business ethics.</td>
</tr>
<tr>
<td></td>
<td>• Describe the elements of business ethics.</td>
</tr>
</tbody>
</table>
## Part B: Finance and Trade

### Unit 7: Sources of Business Finance

<table>
<thead>
<tr>
<th>Concept of business finance</th>
<th>After going through this unit, the student/learner would be able to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• State the meaning, nature and importance of business finance.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Owners' funds: equity shares, preferences, share, Global Depository receipt (GDR), American Depository Receipt (ADR), International Depository Receipt (IDR) and retained earnings</th>
<th>• Classify the various sources of funds into owners' funds and borrowed funds.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• State the concept of owners’ funds.</td>
</tr>
<tr>
<td></td>
<td>• Explain the merits and limitations of equity shares, preference shares and retained earnings.</td>
</tr>
<tr>
<td></td>
<td>• Understand the concept of Global Depository receipts, American Depository Receipts and International Depository Receipts.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Borrowed funds: debentures and bonds, loan from financial institution, loans from commercial banks, public deposits, trade credit, Inter Corporate Deposits (ICD).</th>
<th>• State the concept of borrowed funds.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Discuss the merits and limitations of debentures, bonds, loans from financial institutions, trade credit and inter corporate deposits.</td>
</tr>
<tr>
<td></td>
<td>• Distinguish between owners’ funds and borrowed funds.</td>
</tr>
</tbody>
</table>

## Unit 8: Small Business

<table>
<thead>
<tr>
<th>Small scale enterprise as defined by MSMED Act 2006 (Micro, Small and Medium Enterprise Development Act)</th>
<th>After going through this unit, the student/learner would be able to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of small business in India with special reference to rural areas</td>
<td>• Understand the concept of small business</td>
</tr>
</tbody>
</table>
<pre><code>                                                                                                                                                                       | • Discuss the role of small business in India |
</code></pre>

Government schemes and agencies for small scale industries (National Small Industries Corporation) and District Industrial Centre (DIC) with special reference to rural, backward and hilly areas

- Appreciate the various Government schemes and agencies for development of small scale industries.

## Unit 9: Internal Trade

### Services rendered by a wholesaler and a retailer

After going through this unit, the student/learner would be able to:

- State the meaning and types of internal trade.
- Appreciate the services of wholesalers and retailers.

### Types of retail-trade

- Itinerant and small scale fixed shops
- Large scale retailers: Departmental stores, chain stores, mail order business

- Explain the different types of retail trade.
- Highlight the distinctive features of departmental stores, chain stores and mail order business.

### Concept of automatic vending machine

- State the concept of automatic vending machine.

### Chambers of Commerce and Industry: Basic functions

- Discuss the role of Chambers of Commerce and Industry in the promotion of internal trade.

### Main documents used in internal trade

- Performa invoice, invoice, debit note, credit note, Lorry receipt (LR) and Railways Receipt (RR).
- Describe the main documents used in internal trade.

### Terms of Trade

- Cash on Delivery (COD), Free on Board (FOB), Cost, Insurance and Freight (CIF), Errors and Omissions Excepted (E&OE).
- Develop an understanding of the various terms used in internal trade.

## Unit 10: International Trade

### Meaning, difference between internal trade and external trade: Meaning and characteristics of international trade

After going through this unit, the student/learner would be able to:

- State the meaning and characteristics of international trade.
Distinguish between internal trade and external trade.

International trade: Advantages and disadvantages of international trade

- Describe the scope of international business and its advantages to the nation and business firms.
- Discuss the disadvantages of international trade.

Export trade- Meaning, objective and procedure of Export Trade -

- State the meaning and objectives of export trade.
- Explain the important steps involved in executing export trade.

Import Trade- Meaning, objective and procedure; Meaning and functions of import trade; purpose and procedure.

- State the meaning and objectives of import trade.
- Discuss the important steps involved in executing import trade.

Documents involved in International Trade; documents involved in export trade, indent, letter of credit, shipping order, shipping bills, mate's receipt(DA/DP), specimen, importance

- Develop an understanding of the various documents used in international trade.
- Identify the specimen of the various documents used in international trade.
- Highlight the importance of the documents needed in connection with international trade transactions.

World Trade Organization (WTO) meaning and objectives

- State the meaning of World Trade Organization.
- Discuss the objectives of World Trade Organization in promoting international trade.

Unit 11: Project Work 30 Periods

As per CBSE guidelines
### QUESTION PAPER DESIGN 2015-16

**BUSINESS STUDIES**

**Code No. 054**

**CLASS XII**

**Time: 3 Hours**

**Max. Marks: 80**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Typology of Questions</th>
<th>Learning Outcomes &amp; Testing Skills</th>
<th>Very Short Answer (VSA) (1 Marks)</th>
<th>Short Answer - I (SA-I) (3 Marks)</th>
<th>Short Answer - II (SA-II) (4 Marks)</th>
<th>Essay Type (LA) (5 Marks)</th>
<th>Total Marks</th>
<th>% Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Remembering - (Knowledge based Simple recall questions, to know specific facts, terms, concepts, principles, or theories, identify, define, or recite, information)</td>
<td>• Reasoning • Analytical Skills • Critical Skills</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>–</td>
<td>14</td>
</tr>
<tr>
<td>2</td>
<td>Understanding - (Comprehension to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information)</td>
<td></td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>Application - (Use abstract information in concrete situation, to apply knowledge to new situations, Use given content to interpret a situation, provide an example, or solve a problem)</td>
<td></td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>26</td>
</tr>
<tr>
<td>4</td>
<td>High Order Thinking Skills - (Analysis &amp; Synthesis - Classify, compare, contrast, or differentiate between different pieces of information, Organize and/or integrate unique pieces of information from a variety of sources)</td>
<td></td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Evaluation - (Appraise, judge, and/or justify the value or worth of a decision or outcome, or to predict outcomes based on values)</td>
<td></td>
<td>1</td>
<td>1 (value based)</td>
<td>1</td>
<td></td>
<td></td>
<td>12</td>
</tr>
</tbody>
</table>

**TOTAL - 1 project (10 Marks ) 10**

| Estimated Time (in minutes) | 8 min | 27 min | 30 min | 40 min | 60 min | 165 min + 15 min. for revision |
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 some or the other activity. Human activities are classified into Economic & non economic activities.

<table>
<thead>
<tr>
<th>Basic Meaning</th>
<th>Economic</th>
<th>Non-Economic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose/ Notice</td>
<td>Those activities whose objective is to earn money and to create Wealth.</td>
<td>Those activities whose aim is not to earn money, but to satisfy social, psychological and emotional needs. For example love, sympathy, patriotism.</td>
</tr>
</tbody>
</table>
| Examples | - People Working in factories  
- Cooking food in a restaurant  
- A teacher teaching in a school | - A house Wife cooking food for her family  
- A teacher training his/ Daughter at home |

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

**Characteristics of Business** :

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 sales. Services include transportation, banking, Insurance etc.

3. Sale or exchange of goods & services 1 - There should be sale or exchange of goods and service between the seller & the buyer.
4. Dealing in goods & services an a regular basis :- There 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 but the amount of profit earned may very also 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.

**Comparison of Business Profession and Employment**

<table>
<thead>
<tr>
<th>Economic Activities</th>
<th>Business</th>
<th>Profession</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Fishing</td>
<td>- Medical (Doctor)</td>
<td>- Worker</td>
<td></td>
</tr>
<tr>
<td>- Manufacturing goods</td>
<td>- Legal (Lawyer)</td>
<td>- Employee</td>
<td></td>
</tr>
<tr>
<td>- Mining</td>
<td>- Accountancy (C’A)</td>
<td>- Salesman</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Producing or selling of electronic goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Banking</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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 remuneration in return.
Basis of Employment

<table>
<thead>
<tr>
<th>Mode of Establishment</th>
<th>Nature of work</th>
<th>Qualification</th>
<th>Capital Investment</th>
<th>Reward/Return</th>
<th>Risk</th>
<th>Code of conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starts after Completing some legal formalities if needed</td>
<td>Provision of goods and services to the public.</td>
<td>No minimum Qualification is necessary</td>
<td>Capital needed according to its nature &amp; size</td>
<td>Profits</td>
<td>It involves high risk</td>
<td>No code of conduct</td>
</tr>
<tr>
<td>Membership of a professional body and certificate of practice required</td>
<td>Personalized services of expert nature.</td>
<td>Professional Qualification and training required</td>
<td>Limited capital for established</td>
<td>Professional fee</td>
<td>The degree of risk is low</td>
<td>Professional code of conduct is to be followed</td>
</tr>
<tr>
<td>Start after getting appointment letter.</td>
<td>Work allotted by the employer according to the contract.</td>
<td>Qualification and training as prescribed by the employer.</td>
<td>No capital required</td>
<td>Salary or wage</td>
<td>No risk in it</td>
<td>The terms and conditions of service contract are to be followed.</td>
</tr>
</tbody>
</table>

Objectives of Business: The objectives of business means the purpose for which a business is established and carried on. Proper selection of objectives is essential for the success of a business.

The businessman always have multiple objectives. All objective may be classified into two broad categories. These are (1) Economic objectives and (2) Social objectives.
1. **Economic Objectives**

Business is an economic activity and therefore, its purpose is to show economic results. The economic objectives of business are follows:-

(i) **Earning Profit**: Profit means excess of income over the expenditure. The foremost and prime objective of every businessman is to earn profit. A business cannot survive without earning profit. Not only for survival but it is also required for growth and expansion of business.

(ii) **Market Standing/Creation of Customer**: Business can survive for a longer period only if it is able to capture a big share in the market & has market standing. It is possible only when business provides goods and services to satisfy the needs & wants of customers. Therefore, creation and satisfaction of customers (market) is an important objective of business.

(iii) **Innovation**: Innovation means making new products or adding new features of old products for making it more useful, improving methods of production & distribution exploring new markets, etc. In these days of competition, a business can be successful only when it creates new designs, better machines, improved techniques, new varieties etc.

(iv) **Optimum utilisation of resources**: It refers to the best use of men, material, money and machinery employed in business. The resources of business

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**Diagram**

- **Business Objectives**
  - **Economic Objectives**
    - Earning Profit
    - Market Standing
    - Innovation
    - Optimum utilisation of resources
    - Improving Productivity
  - **Social Objectives**
    - Quality goods & service at fair price
    - Avoidance of antisocial & unfair frods practices
    - Generation of employment
    - Employee welfare
    - Community service
are scarce so these must be utilised in the best possible manner so that the business can get maximum benefit from their resources.

(v) Improving productivity: It is used as a measure of efficiency. Every business enterprise must aim at greater productivity - to ensure continuous survival and growth. This objective can be achieved by reducing wastages and making efficient use of machines and equipments, human resources, money etc.

2. Social Objectives

Business is an integral part of society. It makes use of resources of society. It earns profit by selling its products or services to members of society. So it becomes obligatory on the part of the businessman to do something for the society. The important social objective of business are as follows:

(i) **Quality goods and services at Fair Price**: The first social objective of business is to provide better quality product at reasonable price and in proper quantity on continuous basis to consumers examples.

**Example**: Consumers look for ISI mark on electrical goods, FPO mark on food products. Hallmark on Jewellery.

(ii) **Avoidance of Anti-Social and Unfair trade practices**: Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.

(iii) **Generation of Employment**: Now a days, employment is the biggest problem of society. Business should provide employment to more and more people living in the country. Handicapped and disabled people should be given extra care.

(iv) **Employee Welfare**: Employees are a valuable asset and they make significant contributions towards the success of business. Another social
objective of business, therefore, is to ensure welfare of employees by providing good working conditions, fair wages and facilities such as housing, medical and entertainment etc. such welfare facilities help to improve physical and mental health of employees.

(v) **Community service** : Business should contribute something to the society where it is established and operated. Library, dispensary, educational institutions etc. are certain contributions which a business can make and help in the development of community.

**Role of Profit in Business**

Business is established for the purpose of earning profit. Profit plays a very important role in business. The role of profit in business can be brought out by the following facts :-

1. **For Long Survival** : Profit alone help a business to continue to exist for a long period. In the absence of profit the establishment of a particular business loses its justification.

2. **For growth & Expansion** : All businessmen want their business to expand and to grow. For development of business additional capital is needed. Retained earnings is a very good source of capital.

3. **For increasing efficiency** : Profit is that power which motivates both the parties - owner and workers to do their best. As they know that in case of good profits they will get good compensation for their efforts so it finally helps in increasing the efficiency of business.

4. **For Building prestige and Recognition** : For gaining prestige in the Society Business had to satisfy all the parties concerned. It has to supply good quality product/service at reasonable price to customers, adequate remuneration to employees, to pay sufficient dividend to the shareholders etc. and all these are possible only if the business is earning good profit.
Classification of Business Activities

Business Activities

Industry

(Deals with production of goods & services)

Commerce

(Deals with distribution of goods & services)

primary Industries
Secondary Industries
Tertiary or Service Industry
Trade
Aids/Auxiliaries to Trade

1. Extractive Industry
2. Generic Communication
1. Manufacturing Industry
2. Construction Industry
Internal Trade
External Trade
1. Wholesale Trade
2. Import Trade
3. Entrepot trade
1. Transportation & Trade
2. Breaking & Finance
3. Insurance
4. Warehousing
5. Advertising

1. **Primary Industry**: The primary industry includes those activities through which the natural resources are used to provide raw material for other industries. Primary industries 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. Farming, mining, lumbering, hunting & fishing come under this category of industry.

   (ii) **Genetic Industry** refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, dairy farming, fish hatchery, cattle breeding 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 manufacturing 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 further divided into four parts.
(i) **Analytic** :- Different things are manufactured out of one material 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 ore, sugar and paper industries

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

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

2. **Construction industries** :- Industries that are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals.

3 **Tertiary or Service Industry** :- Includes those services which help business to move smoothly e.g. transport, 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.

![Diagram showing the functions of commerce](image-url)
1. Removing the hindrance of person by marking goods available consumers from the producers. through trade.

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

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

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

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

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

Commerce includes two types of activities :-

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

**Internal Trade**:- Takes place within a country. Internal Trade is classified into two categories :-

(i) **Wholesale Trade** :- Refers to buying and selling of goods in large quantities. A wholesaler buys goods in large quantities from the producers and sell them to other dealers. He serves as a connecting link between the producer and retailer.

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

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

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

(ii) **Export Trade** :- If goods are sold to other countries it is called export trade.
(iii) **Enterpot** :- Where goods are imported for export to other countries eg. Indian firms may import some goods from America and export the service to Nepal

2. **Auxiliaries to Trade** :- All those activities 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 activities is given below.

   (i) **Transportation 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 from the time of production till the time they are demanded by customers.

   (v) **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.

**Business Risk**

Business risk refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example demand for a particular product may decline due to change in tastes preferences of consumers, or increase in competition etc. There are two types of business risks :-

**Nature of Business Risks**

1. Business risks arise due to uncertainties : Lack of knowledge of what is going to happen in future create uncertainties in business. It may be due to natural calamities, change in demand and prices, strikes etc.
2. Risk is an essential part of every business: No business can avoid risk although the amount of risk may vary from business to business. Risk can be minimised but cannot be eliminated.

3. Degree of risk depends mainly upon the nature and size of business: Level of risk is lower for small scale business while it is higher for large scale organisation.

4. Profit is the reward for risk taking: A business gets profit as return for undertaking risk. Greater the risk involved in a business, higher is the chance of profit.

**Causes of Business Risks**

1. **Natural Causes**: Human beings have little control over natural calamities like flood, earthquake, famine etc. They result in heavy losses of life, property & income in business.

2. **Human Causes**: Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, strikes, riots, management inefficiency etc.

3. **Economic causes**: They are 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 disturbances, fluctuation in exchange rates etc.

**Starting a Business :- Basic Factors**

1. Selecting the line of business: The first thing to be decided by the entrepreneur 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 organization: The next decision must be taken is to finalize the form of business i.e., to set up sole 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 analyze 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 perform various activities.

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

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

**EXPECTED QUESTIONS (ONE MARK QUESTION)**

**Q1.** Give an example of activity which is economic in one side and non economic on other side.

**Q2.** Why is business considered an economic activity?

**Q3.** If 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.

**Q4.** Name the economic activity in which specialized knowledge is required.

**Q5.** Why is the insurance known as a tertiary industry?
Q6. Mr Rajnesh sold his furniture & bike on OLX as he was shifting base to London. Is this a business activity? Which element of business is being referred to here?

3/4 MARKS

Q7. ABC Ltd. Is planting a tree on roadside. Which objective it is trying to achieve?

