CHAPTER 1
NATURE AND PURPOSE OF BUSINESS

SUMMARY

What is Business?
Business includes those economic activities directed towards earning profits and acquiring wealth through production and sale of goods and services on a regular basis. All industrial, commercial and trading activities are parts of business.

Characteristics of Business
A business has the following characteristics:
1. Economic Activity
2. Production, purchase and sale of goods and services
3. Dealing in goods and services
4. Regularity in dealings
5. Profit motive
6. Uncertainty
7. Risk element
8. Creation of form, place and time utility

What is Profession?
A profession is a specialized occupation which involves rendering of personal services to the clients. It involves use of professional knowledge and skills. The examples of professions are medical, law, accountancy, etc.

What is Employment?
A person is said to be in employment of an enterprise when he undertakes to render personal under a contract of employment. In return of his services, the employee gets wage or salary, allowances, bonus and other benefits. The employer may be Government, Government undertakings or a private firm.

Objectives of Business
1. Economic Objectives. Creation of customers, earning of profits and innovation.
2. Social objectives. Producing goods required by the society, promoting employment and exports, paying fair wages to workers, etc.

Role of Profit in Business
Profit is necessary to any business venture for the following reasons:
- To provide for adequate returns to the investors.
- To reward the entrepreneur for undertaking risks.
- To meet risks of business and to stay in business.
- To avoid losses in operations.
- To provide funds for expansion and modernization program.

Classification of Business Activities
Industry. It includes activities concerned with raising, producing or processing of goods and services. Industries are classified into four categories:
1. Extractive industries.
2. Genetic industries.
3. Manufacturing industries.
**Commerce.** It includes trade (buying and selling) as well as various services (e.g., transport, warehousing, insurance, banking and advertising) which facilitate trade. Commerce helps in removing various obstacles between the producers and the consumers with the help of traders and other agencies which carry on various activities to facilitate trade.

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**Trade.** It refers to exchange of goods and services between two or more persons in monetary terms. It involves purchase and sale of goods by traders. Trade bridges the gap between the producer and the consumer. It can be classified as follows:

1. **Internal or Inland Trade.** It means buying and selling of goods within the boundaries of a nation. The payments are made and received in the national currency. Many wholesalers, retailers and mercantile agents are engaged in the home trade.
2. **External or Foreign Trade.** It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency. Moreover, there are many restrictions imposed by the government on the import and export of goods. Foreign trade may be classified into:
   (i) Import Trade- buying from abroad
   (ii) Export Trade- selling to other countries.
   (iii) Entrepot Trade- importing goods for the purpose of exporting them.

**Auxiliaries or Aids to Trade.** These are the activities which facilitate the smooth exchange of goods and services. There are certain functions such as banking, transportation, insurance, warehousing, communication, advertising, etc. which support all kinds of business activities.

**What is Business Risk?**
Business Risk means the possibility of occurrence of some adverse events leading to loss in business, e.g., breakdown or failure of machinery, bad debts, floods, earthquake, etc.

**Causes of Business Risks**
The causes of business risks may be classified as under:
1. Natural Causes – fire, flood, earthquake, etc
2. Human Causes – theft, pilferage, fraud, etc
3. Economic causes – demand, supply, competition, etc
4. Physical or Technical causes – power failure, breakdown of machinery, etc
5. Political and Legal causes – government controls, higher taxes, etc.
REVIEW QUESTIONS

Multiple Choice Questions
1. Which of the following is not an economic activity?
   a. Production of goods. b. Trading in goods
   c. Professional service d. Social service

2. Which of the following is not a business activity?
   a. Production of goods b. Work in a factory for wages
   c. Exchange of goods d. Transportation

3. Which of the following is not a characteristic of business?
   a. Production b. Exchange or sale
   c. Wages or salaries to investors. d. Risk element.

4. To what category of industries can sugar mill or oil refinery be put?
   a. Primary b. Secondary
   c. Tertiary d. None of the above

5. Identify the activity which is not an auxiliary to trade:
   a. Banking b. Warehousing
   c. Insurance d. mining

6. Name the occupation in which people work for others in return of wages or salaries:
   a. Employment b. Business
   c. Profession d. None of the above.

7. Support services to industries/business activities are clubbed under:
   a. Commercial industries b. Primary industries
   c. Secondary industries d. Tertiary Industries

8. Which of the following is not a cause of business risk?
   a. Breakdown of machinery. b. Efficient management
   c. Riots d. Changing Government policy

9. Why should a business earn profits?
   a. To provide returns to investors.
   b. To provide funds for future growth
   c. To increase the reputation of business
   d. All the above

10. Which of the following is not a true statement?
    a. The scope of commerce is narrower than business.
    b. Commerce includes trade and auxiliaries to trade.
    c. Foreign trade is purchase and sale by the traders of the same country.
    d. Traders serve as a link between producers and consumers.

Answers
Very Short Answer Questions
1. Name the different types of business activities.
2. Explain the concept of business
3. “There are activities which are carried out to earn economic gains/ rewards.” What are they called?
4. Give any four characteristics of business.
5. What is a profession?
6. What is employment?
7. Name the kinds of business objectives.
8. What is the role of profit in business?
9. Give any two economic objectives of business.
10. Business is guided by a motive. What is the motive known as?
11. Why is business called any economic activity?
12. How would you classify the various business activities?
14. What do you understand by commerce?
15. Mention any two functions of commerce.
16. Explain the meaning of trade.
17. Name the auxiliaries to trade.
18. How would you classify industrial activities?
19. Explain the meaning of industries.
20. How would you classify trade on the basis of geographical boundaries?
21. What is meant by business risks?
22. How would you classify business risks?
23. Tata power is planting trees on the roadside of several big cities. Name the objective Tata power is engaged in.
24. What is the reward that the entrepreneur gets for risk bearing in business?

Short Answer Questions
1. Briefly explain the different types of business activities.
2. Explain the concept of business.
3. Explain any three characteristics of business.
4. Why is business regarded an economic activity?
5. How can business activities be classified?
6. “There is clear-cut difference between business and profession “. Identify three criteria on which they are different.
7. Give the classification of business activities.
8. What are the various types of industries?
9. What is meant by commerce and trade?
10. State the different activities classified under commerce.
11. What are auxiliaries to trade?
12. How is transport important to trade?
13. Explain with example the meaning of the construction industry.
15. State any two causes of business risks. Explain with examples.

Long Answer Questions
1. Explain any five characteristics of business.
2. Define business and compare it with profession and employment.
3. Define profession and state its features.
4. Differentiate between profession and employment.
5. Give comparative features of business, profession and employment.
6. Explain the role of profit in business.
7. Why should business have multiple objectives? Explain any four objectives.
8. Explain the nature and causes of business risks.
9. Explain the economic and social objectives of business.
10. Explain the term ‘industry’ and discuss various types of industries.
11. Define commerce. Why is it of great importance in the business world?
12. Discuss various obstacles in exchange of goods and services. How does commerce remove these obstacles?

Questions Based on HOTS (Higher Order Thinking Skills)
1. “Business is an economic activity.” Do you agree? Why?
3. “No business is risk free.” In the light of this statement explain the concept of business risks and its causes.
4. “A business should have multiple objectives.” Discuss.
5. “Earning of profit is regarded as the main objective of business.” Explain by giving any four reasons.
6. “Profit maximization can’t be the sole objective of a business.” explain.
7. “The structure of business is composed of both industry and commerce.” Explain this statement.

Project Work
1. Visit any two big business houses and ascertain the economic and social objectives they are engaged in.
2. Identify any four obstacles in the smooth flow of goods between producers and consumers. How can they be removed?
3. Visit any two industrial organizations and find out the common business risks they are exposed to. Also suggest suitable measures to reduce the risks.
CHAPTER: 2
FORMS OF BUSINESS ORGANISATIONS

SUMMARY

What is Sole Proprietorship?
The sole proprietorship is a form of business that is owned, managed and controlled by an individual. The sole proprietor alone is entitled to the profits and has bear all the risks and losses. The characteristics of sole proprietorship are as follows:
1. Single owner
2. Common identity.
3. Capital from personal resources.
4. Unlimited liability
5. Management and control.
6. No sharing of profits or losses.

Merits of Sole Proprietorship
1. Easy to form
2. Flexible operation
3. Quick decision-making
4. Greater secrecy
5. Personal touch with customers
6. Direct motivation for hard work.
7. Independent way of life.
8. Low overhead costs.
9. Minimum interference by the government.

Limitations of Sole Proprietorship
1. Limited resources.
2. Limited managerial ability
3. Unlimited liability of the sole trader.
4. Uncertain existence of business.
5. Non-availability of economies of large scale.
6. Possibility of unsound business decisions.

What is Hindu Undivided Family?
The Hindu Undivided Family firm comes into existence by the operation of law. It is governed by the Hindu Law and Hindu customs. If the business set up by a person is carried on by male members of his family after his death, it is called Hindu Undivided Family Business. Features of a Hindu Undivided Family business are as follows:
1. It has only male members as coparceners of the family.
2. All males born in the family in three successive generations automatically become members of the HUF business.
3. The business is managed by the head of the family “Karta”.
4. The liability of karta is unlimited and that of the other members is limited to the extent of their share in the business.
5. Death or insolvency of a male member or coparcener does not effect the existence of the firm.

