

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2020-2021)

Class : XI
BUSINESS STUDIES

Under the Guidance of

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Director (Education)

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Published at Delhi Bureau of Text Books , 25/2 Institutional Area, Pankha Road, New Delhi-110058 by **Prabhjot Singh**, Secretary, Delhi Bureau of Text Books and Printed by Arihant Offset, New Delhi-110043

MANISHA SAXENA
IAS



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DO No. DE. 5/228/Exam/Message/S.M./2018
Dated

MESSAGE

The importance of adequate practice during examinations can never be overemphasized. I am happy that support material for classes IX to XII has been developed by the Examination Branch of Directorate of Education. This material is the result of immense hard work, co-ordination and cooperation of teachers and group leaders of various schools. The purpose of the support material is to impart ample practice to the students for preparation of examinations. It will enable the students to think analytically & rationally and test their own capabilities and level of preparation.

The material is based on latest syllabus prepared by the NCERT and adopted by the CBSE for the academic session 2020-21 and covers different levels of difficulty. I expect that Heads of Schools and Teachers will enable and motivate students to utilize this material during zero periods, extra classes and regular classes best to their advantage.

I would like to compliment the team of Examination Branch for their diligent efforts of which made it possible to accomplish this work in time. I also take this opportunity to convey my best wishes to all the students for success in their endeavours.


24.6.2020
(MANISHA SAXENA)

BINAY BHUSHAN, IAS



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D.O. No.

Date :

Dear Students,

Directorate of Education is committed to providing qualitative and best education to all its students. The Directorate is continuously engaged in the endeavor to make available the best study material for uplifting the standard of its students and schools.

Every year, the expert faculty of Directorate reviews and updates Support Material. The expert faculty of different subjects incorporates the changes in the material as per the latest amendments made by CBSE to make its students familiar with new approaches and methods so that students do well in the examination.

The book in your hand is the outcome of continuous and consistent efforts of senior teachers of the Directorate. They have prepared and developed this material especially for you. A huge amount of money and time has been spent on it in order to make you updated for annual examination.

Last, but not the least, this is the perfect time for you to build the foundation of your future. I have full faith in you and the capabilities of your teachers. Please make the fullest and best use of this Support Material.


BINAY BHUSHAN
DIRECTOR (EDUCATION)

Dr. (Mrs.) Saroj Bala Sain

Addl. Director of Education
(School / Exam / EVGB/IEB/ VOC.)



Govt. of NCT of Delhi
Directorate of Education
Old Secretariat, Delhi-110054
Tel.: 23890023, 23890093

D.O. No. PA/Adl.DE(su)/86

Date : 03-10-2019

I am very much pleased to forward the Support Material for classes IX to XII. Every year, the Support Material of most of the subjects is updated/revised as per the most recent changes made by CBSE. The team of subject experts, officers of Exam Branch, members of Core Academic Unit and teachers from various schools of Directorate has made it possible to make available unsurpassed material to students.

Consistence use of Support Material by the students and teachers will make the year long journey seamless and enjoyable. The main purpose to provide the Support Material for the students of government schools of Directorate is not only to help them to avoid purchasing of expensive material available in the market but also to keep them updated and well prepared for exam. The Support Material has always been a ready to use material, which is matchless and most appropriate.

I would like to congratulate all the Team Members for their tireless, unremitting and valuable contributions and wish all the best to teachers and students.

(Dr. Saroj Bala Sain)
Addl.DE (School/Exam)

भारत का संविधान
भाग 4क
नागरिकों के मूल कर्तव्य

अनुच्छेद 51क

मूल कर्तव्य - भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह -

- (क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;
- (ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- (ग) भारत की संप्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण बनाए रखे;
- (घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- (ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभावों से परे हो, ऐसी प्रथाओं का त्याग करे जो महिलाओं के सम्मान के विरुद्ध हों;
- (च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;
- (छ) प्राकृतिक पर्यावरण की, जिसके अंतर्गत वन, झील, नदी और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;
- (ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- (झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- (ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और
- (ट) यदि माता-पिता या संरक्षक हैं, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य को शिक्षा के अवसर प्रदान करे।

CONSTITUTION OF INDIA

Part IV A (Article 51 A)

Fundamental Duties

Fundamental Duties : It shall be the duty of every citizen of India —

1. to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
2. to cherish and follow the noble ideals which inspired our national struggle for freedom;
3. to uphold and protect the sovereignty, unity and integrity of India;
4. to defend the country and render national service when called upon to do so;
5. to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
6. to value and preserve the rich heritage of our composite culture;
7. to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures.
8. to develop the scientific temper, humanism and the spirit of inquiry and reform;
9. to safeguard public property and to adjure violence;
10. to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
11. who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

भारत का संविधान उद्देशिका

हम, भारत के लोग, भारत को एक ¹[संपूर्ण प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य] बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक न्याय,

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,

प्रतिष्ठा और अवसर की समता

प्राप्त कराने के लिए,

तथा उन सब में

व्यक्ति की गरिमा और ²[राष्ट्र की एकता

और अखंडता] सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवंबर, 1949 ई. को एतद्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) “प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य” के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) “राष्ट्र की एकता” के स्थान पर प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the ²[unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2020-2021)

BUSINESS STUDIES
Class : XI
(English Medium)

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

**LIST OF GROUP LEADER AND SUBJECT EXPERTS
FOR PREPARATION/REVIEW OF SUPPORT MATERIAL**

CLASS-XI

<i>S.No.</i>	<i>Subject</i>	<i>Subject Expert</i>	<i>Designation</i>	<i>School</i>
1.	Business Studies	Kumkum Kumar	Vice-Principal	GGSSS, A Block, Saraswati Vihar
		Geetika Antil	Lecturer (Commerce)	RPVV, Sector-11, Rohini
		Urmila Garg	Lecturer (Commerce)	SKV, D-Blk, Kamdhenu, M.P.
		Rakesh Kumar	Lecturer (Commerce)	SBV, Peeragarhi

BUSINESS STUDIES (Code No. 054)

Rationale

The courses in Business Studies and Accountancy are introduced at + 2 stage of Senior Secondary Education as formal commerce education is provided after first ten years of schooling. Therefore, it becomes necessary that instructions in these subjects are given in such a manner that students have a good 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. To understand the framework in which a business operates, a detailed study of the organisation and management of business processes and its interaction with the environment is required. Globalisation has changed the way organizations transact their business.

Information Technology is becoming a part of business operations in more and more organisations. Computerised systems are fast replacing other systems. E-business and other related concepts are picking up fast which need to be emphasized in the curriculum.

The course in Business Studies prepares students to analyse, manage, evaluate and respond to changes which affect business. It provides a way of looking at and interacting with the business environment. It recognizes the fact that business influences and is influenced by social, political, legal and economic forces.

It allows students to appreciate that business is an integral component of society and develops an understanding of many social and ethical issues.

Therefore, to acquire basic knowledge of the business world, a course in Business Studies would be useful. It also informs students of a range of study and work options and bridges the gap between school and work.

Objectives:

- To inculcate business attitude and develop skills among students to pursue higher education, world of work including self employment;
- To Develop students with an understanding of the processes of business and its environment;
- To acquaint students with the dynamic nature and interdependent aspects of business;
- To develop an interest in the theory and practice of business, trade and industry;
- To familiarize students with theoretical foundations of the process of organizing and managing the operation of a business firm;
- To help students appreciate the economic and social significance of business activity and the social cost and benefits arising there from;
- To acquaint students with the practice of managing the operations and resources of business;
- To enable students to act more effectively and responsibility as consumers, employers, employees and citizens

BUSINESS STUDIES (Code No. 054)
CLASS–XI (2020-21)

Theory: 80 Marks

3 Hours

Project: 20 Marks

Units		Periods	Marks
Part A	Foundation of Business		
1	Nature and Purpose of Business	18	16
2	Forms of Business organisations	24	14
3	Public, Private and Global Enterprises	18	10
4	Business Services	18	
5	Emerging Modes of Business	10	10
6	Social Responsibility of Business and Business Ethics	12	
	Total	100	40
Part B	Finance and Trade		
1	Sources of Business Finance	30	20
2	Small Business	16	
3	Internal Trade	30	20
4	International Business	14	
	Total	90	40
	Project Work	30	20

Part A: Foundation of Business

Concept includes meaning and features

Unit 1: Evolution and Fundamentals of Business

Content	<ul style="list-style-type: none"> After going through this unit, the student/learner would be able to:
History of Trade and Commerce in India: Indigenous Banking System, Rise of Intermediaries, Transport, Trading Communities: Merchant Corporation, Major Trade Centres, Major Imports and Exports, Position of India Sub-Continent in the World Economy.	<ul style="list-style-type: none"> To acquaint the History of Trade and Commerce in India
Business—meaning and characteristics	<ul style="list-style-type: none"> Understand the meaning of business with special reference to economic and non-economic activity. Discuss the characteristics of business

Business, profession and employment-Concept	<ul style="list-style-type: none"> • Understand the concept of business, profession and employment. • Differentiate between business, profession and employment.
Objectives of business	<ul style="list-style-type: none"> • Appreciate the economic and social objectives of business. • Examine the role of profit in business.
Classification of business activities-Industry and Commerce	<ul style="list-style-type: none"> • Understand the broad categories of business activities- industry and commerce.
Industry-types: primary, secondary, tertiary Meaning and subgroups	<ul style="list-style-type: none"> • Describe the various types of industries.
Commerce-trade: (types-internal, external; wholesale and retail) and auxiliaries to trade; (banking, insurance, transportation, warehousing, communication, and advertising) - meaning	<ul style="list-style-type: none"> • Discuss the meaning of commerce, trade and auxiliaries to trade. • Discuss the meaning of different types of trade and auxiliaries to trade. • Examine the nature and causes of business risks.
Business risk-Concept	<ul style="list-style-type: none"> • Understand the concept of risk as a special characteristic of business. • Examine the nature and causes of business risks.

Unit 2: Forms of Business organizations

Sole Proprietorship-Concept, merits and limitations.	<ul style="list-style-type: none"> • List the different forms of business organizations and understand their meaning. • Identify and explain the concept, merits and limitations of Sole Proprietorship.
Partnership-Concept, types, merits and limitation of partnership, registration of a partnership firm, partnership deed. Types of partners	<ul style="list-style-type: none"> • Identify and explain the concept, merits and limitations of a Partnership firm. • Understand the types of partnership on the basis of duration and on the basis of liability. • State the need for registration of a partnership firm. • Discuss types of partners-active, sleeping, secret, nominal and partner by estoppel.

Hindu Undivided Family Business: Concept	<ul style="list-style-type: none"> Understand the concept of Hindu Undivided Family Business.
Cooperative Societies-Concept, merits, and limitations.	<ul style="list-style-type: none"> Identify and explain the concept, merits and limitations of Cooperative Societies. Understand the concept of consumers, producers, marketing, farmers, credit and housing co-operatives.
Company - Concept, merits and limitations, Types: Private, Public and One Person Company - Concept	<ul style="list-style-type: none"> Identify and explain the concept, merits and limitations of private and public companies. Understand the meaning of one person company. Distinguish between a private company and a public company.
Formation of company - Stages, important documents to be used in formation of a company	<ul style="list-style-type: none"> Highlight the stages in the formation of a company. Discuss the important documents used in the various stages in the formation of a company.
Choice of form of business organization	<ul style="list-style-type: none"> Distinguish between the various forms of business organizations. Explain the factors that influence the choice of a suitable form of business organization.

Unit 3: Public, Private and Multinational Company

Public sector and private sector enterprises—Concept	<ul style="list-style-type: none"> Develop an understanding of Public sector and private sector enterprises
Forms of public sector enterprises: Departmental Undertaking, Statutory Corporation and Government Company	<ul style="list-style-type: none"> Identify and explain the features, merits and limitations of different forms of public sector enterprises
Multinational Company — Features. Joint concept	<ul style="list-style-type: none"> Develop an understanding of multinational company, joint ventures and public private partnership by studying their meaning and features.

Unit 4: Business Services

Business services — meaning and types. Banking: Types of bank account—savings, current, recurring, fixed deposit and multiple option deposit account	<ul style="list-style-type: none"> Understand the meaning and types of business services. Discuss the meaning and types of Business service Banking Develop an understanding of different types of bank account
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Banking Services with particular reference to Bank Draft, Bank Overdraft, Cash credit. E-Banking meaning, Types of digital payments	<ul style="list-style-type: none"> Develop an understanding of the different services provided by banks
Insurance — Principles. Types – life, health fire and marine insurance – concept	<ul style="list-style-type: none"> Recall the concept of insurance Understand Utmost Good Faith, Insurable Interest, Indemnity, Contribution, Doctrine of Subrogation and Causa Proxima as principles of insurance Discuss the meaning of different types of insurance-life, health, fire, marine insurance.
Postal Service - Mail, Registered Post, Parcel, Speed Post, Courier - meaning	<ul style="list-style-type: none"> Understand the utility of different telecom services

Unit 5: Emerging Modes of Business

E - business: concept, scope and benefits	<ul style="list-style-type: none"> Give the meaning of e-business. Discuss the scope of e-business. Appreciate the benefits of e-business Distinguish e-business from traditional business.
Business Process Outsourcing (BPO) Concept, need and scope	<ul style="list-style-type: none"> Understand the concept of outsourcing. Examine the scope of outsourcing appreciate the need of outsourcing. Discuss the meaning of Business Process Outsourcing and Knowledge Process Outsourcing

Unit 6: Social Responsibility of Business and Business Ethics

Concept of social responsibility	<ul style="list-style-type: none"> State the concept of social responsibility.
Case of social responsibility	<ul style="list-style-type: none"> Examine the case for social responsibility.
Responsibility towards owners, investors, consumers, employees, government and community.	<ul style="list-style-type: none"> Identify the social responsibility towards different interest groups.
Role of business in environment protection	<ul style="list-style-type: none"> Appreciate the role of business in environment protection.
Business Ethics - Concept and Elements	<ul style="list-style-type: none"> State the concept of business ethics. Describe the elements of business ethics.

Part B: Finance and Trade

Unit 7: Sources of Business Finance

Concept of business finance	<ul style="list-style-type: none">• State the meaning, nature and importance of business finance
Owners funds- equity shares, preference share, retained earnings, Global Depository receipt (GDR), American Depository Receipts (ADR) and International Depository Receipt (IDR) - concept	<ul style="list-style-type: none">• Classify the various sources of funds into owner's funds• State the meaning of owners' funds.• Understand the meaning of Global Depository receipts, American Depository Receipts and International Depository Receipts.
Borrowed funds: debentures and bonds, loans from financial institutions and commercial banks, public deposits, trade credit, Inter Corporate Deposits (ICD)	<ul style="list-style-type: none">• State the meaning of borrowed funds.• Discuss the concept of debentures, bonds, loans from financial institutions and commercial banks, Trade credit and inter corporate deposits.• Distinguish between owner's funds and borrowed funds.

Unit 8: Small Business and Enterprises

Entrepreneurship Development (ED): Concept, Characteristics and Need. Process of Entrepreneurship Development: Startup. Intellectual Property Rights and Entrepreneurship	<ul style="list-style-type: none">• Understand the concept of Entrepreneurship Development (AND), Intellectual Property Rights
Small scale enterprise and defined by MSMED Act 2006 (Micro, Small and Medium Enterprises Development Act)	<ul style="list-style-type: none">• Understand the meaning of small business
Role of small business in India with special reference to rural areas	<ul style="list-style-type: none">• Discuss the role of small business in India
Government schemes and agencies for small scale industries: National Small Industries Corporation (NSIC) and District Industries Centre (DIC) with special reference to rural, backward areas	<ul style="list-style-type: none">• Appreciate the various Government schemes and agencies for development of small scale Industries. NSIC and DIC with special reference to rural, backward area

Unit 9: Internal Trade

Internal trade - meaning and types services rendered by a wholesaler and a retailer	<ul style="list-style-type: none"> State the meaning and types of internal trade. Appreciate the services of wholesalers and retailers.
Types of retail-trade-itinerant and small scale fixed shop retailers	<ul style="list-style-type: none"> Explain the different types of retail trade.
Large scale retailers-Departmental store, chain store-concept	<ul style="list-style-type: none"> Highlight the distinctive features of departmental store, chain stores and mail order business.
GST (Goods and Services Tax): Concept and key-features	<ul style="list-style-type: none"> Understand the concept of GST

Unit 10: International Trade

International trade: concept and benefits	<ul style="list-style-type: none"> Understand the concept of international trade. Describe the scope of international trade to the nation and business firms.
Export Trade - Meaning and procedure	<ul style="list-style-type: none"> State the meaning and objectives of export trade. Explain the important steps involved in executing export trade.
Import Trade - Meaning and procedure	<ul style="list-style-type: none"> State the meaning and objectives of import trade. Discuss the important steps involved in executing import trade.
Documents involved in international Trade; indent, letter of credit, shipping order, shipping bill, mate's receipt (DA/DP)	<ul style="list-style-type: none"> 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 objectives	<ul style="list-style-type: none"> State the meaning of World Trade Organization. Discuss the objectives of World Trade Organization in promoting international trade.

Unit 11 : Project Work

As per CBSE guidelines.

Suggested Question Paper Design
Business Studies (Code No. 054)
Class Xi (2020-21)
March 2021 Examination

Marks:80

Duration: 3 hrs.

SN	GI/Typology of Questions	Objective Type/MCQ 1 Mark	Short Answer I Marks	Short Answer II 4 Marks	Long Answer I 5 Marks	Long Answer II 6 Marks	Marks
1	Remembering: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers.	5	1	1	1	1	23
2	Understanding: Demonstrate Understanding of facts and ideas	5	2	1	-	1	21
3	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	1	-	1	1	19
4	Analysing and Evaluating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalization. Present and defend opinion by making judgments about information, validity of ideas, or quality of work bases on a set of criteria. Creating: Compile information together in a different way by combining elements in a new pattern for proposing alternative solutions	5	1	1	1	-	17
Total		20×1=20	5×3=15	3×4=12	3×5=15	3×6=18	80(34)

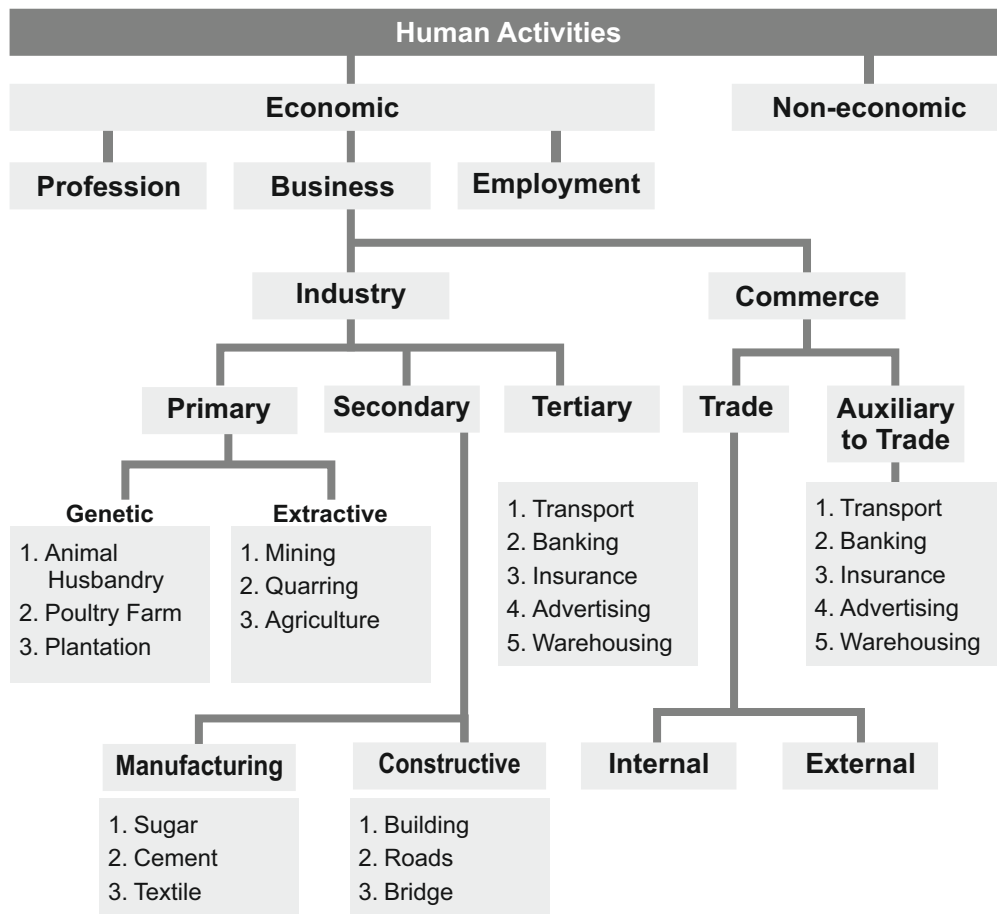
There will be internal choice in questions of 3 marks (1 choice), 4 marks (1 choice), 5 marks (2 choices) and 6 marks (2 choices). In all, total 6 internal choices.

Chapter-1

Evolution and Fundamentals of Business

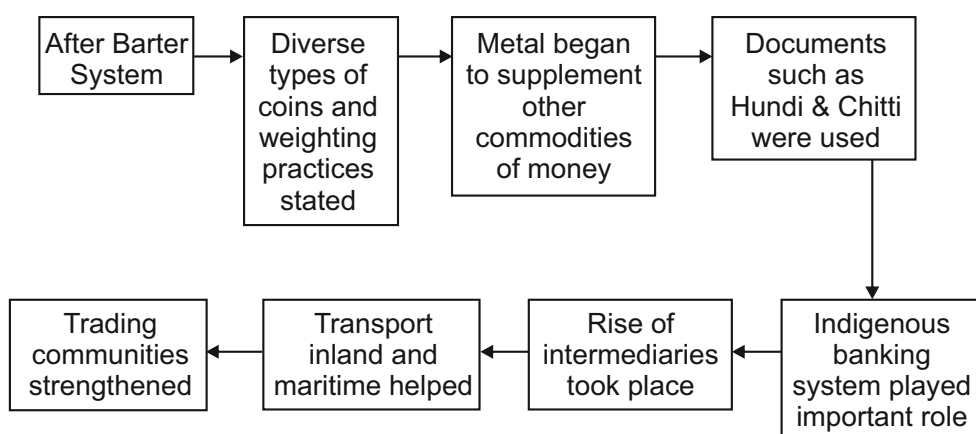
Brain Map

- History and Evolution of Business
- Indigenous Banking System
- Transporting
- Trading Communities
- Major Trade Centres
- Business
- Business Activities
- Business Risk



Trade and commerce has played an important role in growth of an economy from time immemorial. Example Harrappa and Mohenjodaro were commercial cities in 3rd millennium BC in Indian sub continent. Physical environment of Indian subcontinent has helped it in evolving as a major power in economic world from ancient times. The silk route facilitated its further progress in terms of domestic and interactional trade.

Spread of trade and Commerce



Hundi: It was an instrument of exchange which was used in Indian subcontinent. It involved a contract which

- (i) Warrants the payment of money, the promise or order which is unconditional
- (ii) Capable of change through transfer by valid negotiation.

Hundi as practised by Indian Merchant Communities

Name of Hundi	Broader Classification	Functions of Hundi
Dhani-jog	Darshani	Payable to any person-no liability over who received payment.

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

Indigenous banking system

- Helped in lending money and financing domestic and foreign trade with currency & letter of credit.
- People began to deposit precious metals with bankers called seths.
- Money become an instrument for supplying the manufacturers with a means of producing more goods.

Rise of Intermediaries (Brokers, commission agents, distributions) for whole sale & retail goods

- (i) Intermediaries provided security to the manufactures by taking responsibility for risk involved.
- (ii) Emergence of credit transactions and availability of loans & advances enhanced commercial operations.

Transport

Transport by land & water was popular in ancient times

Trading communities strengthened

Different parts of the country had different communities dominated trade eg. Punjabi and Multani merchants in northern India, Bhats in Gujarat & Rajasthan, Mahajans from western India etc.

Merchant corporations were formed: Merchant communities derived power & prestige from guilds which were autonomous corporations formed to protect interest of traders.

These corporations framed their own rules of membership and professional code of conduct which even kings were supposed to accept and respect.

The guild chief dealt directly with long or tax collections and settled the market toll on behalf of its fellow merchants at a fixed sum of money.

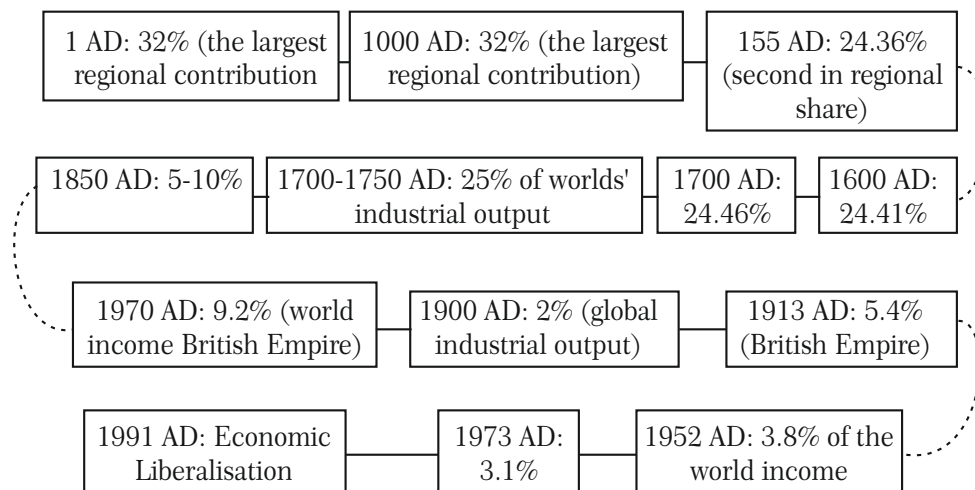
Major Trade Centres: Patliputra, Peshwar, Taxila, Indraprastha, Mathura, Varanasi, Mithila, Ujjain, Surat, Kanchi, Madura, Broach, Kaveri pata, Tamralipti.

Major Exports and Imports

Exports: Spices, wheat, sugar, indigo, opium, sesame oil, cotton, live animals & animal products like hides, furs, pearls etc.

Imports: Horses, animal products, chinese silk flax and liner, gold, silver, tin etc.

Position of Indian Subcontinent in World Economy (IAD upto 1991)



After independence five year plans were initiated. Despite these efforts Indian economy could not develop at a rapid pace, lack of capital formation, rise in population, huge expenditure on defence and inadequate infrastructure were major reasons.

Finally in 1991 India agreed to economic liberalisation. Because of this now India is one of the fastest economies of the world. Initiatives like Digital India,' 'Make in India', 'Skill India' are expected to help the economy in terms of exports and imports.

Trade and commerce has played an important role in growth of an economy from time immemorial eg. Harappa & Mohenjodaro were commercial cities in 3rd millennium BC in Indian sub continent. Physical environment of Indian subcontinent has helped it in evolving as a major power in economic world from ancient times. The silk route facilitated its further progress of domestic and international trade.

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| <p>Q.1. What is Hundi?</p> <p>Q.2. How were the different types of Hundi in use by traders in ancient times?</p> <p>Q.3. Name any two commercial cities of ancient India.</p> <p>Q.4. Write any four major exports and imports in ancient time.</p> <p>Q.5. Why do you think Indian subcontinent stood out in terms of trade and commerce in ancient times?</p> <p>Q.6. What was the role of Indigenous Banking system in enhancing trade & commerce?</p> <p>Q.7. Name any two trading communities of ancient times.</p> <p>Q.8. How did the position of Indian sub continent in world economy change from being referred British was ruling India?</p> |
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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.

Basic Meaning	Economics	Non-Economic
Meaning	Those activities whose Objective is to earn money and to create Wealth.	Those activities whose aim is not to earn money but to satisfy social psychological and emotional needs. For example love, sympathy, patriotism etc.
Objective	Main aim to generate Good or services to earn profit.	Main objective is to achieve Mental satisfaction.
Examples	<ul style="list-style-type: none"> - People working in factories. - Cooking food in a restaurant. - A teacher teaching in a school. 	<ul style="list-style-type: none"> - A house Wife cooking food for her family. - A teacher training his daughter at home.

Concept of Business

Literal meaning of Business is "BUSY".



Business is defined as an economic activity.



Involved in the production and sales of goods and services.



Undertaken with a motive of earning profit.



by Satisfying human needs in Society.

Characteristics of business :-

1. An economic activity :- Business is 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 of

procurement of goods & services for sales. Services include transportation, banking, Insurance etc.

3. Sale or exchange of goods & service 1 :- There should be sale or exchange of goods and service between the seller & the buyer. If goods are produced not for the purpose of sale but say for internal consumption it cannot be called a business activity.
4. Dealing in goods & services on 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. So businessmen try to maximize profit by increasing the volume of sales or reducing costs.
6. Uncertainty of return : Every business invests money with the objective of earning profit but the amount of profit earned may vary 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.

- Q.1 Prakash, a farmer went to the market and exchanged his rice with pulses. It is an economic activity ?
- Q.2 Mohan sells his old dressing table on OLX for ₹ 4000. Is it a business activity ? Justify.
- Q.3 Lalita, a housewife sells old newspaper of two months at ₹ 300, will you classify it as business activity ? Why?