Q8. All human being fulfill their different needs by performing certain activities. Can you suggest and Explain the activities undertaken by them.

3/4 MARKS

Q9. Write four differences among business, profession and employment.

Q10. No business is risk free in the light of this statement, explain the concept of business risk and its any three causes.

Q11. Explain any four objectives of business.

Q12. Define commerce, why is it of great importance in modern life?


Q14. Tea is mainly produced in Assam, while cotton in Gujrat & Maharastra but they are required for consumption in different parts of the country. How can this hindrance of place be removed? Also under what business activity will it be categorised.

5/6 MARKS

Q15. Categories the following into business, profession and employment.
   (i) A farmer (ii) An advocate (iii) A clerk
   (iv) A hawker selling toys for children (v) A doctor
   (vi) A person repairing scooter on roadside

Q16. Define business. Explain the characteristics of business (any four)
Q17. Commerce is the sum total of activities that remove hindrances in the free flow of goods from producers to consumers. Explain.

Q18. Explain any six factors that are important to be considered while starting a business.

Q19. Write difference among industry, commerce and trade on any five basis.

Q20. Profit maximization can not be the sole objective of a business. Explain.

Q21. ‘Creative Strokes’ is an advertisement agency initiated by Rohit, Shagun & Pratima. They have called a meeting to discuss the below given points:-

(i) Increase the profit margin by 10% in May.
(ii) Capturing a bigger share in the market.
(iii) Making use of better cameras & improved techniques.
(iv) Making best use of cameras, lights, cameramen, finance etc. employed by the business.
(v) Improve efficiency in all regards of functioning of business.

(a) Which aspects of business objectives are being referred to here?
(b) Also develop each point to be discussed in the meeting by classifying the objective.

[Hint : (a) Economic objectives]

Q22. Nathu Lal prepares ‘sonpapri’ for customers during Diwali season every year. He prepared more ‘Sonpapari’ than he could sell this year. He employed women and children also and paid them less salary manufacturing on the packages. This way he generated profit for himself.

(a) Do you think he is fulfilling all the objectives of business ?
(b) If not which aspects of this objective are not being fulfilled ?
(c) Write any two values lacking in Nathu Lal.

[Hint : No. Social objectives are not being fulfilled]
Q23. Classify the below given business into different types of industries:-

(i) Crude oil business
(ii) producing steel from iron are
(iii) Cosmetics manufacturing
(iv) producing computers
(v) construction of dams.

Q24. In business activities, there are some activities that are involved in the removal of hindrances in process of exchange i.e. from the producer to the consumer Identify them. Also classify the activities which help in removing the following hindrances:-

(i) Hindrance of place
(ii) Hindrance of risk
(iii) Hindrance of time
(iv) Hindrance of finance
(v) Hindrance of information

Q25. Different situations in different business are being elaborated below:-

(i) Raghunath Gorkha had a match stick factory in Nepal which got destructed by the recent earthquake.

(ii) Mr Arya, a senior manager in a telecom company shared confidential information about the company with a competitor which led to huge losses for the company.

(iii) Vodafone Co. was charged with evasion of tax and asked to pay fine in cross which would lead to heavy losses for the company.

(iv) Type writers becoming redundant is being referred to in all the above cases ?

(a) Which characteristic of business is being referred to in all the above cases ?
(b) How can you classify the different cases based on this characteristic?

[Hint: Business Risks - Causes]

Q26. Dr Kumar is an orthopedic surgeon in Jaipur Golden Hospital and Dr Mahajan, his friend is a Pediatrician who has set his own clinic. Dr Mahajan’s wife, Ms. Rajni operates her Jewellery store. Compare & differentiate the nature of tasks undertaken by them.

Q27. Zainab, Shelly & Ravina are friends. They have just completed a fashion designing course. They wish to start a business together. They have ₹10,00,000 savings put together and are planning to take a bank loan of additional ₹10 lakhs. They have found a prime location in Karol Bagh where they can set their boutique. They decide that they will initially not take very big orders.

Based on this information, quote the lines associated with factors affecting the decision to start a business and classify them.
CHAPTER 2

FORMS OF BUSINESS ORGANISATION

Meaning
A business enterprise is an institutional arrangement to form any business activity.

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

<table>
<thead>
<tr>
<th>Forms of Business Enterprise</th>
<th>Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Enterprises</td>
<td>1. Department undertaking</td>
</tr>
<tr>
<td>Non Corporate Form</td>
<td>2. Statutory corporation</td>
</tr>
<tr>
<td>1. Sole proprietorships</td>
<td>3. Govt. Company</td>
</tr>
<tr>
<td>2. Partnership</td>
<td></td>
</tr>
<tr>
<td>3. Joint Hindu family business</td>
<td></td>
</tr>
<tr>
<td>Public Enterprises</td>
<td></td>
</tr>
<tr>
<td>Corporate Form</td>
<td></td>
</tr>
<tr>
<td>Joint Sector Enterprises</td>
<td></td>
</tr>
</tbody>
</table>

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 recipient of all profit and bearer of all risks.

It is SUITABLE IN AREAS OF PERSONALISED SERVICE like beauty parlour, hair cutting, saloons & 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 between business & businessmen.
4. Unlimited liability: The liability of owner is unlimited. In case the assets of business are not sufficient 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 recipient: He bears the complete risk and there is no body 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 without 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 borrowing capacity.

2. Limited Managerial ability 1- Sole trader cant be good in all aspects of business and he cant 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 managerial skills, it cannot expand to a large scale.

SUITABILITY:

Sole trader-ship is suitable.

- Where the personal attention to customer is required as in tailoring, beauty parlour.
- Where goods are unstandardized like artistic jewelery.
- Where modest capital & limited managerial skills are required as in case of retail store.
- Business where risk is not extensive i.e., lesser fluctuation in price and demand i.e. stationery shop

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 at least two members in the family and some ancestral property to be inherited by them.

2. Membership by birth-

There are two systems which govern membership

<table>
<thead>
<tr>
<th>Dayabhaga System</th>
<th>Mitakshara System</th>
</tr>
</thead>
<tbody>
<tr>
<td>It prevails in west Bengal and allows both male and female member to co-parceners.</td>
<td>It prevails all over India except West Bengal and allows only male members to be coparceners.</td>
</tr>
</tbody>
</table>

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.

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

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. Loyalty and Co-operation : It helps in securing better co-operation and greater loyalty from all the members who run the business.

LIMITATION

1. Limited capital : There is shortage of capital as it is limited to the ancestral property.
2. Unlimited liability of karta - It makes him less enterprising.

3. Dominance of karta - Karta manages the business and sometimes he ignores the valuable advice of other members. This may cause conflict among the members and may lead to break down of the family limit.

4. Hasty decisions: As karta is overburdened with work, he may take hasty and unbalanced decisions.

5. Limited managerial skills of karta also pose a serious problem. The Joint Hindu family business is on decline because of the diminishing no. of joint Hindu families in the country.

PARTNERSHIP

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

FEATURES

1. Two or more persons: There must be at least 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 writing.

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 management & decision making of the organizations.

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: firm’s 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 Jack public confidence.

TYPES OF PARTNERS

1. General / Active Partner - Such a partner takes active part in the management of the firm.

2. Sleeping or Dormant Partner - He does not take active part in the management of the firm. Though he invest money, shares profit & Loss, has, 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 partner 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 pretensions.

6. Partner by holding out - He is the one who is falsely declared partner of the firm whereas 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 f this declaration.

Minor as a Partner

A minor is a person who has not attained the age of 18 years. Since a minor is not capable of enlarging into a valid agreement. He cannot become partner of a firm. However a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. He can not be asked to bear the losses. His liability will be limited to the exilient of the capital contributed by him. He will not be eligible to take an active part in the management of the firm.

Types of Partnership

A. Classification on the Basics of Duration

<table>
<thead>
<tr>
<th>Partnership at will</th>
<th>Particular Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>This type of partnership exists at the will of partners</td>
<td>This type of partnership is formed for a specified June period to accomplish a particular project (Consolation of building)</td>
</tr>
</tbody>
</table>

B. Classification on the basis of Liability

<table>
<thead>
<tr>
<th>General partnership</th>
<th>Limited Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The liability of Partners is limited and joint</td>
<td>1. The liability of at least one partner is unlimited whereas the other partners may have limited</td>
</tr>
<tr>
<td>2. Registration of firm is optional</td>
<td>2. Regisation of firm is compulsory</td>
</tr>
</tbody>
</table>
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 & obligations of partners.
- Terms governing admission, retirement & expulsion of a partner, preparation on of accounts & their auditing.
- Method of solving 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:-

- A partner of an unregistered firm cannot file suit against the firm or the partner.
- The firm cannot file a suit against third party.
- The firm cannot file a case against its partner.

Co-operative Society

A co-operative society is a voluntary association of persons of moderate means who unite together to protect & promote their common economic interests.
FEATURES

1. Voluntary association: Every one having a common interest is free to join a co-operative society and can also leave the society after giving proper notice.

2. Legal status: Its registration is compulsory and it gives it a separate legal identity.

3. Limited liability: The liability of the member is limited to the extent of their capital contribution in the society.

4. Democratic control: Management & 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. Bound by govt.’s rules: They have to be tide by the rules and regulations 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 members.

MERITS

1. Excise of formation: It can be started with minimum of 10 member. Registration is also easy as it requires very few legal formations.

2. Limited Liability: The liability of members is limited to the extent of their capital contribution.

3. Stable existence: Due to registration it is a separate legal entity and is not affected by the death, luxury or insolvency of any of its member.

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

5. Government Support: Govt. provides support by giving loans at lower interest rates, subsidies & 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. Inefficient management - Co-operative society is managed by elected members who may not be competent and experienced. Moreover it can’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. Excessive 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 registrar.

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

TYPES OF CO-OPERATIVE 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 Co-operative 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, fertilizers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on large scale.

5. Credit co-operative 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 company 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. Incorporated association - The company must be incorporated or registered tender the companies Act 1956. Without registration no companies Act. 1956. Without registration no company can come into existence.

2. Separate 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.

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

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

5. Transferability of shares - Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co.

6. Common Seal- It is the official signature of the company and it is affixed on all important documents of company.

7. Separation of ownership and control - Management of company is in the hands of elected representatives of shareholders known individually as director and collectively as board of directors.
MERITS

1. Limited Liability - Limited liability of shareholder 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 company 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 management.

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 company, 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 papism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.

5. Oligarchic management - 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 between Private Company & Public Co.
Private Co. | Public Co.
---|---
(i) It has minimum 2 & maximum 50 member | (i) It has minimum 7 & maximum member
(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 transfer of its shares. | (iii) Its share are freely transferable
(iv) It can commence business 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 | **Example**: Reliance Industries Ltd., Wipro Ltd., Raymonds Ltd.
(vi) In it Minimum capital required is one Lakh | (vi) In it minimum capital required is five lakhs.

**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 undergo only first two steps but a public 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. production of a new product or service.


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 Memorandum of Association :- Promoters have to decide about the director who will be signing the memorandum of Association.

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

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

II. Incorporation :-

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

Steps for Incorporation

1. Application for incorporation :- Promoters make an application for the incorporation of the company to the Registrar of companies.

2. Filing of necessary documents :- Promoters files the following documents :-

   (i) Memorandum of Association.

   (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 of 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 his 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 by 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 Prospectus - Prospectus means any documents which invites offers from the public to purchase share and Debenture of the company.

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

4. Minimum subscription - According to the SEBI guidelines, 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 obtain a certificate of commencement of Business. For this the following documents have to be filled with the registrar of companies.

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

Important documents used in the formation of company:-

1. Memorandum of Association - It is the principal document of a company. No company can be registered without a memorandum of association and that is why it is sometimes called a life giving document.

Contents of Memorandum of Association:

1. **Name clauses** - This clause contains the name of the company. The proposed name should not be identiticator similar to the name of another exiting company.
2. **Situation clauses** - This clause contains the name of the state in which the registered office of the company is to be situated.
3. **Object clause** - This clause defines the objective with which the company is formed. A company is not legally entitled to do any business other than that specified in the object clause.
4. **Liability Clauses** - This clause limits the liability of the members to the amount unpaid on the shares held by them.
5. **Capital clause** - This clause specifies the maximum capital which the company will be authorized to raise through the issue of shares called authorised capital.

2. Articles of Association:

The articles of Association are the rules for the internal management of the affaires of a company the articles defines the duties, rights and powers of the officers and the board of directors.
Contents of the Article:–

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

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

Main contents of the Prospectus:–

1. Company’s name and the address of its registered office.
2. The main object of the company
3. The number and classes of shares.
4. Qualification shares of the directors
5. The name and addresses of the directors, managing director or manager.
6. The minimum subscription which is 90% fo the size of the issue.
7. The time of opening and closing of the subscription list.
8. The amt. payable on the application and allotment of each class of share.
9. Underwriters to the issue.
10. Merchant bankers to the issue.
4. Statement is Lieu of Prospectus:

A public company having a share capital may sometimes decide not to raise funds from the public because it may be confident of obtaining the required capital privately. In such case it will have to file a statement in lieu of prospectus with the Registrar of Companies.

It contains information much similar to that of a prospectus.

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 organisation: Sole proprietorship is least expensive and can be formed without any legal formalities to be fulfilled. Company is also expensive with lot of legal formalities.

2. Capital consideration - Business requiring less amount of finance prefer sole proprietorship & partnership form, whereas business activities requiring huge financial resources prefer company form.

3. Nature of business: If the work requires personal attention such as tailoring unit, cutting saloon, it is generally setup as a sole proprietorship. Unit engaged in large scale manufacturing are more likely to be organized in company form.

4. Degree of control desired: A person who desires full and exclusive control over business prefers proprietorship rather than partnership or company 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 whereas the risky ventures should be done in company form of organisation because the liability of shareholders is limited.

I MARK QUESTIONS :-

Q1. Write the name of form of business organisation found only in India.

Q2. Name two types of business in which sole proprietorship is very suitable.

Q3. Name the person who manages a Joint Hindu Family business.
Q4. Write the names of systems which govern membership in Joint Hindu Family business.

Q5. Enumerate the two conditions necessary for formation of Joint Hindu Family business.

Q6. What is the minimum no. of persons required to form a co-operative society?

Q7. Explain the meaning of unlimited liability.

Q8. Name the type of co. which must have a minimum paid up capital of 5 lakhs.

Q9. What is meant by minimum subscription?

Q10. Identify a company which has no restriction of on transfer of shares.

3/4 MARKS QUESTIONS

Q11. Explain the concept of mutual agency in partnership with suitable example.

Q12. What is the rate of Karta in Joint Hindu Family business?

Q13. Name the types of company which two persons can start.

Q14. What is meant by partner by estoppel?

Q15. What is secret partner?

Q16. Write a short note on producer co-operative society.

Q17. Explain a co-operative organisation in democratic setup.

Q18. Shiv, Anandi & John were partners John died in a car accident Both Shiv & Anandi decided to admit his son Ryan who was 16 years old as partner. Can they do so? Justify.

[Hint: Minor as a partner]

Q19. Mr. Singh is in ‘lighting’ business for the post 15 years. To help his friend, Mr. Yadav, a beginner he projected himself as a partner before Mohd. Abdul, a whole sale dealer of fancy lights. Mohd. Abdul gave Mr. Yadav the stock without asking for payment and gave him credit limit of one month.

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Will Mr. Singh be liable to Md. Abdul if Mr. Yadav does not pay him on time?

Classify Mr. Singh’s role here along with an explanation.

[Hint: Partner by Estoppel]

Q20. Akriti, Sonam & Supreeti were friends who started a partnership business. They did not get their firm registered as it was optional. Soon, Sonam & Supreeti started having conflicts. Sonam wanted to approach a lawyer. If you were a lawyer than how would you guide her?

Q21. Mangal, Sazia & Suqhbeer Singh wish to start a business in partnership. They want to make a partnership deed. Suggest what aspects of the deed should be included in it?

Q22. Explain any four limitations of Joint Stock Company.

Q23. Differentiate between private co. and public company.

5/6 MARK QUESTIONS.

Q24. Mr. Amit kumar is interested in the floatation of a company. Briefly discuss the steps he should take.

Q25. Discuss the reasons of superiority of joint stock company over sole proprietorship and partnership.

Q26. Which form of business is suitable for following types of business and why?

(a) Beauty Parlour
(b) Coaching Centre for science students
(c) Hotel
(d) Shopping mall
(e) Restaurant
(f) Small retail business.

Q27. Dhirubhai Chaurasiya operates a textile business. His family is joint and has a lot of ancestral property. All the 15 family members are a part of
this business. He is the eldest male member in the family so he heads the business. He is liable to all the creditors of the business as he is the decision maker. Dhirubhai’s grandson has just born a few days ago and he is also the member of the business.