What is Partnership?
Partnership is an association of persons who have agreed to combine their financial resources and managerial abilities to run a business and share profits in an agreed ratio.
The persons who have agreed to join in partnership are individual called ‘partners’ and collectively a ‘firm’. The characteristics of a partnership are as follows:

1. Two or more persons.
2. Agreement to carry on some business.
4. Mutual agency
5. Unlimited liability.
6. Restriction on the transfer of share or interest in the firm.

**Partnership Deed.** It is a written agreement between the partners of the firm. It contains several clauses regarding name and address of partners, nature of business, capital, profit sharing ratio, etc

**Is it necessary to get the firm registered?** No. it is not. But there are certain consequences of non-registration. So it is advised to get the firm registered.

**General Partnership.** It is a partnership in which liability of all the partners is unlimited. Every partner is individually and jointly liable for the debts of the firm if the firm’s assets are insufficient to pay off the debts.

**Limited Partnership.** It is prevalent in England. In a limited partnership, the liability of at least one partner must be unlimited and that of the other partners may be limited to their share in the firm.

**Partnership at Will.** Such a partnership exists on the will of the partners. That is, it can be brought to an end whenever any partner gives notice of his intention to do so.

**Particular Partnership.** A particular partnership is formed for undertaking a particular venture. It comes to an end automatically with the completion of the venture.

**Types of Partners**

1. Active Partner.
2. Sleeping or dormant partner.
3. Silent Partner.
4. Partner in profits only.
5. Nominal partner.
6. Partner by holding out.

**Merits of Partnership**

1. Ease of formation.
2. Larger financial resources.
4. Sound decisions.
5. Sharing of risks.
6. Flexibility in operations.
7. Greater motivation because of unlimited liability
8. Maintenance of secrecy.
9. Easy to dissolve the firm

**Limitation of Partnership**

1. Less capital as compared to a company.
2. Unlimited liability
3. Conflict between partners.
4. Slow decision-making.
5. Non-transferability of interest.
7. Uncertain life of the firm.
What is a Cooperative Society?
A cooperative society is a voluntary association of individuals who associate together to promote their common interests.
A cooperative society is formed and registered under the Cooperative Societies Act. Like a joint stock company, it is also an incorporated association of individuals.
The characteristics of a cooperative society are as follows:
1. Voluntary association of individuals.
2. Open membership.
3. Separate legal entity.
4. Service motive.
5. Democratic Management.

Types of Cooperatives
1. Consumers’ cooperative societies.
2. Cooperative credit society
3. Producers’ cooperative societies.
4. Marketing cooperative societies.
5. Farmers’ cooperative societies.
6. Housing cooperative societies.

What is a Joint Stock Company?
A company is an artificial person created by law, having an independent legal entity, with perpetual succession. A common seal and the capital fund consisting of transferable shares, with limited liability.
The characteristics of a company are as follows:
1. Artificial legal person.
2. Perpetual existence.
3. Limited liability.
4. Transferability of shares.
5. Divorce between ownership and management.
7. Separate property.

Private Company
There are four requirements of a private company:
1. It has minimum paid-up capital of one lakh rupees;
2. It restricts the transferability of its shares;
3. It limits the number of members to fifty; and
4. It does not invite the public to purchase its shares or debentures.

Public Company
A company which does not fulfill the qualifications of a private company is known as public company. Thus, a public company has the following requirements:
1. It has a minimum paid-up capital of five lakh rupees;
2. It does not put any restriction on the transfer of its shares;
3. It does not limit the number of its members to fifty; and
4. It invites the general public to subscribe to its shares and debentures.
The minimum number of members required to form a public company is seven. There is no upper limit. The public is allowed to purchase its shares. The shares are freely transferable. The examples of public companies are Reliance Industries Ltd., Tata Iron & Steel Co. Ltd., etc.

**Merits of a Company**

1. Huge capital
2. Perpetual existence.
3. Limited liability.
4. Wider distribution of risks
5. Transferability of shares.
6. Economies of large scale.
7. Specialized management.
8. Public confidence.

**Limitations of a Company**

1. Difficulties in formation
2. Excessive government control.
3. Management in the hands of a few shareholders.
4. Fraudulent practices by promoters/directors
5. Slow decision-making.
7. Lack of personal touch.
8. Difficulties in winding up.

**Promotion**

Promotion begins when someone identifies an idea regarding some business which can be profitably undertaken by a company. It includes preliminary investigation of the feasibility of the idea, assembling of business elements and making provision of the funds necessary to launch the enterprise as a going concern. Persons, who assume primary responsibility with regard to these matters, are termed as “promoters”.

A promoter performs the following functions:

1. Identification of business idea.
2. Detailed study of the project.
3. Making arrangement of capital, machinery, materials, etc.
4. Entering into agreements with bankers, underwriters, etc.
5. Preparation of documents for filing with the Registrar of companies.

**Stages of Formation of a Company**

A company comes into existence after going through a series of processes which are both time and money consuming. These processes can be broadly grouped under the following three stages- (1) Promotion; (2) Incorporation or registration; and (3) Commencement of business.

A public company has to undergo all these stages, but a private company can commence business immediately after the first two stages are completed.

**Certificate of Incorporation.** It is issued by the registrar of Companies when all the formalities concerned with the registration of a company have been fulfilled. The moment this certificate is issued, the company acquires a separate legal status. It is a conclusive proof that all legal formalities required for incorporation of a company have been duly fulfilled.
Certificate of Commencement of Business. It is issued by the Registrar to a public company after it has successfully raised capital and completed the necessary formalities. This certificate entitles the public company to start its business operations.

Documents Required in Company Formation.
1. Memorandum of Association,
2. Articles of Association,
3. Prospectus. In case a public does not want to raise capital from the general public, it will have to file a statement in Lieu of Prospectus with the Registrar of Companies.

Memorandum of Association. It is the principal document of the company. It contains the fundamental conditions upon which alone the company is allowed to be incorporated. The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company to know what is its permitted range of enterprise. The Memorandum of Association contains the following clauses:
1. Name clause
2. Registered office clause
3. Objects clause
4. Liability clause
5. Capital clause
6. Subscription clause.

Articles of Association. The Articles of Association of a company contains the rules relating to the management of its internal affairs. The articles also define the duties, rights and powers of the Board of Directors.
A few major items which must be part of the contents of articles of association are:
1. Amount of share capital and different classes of shares.
2. Procedure for making allotments
3. Procedure for issuing share certificates
4. Procedure for transfer of share capital.
5. Procedure for forfeiture of shares.

Prospectus. A prospectus means any prospectus, notice, circular, advertisement or other documents inviting offers from the public for the subscription or purchase of any shares or debentures of a company. The term ‘prospectus’ includes any document which invites the general public to apply for shares or debentures of the company.

Considerations in Starting a Business
1. Market analysis
2. Choice of line of business
3. Size of business
4. Choice of form of ownership
5. Location of business
6. Financial planning
7. Physical facilities and machines
8. Pattern of plant layout
9. Workforce
10. Tax planning
11. Launching the enterprise.
REVIEW QUESTIONS

Multiple Choice Questions

1. Identify the type of organization which ensures separation of ownership and management:
   a. Sole proprietorship  b. Partnership  
   c. Company  d. None of the above

2. Which of the following organization is not governed by a specific act?
   a. Sole proprietorship  b. Partnership 
   c. Company  d. None of the above

3. The ‘Karta’ in the Hindu Undivided Family Business has:
   a. Join liability with other coparceners  
   b. Limited liability  
   c. Unlimited liability  
   d. No liability for the family’s debts.

4. Which of the following statements is true?
   a. It is compulsory to get a partnership firm registered.  
   b. The liability of a partner in a partnership firm is limited to the extent of his shares.  
   c. An unregistered firm cannot be sued by a third party.  
   d. Every partner is both principal and agent of the firm.

5. Profits are not shared in case of:
   a. Sole proprietorship  b. Partnership 
   c. Company  d. Cooperative society

6. The Head of a Hindu Undivided Family Business is known as:
   a. Proprietor  b. Manager  
   c. Karta  d. Executive Director

7. Name the partner whose association with the firm is not known to the general public:
   a. Sleeping Partner  b. Active Partner  
   c. Nominal Partner  d. Secret Partner

8. Which of the following types of society works for providing residential accommodation to their members?
   a. Credit Cooperative  b. Consumer Cooperative  
   b. Housing Cooperative  d. all of the above

9. Cooperative society is called a democratic organization because of:
   a. One share one vote  b. One man one vote  
   b. No voting rights for members.  d. all of the above

10. The equity capital of a company is divided into parts called:
    a. Shares  b. debentures  
    c. bonds  d. Divided warrants

11. The members of the Board of Directors of a public company are elected by:
    a. general public  b. financial institutions  
    c. shareholders  d. workers
12. The following activity is not a part of company promotion stage:
   a. Finding of business idea  b. Feasibility study
   c. Entering into preliminary contracts  d. Incorporation of a company

13. The objects of the company are specified by:
   a. Articles of Association  b. Memorandum of Association
   c. Prospectus  d. Certificate of Incorporation

14. A public company can commence business after obtaining:
   a. Licence  b. Certificate of Incorporation
   c. Certificate of Commencement of Business  d. All of the above

15. Qualification shares are subscribed by:
   a. Directors of the company  b. Auditors of the company
   c. Bankers of the company  d. Employees of the company

16. Which document is issued by a company to invite public to purchase its shares?
   a. Articles of Association  b. Memorandum of Association
   c. Prospectus  d. None of the above.