Comparison of Business Profession and Employment

Economic Activities

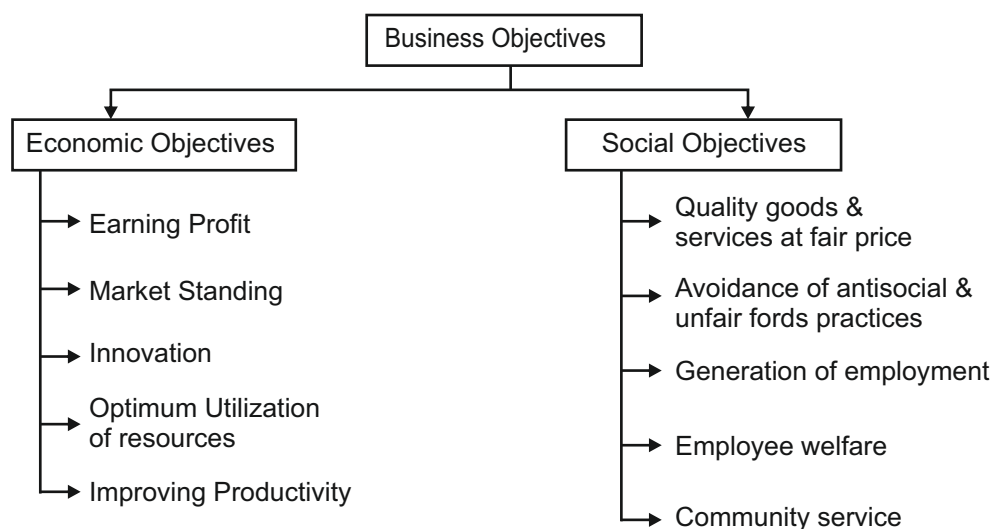
Business	Profession	Employment
<p>It Refers to those economic activities which are connected with purchase, production and/or sale of goods & services with the objective of earning profit.</p> <p>Examples:-</p> <ul style="list-style-type: none"> - Fishing - Manufacturing Goods - Mining - Producing or selling of electronic goods - Banking 	<p>It includes those activities which require special knowledge & skills in the occupation.</p> <p>Examples :</p> <ul style="list-style-type: none"> - Medical (Doctor) - Legal (Lawyer) - Accountancy (CA) 	<p>It refers to the occupation in which people work for others and get remuneration in return.</p> <p>Examples :-</p> <ul style="list-style-type: none"> - Worker - Employee - Salesman

S.N. Basis of Destruction	Business	Profession	Employment
1. Mode of Establishment	Starts after completing some legal formalities if needed.	Membership of a professional body and certificate of practical required.	Start after getting appointment letter.
2. Nature of Work	Provision of goods and services to the public.	Personalized services of expert nature.	Work allotted by the employer according to the contract.
3. Qualification	No minimum Qualification is necessary.	Professional Qualification and training required.	Qualification and training as prescribed by the employer.
4. Capital Investment	Capital needed according to its nature & size	Limited capital for established	No capital required.
5. Reward/Return	Profits	Professional Fee	Salary or wage
6. Risk	It involves high risk	The degree of risk is low	No risk in it
7. Code of conduct	No code of conduct	Professional code of conduct is to be followed.	The terms and conditions of services contract are to be followed.
8. Transfer of interest	Transfer possible with some formalities	Not Possible	Not Possible

- Q.1 Dr. Hussain is operating his own clinic. Classify his economic activity.
- Q.2 Rajana is managing her own bakery. What type of economic activity is she doing ?
- Q.3 John is working in Ranjana's bakery for a Salary of ₹10,000 per month. What is the nature of activity performed by him ?

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) Economics 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 service 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 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) Innovations : 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 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 wastage 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.

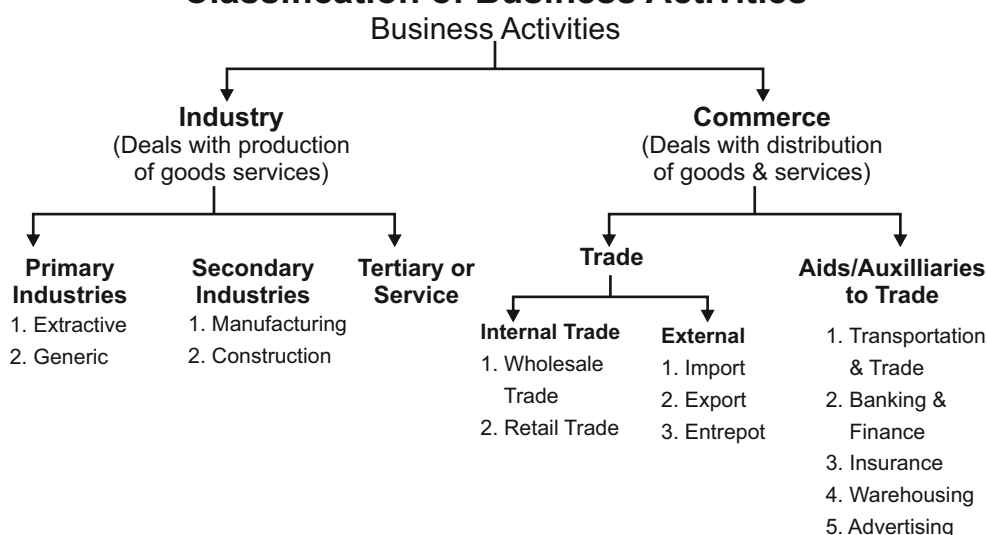
Role of Profit in Business

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 :-

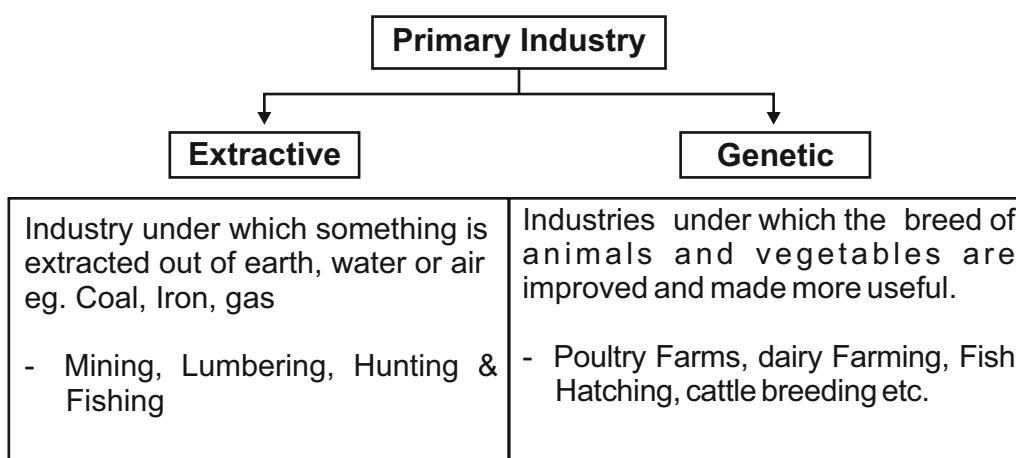
- (1) For Long Survival : Profit alone help a business to continue to exist for a long period. In the absence of profit the establishment of a particular business loses its justification.
- (2) For growth & Expansion All businessmen want their business to expand and to grow. For development of business 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

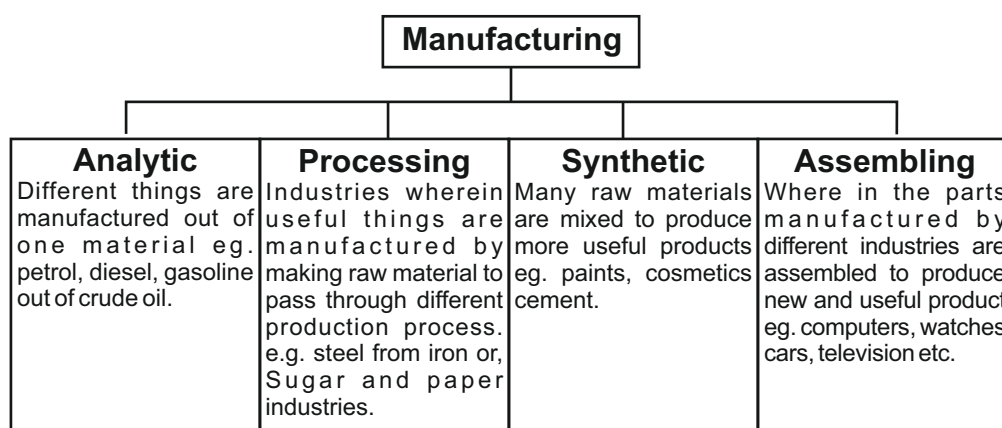


- Primary Industry** - The primary industry includes those activities through which the natural resources are used to provide raw material for other industries.



2. **Secondary Industry** - Under this industry new products are manufacturing 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.

- i) **Manufacturing** - These industries convert raw materials or semi-finished products e.g. paper from bamboo, sugar from Sugar cane. It is further divided into four parts.



- ii) **Construction Industries** - Industries that are involved in the construction of building, dams, bridge, roads as well as tunnels and canals.

- iii) **Tertiary or Service Industry** - Includes those services which help business to move smoothly e.g. transport, bank, insurance, storage and Advertising.

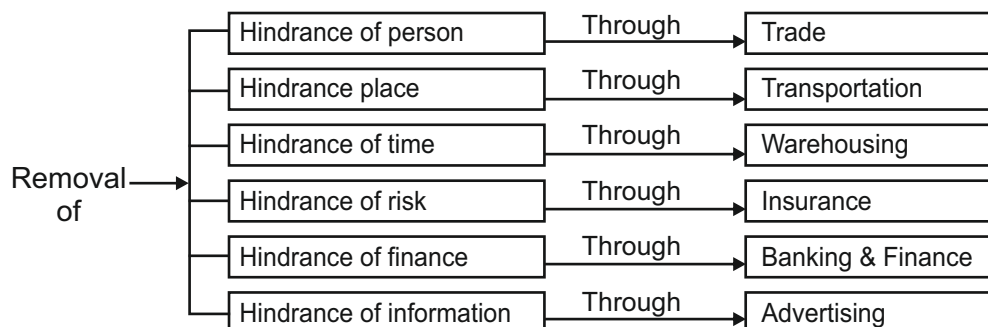
Classify the industry under which the following come under :-

- i) Mining project undertaken in Chota Nagpur Plateau region.
- ii) Oil refineries in Gujrat.
- iii) Cement industry based in Mangalore (Karnatka)
- iv) In Uttar Pradesh there are many factories where Sugar is created from Sugarcane.

Commerce :-

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

The functions of commerce are as follows.



1. Removing the hindrance of person by making goods available to consumers from the producers. through trade.
2. Transportation removes hindrance of place by moving goods from the place of production to the markets for sale.
3. Storage and warehousing activities 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 :-

1. **Internal Trade:-** Takes place within a country. Internal Trade is classified into two categories :-
 - (i) **Wholesale Trade** :- Refers to buying and selling o 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, it is called import trade.
 - (ii) **Export Trade** :- If goods are sold to other countries it is called export trade.
 - (iii) **Entrepot** :- 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 organization.
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.

Points to be remembered

1. Ahmedabad, Lucknow, Kolkata, Takshila, Surat, Ujjain, Inderprastha were major trade centres in ancient India.
2. In indigenous banking system, loans were given by 'Sahukar' at high rate of interest.
3. Business — an economic activity which is conducted on regular basis to earn profit through the production and sale of goods and services.
4. Profession — An economic activity which is conducted by a person having some special knowledge to serve.
5. Employment — An economic activity under which people work for others and received remuneration in lieu there of.
6. Objective of Business are — Profit making, creation of customers and innovation.
7. Causes of Business Risk — Human, natural, economic
8. Primary Industries — Use natural resources as raw material.
9. Secondary Industry — Use finished goods/product of primary industry as raw material.
10. Tertiary Industry — Refers to that industry which produce services.

Multiple Choice Questions

1. Which is not an economic activity?
(a) Clerical work in a bank
(b) Teaching in Govt. school
(c) Cooking by a housewife
(d) Car production
2. Which is not included in 'Auxiliary to Trade'?
(a) Animal Husbandry (b) Insurance
(c) Transport (d) Warehousing
3. Which is Extractive Industry?
(a) Building construction (b) Plantation
(c) Mining (d) Textile
4. Which is service industry?
(i) Sugar (ii) Cement
(c) Poultry farm (d) Banking
5. Risk is the result of _____.
(a) Uncertainty (b) Certainty
(c) Business activities (d) None of the above
6. Which is not the objective of business?
(a) Making profit
(b) creation of customers
(c) Investment
(d) Innovation
7. Capital is required in —
(a) Profession (b) Employment
(c) Business (d) Non-economic activity
8. Code of conduct exist in —
(i) Business (ii) Profession
(iii) Employment (iv) All of the above

9. 'Fraud by Employee' is a type of business risk —
 (i) Human (ii) Natural
 (iii) Economic (iv) All of the above
10. Which economic activity has zero risk?
 (i) Business (ii) Profession
 (iii) Employment (iv) All of the above

Match the following

Column – I	Column – II
1. Manufacturing Industries	1. Mining
2. Genetic	2. Building
3. Secondary Industry	3. Import
4. Trade Center	4. Technical change
5. Code of conduct	5. Honesty
6. Business Risk	6. Advertising
7. External Trade	7. Kolkata
8. Constructive Industry	8. Cement
9. Extractive Industry	9. Textile
10. Service Industry	10. Poultry Farm

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 ?
- Q7. A lawyer is working in a knowledge process outsourcing (KPO) organization. What type of economic activity is he performing ?
- Q8. A company has decided to donate 1% of its sales to an NGO, serving mentally disabled people. This initiative by the company was highly appreciated by the public and their sales increased by 10%
- i) Identify the objective depicted in the given example.
- Ans. i) Social objective

3/4 MARKS

- Q9. ABC Ltd. Is planting a tree on roadside. Which objective it is trying to achieve?
- Q10. All human being fulfill their different needs by performing certain activities. Can you suggest and Explain the activities undertaken by them.
- Q11. Write four differences among business. profession and employment.
- Q12. No business is risk free in the light of this statement. Explain the concept of business risk and its any three causes.
- Q13. Explain any four objectives of business.
- Q14. Define commerce. why is it of great importance in modern life?
- Q15. Distinguish between primary & secondary industry Give examples.
- Q16. 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 wit! it be categorized.

- Q17. It is one of the activities means for assisting trade and help in the promotion of the product by providing information to the consumers. Business does not exists in Isolation , it has to communicate with others and the activity help in making consumers aware and informed about the product of the company and inducing them to buy particular items.
- Which activity is discussed in the above para ?
 - What are those activities called which are meant for assisting trade ?
 - Name and explain the categories into which communication services can be classified.
- Q 18. A factory emits a lot of smoke and pollutants while manufacturing Sugar. It is overlooking the impact of its activities on the environment and is engaged in profit maximization.
- Which objective is not being fulfilled by the manufacturers?
 - Which type of industry will you classify sugar manufacturing in?
- Q 19. Rising Heights Ltd. wants to expand and grow. For this it needs funds to acquire land, building, machinery etc. Also since these assets cost a lot they want the risk associated with them to be reduced. Identify the hindrances and explain how they can be removed.
- [Hint : Hindrance of Finance and Risk]
- Q 20. Ramesh sells winter wear in the month of December, January and February but he is not able to sell his complete stock.
- Identify the hindrance
 - How can he resolve this hindrance?
 - Will this hindrance always occur ? Why ?
- [Hints : Hindrance of time resolved by warehousing, because there is time gap between production and consumption.]
- Q 21. Rajni, a house wife exchanges utensils for old clothes on a regular basis. Is it a business and why ?
- Q 22. Mr. X and Y are having a discussion. Mr. X feels that business is based on selfish desire to gain higher and higher profits while Mr. Y thinks that profit is essential for a business. Can you support Mr. Y's case by giving strong points in his favour?

5/6 MARKS

- Q23. 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
- Q24. Define business. Explain the characteristics of business, (any four)
- Q25. Commerce is considered as the backbone of industry and other business activities. Discuss the various functions performed by commerce.
- Q26. Commerce is the sum total of activities that remove hindrances in the free flow of goods from producers to consumers. Explain.
- Q27. Explain any six factors that are important to be considered while starting a business.
- Q28. Write difference among industry, commerce and trade on any five basis.
- Q29. Profit maximization can not be the sole objective of a business. Explain.
- Q30. '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]

- Q 31. 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 ?
- [Hint : No. Social objectives are not being fulfilled]**
- Q32. Classify the below given business into different types of industries.-
- (i) Crude oil business
 - (ii) Producing steel from iron ore
 - (iii) Cosmetics manufacturing
 - (iv) producing computers
 - (v) construction of dams.
- Q33. 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
- Q34. Different situations in different business are being elaborated below:-
- (i) Raghunath Gorkha had a match stick factory in Nepal which got destroyed 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 court which would lead to heavy losses for the company.

- (iv) Type writers becoming redundant because of laptops.
- (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]

- Q35. 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.
- Q 36. 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.

- Q37. Imran. Manpreet. Joseph and Priyanka have been classmates in Class X. After their exams are over. they happen to meet at a common friend Ruchika's house. Just when they are sharing their experiences of examination days. Ruchika's father. Mr. Raghuraj Chaudhury intervenes and asks about their well-being. He also enquires from each one of them about their career plans. But none of them has a definite reply. Mr. Raghuraj. who himself is a businessman. suggests to them that they can opt for business as a promising and challenging career. Joseph gets excited by the idea and says, "Yes. business is really good for making lots of money even more than is possible by becoming an engineer or a doctor." Mr. Raghuraj opines "Let me tell you. vaunts man. there is a lot more to business than merely money ? Do you agree with Mr. Raghu Raj Chaudahry's statement? What according to you are other objectives of business.]"
- Q 38. A cloth manufacture supplies his clothes to Sri Lanka, Thailand and Bangladesh. While manufacturing, some defective material was set asides the manufacturer believes in providing good quality products only. The defective material was given to Nari Niketan's women for repairing and later donated to orphanage for free.

- i) What kind of business is the cloth manufactures doing ?
- ii) Which objectives are being followed by it by donating the defective material. State them.

Q 39. Naveli, a Home Science graduate from a reputed collage has recently done a cookery course. She wished to her own venture with a goal to provide 'health food' at a reasonable price. After analyzing various option she decides to sell 'ready-made' and 'ready to make' vegetable shakes and milk shakes. She has a saving of r 5,00,000 and will bike a loan of r 10 Lakhs.

Based on the above para, identify and quote the factors that she has considered till now for starting the business.

Also explain other three factors that need to be considered.

Q 40. Classify the following into business, profession and employment.

- i) Hari sells mobile phones on behalf on his employer.
- ii) It requires minimum academic qualifications.
- iii) A hawker sells toys for children outside a function.
- iv) Sanjay is teh advocate of High Court.
- v) Dhruv is the manager of a company.
- vi) A person repairs scooters on road side.

Q 41. Ms. Meena is a lecturer is a college. She gets 72,000 p.m. as remuneration. Mr. Kund is a farmer producing 20 quintals of wheat for his own consumption and 2,000 quintals for sale Ms. Kirti, a journalist in an agency, teachers slum children after her office hours. She doesn't charge anything from them. This gives her psychological and mental satisfaction.

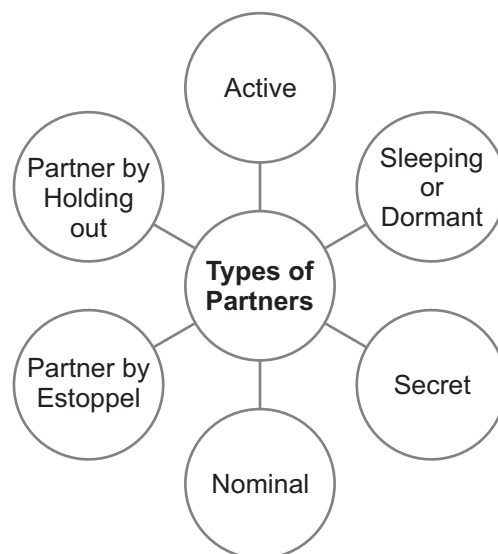
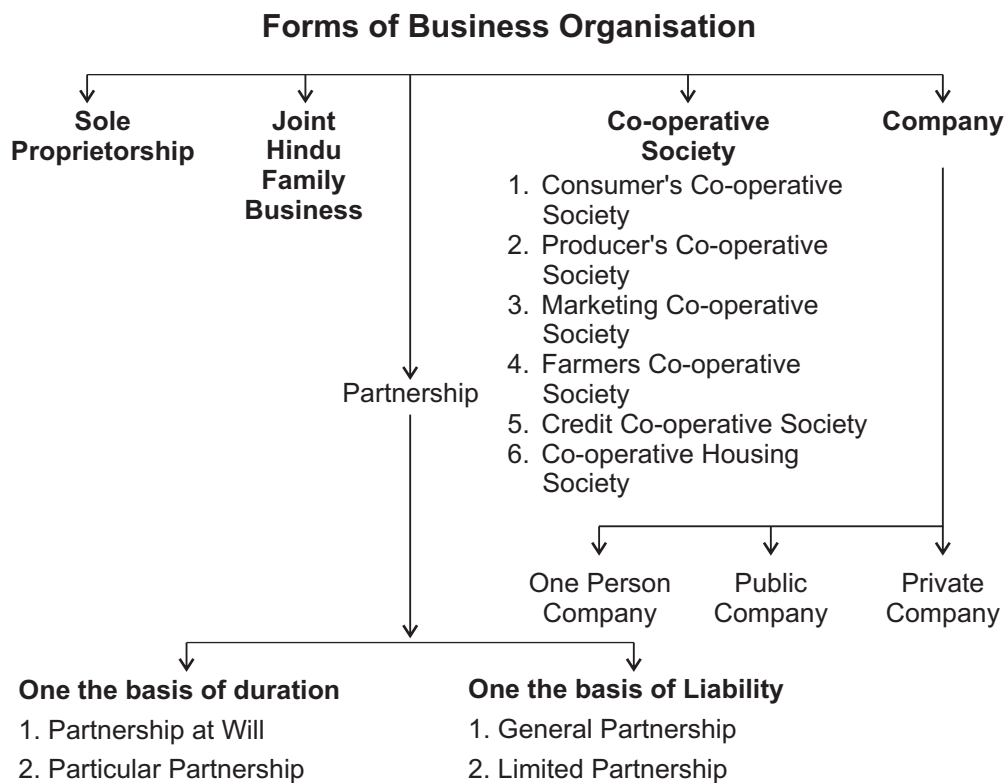
- i) Teaching in a college by Ms. Meena refers to which type of human activity.
- ii) Production of wheat by Mr. Kunal for his own consumption refers to which human activity and why ?

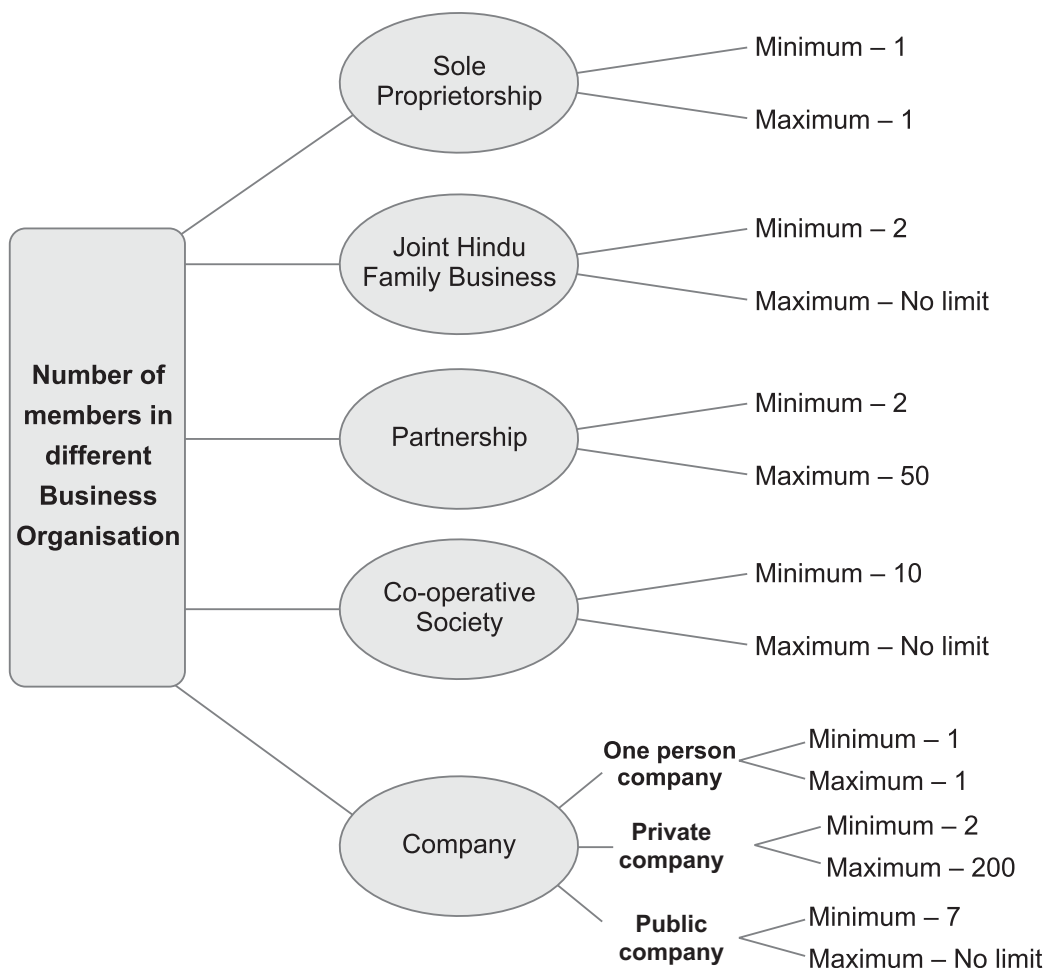
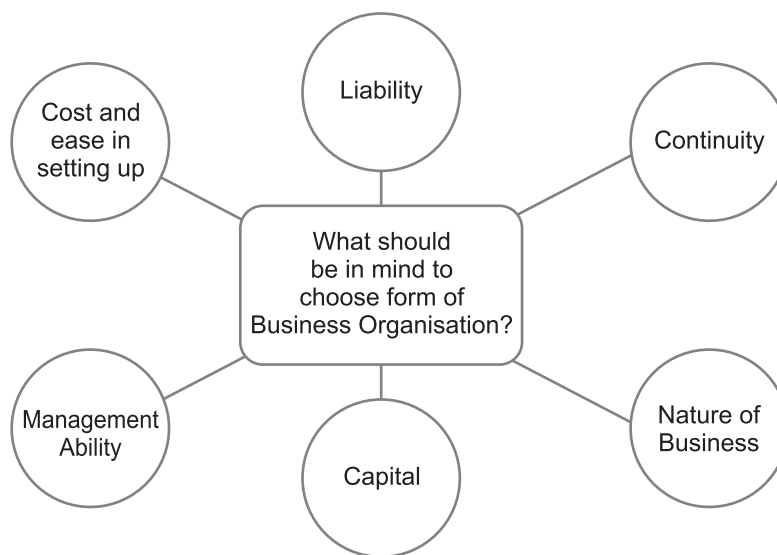
[Hints]

- Ans.
- i) Economic Activity.
 - ii) Economic activity as production of wheat by Mr. Kunal for his own consumption helps him for his livelihood.

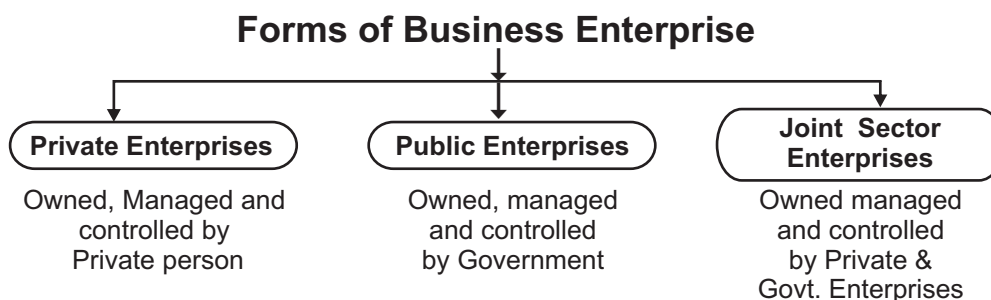
Chapter-2

Forms of Business Organization





Meaning :- A business enterprises is an institutional arrangement to form any business activity. On the basis of ownership business enterprises can be divided into following 3 categories.



Types of Private Enterprises

- | | | |
|---------------------------------|---|--------------------|
| 1. Sole proprietorship | } | Non-Corporate form |
| 2. Partnership | | |
| 3. Hindu (Joint)family business | | |
| 4. Co-operative society | } | Corporate Form |
| 5. Joint stock Company | | |

Types of Public Enterprises

1. Departmental under taking.
2. Statutory corporation
3. Govt. Company

Sole Proprietorship :-

Meaning :



Sole proprietor means a form organization in which there is only owner of business. He himself manages and is the only receipt of all profits and losses (risks).

Features of Sole-Proprietorship :-

- 1) **Single ownership** :- He is sole owner of all the assets and resources of business.
- 2) **No separate Legal Entity** :- The Business has no separate existance or entity that of the business. All the assets and liabilities of the business are that of the business man.
- 3) **No Legal Formalities** :- No Legal Formalities are required to start, manage and dissolv2e such business organization.

- 4) **Control and management :-** Sole proprietor has full power to control and manage such organizations.
- 5) **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.
- 6) **Undivided Risk :-** Means the owner bears all the losses and enjoys all the gains.
- 7) **Suitable for some special form of business :-** It is suitable in areas of personalized services and small scale activities like agriculture, the job of stitching, bakery, beauty parlour etc.
- 8) **Secrecy :-** All the important informations concerning the business rests only with the owner so that no outside party can take any under advantage of it.

Unlimited Liability

It refers that if the business gets into difficulty and can't pay its debts, the owner of the business is hold personally liable for those debts.

Merits :-

- 1) **Easy Formation :-** It can be easily started and closed as there is no need to observe any legal formalities.
- 2) **Quick Decision :-** A Sole trader takes the decision quickly as he is not required to consult anybody about his decisions.
- 3) **Secrecy :-** All the secrets are confined with the owner. They are not shared with any body.
- 4) **Direct motivation :-** Direct relationship between efforts and reward provide incentive to the sole trader to work hard.
- 5) **Personal touch :-** The side trader can maintain personal contacts with his customers and employees. In this way, good work is possible at less cost and time.

Limitations :-

- 1) **Limited financial resources :-** Funds are limited to the owner's personal savings (i.e. his capital) and his borrowing capacity.
- 2) **Limited managerial ability :-** Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
- 3) **Unlimited liability :-** As the sole trader has to face the entire risk of business, so he compels him to avoid risky and bold decisions.

- 4) **Uncertainty** :- Death, insolvency, lunacy or illness of a proprietor may leads to its closure.
- 5) **Limited scape for expansion** :- Due to limited capital and managerial skills, it can't 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 or retail store.
- Business where risk is not extensive i.e., lesser fluctuation in price and demand i.e. stationary shop.

Joint Hindu Family Business

It is owned by the members of undivided joint Hindu Family and managed by the eldest member or manager of teh family known as KARTA. It is governed by the provisions of Hindu Law. The basis of membership is birth in a particular family. The common properties include-

- a) There should be at least two member in a family.
- b) Ancestral property to be inherited by them.

There are two systems which govern membership:-

Dayabhaga System	Mitakshara System
i) It prevails in West Bengal.	i) It prevails all over India except West Bengal.
ii) It allows both male and female member to co-parceners .	ii) It allows only male members to be co-parceners

Features:-

- 1) **Formation** :- There should be at best two members in a family and some ancestral property to be inherited by them to form this type of Business.
- 2) **Membership** :- Membership automatically starts by birth in the family.
- 3) **Control** :- In this, Business is managed wholly by Karta only.