(a) Which form of business is being undertaken by Dhirubhai Chaurasiya?

(b) Identify the features of this form of business based on the information given.

(c) Textile business is part of which type of industry according to you?

Q28. “Every day Amul collects milk from 2.12 million farmers (many illiterate) & converts the milk into branded packaged products & delivers goods all over the country. The story of Amul started in Dec, 1946 with a group of farmers been to free themselves from intermediaries, gain access to the market & there by ensure maximum returns for their efforts”

(a) From the above information, identify the form of business organisation used by Amul.

(b) Also quote the line which suggest its features?

(c) According to you, Amul is part of which type of industry?

Q29. Mohan, Sohan and Ramesh are brothers living in a village. Mohan is a farmer. He grows sugar cane in his field. Sohan is manufacturer of sugar who is doing the business with his friends Rohan Singh and Jitender. Ramesh is a transporter. He sells the sugar in the city using his truck. This year the sugar got spoiled due to heavy rain. Sohan his friends reduced the wages of his workers to cut down their losses.

1. Classify the business activity undertaken by Mohan & Ramesh.

2. What form of business is Sohan doing with his friends. write any two features of the form?

3. Which value is violated by Sohan & his friends?

4. What type of business risk is faced by them? Explain
Q30. Rahul and Sanchali felt that there was an opportunity of business in providing a service of online grocery stores for working people. They analysed the idea in terms of technical, financial and economic liability. Once they found all the aspects satisfactory they decided to start a company called ‘convenience@home’ private Ltd. They got the name registered with the registrar.

(a) Which steps of formation of company are being referred to here?

(b) Also write the next 3 steps associated with it.

[Hint : steps in promotion of a company]

Q31. Lakhvinder Singh is confused as to which form of business he should follow for his garment business. You are his friend. Help him by rationally discussing the different factors so that he can take a sound business decision.
CHAPTER 3
PUBLIC AND GLOBAL ENTERPRISES

PUBLIC SECTOR ENTERPRISES

Meaning: The public sector consists of various organizations 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 Undertakings
2. Statutory Corporations
3. Govt. Companies

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 utilization of funds.

4. It is suitable for activities where secrecy and strict control is required like defence production.

DEMERITS

1. It suffers from interference from minister and top officials in their working.

2. It lacks flexibility which is essential for smooth operation of business.

3. It suffers from red tapism in day to day Work.

4. These organization are usually insensitive to consumer needs and do not provide goods and adequate service to them.

5. Such organization are managed by civil servants and govt. officials who may not have the necessary expertise and experience in management.

SUITABILITY : (i) Where full Govt. control is needed.

(ii) where secrecy is very important such as defence.
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 special Act.

Examples: - Unit Trust of India. Life Insurance Corporation.

FEATURES

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

MERITS

1. Internal Autonomy:- It enjoys a good deal of autonomy in its day to day operations and is free from political interference.
2. Quick decisions:- It can take prompt decisions and quick actions as it is 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. Efficient Management:- Their directors and top executives are professionals and experts of different fields.

DEMERITS

1. In reality, there is not much operational flexibility. It suffers from lot of political interference.
2. Usually they enjoy monopoly in their field and do not have profit motive due to which their working turns out to be inefficient.

3. Where there is dealing with public, rampant corruption exists. Thus public corp. is suitable for undertaking requiring monopoly powers e.g. public utilities.

**SUITABILITY:-** It is suitable for organising public enterprise when.

(i) The enterprise requires special power under an Act.

(ii) The enterprise requires a huge amount of capital investment.

**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.

**FEATURE**

1. It is registered or Incorporated under companies Act.

2. It has a separate legal entity

3. Management is regulated by the provision of companies Act.

4. Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of association.

5. The govt. Co. obtains it funds from govt. shareholdings and other private shareholdings. It can also raise funds from capital market.

**MERITS**

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

2. It enjoys autonomy in management decisions and flexibility in day to day working.

3. It can appoint professional managers on high salaries.
LIMITATIONS

1. It suffers from interference 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 efficient operation of the company.

SUITABILITY:-

(i) Where the private sector is also needed along with in govt.

(ii) Where activities related to finance are to be encouraged.

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 summarized as following:-

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

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

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

4. Control of Monopoly and Restrictive trade Practices - These enterprises were also established to provide competition to 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 Companies like STC and MMTC have played an important role in expending exports of the country. Very important role was assigned to public sector but is performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

**PUBLIC SECTORY REFORMS**

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

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

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

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

(IV) Restructural and Revival:- All public sector sick units were referred to Board of Industrial and financial Re-construction (BIFR). Unite which were potentially viable were restructured and which could not be revieved were closed down by the board.

**MULTINATIONAL COMPANIES/GLOBAL ENTERPRISES**

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

**FEATURES**

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

2. International Operations:- A MNC has production, marketing and other facilities in several countries.
3. Centralized control:- MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only broad policy framework to them and there is no interference in their day to day operations.

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

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

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

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

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 Maruti of Govt. of India come together to form Maruti Udyog.

FEATURES

1. Capital is provided jointly by the Government and Private Sector Entrepreneurs.

2. Management may be entrusted to the private entrepreneurs.

3. It combines both social and profit objectives.

4. It is responsible to the Government and the private investors.

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 efficiently
2. Access to advanced technology - It provides access to advanced techniques of production which increases efficiency 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 partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.

5. Low Cost of production - Raw material and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefitted 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.

**Public Private Partnership (PPP):**

It means an enterprise in which a project or service is finance and operated through a partnership of Government and private enterprises.

**FEATURES:**

1. Facilitates partnership between public sector and private sector.

2. Pertaining high priority project.

3. Suitable for big project (capital intensive and heavy industries).

4. Public welfare example Delhi Metro Railway Corporation.

5. Sharing revenue - Revenue is shared between government and private enterprises in the agreed Ratio.

**VERY SHORT ANSWER QUESTION (1 MARK)**

Q.1. Name the type of business enterprise which operates in more than one country.

Q.2. State different types of public sector enterprises.
Q.3. It is a public sector enterprise in which Govt. holds at least 51% share. Name the company.

Q.4. Which type of business enterprise would emerge when two business firms agree to join together to achieve a common purpose and mutual benefit.

Q.5. Mention any two objective of public sector enterprises.

**SHORT ANSWER QUESTIONS (3/4 MARKS)**

Q.1. Explain any three features of Public Private Partnership.

Q.2. How does the govt. maintain regional balance in the country.

Q.3. Identify the form of public sector enterprise in the following cases:-
   (a) This is the oldest and traditional form of public enterprise.
   (b) Special act of the parliament brings this public enterprise into existence.
   (c) Minimum 51% of the paid up capital is held by Government.

Q.4. Explain three differences between Departmental undertakings and Government Company.

**Long Answer Questions (5/6 Marks)**

Q.1. Define Joint Venture and explain its major benefits.

Q.2. It is a public enterprise established under Indian Companies Act and conducts business in competition with companies in private sector.
   (a) Identify the type of public enterprise.
   (b) What is the minimum investment Govt. has to make in such companies.
   (c) In whose name shares of this type of company are purchased.
   (d) Explain any two advantages and limitations of such companies.

Q.3. Explain three merits and three limitations of Departmental undertaking.
Q.4. Multinational companies establish themselves in developing countries to enjoy huge profits by selling consumer goods or luxury items. They start business by offering wide variety of good at prices cheaper than local retailers offer. But once they are established they increase prices.

(a) State the values the government of a developing country ignores while allowing MNC’s to establish in their country.

(b) Which values do the MNC’s Violate?

(c) Explain the role of MNC's in developing Countries.

Q.5. Write the main features of multinational companies.
CHAPTER 4

BUSINESS SERVICES

It has already been stated that commerce consists of trade and auxiliaries to trade. Auxiliaries or aids to trade refer to the activities incidental to the buying and selling of goods and services. These auxiliaries to trade are also known as business services or facilities. These services are essential and indispensable to the smooth flow of trade and industry. The examples of business services are Banking, insurance, transport, Warehousing and communication.

NATURE OF BUSINESS SERVICES:

1. Intangibility: Cannot be seen, touched or smelled. Just can only be felt, yet their benefits 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 must.

4. Inventory Loss: Services cannot be stored for future use or performed earlier to be consumed at a later date. e.g. underutilized 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 customer can get the service modified according 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 and transportation.

Banks

Banks occupy an important position in the modern business world. No country can make commercial and industrial progress without a well-organized banking system. Banks encourage the habit of saving among the public. They mobilize small savings and channelize them into productive uses.

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

FUNCTIONS OF COMMERCIAL BANK

A - Primary Function

<table>
<thead>
<tr>
<th>A. Accepting The Deposits</th>
<th>B. Lending Money</th>
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<tr>
<td>1. Fixed/time deposit</td>
<td>1. Loans</td>
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<td>2. Current/Demand Deposit</td>
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<td>4. Discounting of Bill of Exchange</td>
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<td>5. Multiple option Deposit Account</td>
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</table>

Primary Functions

1. Accepting Deposits: Accepting deposits is the main function of commercial banks. Banks offer different types of Bank accounts to suit the requirements and needs of different customers. Different types of Bank accounts are as follows:

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

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

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

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

E. **Multiple Option Deposit Account**: It is a type of saving Bank A/c in which deposit in excess of a particular limit get automatically transferred into fixed deposit. On the other hand, in case adequate fund is not available in our saving Bank Account so as to honour a cheque that we have issued the required amount gets automatically transferred from fixed deposit to the saving bank account. Therefore, the account holder has twin benefits from this amount (i) he can earn more interest and (ii) it lowers the risk of dishonoring a cheque.

2. Lending Money With the help of money collected through various types of deposits, commercial banks lend finance to businessman, farmers, and others. The main ways of lending money are as follows:

A. **Term Loans**: These loans are provided by the banks to their customers for a fixed period to purchases Machinery, Truck, Scooter, House etc. The borrowers repay there loans in Monthly/Quarterly/Half Yearly/Annual instalments.
B. **Bank Overdraft**: The customer who maintains a current account with the bank, takes permission from the bank to withdraw more money than deposited in his account. The extra amount withdrawn is called overdraft. This facility is available to trustworthy customers for a small period. This facility is usually given against the security of some assets or on the personal security of the customer. Interest is charged on the actual amount overdrawn by the customer.

C. **Cash Credit**: Under this arrangement, the bank advances cash loan up to a specified limit against current assets and other securities. The bank opens an account in the name of the borrower and allows him to withdraw the borrowed money from time to time subject to the sanctioned limit. Interest is charged on the amount actually withdrawn.

D. **Discounting of Bill of Exchange**: Under this, a bank gives money to its customers on the security of a bill of exchange before the expiry of the bill in ease a customers needs it. For this service bank charges discount for the remaining period of the bill.

**Secondary Functions**

The secondary functions of commercial banks are as under:-

(1) **Agent Functions**

As an agent of its customers a commercial bank provides the following services:-

(I) Collecting bills of exchange, promissory notes and cheques.

(II) Collecting dividends, interest, sent etc.

(III) Buying and selling shares, debentures and other securities.

(IV) Payment of interest, insurance premium etc.

(V) Transferring funds from one branch to another and from one place to another.

(VI) Acting as an agent of representative while dealing with other banks and financial institutions.

A Commercial banks performs the above functions on behalf of and as per the instructions of its customers.
(2) **General Utility Functions**:-

Commercial banks also perform the following miscellaneous functions:-

(I) Providing lockers for safe custody of jewelry and other valuables of customers.

(II) Giving references about the financial position of customers.

(III) Providing information to a customer about the credit worthiness of other customers.

(IV) Supplying various types of trade information useful to customer.

(V) Issuing letter of credit, pay orders, bank draft, credit cards and travelers cheques to customers.

(VI) Underwriting issues of shares and debentures.

(VII) Providing foreign exchange to importers and travelers going abroad.

**Bank Draft**: It is a financial instrument with the help of which money can be remitted from one place to another. Anyone can obtain a bank draft after depositing the amount in the bank.

The bank issues a draft for the amount in its own branch at other places or other banks (only in case of tie up with those banks) on those places. The payee can present the draft on the drawee bank at his place and collect the money. Bank charges some commission for issuing a bank draft.

**Banker’s cheque or Pay Order**: It is almost like a bank draft. It refers to that bank draft which is payable within the town. In other words banks issue pay order for local purpose and issue bank draft for outstations.

**ELECTRONIC BANKING SERVICES/E-BANKING**

Using computers and internet in the functioning of the banks is called electronic banking. Because of these services the customers do not need to go to the bank every time he has to transact with bank. He can make transactions with the bank at any time and from any place. The chief electronic services are the following.

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

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

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

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

5. **Tele Banking:** Under this facility, a customer can get information about the balance in his account or information about the latest transactions on the telephone.

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

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

8. **Real Time Gross Settlement:** RTGS refers to a funds transfer system where transfer of funds takes place from one bank to another on a Real time and on Gross basis. Settlement in Real time means transactions are
settled as soon as they are processed and are not subject to any waiting period.

Gross settlement means the transaction is settled on one to one basis without bunching or netting with any other transaction. This is the fastest possible money transfer system through the banking channel.

The RTGS service for customers is available from 9.00 am to 3.00 pm on week days and from 9.00 am to 12.00 noon on Saturdays.

The basic difference between RTGS and NEFT is that while RTGS transactions are processed continuously, NEFT settles transactions in batches.

**Benefits of E-Banking to customer:**

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

**Benefits of E-Banking to Banks:**

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

**Meaning of insurance** : Insurance is a contract under which one party (Insurer or Insurance Company) agrees in return of a consideration (Insurance premium) to pay an agreed sum of money to another party (Insured) to make good for a loss, damage or injury to something of value in which the insured has financial interest as a result of some uncertain event.

**Principles of Insurance** : These principles are :

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

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

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

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

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

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

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

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<td>Marine Insurance</td>
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<td>Others Insurance</td>
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</table>
Concept of Life Insurance: Under life insurance the amount of insurance is paid on the maturity of policy or the death of policy holder whichever is earlier. If the policy holder survives till maturity he enjoys the amount of insurance. If he dies before maturity then the insurance claim helps in maintenance of his family. The insurance company insures the life of a person in exchange for a premium which may be paid in one lump sum or periodically say yearly, half yearly quarterly or monthly.

Types of Life Insurance Policies:

1. Whole Life Policy: Under this policy the sum insured is not payable earlier than death of the insured. The sum becomes payable to the heir of the deceased.

2. Endowment Life Insurance Policy: Under this policy the insure undertakes to pay the assured to his heirs or nominees a specified sum on the attainment of a particular age or on his death whichever is earlier.

3. Joint Life Policy: It involves the insurance of two or more lives simultaneously. The policy money is payable on the death of any one of lives assured and the assured sum will be payable to the survivor or survivors.

4. Annuity Policy: This policy is one under which amount is payable in monthly, quarterly, half yearly or annual instalments after the assured attains a certain age. This is useful to those who prefer a regular income after a certain age.

5. Children’s Endowment Policy: This policy is taken for the purpose of education of children or to meet marriage expenses. The insure agrees to pay a certain sum when the children attain a certain age.

Fire Insurance: It provides safety against loss from fire. If property of insured gets damaged due to property as compensation from insurance company. If no such event happens. The insured will not receive anything. For such service insurance company charges premium depending upon the amount of loss insured.

Features:

1. Utmost Good Faith
2. Contract of Indemnity
3. Insurable Interest in Subject matter.

4. Subject to the doctrine of cause premimanearest cause.

5. It is a contract from year to year. It generally comes to an end at the expiry of the year and may be renewed.

**Marine Insurance:**- Marine Insurance provides protection against loss during sea voyage. The businessmen can get his ship insured by paying the premium fixed by the insurance company. The functional principles of marine insurance are the same as the general principles of Insurance.

**OTHER INSURANCE**

**Health Insurance** : Health insurance has gained popularity these days. General Insurance companies provide special health insurance policies such as Mediclaim for the general public. The insurance company charges a nominal premium every year and in return undertakes to provide up to stipulated amounts for the treatment of certain diseases such as heart problem, cancer, etc.

**Communication:** It is an important service that helps in establishing links between businessmen. Organization, suppliers, customers etc. It educates people, widen their knowledge and broaden their outlook. It overcomes the problem of distance between people, businessmen and institutions and thus helps in smooth running of trade, industrial and commercial activities. In this fast moving and competitive world it is essential to have advanced technology for quick exchange of information with the help of electronic media. The main services can be classified into postal and telecom.