Answers

Very Short Answer Questions
1. Explain the meaning of partnership.
2. Explain any two features of sole proprietorship.
3. Is it necessary to get a firm registered?
4. What is general partnership?
5. What is limited partnership?
6. Define the terms ‘Partnership at will’ and ‘Particular Partnership’
7. What is meant by Partner by Estoppel?
8. Name and explain the partner who does not have interest in the partnership business but lends his her name to the firm.
9. Which sort of business is suitable for a small tailoring shop?
10. What is partnership deed?
11. Name the basic document to be prepared for the creation of a partnership firm?
12. Define Hindu Undivided Family
13. Give any two privileges of a private company
14. Define the term “Promotion”
15. Who is a promoter?
16. Enumerate any four functions of a promoter.
17. Name the stages in the formation of a company
18. List the documents required for the incorporation of a company
19. “An important document contains objects and capital clauses”. What is it called?
20. When can a private company commence business?
21. Can a public company commence business after obtaining Certificate of Incorporation?
22. What documents specify the objects of the company?
23. What document is issued by the public company for raising capital?
24. “A number of signatories are required to the Memorandum of Association of a public company “
What is that number?
25. “A number of signatories are required to the Memorandum of Association of a private company “
What is that number?
26. “A document containing rules and regulations for the internal management of the company”
What is it called?
27. Define Articles of Association.
28. What is prospectus?
29. Explain the term ‘preliminary contracts’ and ‘provisional contracts’
30. Explain the term ‘Minimum Subscription’.
31. What is Certificate of Incorporation?
32. What is Certificate of Commencement of Business?

**Short Answer Questions**

1. Briefly explain the features of sol proprietorship.
2. Mention any four advantages of sole proprietorship
3. What is the role of a ‘Karta’ in a Hindu Undivided Family
4. Briefly explain any four feature of partnership.
5. What is the meaning of agency relationship between partners?
6. Name and explain the partner who does not have any interest in the partnership business but lends his name to the business firm.
7. Enumerate the merits of a cooperative society.
8. Briefly explain any three features of a company.
9. Briefly explain the four major advantages of a company.
10. A company is defined as an artificial person. What are its implications?
11. Briefly explain any three functions of promoters.
12. What is Certificate of Incorporation? What purpose does it serve?
13. Why is a prospectus issued?
14. Mr. Mohit is interested in the floatation of a company. Briefly explain what steps should he take?
15. List the various clauses in Memorandum of Association and Articles of Association.
16. Explain the procedure involved in the flotation of a company.
17. Discuss the steps for the incorporation of a Joint Stock Company.

**Long Answer Questions**

1. What is meant by sole proprietorship? Discuss its merits.
2. Discuss advantages and disadvantages of sole tradership
3. Discuss the merits of sole proprietorship. When is it more suitable?
4. What is meant by Hindu Undivided Family Firm? What are its essential features?
5. What is partnership? What are its salient features?
6. Explain the advantages and disadvantages of a partnership firm.
7. Registration of a partnership firm is not compulsory, but it is desirable to get it registered. Give the reasons due to which a firm should be registered.
8. What is a Cooperative society? What are its salient features?
10. Distinguish between a company and a partnership firm.
11. How can you differentiate between a public limited company and a private limited company? Explain.
12. Account for the popularity of limited liability Company as a form of business organization in modern times.
13. Discuss the reasons for the superiority of Joint Stock Company over sole proprietorship and partnership.

Questions Based on HOTS (Higher order thinking skills)

1. “One man control is the best in the world if that one man is big enough to manage everything”. Explain this statement.
2. “It is wrong to assert that the individual ownership is a relic of the barbaric age”. Comment.
3. “The preservation of the single proprietorship offers the promise of securing motivation; widespread ownership and control of industry.” Do you agree? Give reasons for your answer.
4. An entrepreneur has developed a new product and does not want to share business secrets with anybody. Should he enter into partnership with somebody to raise capital for the business?
5. “A private company is a compromise between partnership and public company.” Explain.
6. You have been asked to assist in the incorporation of a company. State the major documents you will prepare for this purpose.
CHAPTER: 3
PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

SUMMARY

Private Sector Enterprise
It is owned, controlled and managed by individuals or groups of individuals as for example, Bombay Dyeing, Ranbaxy, Bajaj Auto, TISCO, etc. Its features are:
1. It is owned by private individuals or groups
2. It is managed by owners or managers appointed by them.
3. Its main objective is to earn profits.
4. It is accountable for its financial results to its owners.

Public Sector Enterprise
It means Government ownership and control of a business undertaking, e.g., BHEL, LIC, HMT, FCI, etc. The features of a public enterprise are:
1. Its capital is contributed by the government
2. Its control rests with the government.
3. Its main objective is public welfare.
4. It is accountable for its financial performance to the parliament and the general public.
5. It is managed by the officials appointed by the Government.

Joint Sector Enterprise
A joint sector enterprise is one whose capital is contributed jointly by the Government and the private entrepreneurs, e.g., Gujarat State Fertilizer Co., Indian Rare Earths Ltd., Cochin Refineries Ltd., Maruti Udyog Ltd., etc. The salient features of joint sector enterprises are:
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 private investors.

Forms of Organisation of Public Enterprises
There are three important forms of organizations of public enterprises as follows:
1. Departmental undertakings such as Posts and Telegraphs, Railways, Defence establishments, etc.
2. Statutory Corporations such as Life Insurance Corporation of India, Food Corporation of India, Damodar Valley Corporation, etc.
3. Government Companies such as Hindustan Machines Tools Ltd. (HMT), Bharat Heavy Electricals Ltd.(BHEL), Indian Iron and Steel Company (IISCO), Steel Authority of India Ltd.(SAIL).

Changing Role of Public Sector in India
1. Rapid economic development.
2. Development of infrastructure.
4. Checking concentration of economic power.
5. Economies of scale.
6. Import substitution.
7. Creation of employment opportunities.
8. Serving of strategic national interests.
Global Corporation
A global corporation is one which extends the area of its operations beyond the country in which it is incorporated. Its headquarters are located in one country and it carries on operations in its home country and number of other foreign countries called Host countries. For instance, Coca Cola is a company registered in the USA and it has production and marketing facilities in many countries of the world. Some other popular multinational corporations include PepsiCo (USA), Ponds (USA), Sony (Japan), Suzuki (Japan) etc.

A Global company has the following features:
1. A global corporation is of huge size and has control over large assets in many countries.
2. It attempts to maximize profits world-over.
3. Its operations are controlled from its headquarters.
4. Its scale of operation is very large.
5. It carries out production, marketing and research activities in a number of countries.

Joint Venture
A joint venture is a partnership arrangement in which the new enterprise is owned in part by a domestic company and in part by a foreign company. Thus, a joint venture (JV) consists of two or more partners sharing in a project through participation in equity capital.

Public Private Partnership (PPP)
It is an enterprise under which a big project is financed and operated through a partnership of governments and one or more private enterprises.

REVIEW QUESTIONS
Multiple Choice Questions
1. Public enterprises are owned by:
   a. Government
   b. Joint Stock Company
   c. Private entrepreneur's
   d. Multinational corporations

2. Which of the following is not a form of organisation of public sector enterprises?
   a. Departmental undertaking
   b. Government Company
   c. Statutory corporation
   d. Sole proprietorship

3. A government company is a company in which the paid up capital held by the government is not less than:
   a. 50 per cent
   b. 51 per cent
   c. 75 per cent
   d. 26 per cent

4. The interference of the government in the day-to-day working is the highest in case of:
   a. Departmental undertaking
   b. Government Company
   c. Statutory corporation
   d. None of the above

5. Which of the following is not a feature of global enterprise?
   a. Its operations are spread out in several countries.
   b. It attempts to maximise profits world-over
   c. It is of huge size and has control over large assets.
   d. It operates on a small scale.

Answers
1. a  2. d  3. b  4. a  5. d
Objective type Questions
1. Name the following:
   (i) A Corporation established under a special law of parliament.
   (ii) An organisation run by a department of the government.
   (iii) A company whose 51% of equity share capital is contributed by the government.
   (iv) The sector where business enterprise is owned jointly by the government and the
        private entrepreneurs.

   Answers: (i) Statutory or Public Corporation.
            (ii) Departmental Undertaking.
            (iii) Government Company
            (iv) Joint sector.

Very Short Answer Questions
1. Explain the concept of private sector.
2. What are the features of a private sector enterprise?
3. What is meant by public sector?
4. Enumerate the features of a public sector enterprise.
5. Briefly explain the concept of joint sector.
6. An enterprise is created by a joint venture between the government and private entrepreneurs. What is it known as?
7. What are the various types of organisations in the private sector?
8. Name the sector to which sole tradership and partnership firms belong.
9. Name the different kinds of organisations that come under the public sector.
10. What are joint sector enterprises?
11. List the features of a joint sector enterprise.
12. Name the organisation which is formed by a special act of the legislature.
13. What is a government company?
14. State any two benefits of the entry of the multinational companies into Indian markets.
15. What are departmental undertakings?
16. Explain the concept of joint ventures.
17. What are global enterprises?