The others members can suggest him only.

- 4) **Liability** :- Liability of Karta is unlimited but of all other members in limited to the extent of their share in property.
- 5) **Permanent Existence** :- The existence is permanent like the existence of the company. There is no effect of the death, insolvency or lunacy of the members on the business.
- 6) **Minor Members** :- A minor can also become full-fledged member of the family business.
- 7) **Registration** :- There is no need of any registration.

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) **Limited Managerial Skill** :- In this, all the decisions have to be taken by the Karta but he is not intelligent in all fields of business. Therefore, sometimes the decisions taken are not favourable to the business.
- 3) **Unlimited Liabilities** :- In this, the responsibility of the Karta is unlimited so, he hesitates in taking new and risky decisions.
- 4) **Unbalanced decision** :- As Karta is overburdened, with work, he may take hasty and unbalanced decisions.

Note :- The joint Hindu Family business is in decline because of the diminishing number of joint Hindu families in the country.

- Q. Abdul is the sole owner of a shoe manufacturing factory, It expands and grows, but now it faces the problem of limited financial and managerial resources.
- i) Name the form of organization on which is being carried out by Abdul.
 - ii) Give two alternatives to solve the problem.
- [Hint : (i) Employ a paid assistant (ii) Admit one or more partners]

PARTNERSHIP

- Q.1 What is the maximum number of partners in a partnership firm with :-
- i) Banking Business
 - ii) Non-Banking Business

Definition :- According to Indian Partnership Act 1932. "Partnership is the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all."

Characteristic of Partnership :-

- i) **More than one person :-** Partnership needs a minimum number of two persons and maximum 20.
- ii) **Agreement :-** It is an outcome of an oral or written agreement.
- iii) **Profit motive and sharing of profit :-** Main characteristic of partnership is to earn profit in business and divide it among the partners.
- iv) **Decision making and control :-** Every partner has a right to participate in management and decision making.
- v) **Unlimited Liability :-** Partners have unlimited liability.
- vi) **Loss of continuity :-** Firm's existence comes to an end by the death, lunacy and insolvency of any of its partner.
- vii) **Principal Agent Relationship :-** Every partner plays a double role of an owner and an agent.

Merits of Partnership :-

- i) **Ease of Formation and closure :-** It can be easily formed and closed without any legal formalities.
- ii) **Large financial Resources :-** There are more funds as

capital contributed by number of partners.

- iii) **Balanced Decisions** :- As all important decisions are taken jointly by partners, they are good and balanced.
- iv) **Sharing of Risks** :- Risks get distributed among partners. Which reduces burden and stress on individual partner.
- v) **Secrecy** :- The accounts of partnership firms are not presented before public and are not required to publish. So, business affairs are kept secret.

Limitations :-

- i) **Limited Resources** :- As there is a restriction on the number of partners so capital contributed by them is also limited.
- ii) **Unlimited liability** :- The liability of all partners is unlimited.
- iii) **Lock of continuity** :- Partnership comes to an end with the death, retirement, insolvency or lunacy on any of its partner.
- iv) **Lack of public confidence** :- Partnership firms are not required to publish their reports and accounts. Thus, they lack public confidence.
- v) **Lack of Harmony** :- Because of more people, there can be difference of opinions which leads to discord and lack of co-ordination.

Note : When the business happens to be of medium size and the partners have mutual understanding and goodwill, then partnership form of business organisation is the best eg. C.A. firms, hotels and factories of middle level etc.

Types of Partners

i) Classification on the Basis of Duration

Partnership at Will	Particular Partnership
This type of partnership exists at the will of partners and continues for unlimited time.	This type of partnership is formed by specified objective and comes to an end after accomplishment of objective.

ii) Classification on the basis of Liability :-

General Partnership	Limited Partnership
<ul style="list-style-type: none"> i) Liability of partnership is limited and joint. ii) Each partner participates actively in business management. iii) Registration is optional. iv) The continuity of business is affected by the death, lunacy, insolvency or retirement of the partners. 	<ul style="list-style-type: none"> i) Liability of at best one partner is unlimited where as the others may have limited. ii) They do not have right to manage business management. iii) Registration is compulsory. iv) Continuity of limited partnership doesn't get affected by the death, lunacy or insolvency of the partner with limited liability.

Type	Capital Contribution	Managing business	Profit Sharing	Liability
Active Partner	Contribution capital	Participated in management of firm.	Share its profits & losses.	Unlimited Liability
Sleeping/ Dormant Partner	Contributes capital	Doesn't take part in day to day activities of business.	Share its profits & losses.	Unlimited Liability
Secret Partner	Contributes capital and is unknown to general public.	Participates in management of firm.	Share its profits & losses.	Unlimited Liability
Partner by Estoppel	Do not contribute capital but by his words or conduct, impress other to be a partner.	Do not participate in management of firm.	Do not share its profits & losses.	Unlimited Liability
Partner by Holding out	Do not contribute capital. He doesn't deny others to represent him as partner.	Do not participate in management of firm.	Do not share its profits & losses.	Unlimited Liability
Nominal Partner	Do not contribute capital. He allows the use of his name.	Do not participate in managerial activities.	Generally do not share its profits & losses.	Unlimited Liability
Minor Partner Partner of age below 18 year	Do not contribute capital.	Do not participate in management of firm.	Share its profits & not the losses.	Unlimited Liability

Partnership Deed :- The Written agreement on a stamped paper which specifies the terms and conditions of partnership is called the Partnership Deed.

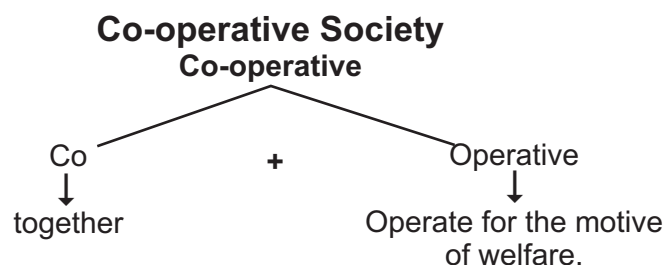
It generally includes the following aspects :-

- 1) Name and address of the firm.
- 2) Names and Address of Partners.

- 3) Duration of Partnership.
- 4) Scope of Business.
- 5) Contribution of Capital by Partners.
- 6) Profit and loss Ratio.
- 7) Terms relating or salaries, drawing interest on capital and interest on drawing of partners.
- 8) Duties & obligations of partners.
- 9) Terms governing admission, retirement & expulsion of a power.
- 10) Method for solving disputes.
- 11) Valuation of goodwill.

Registration of Partnership :- Registration is not compulsory but it is always beneficial to get the firm registered. The consequences of non-registration of a firm are as follows :-

- i) A partner of an unregistered firm can't file suit against the firm or the partner.
- ii) The firm can't file a suit against third party.
- iii) The firm can't file a case against it's partner.



'Co-operative' means working together and with others for a common purpose. A Co-operative society means a voluntary organization which is established by some persons on the basis of co-operative and equality to safeguard their common economic interests.

Features :-

- 1) **Voluntary Membership :-** Every one having a common interest is free to join a co-operative society.
- 2) **Legal Status :-** Its registration is compulsory and it gives it a separate legal identify.

- 3) **Limited Liability :-** The liability of the members is limited to the extent of their capital contribution in the society.
- 4) **Control :-** Management and control lies with the managing committee elected by the members by giving vote.
- 5) **Service motive :-** The main aim is to serve it's members and not to maximize the profit.
- 6) **Cash trading :-** They give preference to cash trading.
- 7) **Government control :-** They have to sent their annual report and accounts to the register so that the government exercise it's control from time to time by checking their accounts.
- 8) **Arrangement of Finance :-** They arrange finance from sale of shares to members, loans obtained from the government etc.

Merits of Co-operative Societies :-

- 1) **Ease of Formation :-** Any ten adults having common objective can establish co-opetative society by getting registered with register.
- 2) **Stable existance :-** Due to registration it is a separate legal entity and is not affected by the death, lunacy or in solvency of any of its member.
- 3) **Limited liability :-** The liability of members is limited to the extent of their capital contribution.
- 4) **Supply of Goods ay Cheaper Role :-** These societies benefit their members by supplying them goods at cheaper rates than the market.
- 5) **Government Support :-** Govt. provides support by giving loans at lower interest rates, subsidies and by charging less taxes.

Limitations :-

- 1) **Shortage of Capital :-** It suffers from shortage of capital as it is usually formed by people with limited means.
- 2) **Inefficient Management :-** These are managed by elected members who may not be competent and experienced. Due to lack of managerial knowledge. They can't run the society effectively.
- 3) **Lack of Secrecy :-** These have to send their annual reports and accounts to the registrar of co-oprative societies. In this way, the secrets of business become public.

- 4) **Excessive Govt. Control :-** It suffers from excessive rules and regulations of Govt.
- 5) **Conflict among members :-** The members are from different sections of society with different view point. Sometime as when some members become rigid the result is conflict.
- 6) **Lack of motivation :-** Members are not inclined to put their best efforts as there is no direct link between efforts and rewards.

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. **Producers 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 under the 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 has 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 shares 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 c.,•rector 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 tapism 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 :-

- | | |
|--------------------|--------------------|
| i) Private Company | ii) Public Company |
|--------------------|--------------------|

Private Company :

Acc to Sec 2(68) of Companies Act, 2013, a Private Company means a company which :

1. Restricts the right of members to transfer shares.
2. Restricts the no. of its members between 2 to 200 excluding present and previous employees of Co. who are members also.
3. Puts a ban on inviting the public to subscribe to its shares.
4. Puts a ban on inviting the public to subscribe to its public deposits.
5. Must have a min. paid up share capital of 1 lakh rupees.

Public Company :

Acc to Sec 2 (71) of Companies At, 2013 a Public Company means a company which is not a private company. A public Company is one which :

1. has no restriction on the transfer of its shares.
2. has no max limits of its members
3. has no restriction on inviting the public to subscribe to its shares and debentures
4. has no restriction on inviting public to subscribe to its Public deposits.
5. has a min. paid up capital of 5 lakh rupees.

Difference between A Private and A Public Company.

Basis	Private Company	Public Company
1. Name	It has to write private Ltd. after its name	It has to write only Ltd. after it's name.
2. No. of Members	Minimum -2 Maximum-50	Minimum-7 Maximum-No Limit
3. No. of Directors	Minimum -2 Directors	Minimum - 3 Directors
4. Minimum paid-up share capital	1 Lakh	5 Lakh
5. Invitation to public	Pvt. Co. can't invite public for issuing shares and debentures.	Public Company can invite public for issuing its shares & debentures.
6. Transfer of shares	No freedom to transfer shares.	No restriction on transfer of shares.
7. Index of members	Not essential to prepare an index of members.	If no. of members exceeds 50, then it is necessary to prepare index of members
8. Commencement business	After getting certificate of Incorporation.	After obtaining certificate of commencement of business

Questions :-

- i) How will you identify whether the company is private or Public?
- ii) Give two examples of Private companies?
- iii) Give two examples of Public companies ?

One Person Company :

One Person Company refers to a company which has only one person as a member and which works on the principle of an ordinary company.

Causes of the Formation of OPC

1. Making the unorganised sector as organised - Sole traders have got a good opportunity to move from the unorganised sector and enter the organised sector without getting other people to join him and have all benefits of an organised sector.

2. Perpetual Succession.

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.

- 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.
- 2. Feasibility Studies :-** After identifying a business opportunity the promoters undertake detailed studies of technical, Financial, Economic feasibility of a business.
- 3. Name Approval :-** After selecting the name of company the promoters 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 hares, underwriters are the person who undertake to buy the shares if these are not subscribed by the public. They receive a commission for underwriting.

4. **Minimum subscription :-** According to the SEBI guide lines minimum subscription is 90% of the issue amount. If minimum subscription is not received then the allotment cannot be made and the application money must be returned to the applicants within 30 days.
5. **Application to Stock Exchange :-** It is necessary for a public company to list their shares in the stock exchange therefore the promoters apply in 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 com-mencement 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 clause** - This clause contains the name of the company. The proposed name should not be identifier similar to the name of another exiting company.
2. **Situation clause** - 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 affairs of a company. The articles define 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.

I. Prospectus:

Prospectus means any document which invites deposits from 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% of 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 in 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 submit a statement in lieu of prospectus with the Registrar of companies.

It contains information much similar to that of a prospectus.

Q.1 Name the documents :-

- i) Which document defines the objectives of joint stock company?
- ii) In which document are the rules for attaining the internal objectives mentioned in the Memorandum of Association.

**Difference between Memorandum and
Articles of Association**

Basis	Memorandum of Association (M.O.A)	Articles of Association (A.O.A.)
1. Objectives	It defines the objectives of the company.	It defines the rules for attaining the objectives mentioned in memorandum of association.
2. Position	Very Important document.	Subsidiary document.
3. Validity	The activities beyond the power of M.O.A. are not considered to be performed by the company and even all the members can't rectify them.	Activities beyond the powers of A.O.A. are also void. But their rectification is possible by the members.
4. Relationship	Defines the relationship between the company & the outsiders.	Defines the relationship between members and the company.
5. Necessity	Its preparation is necessary to get the company registered.	Necessary for private company but not necessary to prepare for Public company.
6. Alteration	It can't be easily altered many matters require approval of court.	It can be easily altered by a special resolution.

Choice of Forms of Business Organization :- The following factors are important for taking decision about form of organization.

- i) **Cost and ease in setting up the Organization :-** Sole proprietorship is least expensive and can be formed without any legal formalities to be fulfilled. Formation of a company is expensive with lot of legal formalities. So, sole proprietorship is better.
- ii) **Liability :-** The liability of the owners in sole proprietor business and partnership business is unlimited but the responsibility of the share holders in a company is limited. So, Company organization should be selected.
- iii) **Continuity :-** In sole proprietorship and partnership firms death, lunacy or insolvency of any of its member, business ends but in Joint Hindu Family Business & Co-operative Societies company business is not affected by there above picture. So, company co-operative society are much better to be chosen.
- iv) **Managerial Needs :-** In sole proprietorship & Joint Hindu Family Business, experts opinion is not affordable but companies can afford experts for management. so keeping in view, the nature of work and managerial needs company is liked.
- v) **Capital Considerations :-** Business activities requiring huge financial resources prefer company form while for small & medium size business, partnership or sole proprietorship is better.
- vi) **Control :-** For direct control & direct decision. Sole proprietor is liked while where the control has to be shared, they prefer company.
- vii) **Nature of Business :-** If the work requires personal attention, it is generally set up as a sole proprietorship Units engaged in large scale manufacturing are more likely to be organized in company form or partnership form.

Points to be remembered

1. There are different forms of organisation —
 - Sole Proprietorship
 - Partnership
 - Joint Hindu Family Business
 - Co-operative Society
 - Company
2. There is unlimited liability in sole proprietorship, Joint Hindu Family Business and Partnership.
3. There is limited liability in co-operative society and company.
4. Registration is not required in sole proprietorship, Joint Hindu Family Business and Partnership. While it is required in co-operative society and company.
5. Co-operative society and company are separate legal entity.
6. Schools of Hindu Law —
 - (I) Mitakshara – It is applicable in all India except Assam, West Bengal and some parts of Orissa.
 - (ii) Dayabhag – It is applicable in Assam, West Bengal and some parts of Orissa only.
7. Stages of formation of company —
 - (I) Promotion
 - (ii) Incorporation of registration
 - (iii) Commencement of Business
8. Main documents of a company —
 - (i) Memorandum of association
 - (ii) Articles of association
 - (iii) Prospectus
9. Clauses of memorandum of Association
 - (i) Name clause
 - (ii) Situation clause
 - (iii) Objects clause
 - (iv) Liability clause
 - (v) Capital clause
 - (vi) Subscription clause

Multiple Choice Questions

1. Which forms of business organisation has not the feature of unlimited liability?
(a) Sole Proprietorship (b) Partnership
(c) Joint Hindu Family Business (d) Company
2. Registration is compulsory in —
(a) Sole proprietorship (b) Co-operative Society
(c) Partnership (d) Joint Hindu Family Business
3. What are the maximum number of members in a Public Company?
(a) 50 (b) 10
(c) Unlimited (d) 200
4. What are the main documents required to form a company?
(a) Memorandum of association (b) Article of association
(c) Prospectus (d) All of the above
5. Which of the following is a public company —
(a) Samsung (b) PARLE
(c) BHEL (d) Airtel
6. Which of the following has a separate legal entity?
(a) Co-operative society (b) Partnership
(c) Joint Hindu Family Business (d) All of the above
7. Which of the following statement is true?
(a) Partnership is registered under Partnership Act 1986
(b) A minor can't be partner
(c) Written agreement among partners is called partnership deed.
(d) There should be minimum 3 directors in one person company.
8. Partnership is registered under —
(i) Partnership Act 1932
(ii) Partnership Act 1948

- (iii) Partnership Act 1910
- (iv) Partnership Act 2013
- 9. Joint Hindu Family Business is managed by —
 - (a) Eldest female member (b) All members
 - (c) Jointly male and female members (d) Karta
- 10. A partner who allows the use of his name but neither contribute capital nor participate in management is called —
 - (a) Active partner (b) Sleeping partner
 - (c) Nominal partner (d) Minor partner

State whether True/False —

- (I) Secrecy can be maintained in company.
- (ii) A minor can be a partner in partnership for profits only.
- (iii) There is no restriction on transfer of shares in public company.
- (iv) A private company can commence of its business without obtaining the certificate "Commencement of Business".
- (v) Table 'A' is applicable in the absence of Article of Association.

Answer the following questions in one or two words –

- (I) What is the name of first stage fo formation of a company?
- (ii) Name the document in which all terms and conditions are described to operate partnership.
- (iii) Name the partner who contributes capital in partnership and responsible for profit & loss but doesn't take part in day to day activities of business.
- (iv) Is it compulsory to issue prospectus for public company?
- (v) What is the minimum number of members in a public company?

1 Mark Questions :-

- 1. Write the name of form of business organization found only in India.
- 2. Name two types of business in which sole proprietorship is very suitable.

3. Name the person who manages a Joint Hindu Family business.
4. Write the names of systems which govern membership in Joint Hindu Family business.
5. Enumerate the two conditions necessary for formation of Joint Hindu Family business.
6. What is the minimum no. of persons required to form a co-operative society?
7. Explain the meaning of unlimited liability.
8. Name the type of Co. which must have a minimum paid up capital of 5 lakhs.
9. What is meant by minimum subscription ?
10. Identify a company which has no restriction of on transfer of shares.
11. Maruti Suzuki Pvt. Ltd. and Tata Iron and Steel company are name of two companies. Identify whether they are public companies or Private companies.
12. Rohit and Shweta are partners in a partnership business. To avoid conflicts they want to have a written agreement. Name the agreement.
13. ABC Ltd. is required to issue a prospectus. Which type of company is it ?
14. Employees of DCM Ltd. formed a society to purchase land and construct flats for their members. Which is this form of business organization.

3-4 Marks Questions

15. Explain the concept of mutual agency in partnership with suitable example.
16. What is the rate of Karta in Joint Hindu Family business ?
17. Name the types of company which two persons can start.
18. What is meant by partner by estoppel ?
19. Define prospectus. Name any three main contents of prospectus.
20. Who is a secret partner?
21. Write a short note on producer co-operative society.
22. Explain a co-operative organisation in democratic setup.

23. 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]
24. 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. 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]
25. 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 ?
26. 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 ?
27. Explain any four limitations of Joint Stock Company.
28. 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 mean while, 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 ?
29. Rohan has a shop of stationary products. He takes assistance from his brother to handle it and pays him a fixed salary. He also employed a 11 year old boy for his shop. Both the brothers regularly abuse him and cut his wages as and when desired.
i) Which form of organization is referred here ?
ii) Write any one feature associated with it.
30. Ravina is a Science teacher in a coaching institute. She is not satisfied with the salary being received here. So she decides to start her own coaching institute. But students generally take

coaching for Science as well as maths. What do you recommend Ravina to do ?

[Hint : Go for partnership with a maths expert.]

31. The business assets of a firm are worth \$70,000 but debt remain unpaid at worth \$1,00,000. What course of action can creditors take in following cases !
 - i) The organization is a sole proprietorship firm.
 - ii) The organization is a partnership with 2 partners A and B sharing profits and losses equally.
32. Sita and Zoya are two friends belonging to Hindu and Muslim religion. They start a business of handicrafts together. They decide to open the factory in rural area and give employment opportunities to local residents.
 - i) Which form of business organization have they opted ?
 - ii) Write any one feature of the form ?
 - iii) Mention the values involved in this question.
33. Continuous exploitation of milkman of Channarayana village by the intermediaries compel them to form a voluntary association to protect their interest gain access to markets there by ensuring maximum returns for their efforts and welfare of the members.
 - i) Name the form of business organization adopted by the milkman.
 - ii) Give an example of organization identified in (i) above
 - iii) Which principle governs such organization and how government support them ?
34. All the members of a company are killed in an earthquake. While holding a general meeting. Will the company wind up ? Why ?
35. Rohit and Mohit are partners dealing in shares. Mohit uses firm's money to buy shares on his name. He didn't disclose this information with his friend Rohit.
 - a) Does Rohit have any share in the profit earned from sale of these shares?
36. Rohan, Sohan and Mohan are partners of a business of publishing books. They have adopted three villages which are educationally backward. Every year they distribute books to schools established in these villages for free to promote education. Write any one feature of partnership. Identify three values followed by the partnership firm.

37. Star Ltd. has received applications for 48 crores (issue size was 50 crores). Discuss the documents filled with the register of companies.

[Hint]:

- i) A declaration that 90% of the issued amount has been subscribed.
 - ii) A declaration that all the directors have paid in cash in respect of allotment of shares made to them.
 - iii) A statutory declaration that the above requirements have been completed and must be signed by the director of company.
38. Aditya is promoting a company. Before the company is formed, he enters into a contract with DLF for purchase of land and also agreed to pay 10 crores within a period of 2 months. The company was formed within 1 month. On the basis of the facts, answer the following :-
- i) Which type of contract is entered by Aditya ?
 - ii) Is the contract legally binding on the company ?
 - iii) Can DLF Ltd. hold Aditya liable for the payment money?
 - iv) What can the company do to prevent Aditya from such a situation?

5-6 Marks Questions :-

39. Differentiate between private & public company.
40. Mr. Amit Kumar is interested in the floatation of a company. Briefly discuss the steps he should take.
41. Discuss the reasons of superiority of joint stock company over sole proprietorship and partnership.
42. 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.

43. 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.
- Which form of business is being undertaken by Dhirubhai Chaurasiya ?
 - Identify the features of this form of business based on the information given.
 - Textile business is part of which type of industry according to you ?
44. 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"
- From the above information, identify the form of business organisation used by Amul.
 - Also quote the line which suggest its features ?
 - According to you. Amul is part of which type of industry ?
45. 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.
- Classify the business activity undertaken by Mohan & Ramesh.
 - What form of business is Sohan doing with his friends. write any two features of the form ?
 - What type of business risk is faced by them ? Explain
46. 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]

47. 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.
48. Comment on the following :-
- i) Meeting of X Ltd. was going on in which all the members of the company were present suddenly a natural calamity occurred and all the members of the company X Ltd. died. What would happen to the existence of the company 'X' Ltd. Why?
 - ii) The company being an artificial person acts through its Board of Directors. All the agreements on behalf of the company are entered by the Board of Directors. When is an agreement entered by the Board of directors not legally binding on the company.
49. Sachin's father Mahesh was running a small shop selling accessories such as artificial jewellery, hair caps etc. Over the past couple of months he has been facing problem in managing it due to increase demand of the items. Although Sachin also helps his father but they both fail to attend all the customers due to space constraint. Non-availability of required finance acts as a hindrance in expanding their business. Sachin asks his father to join hands with Raja (his father's friend) to solve the problem. His father agreed and entered into agreement with Raja in writing containing various terms and conditions.
- i) Which form of business organization does Mahesh form with Raja ?
 - ii) Which documents contain the written agreement specifying the terms and conditions between Mahesh and Raja ?
 - iii) In which form of business organization Sachin help his father to attend customers.
50. Sonu, a tailor by profession was working in a famous boutique in Kamla Nagar. He was a skilled worker with many years of experience at and saving worth rupees 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 Sonu undertaking when he was working in a boutique?
 - (b) Which form of business organization did he opt for later?
 - (c) Identify any 2 merits & 2 demerits you can recognize of the form of business opted by him.
51. Aarti is a sole proprietor. Over the past 15 years, her business has grown from operating a neighbourhood shop selling Kurtis, bags, cosmetics etc. to a retail chain with four branches in 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 then which of the two options is better?
52. Identify the type of partner highlighted in the following statements:
- i) This partner doesn't take part in the day to day activities of the business.
 - ii) He gives an impression of his being partners to others by his words or conduct.
 - iii) He allows reuse of his goodwill to benefit the firm and can be represented as a partner.
 - iv) He is represented as a partner and in spite of knowing this, he does not deny such impression.
 - v) His association with the firm is not disclosed to the general public.
 - vi) This takes active part in carrying out business of the firm.
53. Which form of business organization is suitable in the following cases :-
- i) A business organization having stability and continuity.
 - ii) There should be minimum expenses in starting the business.
 - iii) The business organization should be suitable from the point of view of investors.
 - iv) The ancestral property is to be used for doing the business.
 - v) More funds and professional services are required.

Chapter-3

Private, Public and Global Enterprises

Since the Indian economy consists of both privately owned and government owned business enterprises, it is known as a mixed economy.

Indian Economy		
Public Sector Enterprises	Private Sector Enterprises	Global Enterprises Enterprises
1. Department undertakings Indian railways, Indian Post, Doordarshan	1. Sole Proprietorship 2. Joint Hindu Family Business 3. Partnership 4. Co-operative Societies 5. Company	1. MNC's Ranbaxy, Lipton 2. Joint Venture Maruti Suzuki 3. PPP
2. Statutory Corporation LIC, FCI		
3. Govt. Company Hindustan Tools Ltd., BHEL		

Private sector Enterprises

It consist of business owned by individuals or a group of individuals whose main objective is to earn profit and growth of business. For example Reliance Industries limited, ITC limited, HDFC Bank limited etc.

Public sector Enterprises

It consists of various organization owned, managed and controlled by central or state of by both government. For example- Indian Railway, Indian Post, Doordarshan, Bharat Heavy electricals Limited (BHEL) etc. Its main objective is public welfare or service.

FORMS OF PUBLIC ENTERPRISES

1. Department Undertaking
These are established as departments of the ministry and are financed, managed and controlled by either central govt. or state govt. or jointly by both. For examples-Indian Railways, Post & Telegraph, Doordarshan, Prasar Bharti.

Features

- 1) It is established as a department of the concerned ministry under the control of State Govt.
- 2) **No Separate Entity :-** It has no separate legal entity.
- 3) **Finance :-** It is financed by annual budget allocation of the govt. and all its earnings go to govt. treasury.
- 4) **Accounting & audit :-** The Govt. rules relating to audit & accounting are applicable to it.
- 5) **Staffing :-** Its employees are govt. employees & are recruited & appointed as per govt. rules.
- 6) **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) Due to budgetary, Accounting and audit controls, risk of misuse of public funds is less.
- 5) It is suitable for activities where secrecy and strict control is required like defence production.

Demerits

- 1) It lacks flexibility which is essential for smooth operation of business.
- 2) It suffers from political interference in their day to day working.
- 3) It suffers from red tapism in day to day work and any required action is taken after completion of proper process.
- 4) These organizations are usually insensitive to consumer needs due to absence of competition and monopoly.
- 5) Such organizations are managed by civil servants and govt.

officials who may not have the necessary expertise and experience in management.

Suitability :-

- 1) Where full Govt. control is needed.
- 2) Where secrecy is very important such as defence Industry.

Box -1

Following Departmental undertakings come under which ministers :-

- 1) Air India Limited
- 2) Coal Indian Limited
- 3) C.B.S.E.
- 4) Kendriya Vidyalaya Sangathan
- 5) National Highway Authority of India.

[Hints :]

- 1) Ministry of Civil Aviation
- 2) Ministry of Coal
- 3) Ministry of Human Resources Development
- 4) Ministry of Road Transport & Highways

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, GAIL, SCI, FCI

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. There is no govt. interference in day to day functioning.

4. It has its own staff, recruited and appointed as per the provisions of act.
5. Its initial capital is provided by the govt.
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 decision :-** 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 :-** These are independent in recruitment and selection of their employees and professionals. Experience and specialists are appointed on important posts.

Demerits

1. In reality, there is not much operational flexibility. It suffers from a lot of political interference from minister, Govt. officials and political parties.
2. Usually they enjoy monopoly in their field and do not have profit motive due to which their working times tend 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 : Public enterprise is suitable when :-

- i) The enterprise requires special powers 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. It is registered as per company act, 1956.

Examples :- State Trading Corp. of India, Hindustan Machines Tools.

Features

1. It is registered and incorporated under companies Act, 1956
2. It has a separate legal entity.
3. Govt. has minimum 51% of paid up capital.
4. It is managed by board of director selected by Govt. and other shareholders.
5. Employees are recruited and appointed as per the rules and regulations contained in its Memorandum and Articles of Association.
6. The Govt. Co. obtains 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. There is no need to pass special act in the parliament.
2. It enjoys full 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. Official, 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 Govt. want to work along with private sector.
- ii) Where projects need govt. planing and funds.

Box 2

Q.	Identify the type of public sector enterprise in the following cases where.
a)	Govt. wishes to bring its own enterprise so that it can complete with the private sector.
b)	Enterprise requires special powers to fulfill a particular purpose for social cause.
c)	Enterprises is required to provide public utilities and to control the monopoly of private sector in public interest.
Ans.	a) Govt. Company b) Statutory Corporation
	c) Departmental Undertaking

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 different sections of society.

The role and importance of public sector in the society has been changing with time. Its role in the development of the country 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 transport, communication, Electricity, Generation, iron and Steel, oil refineries, heavy engineering 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 private sector was hesitant to establish industries in backward or remote areas due to lack of infrastructure. To provide employment to the people and to accurate the economic development of backward areas, many new industries were set up by Govt. in these areas.