**Postal Services:** Every business sends to outsiders and receives from outsiders several letters, market reports, parcel, money order etc. every day. All these services are provided by the post and telegraph offices scattered throughout the country. The postal department performs the following services.

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

2. Mail Services The mail services offered by post offices include transmission of messages through post cards, Inland letters, envelops etc. transmission of articles through parcel facility, registration facility and speed post to provide security of transmitted letters and articles and insurance facility
to provide insurance cover for various risks in the course of transmission by post.

The various mail services all:

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

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

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

**Allied Postal Services**

1. **Greetings Post:** Greetings can be sent through post offices to people at different places.

2. **Media Post:** Cooperates can advertise their brands through post cards, envelops etc.

3. **Speed Post:** It allows speedy transmission of articles (within 24 hours) to people in specified cities.

4. **e-bill post:** The post offices collect payment of bills on behalf of BSNL and other organizations.

5. **Courier Services:** Letters, documents, parcels etc. can be sent through the courier service. It being a private service the employees work with more responsibility.

**Telecom Services:** Today’s global business world, the dream of doing business across the world, will remain a dream only in the absence of telecom services.

The various types of telecom services are

1. **Cellular mobile services:** cordless mobile communication device including voice and non-voice messages, data services and PCO services.
2. Radio Paging Services means of transmitting information to persons even when they are mobile.

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

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

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

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

**I MARKS QUESTIONS:-**

**Q.1.** What do you mean by Debit Card?

**Q.2.** What is meaning of Tele Banking?

**Q.3.** It is the prime responsibility of the insured to take reasonable steps to minimize loss/damage to the insured property. Name the principle of insurance.

**Q.4.** Define Insurance.

**Q.5.** What is Credit Card?

**Q.6.** Rahul’s father wants to save Rs. 100,000 so that he can gift the money to Rahul on his graduation day. Which type of deposit should he open with bank?

**Q.7.** Name two companies that offer DTH service in our country?

**Q.8.** A company insures its stock against fire for Rs. 15 Lakh. A fire broke down and the total stock was lost. At the time of fire there was stock worth Rs. 25 Lakh. What is the value of compensation company would be entitled to?
3-4 MARKS QUESTIONS

Q.1. Mr. Satish gets his house insured against fire of Rs. 20 Lakh with insurer A and for Rs. 10 Lakh with insurer B. A loss of Rs. 3 Lakh occurred.

(1) How much compensation can be claimed from A and B separately and Why?

(2) Name the principle of Insurance in the above case.

Q.2. Explain the scope of Health Insurance.

Q.3. Explain the meaning of Bank overdraft.

Q.4. Name the principle of insurance for each of the following statements:

(a) The insured is expected to disclose all the important facts related to the property insured.

(b) Insured must have some economic interest in the subject matter of Insurance contract.

(c) To claim for insurance the insured must take reasonable steps to minimize the loss.

(d) Insured is entitled to recover the loss suffered by him, up to the limit of policy amount.

Ans. (a) Utmost good faith

(b) Insurable Interest

(c) Mitigation

(d) Indemnity

Q.5. Name the accounts generally opened in the Bank.

Q.6. Name any four services offered by electronic banking.

LONG ANSWER QUESTION (5-6 MARKS)

Q.1. Describe briefly the various policies issued by life insurance corporation.
Q.2. A factory owner gets his stock of goods insured but he hide the fact that the electricity board has issued him statutory warning letter to get his factory. Wiring changed later on, the factory catches fire due to short circuit which principle is violated in the case. Explain.

Q.3. Write notes on RTGS system and NEFT.

Q.4. Divya Garments Ltd. has a loan of Rs. 10,00,000 to pay. They are short of funds so they are trying to find means to arrange funds. Their manager suggested to claim from insurance company against stock lost due to fire in the warehouse. He actually meant that they can put their warehouse on fire and claim from Insurance company against stock insured. They will use the claim money to pay loan.

(a) Will the company receive claim if the surveyer from company comes to know the seal cause of fire?

(b) Which values did company ignore while planning to arrange money from false claim?

(c) Explain three elements of fire insurance.

Q.5. Write a detailed note on various facilities offered by Indian Postal Department.
CHAPTER 5

EMERGING MODES OF BUSINESS

Meaning

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

Scope of e-Business

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

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

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

3. **Intra-B Commerce**: Within business Commerce - Under it, the parties involved in the electronic transaction are the two departments of same business. For Example through internet it is possible for the marketing department to interact constantly with the production department and get, the customized goods made as per the requirement of customers.
4. **C2C Commerce** - Customer to Customer Commerce - Under it, both the parties involved in electronic transaction are customers. It is required for the buying and selling of those goods for which there are no established markets. For example-selling old car through internet.

5. **C2B Commerce** - C2B Commerce provides the Consumers with the freedom of shopping at will. Customer can make use of call centers to make toll free calls to make queries and lodge complaints.

6. **B2E Commerce** - Companies reporting to personnel recruitment, interview and selection and training etc. via B2E Commerce.

**Benefits of e-Business**

The major benefits of e-Business are as follows:

1. **World wide reach** - Internet gives businessmen an extended market. New customers come in contact with them. This results in increase in sales.

2. **Elimination of Middlemen** - Ever since the e-Business came into existence, the wholesalers and retailers have started disappearing. Now, most of the producers have started having direct contact with customers. As a result the consumer get goods on less price.

3. **Easy Distribution Process** - Many types of information and services be received on computer through e-business. This has simplified the system of distribution and has also made it less costly.

4. **Lower Investment required** - In this, you don’t require any big showroom or huge investment. You need only computer and Internet.

5. **Easy to launch new products** - Any company can launch its new product in the market through the medium of E-Business. A complete information about the product is made available on Internet. In this way the consumer and other businessmen get information about the new product while sitting at home.

6. **Movement towards a paper less Society** - Use of internet has considerably reduced dependence on paper work.
Resources Required for Successful e-Business Implementation

The resources required for the e-Business are:

1. **Computer system** - The presence of computer system is the first requirement of e-Business. The computer can be linked with Internet by just pressing its keys.

2. **Internet connection** - Internet connection is very essential and nowadays we can get this facility by sitting at home.

3. **Preparing the web Page** - web page has the greatest importance in the use of e-Business. It is also known as Home Page. Any product that is to be shown on Internet is displayed on web page.

4. **Effective telecommunication system** - e-business requires an effective telecommunication system in the form of telephone lines etc.

On Line Transactions

On line transaction’ means receiving information about goods, placing an order, receiving delivery and making payment through medium of internet. Under this system, the sale purchase of every type of thing, information and service is possible.

Payment Mechanism

Payment for the purchases through online shopping may be done in following ways:

1. Cash on delivery (COD) - Cash payment can be made at the time of physical delivery of goods.

2. Net-banking transfer - The customer can make electronic transfer of funds (EFT) to account of online vendor over the internet.

3. Credit or Debit cards - The customer can make payment for online transaction through debit or credit card by giving the number and name of bank of card.

Security and Safety of e-Transactions

The following methods can be used to ensure security and safety of online transactions.
1. Confirming the details before the delivery of goods - The customer is required to furnish the details such as credit card no., card issuer and card validity online.

2. Anti Virus Programmes - Installing and timely updating anti virus programmes provides protection to data files, folders and system from virus attacks.

3. Cyber crime cells - Govt. may setup special crime cells to look into the cases of hacking and take necessary action against the hackers.

**Outsourcing or Business Process Outsourcing (BPO)**

Many activities have to be performed for the successful conduct of business like productions, buying, selling, advertising etc. When the scale of business is small, the businessman used to perform these activities easily. However, with the enlargement of scale of business, this job has become tedious. Therefore, in order to overcome the difficulties connected with the performance of many activities and to get the benefit of specialisation, these services are now obtained from outside the organisation. This is called outsourcing of services or BPO.

**Example: B.P.O.**

If Reliance Industries Ltd. wants to advertise its 'Vimal' brand of clothing, it may appoint Anmol Advertising Co. to design, prepare and release advertisements on its behalf.

**Need for BPO**

BPO is essential for following reasons:

1. Obtaining Good Quality services - If a company attempts to perform all the activities itself, there is every possibility of quality of services being affected adversely. In order to avoid this difficulty, the need for obtaining services from outside is felt.

2. Avoiding Fixed Investment in Services - If a company attempts to get these services from within the organisation itself, it has to establish different departments for this purpose which involves huge investment. Therefore it appears justified to get these services from outside the organisation at a little cost.
3. Smooth running of business - outsourcing of services is needed in order to run the business smoothly. The attention of businessman gets distracted from various small things and will be focused on the main activity.

Scope of BPO

In modern business many outside services are used. Out of these services, the following are the important ones:

1. Financial Services - These services means those outside services which help the company in some way or other in the management of finance.

2. Advertising services - Advertisement is very necessary for increasing sales. If this service is obtained from outside agency, it will cost less and the quality of advertisement will also be good.

3. Courier services - These services means delivering goods, documents, parcels from company to customers and vice-versa.

4. Customer support service - These services means delivering goods to customers and to give after sale services also. Generally, the manufacturers of TV, Fridge, AC etc. use these services.

KPO (Knowledge Process Outsourcing)

KPO refers to obtaining high end knowledge from outside the organisation in order to run the business successfully and in cost effective manner. Unlike conventional BPO where the focus is on process expertise, in KPO the focus is on knowledge expertise.

Need of KPO

In today's competitive environment focus is to concentrate on core specialisation areas and outsources the rest of activities. Many companies have come to realise that by outsourcing the non case activities not only costs are minimised and efficiency improved but the total business improves because the focus shifts to key growth areas of business.

Features of KPO

1. It is the upward shift of BPO

2. It focuses on knowledge expertise instead of process expertise.

3. It provides all non case activities.
4. It has no pre-determined process to reach a conclusion.
5. It offers an alternative career path for the educated.

Scope of KPO/Services covered KPO
1. Research and Technical analysis.
2. Business and Technical analysis.
3. Business and Market research.
4. Animation and Design.

**VERY SHORT ANSWER QUESTIONS (1 MARKS)**

Q.1. What does ‘e’ stand for in e-business.
Q.2. What is ‘e’ commerce?
Q.3. Jyoti wanted to sell her mobile phone but does not get any buyer. On her
    friends suggestion she posted the mobile on sale on www.olx.com and
    found a buyer within two days. Name the type of e-business.
Q.4. Give the full form of COD
Q.5. What is outsourcing?
Q.6. Ram stays in a hostel in USA and his parents stay in Mumbai. Ram’s
    birthday is in five days and his parents wish to gift him a pair of branded
    shoes. How can they gift?

**SHORT ANSWER QUESTIONS (3/4 MARKS)**

Q.8. What do you mean by -
    (iii) Intra B-commerce  (iv) C2C commerce.
Q.9. Justify the need for business process outsourcing by giving any three
    points?
Q.10. Why are e-business and outsourcing referred to as the emerging modes of business? Discuss the facts responsible for the growing importance of these trends?

**LONG ANSWER QUESTION (5/6 MARKS)**

Q.11. Elaborate the steps involved in online trading?

Q.12. Explain Nature and need for outsourcing service?

Q.13. www.olx.in, www.quicker.com etc are examples of websites used to conduct business. Dipti's sofa set got spoiled in rain. Her friend suggested that she should change the fabric so that it looks new and put it for sale on www.olx.com Dipti followed her friend's advice and got her sofa repaired so that it looks better and uploaded nicely clicked pictures on www.olx.com in without disclosing the fact that it was damaged from inside. She found a customer and sold it for Rs. 9,000. After one week the buyer found the real state of sofa set and called Dipti but she did not answer any of the call.

(i) Name the type of business in above case.

(ii) Which values did Dipti ignore while selling her sofa set?

(iii) Explain two advantages and disadvantages of e-commerce.


Q.15. Explain any four limitations of electronic mode of doing business. Are these limitations severe enough to restrict its scope? Give reasons for your answer.
CHAPTER 6

SOCIAL RESPONSIBILITIES OF BUSINESS
AND BUSINESS ETHICS

CONCEPT OF SOCIAL RESPONSIBILITY

A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfil the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources 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 business for Existence and Growth:

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

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

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

4. **Availability of resources with business**: Business has valuable financial and human resources which can be effectively used for solving problems of the society.
5. **Better environment for doing business**: Social responsibility Quality of life and standard of living of people. So, business will get better community to conduct business.

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

**Arguments Against Social Responsibility**: major arguments against social responsibility are:

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

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

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

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

**SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS**

Business has Interaction with serveral interest groups such a shareholders, workers, consumers, government and community. Business is responsible to all these groups.
1. Responsibility towards shareholders:-
   (i) To ensure a fair and regular return on the investment of shareholders.
   (ii) To ensure the safety of their investment
   (iii) To strengthen financial position of the company.
   (iv) To safeguard the assets of the business.
   (v) To protect the interest of all types of investors in the business.

2. Responsibility Towards workers :-
   (i) Providing fair compensation and benefits,
   (ii) Providing good and safe working conditions, iii) To develop a sense of belongingness.

3. Responsibility toward consumers :-
   (i) To supply right quality of goods & services at reasonable prices.
   (ii) To ensure regular and adequate supply of products.
   (iii) To inform them about new products and new uses of existing products.
   (iv) To handle the customers grievance promptly.

4. Responsibility Towards Government -
   (i) To pay taxes honestly
   (ii) To observe rules laid down by the government,
   (iii) to avoid corrupting government employees.

5. Responsibility towards community -
   (i) To make available opportunities for employment,
   (ii) To avoid polluting the environment,
   (iii) To up lift the weaker sections of society
BUSINESS AND ENVIRONMENTAL PROTECTION:

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

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

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

1. Air Pollution - Due to smoke, chemical emitted by factories, vehicle. It has created a hole in the ozone layer leading to global warming.

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

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

4. Noise Pollution: Caused by the running factories and vehicles. Noise pollution can be responsible for many diseases like loss of hearing, violent behaviour and mental disorder.

NEED FOR POLLUTION CONTROL :-

1. To ensure healthy life - Many diseases like cancer, heart attack and lung complications all caused by pollutants in the environment. Pollution control is must to keep a check on these diseases.

2. To ensure safety - Due to environmental pollution and smoke the visibility is reducing due to which chances of accidents have been increasing. To reduce the number of accidents there must be a check on pollution.

3. Economic Losses : Pollutants in the environment bringing heavy economic losses for the country, for example Taj Mahal is losing its beauty due to pollution.

4. Improved Public Image: A firm that adopts pollution control measures enjoys a good reputation as a socially responsible enterprise.
**ROLE OF BUSINESS ENVIRONMENTAL PROTECTION:**

1. Eco-friendly and clean or low waste technology should be used by industrial 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 desirable from the point of view of Society. The purpose of business ethics is to guide the managers and employees in performing their job. Example of business ethics are charging fair price 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 higher level managers must be committed to ethical norms of behavior. This would set an example for all employers and encourage them to follow ethical practice.
2. **Publication of code** - Code of ethics is a formal written document of the principles, values and standards that guide 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. The mechanism should be properly communicated to all in the organisation.
4. **Employee involvement** - It is the employees of the lower levels who implement ethical principal so they must be involved in the process of developing ethical code.
5. **Measuring results**: Although it is difficult to measure the ethical results but it must be verified and audited that have for work is being carried according to ethical standards.

**I MARKS QUESTIONS**:

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

**3/4 MARKS**

5. Why is business responsible for Environment Protection?
7. Why should a business assume social responsibility?
8. Explain the major cause of environmental pollution?
9. Define business ethics and explain its significance?
10. LMN Ltd. is filing its income tax returns on time. They are also updating their shareholders about their projects and provide for return to them. Towards which interest group are they fulfilling their responsibility? Which values are being followed by the Co.?
11. ABC Ltd. deals in health drinks. It is found that there are components of pesticides in their drinks. Mention which 2 kinds of responsibilities and 2 values are missing from this approach.
12. ABC Ltd. while advertising its deodorant range presents females in a derogatory manner which offends religious group also. Which kind of social responsibility is being neglected. Also, what value are being compromised?
13. XYZ Co. is providing facilities for their female staff like day care centre for kids and work form home facility. By doing this they are following social
responsibilities towards which interest group? Also, what values are they presenting?

5/6 MARKS

14. Explain the forces which are responsible for increasing concern of business enterprise towards social responsibility?

15. It is in the interest of business to fulfill its social responsibilities towards different interest groups. Explain?

16. MNO Ltd., a renowned computer follows the vision of “reaching new heights with its people on its side”. It not only provides quality products but also provides various facilities to its employees for 5 years of service. It also provides computer skills to youth in remote areas for free.

(a) What according to you are the business ethics of the company?