Short Answer Questions
1. Briefly explain various types of business enterprises.
2. Briefly explain any four features of a public enterprise.
3. Enumerate the forms of public enterprise.
4. Give any four examples of public enterprises.
5. Give any four examples of government companies.
6. What are the four important features of a Government Company?
9. What are the features of a global enterprise?
10. Explain the meaning of public sector enterprise.
11. State features of an MNC.
12. Briefly explain the role of MNCs in India.
13. Public sector enterprises could be organized under different forms. Briefly explain the three important forms.
Long Answer Questions
1. What is a public enterprise? Briefly explain the various forms of public enterprise.
2. What are the general characteristics of a private sector enterprise?
3. Differentiate between private and public enterprises on the basis of ownership, purpose, social objectives and control.
4. Explain in brief various forms of public enterprises.
5. What do you understand by departmental undertakings? State its features.
7. Explain the significant features of an MNC.
8. Discuss briefly the role of MNCs in India
9. Define Multinational Corporation. What are its merits for the host country?
10. What is a joint venture? Briefly explain its benefits.

Questions Based on HOTS (Higher Order Thinking Skills)
1. “Statutory Corporation has been the most common form of organisation for the public enterprises in recent times.” State the characteristics and merits of a public corporation.
2. “The basic rationale of public sector has changed significantly.” In the light of this statement, state any four initiatives taken by the Government.
3. “Global enterprises are giant both in terms of assets and operations”. Explain the statement.
4. “Multinational corporations are a mixed blessing to the developing countries”. Comment on this statement.

Project Work
1. Visit a Departmental store and pick up five products manufactured by multinational corporations. Prepare a brief profile of the concerned multinational corporations.
2. Identify at least three business activities where global corporations have no role to play in India. Give reasons to support your viewpoint.
3. Analyse the benefits of at least three joint ventures between Indian and Foreign partners.
CHAPTER: 4
BUSINESS SERVICES

SUMMARY

Business Services
Business services include the provision of banking, insurance, transportation, warehousing and communication services to the business firms and the society. The basic importance of the services is as follows:

a) Provision of financial services and credit facilities by the banks.
b) Coverage of life, fire and marine risks by the insurance companies.
c) Storage of goods from the producers to the consumers.
d) Transportation of goods from producers to consumers.
e) Linking the producer and the consumer through various types of communication such as postal services, internet, e-mail, etc.

Banking
A bank may be defined as an institution which deals in money and instruments of credit. It accepts money (deposits) from the public and lends it to those who are in need of it. The rate of interest charged by the bank on loans and advances is generally higher than the rates offered on its deposits. This margin helps the bank in meeting its expenses and earning profits. Modern banks also deal in credit instruments such as cheques, bills of exchange, promissory notes, etc.

Functions of Commercial Banks
1. Borrowing or accepting of deposits- Savings account, current account and fixed deposits.
2. Lending- loan. Overdraft, cash credit.
3. Discounting of bills of exchange.
4. Collection of cheques, drafts, etc.
5. Remittance facilities.
6. Personal services.
7. Miscellaneous services.

Insurance
Insurance is a form of contract under which insurance company agrees in return of a consideration or insurance premium to pay an agreed sum of money to the insured to compensate him against the loss of something insured or on the happening of some event (death or attainment of certain age).

Principles of Insurance
1. Principle of utmost good faith
2. Principle of insurable interest.
5. Principle of causa proxima

Types of Insurance
I. Life insurance
II. Fire insurance
III. Marine insurance
IV. Miscellaneous insurance such as health insurance, fidelity insurance, motor vehicle insurance and crop insurance.

Postal Services
Postal services include:
I. Financial Services
II. Mail Services
III. Allied postal Services.

Telecom Services
Telephone. Telephone is the most common mode of communication these days. It allows instantaneous communication among different people at different locations. So is the case with cellular phone. In case of telephone, communication takes place through the equipments connected to the telephone line.

Cellular Mobile Phone. But a cellular phone is a device of cordless communication. The holder of a cell phone can talk to anyone having a cell phone or an ordinary phone. The location or premises of the holder of a cell phone is not fixed. Because of this, mobile or cell phone has become a very convenient mode of communication. Short printed messages can also be sent through Short Message Service (SMS). The mobile phone instrument can be conveniently carried in one’s pocket, bag or purse.

FAX: letters, drawings and other information can be transmitted between two or more places if these are connected with fax machines operated through telephone lines. Fax facilities allow electronic transmission of documents, graph, drawings, pictures etc from one place to another at a very high speed.

INTERNET. Internet is a vast computer network of many different computer networks existing in the world. It is a collection of interconnected networks. Hence it is called ‘internet work’ or in short ‘Internet’. Through an internet connection, one can communicate with any other subscriber of the internet throughout the world. Internet services is provided in India by many companies including BSNL, MTNL, Essar, Bharti Airtel, Tata Info Services etc.

EMAIL: Electronic mail (email) is a transmission of messages electronically. For email facility, a person requires a set of computer, modem and telephone connection. Transmission takes place from one computer to another through the telephone line.

REVIEW QUESTIONS

Multiple Choice Questions
1. Commercial banks cannot engage in:
   a. Trading in goods and services    b. Accepting deposits from the public
   c. Lending money to traders         d. Remittance of funds

2. Exim bank is a:
   a. Commercial bank                b. Cooperative bank
   c. Development bank               d. Specialised bank

3. Which of the following account does not carry any interest?
   a. Fixed deposit                  b. Recurring deposit
   c. Savings bank account           d. Current account
4. Functions of a commercial bank include:
a. acceptance of deposits    b. Granting of loans
c. Locker facility         d. All of the above

5. Which of the following accounts is meant for business concerns?
a. Savings account          b. Current account
c. Recurring deposit account d. All of the above

6. The authority to issue currency notes rests with:
a. Central Bank of India    b. State Bank of India
c. Reserve Bank of India   d. All of the above

7. Which of the following statements is true?
a. Fixed deposits are repayable on demand
b. Banks do not pay interest on deposits in current accounts.
c. Central Bank of India is the Central bank of our country
d. There is no restrictions on the number of cheques which could be drawn on a savings bank account.

8. In case of life insurance, insurable interest must exist at the time of:
a. Taking the policy        b. Death

9. Insurable interest must exist both at the time of taking the policy and at the time of loss in case of:
a. Life insurance           b. Fire insurance
c. Marine insurance        d. All of the above

10. Insurable interest must exist at the time of loss in:
a. Life insurance           b. Fire insurance
c. Marine insurance        d. All of the above

11. Place utility is created by:
a. Transportation          b. Warehousing
c. Communication           d. None of the above

12. Time utility is created by:
a. Transportation          b. Warehousing
c. Banking                d. Communication

**ANSWERS**
1. (a) 2. (d) 3. (d) 4. (d) 5. (b) 6. (c) 7. (b) 8. (a) 9. (b) 10. (c) 11. (a) 12. (a) 13. (b)

**VERY SHORT ANSWER QUESTIONS**
1. What are services?
2. Explain Business services and Professional services.
3. Mention any two features of services.
4. Name any four business services which are crucial for economic growth.
5. Name the institution engaged in borrowing and lending of money.
6. Which of the business services creates time and place utility respectively?
7. What is a bank?
8. What is the institution called which borrows and lends money?
9. What is e-Banking?
10. List the services offered by e-Banking.
11. Define the term 'Insurance'.
12. Enumerate the types of insurance.
13. State the principle of indemnity.
14. What is causa proxima?
15. What is utmost good faith?
16. Name the principles of insurance.
17. What is registered post?
18. What is speed post?
19. What is internet?
20. What do you mean by e-mail?
21. What is the full form of ATM?
22. What is insurable interest?
23. Briefly explain any two principles of insurance.
24. When should insurable interest be present in Life, Fire, and Marine insurance?

**SHORT ANSWER QUESTIONS**

1. Name any four types of service facilities in business.
2. What are the features of a commercial bank?
3. Briefly explain any three functions of a commercial bank.
4. Explain the services of commercial bank.
5. State any three services offered by the electronic banking to the customers.
6. Briefly explain the features of insurance.
7. State any four principles of insurance.
8. Briefly discuss the types of insurance.
9. Explain the principle of indemnity.
10. Discuss the principle of causa proxima.
11. Service sector comprises certain services which are essential for business and industry.
12. Explain the principle of utmost good faith.
13. Enumerate various types of communication services provided by the postal department.
14. Why is cellular phone called mobile phone?
15. In what sense is a bank called an agent of its customers? Give two examples.
16. What type of bank account is more suitable for the business community? Give three reasons.