3. **Economies of scale** :- In certain industries (like Eclectic 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. **Restricting Economics Concentration** :- Only few industrial houses in private sector had invested at large scale, resulting in concentration of capital in few hands. As a result, monopoly increased and leads to inequality of income. To stop such practices, industries were established in public sector so that large scale division of income and money among workers and labour is done.
5. **Import Substitution** :- Firstly Public Enterprises were established in production of capital equipments which were earlier imported from other countries. And several enterprises were also established to promote export of goods. It increase the foreign currency reserves a lot. Very important role was assigned to public sector but its performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

Public Sector Reforms

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

- i) Reduction in No. of Business reserved for public Sector 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 public sector was provided with greater autonomy govt. lays down performance target for the management and gives greater autonomy these units to hold the management accountable for the results.
- iii) **Disinvestment** :- Equity Shares of some 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) **Re- structural and Revival** :- All public sector sick units were referred to Board of Industrial and financial RE-Construction (BIFR). Units which were potentially viable were restructured and which could not be reviewed were closed down by the board.

Multinational Companies/Global Enterprises

Multinational company may be defined as a company that has business operation in several countries by having its factories, branches or office in those countries. But it has its headquarter in that country where it is incorporated. Examples :- Coca Cola, Sony, Reebok etc.

Features

1. **Huge capital Resources :-** MNCs possess huge capital resources and they are able to raise a lot of funds from various sources.
2. **International Operations :-** MNCs do business in several countries. For this it has business, factories and offices in several countries.
3. **Centralized control:-** MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. and there is no interference 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 organisations 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 Strategic -** 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 idea and technology to develop innovative products and service. As a result, new products and their new uses come in the market.
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. New products of such brands names can be easily launched in the market.
7. **Division of Risk :-** Inherent risk of new project get divided among partners of joint venture and it also increases the competitive powers of small firms.

Public Private Partnership (PPP)

It means an enterprise in which a project or service is finance and operated through a partnership of public and private enterprise. PPP is a long term partnership between public and private sector. PPP model is being used in following areas :-

- 1) Transport - Road, Railway and Toll Bridge
- 2) Health - Hospital
- 3) Water - Collecting, Cleaning and Distributing
- 4) Education - School and University

Features of PPP

1. Facilities partnership between public sector and private sector.
2. Pertaining high priority project.
3. Suitable for big project (Capital intensive and heavy industries.)
4. Useful in public welfare projects example Delhi Metro Railway Corporation.
5. Sharing revenue - Revenue is shared between public and private enterprises in the agreed Ratio.

Box 3

- | | |
|--|--|
| <p>Q. Identify the enterprises :-</p> <p>a) Such enterprises brings in advance Technology from home country.</p> <p>b) Such enterprises helps in completing public utilities project at much higher speed, with the help of private sector.</p> <p>c) Such organization is formed by 2 or more business organization, pooling their resources to achieve particular goals.</p> <p>d) In such organizations at least 51% capital is held by Govt.</p> | <p>Ans. a) Global Enterprises (MNCs)</p> <p>b) Public Private Partnership</p> <p>c) Joint Venture</p> <p>d) Government Company</p> |
|--|--|

Points to be remembered

1. Private Sector's Business are owned by private individuals or groups — Reliance Industries, Airtel, LG, Samsung.
2. Public Sector Business are owned by the State.
3. When two or more companies agree to run a business for specific purpose, it is called joint venture.
4. Departmental undertakings are run as a part of govt. dept under the direction of the minister concerned.
5. Public corporation is created by a Special Act of Parliament or State Legislature.
6. Govt. Company is a Public Enterprises which has a minimum 51% of the paid up capital in the name of the Central Govt. or State Govt.
7. MNC's are those companies which run in more than one Country.
8. PPP — Public Private Partnership — refers to the investment of private sector in the govt. projects aimed at Public Benefit.

MCQ's

1. LIC is the example of —
(I) Departmental undertaking (ii) Statutory corporation
(iii) Govt. Company (iv) Private company
2. Which of the following is govt. company —
(I) Hindustan Steel Ltd. (ii) Tata Steel Ltd.
(iii) Jindal Steel Ltd. (iv) All the above
3. Which of the following is related to a specific ministry?
(I) Indian Railway (ii) FCI
(iii) Coal India (iv) BHEL
4. Which of the following is not a MNC?
(I) Ranbaxy (ii) Infosys
(iii) Brook Bond (iv) Asian Paint
5. Who works to uplift the sick industries of Public Sector?
(i) MOFA (ii) MOU
(iii) BIFR (iv) NRF

6. Govt. holds minimum _____ paid up Capital of a govt. company.
 (i) 49% (ii) 50%
 (iii) 51% (iv) 26%
7. When two business enterprises work together for a particular purpose that is called —
 (i) Partnership
 (ii) Joint venture
 (iii) Company
 (iv) Joint Hindu Family Business
8. Which of the following is created by Special Act of Parliament or State Legislature?
 (i) Departmental Undertaking (ii) Statutory Corporation
 (iii) Govt. company (iv) Private company
9. Which has not separate Legal Entity?
 (i) Departmental Undertaking (ii) Statutory Corporation
 (iii) Govt. company (iv) Private company
10. How many industries are reserved for public sector?
 (i) 3 (ii) 4
 (iii) 8 (iv) 17

Answer the following in one or two words :-

1. Write the name of a govt. company?
2. 'Toyota Motors' is a company of which country?
3. When private sector involves in public sector for public benefit then it is called?
4. What is main objective of a private company?
5. Write the name of a bank of public sector.
6. What percentage of capital held by govt. in govt. company?
7. Write the name of two MNC's.
8. FCI is an example of _____ form of public enterprises

9. Write one drawback of govt. company.
10. Who is the owner of public sector enterprises?

Very Short Answer Question (1 Mark)

1. Name the type of business enterprise which operates in more than one country.
2. Which type of organization is most suitable if it is concerned with National Security and public interest.
3. Atomic Energy is one of the three sectors that are reserved for public sector in spite of its huge potential for electricity production. Give one reason.
4. Which type of business enterprise would emerge when two business firms agree to join together to achieve a common purpose and mutual benefit.
5. Mention any two objective of public sector enterprises.

Short Answer Questions (3/4 Marks)

1. Explain any three features of Public Private Partnership.
2. How does the govt. maintain regional balance in the country.
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.
4. Explain three differences between Departmental undertakings and Government Company.

Long Answer Questions (5/6 Marks)

1. Define Joint Venture and explain its major benefits.
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.
3. Explain three merits and three limitations of Departmental undertaking.
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 ?
5. After 1991, government wanted to speed up the infrastructure development that required huge investment & expertise. In the coming years, govt. devised a new way for it in which public sector enterprises, through clear agreements. Like Terminal 3 of Indira Gandhi International Airport.
- i) What such agreement/arrangements are called ?
 - ii) Write any 3 advantages of such arrangements.
- [Hints : Public Private Partnership]**
6. It is are enterprises which is organized, financed and controlled wholly by the centre 4 state Govt. and it is under the control of its head Mrs. Jeevan Raj (IAS). He is not taking any interest in its functioning of providing cheap clean water to a large section of the society as he is busy in the preparation of his son's marriage coming after 3 months. As a result, important decisions are getting delayed resulting in the suffering of revenue and well being of public, as it required the consent of its head.
- a) Which type of organization has been described in the above para ?
 - b) What social values are achieved by govt, through such organization.

c) What are the limitations of such organization in this case.

[Hints : Departmental Undertaking]

7. It is a public sector enterprises in which Govt. of India held 80% of paid up share capital and it is registered as per company Act, 1956. It deals in manufacturing of Engineering goods and compete with private sector enterprises in order to achieve higher profits.

- i) Which type of public sector enterprise is discusses above.
- ii) Do the employees of such organization considered as Civil Employees ?
- iii) Write any two characteristics of such organization.
- iv) Write any two limitations of such organization.

[Hints : Government Company]

8. Food Corporation of India (FCI) was established through special Act. passed in Parliament in 1964 with the objective to create buffer stocks of foods like wheat, rice etc. for emergency situations like drought, flood famine etc.

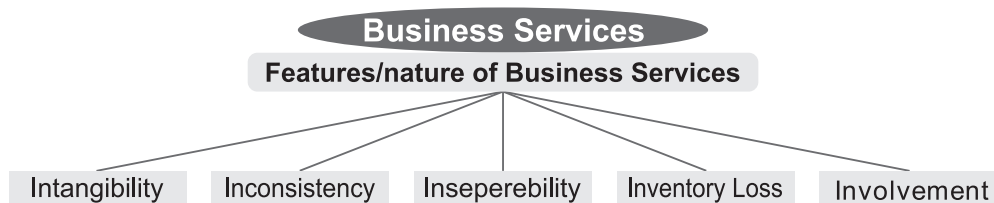
- i) Which type of public sector enterprise is discussed above ?
- ii) Does such enterprises have separate legal entity ?
- iii) Who provided initial capital to such enterprises ?
- iv) Write any 2 demerits of such organization.

[Hints : Stationary Corporation]

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 ice- to the buying related 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.



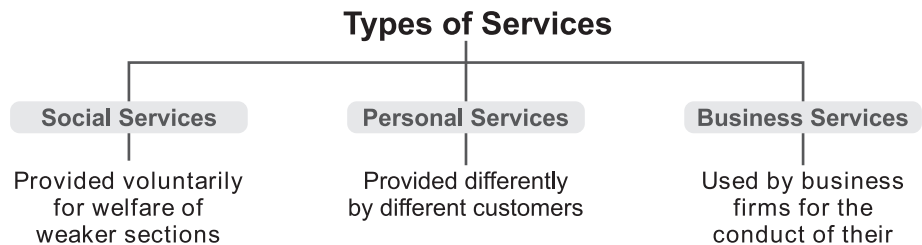
NATURE OF BUSINESS SERVICES:

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. under utilized 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.

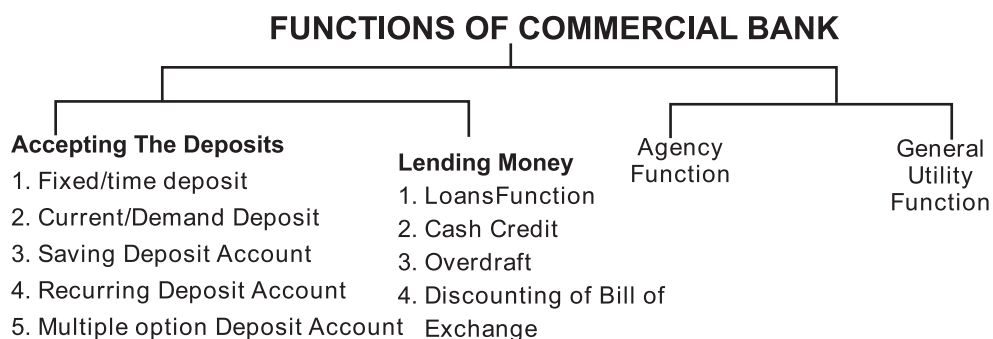
2. **Personal Services :-** Services which are experienced differently by different customers. e.g. tourism, restaurants etc.
3. **Business Services :-** Services used by business enterprises for the conduct of their activities. e.g. Banking, insurance, communication, Warehousing and transportation.



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 : Bank is a financial institution which collect deposits from pubic, repayable on demand and earns a small margin of profit by lending money.



(A) Primary Functions

1. **Accepting Deposits :-** Accepting deposits is the main function of commercial banks. Banks offer different types of Bank accounts Fixed Deposit, Current Deposit Saving Deposit Account, Recurring Deposit Account etc to suit the requirements and needs of different customers.

- 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 Term Loans, Bank overdraft, Cash Credit, and Discounting of Bill of Exchange.

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:-

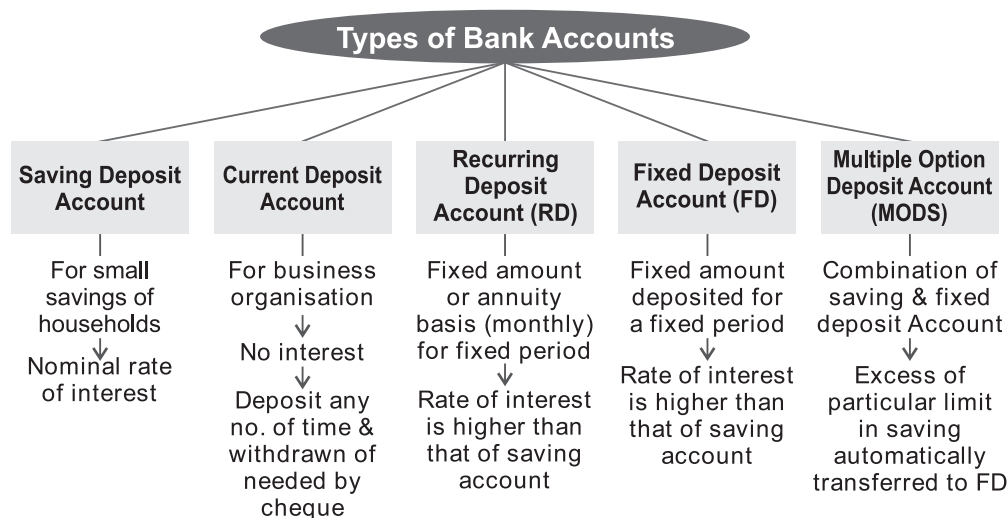
- (I) Collecting bills of exchange, promissory notes and cheques.
- (II) Collecting dividends, interest, etc.
- (III) Buying and selling shares, debentures and other securities.
- (IV) Payment of interest, insurance premium etc.
- (V) Transferring funds from one branch to another and from one place to 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.

(B) 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.



TYPES OF BANK ACCOUNTS

- 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.

OTHER BANKING SERVICES

- 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 withdraw.
- 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
- E. 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.

- F. **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 customer in lieu of his money deposited in the bank. The customer 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 they are processed and are not subject to any waiting period.

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.

Difference between RTGS AND NEFT :

1. While RTGS transactions are processed continuously, NEFT settles transactions in batches.
2. The RTGS system is primarily meant for large value transactions i.e above Rs. 2 Lakhs and NEFT for transaction below Rs. 2 Lakhs

Difference

RTGS	NEFT
1. Transactions processed continuously	1. Transactions settles in batches
2. Meant for transactions > 2 lakh	2. Meant for transactions < 2 lakh

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.

Answer Now

1. A Company has to transfer Rs. 3 lakhs and Rs. 1 lakh to two shopkeeper in other City on urgent basis. Which banking Services should be availed by Company ?

Ans. RTGS, NEFT

2. Differentiate between RIGS and NEFT Service of Bank.
3. Natasha needed some money due to some emergency at 10 PM. Bank is closed at this time. Which Service she may use to withdraw money from bank ?

Ans. ATM/Debit Card

4. Which type of bank account of students are open in the Schools?

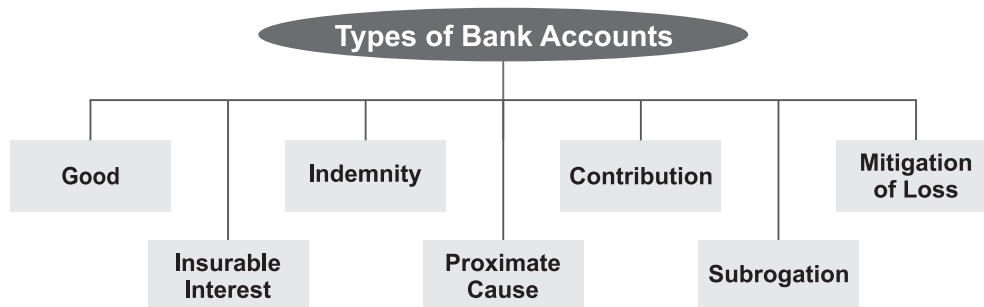
Ans. Savings

5. Rubal has a credit Card of a bank. He has to make purchase of Rs. 5000 but he has only Rs. 3000 in his bank account. Can he make purchase of Rs. 5000 with the Credit Card?

Ans. Yes he can, As in credit card no money is required in bane Account.

INSURANCE

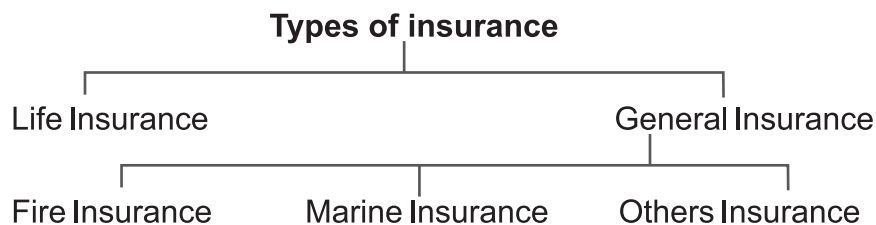
Meaning of insurance : Insurance is a contract under which one party (insurer or Insurance Company) agrees in return of a consideration (Insurance premium) to pay an agreed sum of to another party (Insured) to make good for a loss, damage or injury to something of value in which the insured has financial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

6. **Contribution :-** According to this principle if a person has taken more than steps to minimize the loss or damage to the insured property otherwise the claim from the insurance company may be lost.
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 form the insurance company may be lost.



A. **LIFE INSURANCE**

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 insures 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 insured agrees to pay a certain sum when the children attain a certain age.

B. GENERAL INSURANCE

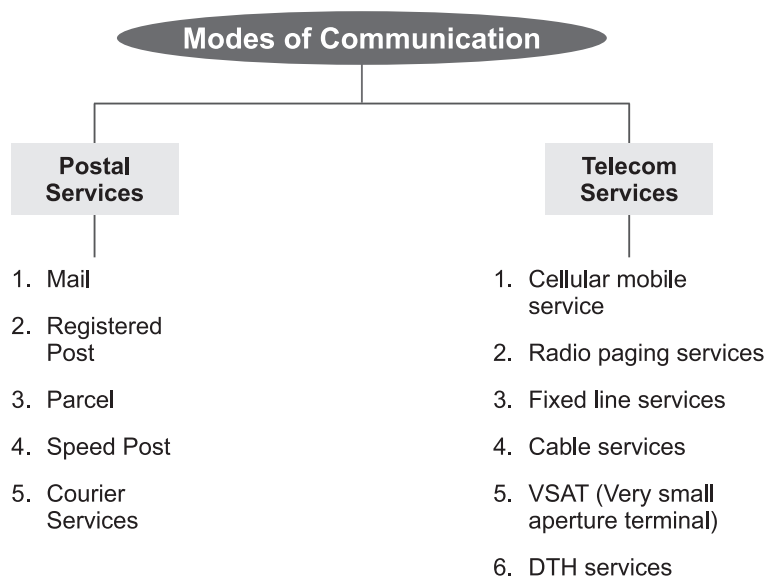
- (a) **Fire Insurance :-** It provides safety against loss from fire. If property of insured gets damaged due to fire, compensation is provided by insurance company. If no such event happens, the insured will not receive anything. For such service insurance company charges premium depending upon the 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 proximate 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.
- (b) **Marine Insurance :-** Marine Insurance provides protection against loss during sea voyage. The businessman 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.
 - (c) **Other Insurance**
Health Insurance :- Health insurance has gained popularity these days. General Insurance companies provide special health insurance policies such as Medi-claim 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.

Difference between Life, Fire and Marine Insurance

	Basis of Difference	Life Insurance	Fire Insurance	Marine Insurance
1.	Subject Matter	Human life	Assets	Ship, cargo or freights
2.	Element	Protection & investment	Protection of assets only	Protection only
3.	Insurable Interest	Present at the time of effecting the policy	Present at the time of effecting the policy as well as when the claim falls due	Present at the time when claim falls due
4.	Duration	Usually exceeds a year	Does not exceeds a year	Period of voyage or mixed
5.	Indemnity	Not a contract of indemnity	Contract of strict indemnity	Contract of indemnity
6.	Surrender Value	Can surrender before its maturity has surrender value	Can't surrender before maturity Doesn't have any surrender value	Can't surrender the policy Doesn't have any surrender value
7.	Medical Examination	Necessary for the assured	Not required	Not required
8.	Utmost good faith	Contract of utmost good faith	Contract of utmost good faith	Contract of utmost good faith
9.	Loss Measure	Not in terms of money	In terms of money	In terms of money



- Q.1 A person insured his Stock Rs. 40000 for Rs. 60000 from a insurance company. All his stock destroyed in the fire. The insurance company paid him Rs. 40,000 actual value of stock instead of insured amount of Rs. 60000. Which principle of insurance is followed by the insurance company? Explain
- Q.2 Deepak did not disclose his Cancer diseases before the insurance Company, when getting insurance. Name and explain the Principle of Insurance that was not followed by Deepak.
- Q.3 Principle of Indemnity is not applied on which Insurance ?
- Q.4 Explain the Principle of Insurable Interest.
- Q.5 At what time the Insurable Interest must be present in Fire Insurance ?

COMMUNICATION

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, envelopes 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.

- Q. 1 Ram has to send a very important letter to other city. Which Postal Service he should use ?
- Ans. Registered Post
- Q. 2 Name two financial Services offered by the Post Office.

Q. 3 Shayam has to send a letter to Hyderabad on urgent basis. Which postal Service he should use ?

Ans. Speed Post

Q. 4 Name the Saving Schemes operated in the Post Offices.

Ans. Saving A/C, PPF

Q. 5 Chintu has to send a Book to other city. Which Postal Service he will use ?

Ans. Parcel

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.

Key-terms

Business Services — Auxiliary to trade

Services — An activity or process

Goods — A physical object

Bank — Institution accepting deposits and lending money

Insurance — Contract under which one party agrees, in return for a consideration, to pay an agreed amount (premium of money to another party at happening of an event or at the expiry of certain period.

Insurance is a means of providing against loss caused by natural or man-made factors.

Multiple Choice Questions

1. 'Heterogeneity' is the nature of which type of business service —
(a) Banking (b) Insurance
(c) Warehousing (d) All of the above
2. Customer participation is necessary to buy a _____.
(a) Service (b) Goods
(c) Both a & b (d) None of these
3. Which of the following is not a business service?
(a) Banking (b) Production
(c) Transport (d) Communication
4. Which of the following do not come under e-Banking?
(a) EFT (b) ATM
(c) Debit Card (d) Overdraft
5. The fee charged by the insurer on account of providing services is called _____.
(a) Profit (b) Dividend
(c) Premium (d) Installment

6. A person gets his stock of ₹ 50,000 insured for ₹ 70,000. A fire occurs & the whole stock gets damaged. The insurance company will pay him only ₹ 50,000 not ₹ 70,000. Which principle of insurance is applied in this case?
- (a) Principle of contribution
 - (b) Principle of subornation
 - (c) Principle of Indemnity
 - (d) Principle of insurable interest
7. The surrender value of a Fire Insurance Policy is
- (a) Amount of policy
 - (b) 50% of the amount of policy
 - (c) Amount premium
 - (d) Zero
8. _____ is not covered under the contract of Indemnity.
- (a) Life Insurance
 - (b) Fire Insurance
 - (c) Marine Insurance
 - (d) Theft Insurance
9. DTH services are provided by _____.
- (a) Transport companies
 - (b) Banks
 - (c) Cellular companies
 - (d) None of these
10. Which of the following is not a function of Insurance?
- (a) Risk sharing
 - (b) Assist in capital formation
 - (c) Lending of funds
 - (d) None of these
11. CWC stands for _____.
- (a) Central Water Commission
 - (b) Central Warehousing Commission
 - (c) Central Warehousing Corporation
 - (d) Central Water Corporation
12. The largest commercial bank of India
- (a) RBI
 - (b) PNB
 - (c) SBI
 - (d) ICICI

13. Banker's Cheque is also known as _____.
(a) Bank draft (b) Demand draft
(c) Pay order (d) None of these
14. It is a type of saving bank account in which excess of a particular limit gets automatically transferred to fixed deposit account.
(a) Current deposits account
(b) Recurring deposits
(c) Multiple option deposit account
(d) None of these
15. RTGS is a fund transfer system from one bank to another -
(a) On a real time basis
(b) On gross basis
(c) Transactions are settled immediately
(d) All of these

One Word Answer

1. Which institute is called a borrower as well as a lender?
2. Who can get an overdraft from a bank?
3. Which type of deposit account offers maximum interest on deposits?
4. Which element is presented in Fire Insurance?
5. What is the maximum limit of period of insurance for General Insurance

True & False

1. Central Bank of India is the central bank of our country.
2. 'Savings Account' is most suitable for mobilisation of savings of the public.
3. The bank doesn't pay interest on current account deposits.
4. Overdrafts are only allowed in current accounts.
5. Money can be withdrawn from fixed deposit account by cheques.
6. Cargo, Hull and Freight are the subject-matter of Marine Insurance.

7. Correspondence is included in electronic services.
8. The word 'Assurance' is used for Life-Insurance.
9. Courier services is provided by private post offices for sending and receiving letters, documents, parcels, etc.
10. 'Annuity Policy' is taken by those who prefer a regular income after a certain age.

ANSWER

MCQ

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

One Word Answer

- | | |
|--------------------------|---|
| 1. Bank | 2. holder of current A/c
(i.e. a business man) |
| 3. Fixed Deposit Account | 4. Protection |
| 5. One year | |

True & False

- | | | | |
|------|-------|------|------|
| 1. F | 2. T | 3. T | 4. T |
| 5. F | 6. T | 7. F | 8. T |
| 9. T | 10. T | | |

1 Marks Questions :-

- Q. 1 What do you mean by Debit Card ?
- Q. 2 Shayam has Rs 2 Lakhs in his account. He doesn't want to use them for next two years. To earn more interest which type of bank account he should have opened with the Bank ?

(Ans. Fixed Deposit Account)

- Q. 3 What is meaning of Tele Banking ?
- Q. 4 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. (Ans. Mitigation)
- Q. 5 Name the Bank Service in which a Customer can withdraw more money from bank then money present in his account.
(Ans : Bank Overdraft)
- Q. 6 Define Insurance.
- Q. 7 Ram saves Rs. 3000 every month. Which type of bank account he should open with the bank ? (Ans : Recurring Deposit Account)
- Q. 8 What is Credit Card ?
- Q. 9 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 Account should he open with bank ?
- Q.10 Name two companies that offer DTH Service in our Country ?
- Q.11 A company insures its stock against fire for Rs. 15 lakhs. 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 ?
(Ans : Amount of Compensation = (Sum Assured Value of Property) x Claim for Actual Loss
Ans : Rs. 9 Lakhs.
- Q.12 What do you understand by insurable interest?
- Q.13 Name the two secondary function offered by the banks.
- Q.14 Name two business Services.
- Q.15 Which Business Services make utilization of Time and Place.
- Q.16 Explain E-mail Service.

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.

- Q2. Explain the scope of Health Insurance.
- Q3. Explain the meaning of Bank overdraft.
- Q4. 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.
- Q.7 Whether Insurable Interest is necessary in all types of Insurance? At time it should be available in Marine and Fire Insurance ?
- Q.8 A person insured his Godown against Fire having value of Rs. 10 Lakhs from 3 insurance companies for A- 2 Lakhs, B- 5 Lakhs and C -3 Lakhs. At the time of loss in Godown due fire, Insurance Companies paid the insured value in the ratio of 2:5:3. Which Principle applies in this example ? Explain.
- Q.9 Manmohan get insured his property for Rs. 6 Lakhs for Fire Insurance. The Actual value of the property was 8 Lakhs. There is loss of Rs. 4 lakh to the property due to fire. Calculate on the Average basis, how much Compensation insurance company will pay to Manmohan. (Ans. : 3 Lakhs)
- Q.10 Ram mortgage his factory to shayam and get loan from him. Can Shayam get it insured for Fire. Explain. (Yes, As Shayam has Insurable Interest)

- Q.11 Ram get insured his Car. Car met with an accident and destroyed. The Insurance company paid him the value of his car. Ram sold the accidental car for Rs. 20000. Who has legal right on this money. Explain. (Insurance Company as per Principle of Subrogation)
- Q.12 A Husband purchased a Life insurance policy for his wife for 15 years. After 5 years he divorced his wife. Will the Husband has right get the maturity amount. (Yes, As Insurable Interest Needed at the time of purchase of Life Insurance Policy)
- Q.13 Name & Explain the Principles of Insurance violated in the following cases :
- (i) Rajeev did not disclose about his heart disease while taking Life Insurance worth Rs. 50 Lakhs.
 - (ii) Manoj did not make any effort to save the goods from the flood water as he has taken insurance to these goods. (Ans : Mitigation)
- Q.14 Rahul had taken insurance of Rs. 3 lakh for his car (Worth Rs. 2 Lakhs) from an insurance company. After 2 months, his car got fire and damaged very badly. His car was taken by Insurance Company & Insurance amount was paid to the Rahul.
- (i) How much amount was given by the Insurance Company to Rahul ?
 - (ii) Under which Principle of Insurance, Insurance company has taken his damaged car.
- Q.15 A factory was insured with Insurance company A for Rs 70 Lakhs and Insurance company B for Rs. 90 Lakh. Due to earthquake, factory was totally destroyed. The estimated loss of Rs. 63 Lakhs.
- (i) Can Insurance amount be claimed from both the companies? (Yes, but in the ratio of 7:9)
 - (ii) How much maximum Insurance amount will be received by the factory owner? (Rs. 63 Lakhs)
 - (iii) Which Principle of Insurance are being followed in the above case?

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 real 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

Mode of Business :- The manner of conducting business is referred to as the "mode of Business."

The new modes of business are not new business. They are simply the new ways of doing business.

E-Business :- It may be defined as the conduct of industry trade and commerce using the computer networks. E-business means electronic business.

E-Business and E-commerce

- * E-business is a broader term than e-Commerce.
- * E-Commerce covers a firm's interactions with its customers and suppliers over the internet.
- * E-Business includes not only e-commerce but also other electronically conducted business functions such as production, inventory management, product development, accounting and finance and human resources management.

VPN :- Virtual Private Network Technology would mean that employees do not have to come to office. Instead, in a way, the office goes to them and they can work from wherever they are.

Name the essential sources required for e-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.

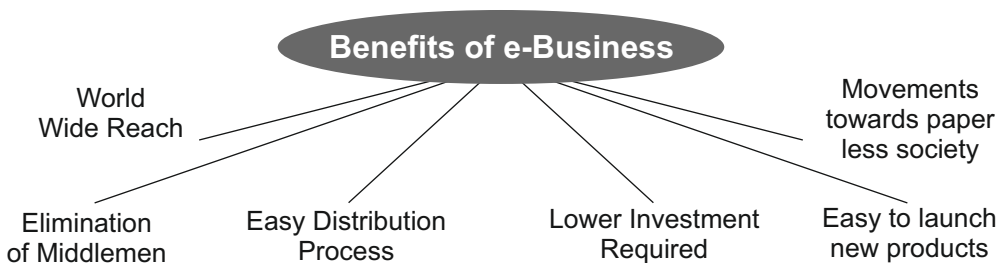
Scope of e-Business

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. e.g. Maruti Udyog buying tyres, doors etc. from other firms.
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.
2. **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.
3. **C2C Commerce** :- Customer to Customer Commerce - Under it, both the parties involved in electronic transaction are customers. It is required for the buying and selling of those goods for which there are no established markets. For example-selling old car through Internet.
4. **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.
5. **B2E Commerce** :- Companies reporting to personnel recruitment, interview and selection and training etc via B2E Commerce.