(b) It is fulfilling its social responsibilities towards which interest groups?

17. There is a group discussion taking place in class XI regarding social responsibility of business’ Ravi feels that a business should be socially responsible towards the society it exists in while shama is against it as basic objective of a business is to earn profit. Whom do you think, you will favour?

Write points with respect to your opinion.

18. ABC bank is providing e-banking facility to its customers. A group of employees of the bank are sharing the personal financial details of the customers with some unscrupulous individuals to back their accounts.

(a) From the above given information what risks of e-business do you identify

(b) Towards which interest group is the bank not paying attention?

(c) What are value lacking in the employees? Write any three.

19. A BPO is providing 24 × 7 handing of customer queries and grievances. But in this process, it is making its employees work for 16 hours a day.
They are not even provided a rest period of more than 45 minutes in a day.

(a) What is a BPO? What services does it provide to its customers?
(b) Which responsibility is not being taken care of by the BPO?
(c) Interests of which group are not being catered to here?
(d) What are the values lacking in the organisation?
CHAPTER 7

SOURCES OF BUSINESS FINANCE

CONCEPT OF BUSINESS FINANCE:- The term finance means money or fund. The requirements of funds by business to carry out its various activities is called business finance.

Finance is needed at every stage in the life of a business. A business can not function unless adequate funds are made available to it.

NEED 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.

2. Working Capital Requirement:- A business needs funds for its day to day operation. This is known as working Capital requirements. Working capital is required for purchase of raw materials, to pay salaries, wages, rent and taxes.

3. Diversification :- A company needs more funds to diversify its operation to become a multi-product company e.g. ITC.

4. Technology upgradation : Finance is needed to adopt modern technology for example uses of computers in business.

5. Growth and expansion : Higher growth of a business enterprise requires higher investment in fixed assets. So finance is needed for growth and expansion.
CLASSIFICATION OF SOURCE OF FUNDS

Source of Funds Classification

On the basis of Period

- Long-term
  - *Equity Shares
  - *Retained Earnings
  - *Preference Shares
  - *Debentures
  - *Loan from Financial Institutions.
  - *Loan from Banks

- Short-term
  - *Trade Credit
  - *Factoring
  - *Banks
  - *Commercial Paper

On the basis of Onership

- Owner’s Funds
  - *Equity Shares
  - *Retained Shares

- Borrowed Funds
  - *Debentures
  - *Loan from bank
  - *Loan from financial Institutions
  - *Public deposits
  - *Lease financing
  - *Commercial paper

On the basis of Source of generation

- Internal Sources
  - *Equity Shares Capital
  - *Retained earning

- *External sources
  - *Financial Institutional
  - *Loan form Banks
  - *Preference shares
  - *Public deposits
  - *Debentures
  - *Lease financing
  - *Commercial papers
  - *Trade credit
  - *Factoring

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

**ADVANTAGES/MERITS** :-

1. Permanent Capital: Equity share capital is important source 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 dividend is not compulsory.
2. Higher 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 Shareholders are the primary risk bearer therefore the demand of equity shares is more in the boom time.

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

**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.

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

**Difference Between Equity Shares And Preference Shares**

<table>
<thead>
<tr>
<th>Base</th>
<th>Equity Shares</th>
<th>Preference Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dividend</td>
<td>After preference shares, dividend is paid full voting rights</td>
<td>Priority over Equity share</td>
</tr>
<tr>
<td>2. Voting Right</td>
<td>dividend is paid full voting rights</td>
<td>No voting right</td>
</tr>
<tr>
<td>3. Risk</td>
<td>Risk bearing securities</td>
<td>less Risk</td>
</tr>
<tr>
<td>4. Rate of Return</td>
<td>Fluctuates with profit</td>
<td>Fixed Rate of Dividend</td>
</tr>
<tr>
<td>5. Control</td>
<td>Control on the management</td>
<td>No control on the management</td>
</tr>
</tbody>
</table>

**Debentures**: Debentures are the important debt sources of finance for raising long term finance. Debenture holders get fixed rate of interest on Debentures.
Interest is paid after every six months or one year. They are like 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 preferred by those investor who do not want to take risk and 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 preference shares.
4. Tax Saving : Interest on Debentures is a tax deductable 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 : The company has to mortgage its assets to issue secured Debentures.
3. Reduction in Credibility : With the new issue of debentures, the company’s capability to further borrow funds reduces.

**DIFFERENCE BETWEEN SHARES AND DEBENTURES**

<table>
<thead>
<tr>
<th>Base</th>
<th>Shares</th>
<th>Debentures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature</td>
<td>Shares are the capital</td>
<td>Debentures are a loan</td>
</tr>
<tr>
<td>2. Return</td>
<td>Dividend</td>
<td>Interest</td>
</tr>
</tbody>
</table>
3. Voting Right
   - Full voting right

4. Holder
   - Owner is called shareholder

5. Types
   - There are two types of shares

6. Security
   - Not secured by any charge

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<tr>
<td>3. Voting Right</td>
<td>Full voting right</td>
<td>No Voting right</td>
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<tr>
<td>4. Holder</td>
<td>Owner is called shareholder</td>
<td>Creditors called</td>
</tr>
<tr>
<td>5. Types</td>
<td>There are two types of shares</td>
<td>More than two types</td>
</tr>
<tr>
<td>6. Security</td>
<td>Not secured by any charge</td>
<td>Secured and generally carry a charge on the assets of the Company.</td>
</tr>
</tbody>
</table>

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.

For example:

X Ltd. has total capital of Rs. 50,00,000 which consists of 10% Debt of Rs. 20,00,000, 8% preference share capital Rs. 10,00,000, and equity share capital Rs. 20,00,000. Tax rate is 40%, company’s return on total capital is 20%.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit before interest and tax (PBIT) (20% of Rs. 50,00,000)</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Less: Int. on debentures (10% of 20,00,000)</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Net profit before Tax (PBT)</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Less : Tax provision @ 40%</td>
<td>3,20,000</td>
</tr>
<tr>
<td>Net profit after Tax (PAT)</td>
<td>4,80,000</td>
</tr>
<tr>
<td>Less: pre dividend (8% of 10,00,000)</td>
<td>80,000</td>
</tr>
<tr>
<td>Net profit after tax and pre dividend</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less : equity dividend</td>
<td>2,00,000</td>
</tr>
<tr>
<td>RETAINED EARNINGS</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

MERITS

1. No costs : No costs in the form of interest, dividend, advertisement and prospects, to be incurred by the company to get it.
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.

DEMERTIS

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 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 does not have to mortgage its assets.

2. Tax Saving: Interest paid on public deposits is tax deductible, 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 Finance: 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.

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

MERITS:

1. Long-term 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 board of Directors.

INTERNATIONAL SOURCE OF BUSINESS FINANCE :

1. Commercial Bank : Commercial Bank provide foreign currency loan for business all-over the world. Standard chartered Bank is an important organisation for foreign currency loan to the Indian industry.

2. International Agencies and Development Bank : A number of international agencies and development Bank e.g. IFC, ADB, provide long term loan.

3. INTERNATIONAL CAPITAL MERKET :

I. 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 dollar are caller GDRs.

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 of GDR gets dividends.

5. Holder of GDR does not have voting rights.

6. Many Indian companies such as Reliance, Wipro and ICICI have issue GDR.

II. ADR : The depository receipt issued by a company in USA are known as ADRs (American Depository Receipts)

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**

<table>
<thead>
<tr>
<th>Basis</th>
<th>ADR</th>
<th>GDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listing</td>
<td>Only in American Stock Exchange</td>
<td>Anywhere in the World</td>
</tr>
<tr>
<td>Liquidity</td>
<td>More liquid</td>
<td>Less liquid</td>
</tr>
<tr>
<td>Share Holder</td>
<td>Only American Citizens</td>
<td>All over the World Citizens.</td>
</tr>
</tbody>
</table>

III. Foreign Currency Convertable Bonds (FCCBs):- The FCCBs 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.

**Indian Depository Receipts (IDRS)**

IDRs are like GDR or ADR except that the issuer is a foreign company raising funds from Indian Market. IDRS are rupee dominated. They can be listed on any Indian stock exchange.

**Issue Procedure of IDRS**

1. Firstly, a Foreign Co. hands over the shares to OCB (it requires approval from Finance Ministry to act as a custodian)

2. The OCB request ID to issue shares in the form of IDR.

3. The ID converts the issue which are in foreign currency into IDR and into Indian rupee.

4. Lastly the ID issues them to intending investors.

**Features of IDRs**

1. IDRs are issued by any foreign company

2. The IDRs can be listed on any Indian stock exchange.
3. A single IDR can represent more than one share, such as one IDR = 10 shares.

4. The holders of IDR have no right to vote in the company.

5. The IDRS are in rupee denomination.

**Advantages of IDR**

1. It provides an additional investment opportunity to Indian Investors for overseas investment.

2. It satisfies the capital need of foreign companies.

3. It provides listing facility to foreign companies to list on Indian Equity Market.

4. It reduces the risk of Indian Investors who want to take their money abroad.

**Inter-Corporate Deposits (ICD)**

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

**Type of ICDS**

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

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

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

**Features of ICDS**

1. These transactions takes place between two companies.

2. There are short term deposits.
3. These are unsecured deposits.
4. These transactions are generally completed through brokers.
5. These deposits have no organised market.
6. These deposits have no legal formalities.
7. These are risky deposits from the point of view of lenders.

I MARK QUESTION

Q1. What type of share capital is also called “Risk Capital”?
Q2. Name the return given to debenture holders for using their funds?
Q3. Name the one unique feature of “Retained Earnings” which is not available in any other source of finance?
Q4. What is the similarity between ADR and Public Deposits?
Q5. Which term is concerned with the acquisition and conservation of capital funds in meeting the financial needs of a business enterprise?
Q6. Name the organisation which have been set up by the central as well as State governments to provide medium term and long term loans to business sector.
Q7. Write any one similarity between Equity share capital and Preference share capital.
Q8. Write the names of 2 Indian companies that have issued G.D.R.s.
Q9. Preference Share Capital is not suitable for which type of investors?

3-4 MARKS QUESTIONS

Q10. Define Share and write any two advantages of it.
Q11. Write any two differences between share and debentures.
Q12. Write any three limitations of equity share capital.
Q13. Write any three advantages of Retained Earnings.
5-6 MARKS QUESTIONS

Q14. Write main advantages and disadvantages of Public Deposits.

Q15. What is the difference between ADR and GDR

Q16. Comment on the following sources of International finance
   (i) I.D.R.
   (ii) I.C.D.

Q17. "Ojas Auto Ltd." is a very well known auto company in the industry having more of equity share capital than long term debt in its capital structure. It is willing to expand and establish new unit in the backward region and want to train the tribal women in skill Development to empower them. It has a huge amount of cash reserve of Rs. 1000 crores.
   (a) what is the status of capital structure of the above company.
   (b) According to you, which source of finance should be used by the company in establishing new units ? Give any two reasons in support of your answer.
   (c) What values does the company exhibit in the above case ?

   [Hints - Sound Capital Structure, Retained Earnings - Optimum Utilization of resources and no dilution of control, Balanced Regional Development & women empowerment]

Q18. "Avika Ltd." company, an IT giant company registered in India want to top the huge amount of resources for its growth and expansion from U.S.A. for long term needs. IT also needs money for a period of less then 3 years to meet its medium cum short term needs. The company is following the practice of educating and giving employment to under privileged youth. 50% of its office electricity is generated through solar power.
   (a) which two sources of finance should be used by the company to meet its requirement. write any two characteristics of each source.
   (b) what values does the company exhibit in above case ?

   [Hints - ADR and Public Deposits, Employment Generation, Concern for environment]
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 operated and managed by the owner of the business. In India, the village and small Industries sector consists of both traditional Handlooms, Handicrafts, khadi and Village Industries. Modern small Industries - Small scale industries and Powerlooms.

According to MSMED Act, 2006, a small scale enterprise defined as one where the investment in Plant and Machinery is more than 25 lacs but does not exceed Rs. 5 crore.

Several parameters can be used to measure the size of business. These include the number of persons employed in 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 divided as follows -

<table>
<thead>
<tr>
<th>Type of Industries</th>
<th>Investment Limit Rs.</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Small scale Industries</td>
<td>One Crore</td>
<td>For specific production it is 5 Crore (71 product)</td>
</tr>
<tr>
<td>2. Ancillary small Industrial Unit</td>
<td>One Crore</td>
<td>50% of output supplied to the parent unit</td>
</tr>
<tr>
<td>3. Export Oriented Units (EOUs)</td>
<td>One crore</td>
<td>It export more than 50% of its production. It can sell 25% in domestic market.</td>
</tr>
<tr>
<td>4. Tiny Industrial Unit</td>
<td>25 Lakhs</td>
<td>Investment Limit in plant and Machinery is not more than 25 lakh.</td>
</tr>
</tbody>
</table>
**Type of Industries** | **Investment Limit Rs.** | **Features**
---|---|---
5. Women Enterprises | Any of the above | Owned and managed by woman and have capital not less than 51%
6. Micro Business Enterprises | One Lakh | Those whose Investment 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. Use 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. These enterprises are labour intensive and labour is available in abundants amount in rural areas of India.

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 etc, 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 decision Due to the small size of the organisation quick and timely decisions can be taken without consulting many people.

8. Development of enterpreneurship : 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 as these are labour oriented enterprises. In Indian ruralareas ample labouris available

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

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

Problem of Small Scale Industries:

1. Finance : Non-avalailability of sufficient funds in order to carry out business operations is an important problem faced by small scale industries. Banks hesitate to grant financial help to these units.

2. Raw Material & Power : Small scale units are unable to buy raw materials in bulk due to lack of funds and storage facilities. Shortage of power is another factor which leads to underutilisation of plant capacity.

3. Marketing : Small scale units generally face difficulties in marketing of their products and services as they are hardly any funds for Advertising or sales promotion. They depend on intermediaries who exploit them.
4. **Technology**: Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipments necessary for modernising product. As a result, their cost of production increases.

5. **Competition**: Small scale firms face competitions not only from large industries but also from multinational companies.

6. **Other problems**:
   - Lack of Managerial Efficiency.
   - Lack of Demand of Produced Goods.
   - Labour Problems.
   - Burden of Local Taxes.
   - Poor Product Quality.

**GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS**

**(A). INSTITUTIONAL SUPPORT :**

I. **National small Industries Corporation (NSIC)**

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

**Main functions of NSIC :**

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

II. District Industries Center (DIC)

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

Functions of District Industries Center

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

Govt. Incentives to hilly backward and Rural Areas

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 octroi.
5. **Protective Measures**:- The government reserved 800 items for exclusive production by the small scale Industries and give priority in allocation of raw materials and machines.
6. **Marketing Assistance** :- Government tries to solve their marketing problem by improving information and in order to provide guarantee for sale of goods.
7. **Finance**: Subsidy of 10-15% for building capital asset. Loans are offered at confessional rates.

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

### I MARKS QUESTIONS

**Q1.** Which type of Industry uses family labour and local available talent while running the business?

**Q2.** A micro small scale industry has investment of Rs. 24 lakhs and engaged in manufacturing business. Now, it wants to increase its investment by Rs. 4 Lakhs. what type of small Business will it become and what is the maximum investment limit in such cases?

**Q3.** Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51%?

**Q4.** Name any 2 areas where SSLs feel threatened from global enterprises.

**Q5.** Name any 2 merits of SSLs in the export trade of India.

### 3-4 MARKS QUESTIONS

**Q7.** Write any three characteristics of small Business.

**Q8.** What is the aim of NSIC.

**Q9.** What is the difference between ancillary small industrial unit and tiny industrial unit.

**Q10.** Write any two objectives of establishment of NABARD.

**Q11.** Write any three problems of small business in India.

### 5-6 MARKS QUESTIONS

**Q12.** What are the incentives given by Govt. to the Industries set up in hirry, backward and rural areas.

**Q13.** Preet food Industries set up food and beverages processing plant in the rural area of Haryana and opted for labour intensive technique due to
easy availability of labour and to provide employment to local people. Board of director decided to invest 50 lakhs to acquire plant & machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20 lakhs to maintain day to day expenses.

(a) Name the Act of Industries which is applicable to the above industry.

(b) which category of part (a) will the above industry came ?

(c) State the investment limit in this category.

(d) what value have been followed by the above company.

**Hints:-** MSMED Act, 2006, Small Scale Industry, Rs. 5 crores, Employment Generation, Balanced Regional Development, concern for social Responsibility

14. Board of Directors of “Bio Pure water Ltd.” decides to set up its first unit in the hilly area of Himachal Pradesh Company requires Rs. 3 crores for it and Rs. 50 Lakhs for working capital. The company has earmarked 15% of its profit for Educational and Health needs of its employees and their family members.