**LONG ANSWER QUESTIONS**

1. What types of services are required by the business houses? Discuss.
2. Explain the type of business services.
3. Define a bank. What are its functions?
4. Explain the primary functions of a commercial bank.
5. Enumerate the various types of banks in India.
6. Briefly discuss the various types of accounts by which banks attract deposits from the public.
7. What kinds of deposits are accepted by a bank? Explain the features of any two of them.
8. Define insurance. Explain the advantages of insurance to the business community.
9. Discuss the general principle governing insurance contracts.
10. Explain he principle of Insurable insurance. When must insurable interest exist in Life, Marine, and Fire Insurance?
11. Describe briefly the various types of policies issued by Life Insurance Cooperation of India.
12. Give the essential characteristics of fire insurance contract. Distinguish between Fire and Marine insurance.
13. What is the importance of Life insurance? Explain the significance of insurable interest in Life, Fire and Marine insurance.
14. Discuss the postal services provided by the Post Offices in India.
15. Explain the working and utility of telephone service.
16. Describe the meaning and uses of Fax.
17. Discuss the working of internet and e-mail.
18. Explain the types of services provided by the Indian Postal Department.
19. Why is insurance said to be a mechanism of risk coverage and investment? Explain with an example.

QUESTIONS BASED ON HOTS (HIGHER ORDER THINKING SKILLS)
1. Insurable interest is a fundamental principle of insurance. When should it be present in case of (i) Life insurance, (ii) Fire insurance, and (iii) Marine insurance?
2. Why is the principle of indemnity not applicable to life insurance? Discuss. To which classes of insurance does it apply?
3. Comment on the following statement: "A contract of insurance is a contract of indemnity and indemnity only". Comment.
4. "A contract of insurance is an uberrimae fidei contract." Comment.

PROJECT WORK.
1. Visit a branch of any commercial bank in your city and prepare a report on the procedure of opening a current account. Also attach the Xerox copies of the forms used in this connection.
2. Visit a branch of the Life Insurance Cooperation of India (LIC) and prepare a report on the types of life insurance policies offered by it.
3. An employer asks his accountant to send immediately a copy of an important document to a dealer in New York. What mode of communication should he prefer and why?
4. Visit a cyber cafe and find out he steps in sending an e-mail message.
CHAPTER – 5
EMERGING MODES OF BUSINESS

SUMMARY

What is e-Business?
It means conduct of business on the internet. It not only covers buying and selling but also servicing customers and collaborating with vendors, distributors and other business partners.
e-Business is a broader term and includes e-commerce which represents electronic modes of trading in goods and services and electronic material.

What is e-Commerce?
It involves electronic trading of goods and services and electronic material. It facilitates commercial transactions through new ways of transferring and processing of information. It implies paperless exchange of business information using EDI (electronic mail), and other network-based technology.
e-Business and e-commerce have opened new opportunities for:
(i) Producers;
(ii) Wholesalers and distributors;
(iii) Big retailers; and
(iv) Small entrepreneurs.

Scope of e-Business
(1) Business to Business (B2B) transactions
(2) Business to Customers (B2C) transactions
(3) Customer to Customer (C2C) transactions
(4) Customer to Business (C2B) transactions.

Benefits of e-Business
1. Wider reach.
2. Direct contact with the customer and the business partners.
3. Quick response
4. Launching of new products.
5. Cost reduction.
6. Speedy delivery of goods
7. Speedy payments.

Resources required for e-Business
To make use of e-Commerce facilities, the business firm should have (i) a computer with a browser (ii) a telephone connection, (iii) an internet connection with some Internet Service Provider (ISP), (iv) qualified personnel. (v) support services.
Internet provides two important services namely, (a) World Wide Web (www), and (b)e-mail. These services facilitate e-business.
Outsourcing
The term outsourcing means getting something from external sources than creating it within the organisation. For instance, a firm may outsource the ‘advertising department’ to an advertising agency instead of setting up its own advertising department. Similarly, other services may also be outsourced for better quality performance and to achieve economy.

Types of services which could be Outsourced
Several types of business are offered by the business firms to their customers or clients. The significant services which could be outsourced include the following:

(a) Financial services such as underwriting of securities, registration of share transfers, etc.
(b) Advertising service
(c) Courier service
(d) Customer support services

Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) have set new trends in business because of the advancements in Information Technology (IT).

REVIEW QUESTIONS

VERY SHORT ANSWER QUESTIONS
1. Briefly explain the concept of e-business
2. What is e-commerce?
3. “E-business involves four types of electronic transactions.” Identify those transactions.
4. What is Supply Chain Management?
5. What is electronic medium of payment called?
6. What does ACH stand for?
7. What is the process of getting a business service from an outside agency called?
8. State any two points of difference between e-business and traditional business.
10. Name the type of business that does not require physical space and facilities.
11. What is EFT?
12. What is e-money?
13. What is meant by encryption?
14. What are the resources required for e-commerce?
15. What is a digital signature?
17. Differentiate between e-business and e-commerce
18. What is meant by outsourcing?
19. Name any four services which could be outsourced.
20. Mention any two ethical concerns involved in outsourcing
21. “Outsourcing has given rise to certain ethical concerns.” Identify such concerns.
22. Explain briefly the data storage and transmission risks in e-business
23. “There is a process that helps in encoding any message to be sent.” What is that known as?
24. “There is a card that facilitates its holder to borrow money from a bank.” Name it
25. What is the electronic medium of payment called?

**SHORT ANSWER QUESTIONS**
1. Explain the scope of e-business
2. Briefly discuss the meaning of e-commerce
3. State the requirements of carrying out transactions through e-commerce
4. Enumerate any four benefits of e-business
5. Explain the nature of e-business
6. Explain the concept of digital signatures
7. State the meaning of outsourcing
8. Briefly explain the need of outsourcing
9. A business firm can get certain functions performed by other firms. What is the term used for this? What are its three advantages?
10. Explain the term ‘BPO’ and ‘KPO’

**LONG ANSWER QUESTIONS**
1. Explain the concept and benefits of e-commerce
2. Discuss the meaning and applications of e-commerce
3. Explain the opportunities of e-commerce in the near future
4. What resources are required for implementation of e-commerce? Explain
5. Discuss the requirements for implementation of e-commerce
6. Write a note on security and safety of business transactions
7. What do you mean by outsourcing of services? Why is it important?
8. Explain the different types of services that could be outsourced
9. Explain the nature and importance of outsourcing
10. What is meant by BPO? Explain any two types of outsourced services
11. Explain the meaning and scope of Knowledge Process Outsourcing
12. You are a businessman and want to implement e-commerce. Briefly explain any three resources which you would require for its successful implementation.

[HINT: (i) computer hardware. (ii) Internet connection (iii) Company’s website (iv) telecommunication facilities. (v) Qualified workforce. (vi) Reliable payment system]

**PROJECT WORK**
1. Find out from newspapers and journals the names of 5 firms engaged in e-commerce. Also describe the products offered by them
2. Visit any courier service provider and find out the procedure followed by it to provide courier service to different kinds of clients.
3. Find out the types of financial services provided by the merchant bankers.
CHAPTER 6
SOCIAL RESPONSIBILITY BUSINESS ETHICS

SUMMARY

SOCIAL RESPONSIBILITY OF BUSINESS

Social responsibility means the obligation of business to act in a manner which will serve the best interests of the society. Social obligation of a business relates to the voluntary efforts on the part of businessmen to contribute to the social well being.

ARGUMENTS IN FAVOUR OF SOCIAL RESPONSIBILITY

Business is a creation of society and it uses society’s resources. So business is responsible to the society and the groups with which it has interaction.

Scope for government interference in business will get reduced if the business follows socially responsible policies.

There is moral justification to fulfill social obligations of the business.

Public image of the business would improve if it fulfills its social obligations.

The consumers have become conscious of their rights. They can compel the business to behave responsibly through consumer organization.

RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

A business owes obligations towards the following groups:

- Shareholders or Owners – Fair rate of return, safety of funds, capital appreciation, etc.
- Employees – Fair wages, security of job, good working conditions, welfare responsibility, etc.
- Consumer – Regular supply of quality goods and services at reasonable price, fair trade practices.
- Suppliers – Fair terms and conditions, regular payments.
- Governments – Compliance with government policies and law, payments of taxes honestly.
- Community and General Public – Welfare of the community, safety measures, steps to check pollution, protection of human rights, etc.

BUSINESS AND ENVIRONMENTAL PROTECTION

There are possibilities of environmental pollution by the industrial enterprises. Environmental pollution refers to injection of harmful substances in atmosphere. There are four types of pollution, namely,

- Air Pollution
- Water Pollution
- Land Pollution
- Noise Pollution

It is the responsibility of business to protection its surroundings environment. It must initiate steps to check air, water, land and noise pollution.
BUSINESS ETHICS
Every business is expected to carry its operations in an ethical manner. By ethics we mean the business practices which are desirable from the point of view of the society. For instances, business practices such as adulteration, hoarding, black marketing, etc, are undesirable from the point of view of the society and so termed as unethical.

ELEMENTS OF BUSINESS ETHICS
The elements of business ethics include the following:
Top management commitment
Developing an ethical code
Establishment of compliance mechanism
Employee’s involvement
Appraisal of ethical program

REVIEW QUESTIONS

MULTIPLE CHOICE QUESTIONS
1. Which of the following statements is not true?
   a. The sole aim of business is to earn profit by fair or foul means.
   b. There is a strong case for the business to fulfill its social obligations.
   c. Ethics is good business.
   d. Black marketing of goods is an unethical practice.