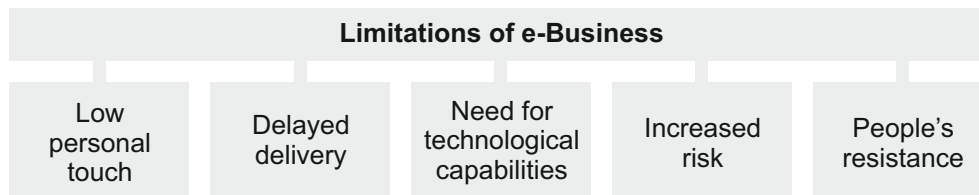
Benefits of e-Business

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.

Limitation of e-Business



- i) Low personal Touch :- (Lacks personal touch with customer as it is conducted over the internet.)
- ii) Incongruence between Order taking/giving and order fulfillment speed. (fast in order taking but slow in order fulfillment)
- iii) Need for Technology Capability and competence of parties to e-business. (fairly high degree of families with computer working, internet facility required.)
- iv) Increased risk due to Anonymity and Non-traceability of Parties :- (Difficult to establish/check identity & location, someone else may transact in your name risk of leakage of confidential information such as credit card details.)

- v) People Resistance (People have a tendency to resist change due to insecurity).

Finally, to conclude, despite limitations, e-commerce is gaining importance as most of the limitations of e-business are in the process of being overcome.

Q.1	In which type of e-business transaction, both buyers and sellers are customers ?
Q.2	Identify and discuss the electronic transaction which is the part of e-business and not of e-commerce. [Hint : Intra B commerce]
Q.3	Mention any one limitation of e-business.
Q.4	Name the essential sources required for e-business.

Difference between Traditional and E-Business

Basis	Traditional	E-Business
Ease of formation	Difficult	Simple
Physical Presence	Required	Not required
Location	Near the source of raw material or near the market of the product	Anywhere
Cost of setting up	High	Low
Operating cost	High as investment in procurement, storage production, marketing distribution facilities.	Low relies on ??? of relationship rather than ownership of resources.
Nature of contacts with the suppliers and the Customers	Indirect through intermediaries	Direct
Nature of internal communication	Hierarchical from top level mgt to middle level to lower level management to operatives	Direct
Response time for meeting customers.	Long	Instant
Shape of the organizational structure	Vertical/ tall due to hierarchy	Horizontal/flat due to directness of command.
Business process & length of the cycle.	Long Sequential precedence purchase-production-marketing-sales	Shorter simultaneous different processes
Opportunity for Interpersonal touch.	much more.	Less
Ease of going global	Less	Much
Govt. Patronage	Shrinking	Much as IT sector is priority
Nature of human capital	Semi-Skilled & even unskilled manpower	Technically qualified.
Transaction Risk	Low due to face to face contract	High due to distance and anonymity of the parties.

Identify the types of business given below :-

- i) Ram, a wholesaler sells bangles, accessories etc. in Chandni Chowk.
- ii) Mohan, a businessman sells his products e.g. purses, necklace etc. through www.amazon.in

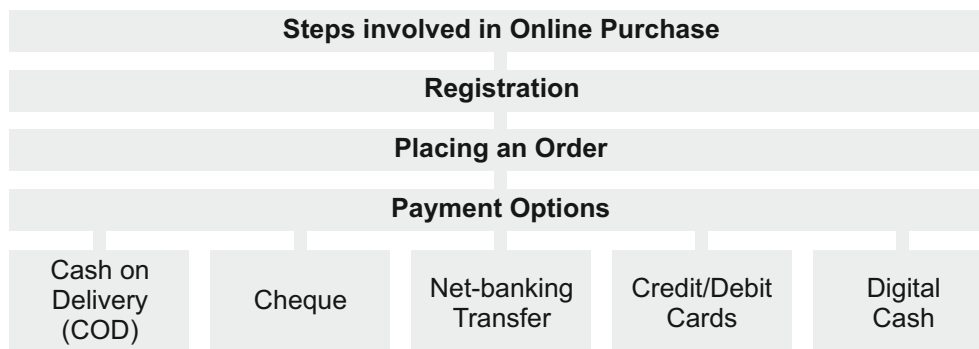
Resources Required for Successful e-Business Implementation

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.

Risks associated with of e-transactions

1. Transaction Risks.
2. Data storage and transmission risk.
3. Threat to intellectual property and privacy risks.

1. Transaction Risks

- a) Seller or Customer denies that order was placed- Default on Order placing/ giving.
 - b) Goods are delivered at wrong address or good delivered are not as per specification - Default on delivery.
 - c) Seller does not get payment whereas customer claims to have made the payment- Default on payment.
2. Data Storage :- Virus / hacking
Data/information may be hacked.
 3. Threat to intellectual property and privacy risks.

Data may be supplied to others who may start dumping a list of advertisement & promotional literature into your e-mail box.

Identify the risks associated with e-business transactions given below :-

- i) Ranjita ordered a badminton racket and received shuttles instead.
- ii) www.specialresearch.com's website was hacked and all the records were corrupted.

Some e-business application

e- procurement
e-bidding/ a-cuction
e-communication/ e-promotion
e- delivery
e-trading

Outsourcing

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 specialization, these services are now obtained from outside the organization. This is called outsourcing of services or BPO.

Q. How does outsourcing help a business firm.

1. It involves contracting out to a specialized agency.
2. Generally non-core activities are outsourced, so that company can focus on main activities.
3. Process may be outsourced to a capture unit or a third party. [Captive unit is a part of parent company. Third party operates independently.]

Scope of outsourcing

1. Contract manufacturing
2. Contract Research
3. Contract sales
4. Informatics

All these activities can be outsourced to get excellence & economies.

Need for Outsourcing

1. **Focusing of Attention :-** Provides opportunities to the organization to concentrate on main business activity.
2. **Quest for excellence :-** Excellence is achieved as organization can concentrate on core business.
3. **Cost reduction :-** Due to Economies of large scale, the company to whom work is outsourced provides quality work at less cost of organization doesn't have to invest in related fields.
4. **Growth through alliance :-** Money saved through outsourcing can be utilized for expansion of business.
5. **Fillip/Boost to economic development :-** outsourcing promotes entrepreneurship employment and exports in the countries form where out securing is done.

Concerns over outsourcing

1. **Confidentiality :-** Outsourcing involves sharing of vital information & knowledge
2. **Sweat Shopping :-** The firm which out source their work tries to get benefit of low cost manpower host countries.
3. **Ethical Concern :-** It is unethical to out-source the work because to cheap labour (child labour) due to weak laws.
4. **Resentment in the home countries :-** Outsourcing indirectly shifts employment opportunities to other countries, so local population objects.

B. P.O. (Business Process Out-sourcing)

BPO is a subject of outsourcing that involves the controlling of specific business task to a third party .

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 service** - 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 organization 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 KPA

In today's competitive environment focus is to concentrate on core specialization areas and out-sources the rest of activities. Many companies have come to realize that by outsourcing the non case activities not only costs are minimized 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 up ward 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.

Smart Card And ATM's (Automated Teller Machine)

Meaning :- Smart card is a pocket sized card that contains an embedded computer chip, that stores and transacts data.

Utility :-

1. Smart Cards can store and process lots of data.
2. They provide security as can be used by using unique pin numbers only.

3. Smart card maintain data integrity i.e. information stored in a card can not be erased or removed accidentally.
4. For banking & retail (for withdrawal making payments.)
5. Can replace paper notes as payment can be done using smart cards.

ATM - Meaning and Utility

ATM is a computerized machine that provides the customers of banks the facility of accessing their accounts with a magnetically encoded plastic card a card number.

- * To use an ATM, a customer uses that card, inserts/swipe it in the ATM and used the password.
- * A customer can perform many function on ATM's like withdrawal of money, making payments/ bills get accounts information etc.

Utility

- * Works 24x 7 so transactions can be done anytime, anywhere.
- * Convenient location -ATM's are located at convenient places. So customer need not go to bank.
- * Reduces workload of bank staff.
- * Useful while traveling go not need to carry cash while travelling.

- Q.1 Shreya is busy housewife. She has many tasks like depositing, withdrawing money, payments, mobile recharge, balance inquiry etc. She want to get the work done at one place. Suggests her the best alternative.
- Q.2 Ramu goes to withdraw money form ATM. He Swaps his card and payment is debited from his account by he doesn't get the payment. What can he do now ?

Key-terms

E-business	— Process of performing business activities electronically (Internet)
VIRUS	— Vital Information and Resources Under Siege
e-Trending	— Online buying and selling of securities
Digital Cash	— Electronic cash existing in cyberspace
e-commerce	— Firms interactions with its customers and suppliers over internet
BPO	— Process of contracting out non-core business activities to third parties
B2B Commerce	— Electronically conducted business transactions between business to business.
B2C Commerce	— Electronically conducted business transactions to customers
Intra B Commerce	— Business transactions within a given business firm
C2C Commerce	— Business transactions between consumer to consumer
Digitisation	— Transmission of text, sound, images etc., electronically

Multiple Choice Questions

1. e-Business includes
 - (a) e-commerce
 - (b) Production
 - (c) Product development
 - (d) All of the above
2. Digitisation means transmission of _____.
 - (a) text
 - (b) sound
 - (c) images
 - (d) all of the these
3. Complaint lodged by a customer at the company's call centre is a type of _____ of e-business transaction
 - (a) C2B Commerce
 - (b) B2C Commerce
 - (c) Intro B Commerce
 - (d) C2C Commerce

- 4) B2B Commerce means:
- (a) Firm's interactions with other business
 - (b) Firm's interactions with its customers
 - (c) Firm's internal processes
 - (d) None of the above
5. The payment mechanism typical to e-business
- (a) Cash on Delivery (COD)
 - (b) Cheques
 - (c) Credit & Debit Cards
 - (d) e-cash
6. It is not an application of e-business
- (a) Online bidding
 - (b) Online procurement
 - (c) Online trading
 - (d) Contract R & D
7. Use of ATM to withdrew money is an example of
- (a) B2B Commerce
 - (b) B2C Commerce
 - (c) C2C
 - (d) C2B Commerce
8. Level-2 Virus means
- (a) Annoyance in terms of some on-screen display
 - (b) Damage to target data files
 - (c) destruction of the system
 - (d) disruption of functioning
9. Outsourcing
- (a) Restricts only to the contracting out of Information Technology Enabled Services (ITES)
 - (b) Restricts only to the contracting out of non-care business processes.
 - (c) Restricts contracting out of manufacturing
 - (d) Includes off-sharing
- 10) Factoring facility is _____ type of outsourcing services
- (a) Advertising Services
 - (b) Financial Services
 - (c) Courier Services
 - (d) Customer Support Services

One Word Answer

1. What does 'e' stand for in e-business?
2. How much of the BPO industry's revenue comes from 'call centres'?
3. Write full form of VIRUS.
4. Captive BPO unit provides services of a given kind to how many firms?
5. Write an advantage of e-commerce.

True & False

1. e-business provides customer's wider choice.
2. Sweet-shopping means benefit of low cost manpower.
3. Outsourcing means 'do it all by yourself'.
4. 'Converting the message into a code so that unauthorised persons may not understand it' is called Encryption.
5. A website means a firm's location on the www.
6. Digital cash is also called 'Plastic Money'.
7. Generally, core activities are outsourced.
8. Verticals are the firms which provide their services to wide base of clients, cutting across industries.
9. Outsourcing firms may use child labour in order to cut costs. It is an ethical concern.
10. An unauthorised entry into a website refers to 'Hacking'.

Answers

Multiple Choice Questions

- | | | |
|---------|--------|--------|
| 1. (d) | 2. (d) | 3. (a) |
| 4. (a) | 5. (d) | 6. (a) |
| 7. (c) | 8. (d) | 9. (b) |
| 10. (b) | | |

One Word Answer

1. Electronic
2. 70%
3. Vital Information Resources Under Sieze
4. Only one
5. World Wide Reach

True & False

- | | | |
|-------|------|------|
| 1. T | 2. T | 3. F |
| 4. T | 5. T | 6. F |
| 7. F | 8. F | 9. T |
| 10. T | | |

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 set 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 birthday is in five days and his parents wish to gift him a pair of branded shoes. How can they gift?
- Q.7 Which programme imitates itself on other computers systems and can damage the data and can even lead to complete destruction of the system.
- Q.8 Why is India a preferred destination for BPO ?
- Q.9 Out of e-business and traditional business, which one enjoys ease of going global ?

- Q.10 Which method of payment is mostly used for making online transactions.
- Q.11 Name two services that can be outsourced.
- Q.12 Name some things whose possessions can be taken via computer.
- Q.13 Can the possession of a car be taken by computer transaction?
- Q.14 A person orders pizza online and makes the payments also but he doesn't get the delivery. What type of risk is being referred here?

Short Answer Questions 3/4 Marks

- Q.15 Distinguish between e-commerce and e-business.
- Q.16 What do you mean by:-
- | | |
|------------------------|------------------|
| i) B2B Commerce | ii) B2C Commerce |
| iii) Intra B- Commerce | iv) C2C Commerce |
- Q.17 Justify the need for business process outsourcing by giving any three points ?
- Q.18 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 ?
- Q.19 Briefly discuss the various modes of payment for goods purchased through online shopping.
- Q.20 www.xyz.com an e-business portal sells clothes and accessories. Nisha buys some clothes from them and makes e-payment for it. But when the clothes arrive, they are found to be defective. The e-business portal takes the clothes and refunds her payment. What values according to you are being presented by the portal ?
- Q.21 A shoe co. in order to cut costs, out sources manufacturers to developing countries where they use child labour in the factories. By Outsourcing its work is the company ethically right ? What values are being neglected by him ?
- Q.22 A Firm uses services of another firm for advertising courier service, factoring services and customer support service for its firm. Identify the emerging mode of business used.

Where as another firm uses another firm's services for Research and development. Are both the modes used of same category. If no identify the modes used and explain.

- Q.22 Mr. Supriyo who is from West Bengal wants to send some books to his brother in Delhi. Which mode will he use ? Why are these services getting popular? Explain any 3 points.

LONG ANSWER QUESTION (5/6 MARKS)

- Q 23. Elaborate the steps involved in online trading?
- Q.24. Explain Nature and need for outsourcing service?
- Q.25 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.26 What do you understand by e-business. Explain briefly any four benefits of e-business.
- Q. 27 Explain any four limitations of electronic mode of doing business. Are these limitations severe enough to restrict its scope? Give reasons for your answer.
- Q. 28 Discuss the various points of difference between e-business and traditional business.
- Q.29 Ravi, the manufacturer of watches, hands over the promotional job to some advertising agency after manufacturing it to avoid time wastage and concentrate on core activities of business.
- a) What is being done here by handing over the job to some other agency ?

b) Which work is being outsourced here ? Why ?

Q.30 Which type of e-business transaction is depicted below :-

- i) Selling of old clothes on e-bay.
- ii) Managing stock and cash accounts of an organization.
- iii) Maruti Udyog buying security lock system from Autocops.
- iv) Withdraws money form ATM.
- v) Collecting daily report of employees on e-mail.
- vi) Registering complants online in company's call centre.

CHAPTER 6

SOCIAL RESPONSIBILITIES OF BUSINESS AND BUSINESS ETHICS

CONCEPT OF SOCIAL, RESPONSIBILITY

A business is apart 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 goodwill in the long run when its highest goal is to serve the society . it indulges in unfair Trade Practices e.g. adulteration, hoarding black marketing it may not be able to exist for long.
3. **Avoidance of government regulations :-** Business can avoid the problem', of government regulations by voluntarily assuming social responsibilities.
4. **Availability of resources with business :-** Business has valuable and human resources which can be effectively used for serving 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

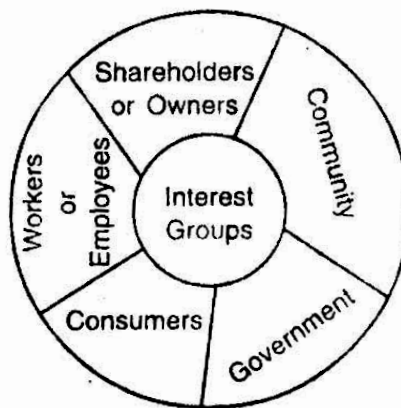
problems have been created by business firms themselves such as pollution, creation of unsafe work places, discrimination etc, Therefore, it is the moral obligation of business to solve such social problems.

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 several interest groups such as 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 belonging-ness.
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 exist in 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, section of environment is must.

Causes of Pollution :- Many industrial organizations have been responsible for .using air, water 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 organization.
2. Industrial Wastes should be recycled as far as possible.
3. Plant and machinery should be modernized to minimize pollution.

4. The business houses should comply with the laws and regulations enacted for prevention of pollution.
5. Positive steps should be taken to save environment. These include, plantation of trees, cleaning of rivers, ponds etc.

BUSINESS ETHICS:

Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong. By ethic we mean the business practices which are desirable from the point of view of Society. 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 principles so they must be involved in the process of developing ethical code.
5. **Measuring results :** Although it is difficult to measure ,the ethical results but it must be verified and audited that work is being carried according to ethical standards.

Key terms

Social Responsibility	—	Obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner
Environment	—	Totality of natural and man-made things existing around us.
Business Environment	—	Totality of all external forces with which business interacts.
Environmental Protection	—	Deliberate process of protecting the environment from threats of any nature.
Pollution	—	Process of emission or release of harmful substances into environment which harm human life.
Ethics	—	Based on moral values and beliefs.
Business Ethics	—	Socially determined moral principles which govern the business activities.

Multiple Choice Questions

- Which of the following are examples of socially responsible Indian companies:-
 - Asian Paint
 - Pepsi
 - TISCO
 - All of these
- Which of the following is not the social responsibility of business towards investors?
 - To ensure safety of capital
 - To ensure proper dividend
 - To ensure the proper utilisation of capital
 - To give appropriate salary
- Which of the following is the social responsibility of managers towards the employees:
 - Providing clean working atmosphere
 - Giving security of service
 - Adopting incentive - giving system
 - All of the above

4. Which causes land pollution —
 - (a) Chemical & waste dumping into rivers & lakes
 - (b) Dumping of garbage and toxic wastes
 - (c) Noise caused by running of factories & vehicles
 - (d) None of the above
5. Elements of Business Ethics are —
 - (a) Publication of a 'Code'
 - (b) Establishment of compliance mechanism
 - (c) Measuring results
 - (d) All of the above
6. Which is the example of economic responsibility —
 - (a) Not to create pollution
 - (b) Charity to an orphanage
 - (c) Producing goods and services according to the needs of the customers and selling them at a profit
 - (d) Respecting the religious sentiments of people.
7. Social responsibility is
 - (a) Same as legal responsibility
 - (b) Narrower than legal responsibility
 - (c) Broader than legal responsibility
 - (d) None of the above
8. If business is to operate in a society which is full of diverse and complicated problems, it may have
 - (a) Little chance of success
 - (b) Good, chance of success
 - (c) Little chance of failure
 - (d) No relation with success.
9. Ethics is important for
 - (a) Top management
 - (b) Middle-level managers
 - (c) Non-managerial employees
 - (d) All of the above
10. Environmental protection can best be done by the efforts of
 - (a) Business people
 - (b) Government
 - (c) Scientists
 - (d) All of the above

One Word Answer

1. Give an example of ethical responsibility of business.
2. Out of medical, law and business, ethics are related to which activity.
3. In business ethics what does 'equality' mean?
4. Give an example of discretionary responsibility of business.
5. "An enterprise must provide good quality and unadulterated goods and services" It is an example of its responsibility towards which group?
6. Give an argument in favour of social responsibility of business.
7. Name the Greek word from which the 'ethics' has been derived.
8. Mention anyone factor which make a case for pollution control.
9. Give one example of business activity which are considered unethical.
10. Which is capable of doing maximum good to society?

True & False

1. The only obligation of a business towards its employees to pay them well so that they work to their maximum capacity.
2. legal responsibility means compliance with the law i.e. payment of taxes regularly and honestly.
3. A business is a socio-economic institution.
4. The principle of 'Caveat Vendor' means 'let the buyer beware'.
5. Business ethics is not related to law.
6. Water pollution is caused by dumping of garbage and toxic wastes.
7. What is good for the society is also good for the business.
8. Providing accurate and up-to-date information on the financial position of the company is a responsibility of the business towards government and community.
9. High moral values lead to higher ethics.

10. To work and contribute towards the rescue and relief work in case of flood, earthquake, etc. is the social responsibility of business towards shareholders/investors/owners.

Multiple Choice Questions

- | | | |
|---------|--------|--------|
| 1. (d) | 2. (d) | 3. (d) |
| 4. (b) | 5. (d) | 6. (c) |
| 7. (c) | 8. (c) | 9. (a) |
| 10. (a) | | |

One Word Answer

- To respect religious sentiments of people.
- Related to all activities.
- Means no distinction between, rich-poor, religion and caste
- To help the flood/earthquake affected people.
- Consumers
- Long-term interest of the firm/avoidance of govt. regulations.
- Ethos.
- Cost savings/improved public image.
- Exploitation of workers/making deceptive advertisements.
- Ethics.

True & False

- | | | | |
|------|------|-------|------|
| 1. F | 2. T | 3. T | 4. . |
| F | 5. T | 6. F | 7. T |
| 8. F | 9. T | 10. F | |

1 MARKS QUESTIONS :-

- Define social responsibility of a business.
- Write two examples of business ethics.
- State two effects of noise pollution?

4. What is environmental pollution?
5. To give complete information regarding finance position of the company is the social responsibility of organization towards which interest group ?
6. "Responsibility of a business extends beyond its economic responsibility." Mention the name of this responsibility. (Social Responsibility)
7. "A business organization has adopted the policy of refraining from profiteering and hoarding." Mention the interest group for which this policy is relevant?
8. "An Industrial unit discharges toxic gases from its chemical plant." Mention the type of pollution created by the unit. (Air Pollution)
9. Mention the element which refers to a set of mass moral principles which govern the conduct of people in a business organization. (Business ethics)
10. "Business must focus on the varied interest of the society:. Give any one reason in support of this statement. (As business is a part of society)

3/4 MARKS

11. Why is business responsible for Environment Protection?
12. Enumerate any three responsibilities of business towards employees.
13. Why should a business assume social responsibility?
14. Explain the major cause of environmental pollution?
15. Define business ethics and explain its significance?
16. 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.?
17. 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.
18. 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?
19. XYZ Co. is providing facilities for their female staff like day care

centre for kids and work from home facility. By doing this they are following social responsibilities towards which interest group? Also, what values are they presenting?

20. ABC Ltd. is a small company which makes disposable paper plates which are environment friendly. They are made from the bark and dry leaves of tress available in the north east states of India .
 - i) Towards which interest group is the business following its social responsibility ?
 - ii) Write any two values presented by the company.
21. Maruti Suzuki Ltd. is a car manufacturing company which found that 7700 Belano Desire cars manufactured by it had some problems with their engines. By Fulfilling Business Ethics the company recalled all the cars and corrected the problems. State any four values followed by the company.
22. It is a complex problem that motivates business managers and decision makes to face boldly the problem of environmental population. Environment consists of natural surrounding of the man as well as conditions developed by man. Environment is being constantly polluted which is not good for the survival of human-beings.
 - i) Recognize the complex problem in the above paragraph.
 - ii) Enumerate the two points regarding the causes of this complex problem.
23. Your friend Rajesh runs a factory in you city. His factory is spreading air, water and noise pollution. What advice would you give him for keeping the environment pollution free.
24. Besides looking after the interest of its owners a business ought to look after the interests of other groups as well. These other groups include employees, consumers, suppliers, competitors government, the community and the world also. Now a days only those business are considered good which besides looking after the interest of its owners also cater to the interests of these groups also. Which concept of business is explained in this statement? Recognize that concept and explain its meaning as well.
25. The owners of Gupta and Gupta pvt. Ltd. are taking special interest in getting plants planted ground their factory. Apart form it, they dump the waste water of their factory only after passing

through the efficient treatment plant. Explain the value which this company is following.

26. This is the speciality of the Rajdhani Floor Mills that it gives handsome remuneration to its employees. The employees of the mill are a happy lot and they motivate their friends to work here. Enumerate which values are being affected here?
27. The Chief manager of Surya Ltd. Mr. Mohan is taken huge interest in fulfilling his social responsibilities towards the government. Explain the company is showing its commitment, regarding the fulfilment of its social responsibility. Give any three points.
28. XYZ Ltd. is a cigarette manufacturing company. It does not put the mandatory disclaimer that Cigarette smoking is injurious to health.
 - i) Towards which interest groups is it not following its responsibility.
 - ii) What are the values lacking here ?
29. LMN Ltd. Co., a car manufacturing company, found that 100 cars of a particular batch had some problem with their engines. It recalled all the cars and corrected the specified problem.
 - i) What values are being followed by the company?
 - ii) Towards which interest group are they being responsible here?

5/6 MARKS

30. Explain the forces which are responsible for increasing concern of business enterprise towards social responsibility?
31. It is in the interest of business to fulfill its social responsibilities towards different interest groups. Explain?
32. 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?
33. 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 favour? Write points with respect to your opinion.
34. 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 hack 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?
35. A BPO is providing 24 x 7 handling 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?
36. An organization manufacturing paints has been enjoying a prominent market position since many years. It has been dumping its untreated poisonous waste on the river bank which has created many health problems for the nearby villages.
- a) What kind of pollution is caused by the above cited organization.
- b) Which responsibility is not being taken care of by the concerned organization.
- [Hints : (a) Water pollution (b) Social Responsibility towards community (c) Environment Protection, compliance of legal laws]
37. A Vehicle manufacturing company has adopted the following practice.

- i) Only those components will be used by the company which are environment friendly.
- ii) There will be discharge of harmful wastes only after their proper treatment.
- iii) Pollution level of every vehicle will be maintained as per international standards.

Identify and explain the aspect of business with which the above actions are related

Mention any 2 values which are involved in above care.

[Hint : Environmental protection, values (a) Concern for environmental protection, Social welfare.

38. "Bhardwaj & Sons is a partnership firm. Anil and Sunil are two partners. Sunil's liability is unlimited where as Sunil's liability is limited, its is given in partnership deed. Sunil wants to instal a pollution control device in its factory but Anil is against it. All the transactions are done only on the internet by this firm. This specializes in selling its products only to other business units. This firms get her research and development work done through another firm. This another firm has specialization in research and development work.

On the basis the above paragraph answered the following questions.

- i) Tell the type of partnership.
- ii) Recognize the unethical behaviour of the firm and which two values are being neglected here.
- iii) Which type of e-business the firm is running ?
- iv) Name that process by which the use of which quality of this another firm is being made?

[Hint : Limited and unlimited liability partnership]

39. According to which principle Business forms should carry on business activities and earn profits keeping in mind social aspirations of the society ? My explaining the need of the concept of social responsibility give four points in its favour.

[Hints : Social Responsibility]

40. HCL is a well known computer company. It has the ambition of touching new heights with the help of its employees. It provides quality products and offers various facilities and incentives to its

employees such as cab facility, after completing five years employees are given company shares also. It provides free computer skills to the youths of backward areas.

- a) In your view what is the Business Ethics of the company ?
- b) It is fulfilling its responsibility to which interest group?

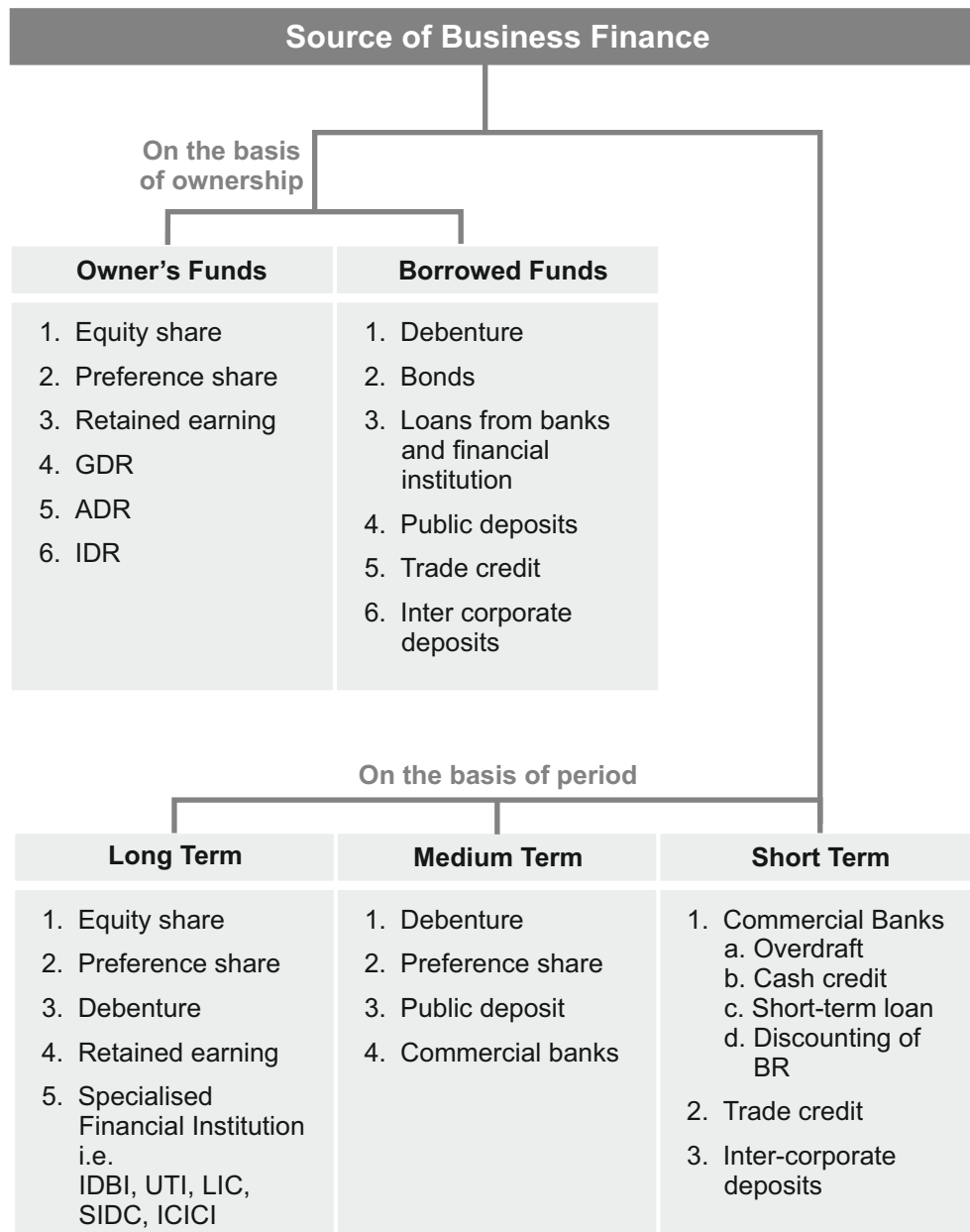
41. XYZ bank is providing e-banking facilities to its customers. Some employees of this bank have been sharing the personal details of some customers to some the with unethical tendencies. The accounts of these customers can be haked my these dishonest customers. On the basis of the above paragraph answer the following questions :-

- i) To which e-business risk you can recognize on the basis of the above information ?
- ii) The bank is not fulfilling its responsibility towards which interest group ?