(a) The above company comes under which category as per MSMED Act 2006.

(b) write any one commercial reason for setting up of unit in the hilly region.

(c) According to you, what are the options available to the company for meeting its long term and short term needs.

(d) what are the values promoted by the company.

**Hints :-** Small scale Industry, Cheap price of Land and Labour, Equity share Capital and Loans from Bank, Balanced Regional Development, Motivation to employees, Employment Ganeration and upliftment of rural areas
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. In fact, buying and selling of goods and services within the geographical boundaries of a nation or country is called internal trade. Internal trade can be classified 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. Wholesalers 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.
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 known 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 sometimes 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 deal in consumer products of daily use.

3. They emphasize on providing greater customer services.

4. They do not have any fixed place to operate from, they keep limited inventory.

TYPES O ITINERANT RETAILERS

1. Peddlers 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 traders deal in single line of goods such as toys, ready-made garment, 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. Cheap jacks: They are small retailers who have independent shops of a temporary nature in a business locality. They keep on changing their business from one locality to another but not very frequently. They deal in consumer items and services 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 characteristics of fixed shop retailers:

1. As compared to itinerant traders, fixed shop retailers have greater resources.

2. They deal 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 products 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 central place where a large number of customers can be attracted.

3. Street Stall Holders: They are small retailers 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 goods shop: These shops deal in secondhand or used goods such as books, clothes, furniture, automobile, etc. They are generally located at street crossings or in busy streets in the form of a stall or a temporary structure.

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 specializing in a single line of product such as toiletries, medicines, furniture, groceries, etc. within a store.

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 booth, 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 of customers as 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 organized 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 organization, established in localities spread in different parts of the country e.g. Bata Shoe Co., McDonald's 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 centralized 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 sends 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 organization to enjoy the economies of scale.

4. The total risk of an organization 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 organization as a whole.

**Limitations of Chain Stores.**

1. Chain stores sell goods produced of their organisation only and so they offer limited choice of goods.

2. Personnel 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 lead 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 don’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 delays delivery.

**Vending Machines.**

They are coin operated machines which are used in selling several products such as milk, soft drinks, chocolates, platform tickets etc. in many countries. The 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.

**Main Documents Used In Internal Trade**

The following are the main documents used in the Internal trade.

1. **Invoice** - In case of credit purchases, a statement is supplied by the seller of goods in which he gives particulars of goods purchased by buyer such as quantity, quality, rate, total value, sales tax, trade discount, etc. It is also called a Bill or Memo. Buyer gets information about the amount he has to pay to the seller from Invoice only.

2. **Pro-Forma Invoice** - The statement (or forwarding letter) containing the details of goods consigned from consigner to consignee is known as a Pro-forma Invoice. It gives the particulars as regards quantity, quality, price and expenses incurred on the goods consigned. In case of consignment, consignee is an agent of consigner who is supposed to sell goods on behalf of consigner and this statement/proforma invoice is only for his information. It is also known as interim invoice.

3. **Debit Note** - It refers to a letter or note which is sent by the buyer to the seller stating that his (seller’s) account has been debited by the amount mentioned in note on account of goods returned herewith. It states the quantity, rate, value and the reasons for the return of goods.
4. **Credit Note** - It refers to a letter or note which is sent by the seller to the buyer stating that his account has been credited by the mentioned amount on account of acceptance of his claim about the goods returned by him.

5. **Lorry Receipt** - It refers to a receipt issued by the Transport Company for goods accepted by it for sending from one place to another. It is also known as Transport Receipt (TR) and Bilty.

6. **Railway Receipt** - It refers to a receipt issued by the Railways for goods accepted for sending from one station to another.

**Terms of Trade**

The following are the main terms used in the trade.

1. **Cash on delivery (COD)**: It refers to a type of transaction in which payment for goods or services is made at the time of delivery. If the buyer is unable to make payment when the goods or services are delivered, then it will be returned to the seller.

2. **Free on Board or Free on Rail (FoB or FOR)**: It refers to a contract between the seller and the buyer in which all the expenses up to the point of delivery to a carrier (it may be a ship, rail, lorry, etc.) are to be borne by seller.

3. **Cost, Insurance and Freight (CFF)**: It is the price of goods which includes not only the cost of goods but also the insurance and freight charges payable on goods upto destination port.

4. **E&OE (Errors and Omissions Excepted)**: It refers to that term which is used in trade documents to say that mistakes and things that have been forgotten should be taken into account. This term is used in an attempt to reduce legal liability for incorrect or incomplete information supplied in a document such as price list, invoice, cash memo, quotation etc.
### SPECIMEN’S OF DOCUMENTS OF INTERNAL TRADE

#### A) SPECIMEN OF PERFORMA INVOICE

**Performa Invoice (Quotation)**

<table>
<thead>
<tr>
<th>Machine Description</th>
<th>Capacity (Tons)</th>
<th>Qty.</th>
<th>Rate</th>
<th>Amount '</th>
</tr>
</thead>
<tbody>
<tr>
<td>O.G. 24 FCC (Floor Standing A.C.)</td>
<td>2</td>
<td>10</td>
<td>47,000</td>
<td>4,70,000</td>
</tr>
<tr>
<td>MKT3H (FLU Chiller Water)</td>
<td>4</td>
<td>5</td>
<td>55,000</td>
<td>2,75,00</td>
</tr>
<tr>
<td>O.G.C.-48 (Castee A.C.)</td>
<td>4</td>
<td>2</td>
<td>85,000</td>
<td>1,70,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>9,15,000</td>
</tr>
<tr>
<td><strong>Less: Trade Discount @ 10%</strong></td>
<td></td>
<td></td>
<td></td>
<td>91,500</td>
</tr>
<tr>
<td><strong>Add: VAT @ 12.5%</strong></td>
<td></td>
<td></td>
<td></td>
<td>8,23,500</td>
</tr>
<tr>
<td><strong>Net Amount Payable</strong></td>
<td></td>
<td></td>
<td></td>
<td>1,02,940</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>9,26,440</strong></td>
</tr>
</tbody>
</table>

(Sd. Accountant) (Sd. Sales Manager)
### B) SPECIMEN OF INVOICE

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Particulars</th>
<th>Rate</th>
<th>Amount (')</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Gold Pendants</td>
<td>10,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>10</td>
<td>Diamond Pendants</td>
<td>25,-000'</td>
<td>2,50,000</td>
</tr>
<tr>
<td></td>
<td>Add: VAT @ 4%</td>
<td></td>
<td>4,50,000</td>
</tr>
<tr>
<td></td>
<td>Add: Forwarding and</td>
<td></td>
<td>18,000</td>
</tr>
<tr>
<td></td>
<td>Delivery Charges</td>
<td></td>
<td>4,68,000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>4,70,000</td>
</tr>
</tbody>
</table>

(Rupees Four Lakh and Seventy Thousand Only)

(Sd. Accountant) (Sd. Sales Manager)

E.&O.Q.
### C) SPECIMEN OF LORRY RECEIPT

**ABC Transport Company**
(A Unit of: ABC Packers and Movers)
ABC Transport Company Pvt. Ltd. 1234, Swakhamta Road Delhi
Phone 011-6414656

<table>
<thead>
<tr>
<th>Consignor</th>
<th>Consignee</th>
<th>Consignor Copy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name ...............</td>
<td>Name ...............</td>
<td>AT OWNER’S RISK</td>
</tr>
<tr>
<td>Address ............</td>
<td>Address ............</td>
<td>All Disputes subject to Delhi jurisdiction only</td>
</tr>
<tr>
<td>From ..................</td>
<td>To: ..................</td>
<td></td>
</tr>
<tr>
<td>Tel. ..................</td>
<td>Time ..................</td>
<td></td>
</tr>
<tr>
<td>Invoice No. ............</td>
<td>Vehicle No. ............</td>
<td></td>
</tr>
<tr>
<td>Consinger /CST No.</td>
<td>C.N. No. ...............</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Packages</th>
<th>Description of items</th>
<th>Weight</th>
<th>Rate</th>
<th>Amounts</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Policy No.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date: ...............</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Company: ...............</td>
</tr>
</tbody>
</table>

**SPECIAL INSTRUCTIONS:**

Signature of Authorised Officer
### (D) CREDIT NOTE (SPECIMEN)

Specimen of Credit Note  
M/s Mahajau & Sons  
87. Nai Sarak, New Delhi -100047  
No. 485 Dated 01.09.2012  

<table>
<thead>
<tr>
<th>Description</th>
<th>Credit Note</th>
<th>Amount (')</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit:</td>
<td></td>
<td>2,000/-</td>
</tr>
<tr>
<td>To, Rajan &amp; Co-47, Darya. Ganj, New Delhi- 110048 (For Good Returned 40 Units @50P.U.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,000/-</td>
</tr>
</tbody>
</table>

Sd. Manager

### (E) Debit Note (SPECIMEN)

Specimen of Debit Note  
M/s Mahajan & Sons  
87, Nai. Saiak, New Delhi.- 200047  
No. 430 Dated 30.08.2012  

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit Note</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td></td>
<td>10,000/-</td>
</tr>
<tr>
<td>Against: M/s Gupta &amp; Co. 49, Ramesh Nagar, New Delhi (For Under Charging The Price @ 140 EU. Instead of 150 RU. for 1,000 Units Against Delivery Chalan No. 107)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10,000/-</td>
</tr>
</tbody>
</table>

Sd. Manager
ROLE OF CHAMBERS OF COMMERCE AND INDUSTRY
IN PROMOTION OF INTERNAL TRADE

A chamber of commerce is a voluntary association of businessmen belonging to different traders and industries. Even professional experts like chartered accountants, financiers and other engaged in business in a particular locality, religion or country can also become the members of chamber of commerce. Its main objective is to promote the general business interests of all the members and to faster the growth of commerce and industry in a particular locality, religion or country.

Following are the main functions of chamber of commerce and Industry.

(1) Conducting research and collecting statistics and other information about business and economy.
(2) Providing technical, legal, and other useful information and advice to its members.

(3) Publishing books, magazines and journal of business interest.

(4) Making arrangement for education an training of members. Some chambers even conduct commercial examinations and award diplomas.

(5) Arranging industrial exhibitions, trade fairs etc. in order to promote trade.

(6) Advising the government in matters concerning industrial and economic development of the region.

(7) Issuing certificate of origin to exporters

(8) Representation of business interest and grievances before the government.

(9) Providing a forum for discussing the common problems of business community.

(10) Acting as arbitrators for solving problems and disputes among the members.

**VERY SHORT QUESTIONS (I MARK EACH)**

**Q1.** Define Trade

**Q2.** List the two broad categories of trade.

**Q3.** Which shops deal in specific line products?

**Q4.** Give two examples of chain stores.

**Q5.** Mail order Houses provide a lot of convenience to the customers, yet they are not very popular, why? Give one reason.

**Q6.** What are Vending Machines?

**Q7.** Which type of goods are suitable for vending machines?

**Q8.** Name any two organisations which have been playing a catalytic role in strengthening internal trade.

**Q9.** Write the full form of ATM.

**Q10.** Write the full form of CII.
11. Distinguish between a wholesaler and retailer. Give only one point of difference.

12. Name the document used in internal trade when goods are transported by railways.

13. Sandeep & Sons, Delhi orders pearl jewellery from Nasir Bros, Hyderabad. They enter into a contract and makes certain that the payment will be made only on receiving the goods at Delhi in their Shop. Identify the term of trade in the above example.

14. Savita Spices Ltd. selling spices to Ramesh Bros. agrees to pay all the expenses upto Vishakhapatnam Port. Identify the term of trade.

15. What is the meaning of Performa Invoice?


17. Explain the meaning of Debit Note?

**SHORT ANSWER TYPE QUESTIONS**
(CARRYING 3/4 MARKS EACH)

Q1. Enumerate the main features of wholesale trade.

Q2. What are the services offered by retailer to the consumer?

Q3. Jyoti has shifted residence in a new settlement colony. There are no retail shops nearby. What difficulties will Jyoti face in above case?

Q4. Mention differences between departmental store and multiple shops.

Q5. Explain the concept of vending machines.

Q6. Identify the types of retailers in the following statements:-
   (a) Rohan displays his goods on bus-stands or pavements.
   (b) Mangal sells goods from one street to another, from one locality to another.
   (c) Rajkumar sells only school uniforms.
   (d) Deepanshu deals only in second hand books.
Q7. Explain the concept of vending machines.

Q8. A manufacturing Co. manufacturing cloth open shops at different locations in India. He sells goods on cash only. The shops have identical decorations. The prices of goods are fixed. In this way they eliminate unnecessary middleman thus benefiting the consumers.
   (a) Identify the type of shop referred to.
   (b) Elaborate 3 characteristics of such shops.

Q9. Vishal buys goods in larger quantities and sells them to small businessmen.
   (a) Which type of trader in Vishal?
   (b) State four characteristics of this type of trade.

**LONG ANSWER TYPE QUESTIONS**
**(CARRYING 5/6 MARKS EACH)**

Q1. Difference between wholesale trade and retail trade and retail trade.

Q2. What are super bazaar? Explain their advantages and limitations.

Q3. Explain the main type of Itinerant retailers.

Q4. Despite the opening of Malls and big departmental stores Itinerant traders are integral part of India’s Internal trade. Analyse the reasons for their survival.

Q5. Uma a village girl comes to Delhi to visit her relatives. She goes with her cousin to a shop, which is centrally located. She becomes astonished by the varieties of goods which are sold here.
   (a) Identify this type of shop.
   (b) Quoting lines from the above para describe two characteristics of the shop.
   (c) Explain four advantages of such shops.

Q6. Nirmala orders a mixer on the basis of an advertisement in a newspaper specifying the features, price, delivery terms. It specified that the terms of payment will be VPP only.
(i) Identify this type of retail business.

(ii) Explain two advantages and two limitations of them.

Q7. A London based manufacturing co. manufacturing washing machines wish to add 2 new products in India namely AC's ad Refrigerators. Out of a lot of 10 applicants the co. chose two wholesale firms (headed by females) whose proposals were very competitive and attractive. The wholesaler firm of AC's hired the services of a (differently abled retailer) Hari at competitive prices to sell AC's in Delhi, Hari informs his wholesaler firm's head that the consumers of Delhi wish that their houses are cold when they reach their homes in the scorching heat of Delhi.

(a) Explain three services rendered by retailers to wholesalers or manufacturers.

(b) Identify two values which are being adhered to in the above para.

Q8. Vending machines were initially set up at some Metro stations in Delhi for selling products such as soft drinks, mineral water, chocolates etc. But now, they have been removed. Analyse the causes for such a decision.

Q9. Describe the role & functions of chamber of commerce and Industry in promotion of Internal Trade in India.

Q10. Explain the advantages of consumer Co-operative stores.

Q11. Prithvi firms buys Basmati Rice from different Manufacturers in huge quantities and sells these to Randhir Sons, Avichal Bros. etc. in small quantities under their own Brand name.

(i) In your opinion what services will Prithvi Firms provide to Randhir Sons & Avichal firms? (State any 2)

(ii) What services are provided by Prithvi firms to manufactures? (State any 2)

(iii) What services are provided by Prithvi firms to the society? (State any 2)
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 distribution 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 socioeconomic, geographical and political reasons.

3. The availability of different factors of production such as labour, capital and raw materials differ among nations.

Concept of International Business

Major forms of business operations that constitute 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 intangible 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 light in lieu of some fee is called licensing. Pepsi and Coca-Cola are produced & 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 foreign company & earns income by way of dividends or interest on toad. In this investor does not get directly involved in production or marketing of goods.

Benefits of International Business

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

Benefits to 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 production 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 makes 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 helps firms in using their surplus production capacities and improving the profitability of their operations.
3. It helps 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 makes firms more competitive, and diversified.

### Difference between Domestic & International Business.

<table>
<thead>
<tr>
<th>Basis</th>
<th>Domestic Business</th>
<th>International Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nationality of buyers &amp; Sellers</td>
<td>Both Buyers &amp; Sellers belong to same country</td>
<td>Buyers &amp; Sellers belong to different countries.</td>
</tr>
<tr>
<td>2. Mobility of sectors of production</td>
<td>The factors of production Like capital, Labour and raw material can move freely within the country</td>
<td>There are restrictions on free mobility of factors of production across countries</td>
</tr>
<tr>
<td>3. Customer heterogeneity across market</td>
<td>Domestic markets are relatively more homogeneous in nature</td>
<td>International markets lack homogeneity due to differences, in languages, preferences customs etc across market.</td>
</tr>
<tr>
<td>4. Currency used</td>
<td>Currency of home country is used business</td>
<td>Currency used in business in transactions is that of more than one country.</td>
</tr>
<tr>
<td>5. Political System</td>
<td>It has to face the political system and risk of only one country</td>
<td>It is subjected to political system &amp; risk of different countries.</td>
</tr>
</tbody>
</table>

### 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.

#### 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 known 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.

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.