2. Which of the following business practices is ethical?
   a. Adulteration of goods
   b. Sale of duplicate goods under popular brand names
   c. Exploitation of workers
   d. Honesty in dealing with the consumers

ANSWERS
1. a  2. d

VERY SHORT ANSWER QUESTIONS
1. What do you mean by social responsibility of business?
2. “There is a strong case for assumption of social responsibility by business”. Give any two reasons.
3. Mention a business firm’s social responsibility towards shareholders.
4. “Social responsibility is different from legal responsibility”. How
5. Briefly explain social responsibility of business towards the general public.
6. What are the different types of environmental pollution?
7. What is business ethics?
8 Give any two examples of unethical business practices.
9 How are ethics different from law?
10 What are the elements of business ethics?
11 How is air pollution caused?
12 Why should water pollution be checked?
13 What is noise pollution?
14 State any two reasons for pollution control.
15 State any two approaches on pollution control.
16 Name the type of pollution which affects the quality of water.
17 “There is a type of pollution which gives rise to the smog”. What is it?

**SHORT ANSWER QUESTIONS**

1 Briefly explains the concept of social responsibility.
2 State any four factor that favor assumption on social responsibility by business.
3 Enumerate the different interest groups to which the business owes social responsibility.
4 Briefly explain the obligations of business towards owners or investors.
5 State the responsibilities of business towards consumers.
6 Explain any three responsibilities of a business towards employees.
7 State the responsibilities of business towards community or general public.
8 Why is there a need to control environmental pollution?
9 State the major causes of environmental pollution.
10 Define the term ‘business ethics’ and give two examples.
11 Explain any two elements of business ethics.
12 Certain business practices are unethical. Explain any three such practices.
13 A business owes responsibility towards certain group of society. Identify any four such groups.

**LONG ANSWER QUESTIONS**

1 Explain the meaning of social responsibility and give arguments for social responsibility of business.
2 Why should business assume social responsibility? Discuss?
3 What are the responsibilities of business towards investors, consumers the general public.
4 Explain the social obligations of business towards shareholders, employees, customers.
5 What is the role of business in environment protection? Discuss.
6 Define business ethics and explain their significance.
7 Explain with examples the concept of business ethics.
CHAPTER 7
SOURCES OF BUSINESS FINANCE

SUMMARY

Nature and Significance of Business Finance
Finance is the life-blood of modern business. It is required in all types of business activities whether large or small, trading or manufacturing.

Business finance involves the estimation of funds required and also includes sources of funds and investment of finance. The significance of business finance arises because of need to meet the following requirements:
(i) Financing fixed capital requirements, i.e., purchase of land and building, plant, machinery, furniture etc.
(ii) Financing working capital requirements, i.e., purchase of raw materials, payment of wages and salaries, etc.

Loans from Commercial Banks
Commercial Banks advance money to the business firms generally for meeting their short-term and medium-term requirements. Short-term financing is done by way of: (i) Loans, (ii) Overdrafts, (iii) Cash credit, (iv) Discounting of bills. These advances are given for short periods of less than one year and are meant for meeting working capital requirement of business. Banks also extend loans for purchasing fixed assets. Such loans are known as term loans as they are to be paid back over a number of years ranging up to five years.

Loans from Financial Institutions
In India, several financial Institutions have been set up for the following purposes:
(i) To grant loans up to 25 years for setting up new industrial plants and for modernisation of existing industrial enterprises.
(ii) To encourage setting up of industries in backward areas.
(iii) To develop investment markets
(iv) To encourage inflow of foreign capital.
(v) To provide technical assistance to industrial units

The prominent financial institutions include the following:
1. Industrial Finance Corporation of India (FCI).
2. State Financial Corporations (SFC’s).

Types of Finance
(i) Long-Term finance
(ii) Medium-Term finance
(iii) Short-Term finance

Sources of Finance
(1) Owner’s Funds: (a) Equity shares; (b) Preference shares; (c) Retained earnings.
(2) Borrowed Funds: (a) Debentures; (b) Financial Institutions; (c) Banks; (d) Public deposits.
Shares: The capital of a company is divided into units called shares. The face value of a share may be known as a shareholder. He receives dividend from the company as a consideration for investing his money into the company.
Types of Shares: A public company can issue only two parts of shares. They are (i) Preference shares and (ii) Equity shares.

(i) Preference shares: Preference shares are those which carry the following preferential rights over other shares.
(a) a preferential right in the aspect of a fixed rate of dividend,
(b) a preferential right as to repayment of capital in the case of winding up of the company in priority to other classes of shares.

(ii) Equity shares: These are shares which are not preference shares. They do not carry any preferential rights. They rank after preference shares for the purposes of dividend and repayment of capital in the event of company’s winding up. The rate of dividend on these shares is not fixed. It depends on the availability of divisible profits. The equity shares have the chance of earning good dividends in times of prosperity and also run the risk of earning nothing in the periods of adversity. The equity shareholder control the company as they have the right to vote at the general meetings of the company.

Debentures: A debenture may be defined as an acknowledgement of debt by a company and a promise to pay the debt and interest thereon by the dates mentioned in the debenture.

Retained Earnings: Undistributed profits of a company are known as retained earnings. They are a source of self-financing as they are reinvested in the business.

Public Deposits: A company can raise deposits from the public for a period ranging from 6 months to 3 years. These deposits carry rates of interest specified by the concerned company.

Inter-corporate Deposits: These are deposits made by one company with another company for a period ranging up to 6 months. The rate of interest on deposits is mutually agreed upon by both the companies.

International Sources of Finance
Indian companies can raise finance from the international markets through the mechanism of Euro Issues.

Euro Issues may take the following forms:
(i) Global Depository Receipts (GDR’s)
(ii) American Depository Receipts (ADR’s)

REVIEW QUESTIONS

MULTIPLE CHOICE QUESTIONS
1. Funds required for acquiring current assets are parts of
   (a) Working capital requirements
   (b) Fixed capital requirements
   (c) Retained earning
   (d) All the above

2. What are the equity shareholders called?
   (a) Owners of the company
   (b) Partners of the company
   (c) Patrons of the company
   (d) Managers of the company

3. What do debentures represent?
   (a) Fixed capital of the company
   (b) Working capital of the company
   (c) Borrowed capital of the company
   (d) None of the above

4. The term `redeemable´ is used for
   (a) Preference shares
   (b) Debentures
   (c) Equity shares
   (d) Both (a) and (b)

5. Companies receive public deposits directly from
   (a) The public
   (b) The directors of the company
   (c) The shareholders of the company
   (d) None of the above

6. Internal sources of capital include funds
   (a) Generated through trade credits from suppliers
   (b) Retained earnings
   (c) Borrowed funds
   (d) None of the above
(b) Generated through loans
(c) Generated through issue of debentures
(d) Generated within the business

7. ADR’s can be issued in
(a) Europe
(b) USA
(c) Canada
(d) All of the above

ANSWERS
1. (a)                       2. (a)                                3. (c)                              4. (d)                       5. (a)
6. (d)                      7. (b)

OBJECTIVE TYPE QUESTIONS

1. Indicate whether the following statements are True or False:
   (i) Debentures are a part of owned funds of the company.
   (ii) Equity shareholders are the real owners of the company.
   (iii) Preference shares carry preferential right over the equity shares as regards payment of dividend and repayment of capital.
   (iv) Bonds are issued for short-terms.
   (v) Retained earnings are an internal source of finance.
   (vi) Convertible debentures are a source of short-term finance.
   [HNTS: (i) False. (ii) True. (iii) True. (iv) False. (v) True. (vi) True. ]

2. Fill in the blanks:
   (i) Equity shares are known as …………………
   (ii) Debenture-holders are known as …………………
   (iii) Preference shares carry …………………. over equity shares.
   (iv) Convertible debentures can be converted into …………………
   (v) Public deposits can be raised for a maximum period of ……………………..
   (vi) Risk capital s provided by …………………
   [HNTS:   (i) Ownership securities. (ii) Creditors. (iii) Preferential rights. (iv) Equity shares. (v) Three years. (iv) Equity shareholders.]

VERY SHORT ANSWER QUESTIONS

1. How would you classify the sources of long-term finance?
2. “There are two types of shares issued by a company”. Name them.
3. What is a Business Finance?
4. Briefly explain the significance of business finance.
5. Why do business firms need funds?
6. List the types of finance based on the length of period.
7. List the sources of raising long-term finance.
8. What types of shares can be issued by a public company?
9. Mention three sources of ownership capital.
10. List the international sources of finance.
12. What are equity shares?
14. Briefly explain the terms `retained earnings´ and `public deposits´.
15. Name the sources of medium-term finance.
16. Why is equity share capital called risk capital?
17. What are the sources of financing for raising capital for expansion programme?
18. State any four advantages of owned capital.
19. What is a commercial paper?
20. Name two sources of international finance?
21. What is an Euro Issue?
22. What are GDR’s?
23. What are ADR’s?
24. Explain inter-corporate deposits.
25. What are IDR’s?

SHORT ANSWER QUESTIONS
1. Why do business need funds?
2. What are the sources of long-term finance?
3. Define Owners’ funds and Borrowed funds.
4. Define equity share and preference share.
5. What are the merits of equity share?
6. What are the limitations of issuing debentures?
7. Why is equity share capital called risk capital?
8. “Some preferential rights are enjoyed by the preference shareholders”. Name those rights.
9. What are the merits of retained profits?
10. What are the limitations of public deposits?
11. Briefly explain ADR’s.
13. “Equity capital is a permanent source of capital”. Explain.