[**Hint** : Dishonest Trade Practice a Unethical Trade Practice]

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.

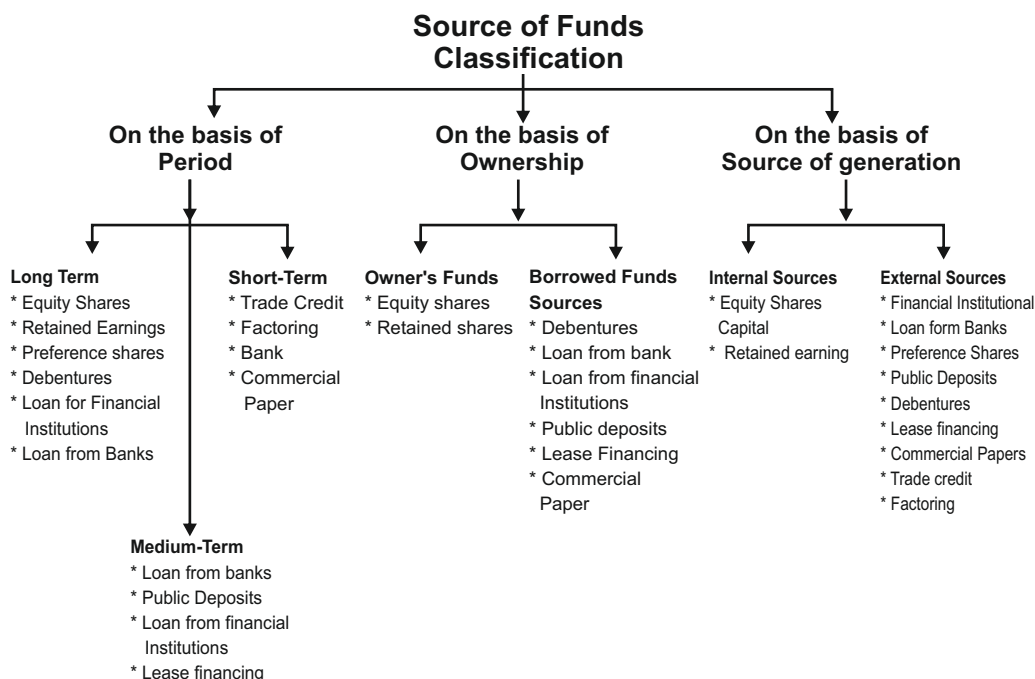
Finance is needed at every stage in the life of a business. A business can not function unless adequate funds are made available to it.

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 up gradation :-** 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.

State two factors that affect the 'Fixed capital' requirements of a company.

CLASSIFICATION OF SOURCE OF FUNDS



METHODS OF RAISING FINANCE :-

Issue of Share :- The capital obtained by issue of shares is known as share capital. The capital of a company is 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
6. Non Convertible preference shares.

MERITS OF PREFERENCE SHARES :-

1. **Investment is safe :-** Preference shareholders investment is safe. They have preferential right to claim dividend and capital.
2. **No Charge on assets :-** The company does not need to mortgage its assets for issue of preference shares.
3. **Control :-** It does not affect the control of equity share holders because they have no voting right.

4. **Fixed dividend :-** They get fixed dividend. So, they are useful for those investor who 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

	Base Equity	Shares	Preference Shares
1.	Dividend	After preference shares	Priority over enquiry share
2.	Voting Right	dividend is paid full voting rights	No voting right
3.	Risk	Risk bearing securities	Less Risk
4.	Rate of Return	Fluctuates with profit	Fixed Rate of Dividend
5.	Control	Control on the management	No control on the management

Q. Madhu Ltd. is a company manufacturing garments for children. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company. It believes in quality of product, equal employment opportunities & good remuneration. It has many shareholders who prefer to receive a fixed & regular income. Mohan is one of such shareholders.

- i) Which type of shares Mohan holds.
- ii) Identify two values followed by the company.

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 deduct able 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

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

Q. Tax benefit is available only in case of payment of interest of debentures and not on payment of dividends of shares ? Why ?

Q. State one reason why a company earning high profits may choose debentures over equity shares to raise funds.

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%. It was decided to provide 10% div. on equity shares.

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

MERITS

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

DEMERITS

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

Q1. Abhimanyu Ltd. is manufacturing cotton shirts for men. It is planning to expand its business by opening one more unit in another city. It has consistently earning good profits so these are sufficient reserving. State the most appropriate source of finance for the company. Also explain 2 merits & 2 demerits of such source of finance.

Q2. Name the part of owner's fund which is contributed by profits but not distributed among partners.

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.
3. **Not Suitable for New Company :-** New company generally find difficulty to raise funds through public deposits.

- Q1. In India, What is the maximum maturity periods of public deposits?
- Q2. 'Raising funds through public deposits frequently by a company lowers its image in the public. How ?
- Q3. In case of a company raising funds in a particular form, it is required to follow the provision set by RBI (Reserve Bank of India). Name the form of Fund.

Trade Credit

Trade Credit is the credit extended by one trader to another for the purchase of goods and service. Trade Credit facilities the purchase of supplies without immediate payment.

Merits

1. **Convenient :-** It is a convenient and continuous source of funds.
2. **Purchase without immediate payment :-** Trade credit facilities the purchase of goods and service without immediate payment.
3. **Readily Available :-** Trade Credit may be readily available in case the credit worthiness of the customers is known to the seller.

Demerits

1. **More Risk :-** Availability of easy and flexible trade credit facilities may induce a firm to indulge in over trading which may add to the risks of the firm.
2. **Limited Funds :-** Only limited amount of funds can be generated through trade credit.
3. **Costly Source :-** It is generally a costly source of funds as compared to most other sources of raising money.

Q. State the most important factor that helps in receiving trade credit.

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 MARKET

1. **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 called GDRs.

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 GDR.
2. **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 in American stock exchange.
3. Indian companies such as Infosys, Reliance issued ADR

DIFFERENCE BETWEEN ADR & GDR

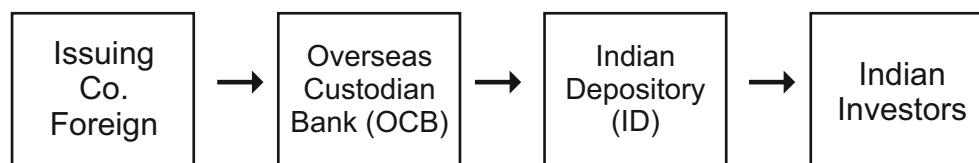
	Basis	ADR	GDR
1.	Listing	Only in American Stock Exchange	Anywhere in the World
2.	Liquidity	More liquid	Less liquid.
3.	Share Holder	Only American Citizens	All over the World Citizens.

- III. Foreign Currency Convertible Bonds (FCCBs):-** The FCCB s are issued in a foreign currency and carry a fixed interest rate. These are listed and traded in foreign stock exchange and similar to the debenture.

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.

"The Govt. of India has made provision for issuing a particular type of financial instrument on the pattern of American Depository Receipt." Name the financial instrument indicated in above statement. Give its two features.

Inter-Corporate Deposits (ICD)

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

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 organized market.
6. These deposits have no legal formalities.
7. These are risky deposits from the point of view of lenders.

POINTS TO BE REMEMBER

1. Equity shares are the major source of business finance.
2. Debenture, bond and loans are capital having fixed cost.
3. Dividend will be given to preference shareholder at fixed rate of dividend
4. Preference shareholder have no right to participate in management.
5. Trade credit refers to that facility which is extended by one businessman to another.
6. Debenture holders received interest at a fixed rate of interest.
7. ADR is an instrument which is issued to American by a Non US company.
8. GDR is an instrument issued in a foreign country by a company to get US Dollar/foreign capital
9. IDR is an instrument issued by a foreign company to Indians.
10. ICD – Inter Corporate Deposits — are unsecured loans given by a company to another.

Multiple Choice Questions

1. Who is the owner of the company?
 - (a) Equity share holder
 - (b) Preference share holder
 - (c) Debenture holder
 - (d) Director

2. ICD's are issued by —
 - (a) Bank
 - (b) RBI
 - (c) company to another
 - (d) SIDBI
3. ADR's are issued by
 - (a) USA
 - (b) Canada
 - (c) India
 - (d) Japan
4. Which of the following is fixed capital?
 - (a) Equity share
 - (b) Debenture
 - (c) Public deposit
 - (d) Retained earning
5. Which of these is included in Owner's Fund
 - (a) Debenture
 - (b) Loan from SBI
 - (c) Equity share
 - (d) Trade credit
6. Trade credit is example of —
 - (a) Long-term finance
 - (b) Medium-term finance
 - (c) Short-term finance
 - (d) All of the above
7. ADR is issued by a company which is listed in —
 - (a) India
 - (b) America
 - (c) France
 - (d) Any other company
8. Overdraft facility is provided by —
 - (a) RBI
 - (b) Commercial banks
 - (c) Stock company
 - (d) Statutory corporation
9. Which share have preferential right in the payment of annual dividend?
 - (a) Equity share
 - (b) Preference share
 - (c) Right share
 - (d) All of the above
10. Which is internal source of Business Finance?
 - (a) Loans from commercial banks
 - (b) Debenture
 - (c) Retained earning
 - (d) Equity shares

Answer the following in one or two words

1. The securities which are issued in foreign country are called _____.
2. In which country are IDR issued?
3. Name the source of business finance in which company directly accept deposit from public.
4. What is the main purpose of issuing ADR?
5. Name any two institutions which provide short-term business finance.
6. Who has the right of voting in Annual General Meeting of company?

1 Mark Questions

1. What type of share capital is also called "Risk Capital" ?
2. Name the return given to debenture holders for using their funds?
3. Name the one unique feature of "Retained Earnings" which is not available in any another source of finance ?
4. What is the similarity between ADR and Public Deposits ?
5. Which term is concerned with the acquisition and conservation of capital funds in meeting the financial needs of a business enterprise ?
6. Name the organization which have been set up by the central as well as State governments to provide medium term and long term loans to business sector.
7. Write any one similarity between Equity share capital and Preference share capital.
8. Write the names of 2 Indian companies that have issued G.D.R.s.
9. Preference Share Capital is not suitable for which type of investors ?—
10. Name the debt instrument on which investors get income tax relief in specific cases.

3-4 MARKS QUESTIONS

11. Define Share and write any two advantages of it.
12. Write any two differences between share and debentures.
13. Write any three limitations of equity share capital.
14. Write any three advantages of Retained Earnings.

5-6 MARKS QUESTIONS

15. Write main advantages and disadvantages of Public Deposits
16. What is the difference between ADR and GDR
17. Comment on the following sources of International finance
 - i) I.D.R.
 - (ii) I.C.D.
18. "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.

[Hints - Sound Capital Structure, Retained Earnings - Optimum Utilization of resources and no dilution of control, Balanced Regional Development]
19. "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.

[Hints - ADR and Public Deposits, Employment Generation, Concern for environment]

High Order Thinking Questions (hot)

1. Mohit Ltd. wants to expand its production capacity by modernizing its plant and machinery. This will cost Rs. 4 crores approximately. The company does not have enough reserves to support expansion plans. Suggest any two sources of finance for the company.
2. As a source of finance, is retained earning a better option than other source? Give one reason to support your answer.
3. Due to festive season , crescent Ltd. decided to expand the business activities by increasing stock of an estimated cost of Rs. 30 lakh. As the finance manager of the company, advise the directors about the 3 sources of finance for this purpose.
4. Rohan has Rs. 1 lakh for investment. Suggest types of securities he should opt. for.
5. Now-a-days, more and more companies are issuing debentures for raising long term debt capital. Give 4 reason why is it becoming popular.
6. You are finance manager of 'Satya Ltd.'. You have suggested the directors to opt. for long term loan from a financial institution to raise finance needed for company's expansion. Explain reason to support your answer.
7. Mr. Arun has retired from his Govt. Job. He wants a part of his savings to invest in some company. He want a fixed and regular income without any risks.
 - i) Name the type of shares in which he should invest.
 - ii) State 2 merits & 2-demerits of the type of shares suggested above.
8. These type of shares enjoy preferred rights in dividends. Identify the type of shares. Also explain 2-merits & 2 demerits.

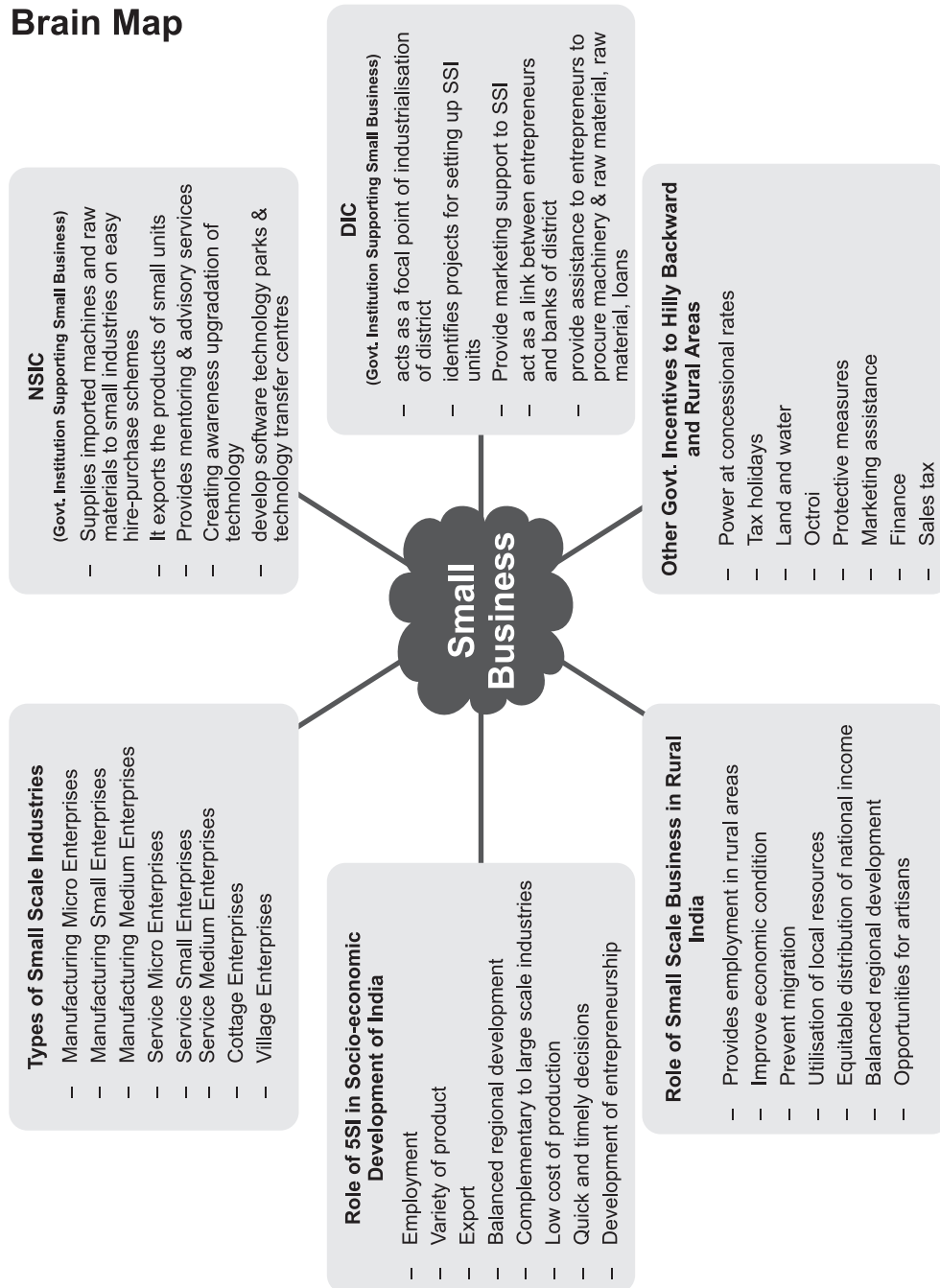
9. These type of shares do not enjoy any preferred rights but they are real masters of the company. Identify the type of shares. Also explain 2 merits & 2 demerits of the same.
10. 'Rudra Limited' is a successful company dealing in shoe making. Though it has enough reserved yet the directors of the company opted for debentures as a source of finance. Is the decision wise? In your opinion which source the company should opt. for. Give reasons to support your answer.
11. Mr. Manav Sharma is the finance manager of 'Setu Limited' company needs Rs. 50 crores. To arrange the capital needed Mr. Sharma has two option. Issue of equality shares or debentures. After consideration of all facts, he decided in favour of issuing debentures. He presented his decision before the CEO who asked why he had opted for debentures Mr. Sharma replied that debentures are fixed charge funds and do not participate in profits of the company.
- State more facts that Mr. Sharma must have presented before the CEO about the debentures and equity shares.
12. "Mahindre and Manhindra" was the first company in India to issue convert able debentures in 1990. Now many more companies have the approval to issue convert able debentures to raise long term debt capital. State & explain the reason of issuing such debentures.
13. Zen Ltd. planning to organize a country wide 'Sale of its products during festival season. The co. has to build stock of its inventories to be able to meet the increased demand.
- a) Name the type of capital co. must have to meet production demands. (Working capital)
- b) Advise the sources that the co. may consider to raise required funds. (Trade Cr. , Cash Cr. (O/D).
14. Aryan is running a Travel Agency. The nature of business does not require too many fixed assets. However, he is planning to open another office in Dubai and to meet the financial needs he has applied for a long term loan from a bank. Do you think he will be able to get long term loan from bank ? Give reason.
15. Tania received 1,00,000 from her parents as a gift. She is planning to invest entire amount but wants her money to be safe and secure. Advise her about various options where she can invest her money.

16. The Director of Asia Ltd. are planning to improve its productivity by replacing their plant and machinery by installing new plant and machinery with latest technology at a cost of \$5 crores. They can raise funds through issue of shares but is not confident of raising all the money from shares. Suggest the ways of raising finance for the company.
17. Tara Ltd. decided to raise funds through issue of equity shares as the board of Directors know that a company has to pay dividend to equity shareholders only when it earns profits. Board of Directors decided that they record losses for the first 3 years so that they don't have to pay any dividend to the shareholders.
- (a) Are the Boards of Directors right in thinking ?
18. Mr. Pardeep owns a business of toys. At present he sells his product in North and West India, but now planning to sell his products in South India also. For this he applied to the bank for enhancement of his overdraft limit from 50 Lakhs to 75 Lakhs. Bank manager suggested him to take 'Term Loan' of \$25 Lakh instead of increasing overdraft limit. Do you think he should consider Term Loan instead of overdraft limit ? Give reasons.
19. A foreign company wants to collect money from the capital market of India. The financial manager of the company. Mr. Trump wants to issue such a financial instrument, as instead of being in dollars, shall be denominated in rupees, as it can be listed in any Indian stock Exchange thereafter.
- a) Identify the Financial Instrument indicated in above situation.
- b) Explain the procedure of issuing this Financial instrument.

CHAPTER 8

SMALL BUSINESS AND ENTERPRISES

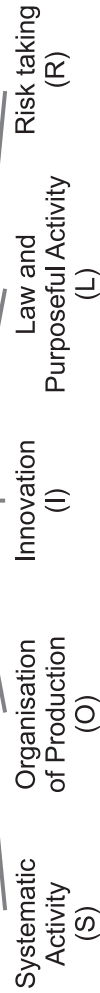
Brain Map



Entrepreneurship

Characteristics of Entrepreneurship Development

⇒ NONEMONIC : SOIL R



Need for Entrepreneurship

- Contribution to GDP
- Capital formation
- Generation of employment
- Generation of business opportunities for others
- Improvement in economic efficiency
- Increasing scope of economic activities
- Impact on local communities
- Fostering the spirit of exploration, experimentation & daring

Schemes & ways to fund startup by Govt. of India

- No inspection
- Income tax exemption
- Capital gain tax exemption
- Benefit in patent & intellectual property
- Funding schemes for startup

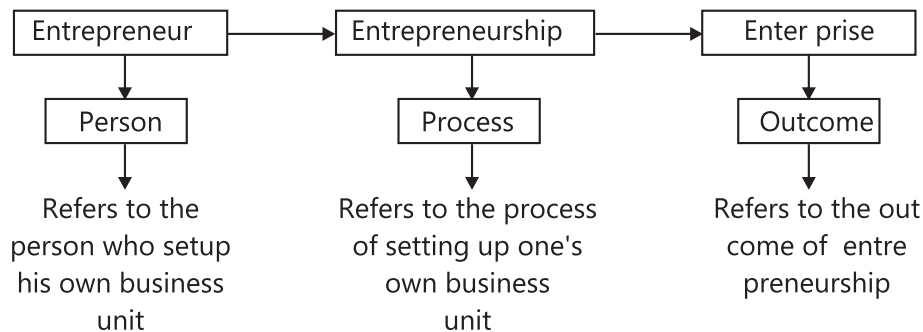
Funding options to raise capital

- Government offers
- Self funding/boot strapping
- Crowd funding
- Angel investment
- Venture capital
- Funding from incubators accelerators
- Winning contest funds
- Bank loans
- Non-banking financial companies
- Quick money

IPR Types

- Copyright
- Trademarks
- Geographic indications
- Patents
- Design
- Plant variety
- Semi-conductors integrated circuits layout design

Entrepreneurship Development (ED):



Meaning: Entrepreneurship is an systematic, purposeful and creative activity performed by an entrepreneur to translate business idea into desired monetary results.

- (1) **Systematic Activity :** It is not a spontaneous activity one needs special knowledge to complete this activity in a disciplined manner.
- (2) **Lawful and purposeful activity:** It is related to the establishment of a lawful and purposeful business. It aims at providing value (goods & services) to the buyers, consideration to the investors and profit to the entrepreneur.
- (3) **Innovation:** Under it, new combinations of different modes of production are created like new technique, new products, new raw material & new marketing methods.
- (4) **Organisation of Production:** Under this, new methods of production are adopted.
- (5) **Risk-Taking:** It is surrounded by risk on every side. Hence risk can't be separated from entrepreneurship.

Need for Entrepreneurship: The need for entrepreneurship is indicated from the following facts—

- (1) **Initiating the process of Development—**The establishment of more and more business reflects the development of a country.
- (2) **Sustaining the development:** Rate of development is sustained (maintained) with the help of entrepreneurship.
- (3) **Providing employment opportunity:** Entrepreneurship not only provides the scope for self-employment but also offers employment to large number of people.

- (4) Social benefits: By making optimise utilisation of resources. They save scarce resources of society.

Process of Entrepreneurship Development: Start-up India Scheme: Start-up India is an action plan to develop an eco-system to promote and nurture entrepreneurship across the country.

Meaning/Definition of Start-up: Start-up is a business enterprise in the form of private Ltd. Company, partnership, limited liability partnership or sole proprietor, registered in India, which was started less than five years ago and have annual turnover of less than 25 crore.

Startup India

The startup India scheme is a flagship initiative of the Government of India with an objective to carve a strong ecosystem for nurturing innovation and startups in the country.

The scheme specifically aims to:

1. Develop entrepreneurial culture and inculcate entrepreneurial values in the society at large
2. Create awareness about how to be an entrepreneur and its advantages as a source for earning a living.
3. Encourage more dynamic startups by motivating educated youth into entrepreneurship
4. Support early phase of entrepreneurship development
5. Involve under represented groups like women, SC & ST etc. to achieve inclusive & sustainable development

As per the notification dated February 17, 2017 issued by Ministry of Commerce & Industry, a startup means

- an entity incorporated or registered in India
- not older than 5 years
- Annual turnover does not exceed ₹25 crore in any preceding year.
- Working towards innovation, development or commercialisation of product/service/process driven by technology/IPR and patents

Startup India: Action Points

1. Simplification and hand holding — making compliance for startups simple & flexible
2. Legal support and fast tracking patent examination: so that first mover advantage can be undertaken easily.
3. Easy exit: In case of business failure, the exit process has been made easy so that capital & other resources can be relocated to other productive areas.
4. Harnessing private sector for incubator setup: To ensure professional management of government funded incubators, PPP mode is being planned.
5. Tax exemptions: The profits of startup initiatives are exempted for income tax for a period of three years.

Any enterprise formed by splitting up or reconstruction of a business already in existence shall not be considered as start-up.

Various schemes and ways to fund start-up by Government of India: There are about 67 schemes launched by Govt. of India for giving wings to youth entrepreneurs.

Common Schemes offered by government are :

1. **No inspection :** No inspection would be carried out at start ups for 3 years.
2. **Registration:** Start up get registered in available for first three years only after obtaining a certificate from inter-ministerial board.
3. **Income Tax Exemption:** Income Tax exemption is available for first three years only after obtaining a certificate from inter-ministerial board.
4. **Capital gain Tax exemption:** The start-up can claim capital gain tax exemption for first three year.
5. **Benefit in patent and Intellectual property :** It patent cost, start-up can claim an 80% rebate.
6. **Funding Schemes for start-up:** Govt. has announced ₹10,000 crore fund for new startups and ₹500 crore for credit guarantee scheme.

Lists of 10 funding options for startups to help raise capital/ways to fund start up:

1. **Self-Funding:** To start business, self-funding is 1st option.
2. **Crowd funding:** In this method, fund is gradually collected from a large number of people through the medium of internet by giving detailed information of his startup.

3. Angel investment : In this method, the rich people with surplus cash and having interest in development of start up get ready to invest in the business.
4. Venture capital: Under this method, funds are professionally managed in companies that have huge potential.
5. Funding from Incubators and Accelerators: Incubators is the financial assistance provided to the start stage by financial institutions and funding for developing the organisation and funding for developing the organisation after startup is known as acceleration.
Incubators — Walk
Accelerators — Run
6. Winning Contests Fund—Under this method, fund is collected by presenting the best startup plans and winning the contest.
7. Bank-loan—Under this method funds can be raised from the banks like Bank of Boroda, HDFC, ICICI Bank.
8. Non-Banking financial Companies—NBFC's the startups who can't fulfil the conditions of commercial Banks can easily get the financial help from NBFC's.
9. Government offer: To give financial help to the startups, the government has arranged ₹10,000 crores in the union Budget.
10. Quick Money: Under this method of startup fund, the arrangement of Fund in made in following manner.
 - (a) Getting payment prior to the sale of product.
 - (b) Sole of properties.
 - (c) Use of credit card.

Like 'APPLE' & 'SAMSUNG' companies, generally got the payment from their customers prior to the supply of goods.

Intellectual property Rights (IPR) and Entrepreneurship

Intellectual property: It refers to the intellectual creativity of a person. It is the legelly recognised exclusive rights given to the creator of their creations like invention, art work, musical, literary, symbols, names, designs, images, discoveries etc.

- (a) Industrial Property which includes inventions (Patents), trademarks, industrial designs and geographic indications.
- (b) Copyright, which include literary and artistic works.

IPR refers to the special rights given to the creator for a definite period for the use of his creative work.

IPR is an asset for innovative entrepreneurship in the following way:

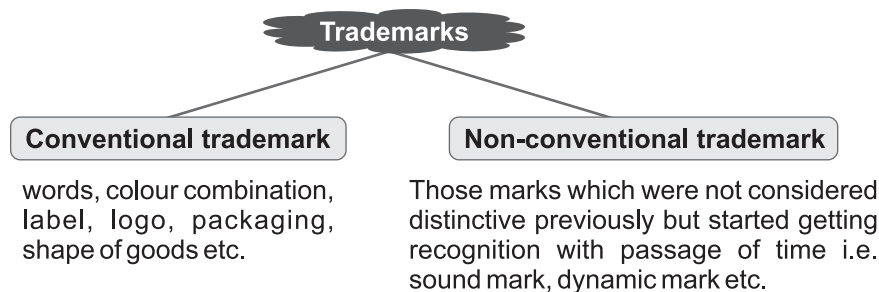
- (1) Innovative potential has market value.
- (2) Upcoming entrepreneur can make their name and place in the market with IPR.
- (3) Research shows that more than 25% patent are taken by new and upcoming entrepreneurs.
- (4) IPR give the entrepreneur property right as intangible assets.
- (5) IPR give an edge over your competitor and help you to become leader in your field.

Importance of IPR for Entrepreneurs

- It encourages creation of new, path breaking inventions. e.g. cancer cure medicines
- It provides an incentive to inventors, authors etc. for their work
- It allows work created by a person to be distributed & communicated to the public only with his/her permission
- Creators, developers get recognition for their work

Types of Intellectual Property

1. **Copy right** – Right conferred upon creators literary, artistic, musical, sound recording & cinematographic film
2. **Trademark** – It is any word, name or symbol (or their combination) that lets us identify the goods made by individual companies



3. **Geographical Indication** It is primarily an indication which identifies agricultural, natural, manufactured products (handicrafts, industrial goods & food stuffs) originating from a definite geographical territory.

e.g. Naga Mircha, Miza Chilli, Warli Paintings, Darjeeling Tea

4. **Patent**
 - It protects the scientific inventions (products and/or process) which shows technical advancement over the already known products
 - It provides exclusive 'right to exclude' all others and prevents them from making, using, offering for sale, selling or importing the invention.

For an invention to be patentable

 - It should be new
 - It must be non-obvious to any person who is skilled in relevant field of technology
 - It must be capable of industrial application
5. **Design**
 - It includes shape, pattern, arrangement of lines or colour combination that is applied to any article.
 - It is valid for 10 years and can be renewed for further 5 years after expiry of the term
6. **Plant variety**
 - It is grouping plants into categories based on their botanical characteristics e.g. variety of potatoes.
7. **Semi-conductors
Integrated Circuits
Layout Design**
 - A semi-conductor is an integral part of every computer chip. Its design is to perform electronic circuitry function.