IV. JOINTVENTURE

Joint 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.

V. WHOLLYOWNED 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

- Receipt of Enquiry and Sending Quotations
- Receipt of Order or Indent
- Accessing importer's credit worthiness and securing a Guarantee for payments.
- Obtaining pre-shipment Finance
- Production or Procurement of Goods.
- Pre-shipment Inspection
- Excise Clearance
- Obtaining Certificate of Origin
- Reservation of shipping space
- Packing and forwarding
- Insurance of Goods.
- Customs Clearance
- Obtaining Mate's Receipt
- Payment of Freight and Issuance of Bill of lading
- Preparation of Invoice
- Securing Payment
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 pro forma invoice as reply.

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

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

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

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

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

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

9. In order to obtain Tariff concessions or other exemptions the importer may ask the exporter to send certificate of origin.
10. The exporter applies to the shipping company for provision of shipping space. He has to provide complete information regarding the goods to be exported, probable date of shipment and port of destination. The shipping company issues a shipping order. Which is an instruction to the captain of the ship, after accepting application for shipping.

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

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

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

   (i) Certificate of origin
   (ii) Commercial Invoice
   (iii) Export Order
   (iv) Letter of credit
   (v) Certificate of Inspection, Where necessary.
   (vi) Marine Insurance Policy.

On submitting the above documents, the 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 forgetting the goods cleared from customs.

<table>
<thead>
<tr>
<th>MAJOR DOCUMENTS USED IN EXPORT TRANSACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Documents Related to Goods</strong></td>
</tr>
<tr>
<td>- Packing List</td>
</tr>
<tr>
<td>- Certificate of origin</td>
</tr>
<tr>
<td>- Certificate of Inspection</td>
</tr>
<tr>
<td>- Export invoice</td>
</tr>
<tr>
<td><strong>B. Documents Related to Shipment</strong></td>
</tr>
<tr>
<td>- Mate’s Receipt</td>
</tr>
<tr>
<td>- Shipping Bill</td>
</tr>
<tr>
<td>- Bill of Landing</td>
</tr>
<tr>
<td>- Airway Bill</td>
</tr>
<tr>
<td>- Marine Insurance Policy</td>
</tr>
<tr>
<td><strong>C. Documents Related to Payment</strong></td>
</tr>
<tr>
<td>- Letter of Credit</td>
</tr>
<tr>
<td>- Bill of Exchange</td>
</tr>
<tr>
<td>- Bank Certificate of payment</td>
</tr>
</tbody>
</table>

**DOCUMENTS USED IN EXPORT TRANSACTIONS**

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

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

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

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

5. **Marine Insurance Policy**: It is a document containing contract between the exporter & the Insurance Company to indemnify the insured against the loss incurred by the insured in respect of goods exposed to the perils of the sea transit in consideration of a payment called premium.
C. 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 carried informs the officer incharge at the dock or the airport about it. The person incharge of the ship or airway provides the document called import general manifest for unloading of cargo.

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

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

   Besides freight charges, importer also has to pay dock dues for obtaining port trust dues receipts for which he submits two copies of a duly filled in form know as application to import to the Landing & Shipping Dues Office. After paying dock dues the importer get back one copy of 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 pro forma invoice is a document that contains details as to the quality, grade, design, size, weight & price of the export product & the terms & conditions on which their export will take place.

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

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

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

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

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

7. **Bills of exchange**: Explained earlier.

**FOREIGN TRADE PROMOTION MEASURES & SCHEMES**

1. **Duty Drawback Scheme**: Goods meant for exports are not subjected to payment of various excise and custom duties. Any such duties paid are refunded to exporters on production of proof of exports of these goods to the concerned authorities such refunds are called duty drawback.
2. Export manufacturing under BOND Scheme: Under this facility firm can produce goods without payment of exercise and other duties. The firm can avail this facility after giving an undertaking (i.e. bond) that they are manufacturing goods for export purposes.

3. Exemption from payment of sales Taxes: Goods meant for export purpose are not subject to sales tax. Income derived from export operations had been exempt from payment of income tax for a long period, but now this exemption in only available to 100%. Export oriented units and 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 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 estate which from enclaves from the Domestic Tariff Areas. These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost.

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

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**ORGANISATIONAL SUPPORT**

**World Trade Organisation (WTO)**

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

**Objectives of WTO**

1. To reduce the trade tariffs and barriers imposed by different countries in the smooth flow of international trade.
2. To improve the standard of living, create employment, increase income and effective demand and facilitate higher production and trade.

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

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

**Role/Functions of WTO**

1. To remove barriers of International trade.

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

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

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

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

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

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


10. Acting as forum for trade liberalisation.

**Problems of International Trade**

The main problems of international trade are:-

1. Language difference:- When a trader of one country deals with the trader of another country it becomes difficult for both them to understand each other because of their Language difference.
2. More Risk:- The quantum of risk is higher in foreign trade as compared to internet trade.

3. Government Control for import and export procedure various licences are taken and various pieces of information are to be submitted. Moreover the procedure of import and export is quite complex.

4. Difference in laws:- the rules related to export and import are different in each country. So, there is always some doubt in the mind of a trader regarding payment and other terms of business.

5. Difficulty in payment:- Each country has a different currency. Due to this, businessman face a lot of problem while paying and receiving money.

6. Lack of information on about foreign trader:- It is difficult to find out details about financial position and business dealings of any businessman sitting at some far off place.

**VERY SHORT QUESTIONS (CARRYING 1 MARK EACH)**

Q1. What is international business?

Q2. State two types of foreign Investment.

Q3. List two modes of entry into international business.

Q4. What is contract Manufacturing?

Q5. Who is franchiser?

Q6. What is indent?

Q7. Name any two export documents related to payment.

Q8. What is proforma Invoice?

Q9. Write the full form of SEZ.

Q10. Name two International Trade Institutions.

Q11. Name the document containing guarantee of a bank to honour drafts drawn on it by an exporter's bank.

Q12. Why there is a need for pre-shipment inspection?
Q13. What is the significance of bill of entry?

Q14. Give one point of difference between licencing and franchising.

Q15. Identify the mode of entry into an international business when an Indian Company acquires interest in an existing foreign company.

Q16. XYZ Co. (USA) acquires another Co. R. Ltd. situated at Geneva by investing 100% in its equity. What will be the R. Ltd. Co. called?

Q17. Write the full form of FDI?

Q18. Who is C&F agent?

**SHORT ANSWER QUESTIONS**

(CARRYING 3/4 MARKS EACH)

Q.1. Give difference between Internal trade and International trade.

Q.2. Briefly explain the modes of entry into international business.

Q.3. What is joint venture?

Q.4. What is Bill of Landing? How is it different from Bill of Entry?

Q.5. What are the objectives of WTO?

Q.6. China is a major producer of electronic goods at very low cost as compared to India. Discuss the benefits that India will derive if it enters into a trade agreement with China for electronic goods.

Q.7. List the codal formalities to obtain IEC No.

Q.8. Enumerate the complexities involved in international business. (at least 4 points)

Q.9. List the formalities involved in getting an export licence.

Q.10. Explain the following documents used in International trade:-

   (i) Mate’s Receipt.

   (ii) Letter of credit
Q.11. It was decided in the ‘Bretton Woods Conference’ to set up International Trade Organisation (ITO) to promote and facilitate international trade among the member countries. The idea could not succeed. The participants of the conference made some arrangements known as GATT and at last they were able to form an organisation on the same proposal of ITO.

(a) Name the organisation so formed.
(b) What does GATT stand for.
(c) Why could the proposal not materialize earlier?
(d) What values should be kept in mind while making international trade regulations?

LONG QUESTIONS (CARRYING 5/6 MARKS EACH)

Q1. Explain the benefits of International business (i) to Nations (ii) to firms.
Q2. Explain the documents used in export procedure.

Or
S. Ltd. is exporting garments to Indonesia. Which documents will be used in this procedure by S. Ltd.

Q3. You are planning to import laptops from USA. Describe the procedure in importing them.
Q4. You are a manufacturer of Shirts. You are planning to export these shirts to Uganda (Africa) what are the difficulties you might face in exporting them. (Hint * difficulties of international trade)

Q5. RIPPLES Industries has received an export order of 5000 kids jeans from Wol Mart USA. What export procedure you will follow to execute this export order?
Q6. Identify the documents highlighted in the following statements:-

(i) This document is issued by the commanding officer of the ship to the exporter after cargo is loaded on the ship.

(ii) This document is prepared by shipping company to acknowledge the receipt of goods on ship and gives an undertaking to carry them to port of destination.

(iii) This document is the most appropriate and secure method of payment to settle international transactions.

(iv) On the basis of this document, custom's office grants permission for the export.

(v) This document in prepared by the importer and it shows the details of goods imported.

(vi) On the basis of this document imported goods are unloaded from the carrier. (import manifest)

Q7. Mr. Manchanda is a business man in Gurgoan he manufactures scooters. His son after doing an MBA in USA returns to India and suggests that they should set up a fully owned factory in Bangkok for supplying to customers in South East Area and Middle East. Mr. Manchanda however does not agree to his proposal and wants to set this unit in South India. They are having a debate in this. In your opinion with whom you agree. Give reasons for support of your answer.

Or

In your opinion what are their points of difference.

Q8. What is the role or functions of WTO?
Q.1 Name a person who contributes capital but not take in the business called? 1

Q.2 Ramdeen, a farmer is able to produce food grains only for his family's needs. Is it a economic activity? 1

Q.3 State different types of public sector enterprise? 1

Q.4 Name one social responsibility of business which it must follow? 1

Q.5 Shyam stays in USA and his parents stay in Delhi shyam’s birthday is in fifteen days and his parents which to gift him a branded shirt. How can they gift? 1

Q.6 What is the maximum limit of investment in plant and machinery in “micro enterprises” Under small business. 1

Q.7 Which type of retail stores deal in single line of product and are very common in urban ocean. 1

Q.8 Give the full form of FICCI. 1

Q.9 “Coca-cola was produced by Dr. Johan s. Pemberton, a local pharmacist in Atlanta, Georgia in 1986. He got the syrup sampled and introduced it in the market for 5 cents a glass”.

By reading this information, what do you think the form of business Coca-cola initially had?

Write any 1 merit and one demerit of the form. 3

Q.10 List the areas where the state or central ownership is a preferred form of business organisation. Justify your choice of areas. 3

Q.11 State any three differences between e-business and traditional business. 3

Q.12 You are the CEO of a company, you wish that the employees are motivated to perform and do not leave the organisation. By fulfilling which responsibility can you do so? Also write Two ways of fulfilling your responsibility. 3
Q.13 Write any three functions of NSIC? 3

Q.14 “International Business is beneficial to both nations on well on firm” Justify the statement. 3

Q.15 What do you mean by business? Write any of its 3 characteristics? 4

Q.16 Identify the functions of warehousing being performed in each of the following cases. Also explain any other two functions?

(i) A big farmer stores apple in cold storage warehouse. He supplies less quantity when demand declines and increases the supply when the demand rises.

Thus he is able to get the right price.

(ii) A dealer is able to take a loan on the security of goods stored in a warehouse

Q.17 State any four limitations of electronic mode of doing business. Are these limitations severe enough to restrict its scope. Give two reasons for your answer. 4

Q.18 Haya Ram & Co is a manufacturer of cloth. He open identical shops. The prices of goods are fixed. So he is able to eliminate unnecessary middlemen thus benefiting the consumers.

(a) Identify the type of shops referred to

(b) Write 3 characteristics of such shops. 4

Q.19 A.M.P. Industry is a new company is food processing business who is in the business for last 4 years. Company needs funds for its expansion and growth. Company has earned profit in 2 years only of 4 years.

(i) Which source of finance should be used by the company according to you and why? give 2 reasons.

(ii) Write any two characteristics of that source of finance. 4

Q.20 Aarti is a sole proprietor. Over the past 15 years, her business has grown from operating a neighborhood shop selling artificial, jewellery, kurtis, bags, make up articles etc. to a retail chain with 4 branches in the city.

Now, although she looks after all functions of the branches, she is thinking to form a company to manage the business better. She also wants to grow further.
(a) Explain two merits of Aarti remaining a sole proprietor.

(b) Explain two advantages of her converting to a Joint Stock Co.

(c) If she wishes to grow further than which of the two options is better?

Q.21 It is a public enterprise established under Indian Companies Act and conducts business in competition with companies in private sector

(a) Identify the type of public enterprise

(b) In whose name the shares of this type of company are purchased?

(c) Explain any three advantages of such company.

Q.22 “In all type of insurance (life, fire and marine insurance) insured must have insurable interest both at the time of insurance and at the time of loss” comment

Q.23 What are the five problems faced by firm in international Business. Briefly explain.

Q.24 Somi, a tailor by profession was working in a famous boutique in Kamla Nagar. He was a skilled worker with many years of experience at hand and saving worth ₹ 5 lakh he finally decided that he would start his own boutique. He rented a shop in Rohini. He was not sure about his venture as now he would not have any security of income. But soon he started getting lot of work due to his efficiency & his profits increased.

(a) Which type of economic activity was Somi undertaking when he was working in a boutique?

(b) Which form of business organisation did he opt for later?

(c) Identify any two merits & two demerits you can recognise of the form of business opted by him.

Q.25 MLP Limited is a very well known company is pharma, whose share capital is equal to long term Loans as per its capital structure. This company wants to acquire huge resources from Germany for its expansion and development so that huge employment opportunities could be provided in India. Besides it, co. has also started a programme called “Health Dialog” in which poor people have been provided with free doctor advice and free medicines.
(i) Which source of finance should be used by the company? Write any two characteristics of this source of finance?

(ii) What values have been displayed by the company in the above case?

Q.26 What are the incentives given by Govt. to industries set up in hilly, backward and rural areas. (6)

Q.27 Fatima & Co. in a producer of shoes. It acquires raw material from Kanpur & imports dyes from Japan. They wish to sell their shoes in Chennai so, they contacted Ramarajan & Sons. Ramajan & Sons bought shoes from Fatima & Co. in huge qualities by paying cash and sold them under their own brand name to Sohan Bros thus bearing all the risk and relieving Fatima & Co. of marketing activities and allowing them to concentrate on production.

(a) Which type of trading concern Ramarajan & Sons in?

(b) Enlist the services Ramarajan & Sons should provide to Sohan Bros. (Maximum 5) [1+5=6]
MODEL TEST PAPER II

Duration : 3 hours                        Maximum Marks : 90

Q.1 Prakash, a farmer went to the market and exchanged his rice with rupees. Is it an economic activity ? 1

Q.2 What is a person who lends his name and good will for the benefit of a partnership firm called ? 1

Q.3 Name the organisation formed by passing special Act of the parliament. 1

Q.4 Ram lives in Japan and his parents in Mumbai. Ram’s birthday falls in next month. His parents want to gift him something. How can he make payment of the gift online ? 1

Q.5 Name the obligation of any business to protect & Serve public interest. 1

Q.6 In which type of small business, only family members operate ? 1

Q.7 Which type of stores are operated as Joint stock companies and have several departments under one roof. 1

Q.8 Name the document which is prepared by the seller of goods when he realises that the goods sold have been under cast due to sales return. 1

Q.9 A, B & C were partners in a financing firm. B&C had gone for a meeting in America for analysing business prospects in that country. In the meanwhile, A invested a huge amount of money in buying shares of a new company by borrowing money from Mr. X. This turned out to be a bad deal as the share prices soon fell. When B&C came back they said they were not liable to pay to Mr. X as they did not take the money. Were B&C right in doing so ? Under which aspect of partnership are they bound ? 3

Q.10 Can the public sector companies compete with the private sector in terms of profits and efficiency ? Give reasons of your answer. 3
Q.11 Online transactions are prone to a number of risks. State the various risks encountered while conducting e-business.

Q.12 Mention the ways in which a joint venture may the take place in international business.

Q.13 Our write any three characteristics of Small Business.

Q.14 ABC Bank in providing e-banking facility to its customers A Group of employees of the bank are sharing the personal financial details of the customers with some unscrupulous individuals to hack their accounts

(a) From the above given information what risk of e-business can you identify.

(b) Towards which interest group is the bank not paying attention.

Q.15 Explain any four economic objectives of business.