LONG ANSWER QUESTIONS
1. Explain any two sources of long-term finance and give their merits.
2. Discuss the merits and demerits of equity share as a source of finance.
3. What are the advantages and disadvantages of debentures as a source of finance.
5. Define a share? What are the advantages of equity shares?
6. What is a debenture? Explain the merits of issuing debentures.
7. Explain any four differences between shares and debentures.
8. Define preference share and explain any four merits of raising funds through issue of preference share?
9. State the sources of raising long-term finance for a company.
10. Explain ‘retained profits’ as a source of finance. Also discuss any three merits of this source of finance.
11. Discuss the advantage of borrowed capital as compared to owned capital.
12. Explain trade credit and bank credit as sources of short-term finance.
14. Explain the sources of international finance.
15. Explain GDR’s and ADR’s as sources of international finance.

QUESTIONS BASED ON HOTS (High Order Thinking Skills)
1. “Finance is the life blood of business.” Explain.
2. “Equity capital is a permanent source of capital.” Explain.
3. “Public deposits are termed as fair weather friends.” Why?
4. The directors of a company have decided to set up a new plant at an estimated cost of Rupees ten crore. State the merits and demerits of issuing equity shares for the purpose.
5. A company requires funds to meet its working capital requirements. Discuss the merits and demerits of public deposits for this purpose.
6. “As a source of finance, retained profits are better than any other source of raising finance.” Do you agree with this view? Give reasons for your answer.
Chapter 8—Small Business

SUMMARY

Small business
Small industrial enterprises have been classified into two segments: micro enterprises and small enterprises. The present limit of investment in plant and machinery for these segments is as follows:
(i) Micro units having an investment in plant and machinery up to 25 lakh rupees in the manufacturing sector and 10 lakh rupees in the services sector.
(ii) Small Scale Industrial (SSI) units having an investment in plant and machinery up to 5 crore rupees in the manufacturing sector and 2 crore rupees in the services sector.

Role of small business
(i) Promotion of industries in rural areas
(ii) Employment generation
(iii) Use of local resources and skills
(iv) Removal of poverty
(v) Better standard of life
(vi) Support to large industries
(vii) Cultural heritage
(viii) Development of enterprises.

Problems of small business
(i) Inadequate financial resources
(ii) Shortage of raw materials and power
(iii) Lack of managerial skills
(iv) Lack of trained personnel
(v) Difficulties in marketing
(vi) Old technology
(vii) Poor quality of products
(viii) Underutilization of products
(ix) Industrial sickness
(x) Severe competition

Measures taken by the government
(i) Protective measures
(ii) Promotional measures, i.e. incentives for small units
(iii) Institutional measures

Institutional support
(i) National Small Industries Corporation (NSIC)
(ii) NABARD
(iii) Rural Small Business Development Centre
(iv) State Financial Corporations
(v) Khadi and Village Industries Commission
(vi) District Industries Centre (DIC)
(vii) Small Industries Development Bank of India (SIDBI)

Review questions

Multiple choice questions
1. Which of the following is not a problem of small industries?
   (a) Inadequate finance   (b) lack of trained personnel
   (c) Old technology      (d) local demand
2. Measures taken by the government to support small industries include
   (a) Protective measures (b) incentives
   (c) Institutional measures (d) all of the above

Answers
1. (d) 2. (d)

Very short answer questions
1. State the parameter used to measure the size of business.
2. How are small scale units defined in India?
3. What are village and small industries?
4. What are ancillary industries?
5. What is a tiny industrial unit?
6. What are the features of cottage industries?
7. Give four points to highlight the role of small business in India.
8. How do small industries contribute to Balanced Regional Development?
9. Mention any two problems of small business.
10. What types of measures have been taken by the government to promote small units in the country?
11. What institutional measures have been taken in India for the benefit of small units?
12. List any four incentives to small units in the rural backward and hilly areas.
13. What is an industrial estate?
14. “Small industries promote industrialisation and also generate employment”. How?

Short answer questions
1. What are the features of small scale industry?
2. Give any three features of cottage industries
3. What are rural industries? Explain.
4. Name any four institutions engaged in financing the rural Backward and hilly area industries.
5. Briefly explain any four problems of small business in India.
6. Enumerate the institutions engaged in financing industries in hilly areas.
7. “Small industries face many problems in India”. Discuss any three of them.

**Long answer questions**
1. Define small scale industry and state its distinctive features.
2. Explain the role of small scale industries in rural areas.
3. Why are rural and cottage industries important in India?
4. Explain the five major problems of small scale sector in India.
5. What measures have been taken by the government to tackle the problems of small industries?
6. What steps have been taken by the government for the promotion of small industrial units?
7. Describe the role of any two institutions working for the small enterprises in India.
8. What types of industries operate in the rural backward and hilly areas of India?

**Questions based on HOTS**
1. “Small business promotes industrialisation and also generates employment”. How?
2. “Incentives have been provided by the government for industries in backward and hilly areas”. Explain any three incentives.

**Project work**
1. Visit any three small scale units and find out their common problems. Suggest suitable measures to remove these problems.
2. Visit any commercial bank branch and collect necessary information about the loan schemes meant for small scale units and ancillary units. Prepare a report highlighting the purposes for which loans are available and the rate of interest charged by the bank on loans for different periods and different purposes.
SUMMARY

Internal Trade
It refers to buying and selling of goods by traders within the boundaries of a nation. All payments are made or received by the traders in the national currency, i.e., in terms of Rupee in India. Internal trade can be sub-divided into: (a) Wholesale trade, and (b) Retail trade.

Wholesaler
A wholesaler is a merchant who purchases in bulk from the manufacturers and sells in different quantities required by retailers. There are three types of wholesalers as follows:

Pure Wholesaler. He concentrates entirely on buying and selling in large quantities.
Manufacturer Wholesaler. He combines the functions of manufacturing and distribution of goods with retailers.
Retailer Wholesaler. He sells goods to retailers and consumers through retail depots.

Functions of a Wholesaler
Buying and assembling
Storage
Transportation
Grading and packing
Financing
Risk-taking
Promotion

By performing the above functions, the wholesaler serves the manufacturers, retailers and consumers. Thus, he is an important link between the producers on the one hand and retailers and consumers on the other.

Retailer
A retailer purchases goods in large quantities from wholesalers and manufacturers and sells to ultimate consumers in small quantities. Retailers generally operate near the residential areas. They also provide free home delivery and credit facility to selected customers. The features of retailers are as follows:
Retailers purchase from wholesalers or producers and sell directly to ultimate consumers.
Retailing is the last link in the channel of distribution.
Retailers deal in small quantities and operate in local markets.
Retailers generally deal in a variety of goods.
Retailers provide many services to consumers such as free home delivery of goods.
Retailers advise their customers and help them in satisfying their needs.

Functions of Retailers
Assembly of goods
Sub-division of goods
Selling
Storage
Risk-bearing
Market research
Free home delivery Credit facility
Services to Manufacturers and wholesalers
Distribution of goods
Ascertaining certain customer’s needs
Providing information
Relieving from retail botheration
Risk sharing.
Services to Consumers
Continuous supply
Large variety of goods
Advice
Personalised services
Home delivery
Credit facility
Customers’ convenience
After-sale service
Kinds of Retailers
Retailers may be classified into two broad categories, namely:
Mobile or Itinerant traders;
Fixed shop traders.

Mobile traders or vendors are:
Pedlars and hawkers
Street traders
Market Traders
Cheap jacks.
Fixed shop retailers who operate on a small are:
(a) Street stalls
(b) General stores
(c) Speciality stores
(d) Second-hand goods shops.
Fixed shops which are organised on a large-scale are
(a) Departmental stores
(b) Multiple shops
(c) Mail Order house
(d) Consumers’ cooperative store
(e) Super Market.

Departmental Store
A departmental store may be defined as a retail institution that handles wide variety of merchandise grouped into well defined departments for the purpose of promotion, service, accounting and control. A departmental store is a large scale retail organisation having a number of departments under the same roof. Every department confines its activities to a particular line of business. These departments are centrally organised and controlled to form a single establishment. The management of all the departments is centralised, but the stock of each department is handled separately.

Chain Stores or Multiple Shops
Multiple shops mean a system of branch shops operating under a centralised management and dealing in similar lines of products. The multiple shops or chain stores receive supply from dealing in similar lines of products. The multiple shops or chain stores receive supply from central office and remit the sale proceeds regularly to the central offices. Each shop is allowed to retain a small amount of cash on imprest basis to meet its day-to-day expenses. Purchasing, pricing and advertising are done centrally. There is one decentralisation of selling. The chain stores display goods in an identical manner and sell the same standardised merchandise. Bata, McDonalds and Liberty shops are some of the example of chain stores in India.

Mail Order House
Mail Order houses are enterprises which carryon business through mail. Mail Order Business is known as ‘selling through post’ for the retailer and ‘shopping by post’ for the consumer. Under this, the retailers contact the prospective customers through some sort of advertising. Mail order houses maintain mailing lists of potential customers. They send the literature about their products through
mail. They also mail reply paid cards to prospective customers. When they receive orders, they will procure the goods and despatch then to the customers usually by VPP (Value Payable Post).