Intellectual Property by Rights & Business

Any business has to continuously innovate & think ahead otherwise it will stagnate and finally close down.

So IPR helps the business to stay ahead of the rest.

Enterprise Vs Entrepreneurship:

Enterprise is a business organisation/start-up which provides goods/service, creates employment and contributes to national income. it is the fourth factor of production along with land, labour and capital.

Entrepreneurship is the set of all activities performed by an entrepreneur to translate a business ideas into desired monetary results.

Question-Answers

1. What is entrepreneurship and why it is needed?
2. Define start-up. Explain various schemes offered by government of India for start-up.
3. Explain Intellectual property right and what it includes. Explain them.

Small Business

A business which operates on a small scale and required less capital, less labour and less machines is called small business. The goods are produced 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 :-

Type of Industries	Investment Unit
Manufacturing micro enterprises	Investment in plant & machinery does not exceed ₹ 25 lakh
Manufacturing small enterprise	Investment in P&M is more than ₹ 25 lakh but does not exceed ₹ 5 crore
Manufacturing medium enterprise	Investment in P&M is more than ₹ 5 crore but does not exceed 10 crore

Service micro enterprise	Investment in equipment does not exceed ₹ 10 lakh
service small enterprise	Investment in equipment is more than ₹ 10 lakh but does not exceed ₹ 2 crore
Service medium enterprise	Investment in equipment is more than ₹ 2 crore but does not exceed ₹ 5 crore
Village industries	Fixed capital investment per head or artisan or worker is specified by central government from time to time. It is located in rural area which produces any good/service with or without the use of power.

Cottage/Rural/Traditional Industries are not defined by capital investment criteria as in case of other small scale industries

Features:-

- Organised by individuals with private resources
- normally use family labour and locally available talent
- The equipment used is simple & produces simple products usually in their own premises
- Capital investment is small
- Production of goods using indigenous technology

- | | |
|-----|---|
| Q.1 | State the distinguishing features of Ancillary small industrial unit. [50% of its production must be supplied to parent company] |
| Q.2 | On what basis MSMED Act, 2006 measure the size of the business ? [Investment in plant and Machinery]. |
| Q.3 | Harish has invested 15 Lakh in plant and Mach to manufacture plastic toys. Ac to MSMED Act, in which category does his enterprise falls.[Micro manufacturing Enterprises] |

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 abundant amount in rural areas of India.

2. **Variety of product :-** Small scale Industries produce an enormous Variety of goods e.g. ready-made 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 t 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 oust of production because they used local resources in their product.
7. **Quick and timely decision :-** Due to the small size of the organization quick and timely decisions can be taken without consulting many people.
8. **Development of entrepreneurship :-** S.S.I. provide opportunity of young men and women to start their own business.

ROLE OF SMALL BUSINESS IN RURAL INDIA

1. **Provides Employment in Rural Areas :-** Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas 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. **Utilization of Local Resources :-** S.S.I. use local resources e.g. coir. wood and other products, which otherwise remain idle or unutilized or used in very less quantity.

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 and the income of the country is not just concentrated with some city industrialist.
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.
7. **Opportunity for Artisan :-** S.S.I. provide opportunity to people who are having expertise in different fields but because of lack of opportunities their skills do not come into limelight.

Problem of Small Scale Industries:

1. **Finance :-** Non-availability 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 underutilization 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 modernizing 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 due to liberalization Privatization and Globalization.
6. **Other problems :-**
 - Lack of Managerial Efficiency due to non-availability to professionals in rural area.
 - Lack of Demand of Produced Goods.

- Labour Problems due to lack to skilled or expert labour.
- Burden of Local Taxes.
- Poor Product Quality.

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

(A). INSTITUTIONAL SUPPORT :-

1. 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 entre-preneurs from availing opportunities. NSIC was established to cater to this need of entrepreneur.

A new scheme of "Performance and credit rating" of small business is implemented through NSIC with twin objective.

- a) Sensitizing the small industrial about the need for credit rating.
- b) Encouraging the small business to maintain good financial record.

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 mentoring & advisory services.
4. It serves as technology business incubator.
5. It helps in creating awareness on up gradation of technology.
6. It helps in procuring, supply & distribute indigenous & imported raw material
7. Developing software technology parks and technology transfer centres.

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.
7. Provided loans, work sheds and raw material to SSI units.
8. Implements government sponsored schemes for educated unemployed.
9. Provided assistance to entrepreneurs to procure machinery and raw material.

- Q.1 What is the name of organization which ensures smooth credit flow to small business through syndication with banks? (NSIC)
- Q.2 Name the scheme launched by NSIC to spread awareness about credit rating ? (Performance and credit rating)

(b) Other Govt. Incentives to Hilly Backward And Rural Areas

1. **Power :-** Some states supply power at a concessional rate of 50%. While some states exempt such units from payments in initial years.
2. **Tax holidays :-** Exemption from payment of tax for 5 or 10 years is given to industries established in backward areas.
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 concessional rates with easy instalments of loan repayment.
8. **Sales Tax :-** In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years.

MCQ/True or False/Fill in the Blanks

(1 mark)

- Q.1 Which repository has been designed by our Indian Government to safe and wrongful patenting of our traditional knowledge?
- Q.2 Government of India opposed and won against a patent granted by US Patent Office in 1995 for a product for its wound healing properties, which was the product?
- (a) Haldi (b) Dhaniya
(c) Antiseptic cream (d) None of these
- Q.3 Lalit is a great artist. He wants that none of his paintings should be copied without his permission. What should he do to do so?
- Q.4 Recipe of Coca Cola comes under which type of Intellectual Property Right?
- (a) Trade secret (b) Patent
(c) Copyright (d) None of the above
- Q.5 Yoga is a part of Indian traditional medicine system. If some other country wants to get it patented then can we challenge it copy?
- Q.6 Which agreement with WTO defines the role and importance of IPR?
- Q.7 Copyright is the right to 'not copy'. True or False.
- Q.8 Which of the following are considered for protection as trademarks in some parts of the world but all not recognised as trademarks in India?
- (a) Smell & taste (b) Logo
(c) Label (d) Colour combination

- Q.9 Patent can only be filed to get rights over an invention and not discovery. (True or False)
- Q.10 For how many years does a patents allows exclusive rights to the inventor?
- (a) 10 years (b) 15 years
(c) 20 years (d) 25 years
- Q.11 Patent is a _____ monopoly. (Fill in the blanks)
- Q.12 A design comes in public domain after a period of 5 years. True or False.
- Q.13 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?
- Q.14 Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51% ?
- Q.15 Name any 2 areas where SSLs feel threatened from global enterprises.
- Q.16 Name any 2 merits of SSLs in the export trade of India.
- Q.17 What is the difference between ancillary small industrial unit and tiny industrial unit ?

APPLICATION - ORIENTED QUESTIONS.

- Q.1 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 come?

(c) State the investment limit in this category.

[Hints:-MSMED Act, 2006. Small Scale Industry, Rs. 5 crores. Employment Generation]

Q.2 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 earned 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

[Hints :- Small scale Industry, Cheap price of Land and Labour, Equity share Capital and Loans from Bank.

Q.3 Sushant Singh done his B.Tech in electrical engineering. He has no business experience but wants to start a small scale manufacturing unit. He has chosen to manufacture light engineering goods which will be marketed to manufacturers and in replacement markets.

- a) Which Govt. agency should he approach for receiving suitable guidance for starting his unit ?
- b) What type of facilities will he be able to get from concerned agency.

[Hint : (a) DIC (b) Role of DIC]

Q.4 The Govt. of India has launched special schemes for developing small scale industries in rural, backward and hilly areas.

Explain any 3 such schemes and mention any 2 values involved in launching these schemes.

[Hint : Any 3 Schemes from other incentives

Values : (a) Concern for people living in under-development areas.
(b) Creation of self-sufficiency.

Q.5 Almost in every district of the country a District Industries center (DIC) has been set up. Mention any four objectives of this centre.

Q.6 "Small Scale Industries contribute to the economic development of the country by producing 40% of the gross industrial value added, yet they face financial crises all the time." Why do small industries face financial problems all the time?

- Q.7 One day Ravi Dubey noticed his wife cleaning the refrigerator with vinegar and water. She was struggling to remove a stain. He got an idea of making wet tissue papers with good grade concentrates to solve the problem. Do you think startup India Scheme initiated by government will help him? How? (5 marks)
[Hint: Yes; startup India's action points]
- Q.8 Sukhvinder Singh designed an software application to monitor pulse rate, blood pressure, BMI, etc. of a user. Since this idea was new, his friend, Rajesh asks him to get an IPR for it. What use do you think will it have for Sukhvinder?
[Hint: Importance of IPR for Entrepreneurs]
- Q.9 After completing MBA from FMS, Delhi, Raveena decided to enter into a startup business. She wants to explore the diary product business after hearing news of adulteration being found in the milk all over Delhi. She does feasibility studies and finds there is a demand for healthy and quality products in the market. She is confused about the options available to her for her startup. Suggest any 6 ways through which she can finance it. (6 marks)

Answers

1. Traditional knowledge digital library
2. (a)
3. He should get a copyright of his work
4. (a)
5. Yes, as it comes under Indian Traditional Knowledge
6. TRIPS
7. True
8. (a)
9. True
10. (c)
11. Temporary
12. False

CHAPTER 9

INTERNAL TRADE

Brain Map

Classifications of Retail Trade based on whether they have or do not have a fixed place of business

Fixed Shop Retailers

- Fixed shop small retailers
 - General stores
 - Speciality shops
 - Street stall holders
 - Second hand goods shop
- Fixed shop large store retailers
 - Departmental stores
 - Chair store
 - Mail order houses

Itinerant retailers

- Peddlers & hawleers
- Market traders
- Street traders
- Cheap jacks

Main documents used in International Trade

- Invoice
- Debit note
- Credit note
- Lorry receipt
- Railway receipt
- Proforma invoice
- Terms of Trade**
 - Cash on delivery
 - Free on board
 - Cost, insurance & freight
 - E & OE
- GST facts**
 - Single tax structure
 - Effect price
 - Destination base tax
 - Anti proprietorship measure
 - Registration of trades under GST

Internal Trade

Wholesale Trade

Services of wholesaler to manufacturer

- F, M — Facilitate target scale production
- M — Marketing function
- BS — Bearing risk
- E — Expert advice
- Storage
- Services to manufacturer and retailers
 - large scale operations
 - distribution of goods
 - promotion
 - C — collecting market information
 - P — Personal selling

Retail Trade

Services of Retailer

- M — Marketing support
- A — Availability of goods
- R — Risk sharing
- S — Specialised knowledge
- G — Grants of credit

Services of Consumer

- Wide selection
- After sale service
- Regular availability of products
- New product information
- Provide credit facilities
- Convenience in buying

Trade :- Trade refers to the process buying and selling of goods and service with the objective of earning profit.

Internal Trade :- When trade takes place between the people of the same country then it is termed as internal trade.

Features of Internal Trade

1. Trade within the Geographical boundaries of a nation.
2. Free from custom duty or import duty.
3. Aims at equitable distribution of goods within nation.
4. Payment made in the legal currency of the country.

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.

Features of Wholesale trade

1. Purchase goods in bigger lots.
2. Usually specialize in one particular line in goods.
3. Sells in small lots to retailers.
4. Wholesaler bears the business risks by buying and selling goods in his own name.

SERVICES OF WHOLESALE 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.
6. Wholesalers provide the storage facilities also as they hold the goods in their warehouses/Godowns.
7. The wholesaler facilities continuity in production as they purchase the goods from producers as and when these are produced.

SERVICES OF WHOLESALERS TO RETAILERS

- 1 Wholesaler 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 specialized 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.

Features of Retail Trade

1. Buys variety of goods from wholesalers.
2. Deals in large variety of goods.
3. Sells goods in small quantity to consumers.
4. Last link in the distribution chain.

SERVICES OF RETAILERS TO MANUFACTURERS AND WHOLESALE:-

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 actualizing 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.

- Q.1 Pawan buys rice from Deepak in very large quantity and sells them to shopkeepers in small quantities. What type of trade does Pawan do ?
- Q.2 Who is the last link in the distribution chain?

Goods and Services Tax (GST)

The Govt. of India following the principle of "One Nation and one Tax" and wanting a unified market order to ensure the smooth flow of goods across the country implemented the Goods and Service Tax (GST) from July 1-2017. The move also aims to make life easier for manufacturer, producers, investors and consumers. This system is regarded as the most revolutionary tax reforms in Indian Taxation history.

GST is a destination based single tax on the supply of goods and services from manufacturer to consumer and has replaced multiple indirect taxes levied by central and state Govt., thereby converting the country into a unified market.

GST?

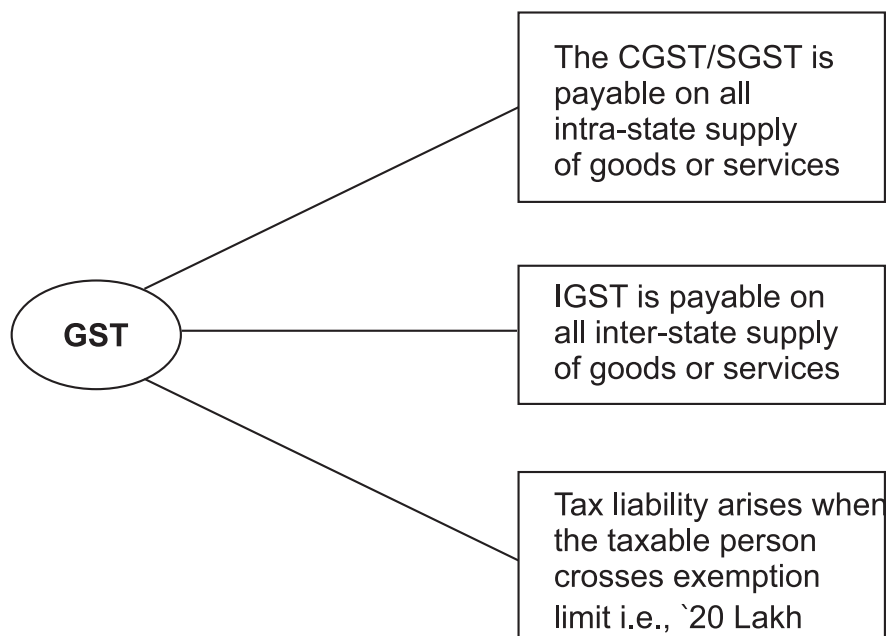
It refers to such a system of Indirect tax under which besides ease and uniformity at the National level, it is taken into consideration that the final consumers should not pay Tax on the tax.

MAIN TERMS TO BE USED IN GST

1. **Inward Supply**—It refers to material or services which a supplier gets for manufacturing a product or service.
2. **Outward Supply**—It refers to the goods or service which a supplier supplies to buyer.
3. **Input Tax**—It refers to tax which is paid by an individual or a business unit at the time of Inward supply.
4. **Output Tax**—It refers to the tax which is paid by an individual or a business unit at the time of output supply.
5. **Input Tax Credit (ITC)**—It refers to the amount by which a supplier decreases his output tax. This amount is the one which a supplier has already paid in the form of Input tax on goods and services.

Net Tax Payable = Output Tax - ITC

6. **Intra State Supply**—When the goods and services are supplied within the same state or Union Territory, it is known as Intra State Supply.
7. **Inter State Supply**—When goods or services are supplied from one state or Union Territory to another, it is inter state supply.
8. **Central GST (CGST)**—The share of central Govt. in total GST on the intra state supply collected by supplier is known as CGST. This amount is about 50% of total amount of GST collected.
9. **State GST (SGST)**—The share of state or Union Territory in total GST collected on the Intra State Supply is known as SGST. This amount is about 50% of total GST.
10. **Integrated GST (IGST)**—The Tax levied on the inter state supply is known as IGST. In this amount 50% is the share of state or Union Territory where the goods and services is ultimately consumed and the remaining amount is of central Govt.
11. **Value Addition**—It refers to the tax levied only on the value addition, not on the tax on tax. In other words, the buyer will be paying tax on the total of the actual price of goods plus the profit realized. The input tax will not be added to the actual price and profit while calculating the tax.



KEY FEATURES OF GST

1. The territorial spread of GST is whole country including Jammu & Kashmir.
2. GST is applicable on the supply of goods or services as against the present concept of tax on the manufacturer or sale of goods or on the provision of services.
3. It is based on the principle of destination based consumption tax against the present principle of origin based taxation.
4. Import of goods and services is treated as inter-state supplies and would be subject to IGST in addition to the applicable custom duties.
5. CGST, SGST, and IGST are levied at rates mutually agreed upon by the centre and the states under the aegis of the GST council.
6. There are four tax slabs: 5%, 12%, 18%, and 28% for all goods and services.
7. Exports and supplies to SEZ are zero rated.
8. There are various modes of payment of tax available to the taxpayer, including Internet banking, debit/credit card/NEFT/RTGS.

TYPES OF RETAIL 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 along with 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 OF 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. The main advantage of this form of retailing is the provision of convenient service to the consumers.
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. They are mainly catering to lower income group of customers.
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 includes 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 places 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 specializes in 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.
- (vi) They provide maximum service to higher class of customers for whom price is of secondary importance.

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 operate on large scale and so the possibility of loss is also large/ high.

Chain Stores or Multiple Shops.

Chain store or multiple shop refers to a network of retail shops that are owned and operated by the 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 organization only and so they offer limited choice of goods.
2. Personal managing the chain store have to obey the instructions of the head office. Thus, they do not take their own initiatives to satisfy the customers.
3. If the demand for the goods handled by multiple shop changes, it may leads to heavy losses as large amount of stock remains unsold at the central office.
4. Lack of initiative In the employees sometimes leads to indifference and lack of personal touch in them.

- Q.1 Name the retail organization where same type of commodities are sold at uniform prices, located all over the country.
- Q.2 Robin liked a pair of shoes for his brother in a Bata Showroom in Faridabad, but they did not have the required size. The shop manager called the nearest Bata Showroom and ensured Robin to collect the shoes in an hour's time. Which feature of chain store have been explained here?

Difference between Departmental Stores and Multiple Shops

	Basics	Departmental Stores	Multiple Stores
1.	Location	Centrally located place in the city	They are located at number of places for approaching a large number of customers.
2.	Range of Products	They have a variety of products of different types	Only specified range of the company's products are available
3.	Services offered	They provide maximum services to their customers	They provide limited services like guarantees, repairs, etc.
4.	Pricing	They do not have uniform pricing	They sell goods at fixed prices and maintain uniform pricing policies for all stores.
5.	Class of Customers	They cater to needs of relatively high income group of customers who care more for services than prices.	They cater to different types of customers including lower income groups
6.	Credit Facility	They may provide credit facility	They do not provide credit facility
7.	Flexibility	They have more flexibility in respect of goods marketed	They have less flexibility branch managers have to follow instructions of head 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 infrastructure 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.

Q. Identify the types of retailers highlighted in the following statements

- a) Rajeev sells only school uniform.
- b) Rajan deals only in second hand furniture.
- c) Sanjay sells fruits and vegetables from one street to another.
- d) Raja sells ice-cream daily in front of school.

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.

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 foster 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 and 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 members.

Points to be remembered

1. Private Sector's Business are owned by private individuals or groups — Reliance Industries, Airtel, LG, Samsung.
2. Retailer is the trader who directly deals with consumers.
3. Full form of CCI – Chambers of Commerce and Industry
4. A large retail outlet offering a wide variety of products, classified into well defined departments – Departmental store
5. Departmental stores features :-
 - centrally located
 - provide all facilities e.g. restaurant, rest rooms, etc.
 - generally formed by a Joint Stock Company
 - combines functions of retailing and warehousing
6. **Chain stores** refer to network of retail shops that are owned and operated by same organisation, established in localities spread in different parts of the country
7. Features of chain stores
 - located in popular localities
 - manufacturing or procurement of goods is centralized at the head office
 - each chain store is supervised by the branch manager
 - prices of goods are fixed
8. The retail outlets that sell their goods through mail are called **mail order houses**

Multiple Choice Questions

1. Wholesalers provide _____ and _____ utility by making products available at right place and required time.
[Hint: Time & place]
2. On the basis of merchandise handled, retail trade is classified as
(a) large/medium/small retailers

- (b) soletrader/partnership firm/cooperative store/company
 - (c) Speciality store/super market/departmental store
 - (d) None of the above
3. Ramlal sells vegetables in a cycle rickshaw and moves from place to place. He provides them at doorstep of his customers. Which category of itinerant retailer is he?
- (a) Market trader
 - (b) Street trader
 - (c) Peddler and hawker
 - (d) Cheapjacks
4. Iftar Siddiqui has a shop of second hand books in 'Nai Sarak' Delhi. Which type of retail trade is he doing?
- (a) General store
 - (b) Cheap jack
 - (c) Speciality shop
 - (d) Second hand goods shop
5. John Jacob has a consumer electronic goods shop in South Delhi. Which type of retail trade is he doing?
- (a) General store
 - (b) Cheap jack
 - (c) Speciality shop
 - (d) Second hand goods shop
6. McDonalds comes under which category of retailers?
- (a) Departmental store
 - (b) Chain store
 - (c) Speciality store
 - (d) General store
7. "The loss incurred by one shop may be covered by profits in other shops, reducing risk an organisation". Advantage of which type of retail trade has been referred to here?
[Hint: Chain store]
8. GST is a _____ single tax on the supply of goods & services from the manufacturer to consumer. (Fill in the blanks)
9. Which tax is called 'One Nation and One Tax'?
- (a) Sales tax
 - (b) GST
 - (c) Custom duty
 - (d) None of the above

10. GST has replaced _____ indirect taxes and _____ cesses of the Centre and the States.
11. Big Bazaar is an example of which type of fixed shop
 (a) Speciality shop (b) Departmental store
 (c) Chain store (d) General store
12. Trade involving buying and selling of goods and services within the boundaries of a nation is called International Trade. True or False.
13. Which type of business has no personal contact between buyers and sellers
 (a) Mail Order Houses (b) Chain store
 (c) Departmental stores (d) None of the above
14. Chamber of Commerce is a _____ association of businessmen belonging to different trades and industries.
15. What is the main objective of CCI?

Answers to MCQs/Objective Type/Fill ups

- | | |
|----------------|----------------------|
| 1. time, place | 2. (c) |
| 3. (c) | 4. d) |
| 5. (c) | 6. (b) |
| 7. Chain store | 8. destination based |
| 9. (b) | 10. 17, 23 |
| 11. (b) | 12. False |
| 13. (a) | 14. Voluntary |

VERY SHORT QUESTIONS (1 MARK EACH)

- Q. 1 Define Trade
- Q. 2 List the two broad categories of trade
- Q. 3 Which shops deal in specific line products?
- Q. 4 Give two examples of chain stores.

- Q. 5 Mail order Houses provide a lot of convenience to the customers. yet they are not very popular, why? Give one reason.
- Q. 6 What are Vending Machines?
- Q. 7 Which type of goods are suitable for vending machines?
- Q. 8 Name any two organizations which have been playing a catalytic role in strengthening internal trade.
- Q. 9 Write the full form of ATM.
- Q. 10 Write the full form of CII.
- Q. 11 Distinguish between a wholesaler and retailer. Give only one point of difference.
- Q. 12 Name the document used in internal trade when goods are transported by railways.
- Q. 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.
- Q. 14 Savita Spices Ltd. selling spices to Ramesh Bros. agrees to pay all the expenses upto Vishakhapatnam Port. Identify the term of trade.
- Q. 15 What is the meaning of Performa Invoice?
- Q. 16 Explain 'E & OE' meaning.
- Q. 17 Explain the meaning of Debit Note?
- Q. 18 Tobacco manufacturer is planning to sell its products outside the schools and collages. Which values are violated here ?
- Q. 19 Rohit displays lots of magazines on a busy street corner near the railway station. Identify and explain the type of retail referred here?
- Q. 20 Sushil Kumar is a hawker. He sells his goods in street by carrying them on his head? Which social values are being set up by him ?
- Q. 21 Sanjeev trades in open rented places. The moment the opportunity of making profit at a particular place get diminished,

he changes his place of trade. Identify the type of itinerant trader Sanjeev is.

- Q. 22 State one benefit of coffee vending machine installed in an office.
- Q. 23 Sunil wants to give party to his friends on his birthday. He buys snacks from a supermarket where he receives an invoice. He buys decoration material from near by shop who provide him with a cash memo. His friends buys cake from th bakery and got a Bill as an acknowledgement of the purchase. Differentiate (if any) between Invoice, Bill and cash Memo.
- Q. 24 Mention any two fixed shop large scale retailers.

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

- Q. 1 Enumerate the main features of wholesale trade.
- Q. 2 What are the services offered by retailer to the consumer?
- Q. 3 Jyoti has shifted residence in a new settlement colony. There are no retail shops nearby. What difficulties will Jyoti face in above case?
- Q. 4 Mention differences between departmental store and multiple shops.
- Q. 5 Explain the concept of vending machines.
- Q. 6 Mail order houses supply goods at convenience of consumer, yet they are not popular among consumer. Comment.
- Q. 7 Explain the concept of vending machines
- Q. 8 A manufacturing Cc. 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 benefitting 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

- Q.10 Name the retail organization where same type of commodities are sold at uniform prices located all over the country state its any three features.
- Q. 11 Rectify the following statements if found wrong :-
- i) A wholesaler buys goods from the retailer.
 - ii) A wholesaler has direct link with the consumers.
 - iii) The amount of capital required is more in case of retail trade as compared to the wholesale trade.
 - iv) Retailers give credit facilities to wholesales.
- Q.12 There is a very famous shopping complex 'Great India Place' in Noida. Varied types of products and services are available here under one roof. Customer not only purchase the products entertainment and food. Identify this chief organization of retail trade and write its features.
- Q.13 There is an organization whose objective is to safeguard the interests of both the business and businessmen. These associated does not just look for the interest of one industry but for the whole business community. Identify the organization & enlist any three of its activities.
- Q.14 "Departmental stores make shopping easy." Explain.
- Q.15 Ram and Shyam are friends. They have to attend the birthday party of a common friend; Ram goes to 'Poshak kids wear' exclusively for kids wear with his parents to get a new dress for party whereas Shyam purchase his dress from 'Smart garments.' His mother and brother also bought, their dresses from 'Smart Garments'. Identify the types of stores Ram & Shyam visited and give its features.

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

- Q.1 Difference between wholesale trade and retail trade and retail trade.
- Q.2 What are departmental stores? Explain their advantages and limitations
- Q. 3 Explain the main type of Itinerant retailers.
- Q. 4 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.

- Q. 5 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. 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 and 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. 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 manufacturer? (State any 2)

- (iii) What services are provided by Prithvi firms to the society?
(State any 2)
- Q.12 Give Argument in favour of and against elimination of wholesalers from the channels of distribution.
- Q.13 Vinay is a sweet maker (Halwai) and prepares sweet on Deepawali due to increased demand, he purchased Khoya from other shopkeeper which was adulterated, because it was not possible to meet the demand from collected milk. For meeting the demand quickly he has not maintained cleanliness while preparation of sweets. He kept two children for packing the sweet and one female at cash counter.
- i) Which type of businessman Vinay is ?
- ii) What services Vinay should given to his customers ?
- Q.14 Mr. Deenanath lives in a remote area and there is no local market near by. What difficulties would Deenath face as there are no retail shops?
- Q.15 "Both departmental stores and multiple shops are large retail establishment yet they are different? Explain how.
- Q.16 Ghanshaym a Saree business man is the resident of Andheri East Mumbai. He gets his goods from Ram Prasad, a resident of Surat Ghanshaym places some order to Ram Prasad. Ram Prasad sent the goods by train & gets the receipt. Later Ghanshyam returned some of the order to Ram Prasad that did not meet his requirement.
- a) Identify the types of business Ghanshaym & Ram Prasad are engaged in.
- b) Name the receipt Ram Prasad received.
- c) Name the note sent by Ghanshaym to Ram Prasad.
- d) Whose account will be credited on account of goods returned?

CHAPTER-10

INTERNATIONAL BUSINESS

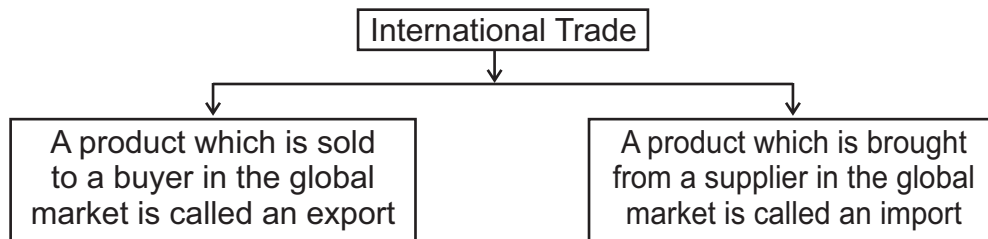
Brain Map



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 are as follows :

- 1) Merchandise exports and imports. Merchandises exports means sending tangible goods abroad and merchandise imports means bringing tangible goods from abroad. eg. – Machinery, electronic goods, metals, chemicals etc.
- 2) Exports and imports of services which involve trade in intangible items that can not be seen or touched. It is also called invisible trade.

For example – medical science, hospitality service to tourist, transporting, across the world etc.
- 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 from the 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 make it possible for people to consume goods and services produced in other countries which help in increasing their standard of living.

Benefits to Firms :

- 1) It helps in increasing profits of the firms by selling goods in the countries where prices are high.
- 2) It help firms in using their surplus production capacities and improving the profitability of their operations.
- 3) It help firms in improving their growth prospects.
- 4) It acts as one of the ways of achieving growth for firms facing tough market conditions in the domestic market.
- 5) It improves business vision as it make firms more competitive, and diversified.

Difference between Domestic & International Business.

BASIS	DOMESTIC BUSINESS	INTERNATIONAL BUSINESS
1. Nationality of buyers & sellers	Both buyers & sellers belong to same country.	Buyers & sellers belong to different countries.
2. Mobility of sectors of production	The factors of production like capital, labour and raw material can move freely within the country.	Buyers & sellers belong to different countries. There are restrictions on free mobility of factors of production across countries.
3. Mode of payment	Payment can be done through cheque, draft, cash etc.	Payment is done through telegraphic transfer, LOC, Bills of exchange
4. Mode of transport	Modes are used as per convenience e.g. Rail, Road, Air etc.	Good are shipped out of geographical boundaries of country this only air or sea can be used
5. Cost of transportation	Quite low cost	Comparatively more expensive as these are long distance deliveries.
6. Govt. Registration	Enterprise can start their business once the business is established. No need of special license to sell	Enterprise need to register with import and export organisation. IEC certificate is a must for international business.
7. Customer heterogeneity across market	Domestic markets are relative more homogeneous in nature.	International markets lack homogeneity due to differences in languages, preferences customs etc. across markets.
8. Currency Used	Currency of home country is used.	Currency used in business in transactions is that of more than one country.
9. Political System	It has to face the political system and risk of only one country.	It is subjected to political system & risk of different countries.