Q.16 “Depositing money and granting loans are only functions of commercial banks”. Do you agree. Give reasons in support

Q.17 Outsourcing in services are gaining popularity day by day in business. Explain briefly.

Q.18 RPM Industry needs short-term finance for 1 to 3 months. Which source of finance will be used by the company ? Write any 3 characteristics of that sources.

Q.19 Identify the terms of trade used in Internal Trade:-

(i) Transaction in which payment for goods in made at the time of delivery.

(ii) A contract between seller and buyer in which all the expenses up to the point of ship are to be borne by seller

(iii) Term used in trade documents to suggest “mistakes and thing for gotten” should be taken into account.

(iv) Price of goods which includes cost of goods, Insurance, and freight charges payable on, goods upto destination point.

Q.20 The Business assets of an oranisation amount to Rs. 2,00,000 but the debt remaining upholding is Rs. 2,60,000. What source of action can the creditors take if:
(a) The organisation is a sole proprietorship firm.

(b) The organisation is a partnership between Daksh and Raman as partners. Which of the two partners can the creditors approach for repayment of debts? Explain with reasons (5)

Q.21 Give relative advantages of statutory corporations over departmental undertaking in respect of organisation, efficiency and control. 5

Q.22 Rohit gets his house insured against fire if Rs. 10 Lakh with insurance A and for Rs. 5 lakh with insurer B. A loss of Rs. 3 lakh occurred.

(a) How much compensation can he claim from A and B? Why? 5

(b) The residues of the burnt house were sold for Rs. 10,000. Who will rightly avail the amount and why?

Q.23 Vanya Ltd. is exporting toys from South Africa based Co. Guide Vanya Ltd. about the export procedure till reserving of shipping space. 5

Q.24 Ranjita is planning to set up a factory for electronic goods.

What are the problems and risks she might face? Explain 6

Q.25 You come across an advertisement in the newspaper describing the features of a new mobile phone. You place an order at the given address alongwith a demand draft paying for the mobile phone. 6

(a) Which type of retail business is being referred here?

(b) What are the characteristics of goods that can be sold through such a business?

Q.26 Explain the institutional support provided by India Govt. to small business units. 6

Q.27 M’ Bio Ltd. Company raised funds from the general public by issuing 5,000 10% debentures of Rs. 10,000 each to meet fixed capital requirement of the company. It has resulted into higher return on equity shares due to good amount of profit earned.

(i) What is the benefit of using debentures in such case.

(ii) Name the return on equity shares paid by the company.

(iii) What values does company exhibit in the above case. 6
PROJECT WORK IN BUSINESS STUDIES
FOR CLASS XI AND XII

(Effective from the Academic Session 2015-16 and Board Examination of Class XII, 2016)

Introduction

The course in Business Studies is introduced at Senior School level to provide students with a sound understanding of the principles and practices bearing in business (trade and industry) as well as their relationship with the society. Business is a dynamic process that brings together technology, natural resources and human initiative in a constantly changing global environment. With the purpose to help them understand the framework within which a business operates, and its interaction with the social, economic, technological and legal environment, the CBSE has introduced Project Work in the Business Studies Syllabus for Classes XI and XII. The projects have been designed to allow students to appreciate that business is an integral component of society -and help them develop an understanding of the social and ethical issues concerning them.

The project work also aims to empower the teacher to relate all the concepts with what is happening around the world and the student’s surroundings, making them appear more clear and contextual. This will enable the student to enjoy studies and use his free time effectively in observing what’s happening around.

By means of Project Work the students are exposed to life beyond textbooks giving them opportunities to refer materials, gather information, analyse it further to obtain relevant information and decide what matter to keep.

Objectives

After doing the Project Work in Business Studies, the students will be able to do the following:

- develop a practical approach by using modern technologies in the field of business and management;
- get an opportunity for exposure to the operational environment in the field of business management and related services;
• inculcate important skills of team work, problem solving, time management, information collection, processing, analysing and synthesizing relevant information to derive meaningful conclusions

• get involved in the process of research work;

• demonstrate his or her capabilities while working independently and

• make studies an enjoyable experience to cherish.

CLASS XI: GUIDELINES FOR TEACHERS

This section provides some basic guidelines for the teachers to launch the projects in Business Studies. It is very necessary to interact, support, guide, facilitate and encourage students while assigning projects to them.

The teachers must ensure that the project work assigned to the students whether individually or in group are discussed at different stages right from assignment to drafts review and finalization. Students should be facilitated in terms of providing relevant materials or suggesting websites, or obtaining required permissions from business houses, malls etc for their project. The 16 periods assigned to the Project Work should be suitably spaced throughout the academic session. The teachers MUST ensure that the students actually go through the rigors and enjoy the process of doing the project rather than depending on any readymade material available commercially.

The following steps might be followed:

1. Students must take any one topic during the academic session of Class XI.

2. The project may be done in a group or individually.

3. The topic should be assigned after discussion with the students in the class and should then be discussed at every stage of submission of the draft/final project work.

4. The teacher should play the role of a facilitator and should closely supervise the process of project completion.

5. The teachers must ensure that the student’s self esteem should go up, and he/she should be able to enjoy this process.
6. The project work for each term should culminate in the form of Power Point Presentation/Exhibition/ Skit before the entire class. This will help in developing ICT and communication skills among them.

The teacher should help students to identify any one project from the given topics.

I. Project One: Field Visit

The objective of introducing this project among the students is to give a first hand experience to them regarding the different types of business units operating in their surroundings, to observe their features and activities and relate them to the theoretical knowledge given in their text books. The students should select a place of field visit from the following: - (Add more as per local area availability.)

1. Visit to a Handicraft unit.
2. Visit to an Industry.
3. Visit to a Whole sale market, (vegetables, fruits, flowers, grains, garments, etc.)
4. Visit to a Departmental store.
5. Visit to a Mall.

The following points should be kept in mind while preparing this visit.

1. Select a suitable day free from rush/crowd with lean business hours..
2. The teacher must visit the place first and check out on logistics. It’s better to seek permission from the concerned business- incharge.
3. Visit to be discussed with the students in advance. They should be encouraged to prepare a worksheet containing points of observation and reporting.
4. Students may carry their cameras (at their own risk) with prior permission for collecting evidence of their observations.

1. Visit to a Handicraft Unit

The purpose of visiting a Handicraft unit is to understand nature and scope of its business, stake holders involved and other aspects as outlined below-
(a) The raw material and the processes used in the business: People/parties/ firms from which they obtain their raw material.
(b) The market, the buyers, the middlemen, and the areas covered.
(c) The countries to which exports are made.
(d) Mode of payment to workers, suppliers etc.
(e) Working conditions.
(f) Modernization of the process over a period of time.
(g) Facilities, security and training for the staff and workers.
(h) Subsidies available/ availed.
(i) Any other aspect that the teachers deem fit.

2. Visit to an Industry.

The students are required to observe the following:

(a) Nature of the business organisation.
(b) Determinants for location of business unit.
(c) Form of business enterprise: Sole Proprietorship, Partnership, Undivided Hindu Family, Joint Stock Company (a Multinational Company).
(d) Different stages of production/process
(e) Auxiliaries involved in the process.
(f) Workers employed, method of wage payment, training programmes and facilities available.
(g) Social responsibilities discharged towards workers, investors, society, environment and government,
(h) Levels of management.
(i) Code of conduct for employers and employees.
(j) Capital structure employed- borrowed v/s owned.
(k) Quality control, recycling of defective goods.
(l) Subsidies available/availed.

(m) Safety Measures employed.

(n) Working conditions for labour in observation of Labour Laws.

(o) Storage of raw material and finished goods.

(p) Transport management for employees, raw material and finished goods.

(q) Functioning of various departments and coordination among them (Production, Human Resource, Finance and Marketing)

(r) Waste Management.

(s) Any other observation.

3. Visit to a whole sale market: vegetables/fruits/flowers/grains/garments etc.

The students are required to observe the following:

(a) Sources of merchandise.

(b) Local market practices.

(c) Any linked up businesses like transporters, packagers, money lenders, agents, etc.

(d) Nature of the goods dealt in.

(e) Types of buyers and sellers.

(f) Mode of the goods dispersed, minimum quantity sold, types of packaging employed,

(g) Factors determining the price fluctuations.

(h) Seasonal factors (if any) affecting the business,

(i) Weekly/ monthly non working days,

(j) Strikes, if any- causes thereof.

(k) Mode of payments.

(l) Wastage and disposal of dead stock.
(m) Nature of price fluctuations, reason thereof.
(n) Warehousing facilities available\availed.
(o) Any other aspect.

4. Visit to a Departmental store

The students are required to observe the following:

(a) Different departments and their lay out.
(b) Nature of products offered for sale.
(c) Display of fresh arrivals.
(d) Promotional campaigns.
(e) Spaces and advertisements.
(f) Assistance by Sales Personnel.
(g) Billing counter at store - Cash, Credit Card/ Debit Card, swipe facility. Added attractions and facilities at the counter.
(h) Additional facilities offered to customers
(i) Any other relevant aspect.

5. Visit to a Mall.

The students are required to observe the following:

(a) Number of floors, shops occupied and unoccupied.
(b) Nature of shops, their ownership status
(c) Nature of goods dealt in: local brands, international brands,
(d) Service business shops- Spas, gym, saloons etc.
(e) Rented spaces, owned spaces,
(f) Different types of promotional schemes.
(g) Most visited shops.
(h) Special attractions of the Mall- Food court, Gaming zone or Cinema etc.

(i) Innovative facilities.

(j) Parking facilities.

Teachers may add more to the list.

II. Project Two: Case Study on a Product

(a) Take a product having seasonal growth and regular demand with which students can relate. For example,

- Apples from Himachal Pradesh, Kashmir.
- Oranges from Nagpur,
- Mangoes from Maharashtra/U.P./Bihar/Andhra Pradesh etc.
- Strawberries from Panchgani,
- Aloe vera from Rajasthan,
- Walnuts/almonds from Kashmir,
- Jackfruit from South,
- Guavas from Allahabad,
- Pineapples from North East India,
- Tea from Assam,
- Orchids from Sikkim and Meghalaya,
- Pottery of Manipur,
- Fishes from coastal areas.

Students may develop a Case Study on the following lines:

(i) Research for change in price of the product. For example, apples in Himachal Pradesh during plucking and non plucking season.

(ii) Effect on prices in the absence of effective transport system.
(iii) Effect on prices in the absence of suitable warehouse facilities.
(iv) Duties performed by the warehouses.
(v) Demand and supply situation of the product during harvesting season, prices near the place of origin and away.

Students may be motivated to find out the importance of producing and selling these products and their processed items along with the roles of Transport, Warehousing, Advertising, Banking, Insurance, Packaging, Wholesale selling, Retailing, Co-operative farming, Co-operative marketing etc.

The teacher may develop the points for other projects on similar lines for students to work on.

The teacher may assign this project as ‘group’ project and may give different products to different groups. It could conclude in the form of an exhibition.

**III. Project Three: Aids to Trade**

Taking any one AID TO TRADE, for example Insurance and gathering information on following aspects

1. History of Insurance Lloyd's contribution.
2. Development of regulatory Mechanism.
3. Insurance Companies in India
5. Types of Insurance. Importance of insurance to the businessmen.
6. Benefits of crop, orchards, animal and poultry insurance to the farmers.
7. Terminologies used (premium, face value, market value, maturity value, surrender value) and their meanings.
8. Anecdotes and interesting cases of insurance. Reference of films depicting people committing fraudulent acts with insurance companies.
9. Careers in Insurance.

Teachers to develop such aspects for other aids to trade.
IV. Project Four: Import /Export Procedure

Any one from the following

1. Import /Export procedure

The students should identify a product of their city/country which is imported / exported. They are required to find the details of the actual import/export procedure. They may take help from the Chambers of Commerce, Banker, existing Importers/Exporters, etc.

They should find details of the procedure and link it with their Text knowledge.

The specimens of documents collected should be pasted in the Project file with brief description of each. They may also visit railway godowns/dockyards/ transport agencies and may collect pictures of the same.

Presentation and submission of project report.

At the end of the stipulated term, each student will prepare and submit his/her project report. Following essentials are required to be fulfilled for its preparation and submission.

1. The total project will be in a file format, consisting of the recordings of the value of shares and the graphs.

2. The project will be handwritten.

3. The project will be presented in a neat folder.

4. The project report will be developed in the following sequence-
   - Cover page should project the title, student information, school and year,
   - List of contents.
   - Acknowledgements and preface (acknowledging the institution, the newspapers read, T.V. channels viewed, places visited and persons who have helped).
   - Introduction.
   - Topic with suitable heading.
   - Planning and activities done during the project, if any.
• Observations and findings while conducting the project.

• News paper clippings to reflect the changes of share prices.

• Conclusions (summarised suggestions or findings, future scope of study). Appendix (if needed).

• Teachers report.

• Teachers will initial preface page.

• At the completion of the evaluation of the project, it will be punched in the centre so that the report cannot be reused but is available for reference only.

• The projects will be returned after evaluation. The school may keep the best projects.

V. Project Five: A visit to any State Emporium (other than your school state).

The purpose of this project is that it leads to -

• Development of deeper understanding of the diversity of products in the states like Assam, Tripura, Nagaland, Mizoram, Manipur, Meghalaya, Sikkim, Arunachal Pradesh, Jammu and Kashmir, Kerala, Chhatisgarh, Telangana, Andhra Pradesh and other states of the country.

• Sensitization and orientation of students about other states, their trade, business and commerce,

• Understanding the cultural and socio-economic aspects of the state by the students,

• Developing the understanding of role of folk art, artisanship and craftsmanship of the state in its growth and economic development

• Understanding the role of gifts of nature and natural produce in the development of trade, business and commerce

• Understanding the role of vocational skills and abilities on the livelihood of artisans/ craftsman

• Understanding of entrepreneurial skills and abilities of the artisans/ craftsman
• Understanding of the unemployment problem of the state and role of art and craft of the state in generating employment opportunities

• Value aspect -
  ■ Sense of gratitude - by appreciating the contributions made by others in the betterment of our lives
  ■ Appreciating the dignity of work
  ■ Sensitivity towards social, cultural, ethnical and religious differences
    Benefits of social harmony and peace
  ■ Understanding and appreciating the unity in diversity in India
  ■ Appreciating differences in race, skin colour, languages, religion, habits, festivals, clothing co-existence

Presentation and Submission of Project Report

At the end of the stipulated term, each student will prepare and submit his/her project report. Following essentials are required to be fulfilled for its preparation and submission.

1. Nature of the business organisation (emporium)
2. Determinants for location of the concerned emporium
3. Is the space rented or owned
4. Nature of the goods dealt in
5. Sources of merchandise of the emporium
6. Role of co-operative societies in the manufacturing and/or marketing of the merchandise
7. Role of gifts of nature or natural produce in the development of goods/merchandise
8. Types of buyers and sellers
9. Modes of goods dispersed, minimum quantity sold and type of carrying bag or package used for delivery of the products sold
10. Factors determining the pricing at the emporium
11. Comparison between the prices of goods available at the emporium with the prices in the open market. Also highlight probable causes of variations if any.

12. Kind of raw material available naturally, used in making the products

13. The technique used in making the products i.e., hand made or machine made

14. Has the child labour being used in making the products sold at the emporium

15. Are the products eco-friendly, in terms of manufacturing, disposal and packing

16. Seasonal factors if any affecting the business of the emporium

17. Weekly/ Monthly non-working days

18. Mode of billing and payments - Cash, Credit Card/ Debit Card, Swipe facility.

19. Does the emporium sell its merchandise in installment / deferred payment basis

20. Do they provide home delivery and after sales services.

21. Different types of promotional campaigns / schemes

22. Assistance by Sales Personnel

23. Export orientation of this emporium and procedure used

24. Policies related to damaged/ returned goods

25. Any government facility available to the emporium

26. Warehousing facilities available / availed

27. Impact of tourism on the business of emporium

28. Additional facility offered to customers

29. Any Corporate Social Responsibility (CSR) assumed by the emporium

30. Contribution made by the emporium to its locality
ASSESSMENT

The marks will be allocated on the following heads.

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<th>Initiative, cooperativeness and participation</th>
<th>1 Mark</th>
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<tr>
<td>2</td>
<td>Creativity in presentation-</td>
<td>1 Mark</td>
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<tr>
<td>3</td>
<td>Content, observation and research work</td>
<td>2 Mark</td>
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<td>4</td>
<td>Analysis of situations,</td>
<td>2 Mark</td>
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<td>5</td>
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<td><strong>Total</strong></td>
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Important Notes to Remember