**Automatic Vending Machine**

Automatic Vending is a form of non-store retailing where products are sold through a machine and there is no personal contact between the seller and the buyer. It is very much suitable for selling standardised products like candy, chewing gum, soft drinks, Coffee etc. For instance Mother Dairy sells standardised milk through vending machines. But they need frequent servicing and repair to keep them functioning. Once sold, the machines do not take back the products.

**Chamber of Commerce and Industry**

A Chamber for commerce and Industry may be defined as an association of business firms which works for the benefit of its member in a particular territory it serves. Their aim is to protect the general commercial interest of the members. Chambers of Commerce and Industry are voluntary and non-profit making organisations of all types of commercial and industrial enterprises.

**Documents used in Trade**

The main documents used in Internal Trade:

- Pro forma invoice
- Invoice
- Debit Note
- Credit Note
- Lorry receipt
- Railways receipt

Some of the Important terms of trade used by the traders include: Cash on Delivery (COD), Free on Board (FOB), Cost and Freight (CIF), Errors and omissions Excepted (E&O>E.)
International Trade

International trade or foreign trade refers to buying & selling of goods & services between the nationals of different countries. It also includes trade between government agencies of two or more countries. It can take three forms:

i. **Import Trade**: When goods are purchased from foreign countries, it is called import trade.

ii. **Export Trade**: When goods are sold to foreign countries, it is called export trade.

iii. **Entrepot Trade**: Sometimes, the goods are imported by one country in order to export them to another country; it is called an entrepot trade. For example, a trader of Mumbai imports jute goods from Bangladesh & then exports the same to Japan.

Benefits of International Trade

i. Optimum use of natural resources

ii. Increase in standard of living of people

iii. Cordial relations between different countries

iv. Stabilisation of prices of goods & services

v. Generation of employment opportunities

vi. Economies of large scale

vii. Economic development of the nation

Steps in Export Trade

1) Receipt of enquiry & sending quotation
2) Obtaining an order or indent
3) Getting letter of credit
4) Obtaining export licence
5) Settlement of rate of exchange
6) Production or procurement of goods
7) Packing & marking
8) Insurance of goods
9) Arrangement for shipping goods
10) Customs formalities
11) Mate’s Receipt
12) Preparation of commercial invoice
13) Sending documents to the importer
14) Receiving payment from the importer

Steps in Import Trade

1) Trade enquiry & receiving quotation
2) Obtaining import licence & quota certificate
3) Arranging foreign exchange against Indian rupee
4) Placing an order or indent
5) Sending letter of credit to the exporter
6) Receiving shipping documents
7) Obtaining delivery order from the shipping company
8) Port Trust Dues’ Receipt
9) Bill of entry & clearance of goods
10) Making payment to the exporter

**Important Terms & Documents**

**FAS (Free Alongside Ship):** This includes cost plus expenses of placing the goods near the ship. Loading charges, freight, etc. are to be paid by the buyer.

**FOB (Free On Board):** This includes all charges up to the loading of goods on board the ship & export duty, if any. It is the aggregate of FAS price, ship loading charges & export duty.

**C & F (Cost & Freight):** This includes the cost of goods & all expenses incurred for taking the goods to the port of destination. It excludes insurance charges. Such a quotation must include the name of the port at which delivery will take place, e.g. C & F price.

**CIF (Cost, Insurance, Freight):** It adds the cost of marine insurance to C & F price.

**Quota Certificate:** It is issued along with import licence. It states the quantity & value of goods which can be imported by the importer.

**Letter of Credit:** It is the letter issued by a bank in favour of the exporter containing an undertaking by the bank to honour bills of exchange drawn by the exporter on the importer up to the amount specified in the letter of credit.

**Indent:** An order for the supply of goods placed abroad is called an indent. It contains full information regarding goods to be imported, their quantity, quality, mode of packing & marketing, period of delivery, mode of payment & other instructions regarding shipment & insurance etc.

**Port Trust Dues Receipt:** This receipt is issued to the importer after he has paid the necessary fees to the Port Trust against the import of goods.

**Bills of Entry:** It is a form obtainable from the customs office & is to be filled in triplicate by the importer or his agent. It is to be submitted to the customs office along with Port Trust Dues Receipt for the clearance of the goods.

**Dock Challan:** After the customs formalities have been completed, the importer or his agent should fill up a form in duplicate for the payment of dock charges. The form is known as “Dock Challan”. No imported goods can be delivered until dock dues have been paid.

**Mate’s Receipt:** When the goods have been loaded on the ship, the captain will issue a receipt known as the Mate’s Receipt to the exporter or the forwarding agent. This receipt will contain particulars like quantity of goods, number of packages, condition of packing etc. If the packing is in good order, the captain will issue a ‘Clean Receipt’ but if there is any defect in packing, he will make a note of it in the receipt & issue a ‘Foul Receipt’.

**Bill of Lading:** A bill of lading is a document by which the shipping company acknowledges the receipt of goods accepted to be carried in its ship to the port of destination.
subject to such conditions as may be mentioned therein in return for the payment of the agreed freight.

**Charter Party:** When a complete ship (or a part of it) is hired by an exporter for transportation goods, the contract with the shipping company is known as a charter party.

**WTO**

Multilateral regulation of trade began with the GATT that came into being in 1947 & that was substituted by the WTO in 1995. WTO was set up on the basis of 18 separate agreements, 14 were multilateral in character & the rest were plurilateral in character. WTO is a forum through which these agreements are administered. It also maintains an effective dispute settlement mechanism.

WTO oversees the implementation of various agreements among member-nations. India has been a member of GATT/WTO. Its external trade policy is tuned with that of WTO.

**MULTIPLE CHOICE QUESTIONS**

1. Which of the following is the most appropriate statement?
   a) Foreign trade facilitates maximum utilisation of natural resources.
   b) Foreign trade promotes international cooperation.
   c) Foreign trade raises the standard of living of people.
   d) All of the above statements are valid.

2. In foreign trade, the term CIF stands for:
   a) Cost
   b) Cost & freight
   c) Cost & insurance
   d) Cost, insurance & freight

3. Who announces the Exim Policy or Foreign Trade Policy?
   a) Central Government
   b) State Government
   c) Chamber of Commerce
   d) World Trade Organisation

4. An exporter can raise loan on the basis of:
   a) Shipping Order
   b) Mate’s Receipt
   c) Bill of Lading
   d) None of the above

5. Name the document containing the guarantee or assurance by the importer’s bank to honour bills drawn on it by the exporter:
   a) Letter of Credit
   b) Bill of exchange
   c) Bill of Lading
   d) None of the above
ANSWERS
1. d) 2. d) 3. a) 4. c) 5. a)

OBJECTIVE QUESTIONS
1. Which of the following statements are right & which are wrong?
   (i) Export-Oriented Units are meant for encouraging exports.
   (ii) Payment through Documentary Bills does not require the involvement of any bank.
   (iii) The EXIM Policy provides broad guidelines relating to exports & imports.
   (iv) A bill of lading is similar to a bill of exchange.
   (v) A commercial invoice services both as a document of contents & a bill.
   [Answers: (i) Right (ii) Wrong (iii) Right (iv) Wrong (v) Right]

2. Fill in the blanks:
   a) FOB stands for ................................
   b) CIF stands for .................................
   c) To be sure about the credit-worthiness of the importer, the exporter asks the importer to get a ..............................
   d) A Bill of Lading is a document of ............................
   e) Bill of Entry is prepared by the ............................
   [Answers: (a) Free on Board (b) Cost, Insurance & Freight (c) Letter of Credit (d) title to goods or ownership (e) importer]

VERY SHORT ANSWER QUESTIONS
1. What is the full form of DGFT?
2. What formalities are involved in getting an export licence?
3. What is indent?
4. What is FOB (Free on Board)?
5. What is C & F (Cost & Freight)?
6. What is Quota Certificate?
7. What is Letter of Credit?
8. What is Bill of Lading?
9. What Charter Party?
10. Explain the meaning of Mate’s Receipt.
11. What is Port Trust Dues Receipt?
12. What is Bill of Entry?
13. What is Dock Challan?
14. What is Shipping Bill?
15. What is Bill of Entry?
16. Name any four principal export documents.
17. List any four auxiliary export documents.
18. What is Airway Bill?
19. What is WTO?

**SHORT ANSWER QUESTIONS**
1. Enumerate the steps in import trade.
2. What are the shipping documents?
3. Explain CIF price.
4. Define Letter of Credit.
5. What is meant by Indent?
6. What is Mate’s Receipt?
7. State the steps in export trade.
8. What is a Charter Party?
9. What is Port Trust Dues Receipt?
10. State the meaning of Certificate of Origin.
12. Briefly explain the role of WTO.

**LONG ANSWER QUESTIONS**
1. Outline in brief the procedure for the export of goods. Mention the important documents used.
2. Explain the procedure for exporting goods to London by sea route.
3. Describe the procedure of importing goods by sea from London to Kolkata mentioning important documents used.
4. Briefly discuss the price quotations used in foreign trade.
5. What is Bill of Lading? Discuss various types of Bills of Lading.
6. Explain the procedure of custom clearance in import trade.