Mode of Entry into International Business

1. 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.

For example : India imports medical devices from Korea.

&

India exports agriculture goods.

2. 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.

3. 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.

4. JOINT VENTURE

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.

Q. 'R. Ltd.' wants to do business on the international level but it lacks in capital and human resources. Which partnership will you advise him?

5. WHOLLY OWNED SUBSIDIARIES

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

Export Process



Steps Involved in Export Transactions

- 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 nonpayment 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 perils of the sea transit the exporter gets the goods insured with an insurance company.

- 13) Beare required by the importer forgetting the goods cleared from customs.

- Q1. Uthappa wants to export his goods. Does he require letter of credit for obtaining export license?
- Q2. Jailerishan is an exporter. He sends his goods through seaways. Whenever his goods get loaded on the ship port superintendent gets a receipt from the captain of the ship. Name that receipt.

MAJOR DOCUMENTS USED IN EXPORT TRANSACTIONS

A. Documents Related to Goods

- Packing List
- Certificate of origin
- Certificate of Inspection
- Export invoice

B. Documents Related to Shipment

- Mate's Receipt
- Shipping Bill
- Bill of Landing
- Airway Bill
- Marine Insurance Policy

C. Documents Related to Payment

- Letter of Credit
- Bill of exchange
- Bank Certificate of payment

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.

- | |
|--|
| <p>Q1. 'Lokantha marine insurance co is a reputed insurance co. Which insures all kinds of marine transport, ships & cargos. 'Polo' Ltd. Trans International Co. Which exports clothes to various countries. 'Polo' cargos are insured by 'Lokantha' Co. A ship containing Polo's Garments met with an accident & drowned. Will 'Polo' CO. gets any claims from insurance co. If yes why? Give reason.</p> <p>Q2. 'Kohinoor Basmati Rice' wants to export Basmati Rice to Nigeria. What will be the role EICI in ensuring the quality of products exported by Kohinoor Co.</p> |
|--|

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.

Q1. If a country imports more than it exports which of the following must be true?

- a) The country has a positive balance payments.
- b) The country has a positive balance of trade.
- c) The country is in debt.
- d) The country has a trade deficit.

- 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 Process



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 importer. It can be gathered from trade directories, trade associations & organisations. The exporter prepares a quotation also known as Proforma 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.
11. 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.
12. 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.
13. 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 then presented to the port authority which on receiving necessary charges, issues the release order.

Q1. Radhika wants to indulge in an import trade which first step should she take as the idea of import trade course into her mind?

Q2. Laxman wants to import 1000 Laptops from a chinese electronic company. What proof should Laxman present to Chinese Co. for his credit worthiness?

Documents used in an Import Transaction

- 1) **Proforma Invoice** : A proforma invoice is a document that contains details as to the quality, grade, design, size, weight & price of the export product & the terms & conditions on which their export will take place.
- 2) **Import order or Indent** : It is a document in which the importer orders for supply of requisite goods to the supplier. The order 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 & quality & 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 document that contains a guarantee from the importer's bank to the exporter's bank that it is undertaking to honour the payment upto 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 is only available to 100%. Export oriented units and units set up in Export Processing Zones/Special Economic Zones for selected years.
4. **Advance Licence Scheme:-** It is a scheme under which an exporter is allowed duty free required for the manufacture of export goods. The firms exporting intermittently can also obtain these licenses against specific export orders.
5. **Export Processing Zones:-** They are industrial estate which are 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.

ORGANIZATIONAL 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 organization 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.
8. Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body.
9. Co-operating with IMF and World bank and its associates for establishing co-ordination in global trade policy making.
10. Acting as forum for trade liberalization.

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, businessmen face a lot of problem while paying and receiving money.
6. **Lack of information 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.

Objective Type Questions/MCQs

(1 marks)

1. In which of the following modes of entry, does the domestic manufacturer give the right to use intellectual property, such as patent and trademark to a manufacturer in a foreign country for a fee:
(a) Licensing (b) Contract manufacturing
(c) Joint venture (d) Public Private Partnership
2. When two or more firms come together to create a new business entity that is legally separate and distinct from its parents it is known as:
(a) Contract manufacturing (b) Franchising
(c) Joint venture (d) Licensing

3. Which of the following is not an advantage of exporting?
- (a) Easier way to enter into international markets
 - (b) Comparatively lower risks
 - (c) Limited presence in foreign markets
 - (d) Less investment requirements
4. Which one of the following modes of entry permits the greatest degree of control over overseas operations?
- (a) Licensing/franchising
 - (b) Wholly owned subsidiary
 - (c) Contract manufacturing
 - (d) Joint venture
5. Which one of the following is not amongst India's major export items?
- (a) Textiles and garments
 - (b) Gems and jewellery
 - (c) Oil and petroleum products
 - (d) Basmati rice
6. Which one of the following is not amongst India's major import items?
- (a) Ayurvedic medicines
 - (b) Oil and Petroleum products
 - (c) Pearls and precious stones
 - (d) Joint venture
7. Which of the following documents are not required for obtaining an export licence?
- (a) IEC number
 - (b) Letter of credit
 - (c) Registration-cum-membership certificate
 - (d) Bank account number
8. Which of the following documents is not required in connection with an import transaction?
- (a) Bill of lading
 - (b) Shipping bill
 - (c) Certificate of origin
 - (d) Shipment advice
9. Which of the following do not form part of duty drawback scheme?
- (a) Refund of excise duties
 - (b) Refund of customs duties

- (c) Refund of export duties (d) Refund of income dock charges at the port of shipment
10. Which one of the following is not a part of export documents?
 (a) Commercial invoice (b) Certificate of origin
 (c) Bill of entry (d) Mate's receipt
11. A receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as:
 (a) Shipping receipt (b) Wholly owned subsidiary
 (c) Cargo receipt (d) Charter receipt
12. Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shipper's name, the number of packages, the shipping bill, port of destination and name of the vehicle carrying the cargo?
 (a) Shipping bill (b) Packaging list
 (c) Mate's receipt (d) Bill of exchange
13. The document containing the guarantee of a bank of honour drafts drawn on it by an exporter is:
 (a) Letter of hypothecation (b) Letter of credit
 (c) Bill of lading (d) Bill of exchange
14. TRIP is one of the WTO agreements that deal with:
 (a) Trade in agriculture (b) Trade in services
 (c) Trade related investment measures (d) None of these
15. Why is it called a global village now-a-days?
 [Hint: Business in present days is no longer restricted to boundaries of domestic country]
16. _____ is a successor to GATT.

17. Match the following
- | | |
|-----------------------------|---|
| (a) Mate's Receipt | (i) The certificate specifies origin of goods exported |
| (b) Certificate of Origin | (ii) This is prepared by shipping company to acknowledge the receipt of goods on ship and gives an undertaking to carry them to port of destination |
| (c) Bill of Lading | (iii) It is issued by Captain of the ship to exporter after cargo is loaded |
| (d) Import General Manifest | (iv) Imported goods are unloaded from the carrier based on it |
18. In which of the following modes of entry, does the domestic manufacturer give the right to use intellectual property, such as patent & trademark to a manufacturer in a foreign country for a fee:
- | | |
|-------------------|--------------------------------|
| (a) Licencing | (b) Contract manufacturing |
| (c) Joint venture | (d) Public Private Partnership |
19. Which of the following modes of entry permits the greater degree of control over overseas operations?
- | | |
|---------------------------|-----------------------------|
| (a) Licencing/franchising | (b) Wholly owned subsidiary |
| (c) Joint venture | (d) Contract manufacturing |

VERY SHORT QUESTIONS (CARRYING 1 MARK EACH)

- Q.1 What is international business?
- Q.2 State two types of foreign Investment.
- Q.3 List two modes of entry into international business.
- Q.4 What is contract Manufacturing?
- Q.5 Who is franchiser?
- Q.6 What is indent?
- Q.7 Name any two export documents related to payment.
- Q.8 What is proforma Invoice?

- Q. 9 Write the full form of SEZ.
- Q.10 Name two International Trade Institutions.
- Q.11 Name the document containing guarantee of a bank to honour drafts drawn on it by an exporter's bank.
- Q.12 Why there is a need for pre-shipment inspection?
- Q.13 What is the significance of bill of entry?
- Q. 14 Give one point of difference between licencing and franchising.
- Q.15 Identify the mode of entry into an international business when an Indian Company acquires interest in an existing foreign company.
- Q.16 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?
- Q.17 Write the full form of FDI?
- Q.18 Who is C&F agent?
- Q.19 Robin and Mayank are exporters Robin exports fruits & vegetables whereas Mayank provides shipping services. What is the different the trades carried out by Robin & Mayank.
- Q. 20 What is Global sourcing for Production ?
- Q. 21 Raman is a shoe manufactures. He wants to export his products. Tell any one benefit nation received from his international business.
- Q.22 Amar wants to make foreign investment Advises him any one means of foreign investment.

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.S. 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
 (iii) Shipping Bill
 (iv) Certificate of origin
- Q.11 Mr. Raj Ordered some mobile phones from South Korean Co. In the order he gave details of the quantity of goods, their type, price and all other required things related to it. His brother Mr. Rampal also ordered the same to a Japanese company. But in the order he did not give the account of all things related to the import of goods.

 State what do we call the order in the language of foreign business. What shall we call the order placed by Mr. Raj & Mr. Rampal in the language of foreign business
[Hint :- Types of order]
- Q.12 International business is a compulsion to beat the odd distribution of national resources' comment.

[Hint ; Benefit of international business]
- Q.13 Which is the most appropriate and secure method of payment adopted to settle international transactions. Why do exporters demand this letter from the importers explain ?
- Q.14 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)

- Q. 1 Explain the benefits of International business (i) to Nations (ii) to firms.
- Q. 2 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.

- Q.3 You are planning to import laptops from USA. Describe the procedure in importing them.
- Q.4 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)
- Q.5 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?
- Q.6 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 is 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)

Q.7 Mr. Manchanda is a business man in Gurgaon 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 his unit in South India. They are having a debate in this. With whom do you agree? Give reasons for support of your answer.

Or

In your opinion what are their points of difference.

Q.8 What is the role or functions of WTO?

Q.9 "ABC Ltd." produces kids wear. The company thinks of selling its goods in U.K. But the weaker side of the company is that its marketing side is weak but the production side is strong. 'ABC Ltd. met a U.K. based company 'D Ltd.' whose marketing side is very strong. Both the companies have an agreement made between themselves that the company of first country will manufacture goods and send them to D Ltd. The job of selling goods will be done by D Ltd. What do we call this type of business agreement? Write briefly its meaning and any of its four merits.

Business Study

Practice Paper (Unsolved)

Class 11

M.M. = 80

M.T. = 3 hrs.

-
- Q. 1 State the meaning of Hindi (1)
- Q. 2 Nipun is shareholder in Krishna Ltd. holding 500 shares of ₹ 50 each on which he has already paid ₹ 44 per share. What will be his liability in the event of Krishna Ltd. failure to pay debt? (1)
- Q. 3 Which type of function of banks is 'Accepting deposit'? (1)
(a) Primary function (b) Secondary function
(c) Social function (d) None of the above
- Q. 4 What do you mean by social responsibility of business? (1)
- Q. 5 Differentiate between Equity share and Preference share on the basis of rate of dividend. (1)
- Q. 6 State the meaning of Angel investment (1)
- Q. 7 Neha, an exporter, entered into a contract for rent of the whole ship to export goods with shipping company. Name the contract entered by Neha. (1)
- Q. 8 Differentiate between shares and debentures on the basis of return. (1)
- Q. 9 Jasvinder Singh has a shop of ladies suits in Chandni Chowk, Delhi. He directly take the stock from the manufacturer, Rati Ram and sells to multiple ladies like Vimla who sell them further to the ultimate customers based on his work Jasvinder is a retailer. True/False. (1)
- Q. 10. Mention the name of the store in which there are a number of departments in the same building selling different types of commodities. (1)
- Q. 11. BATA is which type of trader? (1)
(a) Chain store (b) Departmental store
(c) Super market (d) None of the above
- Q. 12. What do you mean by crowd funding? (1)
-

- Q. 13. Rainbow Ltd. (USA) acquires another company, Milk Food Ltd. of India by investing 100% in its equity. What will Milk Food Ltd. be called? (1)
- Q. 14. Maruti Suzuki is which form of mode of entry in International business? (1)
 (a) Contract manufacturing (b) Licensing
 (c) Franchising (d) Joint venture
- Q. 15. "Monika, a cashier in a private bank pilferaged cash which led to huge losses for the company."
 Which type of business risk is being referred above? (1)
- Q. 16. Keshav gets his car insured for ₹ 12,00,000 with insurer A and for ₹ 16,00,000 with insurer B. In an accident, the car was damaged. He claimed for a compensation of ₹ 2,80,000 (total loss) from both the companies. Can he do that?
 Name the relevant principle of insurance applicable in above case. (1)
- Q. 17. You go to a Bank for opening a saving account. The manager gives you a better option than saving account. In this account, the excess amount exceeding a certain limit, gets automatically transferred into the fixed deposit. The interest earned is more than saving account. This account serves the purpose of both the saving account and fixed deposit. Name the type of bank account opened and discussed. (1)
- Q. 18. Hira jewellers does retail business of jewellery at very large scale. The firm has to pay a lot of attention to advertisement. The owners of the firm are aware that if they spend more time on advertisement, some other important activities are left pending. One of the partners suggested that 'if the job of advertisement is handed over to some Advertising Company, they will be relieved of this important activity. By doing so, they will get benefit of specialisation and their expenditure on this activity will be less also. The firm implemented this and got positive results. Identify the emerging mode of business discussed here. (1)
- Q. 19. A local shoes maker company used the logo and name of an established brand (Reebok) on its shoes and was able to sell them at a high price. Is his act ethical? Give reason in support of your answer? (1)

- Q. 20. Which of these is not an economic activity? (1)
(a) Clerical work in a bank (b) Teaching in Govt. school
(c) Cooking by a housewife (d) Car production
- Q. 21. "Business should operate on the basis of those principles which are considered desirable by the society". Explain. (3)
- Q. 22. "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." State any three risks associated with e-business. (3)
- Q. 23. "Both departmental store and multiple shops are large scale retail establishment yet they are different." Explain. (3)
- Q. 24. Explain any three features of Public Private Partnership

OR

- Explain any three features of Joint Stock Venture (3)
- Q. 25. Yogita is a chartered accountant. She runs her firm from Laxmi Nagar, Delhi. After running her firm for four years, she feels that she should get her business registered in a way that she can reduce herself from the fear of unlimited liability. But at the same time she does not want anyone else to be part of decision-making in her business. (3)
(i) Name the form of business organisation to be form by Yogita.
(ii) State any two features of the form of business organisation identified in part (i) above
- Q. 26. "Incentives have been provided by the Government for industries in backward and hilly areas." Describe any four such incentives. (4)

OR

- What steps have been taken by the government for the promotion of small industrial units? Explain.
- Q. 27. Harish has recently done a cookery course after completing his graduation. He decides to open his own food outlet. After analysing various options, he decides to cook and sell South Indian food. he has a capital of ₹ 4,00,000 and will take a loan of ₹ 7,00,000.

Based on the above para, identify, quoting the lines, two factors that Harish has considered for starting the business. Also explain other three factors that need to be considered.(4)

- Q. 28. "It is necessary for the business firms to take suitable steps for the safety of environment."

Do you agree with the above statement? Give reason in support of your answer and describe the need of environment conservation. (4)

- Q. 29. Explain GDRS & ADRS as a source of International finance (5)

OR

This source of finance is regulated by the Reserve Bank of India and can not exceed 25% of share capital and reserves.

- (i) Identify the source of finance on the basis of above information
(ii) Describe any two merits and two demerits of it.
- Q. 30. It is a public sector enterprises in which Govt. of India held 65% of paid up share capital and it is registered as per Company Act, 2013. It deals in manufacturing of fertilizer. (5)
(i) Which type of public sector enterprise is discussed above?
(ii) Write any two characteristics of such organisation.
(iii) Write any two limitations of such organisation.
- Q. 31. Sanjay LTd. wants to export TVs to Singapore. Explain any five documents which will be used in this procedure by Sanjay Ltd. (5)
- Q. 32. Kavya Private Ltd. was established in the year 2012 by seven friends. As business of the company has increased, its management is now planning to convert it into another form of business to raise fund from the public. (6)
(i) Name the form of business Kaya Ltd. is planning to adopt.
(ii) Give any four differences between old and new form of business.

OR

Identify the documents described below and differentiate between them on any four basis:

- (i) No company can be registered without it.
(ii) It defines the duties rights and powers of the officers and board of directors.

- Q. 33. State the meaning of the Intellectual property rights and Entrepreneurship. Also explain the relation between them. (6)
- Q. 34. What do you mean by World Trade Organisation? Describe the role of WTO in removing the barriers of international trade. (6)

OR

"International business plays an important role to face the challenge of unequal distribution of natural resources." Do you agree with the above statement. Give reason in support of your answer.

Answer Key

1. Hundi was an instrument of exchange which was used in Indian Sub-continent in ancient time.
2. $500 \times 6 = ₹ 3000$
3. Primary function
4. It relates to voluntary efforts made on the part of businessman to contribute to social well being.
5. Rate of dividend on equity shares – not fixed
Rate of dividend on preference shares – fixed
6. It is investment made by rich people with surplus cash and having interest in development of startup.
7. Charter party
8. Return on shares – dividend
Return on debentures – interest
9. False
10. Departmental store
11. Chain store
12. Under this fund, money is collected from a large number of people through the medium of internet by giving detailed information of startup.
13. 100% wholly owned subsidiary
14. Joint venture
15. Human causes
16. No, principle of contribution
17. Multi-option Deposit Account
18. Business Process Outsourcing
19. This is unethical as the business being done is illegal
20. Cooking by a house wife
21. Business should operate on the basis of moral values/ standards/principles called business ethics. Ethics defines what is right and what is wrong. Follow of business ethics is necessary for the protection of interest of all stakeholders.

22. Risk associated with e-business:
 1. Transaction risk
 2. Fraudulent practice
 3. Storage and transmission risk
 (Or any other correct risk with explanation)
23. Differentiate between department store and multiple shops as follows:

	Departmental Store	Multiple Store
1.	It is located at a central place	It is located in popular localities
2.	It provides different types of products	It provides unique/single product
3.	It provides all facilities such as restaurant, rest rooms, etc.	It does not provide such kind of facilities

(Or any other correct differences)

24. Features of PPP:
 1. Facilities partnership between public sector and private sector
 2. Pertaining high priority project
 3. Useful in public welfare projects like Delhi Metro Railway Corporation.
 4. Sharing revenue
 5. Suitable for big project
 (any three with explanation)

OR

Any three features of joint venture.

25. One person company (1+2=3)
 (any two features)
26.
 (i) Establishment of National Small Industries Corporation (NSIC)
 (ii) Establishment of District Industries Centre
 (iii) Other Govt. incentives to Hilly Backward and Rural Areas
 (With explanation)

OR

1. Tax Holidays
 2. Power, Land, Water, etc. at Concessional Rates
 3. Abolition of Octroi
 4. Protective measures
 5. Marketing Assistance
 6. Finance
(any four with explanation)
- 27.
1. Nature of work
Line quoted – He decide to open his own foot outlet
 2. Capital contribution
Line quoted – He has a capital of ₹ 4,00,000 and will take a loan of ₹ 7,00,000
Other factors :
 3. Location
 4. Scale of business/risk
 5. Degree of control
 6. Management ability
(or any other correct factors)
- 28.
- Yes, I am agree with the above statement because industries inject harmful substances into the environment during production.
- Need for environment protection:
1. To ensure healthy life
 2. To ensure safety
 3. Economic losses reduction
 4. Improved public image
- (any three with explanation)
- 29.
- Global Depository Receipts: When the local currency shares of a company are delivered to the depository bank, which issues depository receipt against shares, these receipts denominated in US toll or are called GDRs. It can be listed and traded on a stock exchange of any foreign country other than America. It is a negotiable instrument and can be converted into shares.
- American Depository Receipts – The depository receipts issued by a company in the USA are known as American

Depository Receipts. ADRs are bought and sold in American markets, like regular stocks. It is similar to GDR except that it can be issued only to American citizens and can be listed and traded on a stock exchange of USA.

OR

Public Deposits

Merits:

- a. No charge on assets
 - b. Tax saving
 - c. Simple procedure
 - d. Control not diluted
- (any two with explanation)

Demerits:

- a. For short-term finance
 - b. Limited fund
 - c. Not suitable for new company
- (any two with explanation)

30. Government company

Features

- a. Govt. has minimum 51% of paid-up capital
 - b. It is managed by board of directors selected by government and other shareholder
- (or any other features)

Limitations

- a. It suffers from interferences & politicians
- b. It evaded constitutional responsibility which a company financed by the governments should have, as it is not directly answerable to parliaments.

31. (i) Certificate of origin

(ii) Shipping bill

(iii) Mates receipt

(iv) Bill of Landing

(v) Letter of credit

(or any other appropriate documents)

32.

	Basis	Private company	Public company
1.	Name	It has to write private limited after its name	It has to write only limited after its name
2.	Number of members	As per company Act 2013 Minimum – 2 Maximum – 200	Minimum – 7 Maximum – No limit
3.	No. of directros	Minimum – 2	Minimum – 3
4.	Invitation to public	Private Company can't invite public for issuing shares and debentures	Public compnay can invite public for issuing its share and debentures

(Or any other correct differences)

OR

(i) Memorandum of Association

(ii) Article of Association

Difference between them as follows:

	Basis	Memorandum of Association	Article of Association
1.		It defines the objectives of the company	It defines the rules for attaining the objected mentioned in MoA
2.	Position	Very important/ necessary document	Subsidiary document

33. Intellectual property rights – It refers to the creativity of a person. It is the legally recognised excessive rights given to the creator of their creation like invention, art work, musical, literary, symbols, names, designs, image, discoveries, etc.

Entrepreneurship – It is set of all activities performed by an entrepreneur to translate to business ideas into desired monetary results.

IPR is an asset for innovative entrepreneurship in the following

way:

1. Innovative potential got market value
 2. Upcoming entrepreneur can make their name and place in the market with IPR.
 3. IPR give the entrepreneur property right of intangible asset.
- (or any other correct relations)

34. Yes, I agree with the above statement.

Manufacturing and trading beyond the geographical boundaries of a country is known as international business. Unequal distribution of natural resources and differences in the productivity level of the countries make them incapable of producing every good of their requirement. So international business plays an important role to face the challenges of unequal distribution of natural resources in the form of import and export of goods and services. It helps the nation and firms in many ways.

(or other correct explanation)

OR

World Trade Organisation came into existence on 1st Jan. 1995 with the objective of solving problems between countries and providing a forum for multilateral trade negotiations.

Role of WTO:

1. To act as a dispute settlement body by settling trade related disputes among nations.
2. To ensure that all the rules and regulations prescribed in the Act are duly followed by the member countries for settling of their disputes.
3. Laying down a commonly accepted code of conduct for international trade aiming at reducing tariff and non-tariff barriers in international trade.
4. To consult other agencies to bring better understanding cooperation in global economic policy making.
5. Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations

Business Study

Practice Paper (Unsolved)
Class 11

M.M. = 80
M.T. = 3 hrs.

-
- Q 1. Ramajun has posted his savings of ₹ 15 lakh and bought machinery for making hand bags from it. Under what category of small scale enterprise will you classify his business (1)
(a) Manufacturing small enterprise
(b) Manufacturing micro enterprise
(c) Service micro enterprise
(d) Manufacturing medium enterprise
- Q. 2. The scheme of 'Performance and Credit Rating' of small business is being implemented by which government institute? (1)
(a) NSIC (b) DIC
(c) Both of them (d) None of them
- Q. 3. Which is the term used in trade documents to say that mistakes and things that have been forgotten should be taken into account? (1)
- Q. 4. Laxmi puts her stall of clips, hair bands every Saturday in the nearby Saturday market. What type of itinerant retailer is she? (1)
(a) Peddler (b) Cheap Jack
(c) Street trader (d) Market trader
- Q. 5. Pizza Hut has used which mode of entry in our country? (1)
(a) Joint venture (b) Licensing
(c) Franchising (d) Contract manufacturing
- Q. 6. Formation of consumer's forum and pressure groups is an example of — (1)
(a) B2B Commerce (b) B2C Commerce
(c) C2C Commerce (d) C2B Commerce
- Q. 7. Arihant Shipping Ltd. has given Global Logic Pvt. Ltd. an acceptance to carry their stock of readymade garments to Japan. What is this document called? (1)
(a) Shipping bill (b) Bill of lading
(c) Mate's receipt (d) Marine Insurance Policy

- Q. 8. Vidhi usually comes late at night. She is worried to carry cash as she has to purchase household things on the way. So, suggest how she can avoid carrying cash. (1)
- Q. 9. A person gets his house (worth ₹ 12,00, 000) insured from three insurance companies, A: ₹ 2,00,000; B: ₹ 4,00,000; C: ₹ 6,00,000. At the time of incurrence of loss, the compensation will be paid by insurance companies in the ratio of 1:2:3. This is the case of which principle of insurance? (1)
- Q. 10. Carbon monoxide emitted by automobiles directly contributes to (1)
 (a) Water Pollution (b) Noise Pollution
 (c) Land Pollution (d) All of these
- Q. 11. The owners of Gupta & Gupta Pvt. Ltd. are taking special interest in getting plants planted around their factory. Also, they dump the waste water of their factory only after passing through the 'Effluent Treatment Plant'. Identify the social responsibility fulfilled by the company. (1)
- Q. 12. e-Business includes (1)
 (a) e-Commerce (b) Production
 (c) Product development (d) All of the above
- Q. 13. Which of the following is not included in 'Auxiliary to Trade'? (1)
 (a) Animal husbandry (b) Insurance
 (c) Transport (d) Warehousing
- Q. 14. Capital is required in — (1)
 (a) Profession (b) Employment
 (c) Business (d) Non-economic Activity
- Q. 15. ICD's are issued by (1)
 (a) Bank (b) RBI
 (c) One company to another (d) SIDBI
- Q. 16. Which of the following is fixed capital? (1)
 (a) Equity share (b) Debenture
 (c) Public deposit (d) Retained earning
- Q. 17. LIC is an example of — (1)
 (a) Departmental Activity (b) Statutory Corporation
 (c) Government Company (d) Private Company

- Q. 18. Which of the following is related to a specific Ministry? (1)
(a) Indian Railways (b) FCI
(c) Coal India (d) BHEL
- Q. 19. What is the minimum number of members in a public company? (1)
- Q. 20. What is Sole Proprietorship? (1)
- Q. 21. Write any three importance of IPR for an entrepreneur. (3)
- Q. 22. Explain three features of a company (3)

OR

What is partnership deed? What are included in partnership deed?

- Q. 23. Rahul had taken insurance of ₹ 3 lac for his car (worth ₹ 2 lac) from an insurance company. After 2 month, his car caught fire and got damaged severely. His car was taken by insurance company and insurance amount was paid to the Rahul. (3)
(i) How much amount was given by the insurance company to Rahul?
(ii) According to which principle of insurance did the insurance company take his damaged car?
- Q. 24. The Chief Manager of Surya Ltd., Mr. Mohan takes huge interest in fulfilling his social responsibilities towards its employees. Explain how the company is must be fulfilling its commitment regarding the fulfillment of it's social responsibility. Give any three points. (3)
- Q. 25. Explain (3)
(i) ADR (ii) IDR
- Q. 26. William, who is currently running an online service in name – 'Cab available on rent-labor felt that there was a new opportunity of providing on-line restaurant food to people of Delhi. He analyzed the idea in terms of technical, financial and economic feasibility. Once he found all the aspects to be satisfactory, he decided to start a company named – 'Lubercats'. He got the name registered with the registrar of companies and prepared the necessary documents. (3)
(i) Identify and explain the step in formation of a company highlighted in above case.

- (ii) Enumerate the next three steps to be followed after the completion of the step identified in part (i) above.
- Q. 27. Explain (4)
 (i) B2B Commerce (ii) B2C Commerce
- OR
- (i) BPO (ii) KPO
- Q. 28. Explain the role of NSIC in enhancing the role of small scale enterprises (4)
- Q. 29. Ms. Meena is a lecturer in a college. She get ₹ 72,000 p.m. as remuneration. Mr. Kunal is a farmer producing 20 quintals of wheat for his own consumption and 2,000 quintals for sale. Ms. Kirti, a journalist in an agency, teaches slum children after her office hours. She doesn't charge anything from them. This gives her psychological and mental satisfaction. (5)
 (i) Teaching in a college by Ms. Meena refers to which type of human activity.
 (ii) Production of wheat by Mr. Kunal for his own consumption refers to which human activity and why?
- Q. 30. Urvashi is a village girl who comes to Delhi to visit her relatives. She goes to a big store with her cousins. The store is centrally located. She is astonished by the variety of goods being sold there. The store has restrooms, restaurant inside it. Her cousins tell her that this store is being operated by a company. (5)
 (a) Identify the type of store Urvashi visited.
 (b) Quoting lines from the above para, explain the four features of the store
- Q. 31. Explain any five problems faced in International Trade. (5)
- OR
- Explain the role of WTO in International Business.
- Q. 32. What do you mean by Multinational Companies? (6)
- OR
- What do you mean by Joint Venture? Explain any five benefits of it.

Q. 33. Explain the following terms — (6)

- | | |
|-----------------------|---------------------|
| (i) Retained earning | (ii) Public deposit |
| (iii) Trade credits | (iv) ICD's |
| (v) Preference shares | (vi) GDR |

OR

Differentiate between Share and Debenture on the basis of following —

- | | |
|--------------------|---------------------|
| (i) Meaning | (ii) Nature/status |
| (iii) Voting right | (iv) Return |
| (v) Management | (vi) Convertibility |

Q. 33. Shubham Ltd. is a leading manufacturer of toys. His production capacity is higher than the demand of his toys in domestic market. So he is planning to export his toys to China. He has approached you to explain the export procedure. Give him step by step details of the procedure. (6)

NOTES

[illegible]

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[illegible]

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[illegible]